

## Article

# The Relationship Between The Public Budget and Public Debt (An Analytical Study - Iraq As A Model)

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**Abstract:** The Iraqi economy has gone through a lot of challenges, difficulties, problems, wars and the collapse of infrastructure and these conditions led to the occurrence of the fiscal deficit in Iraq, especially after 2003, as the financial deficit was financed by public debt and we will focus here in this research on the analysis and study of the public budget deficit and public debt in Iraq through the use of the analytical approach of data to analyze the data of the public budget deficit on the public debt in Iraq. The research has found that the increase in the fiscal deficit in the public budget increases dependence on public debt in order to finance that deficit and this means bearing large financial burdens because the public debt has burdens and financial problems added to the public budget as the research recommends the need to adopt a well-studied and appropriate economic policy in order to reduce the deficit in the public budget first and adopt a well-thought-out policy to manage the public debt in order to reduce its burdens and problems second, As well as avoiding financial crises that negatively affect the reality of the Iraqi economy.

**Keywords:** General Budget Deficit, Public Debt, Iraq, Expenses And Revenues.

## 1. Introduction

The expansionary spending policy adopted by the Iraqi government, especially after the year of change in 2003, as well as because of the dependence on the oil sector by a very large percentage in financing the revenues of the general budget of the Iraqi government without other economic sectors, this led to an increase in the deficit in the public budget, and this posed a danger to the reality of the Iraqi economy due to the instability of state revenues as a result of the instability of global oil prices, so the Iraqi government resorted to financing the fiscal deficit of the general budget through public debt in Iraq. As public spending in Iraq is greater than public revenues, and this means that increasing spending and increasing public debt because revenues are unable to meet public spending in Iraq, so the government resorts to borrowing in order to cover its financial obligations through internal borrowing (internal public debt) or borrowing from abroad (external public debt).

### The importance of research.

The importance of the research lies in the study and analysis of the deficit in the general budget of Iraq because of its negative effects on the reality of the Iraqi economy and the relationship of that financial deficit to public debt.

### Search problem.

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Here the research problem lies in the fact that the general budget in Iraq suffers from the fiscal deficit due to the failure of public revenues to cover public expenditures, so the Iraqi government resorts to financing that deficit through public debt, whether external debt or internal debt.

**Research hypothesis.**

The research assumes that increasing the fiscal deficit in the public budget means increasing the public debt and that the public debt has many negative effects on the reality of the Iraq economy, whether in the present or in the future.

**Research objective.**

The researcher aims to: Study and analyze the public budget deficit and public debt (internal and external) in Iraq.

**Search limits:**

Spatial boundaries: Iraq.

Time limits: data for post-2003 Iraq .

## 2. Materials and Methods

In order to prove the validity of the hypothesis from which the research was launched, the descriptive analytical approach was adopted in analyzing the data related to the public budget deficit and public debt in Iraq and then reaching a set of conclusions and recommendations.

## 3. Results

### 1 L am a man of the same age Analysis of the relationship between the public budget and public debt in Iraq:

Here the relationship between the public budget and the public debt is addressed by studying and analyzing the relationship between the public budget deficit and the public debt and how to finance that deficit through public debt as follows:

#### 1-1: The general budget deficit in Iraq:

Iraq's general budget suffers from a fiscal deficit instead of a surplus, due to the high public expenditures on public revenues due to the fact that Iraq a rentier country and its dependence on the oil sector only to finance its public revenues, especially after 2003.

The negative effects of the deficit are closely related to the financial affairs of the country because the use of loans to finance the deficit causes inflation in the country and contributes to the high interest on loans granted to Iraq in order to finance the general budget deficit by influencing investment projects and reducing Iraq's capital stock in the future. When public expenditures are greater than public revenues, a deficit occurs in the general budget and the government resorts to covering that deficit through loans and bearing financial burdens in repaying those loans with the resulting interest and their repayment is from the general budget and at the expense of the general revenues of the Iraqi government[1], [2], [3], [4], [5], [6], [7].

Note that government debt has been escalating in Iraq since 2003 at a very large rate, unlike developed countries, whose public debt is estimated at approximately (13%) of GDP, which is very low compared to Iraq and other developing countries. (1)

Hence, we can look at the public budget deficit through its impact on interest rates, exports and imports, growth and economic stability. Here we note that Iraq is living a deficit in the public budget and a deficit in the trade balance as well. Public debt has a negative impact on current and future generations because public debt is a transfer of money from one country to another, but this transfer works on an inappropriate distribution of income and has significant negative effects borne by Future generations In

view of the impact of the country's public debt, therefore, an appropriate fiscal policy must be determined for the country's situation in order to reduce its burdens and financial problems, as the public debt should not be used to balance the public budget, but to achieve the optimal use of economic resources in full in order to revive the Iraqi economy and achieve economic growth in it because the public debt has risen very significantly in recent years and has become a great weight on the Iraqi government in paying it with its interests[8], [9], [10], [11].

The reason for the deficit in the general budget of the country is the changing economic conditions and the transitional phase that the country went through after 2003, either the surplus achieved in the general budget is the result of achieving public revenues higher than the expected revenues and also as a result of economic policies with a positive impact on the gross domestic product, which works to increase it instead of decreasing it in addition to the operation of other economic sectors, which leads to a financial surplus instead of the fiscal deficit, so it requires the Iraqi government to In order to achieve a fiscal surplus in the public budget instead of the deficit, to reduce public expenditures and increase revenues in order to get rid of that deficit and not to resort to public debt, whether internal or external, to avoid its negative effects on the country. (2) (4)

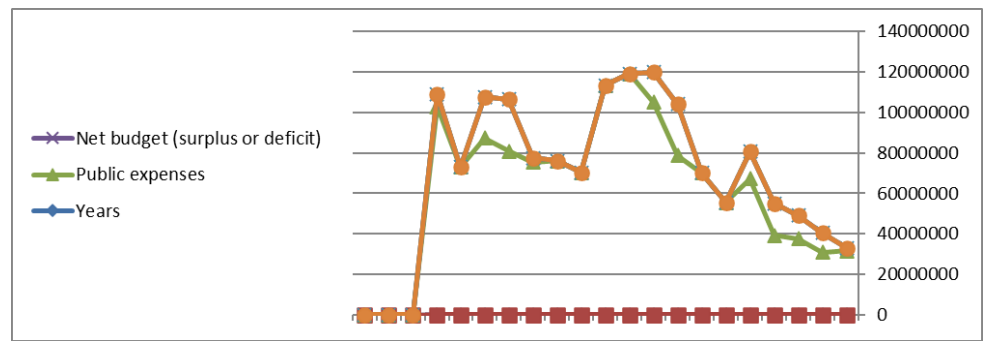
Table (1) General Budget in Iraq for the Period 2004-2021 (Million Dinars)

Years	Public revenues	Overhead	Net public budget (surplus or deficit)
2004	32988850	31521427	1467423
2005	40435740	30831142	9604598
2006	49055545	37494459	11561086
2007	54964850	39308348	15656502
2008	80641041	67277194	13363847
2009	55243527	55589721	(-346194)
2010	70125921	70134201	(-8280)
2011	103989089	78757668	25231421
2012	119817222	105139572	14677650
2013	113840076	119127555	(-5287479)
2014	97618556	113473516	(-15854960)
2015	66470251	70397506	(-3927255)
2016	54409269	76067433	(-21658164)
2017	77422172	75490114	1932058
2018	106569833	80873188	25696645
2019	107566993	87300932	20266061
2020	63199689	72873537	(-9673848)
2021	109081463	102849660	6231803

**Source: Prepared by the researcher based on the data of the Ministry of Finance, the Economic Department, data for the period 2004-2021.** \*\* (The number in parentheses indicates the deficit in the general budget in Iraq).

We note from the above table from 2004 to 2021 that the data, whether for public revenues or public expenditures, are in a state of fluctuation between decline and rise and are not stable at all, due to the link between public revenues and international oil prices and unstable oil prices, in addition to the unstable security, political and economic conditions that Iraq has experienced since 2004. (3).

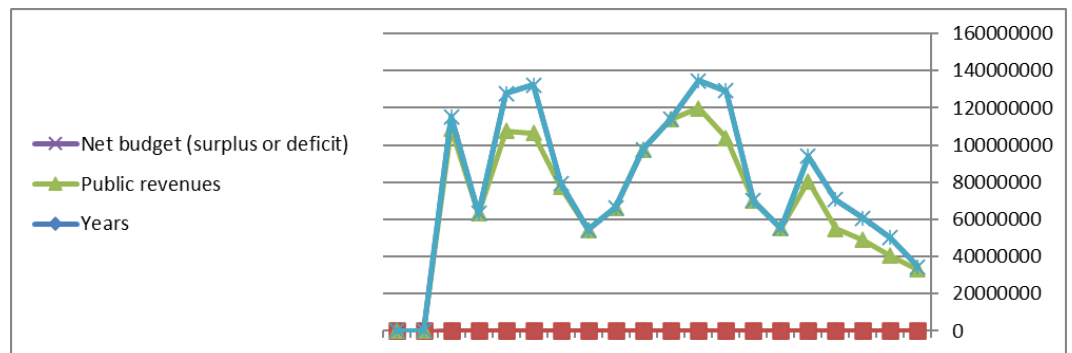
Figure (1) Public expenditures with the general budget in Iraq (deficit or surplus) for the period 2004-2021



Source: Prepared by the researcher based on the data of Table No. 1 through the use of Excel.

The general budget deficit in Iraq is one of the main important indicators that show the financial situation of the country, we note that the deficit in the general budget in Iraq during the period mentioned above in the table is a planning deficit and not an actual deficit and the evidence for this is that the budget at the end of the year ends with a fiscal surplus instead of a financial deficit, it can be said that after 2013 the general budget in Iraq suffered from an actual deficit due to the lack of dependence on non-oil revenues But relying on oil revenues and a very large percentage to finance the revenues of the general budget of the Iraqi government. It can be said that one of the most important reasons that led to the increase in the fiscal deficit and its increase in the Iraq is the increase in government spending, especially military expenditures, due to the entry of ISIS and terrorism into the Iraq and the rigidity of tax systems and their lack of contribution to supplementing the revenues of the public budget. (2).

Figure (2) Public revenues with the general budget in Iraq (deficit or surplus) for the period 2004-2021



Source: Prepared by the researcher based on the data of Table No. 1 through the use of Excel.

As we note that the percentage of the fiscal deficit in the general budget of the gross domestic product has exceeded the safe limits that are allowed according to the (Maastricht Agreement), which determined the percentage of the fiscal deficit, which is equal to approximately 3% of the value of GDP and that this matter has a significant negative impact on the reality of the Iraqi economy in the failure to achieve economic growth and economic stability of the country as shown in the following table: (5)

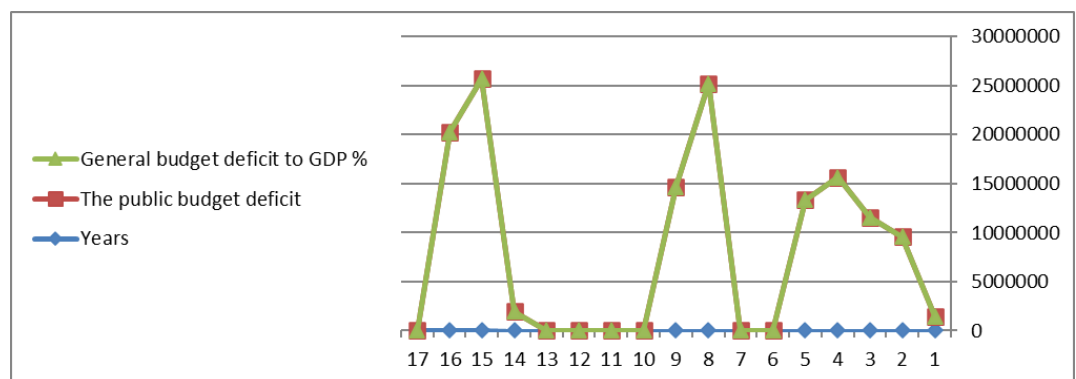
Table (2) Ratio of the General Budget Deficit to GDP in Iraq for the Years 2004-2020 (Million Dinars)

Years	Public budget deficit	Gross Domestic Product (GDP)	Ratio of the public budget deficit to GDP %
2004	1467423	47959000	3.059745
2005	9604598	73533000	13.06162

2006	11561086	<b>95588000</b>	12.0947
2007	15656502	<b>111455813</b>	14.04727
2008	13363847	<b>157026062</b>	8.510592
2009	(-346194)	<b>130642187</b>	-0.264994
2010	(-8280)	<b>167099204</b>	-0.004955
2011	25231421	<b>217327107</b>	11.60988
2012	14677650	<b>254225490</b>	5.773477
2013	(-5287479)	<b>273587529</b>	-1.932646
2014	(-15854960)	<b>258900633</b>	-6.123956
2015	(-3927255)	<b>191715791</b>	-2.048478
2016	(-21658164)	<b>171490000</b>	-12.6294
2017	1932058	<b>464701138</b>	0.415764
2018	25696645	<b>251064500</b>	10.23508
2019	20266061	<b>223412523</b>	9.071139
2020	(-9673848)	<b>213422122</b>	-4.53273

Source: Central Bank of Iraq, Directorate General of Statistics and Research, Annual Bulletin for the period 2004-2020.

Figure (3) Ratio of the General Budget Deficit to GDP in Iraq for the years 2004-2020



Source: Prepared by the researcher based on the data of Table No. 2 through the use of Excel.

### 1-2- Public debt (internal and external) in Iraq:

It can be said that public debt is one of the tools of fiscal policy used by the state in order to intervene in economic life in order to finance public expenditures and achieve balance in the public budget, but it must be used in a correct way and directed towards investment projects in order to achieve a surplus in the budget with its interests, the public debt is the amount of the loan that the government or its units can obtain from public law institutions, as well as grants at one time and regardless of the maturity date. For him, the financial financing (debt) that is obtained from within the country is called the internal debt, while the debt obtained from outside the country is called the external debt and these funds are used in order to finance the deficit in the general budget of the country, when the government borrows from the inside, the public's confidence in the Iraqi government must be strong, which is represented in the government's ability to repay debts on time, but in the case of borrowing from abroad, this debt works to increase taxes when the government pays Interest by collecting fees and taxes, but if the interest is paid those interests through loans, this leads to an increase in the deficit ratio, and this works to increase aggregate demand and increase inflation rates, and the effects are greater than possible, so the Central Bank pays off government debts, as for how can the government

pay them by issuing cash, which leads to a rise in the general level of prices, and that interest on internal debt works to redistribute income through taxes. And the fee borne by the holders of government bonds and that the increase in interest negatively affects the public budget and leads to an increase in the deficit and since the public debt affects the economic performance of the country, so a financial system should be determined that works to increase the country's GDP and to achieve economic growth for it, meaning that the public debt policy must be consistent with the fiscal and monetary policies to achieve a surplus in the public budget instead of the deficit [12], [13], [14], [15], [16], [17], [18]. Internal debt is characterized by contracting borrowing from within the country and in the short term in order to finance the public budget deficit as follows: (6):

First: Internal public debt: The sources of internal public debt are as follows:

1. Treasury bills issued by the Ministry of Finance carries interest and the amount due during the end of the fiscal year, and usually the investors are individuals and banks, and the borrowed money is recovered at the end of the fiscal year through a contract agreement between individuals and the Ministry of Finance that is carried out according to agreed credit terms that guarantee the rights of individuals to recover their amounts on time. Borrowing from banks is done in this case in order to cover the fiscal deficit, which does not exceed approximately 10%. (7) Draft resolution
2. Bonds are issued by the government in the short term and can be purchased by institutions, individuals and banks and redeemed on time.

Second: External Public Debt: The sources of external public debt are as follows:

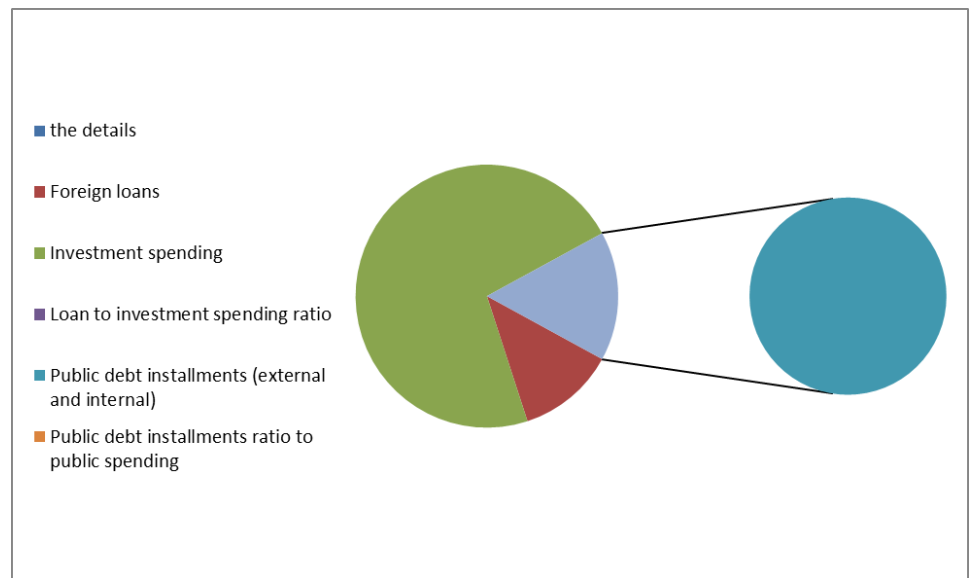
1. External loans from banks and other international companies.
2. Loans from various countries such as the American loan, the Japanese loan, the Saudi loan, the German loan and other loans.

**Table 3: Public Debt (Internal and External) for the Years 2017-2019**

Details	2017	2018	2019
Foreign Loans	4254018	5516318	5374672
Investment Spending	25454108	24650112	32591374
Ratio of loans to investment expenditure	16.71%	22.38%	16.49
Public debt installments (external and internal)	5608898	8246899	11188062
Ratio of public debt payments to public expenditure	5.57 %	7.92%	8.71

**Source: General Budget Law for the years 2017, 2018, 2019.**

**Figure 4: Public debt (internal and external) for the years 2017-2019**



**Source:** Prepared by the researcher based on the data of Table No. 3 through the use of Excel.

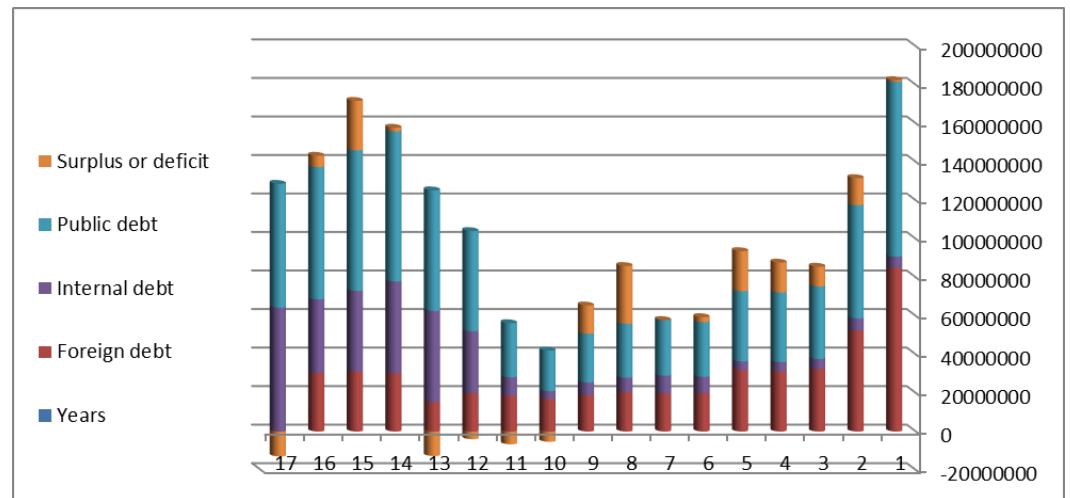
The following table shows the public debt (internal and external) and the general budget deficit in Iraq for the period 2004-2020, as the public debt is used to finance the financial deficit of the general budget of the Iraqi government and is not directed towards profitable investment projects that provide the general budget with revenues and reduce dependence on public debt.

**Table (4) Public Debt (Internal and External) and General Budget Deficit in Iraq for the Period 2004-2020 (Million Dinars)**

Years	External debt	Internal debt	Public debt	Surplus or deficit
2004	84866824	5925061	90791885	865248
2005	52471211	6255578	58726789	14127715
2006	32362020	5307008	37669028	10248866
2007	31221890	4855324	36077214	15568219
2008	31950926	4455569	36406495	20848807
2009	19946160	8434049	28380209	2642328
2010	19741410	9180806	28922216	44022.8
2011	20511270	7446859	27958129	30049725
2012	18843726	6547519	25391245	14677649
2013	16751922	4255549	21007471	-5287480
2014	18612396	9520019	28132415	-6582280
2015	19895610	32142805	52038415	-3947262
2016	15260560	47362251	62622811	-12658167
2017	30221240	47678796	77900036	1932053
2018	31167290	41822918	72990208	25696834
2019	30333100	38331458	68664558	5846163
2020	61000	64246559	64307559	-12882754

**Source:** Central Bank of Iraq, Department of Statistics and Research - Statistical Bulletin for the period 204-2020.

**Figure (5) Public debt (internal and external) and the public budget deficit in Iraq for the period 2004-2020**



**Source: Prepared by the researcher based on the data of Table No. 4 through the use of the Excel program.**

The financial advisor to the Iraqi Prime Minister (Dr. Mazhar Mohamed Saleh) confirmed on (14/8/2024) that the internal debt in Iraq has exceeded (78) trillion dinars during the last months of this year, and stressed that the Iraq's orientation towards borrowing from the internal banking markets to finance two waves of the fiscal deficit of the general budget came through the impact of a decline in the cycle of oil assets and two different periods and during the current decade (the first wave) constituted approximately 27 trillion dinars financed by the banking system. The government through the purchase of treasury transfers during the period 2014-2017 due to the entry of ISIS to Iraq, as well as the Iraqi financial advisor stressed that the International Monetary Fund estimated at that time that the deficit gap of the current account of the balance of payments due to the deterioration in oil prices is not less than (18 billion dollars) and cumulatively during those years. As for the second wave, it occurred between 2020 and 2021, that is, during the Corona pandemic crisis (Covid 19), which is the period of closure that occurred to the global economy and the accompanying decline in global oil prices and the decline in public budget revenues in the fiscal year 2020, which was replaced by three legislations in order to finance the public budget deficit, two of which were for direct internal borrowing and through two separate laws issued by the Iraqi Council of Representatives, by heading towards the internal borrowing market, and the other is the security law. The important aspect of food and development was based on internal borrowing, which led to raising the level of internal debt in Iraq to exceed (78 trillion Iraqi dinars). Counselor Saleh also pointed out that there has been a significant increase in recent months in the internal public debt, due to the financing of government investment spending, especially with regard to infrastructure projects, noting that there is a gradual plan to extinguish internal debt in Iraq and reduce the fiscal deficit of the public budget within the principle of so-called financial strengthening, i.e. reducing debt gradually and reducing the deficit in the public budget gradually as well, which is what the fiscal policy in Iraq is currently working on.

## **2. Mechanism for eliminating the public budget deficit in Iraq :**

There are basic factors that help get rid of the public budget deficit as follows:

- 1 Employing economic policies to reduce costs and increase public revenues .
- 2 Work to reform the tax system and increase tax revenues.
- 3 Setting a specific ceiling for public expenditures that cannot be exceeded in order to reduce public spending and increase public revenues and thus get rid of the fiscal deficit and achieve a surplus in the public budget .



- 4 The success and development of fiscal and monetary policies leads to positive change in the economy and thus achieving a fiscal surplus in the public budget and getting rid of the fiscal deficit.
- 5 Work to reduce current spending, increase investment spending and direct towards productive projects that work to achieve economic growth for the country.
- 6 Work to activate and stimulate other economic sectors to contribute to achieving revenues for the country and raise the percentage of their contribution to achieving GDP instead of relying entirely on the revenues of the oil sector in financing the general budget of Iraq.

#### 4. Conclusion

##### First: Conclusions:

1. There are major factors that led to the growth of public debt in Iraq significantly, whether it is internal debt or external debt, and the most important of these factors are the following (ISIS war, instability of global oil prices and the Corona pandemic).
2. The Iraqi government's resort to public debt in order to finance the deficit in the public budget means bearing financial burdens and many financial problems that affect the reality of the Iraqi economy negatively.
3. Using public debt to finance fiscal deficits means that future generations will bear the burden of repaying these debts with future interest.
4. The percentage of the fiscal deficit in the general budget of the gross domestic product has exceeded the safe limits that are allowed according to the (Maastricht Agreement), which determined the percentage of the fiscal deficit, which is equal to approximately (3%) of the value of GDP and that this matter has a significant negative impact on the reality of the Iraqi economy in the failure to achieve economic growth and economic stability of the country.
5. The public debt is used to finance the fiscal deficit of the general budget of the Iraqi government and is not directed towards profitable investment projects that provide the general budget with revenues and reduce dependence on public debt.

##### Second: Recommendations:

- 1) The need to use a successful economic policy that activates the role of the productive sectors without relying on the oil sector only in order to supplement the general budget with revenues and reduce the fiscal deficit.
- 2) Directing the amounts of public debt towards investment spending instead of current spending in order to increase public budget revenues and thus reduce the deficit in the public budget.
- 3) Adopting a fiscal policy aimed at reducing public debt and diversifying sources of revenue.
- 4) Work on reforming the tax system and increasing the proceeds of tax revenues to supplement the general budget with revenues.
- 5) Rationalizing public expenditures, addressing the defects in them and setting a specific ceiling for them that cannot be passed.

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