

BUDGET DEFICIT IN YEMEN: EFFECTS AND SOLUTIONS

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ABSTRACT

Purpose: this study attempt to display the reasons that causes deficit in budget and then mentions the solutions to finance the deficit of budget in conventional and Islamic views. Design, methodology, approach: this study undertakes library to search in books and other papers of scientific that are related in area of deficit and the websites related in this paper and we display the tools to financing the deficit budget of Yemen during last years.

Findings: we found there are a large budget deficit in most countries until the countries has strong economic and the government of Yemen one of them treats this deficits by take loans from external debt more than internal debt and we find there are numerous solution in Islamic views to solve this problem more practical than the conventional solution so we recommend Islamic countries support each other and the Islamic governments ought take money by Islamic financing like Sukuk this is more effective than the external loans or issues debt belt treasury that have interest that prohibition in Islam.

Keywords: Deficit budget, Debts, Fiscal tools, Financing & Yemen.

INTRODUCTION

Contemporary economies are observing the budget deficit and public debt as an instrument of anti-cyclical policies. However, many none-economists find the budget deficit and public debt as a negative phenomenon and a threat to the economic system. Almost of countries in our world normally has got a kind of deficit because some problems that was effected in the government expenditure by increasing or decreasing revenue such as increasing in population or increasing building or infrastructures or weak in collecting taxes these causes lead to deficit in budget these days there are a numerous problems in economic that the biggest problem and most economists write about it that is the budget deficits because its reflect the unable of revenues to cover expenditure to reduce and treat the deficit by deferent monitor or fiscal political like create new money or borrow from internal or external public debt

Objective of Study

The primary objective of this study is to:

1. Attempt to highlight what is causes of budget deficit
2. Try to appear the solution in conventional economic that will decrease the deficit.
3. Display some of solutions in Islamic financing and these will help to cut the component interest and that will be more affected to reduce the deficit without interest.
4. Show the tools was used to finance budget deficit in Yemen.

Research Questions

1. What is the deficit budget?
2. What are the tools to finance the deficit budget in conventional economic and in Islamic economic?
3. How is government of Yemen treating the budget deficit?

So this research divided into four sections that is first section was explored the definition of deficit and mention kinds of deficits. The second section was studied the causes and the effects of deficits in economic. In section third the researcher cited the ways that help to finance the debts or reduce it in conventional economic and some treats in Islamic financing. Finally, section fourth the paper indicated the deficit to budget deficit in Yemen and how do they finance their budget deficit. Finally in section five the researcher mentioned some results and recommendations that help to avoid and reduce the debt deficit.

LITERATURE REVIEW

Sa'ad (2015) use the perspective and historical methods and indicate that the deficit is the big problem in economic, so it is very important to treating this problem by using difference ways to reduce deficit and in her studding was discovered increase in inflation leads to an increase in budget deficit and talked about the effects of deficit and then mention some of solutions to reduce the deficits like as public financing and Džakula & Karalić (2013) they use historical approach and they study relationship between debt financing and fiscal policy and budget balance , in their conclusion they said An important determinant in the creation of fiscal policy is harmonization of budget incomes and expenditures. In this sense, the existence of budget deficit refers to the timely intervention of the fiscal authorities. From these studies we explain the budget deficit and discover the good solution to reduce the gap of deficit and mention some tools used by Islamic financing better than use interest basic that is increased debt more and more every year.

FRAMEWORK

The Meaning of Budget Deficit

According to my accounting course web (2019) budget deficit is a financial loss for during a period where expenses exceed revenues. This concept is often used in business but more commonly used to refer to governmental spending in excess of revenues collected. And Zubair (2018) the main factor that cause deficit in the budget is the revenue deficit the difference between revenue receipts and revenue expenditure in an accounting sense. There some kinds of deficit in economic:

Samuelsson divide budget deficit to:

1. **Structural deficit:** If government spending exceeds tax revenue even when the economy is strong, then the deficit is deemed to be “*structural*”.
2. **Cyclical Deficit:** The cyclical component can be attributed to the weak economy. A recession drives down government revenue because many workers and businesses are no longer earning as much taxable income. At the same time, government spending rises because more people need assistance.
3. **Current Deficit:** when the current expenditure exceeds current revenues. Trade deficit is when a country imports more goods and services than it exports.
4. Primary deficit is the fiscal deficit of current year minus interest payments on previous borrowings.

5. **Operating Deficit:** means that for any specified period of time, the amount by which Cash Receipts is less than the amount necessary to pay all Project Expenses.
6. **General Deficit:** General government deficit is defined as the balance of income and expenditure of government, including capital income and capital expenditures.

We briefly cite the causes lead to deficit that Sa'ad (2015) mentioned it:

Increasing Government Expenditure

There are numerous factors make the government increases the expenditure like

- a. Increasing numerous of population so they need essential needs and new infrastructures and support healthy and education.
- b. Increasing in civil services because specially salaries and wages.
- c. Increasing in military burdens and the weapon expenditure.
- d. Unordinary conditions like floods and earthquakes these lead to increasing in aids and grants.
- e. Support the loses projects that follow government and cover the deficit in these projects

Decreasing In Total Revenues

The decrease in revenues because uncertainty case such as:

- a. Decrease in collection taxes because the recession.
- b. Inefficiency and effectiveness in office staff that are collect general revenue.
- c. High or injustice taxes causes to tax evasion and corruption.
- d. Reduction in economic activity because the investor burdens more highly taxes that discourage investors to investment.

The Total Effects of Budget Deficit in Economic

In short term , budget deficit effect on economic stability .however, in long term, budget deficit effect on level of national income and welfare of society and the budget deficit appear in government burdens of public debt .

Budget deficit effect on investment in two parties first, when government borrow from the public society that means the local currency will decrease lead to decrease in investment too ,the other effect that is the interest rate will increase that means the investment will decrease and this will affect in growth economic and reduce the national production.

Inflation was affected by budget deficit when government use financing debt from central bank this solution cause that the bank create a new money this transaction lead to increase in the inflation indicator because the supply money was increased and this case precession the debt burdens therefore the budget deficit will be affected increasingly continuous, in this case government to finance this deficit by increasing the taxes which bear in the people and this affect in people welfare and if this case continuous may affect to the next generation (ALhateeb, 2018).

Financing the Deficit in Conventional Economy

The government can uses tools that will reduce the deficit and help to decrease the deficit during two things:

Reducing Expenditure

- a. Reduce the government expenditures as possible as in current expenditure and in investing expenditure.
- b. A reduction gradually in the item of transfer expenditures of a social nature:
- c. Like as supporting the essential goods as wheat, rice, milk.
- d. Reduction in salaries and wages: decreasing in wages and salaries by freezing bonds and determine the maximum level of wages and salaries.
- e. Riddance supporting for economic: There are some companies that follow the public section have got losses and government support them whereas cover the loss so the government should riddance or sale these companies .instead of supporting.
- f. Public monetarism and re arrange priorities: that means sufficient work and spend the money only in that sections as most producing.

Increasing the Revenues

In this case always the government charges the people more taxes but some time the government could not do that because the civil has large tax before so the government try to find another ways to financing the budget deficit that by borrowing form inside country or from foreign countries.

The Public Debt Financing

Public debt represents the overall of state obligations towards its creditors, which are based on contracts. Repayment of the public debt is obligatory of the state budget. Public or government debt includes all amounts for which the government borrows in aim of financing the budgetary position, which most frequently represent the public expenditure that cannot be covered by regular public revenues. Public debt is one of the main sources of the extraordinary state revenue, which is especially present in developed economies, but recently is also used by developing economies

Džakula & Karalić (2013) Defined the public debt (government public debt) is as the overall state obligations to its creditors. The public debt is closely related to the budget deficit, since they are opposite sides of the same coin. Thus, public debt is a set of different forms of borrowings that are made by the state in order to achieve certain budgetary goals. So There are two famous kinds of public debt that are internal public debt and external public debt .we explain the internal debt and external debt and what is the tools can be used.

Internal Public Debt

Internal public debt refers to a country's borrowing from own national resources. This borrowing has no effect on increasing or decreasing national income.

The government can bridge budget gap from three sources:

1. **Central banks:** Government financing debt by printing of new currency notes is an easier and cheaper – unlike bonds no interest is payable. But its perils are no less than its attraction. It carries inflationary potential because the money supply increase and the gross domestic productions stay the same so that means level of prices was increased therefore government tend to get out of hand apart from worsening income and wealth inequalities and depreciation of domestic currency.
2. **Mobilizing domestic savings through financial instruments in public sector:** Government use the internal debt financing to cover the budget deficit as bonds and saving certificates. However, as the domestic savings pool is the same and its size is limited if government gets more, private enterprise will receive less.so the money supplies will decrease and this will effect in investment because the interest rate will increase in this case discourage investors to invest and its impact on growth may be contrast and inconsequential (lahsan, 2013).

3. **Borrowing from the commercial banks:** The government is borrowing from the social banks and special financing institute. Therefore the economic effects in the case of borrowing from the banking system depend on the availability of excess reserves in them. If there is a surplus in these reserves, borrowing will have an expansionary effect and increase the money supply and its effect in this case is similar to the effect of borrowing from the central bank and does not crowd out the private sector but if the source of the borrowed money is from the bank's net financial assets, it will limit the projects' freedom to grant credit and there will be no significant change in the money supply (Suad, 2018).

External Public Debt

External borrowing refers to the resources provided from a foreign country that is repaid with principal and interest at the end of a certain period. External debt has an increasing effect on national income when it is taken and vice versa has a decreasing effect on national income when it is paid.

More commonly used source, in the modern era is to borrow from abroad mostly from the international financial institutions the IMF and the World Bank. But borrowings from these institution come with conditionality which effected by the political condition that always often find distasteful.

The Following Points Of Distinction Between Internal And External Debts Are Noteworthy:

Chand (2019) Mentiones some of differences between internal and external debt these are:

1. An internal loan may be voluntary or compulsory, but an external loan is normally voluntary in nature. Only in the case of a colony, an external loan can be raised by compulsion.
2. An internal loan is controllable and can be estimated beforehand with certainty, while external loans are always uncertain and cannot be estimated so confidently. Its realization is very much conditioned by international politics and foreign policies of the lending government.
3. Internal loan is in terms of the domestic currency, while external loans are in terms of foreign currencies.

Financing the Deficit in the Islamic Economy

In the last three decades Kuhagh (1997) mention numerous of budget deficit treatment in Islamic economic that are:

Financing by the differences of sales models like as deferred sales or lease (usufruct sale) or Salam sale. The government interferes in economic activities by different tools and way to guarantee stability economic whereas any unbalance in economic and the big economic problem is what we are studying budget deficit where on government attempt to financing this deficit by fiscal political and variety ways like:

Acceleration revenues: for example the zakat we can receive it before accrued and we can sold petrol and receive its values before its extract like as bai Salam. Receive Rent in advance for two or three years.

General Loans

Our prophet Mohammed (pbuh) do that after entrance Makah he (pbuh) borrow from Rabiah Almahzomi and from Safwan bin Omayah to financing the Honain battle. However in Islamic there are some conditions :

- a. It must be necessity
- b. Able to pay after period.

- c. And return the same amount not more

In addition the government can borrow from the Islamic financing institutes (banks) and from individuals without any interest.

Taxation System

The government interfering to financing deficit thought raising taxes but there are some stipulate that are:

- a. There is necessity.
- b. No any other sources
- c. It will be justice.
- d. Applied for reach people not for all.

Participating the Private Sector

There are two kinds for financing short term and long term like as:

- a. Istisna'a sales contract: and this is kind of permissible contract in Islamic this contract merges between Salam sale and general sales.
- b. Salam contract: In this contract (Thamman) in advance but the product was deferred received special in agriculture.

Financing by Participating for Production

Someone has capital and the government operates the project and the profit divided between them.

Participating for Financing Project

In this kind the government divided the capital to shares then this shares or certificates by banks then they divided the profit among them.

Financing projects by (Sadagah) and Voluntary

Quran and Sunnah recommend people to do that and our profit financing some of prattles by volunteering finance and nowadays we say social participation.

Financing by AL WAGEF

There are numerous kind of projects can finance by Sadagah like structure building for schools or Masjid or orphans building. This kind of voluntary is stable to fix capital and interest from the usufruct.

Collecting Zakat and Distribute it by Justice Way for the Eight Kinds

The big financing system the Islamic countries neglect it because there are not controlling and spread corruption whereby the people don't trust in govern so the people don't tell the government to escape from the taxes and zakat but if there are accurate system to collect this source the government will reduce her costs that spending it in support the society .and the zakat must collected and distributed for the specific types of society mentioned in Quran there are:

- a. Fugara (Poor)
- b. Masaki (needy)
- c. Employed to collect,
- d. Attractive the hearts those how has been inclined (towards Islam)
- e. To free captives
- f. Travelers how cut of every thing
- g. For those in debts.
- h. For Allah in cause (for mujahidin) (Holy qura'an)

This will help government to reduce the deficit and it's a good way if we use it by sufficient way.

Yemen Debt Financing

Ministry of Planning and International Cooperation, Economic Studies and Outlook Sector in it's the volume 15 June (2016) mention these stoical for the 2015 year, thus the journal mention The overall outstanding balance of public debt increased at an annual rate of 13.5 on average during the period from 2010 to 2014, but it jumped noticeably in 2015 as the total public debt increased from about 4737 billion riyals, equivalent to 22.1 billion dollars in 2014 to 5564 billion riyals, equivalent to 25.9 dollars a year 2015, with an increase of 17.3%. The source of this increase is the increase in domestic debt. As for the external debt, the reason for suspending the withdrawal of external loans and paying the central bank to serve the external debt decreased (Saud, 2018).

Government attempt to finance this by numerous of alternative these are in Figure 1:

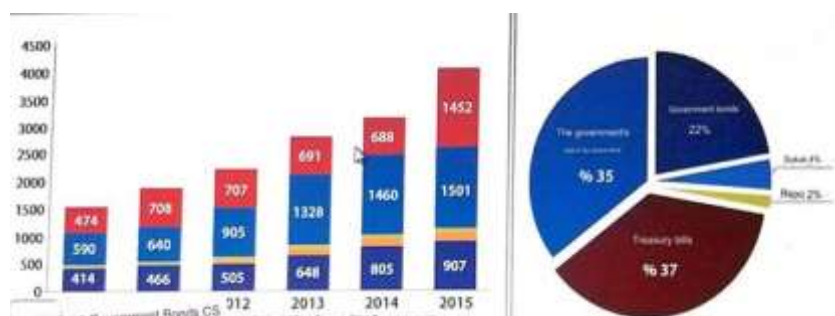


Figure 1
STRUCTURE OF DOMESTIC PUBLIC DEBT IN 2015

From this graphs we fine the internal sources the government depend on it there are following resources:

1. Loans from the central bank that means the government take loans from central bank. The central banks create money to borrow government and these money was created will effect on the level price of goods in the country because the money supply will increase.
2. **Treasury bills:** The government uses the treasury bills to barrow money from the commercial banks and the financial institutes because the treasury value is very big.
3. **Government Bonds :**The government use bonds to barrow money from the public
4. **Sukuk :** The government start to use Islamic model sukuk from 2010 and established unit to dealing with Islamic financing institute to financing budget deficit and there are acceptable and now the percentage of sukuk increase in 2015 the percentage reach to 4% from the debt financing.

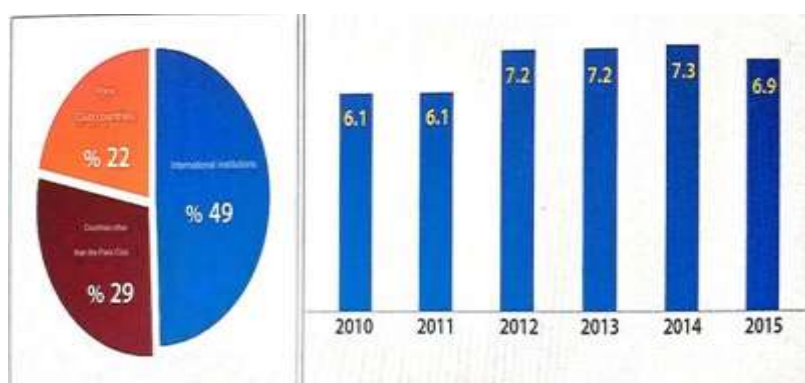


Figure 2
EXTERNAL DEBT STRUCTURE IN 2015(%)

From the graph (figure 2) of external debt we explore the government borrowing from the three sectors these are:

1. International organization.
2. The countries on Paris club.
3. The countries outside Paris club.

CONCLUSION

Results

Yemen one of the countries has a budget deficit because some conditions and the war after 2011 till now caused to increase the budget deficit and we talk about the tools that government use to finance the deficit. And we found Yemen government use variety tools to financing its deficit.

The government of Yemen uses conventional economic tools in widely and started to use Islamic tools to finance the budget deficit especially the Sukuk from 2010. The government of Yemen haven't good economic and there are weak of production in agricultural and industrial because the environment still not attract the investors.

Recommends

The government ought to change financing by the conventional tools and attempt to depend only on Islamic financing.

The Central bank ought to increase the Sukuk to encourage the Islamic institute to share in cover of budget deficit.

The government should encourage the private banks and investors to participate in the big projects like as electric station's and roads between governorates.

The government should decrease the expenditures and increase the projects that lead to revenues.

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