# Federal State Budget Accounts 2023- Planned Vs Realisation

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The Ministry of Finance-MoF data regarding results of implementing budget law for 2023 indicates a number of facts, few are good and encouraging, but most are unfortunate and disappointing, especially those showing decline in investment expenditures in the real economy- agricultural sector and the industrial sector (without the oil sector).

Data itself is very useful; it reflects the reality of budget implementation and, through it, analysis and evaluation of progress, or otherwise, at the level of the Iraqi economy becomes possible. Also. It helps examining the extent of how planning annual budget was good and its implementation was successful, or otherwise.

MoF, Accounting Department, Consolidation Section/System for Unifying State Accounts on the Current and Investment Budgets up to end December 2023, has recently published the accounts. The report, “The State Accounts up to 31 December, 2023 for the Federal Budget”(1) , is a continuation of the monthly reports for the year 2023 and, thus reflects total budget for the whole year.(2) Hence, comes the importance of this report and the necessity of discussing it in depth by those concerned within the government and outside it.

I previously discussed 2023 Budget Law after it was approved (3), and then I discussed the results of its implementation as far as the oil issue is concerned. (4)

This current intervention is comparative as much as possible; it focuses on discussing what was stated in the Ministry of Finance’s report regarding the actual results for the year and comparing it to what was stated in the budget law. I will first address the structure and content of the report, then discuss the components of the total budget between the planned and the achieved, after which a comparative analysis of the financial deficit is done, followed by a review and discussion of current budget/expenditures components, then an analysis of the sectoral and specific distribution of investment expenditures, and I will address the issue of petrodollar allocations, finally, ends with a call upon MoF to issue a statement on its report.

**First: Structure and Contents of the Report**

The report consists of a set of tables and numerical/quantitative data only, without any notes, clarifications, interpretation, analysis, or comparisons. All amounts are in Iraqi dinars, and most of them, especially the total, amounted to trillion levels.

In terms of content, “The State Account until December 31, 2023 for the Federal Budget” consists of eight, unnumbered, tables prepared according to the Ministry’s work modalities and its accounting systems. Each table begins with the word “Report.”

The 2023 report begins with a table entitled, “Report on actual expenditures at the level of ministries according to administrative classification,” and includes the current budget, the investment budget, and the total budget. This is followed by a table entitled, “Report on actual expenditures at the level of ministries according to the economic classification of the current budget.” This table displays current expenditures (distributed among employee compensation,

service supplies, commodity supplies, asset maintenance, grants, subsidies, interest and other expenses, external obligations and contributions, and social welfare), capital expenditures, indebtedness (debt service), and special programs.
Third table is, "Report on actual expenditures at the level of ministries according to the economic classification of the investment budget," and includes the agricultural sector, the industrial sector, the transport and communications sector, the buildings and services sector, and the education sector.
The fourth table displays a "Report of expenditures according to the economic classification of the current budget," and the fifth table includes a "Report of expenditures by sectors for the investment budget," and the sixth table shows a "Report of expenditures for the investment budget according investment types," distributed between: investment program, regional development, petrodollar, revitalizing the marshes, and poverty eradication strategy.
The Seventh Table presents a "Report of revenues according to the economic classification of the federal budget," and finally, the eighth table presents a "Report of oil and non-oil revenues and their percentage of the total revenues of the federal budget.
What do the above tables indicate and what can be concluded from them? This is what the current intervention is trying to answer, below.

**Second: Components of the total budget between the planned and the achieved**
Structurally, total budget consists of two groups of expenditures, current and investment, and each includes a set of expenditures that are usually detailed in the federal state budget law [(5)] (which are planning in nature). At the end of the year, the state account reveals actual expenditures incurred during the year.
More precisely, budget law reflects government's plans and expectations for implementing its policy at the beginning and during the fiscal year, while actual expenditure accounts at the end of the fiscal year reflect what was actually spent, that is, the efficiency of implementation and achievement at the financial level.

**Table No. (1)**
**Budget Expenditures for the year 2023, Planned and Actual**

| | Investment Expenditures | Current Expenditures |
|---|---|---|
| State Budget Law, 2023 (Planned) | 24.8% | 75.2% |
| State's Budget Account as of December 31, 2023 (Actual) | 17% | 83% |

The above table summarizes a comparison of the budget structure between what was stated in the law and what was actually spent, and through it the following facts and their consequences are briefly addressed.
1- Current expenditures take up most of the financial resources, whether at the planning level (75.2%) or at the actual implementation level (83%). This is a continuation of the usual, though negative patterns and a consolidation of the chronic failure the Iraqi economy suffers from.

2- But what is worse is that the implementation indicators for current expenditures were higher than they were in the budget law (+7.8 percentage points), while the exact opposite happened with regard to investment expenditures (-7.8 percentage points). This is a matter that causes a lot of concern and necessitates the need to address it with serious, thoughtful, and effective ways.

3-Despite the limited financial investment allocations (24.8%), their implementation is very modest (17%).

These facts are only indicators of the continued failure of macroeconomic policy to address the structure of the Iraqi economy by giving priority to current/consumption expenditures at the expense of investment in productive capacities, both horizontally (sectoral/spatial) and vertically (sectoral value chain), which are necessary to address the imbalance in the structure of the national economy. I will discuss the issue of investment expenditures later.

It is worth remembering or emphasizing that budget numbers and their comparisons are "financial/fiscal" indicators only; they do not necessarily mean achieving tangible material results such as the accumulation of capital assets, infrastructure, or production capacities in relation to investment expenditures, or even the efficiency, effectiveness, and impact of current expenditures. Delay in implementing projects, the spread of corruption and legalized corruption (kleptocracy), the phenomenon of "astronomers/ghosts' employees," the absence of transparency and other negative phenomena, drain much of the state's financial resources. But the abstract numbers in the MoF' report do not say anything about them, and it is, therefore, difficult to conclude, logically, from those numbers that real material assets and accumulation have been achieved.

**Third: Fiscal Deficit- Planned vs. Actual**

The planned fiscal deficit has almost been a feature of Iraqi budget laws during at least the last two decades. Reasons behind this phenomenon may be that the preparation of the draft budget law through its final approval shas been always subject to too many interventions, most of which are of a partisan/political nature, whether by the executive authority or by the legislative authority, or influential forces behind them, which ultimately lead to an inflated volume and components of the expenditure side.

Due to well-known politization and horse-trading among dominating blocks, budget law approval is usually delayed beyond its legally specified dates. Fiscal year in Iraq begins on the first of January every year, while budget law for 2023 entered into force on June 26!! This is not the first time, and in some years budget law was not even approved, e.g., 2014.

That delay, which is equivalent to half the duration of the fiscal year, leads to applying the "1/12" rule to finance monthly (current) expenses during the delay period based on a rate of one month for the previous year. [(6)]

All of these facts help, and must be taken into consideration, in understanding and interpreting data related to budget execution for the past year.

**Table No. (2)**
**Total Revenues, Expenditures, and Fiscal Deficit 2023- Planned and Actual**
**Trillion Iraqi Dinars-TID, %**

| | Expenditures | Revenues | Deficit (%) |
|---|---|---|---|
| State Budget Law, 2023 (Planned) | 198.9 | 134.6 | 64.3 (32.3) |
| State's Budget Account as of December 31, 2023 (Actual) | 142.3 | 135.7 | 6.7 (4.7) |

Table (2) shows that planned expenditures exceed expected revenues by 64.3TID, which means a planned financial deficit equivalent to 32.3% of total expenditures. But actual fiscal deficit was 6.7TID, or 4.7% of actual expenditures. Why!

The numbers indicate two explanations for this discrepancy. First, the volume of actual expenditures was less than the volume of planned expenditures by 56.5TID (or 28.4%). The share of reduction in investment expenditures was 25.2TID, and the share of current expenditures was 31.3TID; This reflects the impacts of the factors mentioned above.

The second reason is that the realised revenues were higher than the planned revenues, albeit slightly, about 1.1TID. The main reason for this is due to the fact that oil export revenues constitute most of all revenues, and that oil export revenues are estimated more conservatively by adopting an oil export price that is close to reality and are not subject to many political wrangling during the preparation and legislation of draft budget law. This matter I discussed in detail in a previous study. (7)

As the following table shows, Iraq' oil revenues during the year were higher than what was planned in budget law, in both volume and as a percentage of total sovereign revenues.

**Table No. (3)**
**Oil Revenues and their Percentage to Total Revenues- Planned vs Realised, TID, %**

| | Oil Revenues | % |
|---|---|---|
| State Budget Law, 2023 (Planned) | 117.3 | 87 |
| State's Budget Account as of December 31, 2023 (Actual) | 125.9 | 93 |

**Fourth: Current Budget' Components**
As mentioned above, current budget includes expenditures on the following items: employee compensation, service supplies, commodity supplies, asset maintenance, grants, subsidies, interest and other expenses, external obligations and contributions, and social care.
Total current expenditures during the year amounted to about 106.8 trillion dinars distributed as follows, "employee compensation" share 44.2%, "social care" 23.4%, "grants, subsidies, interest, and other expenses" 19.1%, "commodity supplies" 10.9%, while all "service supplies",

"assets maintenance" and "commitments, contributions and foreign aid" have jointly about 1.8%.

The high share of “Employee compensation” reaffirms what has been known for decades about the over-staffing and inflated number of employees in various government and public sector entities and their high financial cost.
Several explanations, for this, almost chronic, phenomenon, were proposed. An explanation attributes the phenomenon to the structure of employment and employment policies in state departments and public sector entities and because of the weakness of the private sector, meaning that it is cumulative and difficult to reverse its trends. Another explanation links the phenomenon to the attempt of parties, political forces, blocs, and influential forces to use “recruitment/ appointment” to gain support, especially during election times. There is also another explanation related to political dominance over ministries, which means that the priority of appointment in the relevant ministry is given to the supporters of the political party that dominates that ministry. There are those who claim that every member of the House of Representatives has the authority to appoint a certain number of employees. There could be other explanation and claims.

The above is confined to the number "headcount" of employees. But the financial allocations do not only reflect the number of employees, it also reflect what these “compensations” actually include in terms of salaries, allowances, and special benefits for the higher levels, from general manager upwards.

The relatively high share of social welfare also indicates the deterioration of the financial situation of families, which required state intervention to reduce the spread of poverty and material deprivation.

The very low level of allocations for “asset maintenance”, only 583 billion dinars, indicates completely unjustified, and economically costly in the medium and long term, neglect of physical assets of all types and sectoral distribution. These data confirm the phenomenon of lack of interest in maintaining equipment and infrastructure and its negative effects on the economy and capital accumulation in it.

It is worth to note that the Ministry of Finance report includes also, within the topic of expenditures, “Special Programs,”. Due to the small amounts spent on these special programs they were not taken into consideration.

**Fifth: Sectoral and Specific Distribution of Investment Expenditures**
The following table shows the relative shares of the total actual investment expenditures for the five sectors during the year.

**Table No. (4)**
**Actual Sectoral Investment Expenditures (%)**

| Sector | % |
|---|---|
| Agriculture | 2.02 |

| | |
|---|---|
| Industry | 48.73 |
| Transport and Communication | 12.92 |
| Construction and Services | 30.50 |
| Education | 5.83 |

The above numbers are clear at first glance, and they indicate the lead of the industrial sector by having 48.73% of total actual investment expenditures.
But this is inaccurate and may lead to false or misleading conclusion; because oil sector was included as part of the industrial sector. If the investments made in the oil sector were separated from the rest of the investments made in the industrial sector, we would arrive at very different percentages. The share of the oil sector was about 45.2%, while the share of the rest of the industrial sector was only about 3.5% in the total investment budget.
Regarding investment budget of the Ministry of Oil, which constitutes about 45.2% of the investment budget of Iraq as a whole, the matter has more than one aspect. On the one hand, it reflects the importance of investment in the oil sector, which is the main source of annual budget revenues. This is necessary and therefore positive. But on the other hand, it deepens the lopsided structure of the economy by relying Iraqi economy on the oil sector (crude oil production) and the continuity of the “rentier economy.” This is negative, especially if these investments focus on the oil production sub-sector instead of, or more than, investments in the refinery, gas utilization/processing, and petrochemical industries.

It is worth noting that the current budget of the Ministry of Oil accounts for 15.7% of the total budget of the Ministry, compared to 84.3% of the investment budget, and this is a good, especially when compared with Iraq as a whole, where the percentages are almost opposite.

The combined shares of the agricultural and industrial sectors (excluding the oil sector) from the total actual investment spending during 2023 was only about 5.52%. This level of actual investments is very low and has negative consequences on development. These two sectors are considered among the productive sectors that make up what is called the real economy in the economic and development literature, due to their fundamental role in introducing structural changes in the national economy to address the disadvantages of its rentier nature.

The Ministry of Finance’s report also included a group of investment expenditures achieved during the year 2023 on what it calls “specific investment.” This group includes the following items and their percentages of total investment expenditures: the Investment Program (73.4%), Regional Development (21.3%), Petrodollar (5%), Marshes Recovery (00.2%), and Poverty Alleviation Strategy (03.4%).

Below I will discuss the issue of petrodollars only because of its direct relationship to the oil issue.

**Sixth: Petrodollar Allocations**
The amount of petrodollar allocations actually paid to the producing governorates during the year was 1.2 trillion dinars, and these amounts were included in the investment budget in the budget law. Here the following questions arise:

1- Petrodollar allocations in the budget law are calculated at a rate of 5% from crude oil revenues, refining revenues, or natural gas revenues (it is left to the producing governorate to choose one of them). If we adopted actual oil export revenues as the basis for the calculation, these allocations would be approximately 6.3 trillion dinars. This means causing a financial losses amounting to 5.1 trillion dinars to what the productive governorates are legally entitled to.

2- Budget law also allocates 30% of the revenues generated from the increase in oil prices above the price approved in the law, which is $70 per barrel, to pay the previous dues to the governorates. According to SOMO data, average oil export price during the past year was around $78.95 per barrel. This means that the producing governorates have the legal right to receive $2,684 (or 3,489 dinars) for every barrel exported during the past year. This is an additional financial unfairness of 4.3 trillion dinars, which increases the amount of financial losses incurred to the producing governorates to 9.4 trillion dinars.

3- The Budget Law classifies petrodollar allocations as investment expenditures, but the same law allows the use of no more than 50% of petrodollar allocations for non-investment purposes, such as medical treatment outside Iraq, cleaning up the province, importing energy, and using it as current expenditures. These exceptions actually reduce investment budget allocations and expenditures, which must be taken into consideration when evaluating investment expenditures, whether at the planning or implementation levels.

**Seventh: The Necessity for an Official Statement**

Although the data included in the Ministry of Finance report is very important, it remains just numbers. I believe is necessary and very useful for the Ministry to prepare an explanatory and comparative statement on the contents of the end-year report because it reflects the results achieved by implementing the budget law, similar to the Ministry's statement on the draft budget law issued in March 2023. (8)

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**Endnotes**

(1) https://mof.gov.iq/Pages/MOFPublicReports.aspx

(2) These accounts should not be confused with the Final State Accounts, defined in Federal Fiscal Administration Law 6 of 2019, Article 1- Third, the last of which was for 2009.

(3) مشروع قانون الموازنة العامة للسنوات 2023-2025: ملاحظات وتساؤلات ومقترحات
https://akhbaar.org/home/2023/4/300651.html

(4) صادرات العراق النفطية 2023- توقعات الموازنة العامة وواقع السوق النفطية
http://www.tellskuf.com/index.php/mq/113219-gf07.html
https://www.sahat-altahreer.com/author/62/
https://alsaalek.de/wp-content/uploads/2024/02/SALIK-Nr.71-15.02.2024.pdf

(5) Budget Law (13) of 2023

(6) Federal Fiscal Administration Law 6 of 2019, Article 13-First.
(7) Iraq Oil Exports 2023 - Budget vs. Realities
https://www.iraq-businessnews.com/2024/02/06/jiyad-iraq-oil-exports-2023-budget-vs-realities/?swcfpc=1
(6) بيان الموازنة الاتحادية لسنة 2023، طيف سامي محمد، وزير المالية الاتحادي، اذار 2023