

The Federal General Budget between Reality and Challenges

Mohammed Yousif Oudah Al-Muttar

Al-Ayen University, Iraq.

E-mail: mtqr1986@gmail.com

Received September 20, 2021; Accepted December 17, 2021

ISSN: 1735-188X

DOI: 10.14704/WEB/V19I1/WEB19248

Abstract

The general budget of the State of Iraq and its four stages, starting with enemies, implementation and control over it, are based on a set of legislations, including the amended Financial Management and Public Debt Law No. 95 of 2004. In light of this, the general budget cycle faces several failures, some of which are caused by shortcomings. In the adopted legislation, which affects in one way or another on the general budget, which calls for studying it, drawing attention to it, and submitting proposals that contribute to addressing this to improve the reality of the general budget.

This paper aims to know the problems in the general budget and to know the shortcomings in the Iraqi legislation organizing the budget.

As well as knowing the defect resulting from the lack of commitment to the application of the Iraqi legislation related to the general budget and facing the challenges facing the federal public budget.

Keywords

The Federal General Budget, Reality, Challenges.

Introduction

Government practices during the past years have increased the fragility of public finances in Iraq and the ability of its tools to respond to the requirements of economic growth and stability. As the imbalance in the structure of government resources and the inefficiency of financial management in terms of planning, implementation and control generated a deep cavity in Iraq's public finances, in addition to a structural imbalance based on the expansion of public expenditures during periods of oil boom, and the weak ability to coexist with low oil prices during times of oil depression. The previous explosive budgets did not contribute to generating growth rates commensurate with the limits of possibility, nor public services (electricity, health, education) befitting the export capabilities of Iraqi oil or business opportunities for the steady growth of the workforce in Iraq (Seater, 2008).

Beginning with the necessity of conducting a comprehensive review and serious evaluation of the public financial management in Iraq, and the key to that is the federal budget, the new government was expected to transfer many policies and frameworks, applicable in the short term, from theorizing to implementing them by implanting them in the strength of the federal budget For 2021, in order to maximize public revenues, rationalize and control public expenditures, overcome the critical financial situation, and enable economic reform programs and policies to enter the national economy without high economic and social costs that may harm stability and economic growth.

Draft Budget 2021 and Financial Management Law No. (6) of 2019

Ensuring the correction of the course of the federal budget and making it a tool for stability and an umbrella to enable reform policies to penetrate the national economy requires working to reconsider the usual traditions of public financial management. The Financial Management Law No. (6) of 2019 included many controls and standards that guarantee the production of a general budget that fits the financial reform programs in Iraq. However, the federal government did not abide by the content of this law despite its recent enforcement and consistency with the government's efforts to achieve the alleged financial and economic reform. In this context, it is possible to mention the most prominent violations contained in the draft budget 2021, including:

1. Item (11) states that the Council of Ministers shall discuss and approve the draft federal budget law and submitting it to the House of Representatives before mid-October of each year, while sending the budget to the House of Representatives was two and a half months late than the period specified by law, which was reflected in the delay in approving the budget so far.
2. Item (3) of the effective Financial Management Law, the government has not committed to preparing reports on the most important financial and strategic policies and the government program for the next three years and submitting it to the Council of Ministers for approval, and it will be the basis for preparing budgets for the coming years, including the 2021 budget.
3. The current budget is no longer in accordance with the text of item (4/first) in the Financial Management Law, which stipulates that the federal general budget should be prepared on the basis of estimates of economic development and the pursuit of macroeconomic stability and conformity with the government program and the challenges facing the national economy and the expected risks to ensure the evaluation of the financial situation in Iraq and reducing fluctuations in government

- spending. Rather, they were contradictions without a realistic goal and did not fit the financial reality or the reform programs included in the white paper.
4. The draft budget 2021 violated the text of item (6//4), which emphasized that the planned deficit in the general budget should not exceed (3%) of GDP, while the deficit included in the federal budget draft exceeded (30%) of GDP. guesser.
 5. Item (8/9/10), no documents and reports were attached to the general budget as stipulated in these articles, including:
 - The financial plan regarding local and foreign short-term loans and guarantees issued by the federal government, the region, the governorates, and companies.
 - Limits of the increase in the total government debt in general.
 - Determine the maximum amount of guarantees to be issued.
 - foreign trade plan.
 - Report on the foreign exchange budget and the national money supply plan.
 - Gender balancing.
 - A detailed report on the contributions of the economic sectors to the gross domestic product, investment projects and the most important other necessary indicators.
 - A detailed report on the internal and external indebtedness, deposits of all kinds, and other related financial data.
 - A detailed report on the quantities of exported oil and the ratio of production costs to oil revenues, as well as data related to the ministry's forecasts for the next three years.
 6. Item (13/3) states that in the event that the federal general budget bill for a particular fiscal year is not approved, the final financial statements for the previous year shall be considered the basis for the financial statements for this year and shall be submitted to the House of Representatives for the purpose of approval, while the financial statements for the year 2020 were not submitted to the House of Representatives for approval as an alternative for the 2020 budget.
 7. Item (28/first) stipulates that closing the final accounts shall not exceed 31 January of the following year, while this law has not been adhered to and the final accounts for 2019 or 2020, which is in violation of the Financial Management Law as well as being an umbrella for the sustainability of corruption in Iraq.
 8. Item (44) of the effective Financial Management Law states that the Federal Minister of Finance shall submit a consolidated report on government debts within (30) thirty days from the date of the end of the fiscal year to the House of

Representatives and the Council of Ministers, and this has not happened so far despite the accumulation of government debts during the past year.

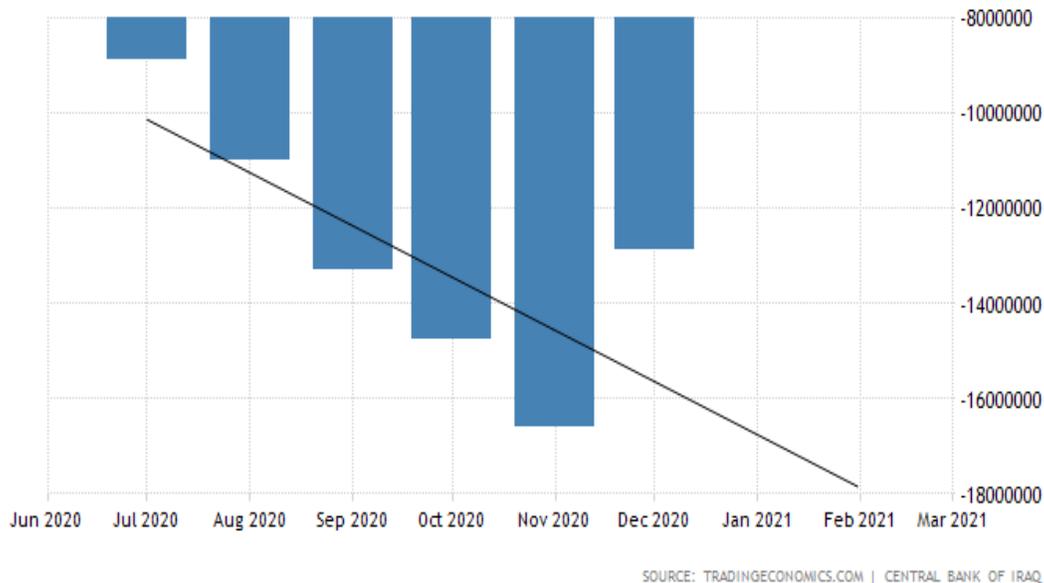


Figure 1 Shows the volume of spending from June 2020 to March 2021

Draft Budget 2021 and White Paper

Item (4 / first) in the Financial Management Law states that the federal budget must match the government program, and since the current government presented the White Paper months ago as a government program for development and reform to be implemented starting from 2021, it was expected that this document would match the general and detailed lines of this paper, especially And the draft budget is the most appropriate place to include reform policies and ensure their penetration into the economy. However, despite the detailed financial reforms contained in the white paper within the paragraph of “achieving sustainable financial stability,” the 2021 draft budget is virtually devoid of most of those reforms (FGBL, 2021). Such as:

- 1- The first paragraph in rationalizing public expenditures stipulated reducing the primary deficit in the budget to (3%) of GDP, while this was not achieved in the 2021 budget.
- 2- Reducing the salaries and wages bill from (25%) to (12%) of the GDP, while the compensation of employees in the 2021 budget increased by nearly (25%).
- 3- Establishing a support system based on performance and merit for government institutions and reducing financial support for public companies by approximately (30%), which was not achieved in the draft 2021 budget.

- 4- Activating the program to recover the smuggled and stolen funds, which was not achieved or referred to from near or far in the text of the draft budget 2021.
- 5- Increasing customs revenues by improving management and collection, which was not appropriately achieved in the 2021 budget, and dependence on oil and debt remained the cornerstone of financing government expenditures.
- 6- Restructuring the local government debt, while the local debt is still increasing, and the same structure depends on discounting treasury transfers with the Central Bank (debt monetization) and borrowing from international banks and institutions.
- 7- Establishing a general budget framework based on programs and performance, while the regular items budget was approved annually by the government.
- 8- Reconsidering the investment budget to ensure the financing of projects over the life of the project to prevent reluctance in the event of delays in approving the budget, while this was not included in the 2021 budget project and remained reliance on the old method of investment allocations.
- 9- Establishing formal structures and systems to implement financial federalism, while the government did not start that project despite the aggravation of the problems of the center and the oil and financial region, and the delay in approving the budget annually because of this file.
- 10- Setting goals for public investment as part of the gross domestic product, while this was not implemented in the draft budget 2021.

The deterioration of the financial situation in Iraq is a function of a set of causes, foremost of which is the lack of transparency and governance in most of the joints of the financial institution (Ministry of Finance), weak commitment to the laws in force by many government agencies and institutions, chronic reliance on budget items, and the absence of final accounts despite rampant corruption In all government institutions, the weakness of the central government's ability to exploit and distribute resources fairly and efficiently, and the weakness of government negotiation in the Kurdistan Region file. As well as the weakness of parliamentary oversight and the end of the role of the House of Representatives to legislate the federal budget (FGBL, 2015).



Figure 2 Shows the amount of budgets from 2017-2021

Thus, there are seven problems that occur in the federal general budget, which are as follows:

1-Traditional Preparation

Iraq's budget was and still is prepared in the traditional way that came during the British occupation and the beginning of the establishment of the Iraqi state, and so far the Ministry of Finance has not moved towards adopting modern techniques in preparing the budget, neither in terms of estimating expenditures nor in terms of estimating revenues in the budget implementation process, in the days of prosperity. We used to estimate things according to a certain percentage, and all ministries use this method, so our budgets have become excessively inflated, and now it is difficult for us to deal with the current situation in light of the lack of modernity of the budget and its adoption of modern technologies (FGBL, 2016).

2-Transparency

Also, in a country where the rate of corruption is high, especially since we have since (2003) until now been at the forefront of the corrupt countries, in such circumstances and with a large amount of spending, the public budget becomes the center of corruption in the whole country, so facing this challenge is difficult, however, the budget of (2017) is found It contains an article for the first time approved in Iraq's budget and bears the number (45), where the Ministry of Finance granted the possibility of selling agricultural lands without fragmentation or division, provided that it remains agricultural lands, and although this article is permeated with some conditions and we can consider it as a ruler and it can guard

the sale process, However, in our reality, there is a wide scope for evaluating another, larger article (FGBL, 2018).

3-The Nature of the Exaggerated Spending and Deficit

In a country facing a crisis, it is difficult to accept the size of a very large deficit. If we review the components of spending that are concerned with this year, and they affect employees' compensation, we find that it constitutes a percentage of (35.5) and this is from the total budget, and if we put it within the framework of the total current spending, the percentage It reaches (48%), although this last percentage is less by about (10%) than last year's budget. It has a significant decline, such as commodity requirements, which decreased from (15%) to (7%), and the investment budget was also reduced by a small thing, as it was (26) and became (25). We have about (3) million employees, and in the budget (2017) the number of employees decreased by (138,689) employees (FGBL, 2019).

Reducing goods and services is not justified because it will affect the quality of services provided by public institutions. Therefore, we expect that the problems related to the capacity of these institutions, especially educational institutions and health institutions, will worsen. Also, investment spending, which has been reduced from about (27) to (25), this also affects It negatively affects capital accumulation and leads to more economic inefficiency in the national economy, increases corruption, and may lead to a slowdown in infrastructure growth. Consequently, all this will affect the lives of citizens and the services provided to them in a country with the population growth rate being the highest in the world, which is equivalent to annually (3%) of Iraq's population of (38) million, meaning the number is more than a million people, the size of the increase. Some ministries were Its share is very weak in the budget allocations and could lead to problems related to the sustainability of development and the economy's ability to generate employment opportunities and so on. The other thing is that investment spending amounts to approximately (56%) of the total investment spending, and it will go to the energy sector. The strange thing is that electricity alone has its share of spending (3.3), while the oil sector has a share (53%) of the total investment spending, which means in dollars. \$11.630 billion, which is a very large number, and there are those who say that the Ministry of Oil is the financier of the total income and we have companies operating in the sector and have entitlements, and therefore the amount escalates to (20) billion dollars, which is a large and very large amount of the total budget that does not exceed (100) One billion dollars, then security and defense comes to you with a ratio of (14.17), and this spending is justified on a country that is fighting a war. As for the Kurdistan region, the remaining share is (16%)

after excluding sovereign expenses and local administrations approximately (Joseph., 2015).

4-Uncertainty of the Amount of Revenue

As for revenue, most of our revenues come from oil, and the price of oil was calculated according to the first draft that was announced two months ago at (35) dollars, but this figure did not live up to the International Monetary Fund and demanded to raise it to a higher rate. After consultations, the matter settled at (42) dollars per barrel. And the strange thing in the general budget is that the revenue estimate is incorrect. Every year we hear that the price of a barrel of oil is specified by a certain number, and therefore we multiply the price of a barrel of oil by the number of days of the year and multiply by the number of barrels. As a result, we obtain the total output and the value of this total production in dollars and converts the official exchange rate is (1182). But they do not recall the costs and the companies' share and the national effort. These are all present in the revenues. Also, the price of oil is often exaggerated, and we were supposed to adopt the precautionary price adopted by the government. The question here is why the price of oil decreased. The answer is that there are many economic reasons behind the drop in oil prices. Recent estimates about oil prices in (2017) and (2018) suggest that the ceiling of the oil price will remain at an average of \$50, i.e. a global average for all oil prices, and the nature of the quality of Arab oil, which is less than this rate by (8) dollars, and for Iraqi oil it is \$10 less than world oil, in addition to the existence of unknown revenues, foremost of which are domestic oil sales, which are estimated at 700 thousand barrels per day, liquidated and sold as derivatives. Until last year, the price of one barrel was at one dollar, and it was raised in the budget (2016.) to ten dollars, if we take the standard ratios of gasoline and kerosene ratios and neglect other derivatives, and adopt the declared prices and exclude other costs, we will have about (7.4) i.e. seven billion and four hundred million dollars. It appears in all of Iraq's budgets since the year (2003), and when the Minister of Oil was asked about this issue, he replied that internal revenue goes to the benefit of petroleum products for the purchase and import of derivatives, also from the unreported revenues the use of airspace as well as taxes for telecommunications companies, which are estimated at billions of dollars in addition to Internet companies (FGBL, 2020).

5-The Disparity between the Orientations of Governments and the International Monetary Fund

Also, the two views are between the IMF and the government, of course, the relationship that emerged now through the volume of intervention in this year's budget, setting a number of conditions, including the amount of interest (1.5%) and giving the oil companies

operating in Iraq their financial dues, and that the loan will be used to bridge the deficit (Robert, 2008).

6-The Budget is Free from the Objectives Stipulated in the Financial Management and Public Debt Law for the Year (2004)

The current and future general budget also violates the financial management law and sets a set of obligations, dates and timings that are related to the work and implementation of the general budget that the government has not worked to meet since (2004). For example, in section (6) of the budget law, the Minister of Finance is supposed to submit a report explaining the objectives of the budget, future visions, and the foundations upon which this budget is built, and links it to national development plans, and this has not been done in any budget (O'Sullivan and Steven,2003).

7- Non-separation of Dollar Debt Payments

Also, we still have payments in dollars and payments in dinars. Dollar payments are still transferred in dinars and included in spending, and then they are transferred to dollars until they are paid, and this imposes an additional burden and must be separated.



Figure 3 Shows the amount of allocations and for every two years

Federal Budget Challenges are as Follows

1-Financing the Deficit

Of course, the general budget has a deficit of 25 trillion. The government was able to finance it in two ways: the first is internal borrowing and the second is through external borrowing,

as it took (75%) of the size of the deficit from external borrowing and only (25%) from internal borrowing, and many One of the things related to internal borrowing is theoretical because we are supposed to meet about (5) trillion of bonds for the public, and this is not available to us because we do not have the means, capabilities and markets that allow us to obtain this huge amount from the public, and of course article (34) was added related to deduction (4.8) The justification for this deduction was to provide it to the popular mobilization and the displaced, and in fact it is a reduction in the size of salaries, and therefore this will result in a reduction of the deficit from (21.5) to (19.8), which reduces the burden on the public budget, but this particular article violates one of the financial foundations public because it is not permissible to allocate public revenue for public spending.



Figure 4 Shows the amount of variance in the federal budgets from 2004-2019

What are the means available to the public policy maker to finance the deficit, especially with regard to the possibility of using the exchange rate? We have so far been using the fixed exchange rate, and the Central Bank for more than ten years has been defending a fixed exchange rate for the Iraqi dinar, and now we have a parallel rate to the dinar by about (1300). If we take the same budget data and exclude the options of taking the difference to the pockets of companies or politicians, the deficit will drop to less than (15%), and then the deficit will become only (11) billion dollars, and if we raise the exchange rate to (1400) The deficit reaches (9%) and if the price is also raised to (1500), the deficit will decrease to (3.4), meaning that the size of the deficit will reach only (2.25 billion), and this is a very optimistic scene. On the other hand, there are pessimistic scenes related to the decrease in the price according to the budget parameters to (40) instead of (42) dollars, which will increase the deficit to (25%), meaning that the size of the deficit will become (21) billion dollars, and if the price drops to (35) dollars, the deficit will reach about (33%) means about

(28) billion dollars, and if the price drops more to (30) dollars per barrel, then the deficit will reach more than (40%), meaning the deficit will reach (35) billion dollars, and another door of optimism the government is working to increase The volume of exports, which will be harmful at times due to low oil prices, but according to the prevailing price, the deficit will decrease to (14) billion dollars, i.e. (17%), and if production increases only, the deficit will be (8%), but if production increases and the price increases, the deficit will be (3) % only and then the value of the deficit will be (3) billions.

2-Financial Sustainability

It is a title that Iraq did not know. Every year, we prepare a huge budget, and this is what the Prime Minister tried to emphasize on more than one occasion, even counting the achievement of the largest budget in the history of Iraq. This caused us a problem to be added to the problem of transparency and accountability related to the budget, and there are no accounts Concluding: There is no accurate inventory of state employees, and there are no appropriate mechanisms for government procurement. We also have confusion in spending priorities and that the features of the budget are not clear, and whether it is really a war budget or a development budget (FGBL, 2021).

3-Reconstruction of the Liberated Areas

Some studies are estimated at a cost of (30 to 40) billion dollars. We also have a problem of (3) million displaced people, in addition to that, the level of poverty has increased by 25%. Besides, we are in a country that is at war and the government did not intend to increase the allocations of medicines, which is It is estimated at about (500) million dollars, the card has also been allocated reduced allocations and that the dues per individual amount to (3) thousand dinars only, also the relationship with the region is a complex relationship, this is reflected in three articles in the constitution, namely Article (9, 10 and 11) The first article is the longest article in the constitution and is estimated at three pages in order to define this heterogeneous relationship for me. The relationship with companies is also problematic, especially since the value of the investment spending of the Ministry of Oil is (.8.27, then the amount becomes (20) billion dollars, which is the value of the foreign companies' dues in Iraq.

References

- Seater, J.J. (2008). *Government Debt and Deficits*. In David R. Henderson (ed.). *Concise Encyclopedia of Economics* (2nd ed.). Indianapolis: Library of Economics and Liberty. ISBN 978-0865976658. OCLC 237794267.

- A history of the Budget (2013). Archived from the original on 2013-12-24. Retrieved 2012-12-17.
- The Federal General Budget Law of the Republic of Iraq (2021).
- The Federal General Budget Law of the Republic of Iraq for the year (2015).
- The Federal General Budget Law of the Republic of Iraq for the year (2016).
- "The first budget? Walpole's bag of tricks and the origins of the chancellor's great secret". Retrieved 2012-12-17.
- The Federal General Budget Law of the Republic of Iraq for the year (2017).
- The Federal General Budget Law of the Republic of Iraq for the year (2018).
- "History, Origins and Traditions of the Budget". Archived from the original on 2012-01-17. Retrieved 2012-12-17.
- The Federal General Budget Law of the Republic of Iraq for the year (2019).
- Stiglitz, J. (2015). *Economics of the Public Sector*. London.
- The Federal General Budget Law of the Republic of Iraq for the year (2020).
- Higgs, R. (2008). *Government Growth*. In David R. Henderson (ed.). *Concise Encyclopedia of Economics* (2nd ed.). Indianapolis: Library of Economics and Liberty. ISBN 978-0865976658, 2008. OCLC 237794267.
- O'Sullivan, Arthur; Sheffrin, Steven M. (2003). *Economics: Principles in Action*. Upper Saddle River, New Jersey 07458: Pearson Prentice Hall. pp. 551, ISBN 0-13-063085-3.