



# THE IMPACT OF OIL PRICE FLUCTUATIONS ON THE GENERAL BUDGET OF IRAQ

Dr. ABDULHAMEED ALSABBAGH <sup>1</sup>

<sup>1</sup> Jinan University / College of Business Administration, Lebanon, [abd.sabagh@hotmail.com](mailto:abd.sabagh@hotmail.com)

ABBAS FADHIL JABER <sup>2</sup>

<sup>2</sup> Jinan University / College of Business Administration, Lebanon, [@10213706students.jinan.edu.lb](mailto:@10213706students.jinan.edu.lb)

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## Abstract:

Significant fluctuations in oil prices have significant repercussions on the economies and policies of all the world's oil-consuming and oil-producing countries. The Iraqi government therefore suffers from the process of preparing the general budget of the State under the current circumstances as a result of changes in oil prices, which is the main resource in financing the budget. This means that the preparation of the general budget of the state is not commensurate with the changes in oil prices, so study aims to prepare a general budget of the state that is flexible by taking the lower and higher prices of oil under a certain range so that these fluctuations are controlled under this range.

Study reached several conclusions, the most important of which was that the preparation of the State's flexible general budget would ensure the functioning of oil price fluctuations. Study drew many recommendations, the most important of which was the need to prepare the State's general budget for oil price fluctuations through a flexible balance that took into account the minimum and high oil price levels.

**Keywords:** Oil prices, public budget, Iraqi economy

## INTRODUCTION

Oil is an irreplaceable strategic commodity, contributing significantly to countries' revenues, GDP, balance of payments and external exports. Oil prices are fluctuating and uneven due to these prices being linked to strong demand, supply and free market that changes in oil prices (Rising or decreasing direct effects on all social and economic aspects of the world in general and in oil countries in particular, Iraq, according to CBI reports, is an oil economy. (99%) of Iraq's exports with a proven reserve of 112 billion barrels) and the dependence of the Iraqi economy on the oil sector is one of the causes of economic underdevelopment, Therefore, one of the most important challenges facing the Iraqi economy at present is the volatility of oil prices in the global market over Iraq's general budget. Oil price fluctuations have resulted in real crises in Iraq as a result of reliance on oil as a major resource for financing the state's general budget. Accordingly, there are other requirements, including the fight against terrorism and the disposal of Iraq's funds without sound financial and economic planning. Fears of a further downturn in oil prices are growing in an abundant supply and declining global oil demand due to an increase in U.S. oil stockpiles and the

unacceptability of oil-producing countries to reduce their oil production. Including Saudi Arabia, which is the world's largest oil producer, Thus, the Iraqi economy rid itself of its unilateral structure based on the reliance on the oil quarter, by diversifying the economic sectors to contribute to the production of GDP and securing the sources of financing the state's general budget permanently from outside the oil sector. By activating and revitalizing productive sectors, notably industry, agriculture, Building, tourism, transport and others, attention to infrastructure and reliance on modern technology, as well as encouraging domestic and foreign investment in various economic sectors, The proper utilization of human and natural resources is essential to the improvement of the Iraqi economy in order to reduce the dependence on oil to finance the State's general budget, and the Iraqi economy is not affected by fluctuations in oil prices in the near and long future.

## PART ONE: SCIENTIFIC METHODOLOGY FOR STUDY

### First: problem of study:

As mentioned earlier, Iraq is an oil-producing and oil-exporting country that relies mainly on oil revenues. Oil revenues account for 99% of general budget revenues. This makes Iraq's economy dependent on



the global economy. Hence, we ask the following questions:

1. Does changing oil prices affect Iraq's oil sales?
2. Does changing oil prices affect overheads in Iraq's general budget?
3. Does the change in oil prices affect Iraq's general budget revenues?
4. Does the change in oil prices affect Iraq's net general budget?

**Second: importance of study:**

The importance of study stems from the problems experienced by the Iraqi government in the process of preparing the state's general budget due to changes in oil prices. The importance of the general budget of the State as a mirror reflecting the State's activity Study highlights the effects of changing oil prices on the general budget, which is a primary source of income and public revenues. Prior knowledge of the effects of oil price fluctuations will contribute to guiding the State's economic policies in line with the creation of conditions conducive to curbing negative impacts and achieving economic development.

**Third: Objectives of study:**

Study aims to indicate the following:

1. Diagnosis of the risks and problems of recurrent oil price fluctuations on the general budget and factors affecting oil prices and the impact of oil price fluctuations on the general budget in Iraq during study period.
2. Clarify the importance of activating non-oil sources of income to meet the risks and problems of oil price fluctuations on Iraq's general budget.

3. Iraq's general budget depends mainly on oil revenues.

4. The objective of study is to demonstrate how the expansion of Iraq's general budget income can be benefited.

**Fourthly. Study hypotheses:**

Study is based on the main hypothesis:

Main hypothesis: The heavy reliance on oil revenues to finance the general budget against the low contribution of non-oil revenues will make Iraq's economy vulnerable to the risks of global crude price volatility and its negative impact on performance and economic activity. This hypothesis is divided into several sub-hypotheses:

1. The change in oil prices affects Iraq's oil sales
2. The change in oil prices affects public expenditures in Iraq's general budget
3. The change in oil prices affects the general revenues of Iraq's general budget
4. The change in oil prices affects Iraq's net general budget.

**Fifth. Methodology for study:**

Study is based on the alignment of the extractive methodology with the extrapolatory methodology in the analysis to reach the results required for study. The method of analysis, however, has been adopted the descriptive and statistical methodology in determining the volume of oil revenues in support of the general budget as well as the extent to which low oil prices affect the preparation of Iraq's general budget.

**Sixth: study model**

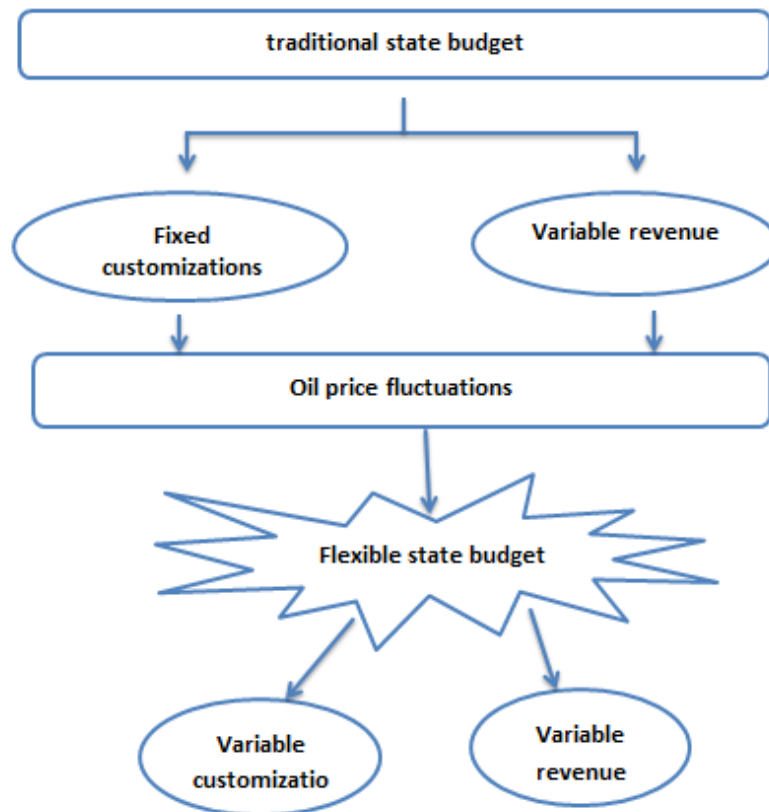


Figure (1) procedural scheme of study

**PART TWO: THEORETICAL ASPECT**

**First: Concept of crude oil prices:**

Crude oil is another commodity whose price is determined by the interaction of the forces of supply and demand. It is this interaction and interdependence that ultimately leads to a specific price at which the quantity required is equal to the quantity offered of this commodity and this is a so-called case. (equilibrium) in the economy, as this price at which stability occurs is called (at the balanced price) or (market price) (Ali, 2012:177) and Ali can generally be defined as the ratio of trade between two commodities and does the monetary unit such as the dollar or dinar, and the economist has defined it Harper is the amount of money the buyer pays to the seller for either a service or a commodity. Karl Marx defined the price of crude oil as the monetary name of the value of the commodity. (FT, 2011:9), the price of crude oil is defined as the value of the oil commodity expressed in a unit of cash in a particular place and time and known (Hetty, 2011:259) is also defined as the cash picture or the cash value of a barrel of crude oil measured in US dollars (Salama, 2015:28) So the price is the value of anything expressed in a particular unit of cash and

sometimes that price is equal to or not equal to value, it may be less or higher than.

It is known that the price of crude oil was not an economic or competitive price although, at the beginning of its exploitation in the early second half of the 19th century, it found a competitive price in the free competition market. Because the number of oil limbs has changed from shrinking to a small and limited number, As well as the shape and nature of the market since an international market is controlled by a small and limited number of major oil companies, If these companies find a semi-monopolistic and international oil price, a set price of those big oil parties, On the international market scale, therefore, the price of oil has moved away from the impact of the economic factor. The cost of oil production, as in the case of the price in the free competition market and took the price character of the semi-monopoly of the few or monopolistic price, The presence of the semi-monopolistic oil price or the price of the oligopoly has been associated with many factors, as outlined below: (Fish, 1987:260)

1. A certain number of the largest oil companies represented by the international cartel dominate most



of the oil industry's activities internationally and on both sides of oil demand and supply.

2. The oil market is a separate and non-interconnected market since the oil production and supply market is separate and different from its consumption and demand market.

3. Most of the oil wealth is found in many regions under foreign control and monopoly domination, but it is limited and mostly developing countries.

4. The difference and variation in the amount and level of capital used in oil exploitation and the significant variation in the cost of oil production from one region to another and from one field to another.

5. The advantages of petroleum commodity technologically, economically and technologically compared to alternative commodities as well as their significant strategic and political importance.

### **Secondly: Types of crude oil prices:**

#### **1. Declared Price:**

This is the price per barrel declared by monopoly companies in the Seven Sisters Cartel (The seven sisters) calculated by the United States Monetary Unit (Hetti, 118:2000) The declared price can also be defined as the official price for the value of crude oil determined by a monetary unit in the market by the bidder or oil enterprise, The historically declared price first appeared in 1880 in the United States of America by Rockefeller-owned Standard Oil of Ohio, which had a monopoly on the purchase of crude oil from its multiple producers and at the nozzle of the well, and many oil limbs emerged a year later. (1911) It announced the official prices of crude oil in the U.S. market and abroad (Al Tamimi, 30:2011), and the declared prices have gained importance after a year (1948) When the concessions granted to oil companies operating in the territory of Venezuela were amended, due to competition by the oil countries of the Middle East, the major oil companies continued to set the prices declared until one year. (1973) This is the same period when OPEC approved its general price at its conference in Kuwait. Therefore, we conclude that the declared prices are only theoretical prices that do not equal the value of oil as a vital and depleted resource and have been imposed by the oil companies so that rents and tax on profits are calculated (Abdul Sameya, 2007: 19-20)

#### **2. Realized Price:**

The price resulting from the various facilities and discounts agreed upon by the mutual parties for the value of the oil commodity being sold and purchased can also be defined as the actual market price of the

quantities of crude oil sold that do not fall into the international cartel network (Tamimi, 34:2011) That price is agreed between two parties that are fully independent, And that this kind of price is usually done among small independent companies that lack their own market and at the same time are unable to break the monopoly that large oil companies impose on the purchases and sale of crude oil. Agreements for the purchase and sale of crude oil outside the petroleum monopoly do not publish all its clauses because some of these clauses are confidential, especially those relating to the volume of discounts and sales prices. These prices were lower than the declared prices by an increase as competition in sales increased (Fish, 1987:180)

#### **3. Tax Cost Price:**

It is defined as the price that reflects the real cost paid by the major oil companies to obtain a barrel of crude oil produced under the concessions they entered into with crude oil producing countries, and therefore these prices are the basis of the prices realized in the oil market. (SMAC, 1987:292) is also defined as the cost of crude oil production in addition to taxes and other payments added to it, as it is an internal price rather than an external price within the international market. This price is dealt with by petroleum, monopoly and component of the international oil monopoly (Kazem, 2007:100)

#### **4. Indication or Dependent Price:**

It is defined as an average basket of converging oil at close or spaced density degrees in the geographical location to form a signal or indication of the pricing of a group of oil that depends on the proximity, dimension or degree of oil density of the signal oil and is based on types of: Brent oil, West Texas oil \* \* and Arabian light oil (Hetti, 2000:119) It can also be defined as the price below the advertised price and exceeding the realized price, That is, it is an average price between the two prices, and this kind of price appeared in the last century in the 1960s along with the realized and advertised price, It is calculated on the basis of knowing and determining the average and rates of the price achieved and declared for several years, This price has been applied in many oil producing countries (France, Algeria) on 28 July 1965, in accordance with the Convention between them, as well as applied in Venezuela with foreign oil companies in 1967 (Kazim, 2007:101)

#### **5. Transfer Price:**

This is the exchange price between two subsidiaries belonging to one crude oil company, and the transfer price is lower than the real and declared prices.



Therefore, the producing countries did not recognize this price and refused to use it as a basis for calculating the components of their crude oil cash revenues such as rents and taxes. (SMAC, 1987:292), can also be defined as the price of crude oil moving from one activity to another or from one section to another within one company (Shendi, Wolfeh, 2012:18)

#### **6. Nominal Price:**

It is the price or monetary value of the barrel of crude oil expressed in the United States monetary unit. For example, we say that the nominal price of light Arabian oil (\$70) (Tamimi, 38:2011)

#### **7. Real Price:**

This is the price that expresses the quantity of goods and services obtained from abroad at the nominal price of a barrel of crude oil, and can also be defined as the nominal price after deducting the inflation rate from it (Prince, 2012:23)

#### **8. Spot Price:**

The price of a crude oil barrel, expressed in a single unit of cash in free or instant markets and open markets for crude oil, and after the instant market took a large proportion in the crude oil trade, appeared to be highly active (Hetti, 2000:120)

#### **9. Paper barrel price:**

It is the price of a barrel of oil on the bargain market and comes very close to the concept of the price of crude oil on crude oil exchanges (Emir, 2012:29)

#### **10. Return Price:**

It is the price of the oil barrel determined on the basis of the price of its components named the OPEC barrel (composite barrel) (Naimi, 2007:34)

#### **11. Long Term Deals Prices:**

It is the oil price through which it is now contracted to deliver crude oil in a period to come. For example, we say that the price of the barrel of crude oil for the deal made in (2015/5/1) is delivered in (2016/5/1) (Tamimi, 41:2011).

#### **Third: Concept of the general budget**

In modern times, it has become a necessity in every state in the world, whatever the form of government in it and whatever its political system, Without the general budget, it is difficult to conduct business in both government institutions and public utilities on a regular basis. The State is unable to perform its functions and it is difficult for the State to manage its national economy. So the general budget is the focus of the state's business in its activity and in all spheres. (Khalaf, 2008:12).

The General Budget is defined as a detailed estimate of general income and expenditure for a future period

of time often enacted and working towards the objectives adopted and planned by the State.

#### **Fourthly: The importance of the general budget:**

The general budget of the state is not just an estimate of general revenues and expenditures and its attempt to balance income and expenditures. They represent a comprehensive plan and approach for the Government's policy in various political, economic and social aspects. And it was not very important in the social and economic life of the nineteenth century, But then their relevance and influence emerged clearly and this was due to the concepts and ideas that prevailed in that period (Energy, and Al-Azawi, 2007:24). We will therefore address the importance of the general budget in several respects, as follows:

1. The political importance of the general budget: the general budget is no longer a mere accounting document for the state's revenues and expenditures, Their political importance has increased dramatically, especially in states with parliamentary systems, since there are things and conditions for the implementation of the general budget until its draft is approved by Parliament. This approval represents approval by the people's representatives of the Government's action plan and its economic and financial policy in general, and the budget thus serves as its mirror. The budget has a real impact on the nature and stability of the political system and is sometimes a factor in supporting Parliament and sometimes a factor in its collapse (Abdelhamid, 2010: 25-26)

The importance of budgeting is demonstrated by the fact that it is a tool of the people's representatives to monitor the actions of the executive branch and to hold it severely accountable. Its importance is also demonstrated by restricting the executive branch by taking the approval of Parliament on matters of levy or expenditure. This is done by requesting that it be authorized to disburse expenses and distribute them in a manner that satisfies general needs (Abdul Rahman, 1988:26)

2. The economic importance of the general budget: In modern finance, the general budget has become the most important economic document owned by the State because it provides information on the impact of government policies on the use of resources at the level of economic growth, distribution of resources, employment within the economy and achievement of full employment and economic stability. The budgetary strategy described above is based on the change in the level of aggregate demand in the appropriate direction, using taxes and expenditures. The effective factor in achieving these objectives is the magnitude of



the budget, the composition of which should correspond to the State's economic conditions. (Abdelmadjid, 1996: 29-30) The general budget has become a tool for guiding economic policy by encouraging economic activity and granting facilities and subsidies to it in other areas by imposing taxes and duties. The increase in public expenditures significantly after the two world wars and the emergence of the idea of a deficit in the state budget has led to the abandonment of the traditional budgetary idea and has become linked to the state's economic system, influencing and affecting it (Kh, 2008)

3. The social importance of the general budget: the social importance of the general budget is linked to the concepts of social justice and the reduction of disparities between social classes and the achievement of social welfare. The social objectives of the budget are as important as their economic objectives, Social equilibrium is equally important than economic equilibrium. The general budget has become a tool for redistributing national income through progressive taxation, particularly direct taxation, in order to finance some types of expenditure that benefit poor classes such as subsidizing essential consumer goods, free education, free health services and social security subsidies, as well as taxing unwanted consumer goods for social consumption (Alam, 2012:16). The public budget is also used as a means of achieving social purposes that eliminate the disparity between individuals' incomes and social balance while ensuring free access to certain public services for the low-income and non-income group, relying on their subsidy payments to individuals and taxes (Abdelmadjid, 1996:31)

**Fifth: The General Budget Rules:** There are several General Budget Rules governing their adoption and preparation that reflect the political and administrative nature of them: (Fetoh, 2011: 12-13) (Ali, 2012:48) (Younis, 2004: 65-66).

1. Budget Annual Rule: The budget is set for one fiscal year. The reason for choosing this period is due to financial and political reasons and to facilitate the process of reliance and control of the budget by the executive branch. It is the best between time periods because the preparation, discussion and adoption of the budget requires an effort and time not less than one year. It is difficult to prepare accurate estimates of certain resources and expenditures if the period exceeds one year, so as to weaken.

2. Inclusiveness and universality: means the inclusion of all elements of the State's financial activity

from public revenues and expenditures without neglect of any part of its components, albeit minimal, and the lack of trade-offs between these components in order for the general budget to come in a comprehensive and detailed manner for all public expenditures and revenues, meaning that all estimates of general income and expenditures appear in one document without clearing between the two.

3. Expenditures and resources are common. Certain income cannot be allocated to offset certain expenditures. Allocation loses the general budget's flexibility and thus leads to excess if the amount of income allocated to expenditures is large or may compromise service performance when the amount of income allocated to expenditures is less than the expenditures required to perform the service.

4. Budget Unit Rule: means that all State revenues and expenditures are included in a single budget. In other words, the budget is structured in two tables that include the state's expenditures and revenues, regardless of the source of revenues or the aspects of expenditures, however many public institutions may be. This rule makes the budget work clearly and by which those who know it can know the State's financial situation for what it is, excluding the attached budgets. These budgets are fully funded by the State and give them some flexibility so that their interests can be performed away from the Government's bureaucracy as well as independent budgets because they finance their own expenditures and are resorted to only in emergency situations such as deficits and losses to strengthen their financial position.

5. Non-allocation rule: This rule means that certain income has been allocated to service a particular facility, In other words, all State revenues are added to each other and all expenses are offset. Failure to observe this rule may lead to confusion of accounts and lack of clarity in the State's financial situation and also help to overexpend. If you allocate a certain revenue proceeds to a particular facility, that is, the earmarked income is too much, that leads to excess. However, if the earmarked income is less than the facility needs, this results in inadequate service delivery (Appeals, 2003: 177-178)

### **PART THREE: PRACTICAL ASPECT**

#### **First: Analysis of the general budget and some of its indicators for the period (2004-2020)**

Analysis of the realities of the general expenditure structure

That the general budget after 2003 saw amounts allocated to it rise over the years following that year, whether those amounts were earmarked for



operational or investment expenditures owing to Iraq's destruction of infrastructure during the previous years due to wars that continued until 2003 and the subsequent imbalance in security conditions, which

required increased expenditures for the purpose of countering them. The structure of public expenditures in the Iraqi budget can be explained through the table below: -

Table (1) Public expenditure in Iraq for the period (2004- 2020) (IQD 1 million)

<b>year</b>	<b>Overhead</b>	<b>growth rate %</b>
<b>2004</b>	<b>32117491</b>	<b>-</b>
<b>2005</b>	<b>26375175</b>	<b>-17.87</b>
<b>2006</b>	<b>38806679</b>	<b>47.13</b>
<b>2007</b>	<b>39031232</b>	<b>0.57</b>
<b>2008</b>	<b>59403375</b>	<b>52.19</b>
<b>2009</b>	<b>52567025</b>	<b>-11.50</b>
<b>2010</b>	<b>70134201</b>	<b>33.41</b>
<b>2011</b>	<b>78757666</b>	<b>12.29</b>
<b>2012</b>	<b>105139576</b>	<b>33.49</b>
<b>2013</b>	<b>119127556</b>	<b>13.30</b>
<b>2014</b>	<b>115937762</b>	<b>-2.67</b>
<b>2015</b>	<b>70397515</b>	<b>-39.27</b>
<b>2016</b>	<b>75055865</b>	<b>6.61</b>
<b>2017</b>	<b>75490115</b>	<b>0.57</b>
<b>2018</b>	<b>80873189</b>	<b>7.13</b>
<b>2019</b>	<b>111723523</b>	<b>38.14</b>
<b>2020</b>	<b>76082443</b>	<b>-31.90</b>

Notes from the table that overhead expenditure has decreased overall (2005) to (26375175) million dinars in (2004) to (32117491) million dinars with a negative growth rate of (% -17.87), in a year (2006) Public expenditure increased to (38,806,679) million dinars at a growth rate (47.13%), the reason for this increase is the increase in military expenditure due to the deterioration of the security situation as well as adjustments in the salary scale of employees, i.e. the reason for this increase is the increase in current expenditures on investment expenditures in that period.

These increases in overheads continued at positive growth rates, especially in general (2008), which achieved (59403375) million dinars in order to increase the financial surpluses realized through the increase in oil prices, owing to the increase in oil prices and the promulgation of the State Employees' Salaries Act, under which the amount of salary was raised as well as the return of political dismissals who were dismissed from their jobs in the period before 2003 and the calculation of financial differences for that period, up to the year (2009), which achieved a decrease in public expenditure to (52567025) million dinars over a year (2008) with a negative growth rate of -11.50%, owing to the Government's deflationary policies due to the global financial crisis of that time, but in a year (2010) Public expenditures returned to (70134201) million dinars with a growth rate

(33.41%). From 2009, these rises continued into a year. (2013), while overhead decreased in (2014), reaching (115937762) million dinars with a negative growth rate of (-2.67%) than in a year (2013), the reason for the low proportion of public expenditures in gross domestic product (GDP) was Iraq's entry into a war of liberation of cities that fell into the hands of terrorist groups and the low price of crude oil in that period.

## **2. Analysis of the realities of the general revenue structure**

The structure of public revenues shows the proportions of the general budget funding sources' contribution and the relative importance of each source, but these ratios and their importance vary from country to country depending on the different degree of economic development. The nature of the revenue structure and the proportions of their respective impact on the provision of revenue to the general budget in Iraq can be explained in the table. (2005) to (40502890) million dinars (2004) at an annual growth rate of (22.80%) while GDP's public revenues decreased (61.95%) in (2004) to (55.08%) in (2005), owing to an increase in global oil demand, these increases in public revenues continued at positive growth rates, especially in general (2008) achieved (80252182) million dinars, due to increased oil revenues, up to the year (2009) has achieved a decrease in public revenues to (55209353) million



dinars over the year (2008) with a negative growth rate of -31.20%, while the proportion of public revenues from GDP fell to (42.25%) compared to 2008 (51.10%) and this was caused by the global financial crisis during that period. In 2010, public revenues rose. (70178223) million dinars due to the return of crude oil prices to a rise of (\$75.61) per barrel, while the ratio of public revenues from GDP to (43.30%) than in 2009, and these rises have continued into a year (2013), which achieved a decrease in public revenues to (113840076) million dinars for the year (2012), which reached (119817224) million dinars with a negative growth rate of (-4.98%), while GDP public revenues decreased to 41.61% (2012), which was 47.13%, was due to a decline in oil revenues in that period, while public revenues fell in a year (2014) to (105364301) million dinars with a negative growth rate of (-7.44%) which led to a decrease in the ratio of public revenues from GDP to (39.54%), owing to an almost halving in crude oil prices to below (40) USD per barrel in (2016) with general revenues (54839219) 1 million dinars, with a negative growth rate of -

17.49% (see table 7, figure 14). In 2017, public revenues returned to 77422173 million dinars owing to crude oil prices' rise of \$ 49.3 per barrel, while the proportion of public revenues from GDP to 34.88% was higher than in 2016, and these rises continued into 2019. As shown in the table below, 2020 has achieved a decrease in public revenues to (63199689) million dinars (2019), which amounted to 107566995 million dinars, with a negative growth rate of (-40.24%), while the ratio of public revenues from GDP to (31.79%) compared to 2019 (40.91%), owing to a decline in oil revenues of 45.12% As a result of the decline in global oil demand due to the coronavirus pandemic and the decline in global oil prices as well as Iraq's commitment to reduce production according to OPEC + decisions, oil revenues constitute the largest proportion of total revenues to reach its contribution (86.15%) with an amount of (54448514) million dinars, as well as a decrease in both capital revenues, manufacturing revenues, other revenues, commodity taxes and production fees, fees (Annual Economic Report 2020:45). (See table 3.2, figure 3-1).

Table (2) Evolution of Iraq's general revenues for the period (2004- 2020) (IQD 1 million)

<b>year</b>	<b>Overhead</b>	<b>growth rate %</b>
<b>2004</b>	<b>32982739</b>	<b>-</b>
<b>2005</b>	<b>40502890</b>	<b>22.80</b>
<b>2006</b>	<b>49055545</b>	<b>21.11</b>
<b>2007</b>	<b>54599451</b>	<b>11.30</b>
<b>2008</b>	<b>80252182</b>	<b>46.89</b>
<b>2009</b>	<b>55209353</b>	<b>-31.20</b>
<b>2010</b>	<b>70178223</b>	<b>27.11</b>
<b>2011</b>	<b>108807392</b>	<b>55.04</b>
<b>2012</b>	<b>119817224</b>	<b>10.11</b>
<b>2013</b>	<b>113840076</b>	<b>-4.98</b>
<b>2014</b>	<b>105364301</b>	<b>-7.44</b>
<b>2015</b>	<b>66470253</b>	<b>-36.91</b>
<b>2016</b>	<b>54839219</b>	<b>-17.49</b>
<b>2017</b>	<b>77422173</b>	<b>41.18</b>
<b>2018</b>	<b>106569834</b>	<b>37.64</b>
<b>2019</b>	<b>107566995</b>	<b>0.93</b>
<b>2020</b>	<b>63199689</b>	<b>-40.24</b>

### **3. ANALYSIS OF THE REALITY OF OIL REVENUES**

Note from table, oil revenues increased in (2005) to (39453950) million dinars in 2004 (32625109 million dinars) at an annual growth rate of (20.93%), caused by an increase in crude oil prices of \$53.5 per barrel and thus an increase in oil revenues, while the proportion of oil revenues from public revenues decreased (98.91%) in (2004) to (97.41%) in 2005, due to higher public revenues than oil revenues due

also to higher economic urbanization imposed on the country, which drove oil prices higher and increased oil revenues. As well as the decline in the consumer price index, these increases in oil revenues continued at wave- growth rates, especially in general (2008), which achieved (77589443) million dinars as of (2009), a decrease in oil revenues to (51752350) million dinars in 2008 with a negative growth rate of (-33.29%) while the ratio of oil revenues from public revenues decreased to (93.73%) compared to 2008 (96.68%),



owing to the collapse of global crude oil prices due to the global high crisis in the world economy at that time, which adversely affected the oil country's domestic economy, but in a year (2010) Oil revenues returned to 63,594,168 million dinars, as crude oil prices rose to \$75.61 per barrel. These rises continued until 2013, when oil revenues fell to (110677542) million dinars in 2012, which amounted to 111326166 million dinars at a negative growth rate of (-0.58%), while the ratio of oil revenues from public revenues increased to (97.22%) compared to 2012 (92.91%), which was due to a rise in crude oil prices (\$106.3) per barrel on the market in that period. In 2017, there was a rise in oil revenues. (65071929) million dinars in 2016, which amounted to 44267063 million dinars at a positive growth rate of (46.99%), the proportion of oil revenues over public revenues increased to 84.04%

over the year (2016) (80.72%), owing to improved oil prices (49.3) USD per barrel, elimination of ISIL terrorist totals and liberation of governorates to which these totals were subjected, resulting in higher oil revenues, these rises continued until one year Oil revenues decreased to 54448514 million dinars in 2020 (2019) which reached (99216318) million dinars with a negative growth rate of (-45.12%), the proportion of oil revenues over public revenues was 86.15% over the year (2019) (92.23%), due to the coronavirus outbreak and low oil prices in the world markets as the average price per barrel in Iraq (\$40.69) per barrel, and since May (2020), Iraq has adhered to the production reduction agreement approved by the "OPEC +" alliance, affecting its export volume.

Table (3) Evolution of Iraq's oil revenues for the period (2004- 2020) (IQD 1 million)

year	Oil revenues	growth rate %	public revenue	Percentage of oil revenues from public revenues %
2004	32625109	-	32982739	98.91
2005	39453950	20.93	40502890	97.41
2006	46908043	18.89	49055545	95.62
2007	53154988	13.31	54599451	97.35
2008	77589443	45.96	80252182	96.68
2009	51752350	-33.29	55209353	93.73
2010	63594168	22.88	70178223	90.61
2011	103061762	62.06	108807392	94.71
2012	111326166	8.01	119817224	92.91
2013	110677542	-0.58	113840076	97.22
2014	97072410	-12.29	105364301	92.13
2015	51312621	-47.13	66470253	77.19
2016	44267063	-13.73	54839219	80.72
2017	65071929	46.99	77422173	84.04
2018	95619820	46.94	106569834	89.72
2019	99216318	3.76	107566995	92.23
2020	54448514	-45.12	63199689	86.15

#### 4. ANALYSIS OF THE GENERAL DURATION BUDGET IMBALANCE (2004-2020)

After 2003, the international economic sanctions imposed on Iraq were lifted. Oil revenues increased significantly. public expenditure ", which resulted in an increase in public revenues at a time when public expenditure had focused on predominantly current expenditures, The increase in general revenues was higher than general expenditures, resulting in surpluses in the general budget, as the surplus increased in the year (2005) (14127715) million dinars compared to 2004 (865,248) million dinars, after 2006 crude oil prices experienced a relative rise, resulting in

higher oil revenues, especially for the years (2010, 2011 and 2012) resulting in a financial abundance resulting in a financial surplus in public budgets, and the high growth in public revenues was clearly offset by negative growth in public expenditures. (2004-2012), owing, inter alia, to an increase in oil exports abroad for export purposes and an increase in global oil prices owing to problems and disruptions in the region that have led to a clear impact on world prices. The period (2013-2016) suffered from the deficit as a result of the increase in military expenditures owing to the conditions facing Iraq, the decline in prices in the



world's markets and the enormous employment in State institutions.

In 2017 (2018), the surplus (1932058) (25,696,645 million dinars), respectively, was due to an increase in the rate of general revenue growth over expenditure due to improved oil prices. The State's austerity

policies during this period saw a public budget deficit in 2020, which reached (-12882754) owing to increased public expenditure on public revenues as a result of the stifling financial crisis caused by the collapse of oil prices in world markets.

Table (4) Evolution of Iraq's net general budget for the period (2004- 2020) (IQD 1 million)

year	public revenue1	Overhead 2	net budget3
2004	32982739	32117491	865248
2005	40502890	26375175	14127715
2006	49055545	38806679	10248866
2007	54599451	39031232	15568219
2008	80252182	59403375	20848807
2009	55209353	52567025	2642328
2010	70178223	70134201	44022
2011	108807392	78757666	30049726
2012	119817224	105139576	14677648
2013	113840076	119127556	-5287480
2014	105364301	115937762	-10573461
2015	66470253	70397515	-3927262
2016	54839219	75055865	-20216646
2017	77422173	75490115	1932058
2018	106569834	80873189	25696645
2019	107566995	111723523	-4156528
2020	63199689	76082443	-12882754

## **PART FOUR: CONCLUSIONS AND RECOMMENDATIONS**

### **First: Conclusions**

The following conclusions were drawn:

1. The economic conditions experienced by Iraq during the 1990s affected the state of the general budget. The state of Iraq's general budget surplus after one year (2003) is not due to increased sources of public revenues and the rationalization of public expenditures, or to increased non-oil exports, which are directly related to Iraq's oil revenues and oil production.
2. The impact of fluctuations in oil prices is not evident in Iraq's economy, as any change in global oil prices changes both (oil production and oil exports).
3. The final status of Iraq's general budget is determined by the quantity and prices of crude oil exports in the world market, and therefore the deficit or surplus in the budget is determined by the final status of oil prices
4. Standardized test results for stabilization tests show that time series data were stable for all current study variables during the period (2004-2020) by taking the first difference to each other.
5. The benchmark analysis shows that the oil price coefficient indicates a positive impact (expulsive and

moral) on the balance of the general budget. That is, the increase in the price of oil contributes to an increase in the balance of the general budget by a proportion. This result is consistent with the reality of Iraq's revenue-dependent economy.

6. The financial crises and the coronavirus pandemic have had a negative impact on the balance sheet. The financial crises and the outbreak of the coronavirus pandemic are due to the seriousness of the pandemic, which has adversely affected international traffic, the closure of most sectors, the sharp decline in oil prices and the global demand for oil.

### **Second: Recommendations**

In the light of the study's findings, a set of recommendations on the topic of the study can be drawn up.

1. A well-defined plan to reduce dependence on crude oil revenues should be developed, with a flexible time limit to adapt to economic and political variables.
2. When oil prices rise, the financial benefits achieved should be exploited by directing fiscal policy to encourage exports outside the oil sector and supporting agriculture, industry and the tourism sector.
3. It is necessary to adopt a fiscal policy aimed at diversifying the structure of public revenues, with a



view to protecting the economy and the general budget from sudden and large fluctuations in oil revenues in order to move out of the rent pattern.

4. Direct fiscal policy to increase investment expenditure directed at expanding productive capacities and infrastructure.

5. The Iraqi Government should take advantage of the low exchange rate to stimulate the competitiveness of national products and should raise the volume of exports abroad and reduce imports from abroad.

6. If imports decrease and exports double sufficiently, it brings the general budget back to balance, and it is preferable to establish a sovereign fund, to compensate for the failure of successive Governments' policies to manage large surpluses, achieved as a result of high oil prices and which could have contributed to the construction and development of the economy.

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