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Research paper

The Impact of Public Budget Variables on Selected Indicators of Fiscal Sustainability – A General Perspective on The Iraqi Economy: A Case Study for The Period (2004–2021)

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Abstract

This study investigates the relationship between key public budget indicators and two principal ratios: the public debt-to-GDP ratio and total public revenues-to-GDP ratio, to evaluate fiscal sustainability in Iraq. It further examines the dynamics of these relationships to enhance fiscal stability and strengthen the economy's resilience to external and internal shocks. Findings indicate that Iraq has heavily relied on oil revenues to finance public expenditures, with minimal contributions from alternative sources such as taxes. Moreover, the persistent dominance of current expenditures over investment spending has intensified structural imbalances, undermining fiscal sustainability. Econometric analysis confirms that public budget variables significantly influence fiscal sustainability indicators, highlighting the structural challenges of a resource-dependent economy.

Keywords: *Fiscal Sustainability; Public Budget Variables; Public Debt; Oil Revenues; Investment Expenditure; Revenue Diversification; Resource-Dependent Economy; Iraqi Economy.*

1. Introduction

The cyclical nature of contemporary economic activity remains a central focus of fiscal policy, both in developed and developing countries alike. Such a policy aims to establish fundamental rules for the functioning of fiscal variables and public finance with the objective of sustaining growth and ensuring compatibility between the inflows and outflows of the public budget.

This study adopts the resource curse hypothesis and fiscal sustainability framework to analyze Iraq's dependence on oil revenues and its impact on long-term fiscal stability. Integrating these frameworks offers a robust conceptual foundation for understanding Iraq's fiscal vulnerabilities and structural constraints that affect sustainable economic growth.

Accurate calculations of revenue and expenditure flows, including present and future values, are necessary to ensure intergenerational equity, aligning public spending with available resources. Nevertheless, the volatility of key economic variables constrains policy decisions, requiring proactive measures to stabilize fiscal flows and maintain a conducive environment for economic growth and sustainability.

The role of the state, which employs fiscal tools such as public expenditures, public revenues, taxes, fees, and public borrowing to influence all aspects of economic and social life in pursuit of the public interest—depending on prevailing economic, social, and political conditions—represents the essential function of public finance in sustaining the relationship among these variables (Al-Batriq, 1986: 5).

Accordingly, government purchases and taxes have become the two most important instruments of fiscal policy through which the state can influence income and employment. By increasing government purchases or reducing net taxes, the government can stimulate aggregate demand. Conversely, automatic declines in tax revenues during periods of falling personal incomes exert contractionary pressures on the national economy, reducing tax payments and thereby increasing disposable income. On the other hand, when the economy experiences inflationary pressures and rapid growth in total expenditure, tax payments automatically rise, compelling individuals to allocate a larger share of their income to taxes. This reduces aggregate spending, ensuring that expenditure remains consistent with resources, thereby maintaining fiscal sustainability (Karl et al., 2010: 613).

Long-term financing enhances the resilience, coherence, and sustainability of the economy by supporting policy reforms that reduce macroeconomic risks associated with climate change, pandemic preparedness, and structural challenges. It also expands the policy space and strengthens the financial safety margin, thereby mitigating long-term risks. In this sense, long-term financing provides greater fiscal space for managing debt and ensuring sustainable growth within the structure of output and public finance (Abdulrahman & Areeqat, 2004: 189–192).

Some corporations may refrain from distributing capital gains to shareholders in the short term for reasons such as strengthening capital reserves or utilizing opportunity costs for future investment prospects. This implicitly reduces aggregate spending. In such cases, public finance plays a compensatory role by increasing or stabilizing aggregate expenditure, thereby preventing contractionary pressures on the national economy caused by business cycles. Conversely, when corporations distribute capital gains to shareholders, the government may respond by reducing aggregate expenditure or raising taxes to maintain stability in total spending, thereby ensuring fiscal sustainability (Stanlake, 1992: 137–138).

The concept of fiscal sustainability began to be widely used in the 1980s in empirical studies as a synonym for public finance sustainability. This was largely in response to growing fiscal challenges, including rising budget deficits and public debt, or the misalignment of public revenues and expenditures. Governments have sought to maintain aggregate demand in line with population growth, welfare needs, and the expanding interventionist role of the state (Traf & Hassanein, 2012: 105). Fiscal sustainability, therefore, reflects the government's ability to manage long-term risks and financial shocks without resorting to significant adjustments in expenditures or revenues, while ensuring that institutions can cover their obligations within projected revenues and maintaining acceptable growth rates without excessive borrowing or reliance on external aid (Gavriiel–Sene, 2010: 304).

Linking debt servicing to repayment capacity enhances the flexibility of fiscal policies during financial distress, expands sovereign investment opportunities, and allows for risk diversification. However, if debt instruments constitute a large proportion of total public debt, the cost of sovereign debt crises may rise significantly (IMF, 2021).

The concept of fiscal sustainability is inherently tied to the intertemporal budget constraint, meaning that any fiscal deficit must eventually be covered by future revenues while considering the present value of expected inflows. Fiscal policy may tolerate a certain level of debt-to-GDP in the short run, but such a situation cannot persist indefinitely. To achieve sustainability, governments must generate fiscal surpluses to offset past accumulated debt and maintain a long-term balance between revenues and expenditures.

The relationship between the budget constraint and fiscal sustainability can be expressed through the following mathematical formulation (Al-Ta'meh & Al-Shammari, 2018: 389):

$$G- T + iBt-1 + iEBt-1 = \Delta M+ \Delta B + E\Delta A\ t-1 \quad (1)$$

Where:
G−T: Primary budget deficit.
G: Government expenditure.
T: Taxes.
iBt-1 + iEBt-1: Secondary deficit from public debt servicing.
ΔM: Borrowing from the central bank (monetary financing).
ΔB: Change in bonds.
EΔA t-1: External borrowing through foreign purchases of treasury bonds.
E: Exchange rate.
Thus, the total deficit equals the sum of the primary and secondary deficits:

$$D= (iBt-1 + iEBt-1)+(G-T) \quad (2)$$

The left-hand side of equation (1) represents the budget deficit, financed through the right-hand side, which involves central bank borrowing via monetary issuance or domestic borrowing through treasury bills. Consequently, public debt rises if deficits persist.

The researcher proposes using the concept of the discount rate (r) to estimate expected future cash inflows to the public budget—whether from tax revenues, borrowing, government domain revenues, or other sources—and to compare these with projected deficits resulting from weak revenues that fail to match public expenditure. Such estimations must account for whether flows are equal or unequal and apply an appropriate discount rate close to prevailing market interest rates, as follows:

$$V1= R1(1/((1+r)^1))+-----+Rn(1/((1+r)^n))$$

Where:
V1: Present value of expected revenues after n years discounted at rate r.
R: Revenue in each year.
Similarly, the present value of projected deficits is:

$$V2= D1(1/((1+r)^1))+-----+Dn(1/((1+r)^n))$$

Where:
V2: Present value of projected deficits after n years discounted at rate r.
D: Annual budget deficit.
By aggregating expected deficit items for public spending, one can compare to assessing whether revenues are sufficient to cover future deficits. However, forecasting revenues in oil-dependent economies, such as Iraq, remains highly uncertain, since oil revenues are determined by international supply-demand dynamics and global economic and political conditions. This creates considerable challenges in projecting fiscal sustainability.

Recent studies (IMF 2023; Al-Hassani & Al-Tameemi 2023) show that oil-dependent economies diversify revenues through sovereign wealth funds, institutional reforms, and non-oil sector development. Compared to Iraq, these countries have stronger fiscal buffers and investment-focused budgets.

2. The Evolution of Public Budget Variables (2004–2021)

The public budget and its various components in Iraq acquire significant importance, given that most economic activity takes place within the public sector. Moreover, the rentier nature of national income compels the government to focus primarily on the public budget and its indicators. This excessive emphasis on fiscal policy has, however, come at the expense of other areas of the economy such as expanding

the role of the private and mixed sectors, fostering economic partnerships with emerging or advanced economies, or integrating into the global market to benefit from successful experiences in terms of technology transfer, investment opportunities, enhancing competitiveness, and expanding infrastructure and productive capacity.

The strong focus on public finance has led to structural imbalances in Iraq's economy, where current expenditures consistently surpass investment spending. This imbalance diminishes the economy's capacity to generate value-added outputs across sectors, impeding the development of productive industries necessary for long-term growth. This, in turn, has undermined opportunities for the growth of income-generating and import-substituting productive sectors, exacerbated unemployment, and highlighted the weak productivity of the public sector.

Table 1: Iraq's Public Budget (2004–2021), Million IQD

Year	Public Revenues	Public Expenditures	Surplus/Deficit	Deficit or Surplus/GDP %	Current Expenditure/Total Expenditure	Investment Expenditure/Total Expenditure	GDP at Current Prices
2004	32,982,739	32,117,491	86,524	16.3	90.5	9.5	53,235,359
2005	40,502,890	26,375,175	14,127,715	19.21	85.2	14.8	73,533,599
2006	49,055,545	38,806,379	10,248,866	10.72	84.0	16.0	95,587,955
2007	54,599,451	39,031,232	15,568,219	13.97	76.4	23.6	111,455,813
2008	80,252,182	59,403,375	20,848,807	13.28	65.8	34.2	157,026,062
2009	55,209,353	52,567,025	2,642,328	2.02	82.6	17.4	130,634,200
2010	70,178,223	70,134,201	44,022	0.03	77.8	22.1	162,064,566
2011	108,807,390	78,757,668	30,049,722	13.83	77.4	22.6	217,327,107
2012	119,817,222	105,139,572	14,677,650	5.77	72.1	27.6	254,255,491
2013	113,840,076	119,127,555	-5,287,479	-1.93	66.1	33.9	273,587,529
2014	105,364,301	115,937,762	-10,573,461	-3.97	68.4	31.6	266,332,655
2015	72,546,334	82,813,611	-10,267,266	5.14	62.6	22.4	194,680,972
2016	53,413,446	73,571,003	-20,157,557	-9.89	74.9	25.1	196,924,142
2017	77,335,955	75,490,115	1,845,840	0.82	78.2	21.8	255,722,367
2018	106,569,834	80,873,189	25,696,645	10.24	82.9	17.1	251,064,479
2019	107,566,965	111,723,523	-4,156,528	-1.5	78.1	21.9	276,157,867
2020	63,199,689	76,082,434	-12,882,754	-5.8	95.7	4.3	219,768,798
2021	109,081,464	102,894,659	6,231,805	2.06	87.1	12.9	301,439,533

Source: Central Bank of Iraq – Directorate General of Statistics and Research, various bulletins; Ministry of Finance – Budget Department, Annual Reports, various years.

Oil revenues overwhelmingly dominate total revenues, indicating that Iraq remains highly dependent on oil for financing public expenditures. This rentier dependence perpetuated structural imbalances within GDP itself.

In 2009, public revenues declined to 55,209,353 million IQD, while public expenditures reached 52,567,025 million IQD, producing a modest surplus of 2,642,328 million IQD. This reflected the global financial crisis of 2008–2009, which disrupted confidence in the U.S. financial sector, triggered a global financial bubble, and consequently affected the Iraqi economy.

During 2011–2014, revenues fluctuated between 105 and 111 trillion IQD, while public expenditures increased. This led to budget deficits of about 1% and 3% of GDP in 2013 and 2014, respectively. The 2014 budget was not ratified due to political instability and the rise of terrorist groups. Meanwhile, oil prices fell below $50 per barrel in mid-2014, compounding fiscal pressures alongside the costs of war, support for internally displaced persons, reconstruction efforts, and the transfer of self-financed salaries to central government funding (Central Bank of Iraq, 2015: 68).

Oil revenues alone were no longer sufficient to finance foreign currency reserves and public expenditures, both investment and current. Delays in developing other productive sectors intensified Iraq's crises and hampered recovery prospects. A development strategy centered on boosting consumption to raise living standards and accumulate capital is not in Iraq's best interest. Instead, it must adopt economic efficiency in managing resources and apply productivity-based standards to public spending (CBI, 2019). Curbing unjustified consumption is equally essential.

This imbalance between the highly flexible current budget and the rigid investment budget burdens monetary policy, forcing it to absorb excess liquidity and redirect constrained investment capacity into consumption. This dynamic is functionally equivalent to a resource shortage, fueling inflationary pressures. Such challenges parallel the Central Bank's reliance on foreign reserves to stabilize exchange rates, which are gradually depleted by the expansion of current expenditures and their associated demand pressures that exceed the economy's capacity to respond with real supply (CBI, 2018).

Public revenues rose slightly to 107.6 trillion IQD in 2019, up from 106.5 trillion IQD in 2018, primarily due to a 3.8% increase in crude oil production, alongside modest increases in capital and other revenues (0.56% and 0.4%, respectively). Oil revenues accounted for 99% of total budget revenues (CBI, 2019: 46). Expenditures rose over 2016–2019, both in response to higher revenues and to finance the costs of war against terrorist groups, reconstruction, and security challenges. However, the persistent dominance of current over investment

spending undermined the potential for non-oil growth. By 2020, the fiscal and macroeconomic impacts of the COVID-19 crisis and collapsing oil prices became clearly visible.

Referring to Table 2, oil revenue constituted most public revenues between 2004 and 2021. This structural imbalance indicates that fiscal sustainability is heavily dependent on the growth of oil revenues, while other sources, particularly tax revenues, contribute only marginally. Consequently, the Iraqi economy remains highly vulnerable to oil price fluctuations and external shocks, exposing both public finances and GDP to cyclical volatility.

Table 2: Evolution of Oil Revenues (2004–2021), Million IQD

Year	Oil Revenues at Current Prices	Public Revenues at Current Prices	Oil Revenues / Public Revenues %
2004	32,627,203	32,982,739	98.9
2005	39,480,069	40,502,890	97.4
2006	46,534,310	49,055,545	94.8
2007	51,701,300	54,599,451	94.6
2008	75,358,291	80,252,182	93.9
2009	48,871,708	55,209,353	88.5
2010	66,819,670	70,178,223	95.2
2011	98,090,214	108,807,390	90.1
2012	116,597,076	119,817,222	97.3
2013	110,677,542	113,840,076	97.2
2014	97,072,410	105,364,301	92.1
2015	51,312,621	72,546,334	70.7
2016	44,267,060	53,413,446	82.8
2017	65,155,570	77,335,955	84.2
2018	95,619,121	106,569,834	89.7
2019	99,216,318	107,566,965	92.2
2020	54,448,514	63,199,689	86.1
2021	95,270,298	109,081,464	87.3

Source Ministry of Finance – Budget Department, Annual Reports, various years.

3. The Evolution of Selected Fiscal Sustainability Indicators (2004–2021)

The sustainability of public debt and fiscal policy is linked to the projected trajectory of the debt burden, expressed as the ratio of public debt to GDP and the ratio of public debt to total revenues, while also considering the mechanisms of debt servicing under different scenarios. Hence, fiscal sustainability is possible when the ratio of public debt to GDP declines or stabilizes. The national economy must also ensure the continuous flow of economic surpluses from productive sectors at a rate greater than the installments and service costs of debt to sustain the fiscal position of the state. The following are the most important indicators:

3.1. Analysis of the indicators: public debt/GDP ratio and total revenues/GDP ratio

When public revenues fail to cover public expenditures (both current and investment), authorities often resort to internal or external borrowing to bridge the gap, considering the capacity of domestic productive sectors to bear the burden of debt servicing. Public debt here represents accumulated fiscal obligations arising from government activities to sustain expenditure flows. This indicator is widely used internationally, especially by global institutions, and is measured by comparing the growth rate of public debt with the growth rate of GDP to assess the government's ability to sustain debt obligations. International benchmarks, particularly the Maastricht Treaty, emphasize that the debt-to-GDP ratio should not exceed 60% and that the budget deficit-to-GDP ratio should not exceed 3% (Mohammed, 2020: 476).

Reviewing Table (3): Selected Indicators of Fiscal Sustainability, it is evident that Iraq's public debt declined between 2004 and 2008, both in absolute terms and relative to GDP, with external debt outweighing domestic debt. This indicates that the debt was largely inherited from the pre-2003 period, shaped by economic sanctions and weak foreign currency-generating sectors. Public debt exceeded GDP during 2004, 2005, and 2006, with debt-to-GDP ratios of 338.9%, 162.9%, and 125.2%, respectively. However, these ratios declined thereafter, reflecting government efforts supported by international creditors to reduce debt and stimulate recovery. At the same time, the ratio of public revenues to GDP averaged around 0.53 for the period (2004–2008), highlighting that more than half of GDP was tied to budgetary revenues. This constrained policymakers' ability to diversify the productive base and mitigate aggregate demand shocks stemming from oil revenue volatility.

The IMF designed a program to reduce Iraq's indebtedness, which included a debt forgiveness of nearly 95%, while the Paris Club proposed an 80% debt reduction in three stages (Al-Tamimi, 2007: 125–126). These measures resulted in substantial reductions in Iraq's total public debt, particularly external debt, with debt-to-GDP ratios declining to 87.9%, 51.4%, 64.1%, and 46.8% in 2007, 2008, 2009, and 2010, respectively, within internationally accepted thresholds as outlined by IMF recommendations and international treaties.

By 2015, Iraq faced multiple shocks, including the emergence of terrorist groups, a sharp fall in oil prices, and declining domestic liquidity. These developments pressured public finances, compelling the Ministry of Finance to rely on domestic borrowing by issuing national bonds, discounting treasury bills through the Central Bank, and mobilizing 50% of commercial banks' reserves deposited at the Central Bank. Consequently, domestic debt surged to 32.1 trillion dinars, a growth rate of 237.6% compared with 2014, accounting for 16.8% of GDP (Central Bank of Iraq, 2015: 76). External debt remained relatively stable between 2010–2014, as the government sought to avoid excessive foreign currency borrowing and comply with agreements with the IMF, the Paris Club, and the London Club.

The ratio of total revenues to GDP remained relatively high between 2010 and 2014, as shown in Table 3, despite declining oil prices in 2014. This underscores the pivotal role of oil revenues in shaping both public finances and GDP and highlights the vulnerability of fiscal sustainability to short- and medium-term shocks, with uncertain long-term dynamics.

Table 3: Selected Fiscal Sustainability Indicators (Million IQD)

Year	Total Public Debt	Domestic Public Debt	External Public Debt	GDP	Debt/GDP %	Revenue/GDP %
2004	180421688	6061688	174360000	53235359	338.9	61.9
2005	119834763	6593960	113240803	73533599	162.9	55.0
2006	115220021	56453900	109574631	95587955	125.2	51.1
2007	98064705	5194705	92870000	111455813	87.9	47.6

2008	80763428	4455569	76307859	157026062	51.4	51.1
2009	83780757	8434049	75346708	130634200	64.1	42.2
2010	75901226	9180806	66720420	162064566	46.8	43.3
2011	79129249	7446859	71682390	217327107	36.4	50.0
2012	73832715	6549519	67285196	254255491	29.0	47.1
2013	72721903	4255549	68466354	273587529	26.5	41.6
2014	76386621	9520019	66866602	266332655	28.6	39.5
2015	100272103	32142805	68129298	194680972	51.5	36.8
2016	118286979	47362251	70924728	196924142	60.0	31.5
2017	125421420	47678769	77742624	255722367	49.0	30.2
2018	142986752	41822918	101163834	251064479	56.9	42.4
2019	154408148	38331548	101357878	276157867	55.9	55.9
2020	157693900	64246559	108355704	219768798	52.3	71.7
2021	105000000	69912394	30000000	301439533	34.8	34.8

Source: Central Bank of Iraq, Directorate General of Statistics and Research, various bulletins; Ministry of Finance, Budget Department, Annual Report, various issues.

Public indebtedness continued to rise from 2018 to 2021 (except in 2021), driven by increases in both domestic and external debt, as illustrated in Table 3. This reflects the financing needs of ongoing budgetary operations, military expenditures against terrorist groups, and reconstruction efforts. Notably, despite rising debt levels, the debt-to-GDP ratio continued to decline, underscoring fiscal and monetary authorities' efforts to maintain sustainability alongside GDP growth, keeping the ratio within acceptable limits.

Low-income developing countries have also suffered from a series of external shocks, including declines in exports, falling commodity prices, disruptions in trade structures, reduced remittances, and tourism revenues. These shocks have exacerbated debt accumulation, limiting countries' ability to respond effectively and undermining fiscal and debt sustainability (IMF, 2021: 11).

Regarding the ratio of total revenues to GDP during 2018–2021, the average stood at around 0.50, reaffirming the need to diversify both revenue sources and the GDP structure beyond oil revenues, which remain subject to volatile international market conditions, thereby limiting fiscal sustainability and national economic strategies.

The analysis indicates that public expenditures, revenues, and budget deficits significantly influence fiscal sustainability indicators and GDP composition. To empirically test these relationships, a Vector Autoregressive (VAR) model is employed, incorporating lagged values of both dependent and independent variables. Current expenditure-to-total expenditure ratio (X1) and investment expenditure-to-total expenditure ratio (X2) serve as independent variables, while the public debt-to-GDP ratio (Y) is the dependent variable, representing fiscal sustainability. Specifically, the current expenditure-to-total expenditure ratio (X1) and the investment expenditure-to-total expenditure ratio (X2) are treated as independent variables, while the public debt-to-GDP ratio (Y) represents the dependent variable, serving as a proxy for fiscal sustainability.

Table 4: VAR Results of the Relationship between Model Variables

Vector Autoregression Estimates	
Date: 10/15/25 Time: 17:15	
Sample (adjusted): 2006 2021	
Included observations: 16 after adjustments	
Standard errors in ( ) & t-statistics in [ ]	
	Y
Y(-1)	0.735773
	(0.20047)
	[3.67017]
Y(-2)	-0.080496
	(0.09842)
	[-0.81791]
C	-18.08518
	(9.16138)
	[-1.97407]
X1	3.47E-08
	(1.3E-08)
	[2.74968]
X2	6.47E-08
	(2.0E-08)
	[3.20681]
X3	1.92E-07
	(6.6E-08)
	[2.89040]
R-squared	0.944766
Adj. R-squared	0.917148
Sum sq. resids	506.0869
S.E. equation	7.113979
F-statistic	34.20929
Log likelihood	-50.33597
Akaike AIC	7.041997
Schwarz SC	7.331718
Mean dependent	53.51875
S.D. dependent	24.71508

Source: Prepared by the researcher using EViews 9.

The VAR results show that a one-unit increase in the previous year's debt-to-GDP ratio raises the current ratio by 0.46 units, highlighting a positive cumulative debt effect in Iraq due to limited productive capacity. For instance, if the current expenditure ratio decreases by 1%, the debt-to-GDP ratio increases by 1.2%, reflecting Iraq's reliance on public spending to sustain economic activity. This counterintuitive outcome reflects the unproductive nature of public spending in Iraq, where expenditure reductions without complementary private sector

investment may contract economic activity, increasing relative debt levels. The model's R^2 of 0.87 confirms that independent variables explain most variation in the dependent variable, indicating a robust fit. These results indicate that while reductions in current and investment expenditures may statistically appear to increase the debt-to-GDP ratio, this reflects the structural nature of Iraq's economy rather than a direct causal link. In Iraq, public spending often compensates for weak private sector activity; hence, reducing expenditure without stimulating productive investment may contract growth, leading to higher relative debt levels. Therefore, the finding aligns with fiscal sustainability theory in resource-dependent economies, often translating into disposable income that fuels inflation rather than sustainable growth. The R-squared value of 0.87 confirms that most of the variation in the dependent variable is explained by changes in the independent variables.

As shown in Figure 1 (Unit Circle) and Table 5 (Model Stability Test), the VAR model satisfies the stability condition, with all roots lying within the unit circle, confirming its reliability for forecasting variable behavior.

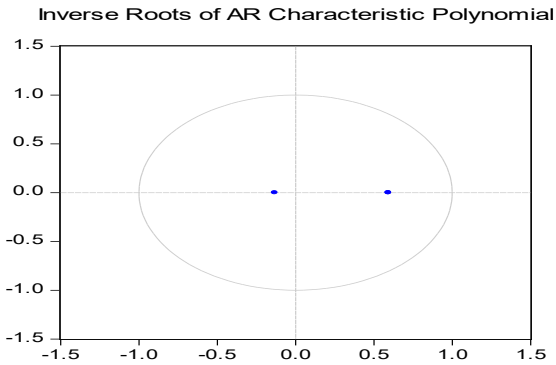

Fig. 1: Unit Circle.

Source: Prepared by the researcher using EViews 9.

Table 5: Model Stability Test

Roots of Characteristic Polynomial	
Endogenous variables: Y	
Exogenous variables: C X1 X2 X3	
Lag specification: 1 2	
Date: 10/15/25 Time: 17:18	
Root	Modulus
0.602075	0.602075
0.133698	0.133698
No root lies outside the unit circle.	
VAR satisfies the stability condition.	

Source: Prepared by the researcher using EViews 9.

4. Conclusions and Recommendations

4.1. Conclusions

- Public budget variables, including expenditures, revenues, and fiscal deficits, directly influence fiscal sustainability indicators and GDP composition.
- A one-unit increase in the debt-to-GDP ratio in the previous year leads to a 0.46-unit increase in the current year, confirming a positive relationship.
- Reductions in current and investment expenditure ratios are associated with increases in the debt-to-GDP ratio by 1.2 and 1.7 units, respectively, reflecting structural constraints in the Iraqi economy rather than direct causation.
- Oil revenues overwhelmingly dominate total revenues, determining the financing of public expenditures and exposing fiscal sustainability to external shocks.
- The budget is characterized by a predominance of current expenditures over investment expenditures, weakening prospects for building a productive base to sustain fiscal policy independently of oil in the long term.
- The Iraqi budget remains dominated by current expenditures, which limits investment in productive sectors and weakens the foundations for sustainable, non-oil economic growth.

4.2. Recommendations

- The general budget should be prepared based on actual development needs and aligned with international standards of transparency and governance.
- To mitigate volatility from oil revenue fluctuations, non-oil sectors should be strengthened, including industry, services, and agriculture, thereby diversifying fiscal sources and enhancing resilience against external shocks.
- Clear productivity benchmarks should be established for public spending. Lessons from other oil-dependent economies such as Norway, Saudi Arabia, and Malaysia demonstrate that successful fiscal sustainability requires strong institutional frameworks, transparent fiscal rules, and sovereign wealth funds that stabilize public finances against oil price volatility. Iraq could benefit from adopting similar fiscal mechanisms to enhance long-term stability and reduce dependence on oil revenues, in line with the high volume of public expenditures in Iraq.
- Investment spending should be prioritized over current spending, as the latter is largely unproductive.
- Budget deficits should be channeled toward building productive sectors to achieve structural corrections in GDP composition.

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