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Islamic Fiscal Policy and Its Impact on Addressing Public Budget Deficits: An Applied Analytical Study

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Abstract: One of the most visible issues affecting a lot of modern economies is public budget deficit, particularly in developing economies with low public revenues and high public spending. Increasingly, traditional financing tools that are based on loans are being relied upon, and there is a need to seek out more sustainable and equitable sources of financing. The purpose of this research is to analyze the role of Islamic financial policy in solving the public budget deficit problem by examining the most important tools of Islamic financial policy such as Zakat, Waqf, Islamic sukuk and other financial resources which can assist in supporting public revenues and decrease the tension on public balance. The research used descriptive-analytical method in studying the theoretical foundation of Islamic financial policy as well as Applied Analysis method in estimating potential contribution of some of the Islamic financial policy tools to the reduction of the budget deficit. The research has come to some conclusions, the most important of which is that the implementation of Islamic financial policy tools can contribute effectively in improving public revenues, lessening the pressure of government spending in certain social sectors and offering alternative financing mechanisms based on the concept of justice and economic solidarity. In addition, the study suggests the requirement of creating institutional and legislative structures and supporting the application of Islamic financial instruments in the current financial policy.

Keywords: Islamic Financial Policy, public budget deficit, Zakat, Waqf, Islamic sukuk

1. Introduction

Today many countries are facing growing economic and financial problems due to the growing gap between public revenue and public expenditure, resulting in a persistent public budget deficit. This deficit has emerged as one of the most serious threats to the economic and financial stability of a country and especially to the developing economies which are heavily dependent on restricted and uncertain sources of income. Given these problems, governments may rely upon traditional financing tools like domestic and foreign borrowing, or tax increases, both of which could have adverse long-term economic and social outcomes.

In this context, the significance of the study of alternative paths to the economy, which can help to solve the problem in a more sustainable and equitable way, can be seen. One of these solutions is Islamic fiscal policy, that is an integrated policy for managing public financial resources in the light of Islamic law (Sharia). It rests on a set of financial tools and mechanisms for the purpose of social justice, development of economic solidarity and economic stability within the society.

The historical experience of the Islamic economy has contributed various models for managing public financial resources through instruments such as zakat, waqf, kharaj, and jizya, which played an important role in financing public services and achieving fiscal balance within the state. In the modern era, new Islamic financial instruments have

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emerged, such as Islamic sukuk, which have become an effective means of financing public projects without resorting to interest-based borrowing.

Accordingly, this research seeks to examine the role of Islamic fiscal policy in addressing the problem of public budget deficits by analyzing its various financial instruments and highlighting their potential in supporting public revenues and reducing pressure on government finances, in addition to reviewing some contemporary applications of these instruments in a number of Islamic countries.

Research Problem:

The research problem lies in the fact that many countries suffer from increasing public budget deficits as a result of rising government expenditures and weak revenue sources, which drives governments to rely increasingly on borrowing or raising taxes to finance these deficits. In contrast, Islamic fiscal policy possesses a range of instruments that can contribute to enhancing public revenues and reducing pressure on government finances; however, these instruments have not yet been sufficiently utilized in contemporary fiscal policies. Accordingly, the research problem can be formulated through the following main question:

To what extent can Islamic fiscal policy contribute to addressing public budget deficits?

Several sub-questions emerge from this main question:

- a. What is the nature of Islamic fiscal policy and what are its main instruments?
- b. What are the principal causes of public budget deficits in contemporary economies?
- c. What role can instruments such as zakat, waqf, and Islamic sukuk play in addressing fiscal deficits?
- d. What are the practical possibilities for employing Islamic financial instruments in supporting the financial stability of the state?

Research Objectives:

This research seeks to achieve a number of objectives, most notably:

- a. To clarify the concept of Islamic fiscal policy and its main characteristics.
- b. To analyze the issue of public budget deficits and their economic causes.
- c. To examine the role of Islamic fiscal policy instruments in addressing fiscal deficits.
- d. To highlight the practical potential of employing Islamic financial instruments to support public revenues.
- e. To provide a set of recommendations that contribute to strengthening the role of Islamic fiscal policy in addressing fiscal deficits.

Research Hypotheses:

The research is based on a set of key hypotheses, namely:

- a. There is a substantial linkage between the use of Islamic fiscal policy tools and lessening the public budget deficits.
- b. Zakat may help to improve public revenue and alleviate financial burden on the State.
- c. The waqf system helps in the minimization of the government expenditure on social sphere like education and healthcare.
- d. Islamic sukuk are effective financing tool which can play an important role in financing fiscal deficit without conventional borrowing.

2. Materials and Method

Based on the theory developed, the research uses descriptive analytical approach to discuss the theoretical aspect of Islamic fiscal policy and also the instruments of Islamic fiscal policy by analyzing economic literature and previous studies about the topic. Furthermore, the study adopts an applied analytical method with the aim of discussing the possible use of specific Islamic financial products as a solution to the public budget

deficits, in which selected indicators are analyzed and estimated models are presented, which show the possible amount of the financial products revenue to be derived from Islamic financial products.

Previous Studies:

The importance of financial instruments in financing public budget deficits has attracted the attention of numerous studies, especially in relation to the Islamic economy, which offers financing solutions in a just and economically efficient manner. Such studies have been directed towards the possibility of implementing the instruments of Islamic fiscal policy (IFP) such as Zakat, Waqf and Sukuk for financial stability and to lessen the burden on the public sector.

The study undertaken by (Chapra, 2019) was to analyze the role of Islamic financial system in economic stability. The researcher suggested that the Islamic economic instruments might be able to improve the equity in the distribution of resources and eliminate financial imbalance which will have a positive impact on the public financial performance. The study also highlighted the importance of the implementation of zakat and waqf in institutions in the support of social revenues to the state and lessen the burden of finance on the governments [1].

Likewise, Ahmed (2020) analyzed the impact of Zakat on financial stability and showed that the proper administration of the Zakat resources can be a significant financial source for financing social programs which are useful in reducing poverty and easing the strain on public finance [2].

Similarly, Hassan and Ali (2021) conducted a study to investigate the role of Islamic sukuk as financing development projects and found that Islamic sukuk is an effective financing tool that can offer sustainable financing sources for government projects without using conventional interest based loans [3].

In addition, (Saiti, 2021) studied the effect of sovereign sukuk on financial stability in Islamic countries. The results indicated that Sukuk issuance can help diversify government's funding sources and strengthen governments' ability to fund infrastructure projects [4].

Conversely, (Rahman, 2022) studied on the role of waqf in supporting the economic development. The study showed that the waqf is one of the major Islamic financial instruments which can be utilized in financing various social services including education and health service, and thus the financial burden will be reduced on the governments in these sectors [5].

Furthermore, Khan (2022) conducted a study on the role of Islamic financial instruments in financial imbalance in the developing economies. The results indicated that the application of Islamic financial instrument—sukuk and zakat—can play a role in achieving financial stability and a decrease in the dependence on government borrowings [6].

Abdullah (2023) pointed out in a relatively new paper that Islamic fiscal policy instruments can be introduced into current fiscal policies to serve as an effective solution to mitigate the public budget deficit by improving public revenues and a variety of sources [7].

Furthermore, the study by (Ismail, 2023) emphasized the importance of Islamic sukuk in financing development projects, as the findings indicated that sukuk have become one of the most important financing instruments in many Islamic countries, particularly in financing infrastructure projects [8]. In other research, Al-Nasser (2024) found that zakat system institutionalization can help in supporting social protection programs and reducing poverty rates; thus, it can reduce pressure on public budgets [9].

In the same way, the research by Yusuf (2024) showed that the activation of Islamic economic instruments could be a contribution to achieving a higher level of social justice and economic stability, which has a positive impact on the public financial performance [10]. In a related study, (Karim, 2024) aimed to examine the impact of Islamic sukuk on

financing fiscal deficits in some Islamic countries. The findings showed that sukuk are a viable option to traditional debt financing in financing government budgets [11].

Mohamed (2025) was a study on the relationship between Islamic fiscal policy instruments and financial sustainability. The study found that the use of such instruments in government fiscal policies can play a role in improving financial stability and moving towards balance of public budgets [12].

Based on the literature review, it is found that generally most of the studies that have been conducted have focused on the importance of Islamic financial policy instruments in ensuring financial stability and balancing the financial effects caused by the public budget. Yet applied research on the potential for these to be used to tackle public budget deficits in rentier economies is needed. This is the problem that the present study aims to solve by using a case study of the Iraqi economy.

Research Gap:

Although there are numerous studies that have discussed issues of Islamic financing instruments and their importance for supporting economic development and financial stability, most of these studies have been theoretical or have investigated the experience of select Islamic countries as a whole and not paid adequate attention to the potential role of Islamic fiscal policy instruments in public budget deficits in rentier economies. Hence, the current study aims at bridging this gap by studying the potential of using Islamic fiscal policy tools for financial stability and financial balance in the Iraq economy in order to alleviate the pressure on the public budget and financial imbalance.

Scientific Contribution of the Research:

This research adds to the existing economic literature on Islamic fiscal policy and how the different instruments can help fill public budget deficits, especially in the context of rentier economies. Furthermore, the study offers an analytical tool that reveals the potential of instruments like zakat, waqf, and Islamic sukuk, as instruments for achieving financial stability and diversifying sources of public revenues. In addition, it is an applied analysis that shows the level of applying these tools in solving public budget deficits in the Iraqi economy.

Second: Conceptual Framework of Islamic Fiscal Policy

Concept of Islamic Fiscal Policy:

Fiscal policy is considered one of the principal instruments relied upon by the state in managing economic activity. It refers to the set of measures and actions undertaken by the government regarding public revenues and public expenditures with the aim of achieving a number of economic and social objectives, such as attaining economic stability, promoting economic growth, and redistributing income [13].

In conventional economic thought, fiscal policy is defined as the use of public revenue instruments, such as taxes and fees, together with public expenditure tools, in order to influence the level of economic activity and achieve macroeconomic equilibrium. In Islamic economic thought, however, the concept of fiscal policy extends beyond the purely economic dimension to include social and ethical dimensions, as it is based on a set of principles derived from Islamic law (Sharia) aimed at achieving economic justice and social solidarity [14].

Accordingly, Islamic fiscal policy can be defined as a set of measures and actions undertaken by the Islamic state in the management of public financial resources in accordance with the provisions of Islamic law, with the objective of achieving social justice, meeting the essential needs of society, and enhancing economic stability.

This concept possesses several characteristics that distinguish it from fiscal policy in conventional economic systems, as it is founded on key principles such as the prohibition of usury (riba), the promotion of social solidarity, ensuring the equitable distribution of wealth among members of society, and encouraging productive economic activities.

Characteristics of Islamic Fiscal Policy:

Islamic fiscal policy has some characteristics which are related to the nature of Islamic economic system and aims of Islamic society and economy. The following features make it prominent [15]:

- a. **Achieving social justice:** Social Justice is one of the key principles on which Islamic fiscal policy is based which aims at achieving balance in the distribution of income and wealth among members of society. This is done using a variety of financial tools, including zakat and philanthropy, which are designed to move some wealth from the affluent to the impoverished, thus helping to lessen economic differences and foster social stability.
- b. **Economic and social solidarity:** Islamic financial system is grounded on the concept of solidarity between the various groups in society, wherein every member is accountable for providing support for the less fortunate. One of the most significant systems that enhances this solidarity is zakat and waqf, which help to supply financial resources to supply the needs of the vulnerable ones in society.
- c. **Prohibition of riba (usury):** The prohibition of riba is one of the basic pillars of Islamic economics and there is no doubt that this prohibition is evident in Islamic fiscal policy which utilizes different modes of financing, such as profit and loss sharing, instead of interest-based financing. This has resulted in the development of several modern Islamic financial tools including Islamic sukuk, which is a suitable alternative to the conventional financing tools.
- d. **Achieving economic stability:** Along with promoting investments that contribute to achieving sustainable economic development, Islamic fiscal policy is aimed at achieving economic stability through regulating public expenditure and directing the financial resources of the market towards productive economic activities.

Instruments of Islamic Fiscal Policy:

Islamic fiscal policy relies on a set of financial instruments that contribute to providing financial resources for the state and financing economic and social activities. The most important of these instruments include the following [16]:

- a. **Zakat:** Zakat is considered one of the most important sources of revenue in the Islamic financial system. It is a mandatory financial obligation imposed on Muslims whose wealth meets the prescribed conditions for zakat. A specified proportion of their wealth is deducted and allocated to eligible beneficiaries. Zakat contributes to achieving numerous economic and social objectives, most notably reducing poverty, promoting social solidarity, and achieving a degree of balance in wealth distribution.
- b. **Waqf:** Waqf is regarded as one of the important financial instruments in the Islamic economy. It involves dedicating a financial or real estate asset permanently for charitable or social purposes, whereby its returns are used to finance charitable activities and public services such as education, healthcare, and social welfare. Historically, waqf has played a significant role in financing numerous social and service institutions, thereby reducing the financial burden on the state.
- c. **Kharaj:** Kharaj is a type of financial revenue historically imposed on agricultural land in the Islamic state and represented one of the major sources of revenue relied upon by the state in financing public expenditures. This source played an important role in supporting the public finances of the Islamic state throughout long periods of Islamic history.
- d. **Jizya:** Jizya was a tax imposed on non-Muslims residing in the Islamic state in exchange for receiving protection and public services provided by the state. It constituted one of the financial resources contributing to state revenues.

- e. **Islamic Sukuk:** Islamic sukuk are regarded as one of the contemporary financial products created as a part of the Islamic financial system. They are financial securities that meet the requirements of Islamic law (Sharia) and are utilized to fund a number of economic projects. Sukuk share the following features which also make them an appropriate alternative to the traditional instruments of financing based on interest: they are based on the principle of profit and loss sharing.

Table 1. Islamic Fiscal Policy Instruments and Their Financial Impact

No	Instrument	Type of Resource	Impact on the Budget
1.	Zakat	Financial Revenue	Increase in Public Revenues
2.	Waqf	Social Financing	Reduction of Expenditures
3.	Islamic Sukuk	Financing Instrument	Project Financing

Source: Prepared by the researcher based on the literature.

Islamic sukuk have, in the contemporary period, become one of the most important financing instruments relied upon by many countries in financing infrastructure projects and supporting public finances. This, in turn, enhances the role of Islamic fiscal policy in addressing contemporary economic problems.

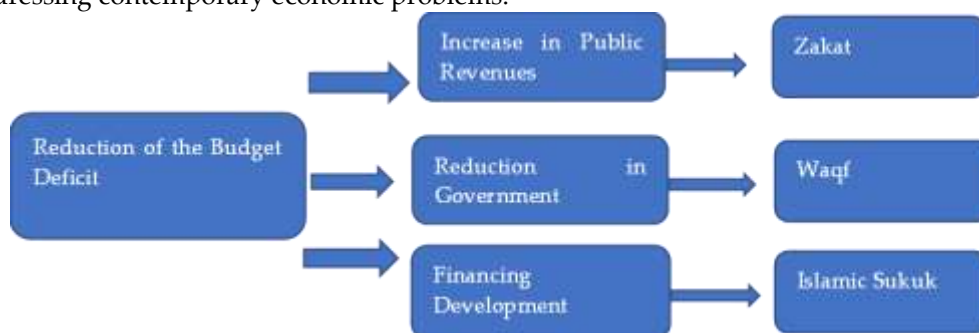


Figure 1. The Relationship Model between Islamic Fiscal Policy Instruments and Addressing the Public Budget Deficit

Source: Prepared by the researcher

The above figure illustrates the analytical framework of the relationship between Islamic fiscal policy instruments and addressing the public budget deficit. Zakat contributes to increasing public revenues, while the waqf system plays an important role in reducing government expenditures by financing certain social services. Meanwhile, Islamic sukuk provide an effective means of financing development projects and infrastructure, which contributes to reducing pressure on the public budget and limiting its deficit.

Third: Public Budget Deficits and Their Economic Causes

Concept of the Public Budget:

The public budget is considered one of the most important instruments used by the state in managing its financial resources and organizing public expenditures. It represents the annual financial plan that includes an estimate of public revenues and government expenditures over a specific period, usually one fiscal year. Through the public budget, the government can direct economic resources toward achieving various economic and

social objectives, such as promoting economic growth, achieving economic stability, and providing public services to society [17].

Definitions of the public budget vary, but they generally agree that it is an estimated statement that includes the state's expected revenues and the expenditures the government intends to spend over a specific period. The public budget is an important tool of fiscal policy, as governments use it to achieve balance between revenues and expenditures and to regulate the allocation of economic resources.

The public budget typically consists of two main sides: [18]

- a. **Public revenues:** These include all financial resources obtained by the state from various sources such as taxes, fees, revenues from natural resources, returns on government investments, and other financial resources.
- b. **Public expenditures:** These include all government spending on providing public services such as education, healthcare, infrastructure, defense and security, as well as social spending and subsidies for certain goods and services.

The preparation of the public budget aims to achieve a set of economic and social objectives, most importantly improving efficiency in the allocation of economic resources, promoting economic stability, and achieving fairness in income distribution among members of society.

Concept of the Public Budget Deficit:

A public budget deficit occurs when government expenditures exceed total public revenues over a specific period, resulting in a financial gap that the government must finance through various means such as borrowing or issuing public debt instruments.

The budget deficit is considered an important indicator reflecting the fiscal position of a state, as it indicates the government's ability to finance its expenditures from its own resources. Fiscal deficits have become a common phenomenon in many contemporary economies due to increasing government spending requirements and the rising cost of providing public services.

Several types of budget deficits can be distinguished, the most important of which are: [19]

- a. **Overall fiscal deficit:** It is the difference between total public expenditures and total public revenues during the fiscal year
- b. **Primary deficit:** It refers to the deficit in the budget after excluding public debt interest payments. This type of deficit is used to assess the efficiency of government fiscal policy
- c. **Structural deficit:** It is the deficit resulting from structural imbalances in the economy, such as a weak production base or low tax revenues.

The persistence of a budget deficit leads to a number of economic consequences, most notably an increase in public debt and higher debt servicing costs, in addition to the possibility of inflationary pressures if the deficit is financed through monetary expansion.

Causes of Public Budget Deficits:

Public budget deficits are seen as being driven by various economic and financial conditions which impact the state on attaining a revenue and expenditure balance. The most significant of these factors are:

- a. **Weak public revenues:** One of the primary factors contributing to budget deficits is weak public revenues; many developing countries have limited revenues from taxes or natural resource revenues. If such revenues fall because of the volatility of the global market or low economic activity, a gap between revenues and expenditures becomes larger.
- b. **government spending grows:** so do the fiscal deficits. Growing expenditures are often a result of the need for government to service society's education, health, infrastructure and social service requirements and lead to greater fiscal pressures. [20]

- c. **Economic and financial crises:** Economic and financial crises have a heavy impact on the fiscal situation of the State, resulting in a decrease in public revenues as a result of the decline in economic activity, and an increase in the demand for public expenditure on economic activity, to support the affected groups.
- d. **Lack of diversified source of income:** In some countries, there is no diversified source of income, and most of them are rentier economies. This reliance makes public finances very volatile in response to falling world prices, and causes budget deficits.
- e. **Financial management efficiency:** Low financial administration efficiency or low public spending control might affect higher fiscal deficit because ineffective spending resources might result in unnecessary spending or ineffective revenue collection.

In light of the above, the issue of public budget deficits is a serious economic issue in many countries, and a search for alternative fiscal instruments and policies to solve this issue is required. Islamic fiscal policy comes into focus as a tool of importance, with a variety of instruments that can help improve public revenue and ease government finances, such as Zakat, Waqf, and Islamic Sukuk.

Fourth: The Role of Islamic Fiscal Policy Instruments in Addressing the Public Budget Deficit

1. The Role of Zakat in Supporting Public Revenues:

Zakat is considered one of the most important financial instruments in the Islamic economic system, as it represents a stable financial resource that can effectively contribute to supporting public revenues if organized and managed within an effective institutional framework. Zakat is not merely a religious obligation but an integrated economic system that contributes to achieving social justice and redistributing income and wealth among members of society.

Zakat is characterized as a renewable financial resource, as it is levied on various types of wealth such as cash, gold and silver, trade goods, livestock, crops, and fruits, according to specific Sharia-prescribed rates. If the zakat system is implemented in an organized manner at the state level, it can provide an important financial resource that contributes to financing various forms of social expenditure. [21]

Moreover, zakat can play an important role in reducing the financial burden on the government, as zakat funds are directed to eligible beneficiaries such as the poor, the needy, and debtors, among others. This contributes to reducing the need for direct government spending on social welfare programs. Accordingly, activating the zakat system can help achieve a better balance in public finances and reduce pressure on the state budget.

2. The Role of Waqf in Reducing Government Expenditures:

Waqf is an Islamic financial instrument with a charitable and social purpose and in which the asset is invested, and the returns are continuously used to benefit society; it is an important economic and social institution in the Islamic financial system. Waqf has been used historically to finance a number of public services including education, healthcare and social welfare.

Unlike other finance mechanisms, one of the most unique aspects of the waqf is that it is a permanent-funding mechanism, since the asset under waqf always provides a stream of financial income that can be utilized to provide social services and charitable activities. In many Islamic societies, waqf institutions have also played a role in building schools, hospitals, libraries, roads etc. in the field of public services. [22]

Considering the present economic crisis of many countries, the waqf system can play a role in alleviating the economic burden on government, as it can fund some public services that is usually funded by the government. For instance, waqf institutions can

provide capital for the education or health sector which can alleviate the government's expenses in these areas, thus lowering the public budget deficit.

3. Islamic Sukuk as a Tool for Financing Fiscal Deficits:

Islamic sukuk represent one of the most important modern financial instruments developed within the Islamic financial system. They are Sharia-compliant financing instruments that can be used to fund various economic projects. Sukuk are based on the principle of sharing returns generated from investment in assets or projects, rather than interest-based returns as in conventional bonds.

Islamic sukuk have witnessed significant growth in global financial markets in recent years, as many countries have increasingly relied on them to finance infrastructure, energy, transportation, and other development projects. Sukuk provide governments with an important source of financing without resorting to conventional interest-based debt instruments. [23]

Governments can use Islamic sukuk as a means of financing budget deficits by issuing asset-backed or project-backed sukuk, where investors purchase these sukuk in exchange for a share of the returns generated by the financed project. In this way, the state can secure the necessary funding for development projects without increasing the burden of conventional debt.

Furthermore, Islamic sukuk contribute to enhancing the efficiency of resource allocation, as financing is directed toward productive projects that generate real economic returns. This supports economic growth and strengthens long-term financial stability.

In conclusion, it is evident that Islamic fiscal policy instruments such as zakat, waqf, and Islamic sukuk can effectively contribute to addressing the problem of public budget deficits, whether by increasing public revenues, reducing government expenditures, or providing alternative financing sources for development projects.

Table 2. Experiences of Selected Countries in Issuing Islamic Sukuk

Country	Year of Issuance	Sukuk Value	Objective
Malaysia	2017	3 billion USD	Infrastructure financing
Indonesia	2018	1.5 billion USD	Energy projects
Saudi Arabia	2019	7 billion USD	Budget financing

Source: Prepared by the researcher based on reports of the Islamic Development Bank.

The table above shows that many Islamic countries have relied on Islamic sukuk as an effective instrument for financing development projects and infrastructure, which confirms the possibility of benefiting from these experiences in supporting financial stability and addressing public budget deficits.

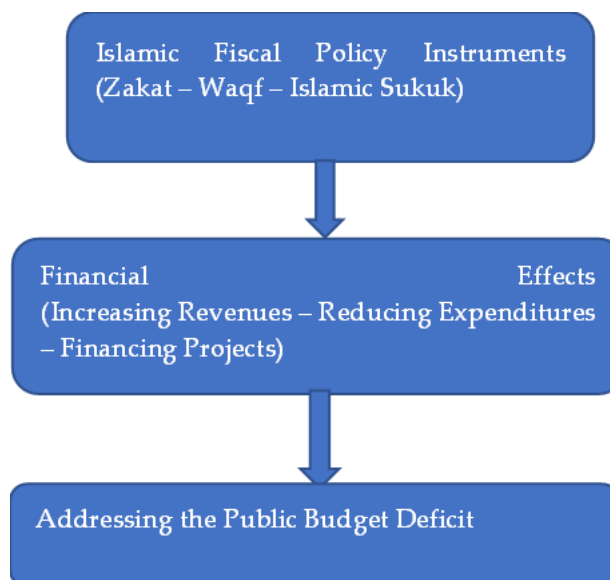


Figure 2. The Conceptual Framework of the Relationship between Islamic Fiscal Policy Instruments and Addressing the Public Budget Deficit

Source: Prepared by the researcher.

Fifth: Analysis of the Role of Islamic Fiscal Policy Instruments in Addressing the Public Budget Deficit (An Applied Study)

Analysis of the Development of the Public Budget Deficit in Iraq Public finance in Iraq suffers from multiple structural challenges due to the economy's heavy reliance on oil revenues, as oil constitutes the primary source of government income. This dependence exposes the public budget to significant fluctuations resulting from changes in global oil prices, which directly affect the volume of public revenues and the state's ability to finance its expenditures.

In recent years, Iraq's public budget has witnessed noticeable fluctuations between surplus and deficit due to volatile oil prices and increasing levels of government spending, particularly operational expenditure, which represents a large proportion of total public spending. The continuation of this situation leads to increasing pressure on public finances and rising deficit levels in some years. The following table illustrates the development of the public budget deficit in Iraq over several years:

Table 3. Development of the Public Budget Deficit in Iraq

Year	Public Revenues (Billion USD)	Public Expenditures (Billion USD)	Deficit/Surplus (Billion USD)
2018	91	106	-15
2019	88	112	-24
2020	54	92	-38
2021	84	101	-17
2022	115	114	+1

Table: Prepared by the researcher based on data from the Ministry of Finance. The table above illustrates the development of the public budget deficit in Iraq during recent years, showing a noticeable deficit in most years due to fluctuations in oil prices and rising levels of government spending, which reflects the need to diversify public

revenue sources and to search for alternative financial instruments that contribute to enhancing financial stability.



Figure 3. Development of the Public Budget Deficit in Iraq during the Period (2018–2022)

Source: Prepared by the researcher based on data from the Iraqi Ministry of Finance.

Figure (1) illustrates the general trend of the public budget deficit in Iraq during recent years, showing a clear increase in the deficit in 2020 due to the decline in oil prices and the repercussions of the COVID-19 pandemic, before witnessing a relative improvement in subsequent years with the recovery of oil revenues.

Estimating Potential Zakat Revenues:

If the zakat system is organized and managed within an effective institutional framework, it can represent an important financial resource for the state. Some economic estimates indicate that zakat revenues in Islamic countries can constitute a significant percentage of gross domestic product.

To clarify the financial potential of the zakat system, a simplified estimation model of potential zakat revenues in Iraq can be presented based on certain economic indicators.

Table 4. Estimation of Potential Zakat Revenues

Indicator	Estimated Value
Gross Domestic Product	250 Billion USD
Zakatable Funds (Estimated at 20%)	50 Billion USD
Zakat Rate	2.5%
Expected Zakat Revenues	1.25 Billion USD

Table: Prepared by the researcher.

The table shows that the implementation of a properly organized zakat system can provide a financial resource estimated at around 1.25 billion USD annually. This amount could contribute to financing social welfare programs and reducing government expenditure allocated to supporting low-income groups.

Moreover, the effective allocation of zakat funds to eligible beneficiaries helps reduce poverty rates and enhance social justice, which in turn leads to greater economic and social stability.

The Role of Islamic Sukuk in Financing the Budget Deficit:

Islamic sukuk are among the most important financing instruments that governments can rely on to fund development projects and address public budget deficits. This instrument is characterized by being based on investment in real assets or productive projects, making it compliant with Islamic Sharia principles.

Many countries have successfully used Islamic sukuk to finance infrastructure and economic development projects, most notably Malaysia, Indonesia, and Saudi Arabia, where they have been able to attract significant investments through issuing sukuk in both domestic and international financial markets.

- a. The Iraqi government can benefit from these experiences by issuing Islamic sukuk to finance infrastructure projects such as energy, transport, and housing, which would contribute to achieving several economic objectives, most notably:
- b. Providing alternative funding sources for the public budget.
- c. Reducing reliance on conventional borrowing.
- d. Attracting domestic and foreign investment.
- e. Supporting economic development and achieving economic growth.

Islamic sukuk can also contribute to activating local financial markets and enhancing the role of the private sector in financing development projects, which positively reflects on the country's financial and economic stability.

3. Result and Discussion

The findings of the applied analysis shows that the instruments of Islamic fiscal policy can play a positive role in solving the problem of public budget deficit, especially in rentier economies which rely on a single source of public income. The results indicate that the use of alternative financial instruments based on Islamic fundament of economic theory could offer extra financial resources to facilitate financial stability and alleviate budgetary pressure.

In relation to the first hypothesis that considers that the implementation of the Zakah system can be a source of improvement of the public budget, the analysis shows that Zakat is in fact one of the resources that can help finance many social protection and poverty alleviation programs, and reduce the burden on the public budget. This means that the creation of the zakat institutions and the organization of their management can improve the effectiveness of fiscal policy and the effectiveness of economic resources allocation.

Regarding the second hypothesis, that waqf can help to curb government spending, the findings show that waqf organizations can be active in providing funding for a number of the services provided by society, including education, health and social services. This can lower the cost to governments of providing services in these areas and boost the efficiency of public spending and the pressures on public budgets.

As for the third hypothesis that posited that Islamic sukuk can be used as an effective source of financing fiscal deficits, the results indicated that the Islamic sukuk is one of the most important Islamic financial tools that can be used in financing development and infrastructure projects without using conventional interest-based financing tools. Furthermore, the introduction of sukuk in financing government projects can help diversify the sources of funds and improve financial sustainability.

The study's findings showed that the main hypothesis of the study that Islamic fiscal policy instruments play a positive role in solving the public budget deficit is supported by the study results. These instruments help to boost revenues, cut government spending, and offer sources of financing for development projects that free up capacity for governments to be financially stable in the long term.

Research implications:

Based on the research findings, using the instruments of Islamic fiscal policy can be a very important financial stability and solving problem for a public budget deficit, especially in rentier oil-exporting economies. As a result, fiscal policies that involve the activation of zakat institutions, the organization of waqf management, and the increase of Islamic sukuk financing projects in the development area can be crucial in diversifying public revenues and decreasing the reliance on traditional financing tools in financing development projects. The results also underscore the need to design legislation and institutional arrangements to facilitate the use of Islamic economic tools, which would lead to increased efficiency of fiscal policy and higher financial sustainability.

4. Conclusions

The presented theoretical and applied analysis in this research clearly shows that the problem of public budget deficits is one of the most prominent challenges of many modern economies, especially in developing and rentier economies whose public revenue is mainly based on a single source. The outcomes of the study indicate that excessive dependence on traditional sources of deficit financing like domestic and foreign borrowing or higher taxation may result in negative economic implications in the long term, especially in terms of growing public debt and a heavier burden on government budgets.

Islamic fiscal policy comes into picture as an integrated economic system which can help in solving this issue, with a set of financial instruments, which are economically efficient and socially just. The findings indicate that instruments like zakat, waqf, Islamic sukuk have significant financial and economic potential which can be harnessed to enhance public revenues and alleviate pressures on public finances. Zakat is a financial resource that can be renewed and it can play a role in providing financing for social welfare programs and reducing poverty levels; it provides a boost to the burden of public expenditure in this segment. The waqf system can also be utilized in funding various social services, including education and health so that the public finances will be reduced.

With respect to Islamic sukuk, it has been found that the experience of several countries in regular use of these instruments as means of financing development and infrastructure projects has proven their effectiveness in financing without using conventional debt instruments based on interest, and this has increased the sustainability of financing and reduced the risks of increasing public debt.

Based on this, it can be posited that implementing Islamic fiscal policy instruments in the current fiscal policy is one of the solutions that can be used to diversify the sources of public revenue and thus improve the economic stability of the state. From this angle, it is clear that it is essential to establish legislative and institutional structures for the use of these instruments and enhance the role of Islamic financial institutions in financing development projects, which will help to create a balance and sustainability in public finances.

Results: The study reached a set of findings, the most prominent of which are as follows:

1. Islamic fiscal policy has its own sets of effective instruments which can contribute to the problem of public budget deficits.
2. If it is organized in an effective institutional framework, the zakat system can be one of the important financial resources to support public revenues.
3. The waqf system assists the state in reducing its financial burden by providing financing for some of the social services, including education and health.
4. Islamic sukuk are an effective financing instrument which can be applied in the financing of development projects without using conventional debt instruments.

5. Enhancing financial stability and decreasing dependence on rentier resources through diversifying the sources of public revenue by Islamic financial instruments.

Recommendations: In light of the findings of the study, a set of recommendations can be presented, the most important of which are as follows:

1. The necessity to tap into the potential of the role of zakat institutions and establish them in a well-defined legal and institutional structure to increase the efficiency of collection and distribution.
2. Promoting establishment of modern waqf institutions which help in financing social and development services.
3. Improving the use of Islamic sukuk for financing of government projects and infrastructure.
4. Creating financial laws and policies that enable the use of Islamic fiscal policy instruments in today's financial system.
5. Enhancing coordination between financial and economic institutions for the use of Islamic financial tools in realizing economic stability.

Research limitations

Although the outcomes of the study, there were several study limitations that should be considered when interpreting the results. The most significantly important of these restrictions is the lack of statistical information about the use of Islamic instruments of finance in some of the countries in the study, as well as the analytical estimates of some of the economic indicators. The study also concentrated on examining the possible contribution of Islamic financial policy instruments in combating the public budget deficit without exploring the institutional and legislative details of the use of these instruments, which could be an area of further detailed study in the future.

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