

RESEARCH ARTICLE

The Role of Public Spending in Correcting Imbalances in the Iraqi Economy's Production Structure, 2003–2023

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Abstract

Inequality in the production structure of the national economic sectors was the most significant problem of the Iraqi economy throughout the period (2003-2023) that was manifested by the prevalence of the oil sector and the decline of other productive branches of the economy, including industry, agriculture, and services. Although it was marked by significant growth in the governmental expenditure over this time, the expenditure was not enough to offset this imbalance; instead, it also entailed the establishment of the rentier character of the economy.

The research results demonstrated that most of the government expenditures were used on the current expenditures especially salaries and subsidies with the investment in the real sectors being minimal in amount and influence. It was also evident that lack of development planning, poor institutions, and systematic administrative and financial corruption are all issues that prevented the spending of the populace in reforming the productive structure and in ensuring sustainable development.

The paper also indicated that the imbalances of the productive structure in Iraq need to be tackled which can only be realized by radical restructuring of the policy of the state expenditure, redistribution of resources to productive areas, a new institutional and legislative climate in favor of investment, and a well-defined economic strategy that would aim at diversifying the economy and relative independence of changes in the oil market.

A number of findings were determined at the end of the research, which can potentially illuminate more on the topic of the research under discussion, as a set of recommendations was offered that could counter some of the unbalances in the Iraqi economy.

KEY WORDS

Comprehensive economic analysis system, cost, profitability, liquidity, profit, financial analysis, HACCP, ISO, Toyota Production, statistical analysis, AI, financial reporting, analytical procedures, financial results, internal economic capabilities, efficiency, financial condition, comparative analysis, factor analysis.

INTRODUCTION

One of the key instruments which the state uses in the realization of its economic and social objectives is the state

spending since it is an important way of boosting economic activity, income redistribution, and sustaining crucial sectors

of the economy. In rentier economies, as is the case in Iraq, public spending makes a central role in channeling the resources generated through the oil rents to other sectors in the economy in an effort to restore the structural imbalances that are plaguing the economies.

The Iraqi economy experienced serious changes throughout the period of 2003-2023, alongside internal and external threats that influenced the productive organization. Inequalities in the economic system remained as close to complete dependence on the oil industry as the main source of state income accompanied by an apparent deterioration in the activities of the non-oil sector, in the first place, agriculture and industry. Even though the government expenditure rose within this time, its role in restoring imbalances in the productive structure was minimal.

In this light, this paper aims to study and discuss how the public spending contributes to rectifying imbalances in the production structure of the Iraqi economy by emphasizing on how the spending is allocated and the magnitude of its influence to the supporting sectors of the economy especially non-oil sectors within the years 2003- 2023.

Research PROBLEM

The research issue is that the imbalances that characterize the production structure in Iraq are still present in spite of the massive quantity of public expenditure, which casts doubt on the efficiency of the spending in resolving structural imbalances and economic diversification.

Importance of the Research

This study is important as it discusses a critical issue that is at the core of the development process and aims at reviewing the policy of government spending on the population in the context of reforming the productive structure and its role in ensuring sustainable development and decreasing reliance on oil.

Objectives of the Research

The research aims to:

Discuss the development of the public expenditure in Iraq over the period (2003-2023).

Test how far this expenditure has gone in righting imbalances in the productive structure.

Current suggestions and ideas on how to develop a more effective fiscal policy.

Research Methodology

The study takes a descriptive-analytical approach with the analysis of the official data regarding the public spending and gross domestic product (GDP) and the interpretation of the results with the references to the economic literature and theoretical models.

Research Hypothesis

The hypothesis on which the research is founded is that public spending has failed to diminish the imbalances in the Iraqi economy structure and attain economic diversification and it has not contributed to the reduction of the imbalances within the period of the study.

Limits

Geographical Limit: The study is geographically based on all provinces in Iraq even the provinces of the Kurdistan Region of Iraq. Iraq is a country when it comes to the southwest of Asia and seated on the northeastern side of the Arab world. It is a country bordered by Turkey to the north, Iran to the east, the Arabian Gulf, Syria and Jordan to the west and Kuwait and Saudi Arabia to the south.

Temporal Limits: The temporal limits of the research would be 2003 (base year) to 2023 (comparison year).

Expenditure, by definition:

"Expenditure, by definition, means the spending of money or resources by individuals or institutions to achieve a specific goal, whether to meet personal or operational needs, or to invest in projects or services."

Definition of expenditure in economics:

"Expenditure is the process by which funds are drawn from income or available resources and used to pay for goods or services or to cover specific expenses. It represents the expenditure side of economic activity and is important for understanding the flow of funds within the economy, whether at the household, firm, or national level."

Types of spending:

Consumer spending: This is what an individual or household spends on purchasing goods and services for personal and direct use , such as food, clothing, and rent.

Investment spending: This includes money spent on purchasing or improving long-term assets, such as equipment, buildings, or infrastructure.

Government spending: This is what the government spends on providing public services, defense, education, health care, and other areas that serve the public interest.

Terminological significance:

In finance and accounting, spending also refers to a financial obligation reflected in a company's financial statements, where it is recorded as a cost or expense when funds are actually spent or legally committed. Spending is a fundamental component of financial performance analysis and economic decision-making.

In short, expenditure is the process of allocating money to be spent on specific purposes, which vary depending on the entity spending the funds and the intended objective.

Previous Studies

-1 Study by Nagham Hamid Abdul-Khader: Analysis of the Trajectory of Public Expenditure in the Iraqi Economy and Its Effectiveness in Correcting Imbalances in the Production Structure for the Period (2020–2003).

"The study aimed to track the trajectory of public spending, diagnose the reality of structural imbalances in the production structure of the Iraqi economy for the period 2003–2020, and verify the extent to which public spending was effective in correcting those imbalances. The study recommended initiating a restructuring of public spending to narrow the gap between current and investment expenditures, as well as correcting structural imbalances in production through the provision of suitable environmental conditions, incentivizing laws, and supportive capital, and finally, achieving balanced growth in investment allocations toward productive sectors."

2- Study by Muhammad Ali Musa al-Maamouri: Measuring the Efficiency of Public Expenditure in the Iraqi Economy for the Period (2013–2006).

The study aimed to identify some of the methodologies used to measure the efficiency of public spending while attempting to highlight their strengths and weaknesses and the potential for applying them to measure the efficiency of public spending in the Iraqi economy. The study recommended the need to strike a balance between current and investment spending, adopt a strategy of balanced growth across sectors, and finally establish a partnership between the public and private sectors to achieve integration in economic activity in a manner that serves both sectors.

3- Study by Noor Shadhan Adai and Lawrence Yahya

Saleh: The Effectiveness of Public Spending in Correcting Imbalances in the Production Structure of the Iraqi Economy after 2003.

The study aimed to shed light on the post-2003 period in terms of the effectiveness of public spending in correcting imbalances in the production structure. In light of this, it was concluded that the effectiveness of both current and investment public spending in correcting imbalances in the production structure in Iraq was weak, due to the dominance of current spending over investment spending and the near-total halt in production, which led to a double halt in public and accelerated spending. The study recommended that the government restructure public spending with the aim of reducing the disparity between current and investment spending on the one hand, and supporting productive sectors with investment allocations to improve their poor performance on the other.

Second: The Conceptual and Theoretical Framework of the Research:

1. The Concept of Public Spending

Public spending is one of the most prominent fiscal policy tools used by the state to achieve its economic and social objectives. It encompasses all expenditures made by the government to finance its activities and provide public services, whether current or capital expenditures.

Public spending is defined as "a sum of money spent by a public official for the purpose of achieving a public benefit" (Daraz, 1989, p. 475). Others view it as "monetary amounts approved by the legislative authority for a public entity to spend on providing public goods and services and achieving economic and social objectives" (Khalil Al-Luzzi, 1990, p. 89).

One of the first economists to call for state intervention and increased public spending was John Maynard Keynes, in response to the severe economic depression of the period 1929–1932. His aim was to positively influence effective demand and, consequently, levels of production, employment, and utilization, thereby achieving an increase in national income. Consequently, public spending expanded as a result of the state's multiple functions, and thus public spending became one of the tools of the state's fiscal policy through which it achieves various economic and social objectives (Abdul Mawla, 1975, p. 40).

Types of Public Expenditure:

According to the classification adopted in the general budget, public spending consists of two components: current spending and investment spending, as follows:

- **Current Expenditures:** These include operating expenses such as salaries, wages, government subsidies, and services.
- **Capital Expenditures:** Includes spending on infrastructure projects and the development of productive sectors (such as agriculture and industry).

Objectives of public spending:

- Stimulating economic activity.
- Reducing unemployment and improving income distribution.
- Developing infrastructure.
- Supporting productive sectors to achieve sustainable development.

2. The Concept of the Production Structure and Its Imbalances:

The production structure is the relative distribution of economic activities that make up the gross domestic product (GDP), and it reflects the extent of the economy's diversity and balance through the contributions of key sectors such as agriculture, industry, and services.

, on the other hand, defines structure as "the set of relationships and proportions that characterize an economic entity at a specific time and place; that is, the relative importance of each of the elements that make up the economic entity" (Perro, 1983, p. 38).

An imbalance, on the other hand, is a deviation of the economy from its natural course due to a state of disequilibrium resulting from opposing forces acting upon it (Al-Sayed Ali, 1986, p. 71).

Structural imbalance is a disruption in the proportional relationships between the elements and components of the economic structure, as well as a change in its fundamental characteristics that affect growth, in addition to a disruption in general equilibrium relationships (Al-Samara'i, 1993: pp. 9–10).

Characteristics of a balanced productive structure:

Diversity of the economic base.

Harmonious growth of productive sectors.

Reduced dependence on a single sector (such as oil).

Manifestations of imbalance in the productive structure:

- Dominance of a single sector (such as oil) over GDP and public revenues.
- Declining contribution of industry and agriculture to GDP.
- Economic vulnerability to external shocks (such as oil price fluctuations).

3. The relationship between public spending and correcting imbalances in the production structure.

Public spending affects national output by increasing productive capacity. This can take the form of investment spending—referred to as "productive public spending"—whose impact typically varies depending on how efficiently it is utilized, or current spending aimed at increasing labor productivity by providing free education, healthcare, and training, which in turn creates an increase in private demand. Fiscal policy plays a decisive role in directing resources toward sectors suffering from weakness or decline, with the aim of restoring balance to the production structure. The mechanisms through which public spending can correct structural imbalances are as follows:

- a- Allocating direct government investments in agriculture and manufacturing.
- b- Supporting small and medium-sized enterprises that contribute to economic diversification.
- c- Improving infrastructure that supports productive activities.
- d- Developing education and vocational training to enhance human resource capabilities.

However, the success of these mechanisms depends on the effectiveness of allocation, the efficiency of implementation, and the institutional environment managing this spending.

Third. Analysis of the Iraqi Economy and Public Expenditure (2003–2023):

1. The Evolution of Public Spending in Iraq (2003–2023)

After 2003, Iraq relied almost entirely on oil revenues to

finance public spending, with oil revenues accounting for more than 90% of total revenues. During this period, public spending experienced significant fluctuations due to oil price

volatility and the political and security conditions in the country.

Table (1) shows the levels of public spending in Iraq for the period 2003–2023

The ratio of investment spending to total public spending (5)	The ratio of current spending to total public spending (4)	Investment spending (3)	Current spending (2)	Public spending (1)	Year
5.8	94.1	287,881	4614080	4901962	2003
22.1	77.8	15,553,341	54580860	70134201	2010
32.7	67.2	27,777,048	56,916,476	84693524	2015
4.2	95.7	3,208,912	72,873,500	76082412	2020
10.1	89.2	8,436,159	69820574	78256733	2023

Source: Columns (1,2,3) Central Bank of Iraq, General Directorate of Statistics and Research, Annual Economic Report, various years.

- Columns (4,5) by the researcher.

Data from the Central Bank of Iraq presented in Table (1) indicate that the share of investment spending in total public spending rarely exceeded 25% during most of the years under review, with the exception of 2015, when the share of investment spending reached 32.7%, despite the urgent need to revitalize non-oil sectors, which would lead to the desired economic diversification.

Among the most notable features of this period are:

- Rapid growth in current expenditure (particularly salaries and government subsidies).
- Fluctuations in the share of investment spending, despite the Iraqi economy’s need for economic diversification

Table (2) shows the percentage contribution of the oil sector and other economic sectors to the composition of GDP at constant prices in Iraq for the period 2003–2020

and a move away from a rentier economy.

- Low efficiency of investment spending, as well as administrative and financial corruption.
- The absence of sectoral priorities in expenditure allocation, leading to an imbalance in the allocation structure.

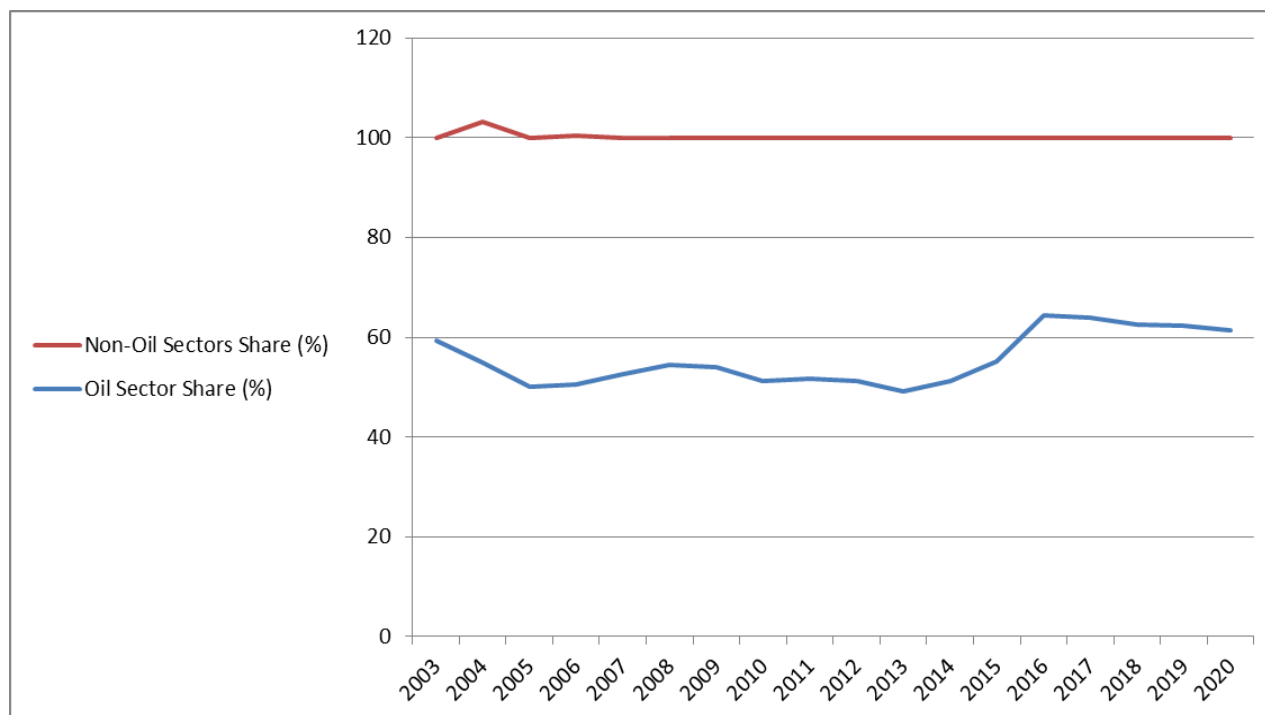
2. Analysis of the Gross Domestic Product (GDP) Structure

The production structure of the Iraqi economy suffers from a clear imbalance, as evidenced by the contribution of economic sectors to GDP (the oil sector, the agriculture sector, the industry sector, and the services sector), as shown in Table (2).

Year	Gross Domestic Product (Million IQD)	GDP Excluding Oil	Oil Sector Share (%)	Non-Oil Sectors Share (%)
	1	2	3	4
2003	66335848.2	59.2	40.7
2004	101845262.4	42876855.3	55	48.2
2005	103568449	37382056.48	50.1	49.8
2006	109368369	48897303.63	50.5	49.9
2007	111455813.4	51381129.79	52.7	47.2
2008	120626517.1	53678800.07	54.5	45.4
2009	124702847.9	71204884.83	54	46
2010	132687028.6	71783682.69	51.3	48.6
2011	142696722	64643198.3	51.7	48.2
2012	162587533.1	80643416.37	51.3	48.6
2013	17491075	91198113	50.0	50.0
2014	169557865	86433529.58	51.3	48.6
2015	183616300	82443697.15	55.1	44.9
2016	199532100	82737115.56	64.48	35.48
2017	201059400	73846824.12	63.96	36.04
2018	21053290	7894932.63	62.5	37.5
2019	22307500	84322357.94	62.2	37.8
2020	188112800	71900000	61.4	38.6

Source: Central Bank of Iraq, Directorate General of Statistics and Research, Annual Economic Report, Various

Figure (1) shows the relative importance of the oil sector and the other sectors in Iraq’s GDP for the period 2003–2020.



Source: Prepared by the researcher based on the data from Table (2)

The following is evident from Table (2) and Figure (1):

A. Dominance of the Oil Sector:

The contribution of the oil sector to the GDP is between 49.2 and 64.48 in most years.

The other sectors contributed 35.48 to 49.9 percent GDP.

Therefore, oil revenues constitute over 90 percent of the public revenues and close to 98 percent of exports.

B. Sluggish growth in other sectors:

Agriculture: Despite the availability of the water resources and arable land, the general statistics of Iraq show that the role of agriculture in the GDP is decreasing.

Manufacturing: Its contribution has dropped to its lowest in a number of years, due to its negligence, poor financing, and open imports.

C. Increasing contribution of the service industry:

This can be attributed to massive employment of the government and the minimal role played by the private sector but majority of these services are non-productive and are not collected as actual income.

The Implication of Government Expenditure on Productive industries.

Although the population expenditure has multiplied, it has been insignificant on the productive structure due to the following reasons:

Positives:

The absence of much assistance to local agricultural projects in times of particular crises.

Due to the high oil prices, implementation of part of stalled industrial projects.

Negatives:

o Ineffective use of resources: Spending was largely on salaries and subsidies, as opposed to productive investments.

o Poor institutional climate: administrative and financial corruption, and stalled projects.

o Political and security instability: which curtailed deployment of long term investment plans.

o Lacks of internalised development vision: and the coordination of fiscal and productive policies.

Using the above, one can say that the public spending in Iraq at the period (2003-2023) was not successfully used as an instrument of correcting the imbalance on the productive structure. Instead, it frequently gave support to the rentier character of its economy by stressing on current expenditures and disregarding the creation of productive infrastructure.

Conclusion and Recommendations.

1. Challenges:

Although in the period, there was an increase in public spending in Iraq (2003-2023), it did not achieve much in correcting structural imbalances in the economy. Several weaknesses were determined that restricted the success of state expenditure in repairing the problems in the production structure the most considerable of which may be summed up as follows:

A. Over dependence on oil revenues:

This has resulted in fiscal and structural weakness and has made government expenditure to be reliant on changes in the price of oil thereby not enabling the execution of development strategies that are stable and on long-term basis.

B. Weak spending structure:

Statistics indicate that the budget is spent on current expenses (salaries, subsidies, operations) of more than 80-90 percent, whereas the proportion of investment spending is minimal, as it is expected to provide productive industries and contribute to the development.

C. Lack of strategic planning and vision of development:

The fiscal policy goals did not have a clear association with the economic development goals, which resulted in the misdirected or unproductive spending.

D. Financial and administrative corruption and mismanagement:

This led to stagnation or breakdown of numerous investment projects and it was not possible to add to the creation of a productive foundation of sustainability through expenditure of people.

E. political and security instability:

The dynamic political situation did not allow using integrated economic programs and weakening the investment environment and the prospects of attracting capital to

productive activities.

Key Findings of the Study:

The Iraqi economy still experiences the obvious imbalance in the productive structure which is the prevalence of the oil sector on the GDP, exports and revenues.

Instead of the intended diversification of the economy, public spending has instead contributed to its rentier nature in terms of sustaining consumption and government employment.

The reduced contribution of non-oil sectors (agriculture, manufacturing and services) to the GDP, in spite of the presence of natural and human resources.

Corruption and inefficiency in investment spending are evident in the allocation as well as the implementation of investment spending.

The absence of a coordination between the fiscal policy and the sectoral policies that have reduced the role of spending in the enhancement of productive infrastructure.

Recommendations

The study would recommend the following based on the analysis above:

Reorganization of priorities of state expenditure.

Devote the bigger part of the budget to the investment into the productive fields (agriculture, industry, renewable energy).

Cut down on the unnecessary current spending and change the salary and subsidy regime.

Building the institutional and regulatory framework.

Fighting corruption and enhancing financial transparency in the implementation of the projects.

Enhancing the role of Financial Control Bureau and independent agencies by increasing their strength.

Using a development based fiscal policy.

The introduction of fiscal policy into a holistic development vision which aims at diversifying the economy and decreasing reliance on oil.

Enhancing the collaboration between the Ministries of Finance and Planning to focus expenditure based on local production priorities.

Promoting the domestic production and the private sector.

Offer financial and tax incentives on productive projects.

Create special finance fund on agricultural and industrial projects.

Standardize economic policies.

Make sure the monetary and fiscal policies are stable such that they promote investment.

Developing true relationships between the government and the business on how to implement significant projects.

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