



مركز البيان للدراسات والتخطيط  
Al-Bayan Center for Planning and Studies

# Iraq's 2024 Budget Between Free-Riding Policies and Economic Modeling: Will the 2024 Budget Ensure Iraq's Development Needs?

**Dr. Amro Husham Mohammad**



Al-Bayan Center Studies Series

## **About**

Al-Bayan Center for Planning and Studies is an independent, nonprofit think tank based in Baghdad, Iraq. Its primary mission is to offer an authentic perspective on public and foreign policy issues related to Iraq and the region.

Al-Bayan Center pursues its vision by conducting independent analysis, as well as proposing workable solutions for complex issues that concern policymakers and academics.

**Copyright © 2024**

---

**www.bayancenter.org**  
**info@bayancenter.org**  
**Since 2014**

# Iraq's 2024 Budget Between Free-Riding Policies and Economic Modeling: Will the 2024 Budget Ensure Iraq's Development Needs?

Dr. Amro Husham Mohammad \*

## Summary

– Improving the transparency of public financial management and the general budget is crucial because it provides an accurate picture of the government's financial position and its expected outlook, the long-term costs and benefits of any policy changes, and public financial risks that could deviate from the desired path. To achieve an acceptable level of public financial transparency, it is essential to build four main pillars: (1) Financial reporting, (2) Budget forecasting, (3) Public financial risk analysis and management, and (4) Transparency of natural resource revenues.

– The double shocks that hit the Iraqi economy consecutively over five years indicate confusion in economic management. The adopted treatment tools contribute to repeating those shocks, focusing on expanding social expenditures, military expenditures, and employee compensations, which led to a decline in investment shares and low spending levels on education and health.

– The budget includes constructive signals, representing strengths through the flexibility it provided in diversifying revenues, organizing the financial relationship between the

---

\* Al-Mustansiriya University, College of Administration and Economics

center and the region, and enhancing financial decentralization by granting border provinces a percentage of revenues, which represents the enforcement of previous laws, including Law No. 21 of 2008 and its amendments.

– Despite the significant increase in spending on the electricity sector in the Iraqi budget, this sector has not been able to address its structural deficiencies. This economically indicates inefficiency and weakness in the spending on electricity in the federal budget.

– Following a debt strategy that focuses on reducing external debt and prioritizing internal debt provides optimism for the general direction of financial policy in Iraq, especially in the 2024 budget, as it indicates the beginning of a decline in the debt burden, both external and internal, which establishes true financial sustainability.

– In the field of healthcare, one of the primary reforms is to expand the scope of financial protection programs to ensure citizens can afford healthcare costs. While discussions continue on a new social health insurance system, important questions arise regarding the system's feasibility and implementation methods. For example, Iraq spends more on the health sector than other countries often visited by Iraqi patients for treatment. This fact indicates a failure in the efficiency of healthcare allocations in the approved budgets of previous years, including the current budget for 2024.

– It is crucial to enhance equity in educational expenditures by providing additional support to deprived groups and areas, especially in terms of the level and quality of education and

equal opportunities. The focus should be on basic and secondary education because they have the highest economic return when comparing economic costs to expected economic and social benefits.

– Continuing to improve the conditions for financial sustainability by controlling the public budget deficit so that it does not exceed 3% of the GDP and reducing the debt burden to less than 60% of the GDP.

### **Introduction:**

Usually, complex and multi-dimensional discussions arise, including economic, social, and political dimensions, when linking financial policy with development efforts to uplift nations and societies. Thus, do security, military, and political considerations outweigh their economic counterparts, or vice versa? Is achieving high growth rates sufficient, or should growth be pro-poor? Regarding income redistribution, should it be through spending policies that encourage support, thus “free riding” and increasing societal and state welfare? Or should the focus be on tax policies that take from the rich and benefit the poor and marginalized? If the first type of policy burdens the budget and the second weakens the incentive to save and invest, which do we choose? Or do we find a middle ground, balancing efficiency considerations with justice, and leaning towards economic modeling?

These questions are legitimate and rational to a large extent: Should we continue with escalating military spending that attracts technology and employs it to protect societies while maintaining modest levels in sectors like health and education, or should the opposite be true?

Are the concepts of human development and human capital indicators merely estimative indicators encouraging countries to abandon burdensome security and military spending, or are they indicators with high acceptance and reliability among various countries and reputable international institutions, thus garnering greater attention?

All these questions can be clarified through financial policy, focusing on its comprehensive tool, the general budget. Iraq, with its scientific or dialectical discussions, is no exception to other countries, nor are its society, intellectuals, and specialists exceptions to their counterparts. This will be addressed through several axes.

### **Axis One: Financial Policy**

Financial policy affects economic variables such as production, employment, and inflation through its tools (public spending, taxes, the general budget, and public debt). To achieve social justice and income redistribution among society's individuals and groups, governments must use various economic policies. Among these policies, financial policy stands out due to its diverse tools and mechanisms, such as policies addressing economic and social crises and problems, primarily poverty. By adapting to economic conditions, financial policy can significantly impact achieving economic and social stability, reducing income disparities, reallocating resources among sectors and regions, developing regions within the country, and reducing unemployment, which is a major cause of poverty. These objectives can be addressed through the tools and mechanisms of financial policy.

To achieve these goals, financial policy usually resorts to various measures and mechanisms, such as using public transfer expenditures to improve the living standards of society's individuals and increase

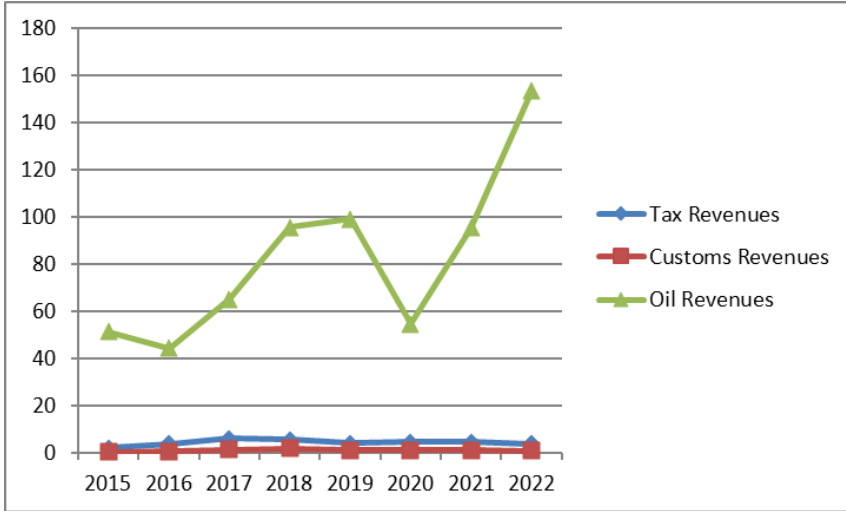
their real income share (such as food, clothing, education, health, and housing) or reducing the high incomes of a limited segment of society using taxes, then redirecting them to support the poor, expanding social safety nets, and redirecting support to the most deserving classes.

Sharp changes, whether upward or downward, in the economic cycle are known as economic shocks. Economic literature refers to what the Iraqi economy experienced at the end of 2014 as the “double shock.” It may not be an exaggeration to rename what the Iraqi economy is experiencing today as the double shock due to the health and economic crises at the beginning of 2020. Thus, the Iraqi economy, in an exceptional case, unlike the world's economies, has experienced two double shocks within five years, placing an exceptional burden on the Iraqi economy.

One of the issues with the Iraqi economy is the decline in global oil prices due to the COVID-19 pandemic, leading to a significant decrease in its financial revenues, as its economy is highly dependent on oil. These revenues contribute more than 90% of public revenues to the federal budget. Additionally, isolation measures and the need to increase public transfer expenditures, particularly to save people from disease and poverty, create a second channel of pressure on the Iraqi economy.

On the other hand, the Iraqi economy's exposure to a double shock within a few years has changed public spending priorities, focusing on military expenditures, employee compensations, and social expenditures at the expense of investment spending and the health and education sectors.

Figure (1) Trends in public revenues in Iraq for the period 2015-2022



Source: Ministry of Finance, National Budgets for various years.

## Axis Two: Analytical Overview of the Federal General Budget for the Years 2023-2025

### First: Preparation Foundations

The three-year budget was prepared based on constitutional, legal, economic, and financial foundations, including the governmental program, Law No. 6 of 2019 on public financial management, and the public debt strategy. The key elements are summarized as follows:<sup>1</sup>

**1. The Iraqi Constitution of 2005:** It stipulates the federal government’s exclusive powers to set the state’s general budget

---

<sup>1</sup> Federal Budget Statement for the year 2023, Ministry of Finance, March 2023, pp. 3-6.



according to Article 110/Third.

**2. Law No. 6 of 2019 on Public Financial Management.**

**3. The Governmental Program:** Priorities include:

**a) Restructuring the General Budget:** To reduce consumer spending in favor of sustainable development projects and programs, reduce public debt, maximize revenues, and establish the foundations for a gradual transition to program and performance budgets.

**b) Limiting External Borrowing:** Restricting it to investment projects.

**c) Establishing the Iraq Development Fund:** Comprising specialized funds for education, industry, and technology.

**d) Controlling Border Crossings and Reforming Tax and Customs Systems.**

**4. Developmental Planning Documents and Strategies:** Such as the poverty reduction strategy, the general budget strategy, and the public debt strategy for the years 2023-2025.

**5. Efficiency and Financial Sustainability Considerations:** Aligning with the economic vision adopted by the government.

**6. Other Considerations:** Strengthening financial decentralization, enhancing economic growth foundations, focusing on social dimensions and supporting the poor and vulnerable groups through the food ration system (Ration card) and social protection network, and enhancing transparency,

accountability, and oversight by the parliament, financial audit bureau, and integrity commission.

## **Second: Budget Directions**

The federal general budget can be analyzed from multiple angles or perspectives based on the classifications used for the general budget in Iraq. These perspectives might include the administrative classification of public expenditures or the economic classification by sectors and activities, which could reveal some differences beneficial to specialists, researchers, and decision-makers alike.

**Current Expenditures:** These account for 74% of the budget and include operational expenses, special programs, and debt servicing.

**Investment Expenditures:** These make up 26% of the budget and include centrally funded investment spending (the most significant), investment spending funded by foreign loans, and capital expenditures, which are the least financially significant.

**1. Administrative Distribution:** On ministries, government institutions, and funds:

- **Military Expenditures:** Security and defense account for approximately 17%.
- **Education and Health:** Education (8%) and health (5%).
- **Energy:** Represented by the Ministries of Oil and Electricity, accounting for about 20%.

- **Social Services:** Approximately 16%.

**2. Distribution by Sectors and Activities:** Employee compensations account for 47%, grants, subsidies, and interests excluding public debt for about 20%, and social protection also for about 20% of the operational expenditures, totaling 136 trillion Iraqi dinars.

**3. Debt Servicing Expenditures:** Estimated at 16.7 trillion Iraqi dinars from the 156 trillion dinars of operational expenditures, accounting for over 10%. The following table (Table 1) illustrates the development of public debt servicing (Installments + Interest), both internal and external, noting that the public debt amounted to 94.9 trillion dinars at the end of 2022, with over 70 trillion dinars being internal debt and approximately 25 trillion dinars being external debt. If the GDP is estimated at 384 trillion dinars, the public debt to GDP ratio would be around 24.7%, meeting one of the conditions for financial sustainability.

**4. Deficit:** The estimated deficit is about 64 trillion dinars, covered through increased revenue from oil exports, increased oil export volumes, internal and external borrowing, or funds rolled over in the account of the Federal Ministry of Finance.

**5. Economic Insights into the Federal General Budget for 2023-2025:** A review of the articles of the three-year

general budget law reveals strengths and weaknesses or redundancies or the inclusion of topics outside the general budget's responsibilities as a multi-dimensional financial tool (economic, social, and political).

We find, for example, among the strengths; that there is financial flexibility through Article 9. Additionally, Articles 13 and 14 are positive for organizing the financial relationship between the center and the region, and enhancing financial decentralization by giving border provinces a percentage of the revenues through Article 23-Second. It is worth noting that there is Law No. 21 of 2008 and its amendments related to this. Among the good analytical points is Article 42, which diversifies sources of public revenue.

On the other hand, the opening of guarantees through Article 3 is a point of weakness, as well as the multiple articles (Articles 45, 49, and 57) that establish funds which could weaken the public financial system due to the existence of financial and semi-financial entities outside the financial audit system.

- **Article 3:** Granting guarantees such as payment guarantees or debt guarantees for contracts, but under certain conditions.
- **Article 9:** Prohibiting reallocations within the (regional development) allocations between provinces.
- **Article 13:** Organizing the financial relationship between the federal government and the Kurdistan Regional Government for the years 2004-2022.
- **Article 14:** Financial control over total oil revenues from the region, audited by the Federal Financial Audit Bureau and

international accounting and audit firms.

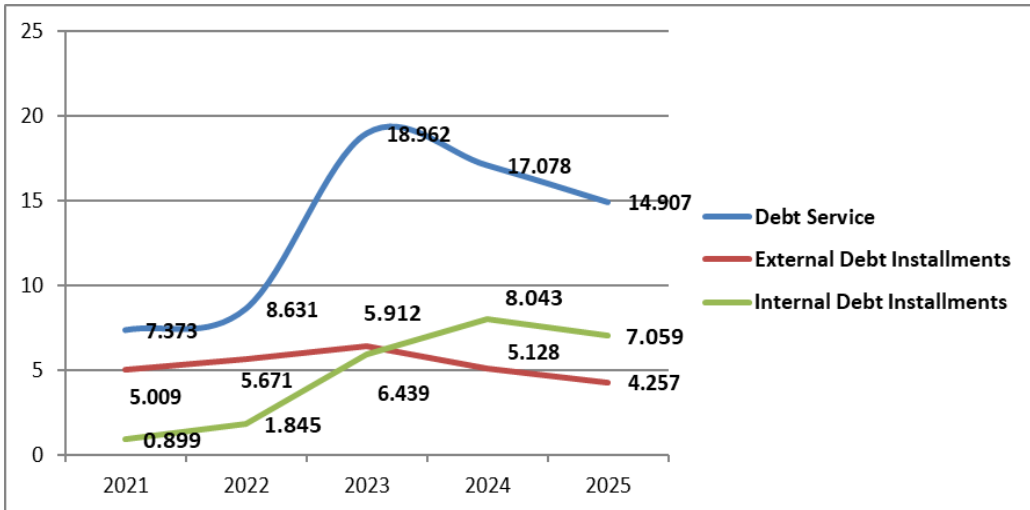
- **Article 23-Second:** Reaffirming the allocation of 50% of border crossing revenues to the provinces where those crossings are located, including the Kurdistan Region, to be used in specific areas.
- **Article 42:** Collecting fees on fuel and oil derivatives sales at specified rates, recorded as final revenue for the general treasury.
- **Article 45:** Establishing the Iraq Development Fund with a capital of one trillion dinars, linked to the Council of Ministers, with specialized funds enjoying legal personality and financial and administrative independence.
- **Article 49:** Establishing the Sinjar and Nineveh Plains Reconstruction Fund with a capital of 50 billion dinars.
- **Article 57:** Establishing the Reconstruction Fund for the Poorest Provinces to improve services, with a capital of 500 billion dinars.
- **Article 59:** Establishing the Internal Security Forces Development and Support Fund, with its revenues composed of various sources, including revenues from directorates, profits, and salary deductions from employees.
- **Article 55:** Allocating a monthly financial grant to students from families benefiting from the social protection network.

**Table (1) Debt Servicing Table for Iraq for the Period 2021-2025 (in Trillion Dinars)**

Year	External Debt Installments	Internal Debt Installments	Total Installments	Total Interest	Total Debt Servicing
2021	5.009	0.899	5.908	1.465	7.373
2022	5.671	1.845	7.516	1.115	8.631
2023	6.439	5.912	12.351	6.612	18.962
2024	5.128	8.043	13.171	3.908	17.078
2025	4.257	7.059	11.316		14.907

*Source: Budget Law Draft 2024.*

**Figure (2) Trend and developments in public debt service in Iraq for the period 2021-2025/trillion Iraqi dinars.**



*Source: Data from Table (1)*

### **Axis Three: Financial Policy and Expansionary Approach**

Iraq's financial policy has taken an expansionary turn, relying on increased public spending in tandem with rising oil prices. This expansion has deepened the consumer and operational orientation at the expense of investment and productive orientations, resulting in an inflation of the public sector workforce, both civilian and military. This pro-poor financial policy aims to redistribute income by reducing poverty through two channels: the food ration system covering all Iraqis regardless of income level, and cash support through the social protection network, helping the needy and vulnerable groups.

However, this policy has also favored military spending, impacting the prioritization and structure of budget items. Military expenditures claim a significant portion of the general budget, approximately a quarter, at the expense of other sectors like health and education. Even in the best scenarios, the spending on education (represented by the Ministries of Education and Higher Education combined) has not reached 10%.

Additionally, the general budget has seen significant spending on the energy sector, represented by the Ministries of Oil and Electricity. While spending on the oil sector is justified to maintain Iraq's competitive edge in the global energy market, the expenditure on the electricity sector has not yielded the desired outcomes. Despite the increase in production capacity, the electricity issue remains persistent, highlighting inefficiencies in public spending in this sector.

In truth, the three-year budget has benefited from several strengths previously clarified, including economic, financial, social,

political, and environmental aspects. However, it also suffers from numerous weaknesses, such as using the annual budget law to pass unrealistic reforms or circumvent existing laws. Despite Iraq's progress towards a strategy of reducing external debt and enhancing internal debt, the latter imposes financial burdens on the general budget. Nevertheless, a general optimistic trend exists, especially after 2024, with the beginning of a decline in debt burdens, both external and internal, contributing to achieving real financial sustainability.

The healthcare sector faces challenges such as weak data on private and investment spending in this sector, along with poor transparency in its government procurement system at primary, secondary, and tertiary levels. This has negatively impacted the overall status of the health sector in Iraq, leading many Iraqis to seek treatment abroad, despite the levels of public and private spending being higher than in other regions. Naturally, these trends affect indicators related to investment in human capital, particularly in the health and education sectors.

## **Conclusion**

A high priority area is focusing on improving transparency in public financial management and the general budget. This transparency provides an accurate picture of the government's financial position and its expected outlook, the long-term costs and benefits of any policy changes, and public financial risks that could deviate from the desired path. Improving public financial transparency opens the door for accountability from citizens, legislative bodies, and oversight bodies alike. It is also necessary to improve the efficiency of public spending by better allocating available resources across different sectors.



Additionally, creating a fiscal space for additional resources for the health and education sectors is essential. These resources should be allocated to high-priority areas if available. In the healthcare sector, the priority is reorganizing service delivery to enhance primary and community healthcare services, organize the private sector, and improve the quality of the healthcare workforce.