

Research Article

Analysis of the structure of Public Expenditures and the role of oil price fluctuations in Iraq after 2004

Researcher: Alia Hanitel Hassan ,

1. University of Al-Qadisiyah, College of Administration and Economics

Assist.Prof. Sundus Jasim Shaaibith,

2. University of Al-Qadisiyah, College of Administration and Economics

Abstract

Oil is one of the important economic resources, especially in rentier economies, and since Iraq is a one-sided economy, the revenues from crude oil have a high percentage of contribution to the financing of public expenditures. In directing Public Expenditures by influencing the volume of revenues from crude oil in Iraq and the extent to which they are related to fluctuations and changes in oil prices, and therefore aimed at analyzing the fluctuations in crude oil prices, as well as analyzing the relationship between changes in crude oil prices and Public Expenditures in Iraq for the period (2004-2019) The most important results that were reached were that oil prices are characterized by severe fluctuations and instability, whose effects were reflected in changing the volume of Public Expenditures in a volatile manner, and current expenditures were controlled by them. The second focuses on the evolution of crude oil prices and the structure of public expenditures, while the third includes an analysis of the relationship between oil prices and public expenditures.

Keywords: Iraq, oil prices, public expenditures, gross domestic product.

Introduction

Oil is an important economic resource whose importance is increasing with the increasing demand for it, due to its role as an energy of great importance in economic development, whether at the global level, or at the level of oil-exporting countries. And the demand for it, as the instability in world oil prices, since its first shock in 1973 to the price shock in 2019, contributed to major changes in the public budgets of rentier countries in particular, and carried with them positive and negative effects at other times. Among the oil-exporting countries, its economy is characterized by a lack of diversity in its structure, in which the revenues from crude oil dominate the center stage in the volume of public revenues, and a major source for financing public expenditures, which is one of the tools of financial policy, and its importance is evident through the growing role of the state and its increase in its intervention in economic life because it is The tools that the government puts in place through its fiscal policy to achieve the goals it seeks, in addition to its role in providing public benefits. Public Expenditures are the main nerve for financing the state's general budget.

As a result of these fluctuations in international oil prices on the one hand, and the rentier Iraqi economy and the concentration of its exports on the other hand from this resource, the rise or fall of oil prices is sometimes a positive and negative shock at other times, and an influential factor in the

trends of financial policy, which results in imbalances and consequences in The future performance of the Iraqi economy due to its connection to expansionary or contractionary fiscal policy measures.

Research Importance

The importance of the research is reflected in the fact that it deals with the most important effects that oil price fluctuations leave in directing the spending policy and in line with the economic conditions of the country. Knowing the causes and results of fluctuations in oil prices and trying to absorb them or mitigate their negative effects on the general budget.

Research Problem:

The Iraqi economy is one of the rentier economies that depend on oil as a natural resource that has contributed to the non-diversification method in the structure of the general budget and then negatively affects the macroeconomic variables. ?

Research Hypothesis:

The Iraqi economy depends mainly on the oil sector to finance public expenditures, and fluctuations in international oil prices have negative and direct effects on the volume of public expenditures.

Research Goal:

The research aims at the following:

1. Demonstrating the status of oil in the Iraqi economy by identifying its main features.
2. Analysis of the structure of Public Expenditures in Iraq for the period (2004-2019)

Research Methodology

For the purpose of briefing the topic of the research, the two researchers relied on the descriptive approach in analyzing the data based on extrapolating reality and deducing results from it to determine the impact of oil price fluctuations on the spending policy indicators in Iraq during the period (2004-2019).

The first topic: the nature and characteristics of the Iraqi economy

First: the imbalance in the structure of the gross domestic product

The Iraqi economy has faced various challenges, especially after 2004, which led to the disruption of its production structure due to its dependence on oil revenues, which are quickly affected by fluctuations in global oil prices, not to mention the issue of following an expansionary spending policy, especially the current ones, as well as the absence of a trend towards building an industrial and agricultural base , according to which it formed a great dominance of the oil sector in the composition of the gross domestic product, as the gross domestic product dominated with oil, with an average contribution ratio of more than 55% for the period (2004-2019) at constant prices¹, while the contribution rates of the output without oil were less than 54% on average as well, and consequently the low contribution of the economic sectors (other than oil), which can be attributed to the absence of economic policies entrusted with promoting the development of these sectors. Between positive and negative and achieving economic growth for the whole period if we exclude inflation and arrive at the real numbers, which averaged about 5.5% for the entire period under analysis, due to its weak economic diversification and low value. Its production cycles and its main dependence on the production and export of crude oil and its impact on oil shocks, which leads to the conclusion that the Iraqi economy depends mainly on the production of crude oil to enhance the gross domestic product.

Second: The imbalance in the structure of the general budget

¹. Riam Nazim Barir, Public Debt and its Impact on Iraqi Economic Performance (2003-2018), an unpublished master's thesis, Al-Qadisiyah University, College of Administration and Economics, 2021, p. 67.

By tracing the path of the general budget in Iraq during the period (2004-2019), it was characterized by a financial imbalance between surplus and deficit, and since it recorded a surplus balance in 2004 by about 788.3 billion dinars, then to 208.5 billion dinars in 2008 and its decline towards achieving a financial deficit of (-380.4 billion dinars in 2009, then a surplus for the years (2010-2012) and then a deficit for the subsequent years (2013-2016) and a surplus for the years 2017 and 2018 all the way to a financial deficit of about (4156.5-) billion dinars in 2019 ², which would contribute The fluctuation of the budget balance index to the gross domestic product, which in the best years of the research period did not exceed 20%, which is a clear indication of the weak role of the state in employing its financial resources. On the other hand, it is deduced from the weak performance of fiscal policy in this area, not to mention the weak performance of other economic policies.

Third: Imbalance of trade

The Iraqi economy depends mainly on oil exports, with rates exceeding the average for the period (2004-2019), all at a rate of (96.4%), while the contribution of other exports does not exceed (4%) for the same period on average as well. It is noted from the same table that the trade balance recorded some The deficit in the years of the research period (2004, 2005, 2015), which promises a major imbalance in the trade balance in terms of its deficit due to the decline in the role and importance of the output without oil, not to mention the increase in the volume of imports in the early years, either during the years (2006-2014) and the years (2016). -2019) it formed a surplus in view of the changes in the volume of exports, especially oil, which increased from 56,464 million dollars in 2015 to 81,585 million dollars in 2019. As tangible changes in the price of oil would be reflected in the total exports, and since oil exports are the main source of the trade balance, it is noted that their role and the impact of the balance as a whole are affected by changes in those oil prices.

Fourth: Exacerbating the size of the debt

Iraq faces a set of international obligations related to the size of the external indebtedness, which constitutes the largest proportion of the total public debt during the period (2004-2019), to which several factors contributed, including the decline in foreign exchange resources, as well as the expansionary spending policy that left some negative effects on the cash reserve in Iraq. The indicator of public debt to GDP indicates the failure of fiscal policy in creating a balance between budget financing capabilities and spending policy, given the ease of borrowing from international institutions, despite the decline in public debt, especially external from it, from 127896 billion dinars in 2004 to 79350.4 billion dinars. In 2018³, it can be attributed to the government taking over debt treatment by extinguishing part of it, especially as a result of international negotiations, according to what was stated in the Paris Club, by reducing its percentage by 80% and treating the rest of it with creditors.

Several factors contributed to the rise in the external debt in some years of the research period, including the decline in foreign exchange resources, as well as the expansionary spending policy that left some negative effects on the cash reserves in Iraq, not to mention the changes in the size of the gross domestic product and its increase due to the rise in crude oil prices that It led to a decline in

2. See in it: the Central Bank of Iraq, the General Directorate of Statistics and Research, various annual bulletins

3. Review the external debt data on the website: data.worldbank.org/topic/20 and the Central Bank of Iraq, the General Directorate of Statistics and Research, various annual bulletins

the index to about 29.16% in 2014, but it retreated from the decline and re-rise in subsequent years, reaching 60.31% in 2016 and 45.06% in 2018⁴, due to the decline in oil prices and thus the impact on the size of GDP.

The second topic: the evolution of crude oil prices and the structure of public expenditures

First: Analysis of the evolution of crude oil prices

Oil prices are characterized by severe fluctuations and instability at the global level, and since oil is an unusual international strategic commodity, any of the fluctuations in prices are caused by factors affecting supply and demand that directly affect the volume of oil supplies⁵.

Since oil prices are globally diverse, such as the prices of the OPEC basket, Brent crude, and Iraqi crude, it is normal for local oil prices (Iraqi crude) to be affected by international prices and linked to them in a direct relationship. Crude oil prices witnessed remarkable changes during the period (2004-2019), After the oil price, according to the OPEC basket, amounted to \$36.05/barrel in 2004, it increased to reach \$109.45/barrel in 2012, then declined and continued to decline to \$64.04/barrel in 2019 and this reflected on Iraqi oil prices, reaching \$107.96/barrel in 2012 and \$63.64 / barrel in 2019, due to the increase in global demand for oil by 1.8%,⁶ which is more than the 1.4% increase in oil supplies, on the one hand, and in view of the political tensions and what the Middle East witnessed, represented by the Iranian nuclear file, and the state of security instability in Iraq at that time⁷, in addition to the events in Lebanon, the unrest in Nigeria, and the British Petroleum Company's announcement in 2006 to shut down the 400,000 barrels per day capacity of the (Brody) field in Alaska, not to mention the occurrence of cold waves in Europe and the disruption of part of the Russian production Global demand increased to about 86.5 million barrels / day in 2007 after it was about 74.5 million tons in 2006 on the other hand⁸, in addition to the reason for the rise after 2009 until 2012 was affected by the global economic recovery during this period, especially after the exit from the financial crisis in 2008, as the global economic growth rate increased from (-1.5%) in 2008 to (1.9%) in 2011 due to the economic stimulus programs that were followed and implemented by many countries, especially industrial ones, as well as the continued depreciation of the US dollar

⁴ .Review the external debt data on the website: data.worldbank.org/topic/20 and the Central Bank of Iraq, the General Directorate of Statistics and Research, various annual bulletins

⁵.Arab Monetary Fund, Unified Arab Economic Report, 2012, Abu Dhabi, pp. 12–14

⁶.OPEC, Annual statistical bulletin (2008, 2011, 2012, 2015, 2019, 2020). https://asb.opec.org/data/ASB_Data.php

⁷.Arab Monetary Fund, Unified Arab Economic Report, Abu Dhabi, 2015, p.

⁸.Mustafa Al-Kazemi Al-Najafi and Ali Thajil Yusuf Al-Tamimi, Lark Journal of Philosophy, Politics and Social Sciences, No. 34, Issue (1–7), 2019, p. 14

towards major currencies and a factor Speculation in the crude oil futures markets, which formed the big impact on the rise in oil prices⁹.

The failure of the OPEC agreement in Vienna on November 27, 2014 to reduce oil production contributed to a significant drop in the price of oil to \$96.29 / barrel in 2014 due to the increase in oil supply as well as the increase in the production of the United States of America from shale oil and its tendency towards that with the aim of increasing pressure On oil prices and pushing them down, not to mention the lifting of fuel subsidies in other countries such as (Malaysia, Egypt), which contributed to a decrease in consumption from them and created a surplus in this area and contributed to an increase in the supply of crude oil¹⁰, so all are factors that contributed to the drop in the price of oil in 2014. .

As for the reason for the decline in prices after 2018, due to a number of overlapping factors, the most important of which was the entry into force of the amendments to the production cut agreement reached by the (OPEC +) countries, which contributed to the rise in oil prices during the first quarter of 2019, and the interruption of Russian crude supplies to Eastern Europe and Germany The extension of the Druzhba pipeline as a result of the contamination of Russian oil shipments, as well as the growing concerns of some countries about the outlook and demand for oil on the impact of the escalation of trade tension between China and the United States¹¹..

Second: Analyze the structure of public expenditures

When examining Table (1), it becomes clear that there is a continuous increase in the total Public Expenditures during the period of the research under analysis and that there is a clear fluctuation in their annual growth rates between negative and positive. Annual growth for the whole period amounted to about 11.39%, and this growth was the result of fluctuations in the annual growth for the years between 2004 and 2019, and these changes came as a result of changes taking place in both sides of both investment expenditures and current expenditures, while Public Expenditures recorded a continuous increase in their size from 26375.2 One billion dinars in 2005 to 59403.4 billion dinars in 2008 and a return to the increase in its volume, reaching 11927.6 billion dinars in 2013, then a decline and negative growth for the years 2014, 2015, 2016 and then the increase, both in volume in 2019.

9. Omar Huwaidi Salih, Analysis of the Impact of Oil Prices on the Structure of the Public Budget in Iraq for the Period (2005–2014), Anbar University Journal of Economic and Administrative Sciences, 2017, p. 99.

10.Naji Sari Faris, The drop in global oil prices and its repercussions on the Iraqi economy, Al-Ghari Journal of Economics and Knowledge, Vol. 15, No. 3, 2018, pp. 64–65.

11 Unified Arab Economic Report, Arab Monetary Fund, Abu Dhabi, 2019, pp. 105–106.

Table (1)

The structure of Public Expenditures for different years in Iraq in millions of dinars

Year	Public Expenditures 1	Investment expenses 2	Relative contribution% 2 : 1	current expenses 3	Relative contribution% 3 : 1
2004	32117491	3051162	9.5	29066329	90.5
2005	26375175	3903526	14.8	22471649	85.2
2008	59403372	20315954	34.2	39087418	65.8
2013	119127556	40380750	33.9	78746806	66.1
2014	112192126	35450453	31.6	76741673	68.4
2015	70397515	18564670	26.4	51832845	73.6
2016	67067400	15894000	23.7	51173400	76.3
2017	75490115	16464500	21.8	59025615	78.2
2018	80873189	13820200	17.1	67052989	82.9
2019	111723523	24422600	21.9	87300923	78.1
Average			22.8		77.2

Source: Central Bank of Iraq, General Directorate of Statistics and Research, various annual bulletins.

These developments, whether in the increase in the volume of Public Expenditures and the fluctuations in growth in them for the period under consideration, can be attributed to the following matters:

1. The decline in the volume of Public Expenditures is due to the decline in the volume of oil revenues due to the decline in oil prices to \$61.06/barrel in 2009 after it was, according to the OPEC basket, about \$94.45/barrel in 2008.
2. The increases in its volume during the years (2013-2014) are due to the increase in the volume of oil revenues or, therefore, the total public revenues due to the significant

increase in oil prices during those years mentioned, which leads to the Iraqi economy's unilateral dependence mainly on oil revenues to finance its expenditures the public.

3. The fluctuation in total Public Expenditures and the decline in its growth at negative rates, especially during the years (2015-2017), can be attributed mainly to the significant decline in oil prices, which was reflected in the significant decline in the volume of revenues from crude oil and then in the total public revenues, which are As we mentioned earlier, the main financier of public expenditures, and this can be attributed to the double shock to the Iraqi economy represented by the war against terrorist organizations¹², and what it requires of increasing current expenditures, and given the slow return of global crude oil prices with a gradual improvement after 2017 to 2019 and then The increase in the volume of public revenues was reflected in the increase in the volume of Public Expenditures and then their components.

The Third topic: Analyzing the relationship between oil prices and public expenditures.

Since Iraq relies mainly on oil revenues to finance the state's general budget, it is natural that the behavior of the path of Public Expenditures goes according to the trend and development of oil revenues that are directly affected by changes in international oil prices. Through Table (2) it is noted that the change in The volume of Public Expenditures is indirectly affected by oil prices due to the dependence of Public Expenditures for financing on oil revenues, as the rise in oil prices according to the OPEC basket during the period 2004-2008 led to an increase in the volume of Public Expenditures from 32,117.5 billion dinars in 2004 to 59403.4 billion dinars in 2008 Hence the increase in the contribution of current and investment expenditures, which constituted annual growth of 31.1% and 120.9%, respectively, for both current and investment, and after the decline in oil prices in 2009 negatively affected the trend towards achieving a negative growth rate for total Public Expenditures that amounted to -6.4% in 2009, while The return of prices to rise until 2013 led to an increase in annual growth with positive rates for both the total public, investment and current expenditures, which amounted to (13.3%, 3.9%, 37.6%) for each of them, respectively, while Whereas, the decline in oil prices according to the OPEC basket or Iraqi crude, which is affected by a direct relationship with world prices, led to some negative growth rates for public expenditures, especially in 2015 and 2016, with the exception of the years (2019, 2018, 2017) in which the total Public Expenditures increased and compensated The drop in oil prices that occurred in those years resulted in the Iraqi government's tendency to borrow internally and externally, which led to an increase in the volume of public debt, which increased from 100.7 billion dinars in the year to 121 billion dinars in 2018¹³.

¹². **Ministry of Planning and Development Cooperation, Fiscal Policy Path (The Concept and Functions of Fiscal Policy), p. 26**

¹³. **Riam Nazim Barir, Public Debt and its Impact on Iraqi Economic Performance (2003–2018), an unpublished master's thesis, Al-Qadisiyah University, College of Administration and Economics, 2021, p. 67.**

Table (2)

Crude oil prices and their Relationship to Public Expenditures in Iraq for the period (2004-2019)

Year	Price of the OPEC basket	Total Public Expenditures	Annual Growth %	Current expenses Million Iraqi Dinars	Annual Growth %	investment expenses Million Iraqi Dinars	Annual Growth %
2004	36.05	32117491		29066329		3051162	
2005	50.64	26375175	-17.9	22471649	-23	3903526	27.9
2006	61.08	38806679	47.1	32597610	45.1	6209069	59.1
2007	69.08	39031232	0.6	29819861	-8.5	9211371	48.4
2008	94.45	59403372	52.2	39087418	31.1	20315954	121
2009	61.06	55589721	-6.4	45941063	17.5	9648658	-53
2010	77.45	70134201	26.2	54580860	18.8	15553341	61.2
2011	107.5	78757660	12.3	60925547	11.6	17832113	14.7
2012	109.5	105139576	33.5	75788624	24.4	29350952	64.6
2013	105.9	119127556	13.3	78746806	3.9	40380750	37.6
2014	96.29	112192126	-5.8	76741673	-2.6	35450453	-12
2015	49.49	70397515	-37.3	51832845	-33	18564670	-48
2016	40.76	67067400	-4.7	51173400	-1.3	15894000	-14
2017	52.43	75490115	12.6	59025615	15.3	16464500	3.6
2018	69.78	80873189	7.1	67052989	13.6	13820200	-16
2019	64.04	111723523	38.2	87300923	30.2	24422600	76.7
Average			11.4		9.6		24.8

Source: Prepared by the researcher based on:

1. Ministry of Planning, Central Statistical Organization, Directorate of National Accounts, Consolidated Accounts.
2. The Central Bank of Iraq, the General Directorate of Statistics and Research, various annual bulletins.
3. Data.worldbank.org/topic/20

Conclusions and Recommendations

First: the conclusions.

1. The Iraqi economy faces various challenges, especially after 2004, which led to the disruption of its production structure due to its dependence on oil revenues, which are quickly affected by fluctuations in international oil prices, not to mention the issue of following an expansionary spending policy, especially the current ones, as well as the absence of a trend towards building an industrial and agricultural base Which constituted the dominance of the oil sector in the composition of GDP.
2. The volatility of the budget balance index to the gross domestic product, which in the best years of the research period did not exceed 20%, which is a clear indication of the weak role of the state in employing its financial resources, given the adoption of financial policies between expansionary at times and restrictive at other times, and then the weak performance of the financial policy in This area is not to mention the weak performance of other economic policies.
3. Any of the fluctuations in prices are the result of factors affecting supply and demand that directly affect the volume of oil supplies, and thus the local oil prices (Iraqi crude) are affected by international prices and are linked to them in a direct relationship.
4. The change in the volume of Public Expenditures is indirectly affected by oil prices due to the dependence of Public Expenditures in their financing on oil revenues, as the rise and fall in oil prices according to the OPEC basket during the period (2004-2019) led to some fluctuations in the volume of Public Expenditures Sometimes, and at other times less.

Second: recommendations.

In light of the conclusions reached, and in order to overcome the negative repercussions and support the positive ones, the research came out with a set of recommendations, as follows:

1. Due to Iraq's adoption of an expansionary financial policy, it is necessary that the state's spending policy be based on increasing government investment spending, which requires a review of the financial policies followed, especially realizing the importance of coordination with monetary politicians to ensure towards achieving economic diversification.
2. The need to move towards a future vision to deal with potential challenges and their direct effects, especially fluctuations in international oil prices on the general budget of the Iraqi state, not to mention the need to restructure public spending and direct it towards conducting a balance to achieve economic development and then raise economic growth rates in Iraq.
3. The necessity of moving towards improving sources of income, especially with regard to tax revenues, and consolidating a culture of tax awareness that would contribute to reducing the size of the deficit in the public budget to reach an appropriate amount of government debt.
4. In order to avoid the effects of direct oil price shocks in the general budget, the need to reform the structure of the general budget by compressing and rationalizing current

expenditures, increasing the proportion of investment expenditures, and carrying out a process of financial and economic reform that works to provide financial resources for investment, reform the reality of economic sectors and advance the process of economic and social development.

5. The necessity of establishing sovereign funds as an economic phenomenon with the aim of saving or investing the financial surpluses achieved as a result of the rise in oil prices, to benefit from them in financing the public budget deficit.

Sources:

1. **Riam Nazim Barir, Public Debt and its Impact on Iraqi Economic Performance (2003-2018), an unpublished master's thesis, Al-Qadisiyah University, College of Administration and Economics, 2021, p. 67.**
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4. **Review the external debt data on the website: data.worldbank.org/topic/20 and the Central Bank of Iraq, the General Directorate of Statistics and Research, various annual bulletins**
5. **Arab Monetary Fund, Unified Arab Economic Report, 2012, Abu Dhabi, pp. 12-14**
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