

## Factors Affecting the Sustainability of Public Debt in Iraq (2003-2019)

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**Abstract:** In light of the increasing oil revenues and the comprehensive economic openness to the outside world that Iraq has witnessed since (2003), we have not noticed any change in the reality of the Iraqi economy, except for the entrenchment of the rentier nature of the economy.

The study started with the hypothesis that Iraq suffers from high indebtedness and that the public debt in Iraq did not lead to achieving financial sustainability. It is also correct to practice the internal public debt by establishing a market for government bonds, which has a positive impact, directly or indirectly, by raising the government's ability to be financially sustainable and to exercise its financial activity in society.

**Keywords:** debt sustainability, budget deficit, interest rate, economic growth.

### Introduction:

Public debt is the primary source of financing the budget deficit and the most important financial policy tool for managing the local economy. The accumulation of public debt and the burdens of servicing it will leave adverse effects and significant risks on the management of public money and the national economy. (internal and external) is a significant challenge facing developing and developed countries alike, making attention revolve around (the optimal threshold for debt), as public debt constitutes a heavy burden on the national economy, significantly if this burden is steadily increasing?

The management of public debt after 2003 was represented by the desire to reduce it by paying off previous debts and organizing the issuance of new debts according to a new mechanism that would maintain the sustainability of public debt. The year 2014 has failed the efforts made, so the research aims to analyze the factors affecting the sustainability of public debt in Iraq to reach the desired results.

**Research problem:** The research problem stems from the view that the need to resort to public debt in its two parts (internal and external) on an ongoing basis does not achieve financial sustainability in Iraq without risks and that the budget constraints cannot exceed public expenditures within the limits of their funding.

The importance of the research: Providing a solid theoretical and practical framework for analyzing the sustainability of debt in Iraq.

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**Research hypothesis:** The study was based on the hypothesis of the study that Iraq suffers from high indebtedness and that the public debt in both parts (internal and external) has not led to achieving financial sustainability in the Iraqi economy since the year (2003), and despite the indebtedness, it can bear its burdens and can sustain its debt As a result of its economic resources capable of solving the debt problem if it is properly invested.

**Research Objective :** The main objective of the study is:

1. Studying several approved indicators in assessing the financial ability of the Iraqi state to fulfill its internal and external obligations.
2. Determining the country's ability to achieve financial and debt sustainability through a set of indicators through which the possibility of sustainability can be determined or not in light of the seriousness of Iraq's indebtedness.

**Research methodology:** The study relied on the analytical approach to debt sustainability and the factors affecting it in Iraq for the period (2003-2019), relying on data from the Ministry of Finance, the Central Bank, and the Ministry of Planning in Iraq, as well as reports issued by international organizations and institutions.

**Research Structure:** To validate the hypothesis and reach the research objectives, it was divided into two sections. The first topic dealt with the theoretical framework for public debt sustainability. The second topic dealt with analyzing the factors affecting the sustainability of public debt in Iraq for the period (2003-2019), namely (the budget deficit, GDP growth rate, interest rate, and economic growth).

## Chapter one : (the theoretical framework for the sustainability of public debt)

### Firstly: the concept of public debt sustainability

ESCWA defines public debt sustainability as generating net revenues sufficient to cover public debt and its accumulations .<sup>1</sup>

As the International Monetary Fund for Public Debt Sustainability Analysis (DSA) refers to the amendment of public financial frameworks and the adoption of the political path in making borrowing decisions, as the political approaches that are based on government decision-making are often not based on economic and financial criteria, so they contribute to delaying Sovereign debt restructuring, in addition to delaying the recovery of the national economy, however, restructuring the sovereign debt may be insufficient to alleviate the burdens of public debt, and the analysis of the sustainability of public debt is linked with macroeconomic variables in order to enhance confidence in the ability to bear public debt .<sup>2</sup>

Therefore, the sustainability of public debt can be defined as estimating the extent to which the state can implement the financial policies it has set and finance public spending programs without exposure to cases of financial default, that is, the inability to pay its debts, which lead to an exacerbation of the indebtedness problem. The sustainability of public finances and public debt are two interrelated concepts. Their analysis is complex and stems from the expected path of the debt burden, expressed in the ratio of public debt to GDP and the rate of growth of public debt, as well as its percentage of public budget revenues and the budget deficit. Possible.<sup>3</sup>

<sup>1</sup> ESCWA, Monetary and Financial Outlook, No. 3, 2006, p. 26.

<sup>2</sup> Martin Guzman, DEFINITIONAL ISSUES IN THE IMF, DEBT SUSTAINABILITY ANALYSIS, FRAMEWORK A PROPOSA, 2016, p2.

<sup>3</sup> Ahmed Brihi Al-Ali, Public Debt Policy and the Characteristics of the Oil Economy, 2015, research published on the website of the Central Bank of Iraq <http://www.cbi.iq>

The public debt is considered sustainable when the gross domestic product growth rate is greater than the growth rate of the public budget deficit and the rate of indebtedness growth. The interest rate, the real economic growth rate, and its percentage are mainly used in calculating the so-called debt sustainability, i.e., the ability of the state to fulfill its obligations towards the public debt in a way that does not affect its financial liquidity.

### **Secondly: Factors Affecting Public Debt Sustainability:**

1- Interest rate: Both the interest rate and the sustainability of public debt are linked to a direct negative relationship that results from the fact that high-interest rates mean a decrease in the country's ability to issue debt as a result of the high costs of these debts, whether these debts are internal or external, which means that the state bears financial burdens. This relationship is caused by the fact that high-interest rates mean a decrease in the country's ability to issue debt as a result of the high costs of Imagine for a moment that we ignore the influence of monetary policy. If this is the case, then the interest rate is determined by two fundamental factors: the amount of private savings and the amount of private investment. The level of private savings has a negative impact on the interest rate, which is influenced by the choices that individuals make regarding whether or not to save money or spend it. The demand for private investment, which is, in turn, subject to the quantity of foreign investment linked to decisions about foreign investment in any country, can have a favorable impact on the interest rate. On the other hand, these decisions might have a negative impact. It is important to note that private investment has a considerable impact on current and future rates of economic expansion.

2- Economic growth is one of the primary goals of governments in various countries, whether advanced or developing. In light of this and the relationship between economic growth rate and financial sustainability, the relationship is directly direct. It is through the ability of economic growth to raise income levels And then increase the tax revenue, and this leads to reducing this revenue and expenditure gap on the one hand, and raising the rates of consumption, savings, and investment on the other hand, which means that there is no need for compensatory spending from the government through debt, and then the trend towards financial sustainability and vice versa in the case of low rates Economic growth, which is subject to a range of variables, including the impact on private investment, government investment, and use associated with private sector initiatives .<sup>4</sup>

3- Internal and external public debt and debt service: Spending and borrowing applied by the state must be formulated in a way that does not make the state compelled to stop servicing its debts or declare bankruptcy. This means that sustainable public debt is the debt that the state can service relatively quickly. In order for the state's public debt to be sustainable, the state must meet some criteria based on a set of indicators that may differ from one country to another depending on the strength of the state's financial structure, the mechanism for operating its public revenues, and the structure of public debt in terms of being concentrated in Short, medium, or long-term debts. The debt may be unsustainable in the short term if the ratio of short-term debts to the total existing debt of the state is significant if it exceeds 60% for developed countries and 50% for developing countries, and the state may be forced to borrow in order to service the debt. However, at the same time, it may be sustainable in the long term and vice versa, and there is general disagreement about defining this time dimension between the short and long term. Sustainability also depends on the debt ownership structure. In terms of being owned by the creditor at home, between a local or abroad, and an external one, servicing the local debt is often much more

<sup>4</sup> RoLand Sturm and Markus M.Muller : public deficits a comparative study of their economic and political consequences in Britain ,Canada ,Germany,and the united states,Longman, Newyork,U.S.A 1999 ,P6.

accessible than servicing the external debt because it depends on repayment in the local or national currency, as well as the ability of the state to change the terms of the debt if it can do so .<sup>5</sup>

The spending and borrowing policies applied by the state must be formulated in a way that guarantees that the state will not be forced to stop servicing its debts or declare bankruptcy—defaulting on debt service .<sup>6</sup>

It is okay to recall that the sustainability of public debt is the state's ability to fully fulfill its current and future debt service obligations without resorting to a request to reschedule its debts or write off part of it or without resorting to stopping its debt service.

## Chapter 2: (analysis of the factors affecting the sustainability of public debt in Iraq for the period (2003-2019))

### I. the budget deficit

The budget deficit can be defined as the imbalance resulting from a lower level of revenues than public expenditures, i.e., spending is higher than revenues, so the government resorts to financing this deficit through the new cash issuance or the public debt instrument or the rest of the available financial means .<sup>7</sup>

Despite having enormous oil reserves estimated at 143 billion barrels, ranking third in the world after Saudi Arabia and Canada, Iraq is at a crossroads due to a primarily crippled economic framework that would disrupt the necessary investment, which significantly contributes to an economic imbalance. Wealth today only serves as a significant financial resource. The use of oil sales proceeds and the existence of an economic policy framework that outlines a course for comprehensive sustainable growth through targeted sectoral policies and budget allocation makes sense so that the Iraqi economy can maximize its potential and grow, advance, and achieve all of its goals. As the general budget in Iraq experienced financial surpluses during the study period despite planning deficit budgets due to the increase in global crude oil prices making public revenues at the end of the fiscal year, all he needs to do is employ these potentials and capabilities through sound economic policies and an administration that can implement those policies. Exceed the projected budgetary allocations, except few years, as a result of the circumstances Iraq experienced, either locally or globally, and the effects of those circumstances' detrimental effects on the Iraqi economy.

According to data in Table (1) following the third Gulf War, when economic sanctions against Iraq were lifted, Iraq's oil income climbed more than the rest of the country's revenues (tax and non-tax). Only public spending, primarily on current expenses, increased due to the fact that public revenues rose faster than public spending, resulting in a budget surplus of (163,798) million dinars. The largest surplus was recorded in 2005, growing at an annual growth rate of 1532.8% to reach (14,127,715) million dinars (2008), amounting to (20,848,807) million dinars at an annual growth rate of (33.9%). This surplus continued until the year (2012) when it reached (14,677,648 ) million dinars, with a negative annual growth rate (-51.15%), while in the years (2009-2010) the surplus decreased to reach (2642328) and (44022) million dinars, with a negative annual growth rate that reached (-87.32) Moreover, (-98.33%), respectively, and the reason for this is due to the collapse of oil prices as a result of the financial crisis in that period, which fell to its lowest level and then led to a decrease in oil revenues, after which the surplus turned into a deficit during the years (2013) Until the year (2016), when the deficit in these years

<sup>5</sup> Scot . T. fullwier ,Interstrates and fiscal sustainability ,IMF ,Working paper NO .53,2006·p11. <http://twitter.com/aleqtisadiah>

<sup>6</sup> Muhammad Ibrahim Al-Sakka: Sustainability of Public Debt, Al-Eqtisadiah Electronic Newspaper, Issue 6906, 2012. Article-690356.html. <http://www.aleqt.com> 9/7/2012 on the website

<sup>7</sup> Adnan Mohsen Al-Zaher, Public Budgets in the Arab Countries, United Nations Development Program 2007, pg. 15

amounted to (-5360161) and (-12658167) million dinars, with a growth rate of (-136.5%) and (222.3%), and the reason for that is the increase in military spending and the decline in crude oil prices, as well as the liberation of regions. In 2017, the general budget recorded a surplus of (1,845,840) million dinars, with an annual growth rate of (-114.6%). It continued to rise to reach (25,696,645) million in 2018, with a growth rate of (1291%) due to the increase in Oil revenues. In 2019, the budget recorded a deficit of (-4,156,528) million dinars, with an annual growth rate of (-116%).

The main reason behind this is the decrease in non-oil revenues, as the ratio of public debt service to public revenues reached more than (13%) in the same year. If we note its ratio to non-oil revenues, we will find the magnitude of the potential risk when oil prices drop; as this, the percentage is more than (90%). These are all unfavorable conditions for achieving financial sustainability in Iraq, and that is because the oil sector is the main component of public revenues in Iraq, in addition to the dominance of its revenues over most of the components of the gross domestic product.

## II. The rate of growth in the gross domestic product:

The GDP growth rate is a crucial indicator for determining many facts, including economic fluctuations, as well as diagnosing the reality of the economy and comparing them with other economies. The contribution of the rest of the other economic activities to the formation of the gross domestic product; in addition to that, the gross domestic product is an essential indicator through which it shows the state of the country's economic growth. It is also one indicator that expresses the country's economic situation. Suppose we need to notice the relationship between public debt and GDP. In that case, it is a correlation relationship, as the production of this output is financed from the self-sources of the units contributing to it and external sources from other units, in addition to the economic sectors, including The government sector, which contributes to the production of this output. The interest and burdens paid in debt repayment represent one of the production costs for previous loans.

The indicator of GDP growth rate is one of the leading and essential indicators because it determines with a group of economic indicators the credit rating of the country in order to obtain the required financing through the local or foreign markets, especially since the Iraqi economy suffers from a lack of diversification in the productive sectors, as oil constitutes almost 99% of the GDP and approximately 43% of exports. In this case, the increase in public debt must be accompanied by a growth in the gross domestic product. The economic obligations resulting from the weight of the public debt will become an obstacle to Iraq's ability to face the sustainability of the public debt. Increasing the volume of oil and primary exports is the way out of debt service.

The period after 2003 was marked by the emergence of a constitutional vacuum due to the breakdown of the Iraqi state's institutions and the ensuing imbalances and distortions after the occupation process in 2003. This period was represented by the absence of straightforward economic development strategies, which disrupted macroeconomic indicators after the deterioration of work in the economic sectors, whether productivity or service. It is impossible to determine the type of economic system, such as whether it is a capitalist, socialist, or mixed system, from the economic scene's data because the Iraqi constitution's free economy system does not exist. Instead, it is noted that a blur pervades the entire economy and the resulting waste of material capabilities.<sup>8</sup>

As the Iraqi economy depends entirely on oil revenues, which constitute the most significant proportion of the gross domestic product and amount to approximately 47%, although the state's orientation today is

<sup>8</sup> Ahmed Jassim Muhammad, The Future of the Iraqi Economy and the Proposed Alternative to Achieving Development, Journal of Economic and Financial Research, No. 2, December 2014, p. 136.



towards diversifying sources of income, as this diversification helps in creating new productive sectors that achieve growth in the gross domestic product. Which in turn achieves financial strength and durability in the Iraqi economy.

From the data of Table (1), it is noted that the growth rate of the GDP volume has declined for the year (2003), as it reached (-33.1%), then it began to decline after the end of the economic sanctions that were imposed on Iraq and the export of crude oil to global markets, but in the year (2004) the rate increased GDP growth to reach (79.93%), then decreased in (2009) to (-16.30%) as a result of the global financial crisis that led to a decline in oil revenues, and thus decreased the percentage of the oil sector's contribution to the GDP, to return and rise in (2010) to reach ( 27.90% compared to the year (2009) due to the increase in the price of the barrel, while the year (2013) recorded a significant increase in the GDP growth rate due to the increase in the GDP due to the increase in crude oil prices, while the years (2014-2015) decreased the growth rate After the middle of 2014 due to the drop in oil prices as a result of the entry of ISIS into Iraq and its control over the oil wells in Kirkuk and Mosul, if the growth rate for the aforementioned years reached (2.6-26.29%) and a negative growth rate, respectively, as the price of oil reached \$56 in the 2015 budget, to return and rise To the year (2016) to (1.15%) and (14 .6% in 2017 and (12,885) in 2018, to decrease slightly to reach (9.06%) in 2019 as a result of the rise in GDP due to the rise in global oil prices above \$50 and the rise in average per capita output in the aforementioned period, as shown in the figure ( 1) .

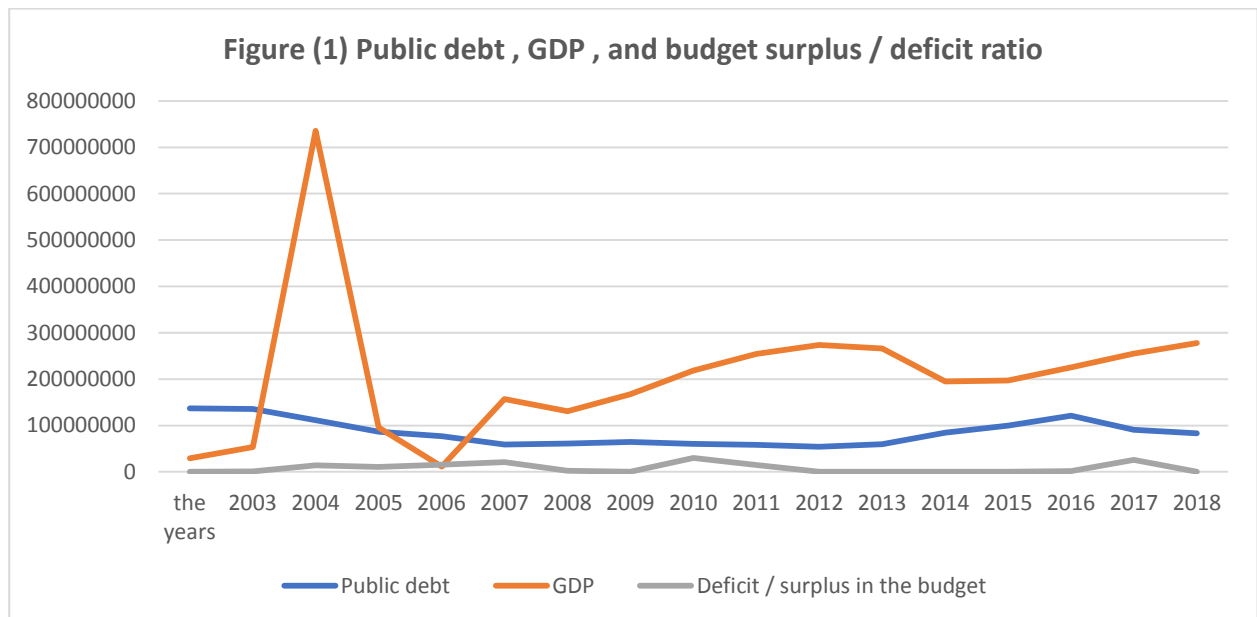
**Table (1) Growth rate of public debt - gross domestic product - budget deficit**

the years	Public debt (1)	annual % growth (2)	GDP (3)	annual (4) % growth	Deficit / surplus in the budget (5)	annual % growth (6)
2003	136848884	---	29585788.6	---	163798	----
2004	135555541	0.9-	53235358.7	79.93	865248	428.24
2005	111322289	17.9-	735335598.6	48.12	14127715	1532.8
2006	86725020	22.1-	95587954.8	29.99	10425670	26.20-
2007	76965008	11.3-	11145813.4	88.33-	15568218	49.32-
2008	59114133	- 23.2	157026061.6	40.88	20848807	33.9
2009	61101599	4.3	130642187	16.80-	2642328	87.32-
2010	64778036	6.0	167093204.4	27.90	44022	98.33-
2011	60282889	- 6.9	218617834.8	30.83	30049726	68160.70
2012	58083553	- 3.6	254225490.7	16.28	14677648	51.15-
2013	54163847	6.7-	273587529.2	7.6	5360161-	136.5-
2014	59895883	10.6	266420384.5	2.6-	7863800-	46.70
2015	84780811	41.5	194680971.8	26.92-	3927263-	50.05-
2016	99597195	17.5	196924141.7	1.15	12658167-	222.3
2017	120832236	21.3	225722375.5	14.6	1845840	114.6-
2018	90448698	25.1-	254800000	12.88	25696645	1291
2019	82918428	8.3-	277884900	9.06	4156528-	116-

Source: From the researcher's work, based on

- Ministry of Finance, Public Debt Department, bulletins for separate years for the period (2003-2019).

- **Central Bank of Iraq, Central Agency for Statistics and Research, annual reports for separate years.**



**Source: the researcher's work based on Table (1).**

### III. the interest rate

As a result of the high costs of these debts, whether internal or external, high-interest rates negatively impact a country's ability to issue debt. This means that the state must shoulder more significant financial burdens to service these debts, which hurts public debt sustainability. Consider removing the impact of monetary policy. In that instance, two main variables—private savings and private investment—impact the interest rate. Private savings, which are influenced by consumers and saving choices made by people, hurt interest rates. The demand for private investment has a favorable impact on the interest rate as well. However, it depends on the volume of foreign investment linked to foreign investment choices made in any nation. Here, the levels of economic growth are significantly and significantly influenced by private investment.

Interest rates play a significant role in exacerbating external indebtedness, especially if the debt is long-term. Most of these debts impose harsh conditions on them in the event of non-payment. The rise in interest rates in global markets leads to an increase in public debt service, which leads to the debt service rate reaching Ratios higher than the ratios of the principal of the public debt.

Interest rates fluctuate between high and low according to the country's policy and the state's intervention in economic activity. When it follows a deflationary policy, it raises the interest rate on treasury transfers and bonds and thus reduces the bids offered. When it pursues an expansionary policy, it increases the supply of treasury bills and bonds, reducing the interest rate and thus affecting the money supply. To clarify this, we will review the interest rate according to the classification and divisions of public debt

#### ➤ **Burdens of internal and external public debt**

The internal debt burden, i.e., the outstanding balance of internal debt multiplied by the interest rate, which was extracted through the annual interest rate based on the multi-account of the low prices, i.e., the lot price is calculated for each bid and according to its price in the bid payment form and the interest rate, and the best interest rates, whichever is lower, are treasury transfers. The bonds have different terms, with

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several cut-off rates on treasury transfers and internal debt. These rates are variable from one period to another. For example, three interest rates on treasury transfers have different terms. So, adding three rates and then dividing them by their number = the annual interest rate on the internal debt, and it represents (The debt burden in that year) and is called the effective interest rate by central banks .<sup>9</sup>

The difference between the interest rate and the GDP growth rate expresses the burden of debt on the national economy, which is the real interest rate minus the expected real growth rate. To clarify the importance of this relationship, we assume that the debt remains the same at its nominal value and the government continues to pay interest on it, so the ratio of debt to output local will decrease with the negative difference and rise with the positive difference. Therefore, it is considered one of the criteria for the sustainability of government debt.<sup>10</sup>

The interest on public loans is determined according to a public auction (the tender) and according to a mechanism that requires that the Ministry of Finance will work to purchase the cash issue in which the required amount of liquidity is available and at the lowest interest rate, and this means that banks, whether private or government, will compete with each other in order to provide The most significant amount of credit in the form of transfers and the lowest possible interest rate. As for the bonds, they are issued at a specified and announced interest rate, and this applies to the amount of the nominal value upon maturity, in addition to containing payable interest, which is semi-annually and is payable within a period not exceeding one year, as The internal debt increased, as shown in Table (2) in 2005. The debt service amounted to (563002.02) million dinars, compared to the year (2004), in which the internal debt amounted to (5925061) million dinars. The debt service recorded a significant increase compared to the previous year, when it amounted to ( 3555036.66) million dinars, while in the year (2006) the external debt service recorded (424560.64) million dinars, with a negative annual rate of change of (24.58%) due to the decrease in the volume of internal debt, then this indicator continued to fluctuate clearly between rise and fall for the years (2007) and (2008) to record debt service (97106.48) and (98111.38) million dinars, respectively, due to the apparent fluctuation in the internal public debt, a decrease and an increase for the previous years, and the year (2009) witnessed an increase in the burden of public debt to reach (843404.9) million dinars, at a rate of (759.28). %) due to the increase in the volume of domestic debt as a result of the decrease in oil revenues for this year by -33%, while in the year (2013) the debt burden decreased by (-56.94). The percentage of decline in the internal public debt reached 33%, but after the double shock and the decline in global oil prices in the year (2015), the public debt service increased to reach (642856.1) million dinars, and in the year (2016) it reached (3788980.08) million dinars, at a rate of ( 489.39%), reaching (119946.44) million dinars in the year (2019) at a negative annual rate of change of (90.44%) as a result of the passage of the Iraqi economy in 2019) with a future tainted by many question marks about its economic situation due to low oil prices, financial and administrative corruption, and a large deficit In the budget an In addition to the costs of wars and waves of displacement and forced displacement that drained most of the country's revenues, which negatively affected the country's financial sustainability, as indicators of financial sustainability reached unsustainable levels, the volume of internal and external public debt increased, and the indebtedness ratio rose. Iraq is in another situation by moving from a unilateral economy based on oil to a diversified economy based on a fragile base. It needs to be clarified from the economic sectors, as shown in Figure (2).

<sup>9</sup> Ahmed Hamid Juma Al-Hathal, Analysis of Factors Affecting Government Debt - Selected Experiences with Special Reference to the Iraqi Economy, Unpublished PhD Thesis, College of Administration and Economics, Al-Mustansiriya University, 2022, p. 126.

<sup>10</sup> Ahmed Brehi Al-Ali, The Theory of Government Debt, a research paper consulting on the official website of the Central Bank of Iraq, November 2020, pp. 32-33 <http://www.cbi.iq>

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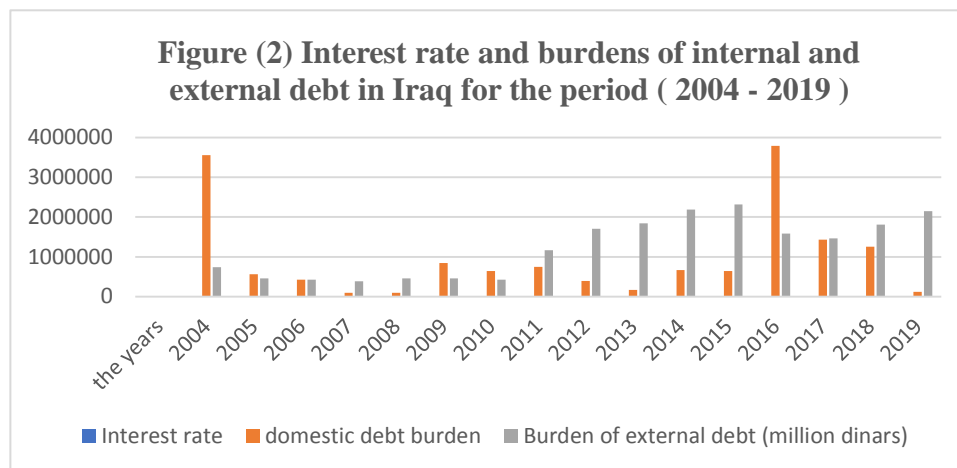


**Table (2) Burdens of internal and external public debt / million dinars**

the years	Interest rate (1)	internal debt (2)	domestic debt burden 1×2=3	change rate %	Burden of external debt (million dinars)	change % rate
2004	0.06	5925061	3555036.66	---	741680	-
2005	0.09	6255578	563002.02	84.16-	456940	-38.39
2006	0.08	5307008	424560.64	24.58-	428428	-6.23
2007	0.02	4855324	97106.48	77.12-	387006	-9.66
2008	0.02	4455569	98111.38	1.03	453564	17.19
2009	0.10	8434049	843404.9	759.28	456300	0.60
2010	0.07	9180806	642656.42	23.80-	422370	-7.43
2011	0.10	7446859	744685.9	15.8	1162980	175.34
2012	0.07	6547519	395326.33	46.91-	1705858	46.67
2013	0.04	4255549	170221.9	56.94-	1838782	7.79
2014	0.07	9520019	666401.33	291.48	2186250	18.89
2015	0.02	32142805	642856.1	3.53-	2311992	5.75
2016	0.08	47362251	3788980.08	489.39	1580334	-31.64
2017	0.03	47678796	1430363.88	62.24-	1465792	-7.24
2018	0.03	41822918	1254687.54	12.28-	1808460	23.37
2019	0.03	38331548	119946.44	90.44-	2144148	61.81

**Source: The researcher's work based on**

- Central Bank of Iraq, statistical releases for separate years
- The Ministry of Finance, the Public Debt Department, the Public Debt Department and the Foreign Debt Department. And column (3-4-6) the work of the researcher.



**Source: from the researcher's work based on Table (2).**

**Table (3) Installments of internal public debt and burdens of external public debt in Iraq for the period (2010-2019)**

the years	Repayments (1)	the benefits (2)	Total installment (internal debt burden) / billion dinars 1+2=3	Gross Installment Change Rate % (4)	Burden of external debt ** / (million dinars) (5)	Rate of change in external debt % service (6)
2010	4586	98	4684	-----	422370	-7.43
2011	3912	348	4260	9.05-	1162980	175.34
2012	4835	262	5097	19.65	1705858	46.67
2013	1237	226	1463	-71.30	1838782	7.79
2014	1316	126	1442	-1.44	2186250	18.89
2015	2031	1321	3352	132.45	2311992	5.75
2016	2101	1501	3602	7.46	1580334	-31.64
2017	2931	1516	4447	23.46	1465792	-7.24
2018	4026	1452	5478	23.18	1808460	23.37
2019	5522	1344	6866	25.34	2144148	61.81

**The source is from the researcher's work**

- **Ministry of Finance, Department of Public Debt, Department of Public Debt, separate publications**
- **Ministry of Finance, Department of Public Debt, Department of External Debt, separate publications.**
- **Column (3,4,6) the researcher's work.**

**In some years, there are no interest figures, only payment in relation to the external debt burden, so we were provided with the total only**

As for table (3), we noticed that the payments are paid annually and according to the financial allocations allocated for the current year, while the interest rate is variable according to the treasury transfers offered and for each auction, so the total internal public debt installments paid for the years (2010-2020) amounted to (4208) billion dinars and an interest amount (8498) billion dinars, and it is clear that interest constituted a small percentage of the total installment, as the total payments for the year (2010) amounted to an estimated (4586) billion, and the total interest amounted to (98) billion dinars, so that the payments in the year (2015) reached an estimated (2031) ) billion dinars, with a rate of change of (948.41%), with a total interest amounting to (1321) billion dinars, as it is clear from the aforementioned table that there is an apparent decrease in the volume of domestic debt payments, with the exception of the year (2019), which amounted to (5522) billion dinars, while prices The interest began to rise during the same period, and this, if anything, indicates the direction of drawing up the policy of issuing the internal public debt, as the administrative purchase is made at a higher interest rate than it was in the previous year, taking into account the need for cash liquidity, in addition to the high demand for credit and what is paid So banks to i A higher interest rate core.

As for the burdens of servicing the external debt, it reflects the premiums and interests that the government must commit to paying to the lending state and it has used it to cover the deficit in the general budget, and there is a direct relationship, meaning that the more outstanding the external debt, the greater

the debt service burden, which negatively affects the level of the Iraqi economy, through a table (3) We noticed that in the year (2011) the value of servicing the burdens of external debt service amounted to about (1162980) million dinars compared to the year (2010), which was low, amounting to about (422370), but during the years (2012-2019) the external debt service increased to reach to (1705858-2144148), to record its highest value in the year (2015), as it amounted to (2311992) million dinars, and the reason for this increase is due to the drop in oil prices as a result of the global crisis, and then the state's inability to pay this debt towards other countries, which led to The accumulation of debt service burdens, but the years (2016-2017), respectively, witnessed a noticeable decrease compared to the previous and subsequent years, to reach the external debt service burden (1580334,1465792), respectively, and this is due to the government's ability to fulfill the repayment of the loan principal and the resulting interest as a result of the increase Oil revenues that depend on it to pay off the debt burden service, and this reflects positively on economic growth, as shown in Figure (2)

#### IV. Economic growth

The primary objective of any country's economy is to achieve continuous increases in economic growth rates, which means a continuous increase in gross domestic product. Interest increases credit, achieves economic growth, and controls the internal and external debt ratios that limit the achievement of economic growth .<sup>11</sup>

Through table (4), we noticed that most of the changes in economic growth rates for the years (2005-2019) are a result of changes in the change in external debt. This is due to the lack of funds, the deficit is financed through external debt, and both cases impact the economy in the case of internal public debt, which is called (the effect of crowding out). The second case is the creation of external debt burdens impeding economic growth. Through the table mentioned above, we noticed that economic growth rates fluctuated. It increased and decreased to record its highest rate, which was (1308.8%) in (2009), so economic growth recorded its lowest rate during the years (2015-2014-2009-2007-2006) to reach (870.00 -, 88.33 -, 16.80 -2.6, -26.92 ) respectively, as shown in Figure (3).

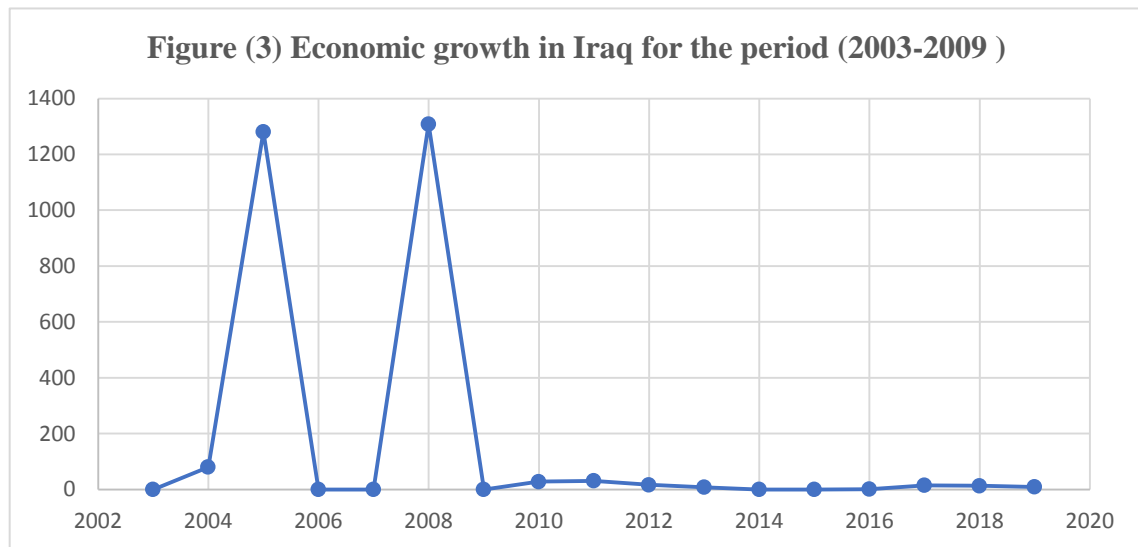
**Table (4) Economic growth rate in Iraq for the period (2003-2019) / million dinars**

the years	Rate of change in external debt % (1)	rate of change in domestic % debt (2)	rate of change in % public debt (3)	gross domestic product (4)	economic growth % (5)
2003	--	--	--	29585788.6	---
2004	-1.27	6.87	-0.94	53235358.7	79.93
2005	-18.94	5.57	-17.87	735335598.6	1281.29
2006	-22.50	-15.16	-22.09	95587954.8	870.00-
2007	-11.43	-8.51	-11.25	11145813.4	88.33-
2008	-24.20	-8.23	-23	157026061.6	1308.8
2009	-3.64	89.29	3.36	130642187	16.80-
2010	5.56	8.85	6	167093204.4	27.90
2011	-4.96	-18.88	-6.93	218617834.8	30.83
2012	-2.46	-12.07	-3.64	254225490.7	16.28

<sup>11</sup> Saadoun Hussein Farhan and Thabet Khalil Ibrahim, Monetary stability and its impact on economic growth in a number of developing countries for the period (1990-2010), Kirkuk Journal of Economic and Administrative Sciences, Volume (4) Issue (2), 2014, pp. 145-146

2013	-3.15	-35	-6.74	273587529.2	7.6
2014	0.93	123.70	10.58	266420384.5	2.6-
2015	4.49	237.63	41.54	194680971.8	26.92-
2016	-0.76	47.34	17.47	196924141.7	1.15
2017	40.04	0.66	21.32	225722375.5	14.62
2018	-33.52	-12.28	-25	254800000	12.88
2019	19.05	-8.34	-8.32	277884900	9.06

Source: from the researcher's work based on the previous table



Source: from the researcher's work based on Table (33).

## Conclusions

1. The findings of the researcher, as well as the hypothesis from which it was based, stipulated that the public debt in Iraq did not lead to achieving financial sustainability and the sustainability of debt in the economy because most of the debts were directed to finance the annual budget deficit, especially in the years when global oil prices fell. Years of Fighting terrorism that requires more funding to finance war operations.
2. The sustainability of the internal public debt is linked to the help of oil prices. As I indicated, sustainability towards global oil prices is highly flexible, which means that the sustainability of the debt is linked to oil prices. Thus, the sustainability of the public debt is hostage to changes in global oil prices.
3. The lack of a clear strategy for managing foreign debts and the economic and financial crises afflicting debtor countries are not due to the entry of capital in the form of loans or investments but rather to the way of dealing with the funds received. External borrowing is okay, but rather the worst is in the case of Not directing it in the ideal way that secures its naming later.
4. The foreign debt service accounts for a large proportion of the public revenues in Iraq through what is deducted from these revenues to pay the installments and interests of these debts. Most of the debt amounts are often directed towards consumer and luxury spending, especially for imported goods, and direct a small percentage of them towards spending. The investment is represented in projects with low productivity that do not lead to the creation of new financial surpluses used to settle external debts.

5. The analysis of the indicators of public debt burdens, both internal and external, showed that the dangerous thresholds set by the International and the International Monetary Fund were not reached. This means that Iraq can bear these burdens in the event of appropriate economic reform measures. However, some indicators sometimes show the seriousness of public debt and its reflection On the economic and social situation.

### Recommendations

1. The need to set safety limits ratios, especially for the Iraqi economy, that measure the state's ability to pay, whether short- or long-term.
2. Disconnecting the sustainability of the public debt, in its two parts, with the oil resource by relying on other non-oil resources.
3. Reducing resorting to internal and external loans to finance the deficit of federal budgets, which is a financing option that carries financial risks for future generations because of the dangerous indicators it bears on the events of economic and social development, in addition to that, the repayment of internal and external loans leads to the continuation of the deficit in the general budget. We should continue to resort to internal debt to finance the Iraqi economy in a way that serves economic development and reduce dependence on international support, except in cases of extreme necessity.
4. Reducing resorting to internal and external loans to finance the deficit of federal budgets, a financing option that carries financial risks for future generations because of the dangerous indicators it bears on economic and social development events. In addition, the repayment of internal and external loans leads to the continuation of the deficit in the general budget.
5. Taking effective measures to combat financial and administrative corruption, putting things on the right track, and limiting the waste of money, and hard currency, which has become affecting financial and debt sustainability in making it look weak.

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