Manager - The British Journal of Administrative Management
ISSN - 1746 1278
Volume 60 Issue 170 Jan 2024

AN ANALYSIS OF THE RELATIONSHIPS BETWEEN IRAQ'S PUBLIC DEBT AND A FEW OF ITS ECONOMIC DEVELOPMENT INDICATORS FROM 2004 TO 2022

Muhammed Hassan Odeh

Assistant Lecture, Faculty of Administration and Economics.
Email: mohammed.aowda@uobasrah.edu.iq

Dr. Mazen Sultan Aziz

Faculty of Administration and Economics.
Email: mazin.aziz@oubasrah.edu.iq

Abstract

The purpose of the study was to examine and evaluate the relationship between Iraq's public debt and a few critical indices of economic progress between 2004 and 2022. Several of the key public debt indicators were analyzed using the inductive method. The volatility of public debt was correlated with changes in crude oil prices, indicating the ineffectiveness and instability of the financial and monetary policies. Public debt is considered One of the major problems facing the Iraqi economy; to find out whether the Iraqi public debt is within safe limits or has reached the stage of danger according to the economic indicators of public debt established by international organizations and institutions, represented by the International Fund and the World Bank, the research reached a set of conclusions, the most important of which is that Iraq in the years 2004 and 2005 had exceeded the safe limits of debt—the year. The ratio of public debt to GDP was 172% and 80%, respectively, and did not surpass the safe limits for public debt (60%) as a percentage of GDP for 2006–2022. This indicates the economy's capacity to meet its financial commitments to creditors. Still, the reality is quite different because of the country's rentier status, its inability to diversify its sources of income, the possibility that it will be vulnerable to financial crises, and the ongoing drop in potential crude oil prices.

Keywords: *Public Debt, Public Debt Indicators, Gross Domestic Product, Iraqi Economy.*

INTRODUCTION

Iraq's economy is primarily characterized by its heavy reliance on oil revenues to finance public spending. This has led to distortions in the productive structure of the economic sectors over the past few decades, particularly after 2003, when the oil sector accounted for 43% of the country's GDP, more than 93% of Central government revenues, and 99% of its exports. This indicates the Iraqi economy's near total dependence on the oil sector and the impact of developments in the global oil market on the country.

Iraq's public debt problem first surfaced in the 1980s, when the country's economy was negatively impacted by the adoption of economic policies that adversely affected the country's economic conditions, notably the variables that affected financial performance. As a result, the country's external and internal debt levels increased, and its currency revenues decreased.

The absence of a wide-ranging and varied production foundation in the Iraqi economy resulted in a reduction in the foreign exchange earnings required to pay for imports, as well as a growing shortfall in the country's general budget. As a result, the amount of public debt in Iraq increased, as did the debt service.

Thus, by examining the extent of Iraqi public debt, it is vital to look into the true causes of these debts and to create remedies and solutions for Iraq's debt.

The significance of the paper

This study's significance rests in its ability to direct and support decision-makers now and in the future. It provides a comprehensive overview of the scope and evolution of Iraq's public debt and an in-depth analysis of the debt's effects on the country's economy.

Problem Statement

The study's primary focus is on public debt and how sustainable it is in the context of Iraq's rentier economy, as well as the risks associated with general obligation rising above the thresholds set by the financial literature based on a variety of indicators, the most significant of which are the debt-to-output and national income index. Thus, the question of whether public debt has an effect on a few economic development indices in Iraq between 2004 and 2022 is where the issue resides.

Aims of the Study

The research aims to achieve the following objectives:

1- Assess Iraq's state debt's amount and severity.

2- Achieving financial sustainability requires an understanding of the extent to which public debt affects various economic development indicators and the changes in the interaction between them.

Study hypothesis

The aggravation of Iraq's internal and external debt crises and its subsequent direct and indirect effects on specific economic development indices were caused by both internal and external forces.

RESEARCH METHODOLOGY

The researcher adopted the inductive method and the descriptive analytical method in analyzing data and tables on public debt to know the implications of public debt on some economic development indicators.

Limitations

Spatial limit: The Republic of Iraq, time limit: 2004-2022.

Paper form

The research was then split into three directions to achieve its objective. The first included the conceptual framework of public debt, which had the definition, types, purposes, traits, benefits, and drawbacks of public debt. The second axis dealt with the theoretical controversy of public debt, including public debt in economic theory and the justifications and indicators of public debt. The third axis is addressed. It analyzed the reality of public debt indicators in Iraq for 2004-2022, which included the ratio of public debt to gross domestic product and national income and ways to address and confront public debt in Iraq. Finally, the research reached a set of conclusions and recommendations.

The first axis: The conceptual framework of public debt

As a result of public expenditures exceeding public revenues, public debt is one of the variables that arises from fiscal policy and reflects its effects on economic performance variables in various countries. As such, public debt is a significant source of general revenues that the state obtains when it cannot do so. Since other sources of income are used to fund governmental spending partially, the public debt is essentially an official loan.

First: The concept of public debt

There are numerous ways to define public debt, which change based on how it is interpreted. According to economist Samuelson, external debt is the amount that a state owes to entities outside of its borders, like governments or international organizations. In contrast, public debt is the accounting term that denotes a drop in obligations and a gain in assets. As for the internal debt, it is the debt that the state owes to citizens when it borrows from within, and the loan bonds are offered at home in its national currency and written in by the state's nationals and residents, whether they are individuals or other economic units (Thuwaini, 2006, p. 139).

Regarding the state's stance on public debt in the contemporary era, it is believed that when demands rise, the state must spend more money to meet them. This additional spending is often paid for by average revenues such as taxes, fees, income from public institutions, fines, etc. However, the state faces a financial deficit for several reasons, including investments. Significant problems in infrastructure, wars, development financing, natural disasters, economic crises, and budget deficits, and to overcome these situations, public credit or public debt, which in economic literature means debts owed by the government or other public institutions (Sibel, 2019), p1 While the World Bank defined public debt as those debts that are officially paid to lenders, whether from inside or outside in foreign currencies or goods and services and the original or extended recovery period is more than one year, which is considered a direct obligation on a public legal personality in the debtor state or guaranteed by it. Kazem, 2014: 6).

Second: Types of public debt

Public debt has multiple divisions according to various considerations that can be summarized as follows:

1- Internal public debt and external public debt

Domestic public debt is defined as an agreement between two parties whereby the creditor party (individuals or national institutions) purchases government bonds and treasury transfers to provide the government with a sum of money in national currency in exchange for a promise to repay the loan's principal and interest within a predetermined time frame. This arrangement is known as the "national loan." (Al-Obaidi & Muhammad, 2018, p. 88), while external public debt is the debt that the state obtains from a foreign country or a natural or ordinary person residing abroad or from a governmental body, governmental or international fund, or international organization, that is, it is that part Of the total debt in the country that is due to be paid to creditors outside the country (Dawaba, 2016: 7).

2- Productive debt and non-productive debt

Non-productive debt is foreign debt for military and consumer uses with no economic return and can be in the form of cash or kind. Productive debt is debt employed in the development process for financial purposes (Muhammad, 2020, p. 80).

3- Debts according to the terms of their submission

These are soft loans, which have a low-interest rate and a long repayment period, and difficult loans, characterized by a short maturity period and a high-interest rate (Al-Jabbari, 2009, p. 13).

4- Debts according to the repayment period: divided into (Al-Issawi, 2012, p. 21).

A. Short-term debt: This is what the government resorts to in the event of not obtaining loans

Long-term and must be paid over some time, usually one year or less, and has costs High.

B. Debts with a more extended repayment period than short-term debts are medium-term debts.

A maximum of ten years, but usually between one and five years.

C. Long-term debts: They have lower costs, are more convenient, and must be repaid in due time

A period that may exceed ten years.

Recoverable and non-recoverable debts according to the maturity criterion: Public debts can be classified

5- Refundable or non-refundable loans that the government promises to repay are called loans

At some point in the future, debts are recoverable, and therefore, they are terminable.

Non-refundable debts are those loans for which the government agrees to pay interest on the issued bonds regularly without providing a precise due date (Dawas, 2016).

Finally, the types of public debt can be summarized in the following forms:

1- Debt both externally and internally.

2- Productive and non-productive debt.

3- Debts according to the terms of their submission.

4- Debts categorized by time of repayment.

5- Recoverable and non-refundable debts.

6- Compulsory and voluntary debt.

Third: Functions of public debt

The three primary purposes of public debt are as follows (Al-Fatlawi & Al-Moussawi, 2019, p. 273).

1- The stabilization function: The government is in charge of ensuring economic stability, particularly while the nation is going through a crisis. Since the general budget should not be balanced in this situation, fiscal policy must help achieve economic development and lower government debt by cutting overhead costs, which indicates an improving economy.

2- The function of empowerment: that is, achieving the goal of tax empowerment, as consistency in economic policy is necessary to build investment activity in order to achieve growth and employment, and this is important in determining long-term taxes through which it creates an atmosphere of confidence that enables owners of projects to plan, calculate investments.

3- Burden-sharing function: It occurs when the amounts spent at present bring benefits to current and future generations, that is, the distribution of tax burdens to generations. This function includes public investments that increase the economy's efficiency in the long term.

Fourth: Characteristics of public debt

Public debt is based on a contract between the government on the one hand and the creditor on the other hand. Therefore, it is the essential characteristic that distinguishes public debt from state revenues. Accordingly, public debt has a set of characteristics that can be summarized as follows (Al-Khatib & Al-Shamiya, 2007, p. 236).

1- Public debt is an amount of money: It is the most common monetary form of public debt when public debt revenues enter the state's general budget in the form of financial amounts.

2- Public debt is paid to the state: Public debt is limited to public law persons only, whether this person is the central authority, local administrations, or independent institutions.

3- Public debt is paid optionally.

One of the most significant aspects of public debt is that it is voluntary and executed out of free will, meaning that the creditor voluntarily transfers the debt amount to the debtor in compliance with the conditions outlined in the debt contract.

4- Public debt is obtained according to a contract.

A contract that is reached between two parties—the debtor and the creditor—is known as the public debt. The state or one of its agencies that guarantees to retrieve the whole debt amount plus the yearly interest payable under the terms of the agreement is the debtor. The creditor, who promises to pay the state a certain sum of money over a specified period with a particular interest, is the second party.

5- Public debt is based on a legislative basis.

The state issues public debt based on prior permission from the legislative authority, which approves borrowing money to replenish the public treasury.

Fifth: Advantages and disadvantages of public debt

Public debt has many advantages that include all economic, social, political, and strategic aspects, the most important of which are: (Al-Quddu, 2013, p. 9).

1- Carrying out redistributing economic resources and increasing the state's ability to import production requirements.

2- Increasing capital formation through the ability to import the capital goods required, carry out development initiatives, and create and sustain productive capacities—all made possible by the opportunities and capabilities afforded by foreign loans.

3- Providing training opportunities for local cadres in lending countries in the fields of advanced technology.

4- Paying the deficit in local resources to ensure the development of productive capacities and increasing job opportunities in society.

5- Some foreign loans may help develop export sectors and open markets abroad.

Consequently, public debt is a double-edged sword that can be used to eliminate the budget deficit. It can finance development, redistribute purchasing power among society's members, reduce inflation, and achieve economic balance by appropriately allocating borrowed amounts. To promote development and rejuvenate specific economic sectors.

What are the disadvantages of public debt as follows: (Al-Quddu, 2013, p.10)

1- There are adverse effects on currency exchange rates, especially when repaying these loans.

2- It requires the borrowing country to achieve surpluses to repay loan dues on time.

3- Loan interest represents a heavy burden on the economy of the borrowing country.

4- The loan may be used as a weapon in the hands of the lending country to influence political positions. It also creates a weakness in the positions of the borrowing country, thus increasing the dependence of the borrowing country on the lending country (economic dependency).

5- There is a direct relationship between corruption and public debt, as corruption has contributed to increasing public debt, but its impact varies according to the level of development of countries.

Therefore, it can be concluded that the adverse effects of public debt include low utilization efficiency, which results from loan abuse and economic and political dependence, as well as increased general budget and balance of payments deficits and their impact on foreign reserves, as the proportion of external debt increases and the current and commercial account deficits worsen, leading to a total balance of payments deficit that forces the government to use the majority of its foreign reserves to service the external debt.

The second axis: The theoretical controversy in public debt

The state uses public debt as a source of income when it cannot generate other sources of income, mainly from taxes. In these situations, the state borrows money from local, national, or international organizations and private citizens. As a result of societal development and the legislative authorities representing the people gaining full authority to impose taxes on the one hand and turn to public debt on the other, the concept of public debt in its modern sense is thought to be relatively recent, having existed until around the start of the eighteenth century.

First: Public debt in economic theory.

Public debt has been the focus of constant debate for more than 200 years. The Classical School, for one, was vehemently against it and demanded that the state's general budget be balanced. Conversely, the Keynesian School acknowledged the significance of public borrowing. It is possible to elucidate the philosophical disagreement between economic schools on whether to embrace or reject public debt. By use of the following:

1- Public debt from the point of view of classical theory

The focus of classical economic philosophy was on economic freedom, limiting state interference in the economy, and limiting it to security and external defense, as well as achieving justice. The principle of general budget balance.

Therefore, for this classical school to reject the general budget deficit, the budget balance issue must be resolved. This is because the general budget deficit requires giving up on the principle of balance and using unconventional methods to finance the phenomenon of deficit, mainly by borrowing or issuing additional funds as they see fit. By borrowing, money meant for local savings—the private sector—is taken from the bank and put into consumption.

Tracing their views on public debt policy reveals that classical thought is against borrowing for the state's use of debt because it will direct people's savings toward government spending rather than private investment, resulting in a lack of capital available for sector investment. According to their theories, public debt is a waste of people's wealth that may be put to better use in the production sector. Private debt, on the other hand, lowers the volume of production since it raises interest rates on borrowed capital.

Therefore, borrowing from the classical point of view is only in limited and narrow areas.

This is when the state cannot cover its expenses due to emergency circumstances, based on its belief in the idea of not.

The state intervenes in economic life, except within narrow limits, because they believe that the invisible hand of the market is enough to

To achieve economic balance, state intervention through borrowing leads to an imbalance.

In balance (Breber, 2021: 15).

2- Public debt from the point of view of the Keynesian theory.

Keynes proved that the state of equilibrium in the economy arises from the failure to balance supply and aggregate demand, and economic cycles are generated accordingly.

This hypothesis found that the rise of public spending and the subsequent deviation from the principle of budget balance were factors in establishing economic balance, notwithstanding the inadequacies of monetary policy and tax policy at the time. As a result, it paved the way for the budget deficit principle to be adopted, which calls for the use of loans to pay for all public expenses, including those related to consumption and investment.

Therefore, Keynes considered public debt a natural source of revenue that the state uses to direct…

The national economy is to achieve society's goals in all fields, meaning that public debt, according to Keynes, is a condition.

Necessary for economic progress in the event of insufficient domestic capital, provided that these loans are used

In increasing the productive capacity of society (Daoud, 39: 2009).

3- Public debt from the point of view of monetary theory.

This idea, first put forth by economist Milton Friedman, advocated for the state to refrain from interfering in economic activity by borrowing and instead letting the economy use its natural mechanisms to reach equilibrium at the point of total employment. The monetary school attempted to demonstrate that governments look to debt (borrowing) in order to finance budget deficits and that raising interest rates will increase the cost of private investment and cause it to decline over time, eliminating the budget's expansionary effect (Al-Dulaimi & Turki, 2020, p. 80).

Second: Justifications for public debt

Governments' persistent use of debt, particularly borrowing from overseas, to cover the shortfall in their balance of payments is the root cause of the public debt crisis they are currently facing. The following is a summary of the main arguments in favor of public debt in developing nations (Al-Shammari, 2020, p. 140).

1- Rising interest rates: The rise in interest rates in international financial markets leads to an increase in debt, as interest in developing countries has exceeded the value of financing, and the debt service item has become a large percentage of the general budget of most developing countries.

2- Smuggling capital abroad:

The flight of capital, a risky phenomenon that has spread to most developing nations, has a detrimental effect on the economic conditions of these nations as people and businesses illegally transfer money abroad when the domestic economy is desperately in need of it.

3- Balance of Payments Deficit: The increasing deficit in the balance of payments is due to the decline in revenues compared to expenditures, which led to a decrease in capital due to increased debt and borrowing from abroad.

4- An increase in investments for the development process.

Large sums of money and advanced technology are needed for investments, which has increased the amount of money borrowed from overseas to buy machinery and other investment equipment, acquire patents, and enter into agreements with international experts.

5- Administrative corruption in the government apparatus:

This phenomenon is considered one of the most dangerous phenomena that not only affects the increase in public debt but also negatively affects all aspects of social, economic, and political life.

6- Conditions of international trade

That is to say, because developing countries continue to have deficits and because they now make up the majority of trade, the buying power of their exports is lower than that of their purchases from developed capitalist nations.

The reasons leading to an increase in the size of public debt can be summarized as follows:

1. The increasing number of refugees and displaced persons in developing countries.
2. Increase food imports.
3. Fluctuations in global oil prices.
4. High interest rates.
5. Change in raw material prices.
6. Capital flight abroad.
7. The tendency to invest in development.
8. Paying attention to industry at the expense of agriculture.
9. Administrative corruption in the government apparatus.
10. 10-The increasing deficit in the balance of payments.
11. The increasing deficit in the general budget.

As we follow the trajectory of the public debt in Iraq, we see that, while it rises and falls, generally speaking, the trend appears to be stable, with the reasons for borrowing being (Al-Zubaidi, 2018, p. 38).

1- **The continuous deficit in the general budget**: For years, the general budget has been suffering from a continuous deficit, and it depends on filling the deficit. It was said that the budget was approved by the House of Representatives by resorting to borrowing, even though oil financial resources turned the deficit into a surplus in many years after 2004.

2- **The security challenge**: Iraq has been facing severe security challenges at many levels since 2003, represented by security breaches by terrorist parties and the occupation of large areas of its territory.

3- **Financial challenge**: The decline in oil prices, which is the leading financial resource for the Iraqi state, as Iraq has no exports other than oil, and oil revenues constitute approximately 96% of the state's general revenues. Therefore, any change in the price of a barrel of exported oil will cast a shadow on the general budget.

4- **Financial dues abroad before 2003**, including debts and compensation, most of which fall into hateful debts.

5- **Financial and administrative corruption**: which is ravaging the body of the Iraqi state and which has led to the flight of large sums of money out of the country and to the delay in establishing production and service projects that would have contributed to supplying the Iraqi economy with goods and services to compensate for the imports of some of them.

6- **Political pressures**: which attempt to burden Iraq, at the instigation of the International Monetary Fund, in order to bind Iraq to debts, even if they are concessional, but on conditions that may not suit the nature and characteristics of the Iraqi economy, including lifting subsidies on fuel prices and opening trade with abroad, which negatively affects national production.

7- **Iraq suffers from two gaps in domestic resources and a gap in foreign trade.** The difference between savings and domestic investment is known as the "domestic resources gap." However, the difference between exports and imports—since the majority of Iraq's consumer products are imported from overseas—is known as the "foreign trade gap," which is based on financial oil income. It cannot be compressed and needs to be imported even if its exports are less than its imports, which frequently indicates a trade balance imbalance.

8- The weak contribution of tax revenues to the state's financial revenues, as taxes constitute only 3% of the state's general revenues.

9- Slackness in the administrative apparatus of the Iraqi state, such that the number of state employees exceeded five million employees, making the current (operating) budget constitute 70% of the state's public expenditures. In contrast, the investment budget constitutes only 30% or less.

10- Slow growth rates of non-oil GDP, as they are deficient, which weakens revenues.

The state's general non-oil duties, the most important of which are taxes and customs duties, weaken the country's financial and economic development.

In addition, numerous more factors about Iraq's economic structure and structural imbalances resulted in it becoming a rentier economy with a single export good and monetary reparations due to its invasion of Kuwait.

Third: Public debt indicators

Before discussing public debt indicators, it is necessary to know the public debt instruments, which are represented by treasury transfers and government bonds.

Treasury transfers: They are securities issued by the treasury, usually on a discount basis, with maturities not exceeding one year. Governments and central banks issue transfers. For a government, the issue of issuing treasury transfers is a means to cover the deficit in the short-term state budget. For a bank, The central bank is a means of controlling the liquidity of the banking sector. Treasury transfers serve as an essential tool for government financial policy and the monetary policies of the central bank.

Government bonds are securities the national government issues to raise money for public spending. Typically, they take more than a year to mature. Governments obtain credit by issuing bonds with specific terms, conditions, and amortization periods. The government takes this action to pay for costs not covered by its regular revenue streams. When things return to normal, they are long-term bonds since the government will repay what it owes in the following years. Since loans are near replacements for debt securities in impoverished nations, it can be claimed that loans for rich countries are, by definition, marketable debt instruments (Dippd Sman et al., 2012, p. 8).

Among the indicators that international organizations pay special attention to are debt indicators in terms of debt maturity dates, repayment schedules, sensitivity to interest rates, and the composition of debt in foreign currency. The relationships between external debt, exports, and gross output are valuable indicators for evaluating the development of debt and the ability to repay.

Accordingly, there is a set of indicators through which the state's financial position can be determined, and they can be summarized as follows (Abbas, 2004, p. 15) and (Daoud, 2009, p. 41).

1- Debt to exports index: This index, which measures the total amount of outstanding debt to the nation's exports of goods and services at the end of the year, can be thought of as a sustainability indicator because an increase in the index suggests that the nation's debt has surpassed its reserves of hard foreign currency, which suggests that the nation may have difficulties paying its creditors back.

Debt to exports ratio = 100 x (total public debt)/exports

This percentage has been set at (27.5%), provided that it does not exceed that. This percentage has been set at (27.5%), provided that it does not exceed that.

2- Debt to GDP index: This index calculates the debt-to-GDP ratio by shifting resources from manufacturing domestic goods to exports, which reflects the proportion of total resources available to pay off debts. It could be a percentage if the exported goods make up a modest output. The debt-to-output ratio is low and can be quantified as follows. However, the debt to exports ratio is high:

Debt to GDP ratio = 100 x (general gross debt)/GDP

This percentage was determined not to exceed (60%) of the value of debt to GDP.

3- The debt service to exports index: It is regarded as one of the most significant indicators since it shows the export-to-debt ratio and provides information on how fragile debt service is if exports unexpectedly decline. It also illustrates the significance of short debts for debt repayment. A high percentage of short-term debt results in the fragility of debt service and can be quantified as follows. Therefore, the interest rate and duration of loan maturities define the sustainability level of this index.

The ratio of debt service to exports = 100 x (total public debt service)/exports

It provided that the percentage does not exceed 30%.

4- Reserve to short debt index:

It is a liquidity index that is determined by comparing the amount of short-term debt to the reserve stock of foreign currencies that the monetary authorities have available. The strength of the external liquidity position, or the nation's capacity to handle its debt, is indicated by a more excellent ratio based on this index.

5- The ratio of annual interest payments to the state's annual revenues:

This percentage has been set at (20%) because rising interest rates result in the country's export earnings being consumed by rising annual interest payments on the debt, raising the debt's cost and ultimately driving up the nation's total debt. Specifically, it is not feasible to compel imports to reach the necessary quantity.

6- Index of the ratio of international reserves to total external debt:

This indicator measures the extent of the external debt burden by calculating its ratio to the size of reserves

The ratio of the debtor nation's total assets—including its reserves with the International Monetary Fund—to its entire debt, expressed in gold and foreign currencies. The strength of the economy's foreign liquidity and its capacity to shoulder the costs of its challenging external obligations are indicated by a more excellent ratio, which also represents creditors' interests. Using this metric, debtor nations' capacity to repay their external debt obligations is assessed.

Fourth: The economic effects of public debt

Whether considered from an economic, social, or political angle, public debt is one of the most significant issues confronting any nation. The mismatch between production, consumption, saving, and investment has created a gap that has given rise to the public debt problem, which poses a significant challenge to the development plan.

The problem of public debt exerts several undesirable economic effects on members of society, the most important of which are as follows (Taleeb, 2018, p. 19).

1- Inadequacy of the general budget: not distributing economic resources to sectors with appropriate spending, which leads to increased spending on consumer aspects without aspects that increase economic growth.

2- Economic crises: In developing countries, in general, there is a crisis of aggregate demand because the production system is inflexible, which requires the government to increase imports at the expense of local manufacturing, and therefore, expenses have also increased.

3- Increasing state intervention in economic activity:

In order to attain social welfare, try to lessen income inequality, and raise the standard of living for the populace, expenditures must rise. As a result, revenues cannot keep up with expenses, necessitating the search for alternative funding sources, namely public debt.

4- The private sector: It generally suffers from weakness in developing countries and its inability to exploit the country's economic resources due to financial inability. Therefore, the government must provide aid and financial facilities to it, and sometimes it takes a turn, which is called the crowding-out effect.

4- The new monetary issuance: what is known as inflationary financing, which the state uses in the process of covering the deficit or repaying the internal debt, as it is local, which helps in the emergence of other problems, which are the increase in inflation, the rise in the general level of prices, and the decline in the value of money.

5- Extravagance and wars: Observed in developing nations are extravagant displays of wealth, particularly in luxury items, as well as rising salaries for high-ranking state employees. There is also a consistent increase in military spending due to the procurement of weapons, their upkeep, and the utilization of foreign expertise. All of this results in a budget deficit by raising overall public spending.

Finally, the state must improve the use of foreign loans to import capital goods for the economic development project, as this leads to faster capital formation, increased production capacity, increased employment in borrowing countries, and raised national income.

The third axis: Analysis of the reality of public debt indicators in Iraq for the period 2004-2022.

Iraq has a rentier economy, meaning state spending is mainly financed by oil exports. Iraq was not previously included in the list of nations needing foreign assistance for development. Iraq can attain financial sustainability by balancing the money received from public spending and oil exports. However, due to the hardships the Iraqi economy endured—particularly the ongoing consequences of the conflicts and economic blockade—it was forced to borrow money from other nations and financial organizations (Al-Rawi, 2019, p. 43).

By 2003, estimates indicated that external debt amounted to about $125 billion, and Iraq's debts were divided into five groups as follows (Al-Tabqalji, 2018, p. 13).

1- The group of Paris Club countries, which amounted to about 40 billion dollars.
2- A group of countries outside the Paris Club, which amounted to about $16 billion for Eastern European countries, Turkey, and China.
3- The group of Arab Gulf states, which amounted to about 49 billion dollars.
4- Group of commercial creditors.
5- Group of outstanding debts.

The last two groups were estimated at $15 billion.

First: The indicator of the public debt ratio to gross domestic product.

As can be seen from Table (1), Iraq's internal debt fluctuated between rise and fall between 2004 and 2014 due to changes in global oil prices, which have an impact on the state's financial revenues because the majority of money used to finance the country's general budget comes from oil revenues. As for the period after 2014, the internal debt witnessed significant increases as a result of the double shock that Iraq was exposed to, including the decline in global oil prices and the decrease in demand for oil, as well as the increase in military expenditures to confront ISIS, which burdened the Iraqi budget and this is the reason for an apparent shortage. Liquidity prompted the government to resort to internal debt in order to fill the financial gap, which is represented by cutting liquidity in order to cover the budget deficit for the fiscal year.

Iraq experienced a double shock in 2020 as well. The country's internal debt increased significantly due to the growing general budget deficit and increased health sector spending brought on by the COVID-19 pandemic. Additionally, the decline in global oil demand led to a restriction on oil production, which put significant pressure on oil revenues and exacerbated the crisis.

The decline in public debt in Iraq is evidence of the development of public debt, and this is evident in Table (1), where public debt decreased from (62.81) billion dollars in 2004 to (25.26) billion dollars in 2013, the period (2014-2022) witnessed an increase Public debt due to economic and political conditions, internal crises, as well as the Covid-19 epidemic crisis, the decline in oil prices, and the decline in global demand for oil, which burdened the state, as the year 2021 witnessed the highest rate of public debt, reaching (71.434) billion dollars.

Table 1: The total public debt of Iraq for the period (2004 - 2022) (billion dollars)

the year	Internal debt	External debt	Total public debt
2004	4.40	58.41	62.81
2005	4.49	35.72	40.21
2006	3.84	22.06	25.90
2007	4.13	24.88	29.01
2008	3.73	26.78	30.51
2009	7.08	17.05	24.13
2010	8.98	16.87	25.85
2011	10.24	17.53	27.77
2012	9.61	16.16	25.77
2013	10.89	14.37	25.26
2014	16.63	15.67	32.30
2015	26.64	16.72	43.36
2016	39.21	12.82	52.03
2017	40.62	25.40	66.02
2018	36.62	26.19	62.81
2019	32.42	25.49	57.91
2020	45.169	24.016	69.185
2021	49.677	21.757	71.434
2022	48.624	18.540	67.164

Source: Bidaa Jawad Kazem and Alaa Jassim Muhammad, Measuring the Impact of Public Debt on the Exchange Rate in Iraq for the period (2004-2022), Al-Kout Journal of Economic Sciences, Volume 15, Issue 46, 2023, p. 629.

Since the Iraqi government used public debt to finance the general budget for several years, this indicator measures the amount of public debt to economic activity and the government's ability to fulfill debt service obligations. It does this by setting this ratio within safety limits. This is the public debt base indicator, which does not go above 60% as a maximum, as this is regarded as a guiding indicator for assessing any nation's financial situation and by adhering to the Maastricht Agreement's requirements for nations that are members of the European Union, which stated that the ratio of public debt to gross domestic product be kept within the bounds of 60% (Farhan, 2021, p. 44).

Table (2) shows that while there was some fluctuation in the total public debt as a percentage of GDP in Iraq between 2004 and 2022, overall, the trend was low. As a result, the percentage of public debt to GDP in 2004 was 172%, the highest amount recorded during the study period. This was attributed to the high rate of total public debt, which reached 62.81) billion dollars, which resulted from the accumulation of debts incurred by Iraq previously as a result of the economic sanctions imposed on it prior to their removal, as well as the decline in the value of the output. The GDP reached its lowest value during the study period (36.6) billion dollars and this came as a result of the high rate of external debt, which reached (58.41) billion dollars to cover public expenditures, as a result of the great reliance on external debt, the majority of which went towards operational expenses during that period. Then, as a consequence of an increase in GDP to $50.1 billion and a fall in the value of public debt to $40.21 billion as a result of rising oil income, the ratio of public debt to GDP started to decline, reaching 80% in 2005. During the 2004–2022 research period, these percentages decreased progressively. Most of the percentages fell short of the benchmark of 60%, except in 2013, when the research period had the lowest rate of 11%.

This is attributed to the reduction of a large portion of debts. The United Nations, including the Paris Club debts, as well as a result of the increase in the value of the gross domestic product, which amounted to (264.2) billion dollars for the year 2022, due to the rise in oil prices and the increase in the rate of oil exports during that period, which caused an increase in financial abundance, and the proportions of the period 2014-2016 On the rise, as this period witnessed the war on ISIS and there was a kind of security and economic instability, and this was reflected in the decline in the gross domestic product during the period 2014-2016, such that the gross domestic product decreased from (228.4) billion dollars in 2014 to (166.6) billion dollars in 2016, Likewise, the total public debt increased from (32.30) billion dollars in 2014 to (52.03) billion dollars in 2016, and despite the decline in oil prices globally as a result of the outbreak of the Corona epidemic, the rise in public expenditures, especially health ones, and the decline in oil revenues, the percentage of the total public debt The percentage of GDP did not exceed the standard (60%) for the period (2018-2022).

Table 2: Percentage of total public debt to GDP in Iraq for the period (2004 - 2022) (Billion dollar) (%)

the year	Internal debt	External debt	Total public debt	GDP at current prices	Total public debt as a percentage of GDP is 60% of GDP
2004	4.40	58.41	62.81	36.6	172
2005	4.49	35.72	40.21	50.1	80
2006	3.84	22.06	25.90	65.1	40
2007	4.13	24.88	29.01	88.8	33
2008	3.73	26.78	30.51	131.6	23
2009	7.08	17.05	24.13	111.7	22
2010	8.98	16.87	25.85	138.5	19
2011	10.24	17.53	27.77	185.7	15
2012	9.61	16.16	25.77	218.0	12
2013	10.89	14.37	25.26	234.6	11
2014	16.63	15.67	32.30	228.4	14
2015	26.64	16.72	43.36	164.7	26
2016	39.21	12.82	52.03	166.6	31
2017	40.62	25.40	66.02	190.6	35
2018	36.62	26.19	62.81	212.4	30
2019	32.42	25.49	57.91	219.1	26
2020	45.169	24.016	69.185	216.7	32
2021	49.677	21.757	71.434	207.9	34
2022	48.624	18.540	67.164	264.2	25

Source: 1. Baydaa Jawad Kazem and Alaa Jassim Muhammad, Measuring the Impact of Public Debt on the Exchange Rate in Iraq

For the period (2004-2022), Al-Kout Journal of Economic Sciences, Volume 15, Issue 46, 2023, p. 629.

2. International Monetary Fund, Annual Report for Different Years, Washington, Policy-Making Center for International Studies And the strategy

Second: Indicator of the ratio of public debt to national income.

National income is a measure of the well-being of society and the efficiency of economic performance. Therefore, it measures the incomes earned by individuals and projects due to their contribution to the production process for one year (482, 1997, Hyman).

The value of the national product must be equal to the entire amount spent by the country on finished goods and services because the items are purchased and sold by a specific person, organization, or sector. Similarly, individual national spending can be, at most, the entire amount. There must be a relationship between these three ideas because of the national income they get as payments for the services of the production factors. These are only variations on a single phenomenon that show how the degree of economic activity in a society can be measured.

Therefore, it can be said that these three terms are, in truth and reality, nothing but different terms to express one fact or different aspects to express one fact, which is that (national product = national income = national expenditure) (Al-Birmani, 1968, p. 18).

Through this matching, this indicator is achieved by specifying this percentage within the safety limits that do not exceed 60% as a maximum. Therefore, this indicator is considered an indicative indicator for evaluating the well-being of society and the efficiency of economic performance.

National income reached 32.29 billion dollars in 2004, rose to 79.76 billion dollars in 2007, fell to 12.49 billion dollars in 2008 due to the global financial crisis, increased to 204.98 billion dollars in 2013, and then fell to 198.91 billion dollars in 2014 as a result of the ISIS crisis. The size of national income has changed significantly over the first ten years of the twenty-first century. Table (3) indicates that national income peaked in 2022 at 483.31 billion dollars, although it continued to swing between decline and gain until the Corona crisis.

It is clear from Table (3) that the total public debt as a percentage of national income in Iraq during the study period (2004 - 2022) witnessed a state of fluctuation between rise and fall, but the general trend began to decline, as the lowest percentage was witnessed in 2013, where it reached 12%. Due to the decrease in the size of public debt, which reached 25.26 billion dollars, the decrease in public debt is the reduction of a large part of the debt by the United Nations, including the Paris Club.

The decline in the ratio of total public debt to national income was caused by the rise in oil prices and the corresponding increase in the rate of oil exports, which led to a rise in financial abundance and an annual increase in the size of national income. Additionally, it should be highlighted that despite the drop in oil prices due to the Corona pandemic, the rise in governmental spending, particularly on health and the environment, and the fall in oil profits. As indicated by Table (3), the overall public debt to national income ratio of 60% did not surpass the standard percentage for the 2013–2022 timeframe.

Table 3: Percentage of total public debt to national income in Iraq for the period (2004 - 2022)

the year	National income at current prices One billion dinars	Official exchange rate	Total public debt Billion dollar	National income at current prices is billion dollars	Total public debt as a percentage of national income (%)
2004	46923.3	1453	62.81	32.29	194
2005	65798.6	1469	40.21	44.79	90
2006	85431.5	1467	25.90	58.23	44
2007	100100.8	1255	29.01	79.76	36
2008	147641.2	1182	30.51	12.49	244
2009	120429.3	1170	24.13	10.29	234
2010	146453.5	1170	25.85	12.52	206
2011	192237.1	1170	27.77	16.43	169
2012	227221.8	1166	25.77	19.49	132
2013	243518.6	1188	25.26	204.98	12
2014	236708.0	1190	32.30	198.91	16
2015	185550.9	1166	43.36	159.13	27
2016	186397.3	1190	52.03	156.64	33
2017	220905.6	1258	66.02	175.60	38
2018	221765.4	1209	62.81	183.43	34
2019	224654.1	1196	57.91	187.84	31
2020	227884.9	1234	69.185	184.67	37
2021	241238.3	1450	71.434	166.37	43
2022	700798.0	1450	67.164	483.31	14

Source:

1- Baydaa Jawad Kazem and Alaa Jassim Muhammad, Measuring the Impact of Public Debt on the Exchange Rate in Iraq for the period (2004-2022), Al-Kout Journal of Economic Sciences, Volume 15, Issue 46, 2023, p. 629.

2- International Monetary Fund, annual report for different years, Washington, Center for Policy Making Studies International and strategic.

3- Central Organization for Statistics and Information Technology, (2004 - 2022), Ministry of Planning, Baghdad.

4- General Directorate of Statistics and Research, Statistical Bulletin for the years (2004 – 2022) Central Bank of Iraq.

Third: Ways to address and confront public debt in Iraq from 2004-2022.

1- Encouraging the role of the private sector in financing some items of public spending may reduce the pressure on the overall deficit in the general budget, which in turn leads to increasing the government's ability to service the debt or reducing its use in filling the budget deficit.

2- Working to strengthen the regulatory, administrative, and legal systems by following best practices in terms of governance of public debt management and also choosing appropriate and effective methods for managing it.

3- Iraq prepares transparent and comprehensive reports on public debt and seeks to strengthen and develop the bodies concerned with this work.

4- Work to develop accurate plans for public spending and the deficit that occurs in the general budget and strive to make more extraordinary efforts to ensure that borrowing achieves financial sustainability in order for the public debt to remain on a sustainable path by undertaking new projects through borrowing and the extent of their ability to repay them. These loans (Asfour & Mohsen, 2022, p. 313).

5- Stop submitting to the conditions of creditors and the International Monetary Fund, which would halt development, deteriorating living conditions, threaten the political and economic independence of debtor countries, and increase their amount of debt.

6- Controlling foreign trade activities and the provisions of control over them by returning to the exchange control system in a way that rationalizes the use of foreign exchange, combats luxury imports, ensures the financing of the minimum necessary for imports, and supports the state's ability to service its foreign debts.

7- Create a sensible external borrowing policy to stop the increase of short-term external debt. Regarding fresh loans, they ought to be productive rather than consumer, diversify the sources of outside funding, and not be restricted to any nation or region of the world, all while considering the finest available conditions.

8- When contracting new loans, especially long-term ones, officials must ensure that the grace period is at least the period of achieving the investment return so that the repayment dates do not come at inappropriate times.

9- Treating the problems of idle capacities, especially those that produce exports or produce goods that replace imports.

10- Avoid rescheduling and ensure that charges are paid on time.

11- Fight unnecessary consumption.

To get rid of the crisis once and for all, it is vital to continue the development process without the need to rely on external resources, as a self-accumulation model may be established from within the framework of the local economy and its capabilities, and this goal can be reached through:

- Mobilizing the possible economic surplus.
- Adopting a strategy to satisfy the basic needs of the population, such as food, housing, water, transportation, education, culture, and health services.
- Providing protection for national industries and expanding the internal market by achieving more fairness in the distribution of incomes (Abdul, 2008, pp. 14-15).

CONCLUSIONS AND RECOMMENDATIONS.

Conclusions

1) There was some variation in Iraq's total public debt as a percentage of GDP during the study period of 2004–2022. However, overall public debt to GDP did not surpass the average percentage (60%) from 2005 to 2022. Except 2004, when it hit 172%, the highest percentage ever noted while the study was conducted. The growth in the nation's total debt—which now stands at 62.81 billion dollars—and the decline in the value of the gross domestic product—which fell to 36.6 billion dollars at the end of the study period—are the causes.
2) From 2004 to 2022, Iraq's total public debt as a percentage of national income fluctuated between rising and falling, but overall, the trend started to decline. The lowest percentage was recorded in 2013, at 12%, because the amount of public debt had decreased to 25% or one billion dollars, and the reduction was attributed to the United Nations, including the Paris Club, shaving off a significant portion of the debt.
3) The direct military engagement in conflicts with Iran and the economic embargo imposed on it after it invaded Kuwait in 1990 caused the old Iraqi dictatorship to exhaust its economy and deplete its foreign exchange reserves, forcing it to turn to external borrowing.
4) The unilateral Iraqi economy was not able to bear the burden of these large debts, most of which were hateful debts that were not used for development or production purposes but rather for consumption and military purposes. They were a burden on the economy, which caused the failure to repay those debts.
5) Despite having a low index ratio, the overall public debt of the Iraqi economy has increased, indicating the government's fragility and the risk that the country's economy would continue to be vulnerable to future financial crises.
6) External debts were not settled by developing an independent local strategy, nor were oil export revenues taken advantage of in searching for a way to address the debt crisis. Instead, the process of settling Iraqi external debts came through the International Monetary Fund, through the fund's agreement with the creditors. To reduce these debts and reschedule the remaining ones, provided that Iraq accepts the terms and programs of the fund.
7) The political unrest and the fight against ISIS and terrorism increased government spending on military equipment and other supplies, which in turn increased the amount of debt that the country owed both domestically and internationally.

Recommendations :

1- keeping internal borrowing to a minimum since it is the best course of action from a strategic standpoint for managing the overall budget deficit and supplying financial liquidity.

2- Follow a sound monetary policy aimed at controlling public expenditures, directing them towards productive economic sectors, and encouraging investment to reduce dependence on public debt.

3- Finding new sources of financing, such as taxes, instead of being limited to oil revenues in financing the general budget as an additional resource to reduce the resort to borrowing.

4- Government support for the ration card and oil derivative pricing, which are structural reforms of the International Monetary Fund since they add to the overall budgetary burden, will be gradually discontinued.

5- We are working to create an attractive economic environment for investment, especially foreign investment, to provide the necessary capital for investment in order to fill the shortfall in financing to avoid external and internal borrowing.

6- To increase the contribution of critical economic sectors like the industrial and agricultural sectors to the creation of the GDP, it is necessary to diversify the sources of public revenue other than oil. Additionally, efforts should be made to increase the state's sovereign resources rather than restricting them to just one sector, which is the oil sector.

7- The government must transition to issuing securities as a non-inflationary financing strategy that supports the financial markets and helps the country's economy as a whole, leading to economic growth. This includes issuing long-term securities and short-term treasury transfers.

References

1) Thuwaini, Falah Hassan, 2006, The problem of external debt, causes and effects, Iraqi Journal of Economic Sciences, issue ten.

2) Sibt AYbarc, (2010), theory of public debt and current reflections, Faculty of Economics and Administration, (Turkey).

3) Kazem, Haider Jawad, (2014), Measuring the impact of public debt on some economic variables in selected Arab countries, Master's thesis, University of Kufa.

4) Al-Obaidi, Maysoon Ali Hussein and Muhammad, Omar and Hisham, (2018), Trends in Internal Debt in Iraq and the desired future path, Journal of the Mustansiriya Center for Arab and International Studies, Volume 62, Issue 62.

5) Dawaba, Ashraf Mohamed, (2019), The Egyptian Public Debt Crisis - A Future Vision, The Institute Al-Masry Institute for Political and Strategic Studies, Egypt.

6) Muhammad, Manar Jabbar Morsi, The impact of external debt on economic growth in Egypt, an econometric study, Journal of the Faculty of Politics and Economics, Faculty of Commerce, Sohag University, Issue 8, 2020.

7) Al-Jabbari, Akbar Omar Mohiuddin, The Problem of External Financing for Developing Countries, Arab Academy Open in Denmark, 2009.

8) Al-Issawi, Abdul Karim Jaber, International Finance, Introduction to Hadith, first edition, Safaa Publishing House. And distribution, Jordan, 2012.

9) Dawas, Amin, etal., Explanation of the Lenidroit Principles for International Trade Money, 2016.

10) Al-Fatlawi, Salam Kazem Shani and Al-Moussawi, Safaa Abdul-Jabbar, (2019), measurement and analysis The relationship between the development of internal public debt and economic growth in Iraq for the period (1990 - 2017), Journal of Management and Economics, University of Karbala, Volume Eight, Issue 31.

11) Al-Khatib, Khaled Shehadha and Shamia, Ahmed Zuhair, (2007), Foundations of Public Finance, third edition.

12) Al-Qaddo, Badie Jameel, (2013), Foreign Loans and their Role in Development, Al-Rafidain College Journal University of Science, Baghdad, Al-Rafidain University College, Issue 19.

13) Brier, Reyam Nazim, public debt and its impact on the performance of the Iraqi economy for the period (2003 - 2018), Master's thesis, unpublished, Al-Qadisiyah University, 2012.

14) Dawoud, Ali Adnan, the effectiveness of public debt policy and management in stimulating economic activity in countries. He was selected for Master's Thesis, unpublished, Al-Mustansiriya University, Baghdad, 2009.

15) Al-Dulaimi, Ali Ahmed and Turki, Bassem Muhammad, public debt, indicators of financial capacity in Iraq. Analytical study for the period (2004 - 2017), Anbar University Journal of Economic and Administrative Sciences, Volume 12, Issue 28, 2020.

16) Al-Shammari, Simaa Hassan Muhammad Ali, internal public debt and its impact on banks' interest rates Al-Iraqiya for the period from 2004 - 2020, Journal of Economic Management, University of Karbala, College of Administration Economics, Volume 11, Issue 42, 2022.

17) Al-Zubaidi, Falih Naghimish Matar, Iraq's sovereign and hateful debts, Iraqi Journal of Science Al-Eqtisadiah, sixteenth year, fifty-eighth issue, 2018.

18) Dawoud, Ali Adnan, previous source.

19) Abbas, Belkacem (2004), External Debt Management, Arab Planning Institute, periodical series on Development issues in Arab countries, issue 33, third year.

20) Student, Riam Ali (2018), Measuring and analyzing the impact of the public budget deficit on external debt in Iraq within the framework of joint integration for the period (1990 - 2016), Master's thesis, unpublished, College of Administration and Economics, University of Baghdad.

21) Al-Rawi, Ahmed Omar, Analytical Perspectives on the Iraqi Economic Situation after 2014, ed. The first Dr. House for Administrative and Economic Sciences for Publishing, Baghdad, 2019.

22) Al-Tabqalji, Ahmed Moez, Iraq's debts, an overview of the debt situation, its origins, and its future, series. Publications of Bayan Center for Studies and Planning, 2018.

23) Farhan, prepared by Saleh, measuring and analyzing the policy of financial discipline in maximizing government revenues Iraq for the period 2004 – 2019, Master's thesis, unpublished, College of Administration and Economics, Tikrit University, 2021.

24) Hyman, David N, Economics, Fourth Edition, Irwin McGraw-Hill, USA 1997, p: 482.

25) Al-Birmani, Dr. Khazal, 1968, National Income and Employment, first edition, Salman Press Al-Azami, Baghdad.

26) Asfour, Dr. Abbas Lafta, Mohsen, Sondos Maher, 2022, External public debt in Iraq and ways to address it for 2004-2022, Journal of Financial and Accounting Sciences, Volume Two, Issue Two.

27) Abd, Iyad Hammad, 2008, the external debt crisis of developing countries and ways to confront it, University Journal Anbar for Economic and Administrative Sciences, Anbar University, second issue.