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The Budget Deficit and Its Impact on Some Macroeconomic Indicators in Iraq for The Period 2010-2018

By

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Abstract

The budget deficit is one of the most common problems the Iraqi economy faces before and after 2003. The causes of this deficit are the mismanagement of public funds on the one hand. The socio-economic problems caused by wars, economic sanctions, and terrorism, on the other hand, and the study tries to clarify the relationship between the state budget deficit, inflation rates, and the high level of public debt in Iraq for the period 2010-2018.

Keywords: Public Budget Deficit, Inflation Rates, Public Debt.

Introduction

The state's general budget is the most important means of implementing the financial policy, which the countries of the world use to know their financial situation. At the rates of this deficit, as the volume of expenditures increased compared to the volume of revenues, the latter has become unable to cover its expenditures due to the limited revenues, because the majority of these countries largely depend on a single resource in exporting, which negatively affected the economic activity in them, as well as its impact on achieving Its economic development has endeavored to diversify its revenues and rationalize its expenditures. It has also worked to find ways to address this deficit in order to avoid the negative effects resulting from it. However, most of them did not reach radical solutions, which led to the exacerbation of their deficit and the impact of this on the collection of economic growth rates, which contributed to the decline of their economies. And the Iraqi general budget suffers from a chronic deficit in its revenues compared to the size of its increasing expenditures due to the exceptional circumstances that the country suffers from. The most important tools to bridge this deficit are internal and external loans and surplus circulation, as well as deficit financing.

1. Research Methodology

1.1 Research Problem

The main reasons are the chronic budget deficit in Iraq to confused and uncoordinated financial policies with monetary policy, which exacerbated the level of public debt and price inflation (Danaboina & Neerati, 2020; Gondo, 2021; Mukthayakka, Sajjan, & Kashid, 2021).

1.2. Research Objective

The research aims to demonstrate the impact of the general budget deficit on inflation rates and public debt through its concepts and the nature of the three variables in the Iraqi economy in the last decade.

1.3 Research Hypothesis

Reducing the deficit in the state's public budget causes a reduction in public debt levels and then a decrease in inflation rates.

1.4. Research Structure

The research hypothesis and achieve its objectives have been divided into three sections: the first included the research methodology, the second dealt with the theoretical aspect of the research variables. The third addressed the analytical part of the research.

2. The Theoretical Framework of The Research

2.1 The Concept of Equilibrium

2.1.1 Defining the Budget

The general budget is a forecast view of the state's expenditures and revenues for a future period that is subject to leave from the competent authority, and this definition, it becomes clear that the budget includes two essential elements, the first is the expectation, and the second is the approval or authorization. (Nashed, 2003)

It is also known as "a document poured into a financial template that clarifies the goals and numbers. As for the goals, they express what the state intends to do in terms of programs and projects during a future period, while the numbers express what the state intends to spend on these goals and what it expects to collect in terms of resources during a future period that is usually determined *" A year*" (Alsaagh& Hanna Zarrouki,1989).

2.1.2. The Deficit in The General Budget

It has known that this deficiency in government revenues when financing public expenditures in their various forms, whether they are an investment or current spending, the failure of general revenues to cover public spending or the excess of public spending over the state's general revenues reflects the deficit in the available budget. (Obaid, Jamal Mahmoud, and others, 2020, 124)

The term deficit is used when the government spends more than it receives from taxes and other revenue, and borrows to cover the difference, and this borrowing is known as Public Sector Net Borrowing. (Keep, M. 2022,1). If instead public revenues are greater than expenditures, then the government has a surplus. A balanced budget describes the situation in which public revenues are equal to public expenditures, and the size of the deficit or surplus is equal to the difference between expenditure and revenue levels. The deficit is measured over the fiscal year. Public budget outcomes include both "budgetary" activities, which account for the majority of taxation and government spending, and "off-budget" government activities, which include revenue and expenditures from Social Security Trust Funds, for public credit programs. The cost of government support activities is included in the deficit and surplus accounts, and the public budget is created in such a way that it provides a lower net deficit in stronger economic conditions due to increased revenue, i.e. from taxes levied on increased production, and to a lesser extent due to reduced spending, i.e. from reduced demand for programs such as insurance Against unemployment (Driessen, A.G, 2019, 1).

The government faces a deficit in its public budgets when the total of its outgoing payments (expenditures) exceeds the total revenues. The state's general budget deficit has multiple and different forms, the most important of which are as follows: Several measures were developed to distinguish between the various concepts, so we find: (Awlad Eid: 2012: 216)

- The traditional measure is the difference between government expenditures and government revenues but limits them to the central government. It is undoubtedly a measure that neglects many essential things in the matter.
- The general deficit, or what is known as the unified deficit of the public sector, is calculated through the difference between the total government revenues, including the revenues of the public sector, and the total expenditures of all government entities. It also stresses that difference must be financed with a new loan.
- Actual deficit, which means the failure of public revenues of all kinds to cover public expenditures, whatever their forms, and it has calculated by subtracting public payments from public spending, as general revenues include both tax and non-tax regular revenues, oil revenues, recovered loan installments, aid and donations received by the government, Whereas, overheads include running current expenses and equipment expenditures, which are capital expenditures.
- The core deficit excludes one-time debt interest payments from total public expenditures.
- Operating deficit: It is the deficit that takes into account the state of inflation, as it represents the government and public sector borrowing requirements minus the part that was paid from the benefits of correcting inflation, by means of the monetary correction factor, and the interest rate paid to creditors contains part of the money to compensate them for the losses resulting as a result Because of the high prices. (Muhammad, Manal Jaber Morsi, 2021, 389)
- Structural deficit: This deficit demonstrates the inability of private revenue growth rates to keep pace with the growth rates of public expenditures on a permanent and non-temporary basis. It is a permanent deficit that excludes the impact of temporary or contingent factors that affect the fiscal deficit in addition to fluctuations in domestic income and interest rates (Hamri, 2018: 29-31).
- The budget deficit can also be divided into two main types according to the extent of the state's contribution (Shalala& Abdel Qader,2018).
- The intended deficit: some cases and economic peaks after the crises that countries have lived through for years. The financial balance at present is unnecessary. Instead, the intended fiscal deficit in the budget becomes when it suffers from an economic crisis because it fears paralysis for its economy. Therefore, it reduces taxes and increases spending to stimulate investments, create significant job opportunities, preserve the purchasing power of citizens, and revive sluggish projects, which a deficit in the budget has caused.
- Imposed deficit: the main feature of public expenditures is the continuous increase from year to year, and to face this increase in burdens, various governments seek to increase revenues, and the rise in spending is considered a normal phenomenon that can be expected, calculated and thus dealt with, but the burdens that occur on the state in periods of crises and disasters are That causes the actual budget deficit.

2.1.3. Reasons For the Worsening of The Budget Deficit

The worsening of the budget deficit in a country is due to multiple reasons, which are limited in their entirety to factors that lead to an increase in public spending and others that lead to a decline in revenues. The most important of which are as follows: (Ben Daas: 2019:

320)

- The introduction of the theory of systemic deficit.
- Ease of lending from international markets.
- The growing population and the expansion of the state in providing the basic needs of citizens.
- devaluation and deterioration of the currency, especially in countries with heavy import, relying on unstable tax bases.
- The abundance of tax exemptions and benefits without being matched by an expansion in the tax bases.
- The high degree of tax evasion due to the expansion of the informal economy.

There are three views of the effects of the budget deficit, as follows: (Gale, W. G., & Orszag, P. R., 2004, 102.)

- There are three views on the effects of budget deficits as follows: (Gale, W.G., & Orszag, P.R., 2004, 102.)
- The deficit caused by a lump-sum tax cut today followed by a lump-sum tax increase in the future, keeping the path of government purchases and marginal tax rates stable. Under the Ricardian equivalence hypothesis proposed by Barrow, this deficit will be fully offset by increased private savings, as taxpayers realize that the tax is only deferred, not abolished. interest, exchange rates, exchange rates, future domestic production, or future national income.
- The view of the small open economy: It indicates that the budget deficit reduces national savings, but at the same time it stimulates increased capital flows from abroad that finance the full reduction, and therefore domestic production does not decrease, and interest rates decline. It does not rise, but rather the future national income falls due to the additional service burden of the increasing foreign debt.
- The traditional view is that the deficit reduces national savings, but this decline is at least partially reflected in the decline in domestic investment. In this model, the budget deficit results in partly excluding private investment and partly increasing borrowing from abroad; The combined effect reduces future national income and future domestic production. The decline in domestic investment in this model results from the increase in interest rates, thus creating a link between the deficit and interest rates. interest rates and thus the establishment of a link between the deficit and interest rates.

2.1.4. Ways To Finance the Deficit in Government Extendicare

- Selling government bonds to the public other than the banking system.
- Selling government bonds to the central bank.
- Financing the deficit by withdrawing from government accounts with the central bank.
- Selling government bonds to commercial banks.
- Financing the deficit by withdrawing from government accounts with commercial banks.
- Another way to finance the deficit in government spending is through borrowing from abroad (Al-Juhani, 2006: 86).

2.2 Inflation

2.2.1. Concept

Inflation targeting has become the monetary system of choice in a large number of countries over the past two or three decades once it became apparent that other alternatives had failed to produce low and stable inflation. To determine the likely inflationary consequence of changes in the position of monetary policy, the focus has shifted to the use of an interest rate instrument that can be adjusted according to the degree of economic stagnation and whether inflation has exceeded some mandatory or implied level that is considered acceptable. (Bohl, M. T., & Siklos, P. L. 2018,4.)

Inflation means the continuous rise in the general level of prices. It has been calculated during a specific period, usually, a year, which leads to a decrease in the actual value of money and thus a reduction in the real income of the individual and the state. (Darby,1991: 119)

Inflation is also known as the increase in the prices of consumer goods and the decrease in the purchasing power of the national currency, and this may be associated with the process of the entire operation of the economy in return for that there will be a decrease in the unemployment rate and then an increase in the prices prevailing in the market as a result of the rise in the employment of the unemployed (Al Nashi, 2014: 123).

Accordingly, the most comprehensive definition is that “a continuous increase in the level of consumer prices or a continuous decrease in the purchasing power of money, resulting from an increase in the available currency and credit beyond the percentage of available goods and services. Whatever the definition, inflation means that over time the consumer or the company can buy quantities Less with their money, the cost of the good or service will go up which means the purchasing power of the consumer, or the firm will go down. (Rasmussen, K., & Tetteh, D. O. 2007, 9)

2.2.2. Causes Of Inflation

Inflation arises due to several economic factors, the most prominent of which are; (Al-Nashi, 2016: 125).

- High operating costs in industrial or non-industrial companies, such as the companies ’contribution to raising the salaries of their employees, especially those who work in production sites, which comes as a result of workers’ demand to raise wages.
- Demand-induced inflation: This type of inflation results from an increase in the volume of money demand accompanied by a fixed supply of goods and services if the increase in aggregate demand has not been matched by an increase in production (aggregate supply).
- Inflation occurs due to total changes in aggregate demand, even if this demand is excessive or there is no economic focus, as prices are subject to increase and are not subject to decline even with a decrease in order.

To clarify the relationship between the public budget deficit and inflation, we refer to the approach proposed by Sargent Wallace (1981), which is that the fiscal authority is supposed to take measures without taking into account current or future monetary policies, and therefore the monetary authority must take deflationary measures in the short run or on Long-run reduction in inflation, i.e. an increase in the interest rate and consequent decrease in the product, which leads to an increase in the deficit, assuming that the remaining variables in fiscal policy remain constant. The fiscal authority will have to finance this increase in the deficit, either by issuing cash, or by borrowing, in the first case it means an increase in inflation. In another approach, inflation reduces the real stock of public debt and then the public will bear an increase in inflation when the deficit is high because the public is opposed to increasing the fiscal burden. However, the increase in inflation, essentially unexpected inflation, is an inflationary tax and the budget deficit also represents additional aggregate demand which will lead to an increase in inflation.(Rosa, A.S., 2011, 216)

Inflation imposes a real cost on society in terms of the efficiency with which the exchange mechanism operates by distorting incentives to save, invest and work, and provide false signals that alter production and labor effort. Reducing the rate of inflation has often been associated with economic stagnation. (Labonte, M., & Makinen, G.E 2008,12)

Some economists argue that if the government finances the deficit in its parallel by borrowing from the central bank, it may cause inflation because it resorts to an expansion in the monetary issuance, and the closer the national economy is to full employment, the more it causes an increase in inflationary pressures, which will be reflected in the reduction of The private sector purchases of goods and services and thus will have less access to personal consumption and private investment (Yunis& Mahmoud et al., 2000)

2.2.3. The Government Public Debt

The public debt is represented by all the internal and external obligations that governments face, whether from the central bank, the private sector, or loans from abroad, whether from international institutions such as the World Bank, the International Monetary Fund, or other countries.

Public debt is defined as an amount of money that the state obtains from individuals, banks, or other financial institutions, whether local or international, with an undertaking to pay this amount and the interest resulting from it on time for payment by the terms of the contract. (Al-Sayed, Heba Muhammad Amin, 2017, 444)

Another definition of public debt is the sum of money that the government owes to its creditors and includes ordinary citizens, institutions, foreign governments, and other parts of the federal government. (Deficits, Debt, 2019, 2)

Also, government debt generally means that it is the debt of the central or federal government, or the debt of the entire government system, including the subnational and local levels, or what is called the general government, and it may include public companies and others that belong to the state (Thuwaini, 2017).

2.2.4. Public Debt Has Divided into Two Parts

1. ***Internal Public Debt***: It has represented in the amounts that the available units in the state commit to others as a result of their borrowing to him, to finance the deficit in the budget, with their pledge to pay after a certain period of the principal and interest of the debt, by the conditions governing the establishment of this debt, and usually the creditor is a national entity. (Dawaba, Ashraf Muhammad, 2016), or the debts that the government is obligated to pay to individuals, companies, and institutions in local currency (Al-Khatib& Saad, 2005)
2. ***External Public Debt***: which was defined by the International Multilateral Working Group in 1988 as external debt as the value of the existing and distributed obligations in any period for residents of a particular country towards non-residents to pay the debt with or without interest or with interest and without basis (Belkacem, 2004)

External debt has also defined as the debts due to be paid in the local currency of the debtor country, such as the debts of the surplus American crops for some developing countries, which have been produced in the currency of the debtor country (Abdullah, 2016).

Or it is an agreement between the government or one of its institutions and an external source to obtain financial or natural resources, with the commitment of the debtor side to repay those resources and the interest due on them within a specific period to be agreed upon the loan. (Abd, 2008).

The high proportion of public debt is the result of the prolonged situation of the budget deficit, as the government borrows constantly for spending or investment and has an intention to increase interest rates that lead to a reduction in private investment spending and thus create a crowding-out effect. Budget deficits can increase the cost of financial debt, leading to financial burdens and a loss of competitiveness in the economy. (Van, V. T. T., Ha, N. T. T., & Quyen, P. G., 2020, 85)

Much evidence supports the view that fiscal deficits have in the past caused debt crises in many developing countries. The effects of fiscal deficits on debt depend largely on the financing methods adopted and the macroeconomic conditions of the country. Hence, the objective of government deficit financing is to mobilize financial resources taking into account the elements of cost and risk, as well as the macroeconomic effects of the various sources of financing. (Foloronso, P.A., 2013, 347.)

3. The Impact of The Budget Deficit on Some Macroeconomic Indicators

3.1. The Reality of The General Budget in Iraq

The Iraqi public budget faces many problems as it depends heavily on crude oil revenues, which makes it vulnerable to the specter of deficit almost permanently from the revenue side, as it suffers from an apparent structural defect on the part of expenditures given that the bulk of public spending goes to the operational side. The developments in state revenues are among the most critical factors that led to the growth of the budget deficit. When examining the budget structure, we find that oil revenues are one of the most important sources of financing the general budget, with an average rate of more than 80% during the studied period.

The government has also not been keen on facing this deficit within an ongoing program of economic reform, represented by a comprehensive reform plan that addresses fiscal and monetary policies within the framework of economic stabilization and structural adjustment as the government followed a contractionary fiscal policy that focused on reducing the total deficit as an absolute number and as a percentage of GDP, on rationalizing public expenditures and increase revenues (Saleh: 2019: 204).

Table (1) shows the structure of the Iraqi general budget, which reflects the adoption of the budget in large part with oil revenues, as its contribution accounted for 90.6% in 2010 of the total revenues, while it rose to 95.5% in 2014 and then decreased to 70.4% in 2016. It went back up, recording 86% in the 2017 year.

On the expenditure side, the Iraqi public budget also suffers from a chronic defect represented by the large gap between operational expenditures and investment expenditures in favor of active, and this imbalance caused a decline in performance levels in the productive sectors (industrial and agricultural) and a decline inaccurate investment rate in these vital sectors.

Table (1). *Public revenues and their main components and their relative importance in Iraq for the period 2008-2010 In millions of dinars.*

years'	Oil revenue	Annual growth rate %	The ratio of Total revenue	Tax revenue	Annual growth rate %	The percentage of total revenue Rate	Total revenue	Annual growth rate %
2010	63594200	26.7	90.6	1503500	-26.7	2.1	70178223	27.0
2011	98241600	54.5	90.1	2408200	60.2	2.2	108989089	55.3
2012	111326200	13.3	92.9	2311100	4.1-	1.9	119817224	9.9
2013	105450700	-5.3	92.6	2518700	9.0	2.2	113840076	-5.0
2014	100778300	-4.4	95.5	2527000	0.3	2.4	105553850	-7.3
2015	78649000	-22.0	83.6	6240500	-26.7	6.6	94048400	-10.9
2016	38269022	-51.3	70.4	4091700	60.2	7.5	54323100	-42.2
2017	67950225	17.7-	86	11061196	4.1-	1.3	79011421	14.5
2018	77160392	11.5	84	14483274	9.0	1.6	91643667	11.16

Source: Prepared using the budget archive for various years.

Table (2) also shows the depth of the imbalance in the countries 'general budget, as investment expenditures were at their highest levels only in 2013, at a rate of 33.9% of the total public spending; however, these expenditures were not directed into integrated investment projects. As for operational costs, they have recorded at the lowest. It's level in 2016, with a rate of 69.5% of total expenditures, while the highest level recorded in 2017, at a rate of 79.8%.

Table (2). *The structure of public expenditures in Iraq for the period 2010-2018 at the current price and in millions of dinars*

years	Current expenses	Growth rate%	Investment expenditures	Growth rate%	Total expenses	Growth rate%
2010	54580860	18.8	15553341	61.2	70134201	26.2
2011	60925554	11.6	17832113	14.7	78757667	12.3
2012	75788624	24.4	29350952	64.6	105139576	33.5
2013	78746806	3.9	40380750	37.6	119127556	13.3
2014	76741673	-2.5	35439453	-12.3	112181126	-5.8
2015	51832800	-32.5	18564700	-47.6	70397500	-37.2
2016	36354400	-30	15946700	-14.2	52303100	-25.7
2017	75217142	20.6	25454018	15.9	100671160	19.2
2018	79508071	10.1	24650112	9.68	104158183	10.3

Source: Prepared based on the budget law for different years.

Table (3) shows the distorted composition of the Iraqi public budget, mainly on the nature of the surplus and deficit that characterizes it. It recorded a semi-permanent deficit that reached massive levels as in 2017 when the size of the debt reached about 2,1659739 million dinars. And about 12514516 million dinars in 2018, which negatively affected economic growth rates and the increase in the internal and external public debt to fill this deficit.

Table (3). *The public budget deficit rates in Iraq for the period 2010-2018 in billions of dinars*

years	public revenue	public expenditure	Surplus or deficit
2010	70178223	70134201	44022
2011	108989089	78757667	30231422
2012	119817224	105139576	14677648
2013	113840076	119127556	-5287480
2014	105553850	112181126	-6627276
2015	94048400	70397500	23650900
2016	54323100	52303100	2020000
2017	79011421	100671160	-21659739
2018	91643667	104158183	-12514516

Source: It was prepared according to Table (1) and (2)

In general, we note the reasons that exacerbated the budget deficit, foremost among which is the increase in government spending, especially the large and huge spending on the army as well as on commodity and service requirements in general, and the stagnation of taxes. And its inability to respond to policies that address inflationary pressures, as well as the high cost of public investments as a result of financial and administrative corruption.

Second // inflation in the Iraqi economy

This post-2003 phase was characterized by Iraq's exit from the economic sanctions law and the change in the economic philosophy from a closed economy to an open one, which facilitated the process of export and import, so Iraq imported the goods and services it needed to meet the total demand in the event that local production was unable to meet the local demand from Goods and Services (Abd, Muhannad Khamis et al., 2019, 200).

Successive wars and crises have brought the Iraqi economy to two extremes: the first is the decline in oil revenues, and the second is the deterioration of the production capacities of the national economy, and thus the decline in the total supply of goods and services. Inflation, as the Iraqi economy faces a double problem represented by a severe shortage of both sides of supply and demand, and to move supply, a policy of openness to investment should be followed. The demand side absorbs any increase in supply, and high inflation is due either to objective reasons such as the scarcity of natural resources or a large increase in population numbers with a decrease in their productive efficiency or subjective factors such as economic mismanagement, lack of organization, decline in the coronary work, or misuse of resources. Iraq represents the second case.(Maiser Qassem Mohammed. (2008). Addressing inflation in the Iraqi economy. Journal of Economics and Administrative Sciences, 14(49), 125-1328.

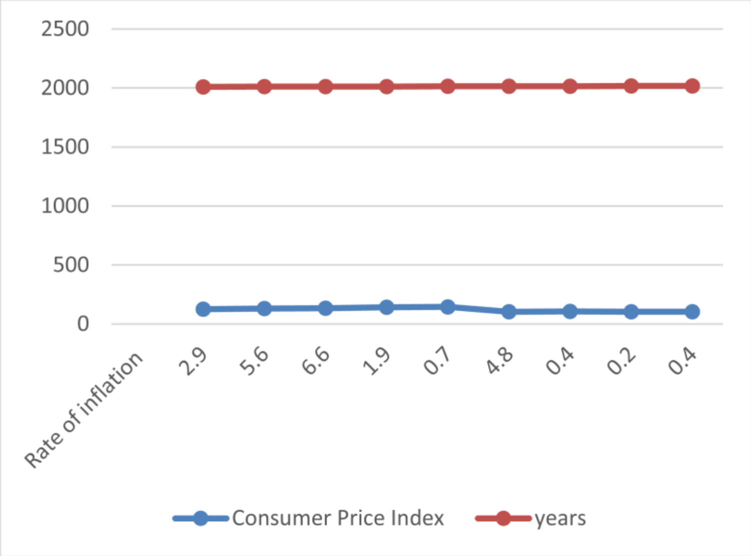
The inflation rate reached an average of 13.5 for the period (2003-2018), and it reached its highest level of 53.1% during 2016, due to the high prices of oil derivatives and the failure to meet the local demand at the time (Ministry of Planning and Development Cooperation, 2019, 23). In the following years, it reached 2.9% in 2010 due to the availability of oil derivatives, their meager prices, and the improvement of the exchange rate of the Iraqi dinar, in addition to the absence of fees as a vehicle affecting imported goods. Inflation rose to 6.6% in 2012, after which a remarkable variation has recorded. Between the rise and fall due to changes in the prices of raw materials, which amounted to about 0.4% in 2018, as shown in Table (4).

Table (4). *Consumer Price Index and Inflation Rates in Iraq duration 2010-2018*

years	Consumer Price Index	Rate of inflation
2010	125.1	2.9
2011	132.1	5.60
2012	135.2	6.6
2013	142.7	1.90
2014	145.9	0.7
2015	104.0	4.8
2016	106.3	0.4
2017	104.3	0.2
2018	104.5	0.4

Source: Ministry of Planning and Development Cooperation, Annual Bulletins 2010-2018

The table also shows that the consumer price index recorded a rate of 125.1 in 2010. It recorded a remarkable increase in the following years, recording its highest rate of 145.9 in 2014, expressing the relative rise in food prices. The consumer index alternated between low and high to settle at 104.5 2018.



Source: prepared according to Table (1)

Figure (1): Inflation rates and consumer prices in Iraq for the period 2010-2018

3.2. *The Iraqi Public Debt*

The expansion of reliance on the public debt (internal and external) to cover the general budget deficit has become more of a constraint on development than an alternative opportunity to finance it from non-oil sources. This debt also constitutes a burden on the present and future generations due to the lack of coherent and harmonious macroeconomic policies that invest in high efficiency. The planned deficit formed 6.21% of the estimated internal budget. 135851 billion dinars as of 2017 (National Development Plan 2018-2022, p.18)

The increasing and chronic deficit in the general budget is one of the reasons for creating inflation, especially in the case of the state resorting to financing the deficit through one of the inflationary methods, such as the new monetary issuance through the central bank, which has not matched by an actual cover of goods and services. The banking system's expansion of credit has been granted to the government at a rate. It is greater than the rate of growth of the national product, which leads to monetary inflation, one of the forms of inflation that contributes to raising prices. (Muhammad, Manal Jaber Morsi, 371, 2021)

Table (4) shows the size of public debt (internal and external) in Iraq, which recorded large numbers that exceeded the barrier of 50% of GDP. The reason is due to the successive accumulations of debts since the first and second Gulf War and the chronic deficit in the state budget, as it has recorded External debt is $ 60.9 billion. Domestic debt was $ 9.9 billion in 2010, after which the internal debt recorded successive increases, and reached its highest level in 2017 at $ 49.4 billion, then decreased to about $ 37.4 billion in 2018, while the external debt recorded its highest level in 2017, at $ 73.7 billion, as a result of the decline in oil revenues and the increase in the volume of operational expenditures, after which it decreased to about $ 40.9 billion in 2018.

Table (4). *Consumer Price Index and Inflation Rates in Iraq for the period 2010-2018*

years	Internal debt	External debt
2010	9.9	60.9
2011	12.4	61.0
2012	15.4	60.3
2013	13.9	59.2
2014	17.0	57.6
2015	33.5	66.1
2016	47.2	63.9
2017	49.2	73.7
2018	37.4	40.9

Source: Iraqi Ministry of Finance, Quarterly Public Debt Bulletin 2010-2016

The accumulated public debt in Iraq is financed from internal sources such as borrowing from the public, commercial banks, the central bank, and external sources such as grants, loans, gifts, and direct and indirect foreign investment, which led to a chronic and accumulated deficit in the government budget, and the Iraqi government resorted to Issuing treasury transfers, as a non-inflationary method that works to control inflation rates through high interest rates, which works to withdraw part of the cash reserves of commercial banks and financial institutions.

Conclusion

It is evident from the above that the budget deficit causes an increase in the internal and external public debt, as the decrease in the volume of revenues compared to the expenditures requires the government to borrow money from inside and outside to fill the deficit. Since the general budget in Iraq suffers from a chronic shortage, the borrowing and then the debt The year is increasing steadily, as for inflation, it has evident importance about the trends of public loans, as it is possible that the process of stabilizing and deficit the budget may lead to a weakening of public confidence in the government, and this will be fertile ground for the worsening of public debt, and this is what is happening in Iraq.

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