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ANALYSIS OF SOURCES OF FINANCING PUBLIC DEBT AND ITS RISKS IN IRAQ AFTER 2003 *EXTRACTED SEARCH

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Abstract:
The problem of unilateral dependence (oil) on financing the general budget through oil revenues, which constitute a very high percentage with the decline of tax revenues and other revenues, leads to the consolidation of the rentier state in the Iraqi economy, which leads to continuous disturbances in the general budget and the achievement of a deficit due to continuous fluctuations In oil prices. In order to finance the budget deficit, the government resorts to borrowing, whether internal or external, which will create pressure on local resources and financial burdens to be borne by future generations. Additional revenue for the state as a result, and then exacerbate the problem of indebtedness. However, after 2003 and in light of economic openness to the outside world and increasing reliance on oil revenues to supplement the budget, we noticed the reality of the Iraqi economy only after the deepening in the rentier nature of the economy. There are no new directions for drawing up economic policies that aim to address structural imbalances and rebuild the structure of The bad economy and its removal from the impact of internal and external shocks.

INTRODUCTION

Public debt is the main source of financing the budget deficit and the most important financial policy tool for managing the local economy. The Iraqi economy is also exposed to many external shocks due to the rentier nature of the Iraqi economy, which has become vulnerable to external supply shocks, which means that the financial resources in the Iraqi economy are recovering due to the rise in oil prices (shock positive external) and decline due to the drop in oil prices (negative external shock) and since oil revenues constitute the largest part of the total public revenues, so any change in global oil prices is reflected in the volume of public revenues and thus on the state budget deficit and as a result of the abnormal conditions it went through Iraq during the study period and before, which was the main reason for the increase in public expenditures to a greater extent than public revenues and thus the occurrence of a deficit in the state's general budget, which prompted it to search for other means to finance this deficit represented by resorting to borrowing from internal and external sources, whether from countries or financing institutions international, as is the case when the Iraqi state tended to borrow from abroad, especially after the year (2014) Because of the drop in oil prices and the war on terrorism, as a result, public revenues declined significantly. On the other hand, the accumulation of public debt and the burdens of its service will leave negative effects and great risks on the management of public money and the national economy. The public debt of both types (internal and external) poses a major challenge to developing and developed countries alike, which makes attention revolve around (the optimal threshold for debt). Public debt constitutes a heavy burden on the national economy, especially if this burden is steadily increasing and the problem of

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external indebtedness has emerged. For many developing countries, including Iraq, one of the most prominent problems that have become the need and future of the Iraqi economy

Research problem:

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

Research Hypothesis:

The study was based on the study hypothesis that Iraq suffers from high indebtedness, 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 problem of debt if it is invested properly and that it exercises government debt Internally, through the establishment of 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.

The aim of the Research:

The main objective of the study is:

1- Analysis of public debt (internal and external) in Iraq during the period (2003-2019).

2- Studying several approved indicators in assessing the financial ability of the Iraqi state to fulfill its internal and external obligations.

Research methodology:

The study relied on the analytical approach of public debt in parts of Iraq for the period (2003-2019), relying on the data of the Ministry of Finance, the Central Bank, and the Ministry of Planning in Iraq, as well as the reports issued by international organizations and institutions.

Research Structure:

To verify the hypothesis's validity and reach the research objectives, it was divided into two sections. The first topic dealt with the sources of financing public debt and its risks in Iraq (2003-2019). As for the second topic: the second topic dealt with: the reasons for the increase in internal and external public debt in Iraq and the factors influencing it for the period (2003-2019)

Keywords: Internal public debt, internal public debt, public budget.

CHAPTER 1: SOURCES OF FINANCING PUBLIC DEBT AND ITS RISKS IN IRAQ FOR THE PERIOD (2003-2019)

Firstly: An Analysis Of The Components Of Internal Public Debt In Iraq For The Period (2003-2019)

The most prominent debt tools on which the Iraqi economy relied as a source of financing the internal deficit are government bonds, which the government of Iraq issued in a limited manner, and central treasury transfers, which are used to fill the temporary deficit that occurs in the government budget due to the misalignment of the spending stream with the revenue stream.

As the task of debt management was entrusted with issuing and managing internal and external loans held by the state to the Central Bank of Iraq, according to the Borrowing and Issuing Treasury Transfers Law No. 150 of 1976, which authorized the Minister of Finance to issue treasury transfers with the central bank taking over the process of purchasing treasury transfers and selling them to investors from banks and the public based on To what was stated in Article 26 of the Central Bank of Iraq Law No. 64 of 1976 as amended, which stipulates that the bank shall practice purchases, sales, cutting or re-cutting of the following according to the conditions it decides:

• Iraqi government treasury transfers that were offered to the public for sale and which are due for a period not exceeding one year from the date of issuance.

• Iraqi government bonds or bonds guaranteed by it that were offered to the public for sale and which mature within a period not exceeding fifteen years from the date of issuance.

The most important securities traded in Iraq can be reviewed as follows:

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A- Treasury transfers: These are instruments bearer issued by the public treasury, in which it undertakes, in its capacity as a debtor, to return its value after some time by paying interest estimated at a percentage of the amount according to the zero-based system, i.e., the bearer buys it for a lower amount and then recovers its full value on the maturity date. (Omar, 2000, p.15)

In Iraq, treasury transfers are one of the means of internal borrowing, and they were adopted for the first time in 1947 at an amount of half a million dinars, according to what was stated in the Regular Budget Law, which authorized the Minister of Finance to issue transfers for an amount not exceeding one million dinars. With the development of the deficit, the issuance of treasury transfers increased, and this was followed by the issuance of The Law of Borrowing and Issuing Treasury Transfers No. 150 of 1976, which authorized the Minister of Finance to issue treasury transfers with the Central Bank assuming the process of purchasing treasury transfers and selling them to investors from banks and the public based on what was stated in Article 26 of the Central Bank of Iraq Law No. 64 of 1976 amended (Alani, 2011, p.23) .

It is based on the Financial Management and Public Debt Law No. (95) for the year 2004, which authorizes the Ministry of Finance to issue treasury transfers), which is one of the short-term government tools (annual and semi-annual) issued by the Ministry of Finance and sold in an auction set up and supervised by the Central Bank as the financial agent for the ministry, It deals inside Iraq through the process of offering purchase bids. It is sold at a certain discount rate and amortized at its nominal value upon maturity, and the government guarantees it.

Moreover, issuing remittances aims to enable the government to borrow cash to finance a temporary deficit in the budget. According to Central Law No. 56 of 2004, which granted this official bank independence, debt, and cash management goals were separated. The government had to resort to other financing means that differed in terms. In coordination with the monetary authority, the public treasury encouraged private and public banks to invest in half of the compulsory reserve for the benefit of the treasury.

There is also a remaining debt owed by the Ministry of Finance, which was rescheduled according to the agreement signed on 10/26/2010 (Dagher, 2016,p.11)[1*]

Among the most important characteristics of treasury transfers are the following:

1- It is short-term, at most one year.
2- The Central Bank undertakes to offer it for public subscription, and it subscribes to it, which (banks) buy. If there is anything left, the Central Bank subscribes to it.
3- Do not trade in the money markets.
4- It can be liquidated through the Central Bank, which is always ready to rediscount.
Interest in it is relatively low.
5- It is used to finance the seasonal deficit. (Al-Ani, 2011, p.20)

After lifting the economic blockade and the freedom to export oil, which helped achieve financial surpluses in the public budget in most years of the study, the accumulation of deficit represents the public debt. It reached the two highest rates of growth rate in the years 2014 and 2015 at 62.5% and 103.1%, which was caused by the large decline in the world price of crude oil in 2014 and its continuity for subsequent years.

Regarding participation in short-term debt, the percentage of acquisition by the central bank decreased to 43%, and the percentage of acquisition by commercial banks increased to 57% in 2010. middle of the previous decade. (Al-Ani, 2011, pp. 24- 25)

B. Government bonds: are instruments issued by a government agency that represents a right of a certain amount owed by the government to its owner, who is entitled to interest. Among its most important characteristics are the following (Omar, 2000, p.16):

- It is long-term and depends on the state's ability to repay it.
- The Central Bank shall offer it for public subscription as the government's bank.
- It trades in the stock market.
- They are given interest according to market mechanisms, at a percentage of their value that is fixed or changed occasionally.
- It is used to finance the deficit in its broad sense, whether in government service or economic agencies.

*Based on the agreement on rescheduling banking arrangements signed between the Ministry of Finance and the Central Bank on 10/26/2010 regarding the debt incurred by the Ministry in favor of the Central Bank, the Ministry of Finance paid three installments in the amount of 300 billion dinars during the year 2014 and paid the interest on the principal of the remaining debt 99 billion dinars, if the fourth installment is not paid on 31/12/2014, based on the request of the Ministry of Finance to postpone payment. (Central Bank, Annual Economic Report 76: 2014)

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The Iraqi legislator has adopted this method of financing since the year 1945 (Iraqi Loan Law No. 22 of the year 1944), as the bank offers these bonds for subscription by the public, government institutions and the banking system, which are due for payment within a period not exceeding 15 years from the date of issuance, and because of the decrease in government revenues Especially the oil ones due to international sanctions and the suspension of oil exports, and for the purpose of finding a source of financing the deficit, government bonds became active as a source of financing the deficit in the mid-nineties of the last century, as more reliance was made on this method, especially after the issuance of (Iraqi Government Loan Bonds Law No. 58 of 1990) As this law, according to its first article, which was amended by Law No. 9 of 1996, authorized the Minister of Finance to "issue nominal bonds or to their bearer in the name of Iraqi government loan bonds and specify the type, amount, and date of issuance of each batch of them." Iraqi Government Loan Bonds Law No. 58 of (1990) The law specified the nominal value of these bonds, and this law also granted the Minister of Finance the power to extinguish the bonds before their maturity date in one or several payments and the interest and profits of the bond were exempted from all Taxes All bonds and their coupons were also exempted from the stamp tax to encourage subscription to them.

The internal public debt structure in Iraq for the period (2003-2019) can be analyzed as follows:

The most important thing that distinguishes the internal public debt before the study period is that in the years before 2003, it continued to increase without any decrease in all years and that the debt instruments varied between short and long-term, which means that the debt was not due to the misalignment of revenues with expenditures, which is more dangerous. On economic growth, after 2003, major changes took place in the state's economic policy, including what directly affected the internal public debt structure in Iraq. No. 56 of 2004, as Article (26) of it stipulates that the Central Bank of Iraq does not grant any direct or indirect credits to the government or any public authority or state-owned entity (Central Bank Law, 2004 , No. 26), so the internal public debt structure consists of the balance remaining in possession of the Ministry of Finance and Treasury transfers with commercial banks and the Central Bank, as the Central Bank Law allowed the performance of open market operations with commercial banks licensed under Article 28 thereof (Central Bank Law, 2004 , No. 28).

The Ministry of Finance was also granted the right to issue treasury transfers under the Financial Management and Public Debt Law No. (95) of 2004, which authorizes the Ministry of Finance to issue treasury transfers and sell them according to the auction system, provided that the Central Bank supervises it as the state's financial agent.

The purpose of issuing treasury transfers, which are considered short-term financing tools, is to finance the temporary deficit in the budget. These transfers are with commercial banks for 91 days only for 2004 and 2005, then transfers with the Central Bank are added for 182 and 365 days starting in 2006. Based on Article 26 of the Central Bank Law, which stipulates (the Central Bank of Iraq may purchase government securities, provided that the purchases of those securities are limited to the secondary market only and that the purchase takes place within the framework of market operations), as for the debt incurred by the Ministry of Finance, it has been Rescheduling it in coordination with the Central Bank, as the debt amounting to (5,393,890) million dinars resulting from overdrafts and treasury transfers issued by the Ministry of Finance before 2003 has been rescheduled, to be paid in the form of quarterly installments and put up for auction with an annual interest of 5%, and the public debt is paid within 7 Years (Al-Khazraji, 2010, p.11)

From the preceding, it became clear to us that in the period preceding the study period, which is the period of the nineties until the year (2003), the internal public debt fluctuated, and the reason for this increase is due to the increase in the fiscal deficit in the state's general budget as a result of imposing the economic blockade, stopping oil exports, and increasing the government's dependence on internal public debt. By following the new monetary issuance policy, in addition to the government's reconstruction of what was destroyed by wars, as well as the inability of the Ministry of Finance to pay the principal of the debt, it is limited to interest only, which led to its accumulation. Remittances constituted the largest percentage until the year (2008) at a rate of (88.78%), while the percentage of remittances with commercial banks of the total remittances amounted to (11.22%), while the percentage of total remittances from the internal public debt was (100%). However, in the year (2009) The percentage of transfers to the Central Bank of total transfers decreased to 46.90% (compared to an increase in the percentage of transfers to commercial banks out of total transfers by 53.10%) the same year. The percentage of total transfers of internal public debt (%) 100) This indicates the independence of the Central

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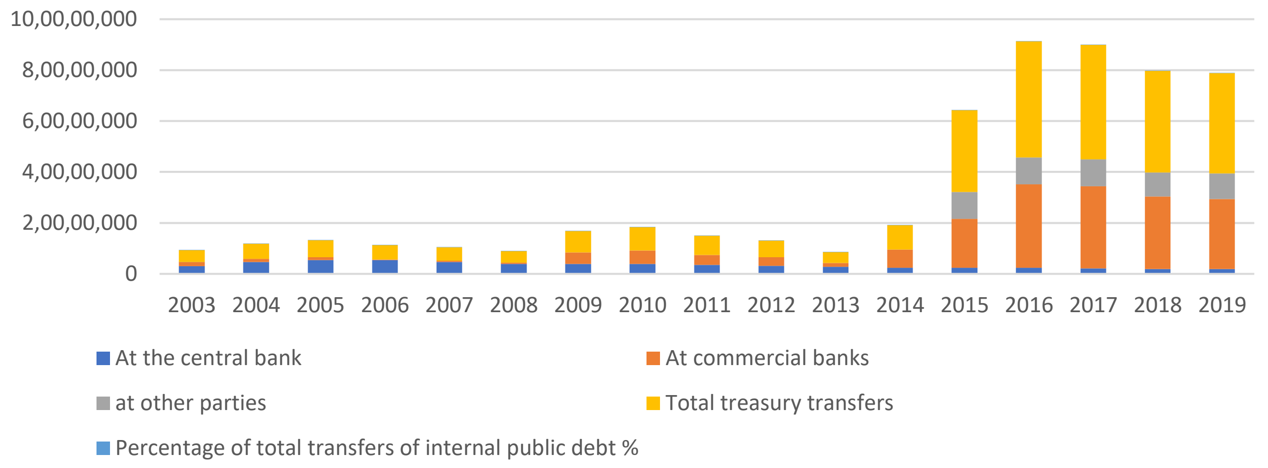
Bank of Iraq, as it enjoys great freedom in determining and directing monetary policy to preserve the value of money and achieve stability at the general level of prices.), while the percentage of transfers to the Central Bank of total transfers was (4.89%) at a time when the percentage of transfers to other parties out of total transfers was 22.42%), and the percentage of total transfers of internal public debt was (93.34%). It must be known that The issuance of more treasury transfers ultimately leads to a decrease in the lending capacity of the central bank, which leads to a reduction in granting loans to other agricultural, industrial, service, and commercial economic activities, which have a major role in promoting economic growth.) during the period (2004-2014), and this percentage decreased in (2015) by (99.95%) until it reached (93.47%) in 2019 because during this period, the government issued term delivery bonds In dollars and national bonds as well as bonds of farmers and contractors (Ministry of Finance, 2009, pp. 17- 18), and treasury remittances to other parties were low during the research period compared to treasury remittances at the Central Bank and commercial banks, and from Table (25) we also note that the ratio (total treasury remittances / GDP) In (2003) it was (15.66), then decreased to (1.55-2.75) during the years (2013-2012) in a row, to return and rise significantly in (2017) to (19.93), as this rise in this percentage indicates more than the rise in output rates The gross domestic product indicates the government's inability to pay its debts, which leads to overburdening the budget with debt and the inability to achieve financial sustainability, as shown in Figure (1).

Figure (1) Treasury transfers with financial institutions and their ratio to the internal public debt for the period (2003-2019)



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

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				Treasury transfers				
Percentage of total transfers of internal public debt %	Treasury remittances % to GDP	Percentage of remittances with commercial banks out of the total remittances %	The percentage of remittances with the Central Bank of the total remittances %	Total treasury transfers	at other parties	At commercial banks	At the central bank	years
83.60	15.66	33.51	66.4	4,634,750	2,109	1,553,167	3,079,474	2003
100.00	11.12	20.96	79.04	5,925,061	0	1,242,023	4,683,038	2004
100.00	8.96	18.20	81.80	6,593,960	0	1,200,070	5,393,890	2005
100.00	6.84	4.45	95.55	5,645,390	0	251,500	5,393,890	2006
100.00	4.65	9.99	90.01	5,193,705	0	519,000	4,674,705	2007
100.00	2.38	11.22	88.78	4,445,569	0	500,050	3,955,519	2008
100.00	6.45	53.10	46.90	8,434,049	0	4,478,530	3,955,519	2009
100.00	5.49	56.92	43.08	9,180,806	0	5,225,287	3,955,519	2010
100.00	3.406	52.25	47.75	7,446,859	0	3,891,340	3,555,519	2011
100.00	2.57	51.81	48.19	6,547,519	0	3,392,000	3,155,519	2012
100.00	1.55	35.25	64.75	4,255,549	0	1,500,030	2,755,519	2013
100.00	3.57	74.21	25.79	9,520,019	0	7,064,500	2,455,519	2014
99.95	16.50	60.11	7.33	32,128,280	10,461,057	19,311,704	2,355,519	2015
96.42	15.37	71.75	5.16	45,665,306	10,546,233	32,763,554	2,355,519	2016
94.37	19.93	71.77	4.79	44,996,376	10,546,233	32,249,624	2,155,519	2017
95.33	15.64	71.27	4.90	39,869,729	9,501,043	28,413,167	1,955,519	2018
93.47	14.18	72.69	4.89	39,419,671	9,989,590	27,574,562	1,855,519	2019

Table (1) The structure of treasury transfers and their ratio to the internal public debt for the period (2003-2019) / million

Source :

- Columns (3-2-1) based on the Central Bank of Iraq, General Directorate of Statistics and Research, special issue 2003, and separate publications

- Columns (8-7-6-5-4) the researcher's work.

Table (2) Internal public debt structure in Iraq for the period 2004-2019 / billion dinars

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6/5%	6/4%	6/3%	6/2%	6/1%	The total internal public debt	Financial institution loans	bond	Transfers discounted by the Central Bank	Treasury transfers with commercial banks	The debt of the Ministry of Finance	years
0	0	0	15.25	84.75	6.061				924	5.137	**2004**
0	0	0	18.2	81	6.593				1.2	5.393	**2005**
0	0	0	4.446	95.54	5.645				251	5.393	**2006**
0	0	0	9.994	90.01	5.193				519	4.647	**2007**
0	0	0	11.22	88.78	4.455				500	3.955	**2008**
0	0	0	53.09	46.89	8.4.34				4.478	3.955	**2009**
0	0	0	56.92	43.08	9.18				5.225	3.955	**2010**
0	0	0	52.26	47.74	7.446				3.891	3.555	**2011**
0	0	0	51.81	48.19	6.547				3.392	3.155	**2012**
0	0	0	35.25	64.75	4.255				1.5	2.755	**2013**
0	0	0	74.2	25.79	9.520				7.064	2.455	**2014**
32.55	0.044	19.37	40.71	7.327	32.142	10.461	14	6.225	13.086	2.355	**2015**
22.27	3.581	34.26	34.92	4.972	47.362	10.546	1.696	16.225	163.538	2.355	**2016**
22.12	5.625	34.03	33.7	4.52	47.678	10.546	2.682	16.225	16.069	2.155	**2017**
22.86	4.234	35.17	33.49	4.238	46.129	10.546	1.953	165.225	15.448	1.955	**2018**
22.569	5.011	37.729	71.936	4.578	38,331	8.651	1,921	14,462	27,574	1,755	**2019**

Source: The researcher's work, based on Table (19) and the Central Bank of Iraq, Annual Statistical Bulletin for 2019

Table (2) shows that the deficit suffered by the budget and the need for liquidity to finance the war on terrorism and current expenditures increased dependence on domestic debt. In light of the difficulty of financing this increase using remittances only, resorting to adding other tools, as bonds were issued again in 2015, at an amount of 14 billion, with a contribution rate of 0.044%, or a very small percentage that does not exceed one correct relative to the internal public debt, to decrease to 1.921 in 2019, at a rate of 5.011 of the total internal debt, which is also very low, in addition to the central bank deducting securities by values It reached a trillion dinars, with a contribution rate of 34% to the total internal public debt, and 16.2

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trillion dinars were provided to public institutions, at a rate of more than 22% of the total debt. A loan of 702 billion Iraqi dinars based on Cabinet Resolution No. 314 of 2014 financed these directorates, but the interest accrued on it amounts to 14 billion dinars. Accordingly, the volume of debt is 716 billion dinars, in addition to the debt of financial companies. To self-finance the salaries of its employees, based on the directives of the International Monetary Fund, which includes the inclusion of these internal debts, the principal debt of self-financing companies' loans without interest amounted to 9 trillion Iraqi dinars, which represents the loans granted by the Rafidain and Rasheed Banks (Adai, 2016, p.27).

Domestic debt is a means of financing by mobilizing local savings to cover the budget deficit. Domestic debt has many positive effects, including stimulating various economic sectors, contributing to capital investments, and developing human capital, in addition to its returns that are paid in the form of interest, which impacts institutions. The lender inside the country does not cause the depletion of foreign currencies, nor is it associated with conditions for the lenders, as is the case with financing through external loans. It does not suffer from the problem of exchange rate risks and fluctuations because it is paid in the local currency, but that makes us ignore the risks of exacerbating internal indebtedness and its burdens that the consequences of the budget, and the potential effects on the overall economic performance, as shown in Table (2).

SECONDLY: AN ANALYSIS OF THE EXTERNAL PUBLIC DEBT IN IRAQ FOR THE PERIOD (2003-2019)

The International Monetary Fund studied the state of Iraqi indebtedness and found that despite the financial capabilities that Iraq possesses, being one of the most major oil-exporting countries and possessing large oil reserves, Iraq resorted to financial loans during the periods of the Iran-Iraq war in the eighties of the last century, the second Gulf War and the occupation of Kuwait in 1991. At a time when the problem of Iraqi indebtedness became very clear after the US occupation in 2003, as the International Monetary Fund estimated in 2004 about (125) billion US dollars, the International Monetary Fund prepared a program to analyze the degree of tolerance of the Iraqi economy for its debts (the extent of the ability of the Iraqi economy to sustain debt General), since (95%) of his debts were reduced. This reduction did not cause harm to the interests of creditors, so it was accepted. However, the Paris Club agreement in the year (2004) specified a percentage for reducing Iraqi debts, which is 80%, and reduced in stages (IMF, 2004).

These debts represent consumer loans to finance war expenses or compensation imposed on Iraq by penal conditions and UN resolutions, including covering the costs of the inspection teams that come by order of the United States of America. The Paris Club negotiations can be clarified as follows:

1 - Paris Club negotiations

The treatment of Iraq by the Paris Club is in accordance with the terms of the Evian approach, which was adopted in October 2003, as this approach provided a comprehensive treatment of debt by reducing it without standard conditions by canceling the economic indicators after the country seeking debt relief is first subject to an analysis of the sustainability of public debt that is prepared in advance. The International Monetary Fund, as this analysis, determines whether the country suffers from a liquidity problem, a financial sustainability problem, or both. (Weiss & Martin, 2011, no p.)

As the International Monetary Fund prepared Iraq to be a party to the credit standby agreement, as well as its analysis of debt sustainability, and the meetings of the Paris Club with creditor countries began in July 2004, with bilateral meetings in the fall until the final agreement was reached in November 2004, knowing that the Paris Club negotiations are in a way General, it is completed in only one day and usually does not take 48 hours. However, the Iraqi negotiations continued for a long time, which is more than a week or months of preparation due to the fundamental difference between the coalition led by the United States of America and the United Kingdom of Great Britain, and the non-coalition countries, especially the European countries and Russia, which It considered that the analysis of the sustainability of public debt prepared by the International Monetary Fund was an unrealistic act, as it assumed that the price of oil is $26 per barrel, which is far from reality. Only the agreement was concluded with the following conditions in the agreed minutes . (Hinrichsen & Simon, 2019, pp.28-31)

These countries have extinguished some of their debts to Iraq gradually, as they reduced (30%) of the debt immediately upon the start of negotiations, in line with Iraq's willingness to enter into an agreement with the International Monetary Fund called Urgent Post-Crisis or Conflict Assistance (EPCA) covering a year (2005) and write off (30%) of Iraq's debts and reduce (20%) on the condition that the International Monetary Fund submit a general report (2008) in which it supports Iraq's implementation of its obligations and it is called the Rapid Financing Tool (RFI) and then gives

Iraq six years after which it pays the remaining debt With interest on (34) installments, and the repayment installments end in January of the year (2018), which are as follows.

A- Reducing debts by 80% in three stages:

- Cancellation of 30% of debts immediately, as of January 1 (2005).
- Reschedule an additional 30% of the debt for 23 years, with a grace period of six years, subject to the approval of the International Monetary Fund program.
- Rescheduling 20% of the initial debt balances after three years, on similar terms and on the condition that the International Monetary Fund program be reviewed.

B- A grace period of six years to pay the principal installments of the debt and three years to pay the interest rates, i.e., to reduce the public debt service.

C- Interest rate 6%

D- Equivalent treatment of other external creditors

E- Reducing the net present value of debts by (89.75)

2- The double shock and exacerbation of public debt:

After a year (2014), the Iraqi government was forced to resort to borrowing to finance its expenditures, in addition to a significant reduction in investment spending as a result of the poor security conditions (the war with ISIS) that the country was exposed to, as the Iraqi economy incurred very large expenditures in support of the ongoing battles as well as the shock The collapse of world oil prices in the middle of 2004 and its effects, which were reflected in the government budget deficit by increasing expenditures and declining revenues, especially after Iraq's public debt exceeded the barrier of (100) billion dollars and its rate reached (60%) of the gross domestic product. (Tabaqchali & Ahmed, 2018, no p.)

3 - Standby credit agreement:

Iraq succeeded in concluding a Standby Arrangement with the International Monetary Fund in December 2008, and the implementation of the programs included in this agreement led to the stabilization of the macroeconomic conditions of Iraq, as well as working to achieve a significant decrease in inflation levels, and containing dollarization rates. The economy and the success of this agreement led to the implementation of the final tranche of the debt relief program agreed upon with the Paris Club (SBA, 2008, pp.2-1).

Given the double shock that the Iraqi economy was subjected to in the year (2016), this three-year agreement was concluded with the International Monetary Fund, through which the Iraqi government is allowed to obtain credit from the Fund in the amount of (3.831) billion special drawing rights, or about (5.4)) US dollars to bridge the financing gap during the period (2016-2019), provided that the government is obligated to reduce dependence on the government sector and work on the development of the private sector, in addition to that it undertakes the following measures at the policy level (MF, 2016).

A- Reducing total spending to a level through which expenditures can be fixed in nominal terms at their total level in the year (2015).

B- Comprehensive reforms in the management of public finances to prevent the accumulation of non-performing debts (late payments) and improve the quality of spending.

C - Developing the financial sector by restructuring state-affiliated banks, i.e., government banks.

D- Helping to bridge the financing gap due to the drop in oil prices in the global markets (SBA, 2008, p.2).

E - Strengthening budget management and arranging its priorities to use Iraq's resources more efficiently and effectively.

The first review by the Fund of this agreement was in the year (2016), through which the mechanisms for implementing this agreement were identified, as well as standing on the extent of Iraq's commitment to its performance standards and the second review took place in (2017), which included a detailed assessment of the performance of the Iraqi economy in In light of this agreement and the consultations of Article IV thereof, which concluded in (2017), and through this review, the Iraqi authorities were allowed to withdraw the equivalent of (582.2) million Special Drawing Units, or about (824.8) million US dollars, after the Iraqi government conducted more financial discipline in the year (2016) but slowly (IMF, 2017) .

Table (3) External public debt in Iraq for the period (2003-2019)

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External Debt Contribution %	Annual change % (4)	External Debt% (3)	Annual change(2)	public debt (1)	years
98.72	---	131305200	---	136848884	2003
81.05	1.3-	129630480	0.9-	135555541	2004
77.49	18.9-	105066720	17.9-	111322289	2005
88.56	22.5-	81418012	22.1-	86725020	2006
75.79	11.4-	72109684	11.3-	76965008	2007
96.35	24.2-	54658564	- 23.2	59114133	2008
105.56	3.6-	52667550	4.3	61101599	2009
95.03	5.6	55597230	6.0	64778036	2010
97.53	4.9-	52836030	- 6.9	60282889	2011
96.84	2.5-	51536034	- 3.6	58083553	2012
100.93	3.2-	49908298	6.7-	54163847	2013
104.49	0.9	50375864	10.6	59895883	2014
99.23	4.5	52638006	41.5	84780811	2015
140.04	0.8-	52234944	17.5	99597195	2016
71.12	40	73153440	21.3	120832236	2017
66.47	33.5-	48625780	25.1-	90448698	2018
91.69	8.3-	44586880	8.3-	82918428	2019

Source: From the researcher's work
- Iraqi Central, Central Statistical Organization, Annual Statistical Bulletin, different years for the period (2003-2019).
- Ministry of Finance, Public Debt Department, External Public Debt Department, separate years for the period (2003-2019)

In light of the commitments and pressures liberated by the United States towards Iraq, Iraq has complied with all the conditions of the World Bank and has been liberated from its restrictions. On this basis and based on the data of Table (3), the external public debt witnessed, after the year (2003), a gradual, almost regular decline in most years, as it decreased to (54,658,564) million dinars in the year (2008), after it was recorded in (2003) (131,1305,200) million dinars, to achieve the highest growth rate (98.72%), and this reflects the continuous efforts by the Iraqi government on the one hand. On the other hand, the creditor and

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mediating countries reduced external debt. The external public debt continued to gradually decline until it reached (44,586,880) million dinars in 2019, with a growth rate of (91.69%) compared to the high growth rate for the year (2016), which reached (140.04%), and this indicates Iraq's commitment to conditions and rescheduling. With the creditor countries in a remarkable way, the external public debt structure has changed so that the Paris Club countries achieved the highest decline rate, reaching (83%), followed by commercial debts, which reached a decrease rate of (82%). Members of the Paris Club are exempt Iraq has completely paid off its debts (100%), and the most prominent of these countries (the United States of America, China, Malta, Slovakia, Cyprus, and Australia) while Serbia canceled (90%).

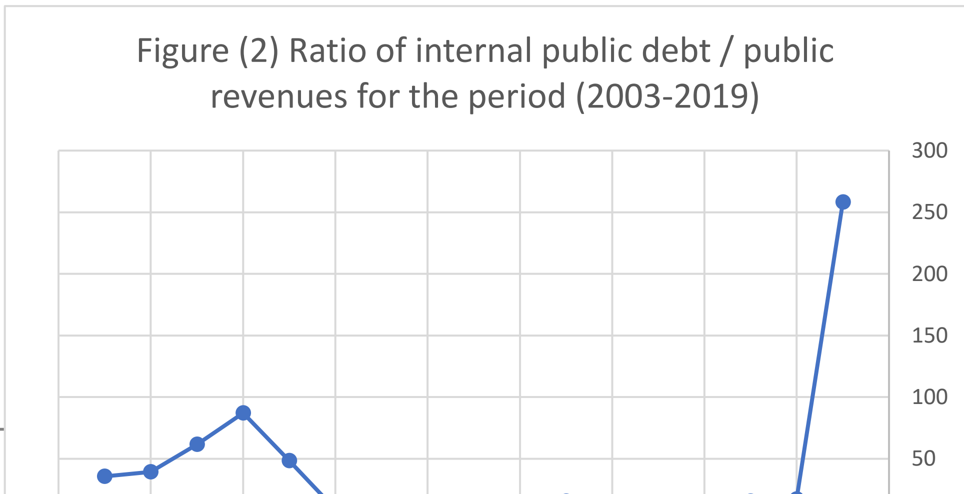
In contrast, Bulgaria, Romania, Malaysia, and Indonesia canceled about (80%). Poland canceled (70%) of Its total debts, amounting to (500) billion dollars, and the decrease in the external public debt alleviates the burden. The increase in foreign reserves due to improved oil revenues leads to a surplus in the general budget.

It is worth noting that in 2008 Japan granted a loan to Iraq worth 3.5 billion dollars for the reconstruction of Iraq. However, this loan included conditions, the most prominent of which was the participation of Japanese companies in reconstruction contracts. In contrast to this condition, interest rates doubled, and the Ministry of Finance concluded a loan agreement with the World Bank for a policy of Sustainable Development (DPL) to support the budget on March 17, 2010, in the amount of $250 million, at an interest rate of 1.06%. In 2014, an Istisna'a agreement and an Istisna'a agency agreement were signed in Amman between Iraq and the Islamic Development Bank, according to which Iraq obtained a loan of $217 million to contribute to the development of Highway No. (1) linking Iraq and neighboring countries. The amount was allocated to the Ministry of Construction and Housing for some time. The loan is repaid for 10 years, and the repayment takes place after a grace period of 4 years (Public debt department, 2010, p.2). We must also mention that Iraq did not resort to the external public debt during the nineties and throughout the economic blockade. Hence, government bonds, treasury transfers, and borrowing from the central bank constituted the cash issue. The largest percentage of the total internal public debt (1991-2001) without relying on external debt.

Chapter 2: THE REASONS FOR THE INCREASE IN INTERNAL AND EXTERNAL PUBLIC DEBT IN IRAQ AND THE FACTORS AFFECTING IT FOR THE PERIOD (2003-2019)

FIRSTLY: THE IMPACT OF INTERNAL PUBLIC DEBT ON THE GENERAL BUDGET FOR THE PERIOD (2003-2019):

The internal public debt continued to decline since the year (2000) by (228.2%) and in the year (2003) by (258.28%) as a result of the government extinguishing part of the internal public debt bonds as well as the implementation of the memorandum of understanding that allowed Iraq to export oil in exchange for food and medicine, either in the year (2004) the internal debt amounted to (5,925,061) million dinars, at a rate of (17.1%) to public revenues. In the year (2013) the volume of internal debt amounted to (4,255,549) million dinars. A ratio to public revenues amounted to (3.74%), the lowest percentage during the research period. The reason for that is the extinguishing of part of the treasury transfers, as well as the improvement of public revenues as a result of the increase in oil exports and the improvement of its prices, at a time when the public debt (2016) reached (47,362,251) million dinars, with a percentage of public revenues (87.0%). As a result of the deterioration of the security and political situation and the increase in military spending, in addition to the decline in oil prices, affected the state of the general budget. In 2019, the volume of internal debt amounted to (40,586,247) million dinars, with a percentage of public revenues (of 377.3%), despite the slight decrease in debt. However, the internal rate is still high in Public intakes during the study period, as shown in Table (4) and Figure (2).



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Source: from the researcher's work based on Table (4).

secondly: the impact of external public debt on the general budget for the period (2003-2019)

It is clear from the data of Table (4) that the year 2003 witnessed a decrease in the volume of external debt to about (131,305,200) million dinars, with a percentage of public expenditures (66,623%). The lowest percentage of public expenditures (39.9%) resulted from the political and economic changes in the year (2003), which resulted in several negotiations and agreements led by the International Monetary Fund. Paris, commercial creditors, and the Gulf states. On this basis, Iraq has committed itself to the debtor countries, in addition to the fact that some countries have written off their debts permanently, while others have deleted (80%) of their debts. As for the general budget in Iraq and its proportion to the gross domestic product, it has been shown that In the year (2003), the general budget witnessed a surplus amounting to (163,798) million dinars in proportion to the gross domestic product in current prices (0.6%) due to the changing political and economic conditions, and the surplus in the general budget continued until the year (200). 8) To reach (20,848,807%) million dinars, in proportion to the GDP at current prices (13.3%). As for the years (2016, 2015, 2014, 2013), the general budget witnessed a deficit amounting to (4156528-,12658167-,3927263-,7863800-,5360161-) million dinars, respectively, due to the drop in oil prices, which led to a decline in public revenues, the deterioration of the security and political situation, and an increase in public spending, especially military, and this deficit continued until the year (2016) to achieve the highest deficit in the general budget during the study period in this year, one million dinars And with a percentage of GDP at current prices (6.20-%) due to the increase in allocations in the public budget to compensate war victims, compensate displaced persons, and rehabilitate some liberated areas. Stability in the political and economic conditions, in addition to the rise in oil prices at a rate greater than what was expected in the general budget. The year (2019) passed in Iraq with a hypothetical deficit estimated at (-4156528), i.e. (27) trillion dinars, and that deficit constituted a percentage estimated at (20). percent of the total expenditure The total amount of (127) trillion dinars, as it was covered without at least external borrowing or borrowing, as rentier financing came from two sources, the first from a rounded surplus from the year budget (2018) with a balance of not less than (17) trillion dinars, and the second from an average increase The prices of the Iraqi oil exported, which were estimated at (64) dollars per barrel throughout the year (2019), compared to the price of a barrel of oil fixed in the budget of the same year, amounting to (56) dollars per barrel, with an export capacity of about (3.88) million barrels of oil per day.

We conclude from the preceding that the situation of indebtedness and the budget in Iraq requires a radical review of the budget structure in order to avoid the country resorting to the risks of deficit financing to support the operational budget support through external borrowing or borrowing, or resorting to more flexible internal borrowing, as the financial indicators are still bearable. Religion confirms that the debt-to-GDP ratio is about (65-55%) and that what we call for is not a call for austerity. However, there is a call for re-engineering the Iraqi public finances and sparing the public budget the problems of offsetting the so-called soft budget constraints in which spending has become Easy by expanding government advances, overdrafts, and borrowing to obtain quick potential government revenues, which is a key factor for the accumulation of indebtedness and the expansion of the deficit in public revenues, which makes the issue of fiscal consolidation lose its basic manifestations, such as reducing the deficit gap in public revenues or reducing the amount of accumulation in public debt. All of them lose the country's financial structure and the elements of sustainability to achieve the overall economic and social goals quora (Salih, 2020).

From what has been shown, it is clear that specific policies should be reached to deal with indebtedness. A strategy should be developed for that in coordination with the policies of economic management that determine the sustainable level of external borrowing, which is determined by the number of flows that the country can use effectively to service the debt without falling into the problem of affecting the total economic activity of the country since Indebtedness management is an integral part of the overall management of the economy and government policies. Public fiscal policy

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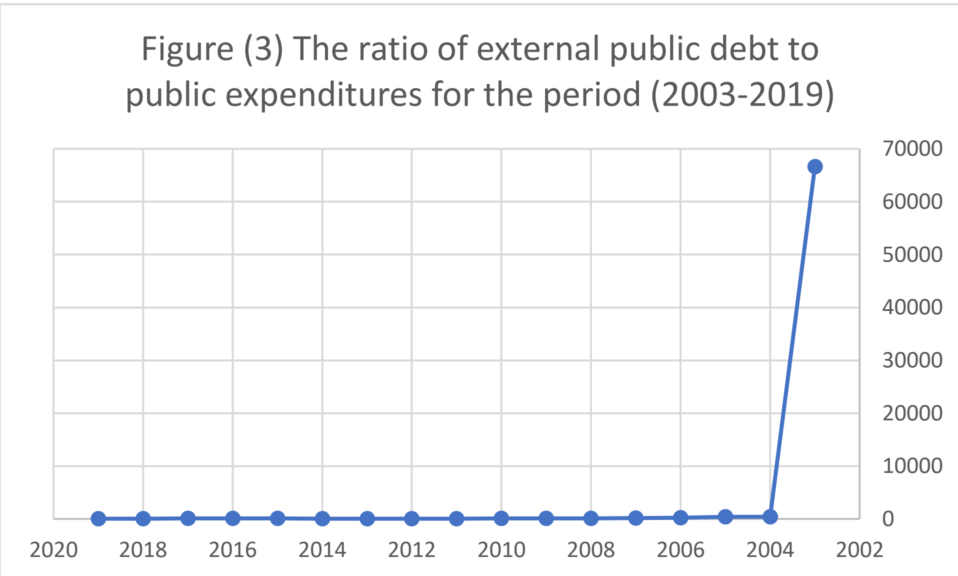
must take prior measures to prevent a significant rise in public debt burdens in the medium term. This requires great flexibility in planning public finances, as shown in Figure (3).

Table (4) Analysis of the impact of internal and external public debt on the general budget in Iraq for the period (2003-2019) / million dinars

The ratio of deficit and surplus to GDP	The ratio of external debt to expenditures	The ratio of domestic debt to revenues	budget surplus and deficit	public revenue	Expenses public	external public debt	domestic public debt	years
0.6	66623	258.28	163798	2146346	1982548	131305200	5543684	2003
1.6	403.6	17.1	865248	32982739	32117491	129630480	5925061	2004
19.2	398.4	15.44	14127715	40502890	26375175	105066720	6255578	2005
10.9	209.8	10.77	10425670	49232349	38806679	81418012	5307008	2006
13.9	184.74	8.89	15568218	54599451	39031232	72109684	4855569	2007
13.3	92.0	5.55	20848807	80252182	59403375	54658564	4,455,569	2008
2.0	100.2	15.3	2642328	55209353	52567025	52667550	8,434,049	2009
0.03	86.39	13.08	44022	70178223	70134201	55597230	9,180,806	2010
13.8	67.08	6.84	30049726	108807392	78757666	52836030	7,446,859	2011
5.8	49.0	5.46	14677648	119817224	105139576	51536034	6,547,519	2012
1.9-	41.9	3.74	5360161-	113767395	119127556	49908298	4,255,549	2013
3	44.4	9.0	7863800-	105609800	113473600	50375864	9,520,019	2014
2.0-	74.8	48.35	3927263-	66470252	70397515	52638006	32,142,805	2015
6.20-	77.9	87.0	12658167-	54409270	67067437	52234944	47,362,251	2016
0.08	96.9	61.65	1845840	77335955	75490115	73153440	47,678,796	2017
10.1	60.1	39.24	25696645	106569834	80873189	48625780	41,822,918	2018
1.5-	39.9	35.63	4156528-	107566995	111723523	44586880	38331548	2019

Source: From the researcher's work, depending on the Central Bank's publications for different years, and the data of the previous tables



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Source: the researcher's work based on Table (4).

CONCLUSIONS

1- The findings of the researcher, as well as the hypothesis on which it was based, stated that the public debt in Iraq did not lead to achieving financial sustainability 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 and the years of fighting terrorism Which requires more funding to finance war operations.

2- The Financial Management and Public Debt Law in Iraq No. (95) of 2004 did not oblige the executive government with a specific size of the public debt relative to the gross domestic product but rather provided for the possibility of authorizing the Minister of Finance to borrow and, in cooperation with the Central Bank, to manage Iraqi government bonds. Therefore, the 2019 budget stipulates that it authorizes the Minister of Finance to bridge the deficit through internal and external borrowing without specifying the size of the public debt with legal or legislative controls.

3- Treasury transfers are considered one of Iraq's most important internal public debt tools. They are short-term tools, as the accumulation of internal public debt for a long period without payment led to an increase in internal debt service after 2003. This debt was recycled by holding transfer auctions. The treasury has interest rates based on competition. The internal debt did not achieve financial results addressing structural economic and public financial imbalances. Rather, these imbalances generated the need, not the actual one. However, the planned need for government debt, as the public finance issues internal debt bonds at an early date depending on changes in global oil prices and planned in the general budget.

4- The absence of a clear strategy for managing external debts, such as external borrowing, is not necessarily bad, but rather the worst is if it is not directed in the ideal manner that secures its naming later, and even though the government after 2003 inherited an obnoxious external public debt from the previous regime estimated at (129.009) trillion dinars in 2004, and the Iraqi economy bore its consequences and negative effects. However, it declined after Iraq's agreement with the Paris Club countries to less than (45) billion dollars.

RECOMMENDATIONS:

1- A paragraph in the general budget must be added that obliges the Iraqi government not to exceed a certain percentage of (public debt / gross domestic product). This reinforces measures aimed at financial discipline and financial sustainability and the search for other sources to develop revenues, cover expenses, and invest financial resources instead of going into debt now. In every fiscal year today, turning to public debt has become the most prominent financial solution to bridge the budget deficit. This is thanks to the law allowing borrowing without legal controls and regulation.

2- It is necessary to accelerate the development of the internal public debt market in Iraq and to achieve coordination between the fiscal and monetary policies to maintain the continuity of the economy on its balancing track and to enhance economic growth.

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 economic and social development events.

4- Building a budget for programs and performance in the general budget, and then obliging the state ministries to send programs in each draft planned budget they submit for the next year and evaluate their performance by the concerned authorities. By providing budget programs and mini-performance at the level of expenditures, both current and investment .

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