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EVALUATION OF THE EXTERNAL INDEBTEDNESS OF THE IRAQI ECONOMY AND WAYS TO REDUCE ITS REPERCUSSIONS

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ABSTRACT

The Iraqi economy suffers from the repercussions of its external indebtedness that it inherited from the last period of the occupation before 2003, as a result of the wars it fought and the compensations that were obligated to it, in addition to, the need for external borrowing beyond 2003 until the present. Because of its dependence on the export of one commodity represented by crude oil, whose prices fluctuate in the global market, which puts the state's general budget and its current account in a critical situation. The external indebtedness was in large amounts and far from the optimal limits for the indicators of indebtedness, which caused the Iraqi economy to have problems servicing these debts. The research was based on the hypothesis of "the possibility of reducing the repercussions of external indebtedness through proper planning for managing current and future debt. Through carrying out economic correction and economic diversification." In order for the research to reach a number of important conclusions and recommendations that are consistent with the research hypothesis and its objectives.

Keywords: *External Indebtedness, Current Account, Iraqi Economy, Indebtedness Indicators, Economic Diversification.*

INTRODUCTION

External indebtedness is one of the important issues that have attracted the attention of policy makers and international economic issues since the early eighties of the last century, following the global debt crisis that began in Mexico when it declared bankruptcy. Iraq is considered one of the countries that suffered greatly from the problem of external indebtedness, both in the periods preceding the occupation before 2003, when foreign debts financed wars and conflicts that occurred between Iraq with its neighbors and the international community. After the occupation led by the United States of America, resulting in compensation for previous wars on the one hand, as well as the need for funding to build the internal and external security apparatus, as well as strengthening it due to the deterioration of the security situation in the country to dangerous conditions, especially with the events of the terrorist entry of ISIS in 2014, an attempt to repel attack and eliminate it. On the other hand, Iraq's continued dependence on crude oil to generate national income at a high rate, its exports' dependence on this commodity, which made Iraq in a difficult situation at times when the price of oil is volatile and low in the global market, leading to a deficit in its general budget, and his current account. Consequently, he was wrongly forced to delve deeply into the issue of external indebtedness, instead of turning to alternatives such as

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internal indebtedness. In addition to, the efficient management of debts and commitment to indebtedness indicators within their optimal limits. All this has plunged Iraq into an indebtedness trap that has greatly affected the performance and growth of the economy because of the burdens that the economy bears in servicing these debts.

The problem: Iraq's tendency towards external debt excessively and the failure to manage this debt efficiently, which led to problems related to the difficulty of dealing with it and the mechanism for paying it, and this greatly affected the financial capacity and economic development. Therefore, the problem can be formulated in the following question: Can commitment to the indicators of external indebtedness, rational management of it, strengthening and diversifying the economy, limit the repercussions of external indebtedness on the Iraqi economy?

Hypothesis: It is based on the hypothesis that "adherence to indicators of external indebtedness assessment on the one hand, strengthening the business environment in the economy and diversifying its productive sectors, can significantly reduce Iraq's external debt problems, and lead to a reduction in the need for it in the future".

Objectives: The research aims to achieve several objectives:

A- Identifying the scientific implications of external indebtedness, and its origin.
B- A study of the trends of Iraq's external debt and its causes.
C- Calculating indicators to assess the external indebtedness in Iraq.
D- A statement of the ways that limit the repercussions of the external indebtedness on the Iraqi economy at the present time and in the future.

THEORETICAL AND CONCEPTUAL FRAMEWORK OF EXTERNAL DEBT:

In this section, external indebtedness will be covered in terms of its historical origin, conceptual definitions, types and classes of creditors, and justifications for indebtedness:

Historical background:

The history of the global debt crisis dates to 1982, when Mexico and a number of other developing countries announced their inability to service foreign debts, as well as the demand for rescheduling these debts. During the period between 1980-1990, about 300 multilateral agreements were concluded to relieve these debts. Where foreign debt has been a problem for debtor countries since at least the 1960s, when the Pearson Committee emphasized the need for increased foreign aid and debt relief [(1)]. In addition, in 1982 the external debt became a crisis for the creditor banks, which faced the problem of writing off bad loans, while the banks were able to adapt to the situation, as a large number of developing countries were burdened by the high levels of external indebtedness. The decade of the eighties of the twentieth century was called (the lost decade) for many developing countries. Where the average per capita income in these countries was growing at an average annual rate of about 1.9% only, as it was zero or a negative number in three regions of the twentieth century. The world, while it was positive only in Asia [2].

In 1993, the external indebtedness of the developing countries was estimated at about 1.5 trillion dollars, most of which belongs to private creditors, then the number rose to reach 1.9 trillion dollars at the beginning of the twenty-first century. The World Bank has identified 25 low-income countries, all located in the continent of Africa, as the most severe countries in terms of external indebtedness. Also, there are 20 other middle-income countries, including 12 countries in Latin America, which are considered highly indebted countries. The debt crisis continued until the late 1990s, when it erupted in East Asia after it was limited to Africa and Latin America, although in 1993 the economic growth rates in Latin America began to recover, as this continent was able to return again to the markets global money. African countries are primarily indebted to official bodies varying between bilateral and multilateral, while we find that most of the countries of Latin America and Asia owe heavily to international banks [3].

Definition of External Indebtedness and its Categories:

A. Definition of External Indebtedness:

The International Monetary Fund defined the external debt in its publication entitled "External Debt Statistics - A Guide for its Compilers and Users" issued in 2014, with its content "the total external debt at any given time is the unpaid part of the actual current liabilities, not the contingency, owed by residents of an economy towards non-residents that require the debtor to make payments to repay principal and/or interest at a point or points in time in the future" [4]. From this concept or definition, the basic elements of the concept of external debt become apparent, which are [5]:

- ❖ **Debt Liabilities:** usually arise from an institutional unit (the creditor) providing an economic value (financial or non-financial assets), including (goods, services, income or all of that) to another institutional unit (the debtor). This is under a contractual arrangement that specifies the terms of payment of the amount owed. Debt obligations can also be established by the force of law (taxes, penalties). Or as a result of events that result in the transfer of future payments, such as claims against non-life insurance companies and claims for compensation for damages. It should be noted here that contingent liabilities are not included in the definitions of external debt.
- ❖ **Principal Debt:** It is the amount due from the debtor to the creditor. As for the principal payments, they are all payments made by the debtor to the creditor that reduce the value of the principal outstanding.
- ❖ **Interest**: the costs that the debtor must pay to the creditor annually or over more frequent periods.
- ❖ **Residence:** Classifying debt liabilities as external debts requires that they be owed by a resident to a non-resident.

B. **Classification of Foreign Debts:** Debts are divided into several types according to the classification criterion to [6]:

✓ **The maturity date of the external debt:**

- **Short external debt:** It is the debt that extends for one year or less.
- **Long external debt:** It is the debt whose original term exceeds, or which has been postponed for one year, due to non-residents, and which must be repaid in a foreign currency, goods or services.

✓ **According to the source of the external debt:**

- **Government debt (official):**
  - **Multilateral loans:** are loans granted by international and regional organizations, bodies working in the field of lending, such as the World Bank, the International Finance Corporation, the International Development Authority, the Arab Fund for Economic and Social Development, the Islamic Development Bank, the European Investment Bank, the European Development Fund, the Bank Arab Economic Development in Africa, African Development Bank.
  - **Bilateral loans:** from governments and their agencies that include central banks, independent government agencies such as national financing funds, and official export credit agencies.
- **Debts from Private Sources:** which include:
  - ➢ Bonds issued by private parties are sold to foreign institutions.
  - ➢ Loans from private banks and financial institutions.
  - ➢ Credit from other private sources, such as credit from producers, exporters and other suppliers, bank credit secured by the Export Credit Guarantee Agency.

✓ **According to the Creditors**, they are of two types:

- o **Private Creditors:** They are those who own bonds (bonds employed in the public sector or derived from private investment), private banks and other private and industrial financial institutions, exporters and other suppliers who give loans.
- o **Public Creditors:** they are international organizations, local development banks, joint bodies between states and governments and their institutions, including central banks.

Justifications for Resorting to External Indebtedness:

The resort to external borrowing is a normal product of economic activity. In some periods, the income of some economic entities may exceed their current consumption and investment needs, while other entities face a shortage of these resources. Through the presence of debt, both groups of entities become more capable of achieving their preferences in saving, consuming, and investing over time, which encourages economic growth [7]. In the literature of economic thought, some models have appeared that have attempted to explain the justifications for external indebtedness, as follows [8]:

A- **The Local Resource Gap:** which expresses the gap between saving and domestic investment to reflect a manifestation of the internal imbalance. This gap clearly indicates the insufficiency of national savings to cover the required national investments, where the volume of savings and the method of their employment will determine the formation of capital, because the possibilities available for the formation of national savings vary from one country to another depending on what each country possesses of natural resources, as well as the nature of the saving behavior that also varies among countries, so if GDP is not able to provide sufficient income to finance consumption and to form sufficient savings for the required investment, this gap appears, which is reflected in the form of a deficit. In general, the countries that have used external financing suffer from severe shortcomings in their saving capacities, which hinders their investments.

B- **External Resources Gap:** It is the gap between exports and imports resulting from a deficiency in the proceeds of exports of goods and services from covering the value of imports therein. The external resource gap is a reflection of the domestic resource gap, an expression of the level of total demand and total supply. Where, in theory, there is a relationship between the domestic and external gaps, assuming that there is a complete current overlap between the resources of each of them, but there are differences between the two gaps in terms of the nature of the factors affecting each of them, because the local incomes practically do not have a full substitution degree to compensate for the need To external resources that are characterized by a high degree of substitution to compensate for the lack of domestic savings.

In this regard, the analysis that links the domestic resource gap and the external resource gap is called the "two gap model" because there is an interrelationship between them. When the value of imports into the national economy during a specific period exceeds what can be obtained from foreign exchange derived from exports during the same period, the difference must be financed from abroad, this external financing reflects the gap of external resources or what is called the "foreign trade gap", Which must correspond to the amount of the deficit in domestic savings during the previous periods. Using the notation, it can be clarified as follows [(9)]:

$Y = C + I + (X – M)$

Y: Gross Domestic Product, **C:** Gross Domestic Consumption, **I:** Gross Domestic investment, **X:** Exports, **M:** Imports.

As the gross domestic product (GDP) generates an income equal to it, this income is in turn distributed between consumption and saving, as shown by the following:

$Y = C + S$

$C + S = C + I + (X – M)$

$C + S + M = C + I + X$

$M – X = I – S$

The last equation shows the correspondence between the two gaps. When imports are increased over exports, the external resource gap appears, which represents the deficit in the current account of the balance of payments, as this deficit is financed by external capital flows (FC), as follows:

I – S = M – X = FC

This equation simply means that the total investment of the national economy, which exceeds its total savings, must be financed through additional flows of foreign capital, as it helps to finance the imports necessary to support economic growth.

C- **The General Budget Gap:** which is expressed as the gap between public revenues and public expenditures. Where the analytical relationship between the internal imbalance related to public expenditures and public revenues on the one hand, and between saving and investment on the other hand, the external imbalance concerned with the difference between exports and imports, it is called the "three-gaps model". By using symbols, it can be represented as follows:

(IP – SP) + (IG – SG) = M – X

IP: Investment in the private sector, **SP:** saving in the private sector, **IG:** investment in the government sector, **SG:** saving in the government sector.

The Effect of External Indebtedness on Economic Development:

There is no doubt that external indebtedness has positive effects at other times, and negative effects at other times. The two effects may combine together during time periods, as follows:

A. **Positive Effects:** where external debt is often resorted to by economies with weak capital (usually developing countries). Which can borrow to finance investment to enhance its economic growth without having to increase its national savings significantly. In general, if the external debt is for a specific period, in order to find financing to support productive projects, there is no harm in it because it will definitely contribute to enhancing the productivity of the national economy [(10)].

B. **Negative Effects:** This may result in an increase in the economy's exposure to risks arising from solvency and liquidity problems arising from the total external debt position. It may also result from external debts by shifting the burden on economic growth in the long term if it exceeds its optimum level. There are several directions for estimating this, for example, the criteria of the Treaty (Maastricht) for the requirements to join the euro-zone, where it considers that the limit set for the public debt of the country that wants to join should not exceed 60% of the gross national product. While both economists (Carmen Reinhart and Kenneth Rogoff) have reached a conclusion in their research that the ratio of government debt to GDP if it exceeds 90% begins to turn into a burden on economic growth. In addition, there is another negative effect that may be represented in the use of external debt to finance unproductive expenditures, which leads to the growth and accumulation of debt, or what is called the effect of rolling the snowball, which will constitute a danger and a burden on later generations [(11)].

THE REALITY OF IRAQ'S EXTERNAL INDEBTEDNESS

To know the historical background of the external indebtedness and its development in Iraq, it is necessary to review that since the early eighties of the last century, as the external indebtedness had started as a legacy of the previous political regime of 2003, as a result of the wrong policies pursued by the ruling authority due to borrowing for military financing during the wars of Iran and the invasion of Kuwait, Which led to sanctions imposed by the UN Security Council on Iraq in accordance with Resolution 687 of 3rd, April, 1991, as a result of the devastation inflicted on Kuwait from this war on 2nd, August, 1990, and the costs of liberating Kuwait through Operation Desert Storm in 1991, in addition to compensation from countries, Organizations, companies, and individuals affected by war and invasion. The UN Security Council, according to Resolution 986 in 1995, set a percentage not exceeding 30% of Iraqi oil sales, under the Oil for Food and Drug Program in 1996 to compensate countries, companies and individuals who were affected by the war, then reduced the percentage to 25% in 2000, to be reduced after a year 2003 to 5% (12).

After 2003, negotiations took place with the Paris Club countries in order to extinguish or write off a percentage ranging from 75% to 95% of its hateful or obnoxious debts on Iraq, in order to address the problem of the sustainability of the external debt, as these debts were provided for political considerations and military purposes and to spend on programs Armament was not provided for humanitarian considerations, especially since the bulk of the debt is accumulated interest and arrears. Iraq was then subject to international sanctions and embargo that lasted 13 years, being hostage to UN Security Council resolutions (13). According to the negotiations conducted by the Iraqi experts with the International Monetary Fund experts, the Executive Board of the International Monetary Fund approved the (emergency support agreement), which is one of the requirements for entering into negotiations with the Paris Club countries. Negotiations with debtor countries according to the (emergency support agreement). It was required that the debtor country sign with the International Monetary Fund and the support agreement, through which the state is granted monetary facilities in foreign currencies according to a specific percentage of its share in the fund without imposing on the state Measures to correct has economic and financial structure. The negotiations ended with obtaining initial approvals and pledges to write off 70% to 80% of the debts of the Paris Club countries on Iraq after the flexibility shown by France and Germany. Which linked the rescheduling and debt reduction to Iraq's restoration of its independence, sovereignty, and its enjoyment of an independent state, and their involvement with the countries that opposed the war (Russia and China) with reconstruction contracts (14).

The total external debt processed by Iraq before the implementation of the Paris Club Agreement, which was signed in 2004, amounted to the following (15):

1- The government debt, which amounts to about (699803) million dollars for the countries of the Paris Club and beyond.

2- The commercial debt of the foreign private sector, which amounted to (192731) million dollars.

Under the agreement with the Paris Club, Iraq reached an agreement to reduce the debts of the creditor countries to the members of the Paris Club by 80% of the total debts amounting to 39.9 billion dollars, which according to conditional controls and procedures, it must adhere to the implementation of the structural reform program, which includes a set of economic policies And monetary and financial, which were identified by(16):

1- Reconsidering the prices of oil derivatives, in order to balance the prices with the price levels in the neighboring countries.
2- Lifting the subsidy on the ration card, and replacing it with cash compensation.
3- The trend towards privatization of public sector companies.
4- Opening up areas for foreign investment.

It is also not a secret to anyone that the International Monetary Fund has specific demands as conditions for structural reform that differ according to economic fields. At the level of foreign trade, the value of the national currency is reduced against other currencies so that raw materials exported abroad become at the lowest prices, open free markets for the exchange of foreign currencies, Abolishing control over foreign exchange, and removing restrictions imposed on dealing in foreign currencies. These measures lead to the granting country abandoning the protection of its national products. An acceptable pattern of free trade in line with the requirements of the International Monetary Fund has been imposed. At the national level, the conditions of the International Monetary Fund are summed up in the abolition of government support for supply commodities, which constitute the primary source of livelihood for the poor and low-income, and urges to increase and diversify taxes on various goods and services, reduce government employment for labor, also reduce current government spending, and reduce spending on service sectors (17).

The agreement signed with the Paris Club states provide for a 30% reduction of the total debt upon signing the agreement with the club, which will be from the overdue interests, a further 30% reduction if Iraq signs (emergency support arrangements) with the International Monetary Fund on 31th, December, 2005, a reduction of 20% of the debt in the event that the International Monetary Fund submits a report confirming that Iraq has completed its obligations under the provisions of the Agreement on Support Arrangements, no later than 31th, December, 2008. Iraq was exempted from all its debts by (100%) by the United States, Australia, Malta, China, Slovakia and Cyprus, while Serbia canceled 90%, Bulgaria, Romania, Malaysia and Indonesia canceled 80% of its debts, Egypt canceled 65% of its total debts amounting to 740 million dollars, Poland canceled 70% of its total debt of 500 million dollars. As for commercial debts, Iraq was able to conclude a deal with major private sector creditors (banks and international companies) at the Singapore meeting at the end of 2005, according to which the creditors must exchange 20% of the principal and interest for bonds and cancel the rest, which is debts exceeding 20 billion dollars. In addition to Iraq being able to agree on financial settlements with 80% of the creditors who have amounts less than 35 million dollars through cash purchase, through an offer that is the purchase of debt with debt, these creditors agreed to receive a cash payment of about 12.5% of the entire debt, As for the rest, it was canceled (18).

Iraq's debts during the war and economic blockade periods can be grouped into the following groups [(19)]:

The first group: the 18 countries of the Paris Club, Iraq's debts to these countries amounted to 51.6 billion dollars, as was clarified. An agreement was signed between Iraq and the Paris Club countries, which resulted in the reduction of Iraq's debts by 80%, in three stages (30%, 30% and 20%). years, leaving the balance of 9.9 billion dollars.

The Two Group: the 26 countries outside the Paris Club, whose debts amounted to 17.9 billion dollars. Twelve countries agreed to settle on the same terms as the Paris Club, with debts totaling about 2.9 billion dollars. There are 14 countries of which the debts have not been paid for several reasons, including, the lack of matching of their debts, or the fact that the debt was made after 1990 in violation of United Nations' resolutions, or they did not decide to submit their claim under the terms of the Paris Club. The debts of this group are estimated at about 15 billion dollars, so the total debt of these 26 countries before the reduction is 17.9 billion dollars, so the debts after the reduction are 2.9 billion dollars.

The third group: the Arab Gulf countries (Saudi Arabia, Kuwait, Qatar, and the UAE). These countries have debts ranging between 37-47 billion dollars.

The fourth group: commercial debts, which amounted to 20 billion dollars, distributed among financial institutions, suppliers and direct obligations to Iraqi official authorities, and foreign companies operating in Iraq. A portion of commercial debts worth less than 35 million dollars were purchased at a rate of 10.25%, so the total debts of purchases amounted to about 3.9 billion dollars, the amount of purchase amounted to about 400 million dollars. As for commercial debts that exceed 35 million dollars, they were purchased with bonds of 20% of the total debt, with an annual interest rate of 5.8%. The debt is repaid in 16 semi-annual installments as of 2020. The amount purchased was about 14 billion dollars, with an amount of 2.8 billion dollars. There are also other commercial debts that Iraq refused to comply with because they did not conform to the records, or were made after 1990 in violation of United Nations resolutions, or were not established at all due to the small percentage of purchase.

The Fifth group: outstanding or unresolved debts. There are some countries whose debts have not been addressed, such as Turkey, Morocco, Jordan, Libya, Algeria and India. However, the debts between Iraq and Algeria have recently been settled, and they have completely relinquished their debts.

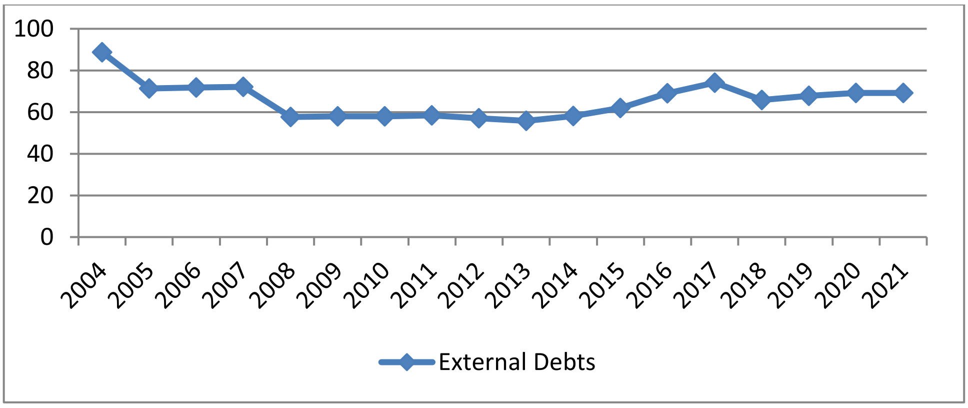
As for the period after 2003, during the period (2004-2021), the components of Iraq's external debt can be shown as in the following table:

Table (1)
The components of Iraq's External Debt for the period (2004-2020)
(billion dollars)

Years	Debt of Paris Club Countries	Debt of Countries outside the Paris Club	Commercial Debts	Debts of Gulf Countries	Other Countries	Debts of the Arab Monetary Fund	Total External Debts	Growth Rate (%)
2004	28.994	11.579	6.659	27.639	13.263	0.654	88.7788	-24.77
2005	14.691	9.835	5.198	27.639	13.263	0.654	71.28	-19.71
2006	16.147	10.031	4.097	27.639	13.263	0.618	71.795	0.72
2007	16.478	10.07	4.097	27.639	13.263	0.618	72.165	0.52
2008	9.93	2.719	3.681	27.639	13.263	0.478	57.71	-20.03
2009	10.094	2.83	3.681	27.639	13.263	0.441	57.948	0.41
2010	10.094	2.83	3.681	27.639	13.263	0.409	57.916	-0.06
2011	10.586	2.879	3.681	27.639	13.263	0.374	58.422	0.87
2012	9.444	2.712	3.681	27.639	13.263	0.338	57.077	-2.30
2013	8.365	2.545	3.681	27.639	13.263	0.299	55.792	-2.25
2014	7.437	2.379	3.637	27.639	13.263	0.246	58.12	4.17
2015	6.602	2.212	3.631	27.639	13.263	0.197	61.92	6.54
2016	5.979	2.045	3.527	27.639	13.263	0.153	69.05	11.51
2017	5.818	1.878	3.307	27.639	13.263	0.124	74.18	7.43
2018	6.459	2.128	3.525	29.639	13.263	0.181	65.81	-11.28
2019	6.214	2.065	3.497	27.639	13.263	0.163	67.74	2.93
2020	6.11	2.029	3.464	27.639	13.263	0.155	69.19	2.14
2021	6.15	2.025	3.448	27.639	13.263	0.155	69.23	0.05

Source: Iraqi Ministry of Finance, Public Debt Department, Debt Management Strategy for the medium term.

Figure (1)
The trend of external public debt in Iraq



Source: prepared by the researcher based on the data in table (1).

Table (1) illustrate that Iraq's external debt was 88.7788 billion dollars in 2004. This debt fluctuated between rise and fall during the period shown in the table until it reached 69.19 billion dollars in 2020, and 69.23 billion dollars in 2021. Depending on the need of the general budget, whenever revenues are unable to cover the requirements of public expenditures, the deficit is paid through external borrowing. Also, during the period, the growth rates of the external debt range between positive and negative.

ANALYSIS OF THE INDICATORS OF IRAQ'S EXTERNAL INDEBTEDNESS

There is a set of indicators to assess the sustainability of the external indebtedness sustainability. Analyzing it, as this matter is important to assess the country's ability to finance its policy goals and service the resulting debt. Of these indicators are based on the following equation(20):

External debt index = external indebtedness / ability to repay

As the indebtedness indicators are the debt stock or debt service, the debt stock is measured by the nominal value of the debt or its present value. External debt service is the sum of the amortization of debt and interest payments. As for the measures of ability to pay, they are the gross domestic product, exports, imports or government revenues, sometimes international reserves are also added. Relying on the above equation, a set of indicators can be deduced that are used to measure the extent to which the external debt can be tolerated and its continuity:

A. Indicator of External Debt Ratio to GDP:

Which is defined as the ratio of the total external debt outstanding at the end of the year to the annual gross domestic product for that year. Where the gross domestic product is put in the denominator, and the amount of external debt in the numerator. This ratio gives an indication to the extent of the possibility of servicing the external debt by transferring resources from the production of domestic goods to the production of export goods. The higher this percentage, the more serious the external debt and the inability to continue with it. The limits of this indicator vary according to different international institutions, as well as in different countries, as each country has different circumstances and capabilities. For example, some international institutions have set limits for external debt as a percentage of GDP. If this percentage is exceeded, the external debt will become a heavy burden, to indicate the existence of a problem it should be exceeded. For example, this percentage is safe, between 100% - 150% in the developed countries, according to a report published on the prospects of the global economy, and in the emerging countries, it ranges between 35% - 75% of GDP. In the Paris Club countries, it is customary to consider the indebtedness to be high if the ratio exceeds the 50% barrier of GDP. As for the group of European Union countries, the Maastricht Treaty specified that the percentage does not exceed 60% (21).

B. Indicator of External Debt Ratio to Exports:

This indicator is calculated by extracting the ratio of the total external debt outstanding at the end of the year to the economy's exports of goods and services in that year. The continuing increase in the ratio of debt to exports over time at a certain interest rate, implies that the total debt is growing at a faster rate than the main source of external income for that economy, which indicates that the country may suffer from problems in meeting its future debt obligations (22).

C. Indicator of External Debt Ratio to Public Revenue:

It is the ratio of the total external debt outstanding at the end of the year to the country's annual fiscal revenues. This indicator can be used as a measure of debt sustainability in countries with relatively open economies, which face a heavy external debt burden on public finances.

D. Indicator of the Ratio of International Reserves to External Debt:

This indicator reflects the adequacy of the international reserves to cover the external debt, as the high ratio indicates the extent to which the international reserves are able to face the accumulated burdens of the increase in the external debt. This indicator is calculated by dividing international reserves by the total external debt for each year of the time series (23).

It is possible to analyze the external debt of Iraq and evaluate during the period that followed the war of occupation of Iraq, during the period 2004-2021. By tracking external debt trends and calculating sustainability indicators, according to the following table (2):

Table (2)

The Trend of Iraq's External Debt and Indicators of Sustainability

Years	Total External Debt (billion dollars)	GDP (million dollars)	Exports (million dollars)	Public Revenues (million dollars)	International Reserves (million dollars)*	Debt to GDP (%)*	Debt to Exports (%)*	Debt to Revenue (%)*	Reserves to Debt (%)*
2004	88.7788	50861	20312	20165	11826	147.5	437.0	440.2	13.3
2005	71.28	54584	29343	27002	11918	130.5	242.9	263.9	16.7
2006	71.795	74911	29938	32709	13889	95.8	239.8	219.4	19.3
2007	72.165	88038	38024	41486	20991	81.9	189.7	173.9	29.0
2008	57.71	130204	62191	63748	29236	44.3	92.7	90.5	50.6
2009	57.948	111300	39008	47035	41621	51.8	148.5	123.2	71.8
2010	57.916	117138	51764	59675	50357	49.4	111.8	97.0	86.9
2011	58.422	185749	79628	85212	47795	31.4	73.3	68.5	81.8
2012	57.077	218032	94051	93220	48566	26.1	60.6	61.2	85.0
2013	55.792	234637	89565	97633	47125	23.7	62.2	57.1	84.4
2014	58.12	222041	83721	90383	47694	26.1	69.4	64.3	82.0
2015	61.92	157015	51338	59766	50881	39.4	120.6	103.6	82.1

2016	**69.05**	**157839**	**41298**	**46395**	**42802**	**43.7**	**167.1**	**148.8**	**61.9**
2017	**74.18**	**175683**	**57559**	**65390**	**49399**	**42.2**	**128.8**	**113.4**	**66.5**
2018	**65.81**	**199134**	**86360**	**90084**	**64722**	**33.0**	**76.2**	**73.0**	**98.3**
2019	**67.74**	**216722**	**81585**	**91004**	**68020**	**31.2**	**83.0**	**74.4**	**100.4**
2020	**69.19**	**154592**	**46829**	**52448**	**57897**	**44.7**	**147.7**	**131.9**	**83.6**
2021	**69.23**	**186532**	**68083**	**74731**	**60009**	**37.11**	**101.6**	**92.6**	**86.6**
Average (%)*	**–**	**–**	**–**	**–**	**–**	**54.4**	**141.8**	**133.1**	**66.8**

Source:

1- Central Bank of Iraq, Annual Statistical Bulletin, Miscellaneous Annual Issues.

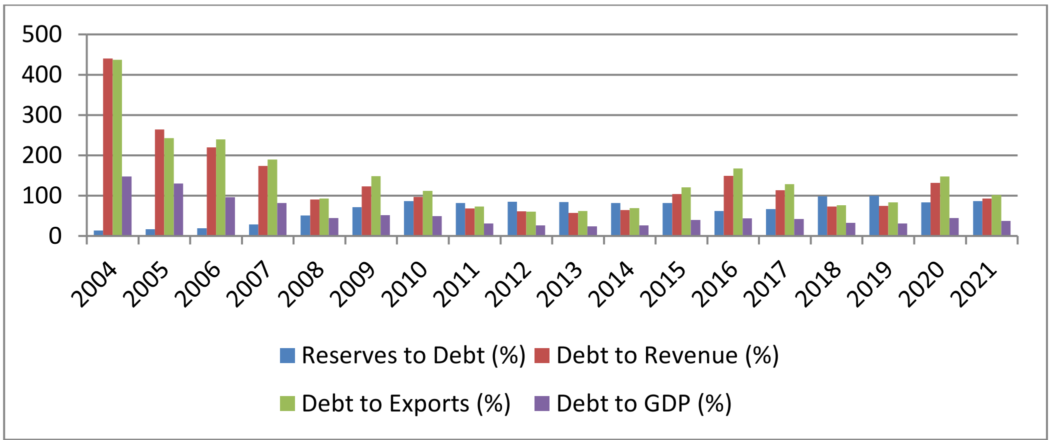
2- Arab Monetary Fund, Unified Arab Economic Report, Statistical Annexes, Miscellaneous Annual Issues.

3- Iraqi Ministry of Finance, Public Debt Department, External Debt Department, unpublished data.

** Extracted by the researcher.*

Figure (2)

Indicators of the Ability to Sustain the External Debt Burden



Source: prepared by the researcher based on the data in table (2).

Table (2) illustrate that Iraq's external debt has fluctuated up and down during the period 2004-2021, with a maximum of 88.7788 billion dollars, and the lowest amounting to 55.792 billion dollars. We also note from the table the growth of the values of the gross domestic product, the total exports of goods and services, and the total public revenues. In addition, the values of the international reserves accumulated in Iraq during the same period. These variables have been included in the table for the purpose of evaluating the external indebtedness according to the recognized indicators and referred to in the beginning of the previous paragraph related to the theoretical presentation of the indicators. Where these indicators were extracted according to the percentages shown in table (2).

As for the external debt ratio to the GDP, the highest ratio was 147.5% in 2004, while the lowest was 23.7% in 2013, and the average during the period referred to in the table was 54.4%. These ratios also indicate that the ratio of the external debt to the gross domestic product has risen to high and dangerous limits, indicating its irrationality, and reflecting the unsustainable with it. With regard to the indicator of the ratio of the external debt to the country's total exports, the table illustrate that its highest ratio in 2004 was 437.0%, while the lowest ratio reached by the indicator was 60.6%, and the average ratio of external debt to exports was during the period shown in the table 141.8% . To infer from the percentages shown for this indicator that they are also high, and indicate the inability of exports to pay the principal and interests of the debt. Mean in the same context, the inability to sustain and manage external debts. As for the ratio of external debt to public revenues, in 2004 this ratio reached the highest ratio of 440.2%, while the lowest ratio reached 57.1% in 2013. Also, during the period indicated in the table, the average ratio of external debt to public revenues was 133.1%. To show from these ratios the inefficiency of Iraq's external debt, and the inability of public revenues to bear the debt burden and continue with it. The ratio of international reserves to external debt also reached 100.4% in 2019 as its highest level during the period indicated in the table. The lowest level of the ratio reached 13.3% in 2004. The average percentage of the index reached 66.8% during the period 2004-2021. It is evident from the ratios of the international reserves index to the external debt in Iraq that these reserves are unable to meet the burdens of external debts due to their low level, which leads in the same previous paths to the unsustainable of international reserves to bear the possibility of continuity with external debts.

MECHANISMS FOR ALLEVIATING EXTERNAL DEBT

The Iraqi economy is a unilateral - rentier, as it depends on the production and export of crude oil. This can be shown through the following table (3):

Table (3)

The unilateralism of the Iraqi Economy and Exports (million dollars)

Years	GDP	Total Exports	Total Oil Exports	Total Exports to GDP (%)*	Oil Exports to Total Exports (%)*
2004	50861	20312	18670	0.39	0.91
2005	54584	29343	24058	0.53	0.81
2006	74911	29938	29708	0.39	0.99
2007	88038	38024	37771	0.34	0.99
2008	130204	62191	61883	0.47	0.99
2009	111300	39008	38964	0.35	0.99
2010	117138	51764	54248	0.45	1.04
2011	185749	79628	79407	0.42	0.99
2012	218032	94051	93778	0.43	0.99
2013	234637	89565	89349	0.38	0.99
2014	222041	83721	83538	0.37	0.99
2015	157015	51338	43047	0.33	0.83
2016	157839	41298	28095	0.27	0.68
2017	175683	57559	46513	0.33	0.80
2018	199134	86360	72924	0.43	0.84

2019	**216272**	**81585**	**78527**	**0.40**	**0.96**
2020	**154592**	**46829**	**41756**	**0.30**	**0.89**
2021	**186532**	**68083**	**59930**	**0.36**	**0.88**
Average (%)*	**–**	**–**	**–**	**0.34**	**0.82**

Source:

1- Arab Monetary Fund, Unified Arab Economic Report, Statistical Annexes, Miscellaneous Annual Issues.

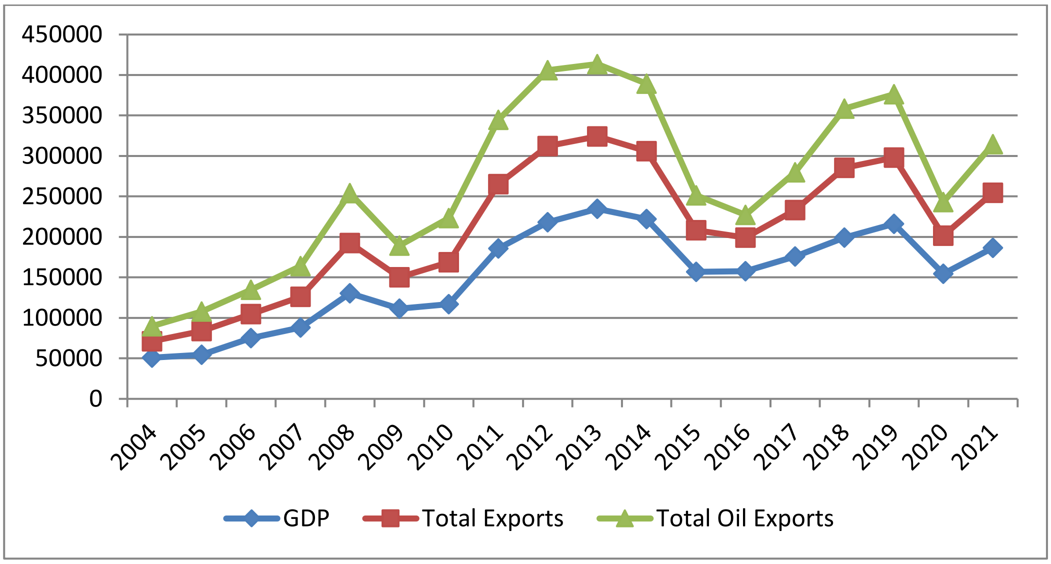
2- Central Bank of Iraq, Annual Statistical Bulletin, Miscellaneous Annual Issues.

** Extracted by the researcher.*

Table (3) illustrate that the ratio of total exports to the gross domestic product is high, in a clear indication of the dependence of the Iraqi gross domestic product on exports, as this ratio reached, on average, during the period 2004-2021, a rate of 0.34%. As for the structure of these exports, it is illustrated by the ratio of oil exports to total exports, as this ratio, as average for the mentioned period, reached 0.82%. This indicates that most of the exports are crude oil exports. Mean in general that the Iraqi economy depends in generating its output and exports on crude oil, which is exposed to fluctuations in supply and demand in the global oil market to determine its prices, and this the amount of the proceeds of total exports. Which pushes the country to external borrowing at times when the world price of oil is low, in order to bridge the gap between public expenditures and public revenues. In addition, bridging the current account gap in the balance of payments, when it suffers a deficit due to the shortfall in the values of exports compared to the values of imports.

Figure (3)

Dependency of GDP and Exports on Crude Oil



Source: prepared by the researcher based on the data in table (2).

Because of the Iraqi economy's dependence on crude oil and its exports, whose values fluctuate according to the fluctuations of the oil market, the issue of reducing the repercussions and effects of external debt falls in two directions:

First direction: Managing Current and Future Debts Rationally, by:

1- Continuing to negotiate the current debts with private institutions and international institutions for the purpose of rescheduling them and writing off part of them, especially since Iraq has gone through a critical period while fighting the terrorist ISIS in 2014 on behalf of the whole world.

2- Reducing and transforming public spending, as the purpose of reducing public spending is to bring it to a level appropriate to the available resources. Through a set of measures taken by the government in a smooth and sequential manner over a period of 12 to 18 months, which includes getting rid of subsidies that burden the state budget in favor of Losing production units in the public sector. In addition, a reduction in the items of transfer expenditures of a social nature, especially the non-essential ones. As for the transfer of public spending, it is done by devaluing the local currency towards the dollar in particular. Enhances the possibility of exports and discourages imports, and this leads to an increase in the country's foreign currency revenues needed to reduce the current account deficit and service the external debt (24).

3- Not to resort to external borrowing except in the case of special and exceptional circumstances. Instead, internal borrowing is used, which is easy to manage. In addition, the domestic borrowing installments and its benefits must be recycled in the national economy. That reduces the outflow of foreign currency abroad, as long as the foreign loan has a nominal value in foreign currency.

4- Avoid borrowing from private international institutions, as the loans of these institutions are high, and these loans are difficult to schedule. Instead, when necessary, resort to international multilateral institutions, as the interest is lower, and debts can be scheduled in difficult cases.

5- Iraq can also exchange part of its foreign debts for shares. As this reduces annual debt service payments, this is an attractive way to reduce the amount of external debt. According to the process of swapping shares for debt, an international bank converts the loan provided to the debtor state into shares in one of its public or private productive institutions, Then these institutions within the debtor state reduce debt service obligations, while the bank benefits through diversifying its financial portfolio (25).

6- There is an attractive, but not widely tested, scheme globally, which involves paying off some external debt in local currency. Under this method, it includes exchanging debt for tax credit. The creditor bank resells the debt to the debtor country, in return for obtaining a tax credit that will be resold later. The main advantage of this plan is to reduce the size of the outstanding debt without the need for the banks to bear some losses. As for the main defect of the plan, it is represented in the debtor state's loss of tax revenue, which again contributes to the deterioration of its fiscal deficit.

7- There is a plan that was put forward by Baker during the period 1985-1988, represented in the purchase of time by the debtor countries to reduce their trade deficit and raise the growth rates of exports. In this way, Iraq can present this idea again to benefit from it. The plan includes directing new loans to the major debtor countries over a period of three years, despite the reluctance of international commercial banks to do so. In return, the debtor countries agree to implement structural reforms [26].

8- Refrain from resorting to the multiplicity of international institutions from which the borrowing is made. As this will create difficulty in dealing with and managing debts. In addition, it creates difficulty in negotiating with these various parties, which increases the burden of the external debt and creates an inability to continue with it.
9- It is possible to resort to monetizing the assets and property owned by Iraq abroad. This requires inventory of these assets and classification. As well as negotiating with the countries in it if there are problems related to it. And then sell it in foreign currency in order to alleviate the accumulated external debt.
10- In order to reduce the waste in the exit of hard currency abroad, Iraq can rely on a new mechanism in the issue of selling the dollar to Iraqi traders and investors through the currency auction. As much of the dollar currency is smuggled abroad, stored and speculated, or invested abroad by the Iraqi private sector. To reduce this, the so-called import documentary credits are used. Thus, subtracting the dollar is associated with the real values of imports. To be limited in this way to preserve the dollar balance with the Central Bank from waste, which contributes to servicing foreign debts.

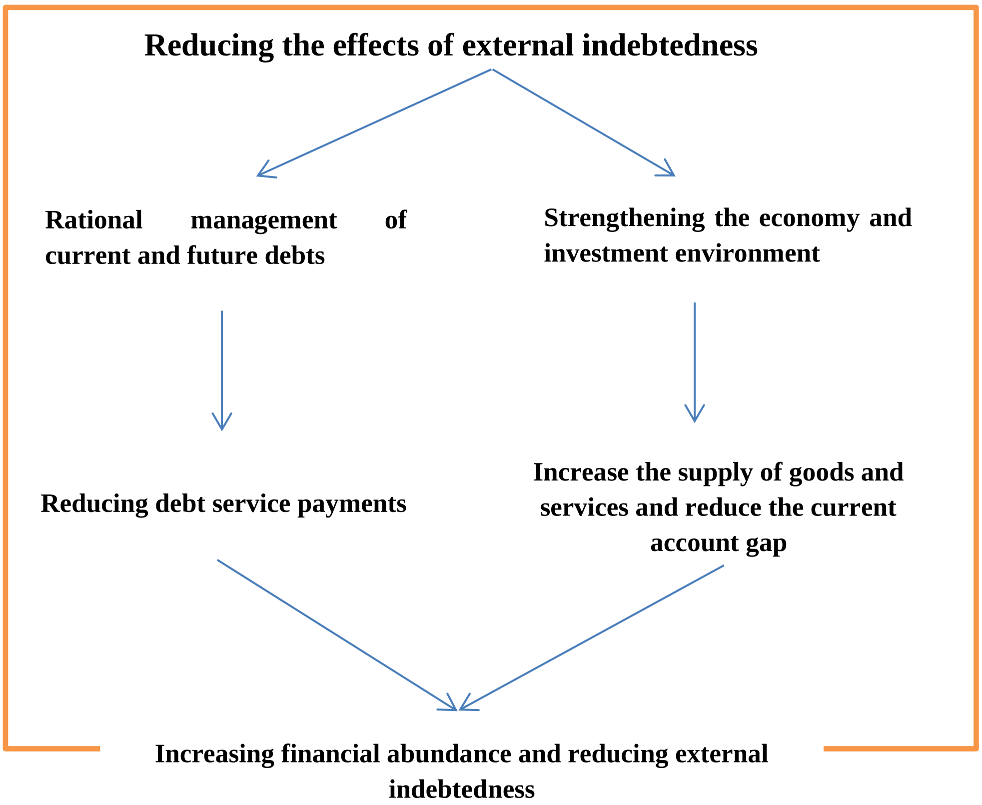
Second direction: Strengthening and Diversifying the Economy:

Strengthening economic activity and diversifying the structure of production and exports will reduce the domestic resource gap (the general budget deficit), in addition to, reducing the external resource gap (the current account deficit). Thus, this reduces the need for difficult external debt. The second direction can be achieved through:

1- Creating and improving the investment environment in Iraq. To lead to increased production of goods and services by local and foreign investors. Including raising the aggregate supply to match the aggregate demand, as well as achieving a level of exports and reducing imports. This limits the need for external loans, as well as the accumulation of foreign currency.
2- Strengthening the role of the private sector in the economy to take its place in employing workers, reducing unemployment, and providing necessary goods and services to achieve economic development. In all industrial, agricultural and service sectors, and integration into the global work environment. This will save the state a lot of money that it needs and that it can borrow from abroad [27].
3- Establishing a sovereign fund to allocate surplus oil resources during periods of oil price booms. Surplus funds are invested in infrastructure and superstructure projects, or as an alternative buffer for external borrowing in times of crisis.
4- Strengthen industries in public projects in which Iraq has a comparative advantage, such as petrochemical industries, construction industries and food industries. In order to bridge the domestic demand gap and export the surplus to achieve positive increases in the current account.
5- Strengthening interdependence within an interconnected international environment and special globalization. With regard to regional and multilateral trade agreements. Which

make the Iraqi economy a reliable economic environment. This leads to an improvement in the production and financial environment. This reduces the need for external loans in light of special or global crises [28].

Figure (4)
Reducing the External Indebtedness of Iraq



Source: Prepared by the researcher according to the study's vision.

CONCLUSIONS AND RECOMMENDATIONS

Through the previous review of the study, a set of conclusions and recommendations were reached, as indicated by the following:

Conclusions:

1- Iraq turned to external borrowing in a large, unjustified manner, whether for the period before 2003 or after. Which trapped him in the indebtedness trap that affected the welfare of the economy, due to the heavy service of this debt. Also, Iraq did not take an alternative path, which is the tendency towards internal borrowing except within narrow limits, which exacerbated the matter more difficult.

2- Iraq has dealt with a large group of creditors as countries and private and multilateral institutions, which has made it lose the ability to follow-up, negotiate, and rationally manage and serve the debt. It also negatively affected his position as a debtor abroad.

3- Iraq's external indebtedness before 2003 was directed to financing wars and foreign conflicts. After 2003, it was directed to financing the general budget and current account deficits caused by the oil export market turmoil. In addition to, spending on security and defense, due to the turbulent security situation after the occupation, with an almost complete absence of financing investment in external debt.

4- The analysis of the indicators of the continuity of the ability to bear the external debt shows that Iraq has moved far away from the reasonable ratios of these indicators that are universally recognized to clearly reflect the lack of rationality of these debts and the weakness in its management.

5- Despite the scheduling of Iraq’s external debt and the writing off part of it in accordance with the Paris Club agreement after 2003. However, Iraq suffered from the problems of applying the structural adjustment and economic stabilization programs imposed on it by the club, which led to social effects, because it removed a lot of government support, which was reflected on those with limited incomes.

Recommendations:

1- When resorting to external borrowing, it is preferable to deal with multilateral international institutions. Staying away from private institutions such as international banks or individual governments, since these international institutions make their loans easier and with lower interest and are subject to scheduling, if there is financial hardship that prevents debt service under circumstances that Iraq may go through.

2- It is preferable for Iraq to deal with a limited number of creditors. To make it easier for him to follow up on his debts or negotiate them.

3- When the need to borrow compels Iraq, it must resort to internal borrowing. As this type of borrowing does not link the State of Iraq to external indebtedness, as well as to the conditionally of international institutions and individual governments. External borrowing is not resorted to except within very narrow limits, in emergency cases.

4- Activating a rational management of the external debt by increasing the pressure on the international community for an understanding towards scheduling and writing off the remaining debts, especially since a large part of it is considered among the (odious debts). As well as resorting to liquidating foreign assets, exchanging part of the debt with shares, and benefiting from the surplus international reserves that exceed the optimal size for them, in order to serve the foreign debts and get rid of them.

5- Strengthening the Iraqi investment environment, in addition to revitalizing the private sector, in a necessary and rapid manner, as this allows Iraq to diversify its economic base, and get out of the predicament of rentierism and the unilateralism of the economy dependent on crude oil, which exposes it to the risks of fluctuating prices in the international market. Including dragging Iraq to external borrowing. Consequently, diversification and the increase in domestic production and exports result in bridging the general budget gap and the current account deficit.

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