

## **Trends of the components of the internal public debt in Iraq for the period (2004-2019)**

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### **Abstract**

The fiscal policy is concerned with directing some of the objectives of the economic policy to serve the national economies in the various countries of the world, and on this basis, the fiscal policy in Iraq is concerned with influencing economic activity, which is necessary and in light of the growing importance of the public budget and the increasing deficit in it, the tendency towards financing the fiscal deficit, especially From the inside, which required a search for the components of this debt and an analysis of its components, the research section is based on two papers, the first focused on the conceptual framework of the internal public debt, while the second included an analysis of the development of the components of the internal public debt in Iraq for the period (2004-2019), and the research reached To a set of conclusions, the most important of which was the aggravation of the budget deficit, especially the planned one, and then its actual growth was met, which was reflected in the expansion of the sources of internal public debt in Iraq during the mentioned period.

### **Introduction:**

The fiscal policy is used to direct some of the objectives of the economic policy to serve the national economies in the various countries of the world, and on this basis the fiscal policy in Iraq works through its policies to influence economic activity, which requires it to follow the appropriate policy to achieve the goals sought by the government, in light of the growing importance of The general budget in different countries, whether developing or developed, and due to the increasing deficit in the general budget of various countries of the world, to the extent that it has become a characteristic of the characteristics of their economic structures. And in Iraq, as a result of pursuing expansionary spending policies, it was a cause of the accumulation of the internal debt during the research period (2004-2019), which required a search for the components of this debt and an analysis of its components.

As the Iraqi government resorts to public borrowing, especially internal, resulting from an increase in the financial deficit, which results in the accumulation of those debts, and the issue of its expansion has an impact on the negative national economic

performance, and in this regard, the Iraqi government resorts to borrowing to cover the deficit in its public budgets from internal sources.

### **Research importance:**

The importance of the research is that the internal public debt is a problem that the Iraqi national economy suffers from, because of its negative repercussions on the economy, especially during the period (2004-2019), the issue of getting out of it towards reforming the reality of the internal public debt and the extent to which the Iraqi economy is able to fulfill its obligations.

### **Research problem:**

The issue of the aggravation of the internal public debt in Iraq is what undermines economic development, a matter that poses a problem that includes the extent to which the Iraqi economy can balance and achieve economic stability in light of the reality of the current internal debt on the one hand, and the extent to which it is possible to reduce its accumulation in a manner that makes it in a safe position.

### **Research objective:**

In order to follow up on the problem of the research, it is necessary to answer the questions raised in it by clarifying the objectives of the research, including the following:

1. Clarifying the concepts of the internal public debt.
2. Analyzing the path of the internal public debt by identifying its growth for the period (2004-2019).

### **Research Hypothesis:**

In order to achieve the objectives of the research, the research is based on the following hypothesis:

(The internal public debt in Iraq is heading towards a continuous increase, which makes it a threat to the future of the national economy)

### **Research Methodology:**

The research depends on the deductive approach to analyze the components of the internal public debt and then extrapolate the reality.

The temporal and spatial limits of the research:

1. It includes time limits for the period (2004-2019).
2. It includes the spatial boundaries of the research in the State of Iraq.

### **Research structure:**

The first topic: the conceptual framework of the internal public debt

The second topic: analysis of the development of the components of the internal public debt in Iraq for the period (2004-2019)

## **The first topic: the conceptual framework of the internal public debt**

### **First: the concept of internal public debt**

Public debt represents an important source of public revenue that the state resorts to to finance its public expenditures when other revenues are in short supply, upon it after a period of time according to the conditions for establishing this debt) and it is clear from it:

1. The term public debt includes borrowed cash, and does not include this commercial debt, which results from imports of goods and services, as well as investment receivables, which represent amounts owed to contractors and suppliers for investment activities.
2. The public bodies that were borrowed with public debt do not include public banks and business sector companies, but are limited to the government, public economic bodies and the National Investment Bank.
3. The burdens of servicing the public debt mean the amounts borne by the parties that have borrowed from amounts that are calculated and paid periodically to the creditors and represented by interest, which is a percentage of the value of the debt, which appears in the state's current budget annually and represents one of the provisions of the current agreement, and the debt repayment installments represent the amounts that are paid periodically Out of the debt to the creditors at the due date.

The public debt in Iraq, according to the amended Financial Management and Public Debt Law, is also defined as (it includes all government debts that are required to be paid or their interests and assets paid from the borrower to the lender on a specific date or dates in the future)<sup>(1)</sup>.

The internal public debt is defined as an agreement between two parties whereby the crediting party (national institutions, individuals) provides an amount of money in the national currency to the government by buying them treasury transfers and government bonds, in return for a pledge to pay the value of the loan and its interests within a specified period and it is called (the national loan), This type of debt arises when the government borrows from legal and natural persons inside the country, regardless of their nationalities, and it is the total debt owed by the government and public institutions towards the national economy. It is subscribed by state nationals and residents, whether they are individuals or economic units. In short, the internal borrowing process is just a transfer of wealth within the country and can be paid by imposing indirect taxes, and the issuance of domestic debt is based on a set of considerations, including the existence of an excess of savings beyond the need. The market, i.e. the need for private investment, is matched by a willingness on the part of savers to subscribe to loan bonds because the state provides them with guaranteed advantages, provided that they are not less than what is prevalent In the market, and the state's ability to maintain internal economic balance, and prevent imbalances from inflation and fluctuations in foreign exchange rates, and their negative effects on the national economy, and then on the money of the person subscribing to the internal loan<sup>(2)</sup>.

## **Second: Justifications for the internal public debt.**

### **1. Budget deficit**

Generally, the public debt, whether internal or external, results from the expansion of the state's tasks and the multiplicity of its functions due to the increase in the volume of public expenditures in its public budget, and this exceeds the volume of public revenues and the deficit in that budget. From different sources, whether by borrowing from the banking sector and the central bank or from local financial institutions on the one hand, and from external sources of financing, whether international organizations or different governments<sup>(3)</sup>, and on this basis it can be said that the budget deficit is one of the justifications for resorting to public debt.

### **2. Increasing investment**

Most of the governments, especially the developing ones and those in the process of growth, resort to external borrowing in order to finance the development requirements from their need for huge investments that need large capitals whose local sources of financing are no longer sufficient for that<sup>(4)</sup>, as the use of foreign capital becomes in this field a source that may be The most difficult, comparing and local funding sources.

### **3. Smuggling capital abroad**

This constitutes the flight of capital in the form of foreign investments or its flight as money laundering, as well as the migration of human capital, which constitutes a shortage of those resources and those countries have spent on them and whose governments need to pay attention to this type of capital, which constitutes a reflection negatively on its economic situation<sup>(5)</sup>.

It is worth noting in this regard that most developing countries suffer from the phenomenon of corruption, whether financial or administrative, which results in the diversion of a significant part of external loans abroad, and then what is known as the accumulation of public debt and the failure of the process and development goals<sup>(6)</sup>, and this is justified. towards internal debt.

### **4. High interest rates**

The interest rate is one of the monetary variables that have an effective impact in its use by the monetary authorities on influencing the prices of bonds and by controlling it on those bonds. It has different repercussions in the financial market and influences the market values of real financial assets. Governments try to maintain this price in The financial market through open market operations and its control in relation to public loan bonds<sup>(7)</sup>, which prompted countries to move towards developing tools or introducing them locally to support the financing of the budget deficit.

### **5. Balance of Payments Deficit**

The continuous deficit in the balance of payments of developing countries contributes to the exacerbation of the external debt crisis, which is expressed by the structural imbalance in the national economy of these countries by relying on the export of primary raw materials and the import of most machines and equipment needed for production, given the weakness of their exports in exchange for the increase in their

various imports to meet domestic demand, which called for these Countries accelerated development through external financing by resorting to borrowing from abroad, especially after the collapse of the Bretton Woods system, as the countries burdened with external debt<sup>(8)</sup>, made them lose sight of the internal public debt.

## **6. Absence of international support**

In view of the various economic problems that most developing countries suffer from, they resort to negotiation with the International Finance Corporation to support them in facing this, and due to the absence of international financial support, this has led to these institutions abandoning the provision of soft loans to them or imposing difficult conditions and restricted, so those countries were forced to search for other ways to borrow, or to go to private commercial banks<sup>(9)</sup>.

## **7. The deterioration of trade exchange between countries**

The deterioration of the terms of trade exchange has a significant impact on the deterioration of the exports of developing countries, which depend mainly on the export of raw and primary materials and the import of industrial and non-industrial goods and products from developed countries, which leads to a significant impact on the balance of payments in developing countries and thus the tendency to borrow as a result of this deficit Libra for debt fulfillment<sup>(10)</sup>.

Developing countries incur heavy losses in their foreign trade as a result of the deterioration in international exchange rates. The issue of fluctuation in the prices of primary commodities destined for export, such as oil, phosphates and agricultural crops, and the corresponding rise in the prices of industrial commodities imported for developing countries, especially the drop in demand for them after the capitalist countries move towards investment The internal economy and the discovery of other alternatives<sup>(11)</sup>, contributed to the difficulty of obtaining hard foreign currencies and the trend towards external borrowing, especially since the issue of presenting these materials to global economic fluctuations and their direct connection to the global market makes them dependent on capitalist economies.

## **8. Recession stagflation**

Since the beginning of the eighties of the last century, the economic policies pursued by most capitalist countries have resulted in a state of economic stagnation accompanied by inflation that negatively affected the financial conditions, which led to a decrease in the volume of foreign currencies in them, given the integration of most developing countries into the global economic system and their dependence on it in various economic fields, as well as On the military and political dependency, and about the fluctuations and crises that occur under this system, which automatically affect the economic conditions of developing countries.

The stagflation crisis plays a major role in the aggravation of external indebtedness, especially for developing countries that have suffered from large deficits in their trade balances due to the low level of demand for their exports<sup>(12)</sup>, and as a consequence it was necessary to resort to external borrowing.

## **9. Misuse of public debt**

The spread of financial and administrative corruption, as well as the looting of loan funds and their smuggling abroad and depositing them in foreign banks, led to an accumulation and an increase in the volume of debts<sup>(13)</sup>, as the main problem here is the misuse of loan funds and not the borrowing process in its basic form. The existence of a correct economic policy in the debtor country makes The borrowing process is acceptable by investing in productive and important projects and expanding economic activity by increasing spending and thus increasing the level of income and output through the multiplier process<sup>(14)</sup>.

Based on this, excessive spending and misuse of borrowed capital constitute a major problem. Failure to follow a clear and balanced economic policy undermines the loan and makes the borrowing process unacceptable when it is invested in unproductive projects, thus negatively affecting economic growth and the formation of external debts. cumbersome as long as it invests in projects that do not generate a return, and makes the borrowing process a danger that must be avoided, and accordingly, the misuse of borrowed funds and the high costs of installments and interests may cause the country to fall into a debt trap<sup>(15)</sup>, and the failure of many projects and then to the exacerbation of the debt problem<sup>(16)</sup>.

## **The second topic: analysis of the development of the components of the internal public debt in Iraq for the period (2004-2019)**

### **First: The evolution of the internal debt and its position in the total public debt for the period (2004-2020)**

It is noted from Table (1) that the internal public financing fluctuated during the period (2004-2019), as it amounted to about (5.925) billion dinars in 2004, to rise to (9,181) billion dinars in 2010, as a result of the increase in public spending, especially the current ones represented by salaries Employees and workers' wages as well as military spending, in addition to the fluctuation in public revenues due to fluctuations in oil prices. During 2013, the volume of internal public funding decreased to (4,658) billion dinars, while in 2014 the internal public debt rose to (9,510) ) billion dinars, with a contribution rate to the total public funding amounting to about (12.30%), as it rose to its highest level and reached about (32,144) billion dinars in 2015, and a contribution rate to the total funding amounted to about (31.90%) due to the turmoil of the political and economic conditions in the country, as well as Regarding the deterioration in the security situation and the increase in military spending, then continuing to increase until it reached about (47,662 billion dinars) in 2016, as the government directed towards internal borrowing by offering public debt bonds represented by (forward delivery bonds in dollars, farmers' bonds, contractors' bonds, and bonds national), In 2019, it was noted that there was a noticeable decrease in the internal public debt, as it amounted to about (38,929) billion dinars due to the relative stability of oil prices and the work of some banks to reduce the interest rate for the debts granted to the state, as this contributed to a decrease in the proportion of the contribution of the internal debt to range between ( 33.10%, 39.90%) during the years (2016-2019).

## **Second: Analysis of the evolution of the components of the internal public debt in Iraq for the period (2004-2019)**

It is clear from Table (1) on the internal public financing structure for the period (2004-2019) that:

### **1. Debt on the Ministry of Finance**

It is noted from Table (1) that the debt owed to the Ministry of Finance amounted to about (4,683) billion dinars in 2004, and a share of the total internal debt compared to other components amounted to about (79.0%), then it rose to reach about (80.8%) in 2005. In 2006, the percentage of the relative contribution was about (95.2%), which is the highest percentage for it during the research period, and then the continuous decline to reach the lowest percentage of contributions that amounted to about (4.5%) in 2019, and with an average total contribution for the research period that amounted to about (45.7%). It is the highest compared to the other components of the internal public finance, and the reason for the decline in its volume and the proportions of its contributions after (2006) is due to the signing of a debt rescheduling agreement between the Ministry of Finance and the Central Bank of Iraq on February 21, 2006. The purpose of this agreement was to pay the debt amount of ( 5,055.5) billion dinars in 2006, it was in favor of the Central Bank of Iraq, as payment was made by (30) quarterly installments amounting to (179,796) billion dinars for each installment, starting from 31/3/2006<sup>(17)</sup>, but for the years (2009, 2010) there was no change, is clear in the total debt on the Ministry of Finance, as it settled at (3,955.5) billion dinars in 2010, due to the postponement of the issuance of quarterly transfers for (364) Yu AD, which was supposed to be issued on 3/3/2009 during the banking arrangements signed on 2/21/2006<sup>(18)</sup>, and the debt owed by the Ministry of Finance decreased by about (2,445.5) billion dinars, a contribution rate of about (26.0%) in 2014, Given that the Ministry of Finance paid three installments in the amount of (300) billion dinars of the total debt owed by the Ministry of Finance in favor of the Central Bank, and this was based on the agreement to reschedule those debts, as this agreement was signed on October 26, 2010<sup>(19)</sup>, and in (2015), and (2016), there was no change in them, as it settled at about (2,355.5) billion dinars, but it decreased to (2,155.5) billion dinars in 2017, with a contribution to the total public debt amounting to about (4.5%), and the reason for this is that the Ministry of Finance pays the premium. The first, which amounted to about (200) million dinars, based on the new agreement to reschedule the remaining debt owed by the Ministry of Finance in favor of the Central Bank, which was signed on 7/18/2016, which stipulates that the payment of the total amount will be in (12) semi-annual installments and each installment It amounts to (200) million dinars, excluding the last installment, and it is (155) billion dinars, starting from 30/6/2017<sup>(20)</sup>, and continued. A decrease to reach about (1,756) billion dinars, with a contribution rate of about (4.5%) in 2019 due to the Ministry of Finance paying the first installment amounting to (200) million dinars<sup>(21)</sup>.

### **2. Treasury transfers at commercial banks**

Treasury transfers in Iraq are one of the means of internal borrowing, as it was first adopted in 1947 for the amount of half a million dinars, based on what was stated in the regular budget law, which authorized the Minister of Finance to issue transfers in an amount not exceeding one million dinars, and with the development of the deficit in the general budget increased remittances. The treasury, and then the issuance of the Law No. (150 of 1976) for the issuance and lending of treasury transfers, which authorizes

the Minister of Finance to issue treasury transfers with the Central Bank taking over the process of buying and selling treasury transfers to investors from the public and commercial banks.

As the Iraqi government resorts to this type of bond when it needs short-term borrowing to fill the temporary deficit in the government budget in order to balance revenues and expenditures, and to fill the deficit caused by the slowdown in these transfers, and these transfers are short-term bonds, that is, they are temporary government papers issued During a period ranging between one or three months and sometimes lasting for a year as it is traded in the money market, it is considered as one of the government debt instruments that deserves payment every (3, 6, 12) months, in addition to that it represents a debt owed by the government because the Ministry of Finance is the central treasury, and it aims Through it, the government achieves several goals, the most important of which is encouraging savings through treasury transfers, not to mention the withdrawal of excess liquidity in the market, and the achievement of financial revenue for the government when there is a deficit in its regular revenues to meet the needs of government spending.

Table (1)

The evolution of the components of the internal public debt in Iraq for the period  
(2004-2019)

Billion dinars

Year	Debt on the Ministry of Finance	Contribution to the total internal debt%	Treasury transfers at commercial banks	Contribution to the total internal debt%	Debentures	Contribution to the total internal debt%	Financial Institution Loans	Contribution to the total internal debt%	The total internal public debt
2004	4,683	79.0	1,242	21.0	---	---	---	---	5,925
2005	5,055.5	80.8	1,200	19.2	---	---	---	---	6,256
2006	5,055.5	95.2	252	4.8	---	---	---	---	5,308
2007	4,674.7	90.0	519	10.0	---	---	---	---	5,194
2008	3,955	88.8	500	11.2	---	---	---	---	4,455
2009	3,955.5	46.9	4,478.5	53.1	---	---	---	---	8,434
2010	3,955.5	43.1	5,225.3	56.9	---	---	---	---	9,181
2011	3,555.5	47.7	3,891.3	52.3	---	---	---	---	7,447
2012	3,155.5	48.2	3,392	51.8	---	---	---	---	6,548
2013	2,755	59.2	1,903	40.9	---	---	---	---	4,658
2014	2,445.5	26.0	7,064.5	74.0	---	---	---	---	9,510
2015	2,355.5	7.3	19,312	60.1	15	0.1	10,461	32.6	32,144
2016	2,355.5	5.0	32,763.6	69.0	1,997	4.0	10,546	22.0	47,662
2017	2,155.5	4.5	32,294.6	67.7	2,686.4	5.6	10,546	22.1	47,683
2018	1,955.5	4.7	28,413.2	67.9	1,953	4.7	9,501	22.7	41,823
2019	1,756	4.5	26,600.3	68.3	1,921	4.9	8,652	22.2	38,929
Average %		45.7		45.5		3.9		24.3	

**Source:** Central Bank of Iraq, separate annual bulletins



It is noted from Table (1), which includes the structure of the internal public debt for the period (2004-2019), that treasury transfers ranked second after the debt instrument on the Ministry of Finance in the volume of internal public finance, as it contributed to the average research period (2004-2019) by about (45.5%) , as it amounted to about (1,242) billion dinars and a share of (21.0%) in 2004, as it decreased to about (1,200) billion dinars and a share of about (19.2%) in 2005, but in 2008 it decreased to about (500) billion dinars and a contribution rate of about (11.2%), which is the lowest contribution rate during the research period, as it contributed to a decrease in the total internal public financing to (4,455) billion dinars, during the years (2009 and 2010) treasury transfers to commercial banks constituted a large proportion of the total debt. The internal income amounted to about (4,478.5) billion dinars and a contribution rate of (53.1%) in 2009, to rise to about (5,225.3) billion dinars and a contribution rate of about (56.91%) in 2010, then with a decrease in treasury transfers to commercial banks during the period (2011-2013). To reach (3,891.3) billion dinars, and a contribution rate to the total internal public debt was about (52.3%) in 2011, while in 2013 it amounted to about (1,903) billion dinars, with a contribution rate of (40.9%), but during the years (2014-2017) it rose again. In 2014, it amounted to about (7,064.5) billion dinars, and a contribution rate of (74.0%) of the total internal public debt, then it amounted to about (32,294.6) billion dinars, with a contribution rate of (74.0%) To the total internal debt, about (67.7%) in 2017, while in the years (2018 and 2019) treasury transfers to commercial banks decreased to (28,413.2) billion dinars, and the percentage of contribution to the total public debt amounted to about (67.9%) in 2018, and it continued to decline To reach about (26,600.3) billion dinars, with a contribution rate of (68.3%) in 2019 at the end of the period.

### **3. Financial Institution Loans**

It is a non-bank debt represented by loans from financial institutions, the Department for the Care of Minors, and the National Retirement Authority<sup>(22)</sup>, as it is noted from Table (1) that it recorded a decrease, after it amounted to about (10,461) billion dinars, and with a contribution rate to the total internal public funding about (32.6%). ) in 2015, to reach about (8,652) billion dinars, with a contribution rate of about (22.2%) in 2019 at the end of the period, and the decrease in the internal debt for 2019 is due to the Ministry of Finance paying part of the debt payable on it on 30/6/2018 based on Thus, to the agreement during which banking arrangements were rescheduled between the Central Bank and the Iraqi Ministry of Finance on 7/18/2001<sup>23</sup>.

### **4. Debentures**

It is a bank debt<sup>(24)</sup>, which the government resorts to to cover its budget deficit, as government bonds are a type of long-term loan of up to five years<sup>(25)</sup>, as the central bank works on behalf of the government by offering these bonds for subscription by the public and government institutions, The aim of issuing them is to withdraw cash from the market to combat inflation, and obtain funds without the need for a new cash issuance, and the bonds were divided into ((bonds with the central bank, bonds with commercial banks, and bonds with other parties such as (non-banking financial

institutions, and companies). Insurance)), as financing the government's fiscal deficit using government bonds issued by the Central Bank is an additional expenditure on the state's general budget.

It is noted from Table (1) that government bonds did not have an influential and clear role in financing the government financial deficit before 2015 due to the change in the political and economic situation, and the increase in the ratios of oil revenues to total public revenues, and they did not appear until after the resumption of the financial deficit in 2014 due to the decline Oil exports, which led to a decrease in their revenues on the one hand, and the internal wars and the security situation on the other hand, as well as financial commitments with contractors who have completed some vital projects owed by the state and the government's purchase of wheat from farmers whose dues the state was unable to pay as the state resorted in 2015 To issue the so-called delivery bonds in dollars for a period of two years, as national bonds were issued in (2016 and 2017) according to the general budget law at an interest rate of about (8%), and this came as a result of the aggravation of the planned budget deficit, which was reflected in the expansion and development of public debt sources It increased from (15) billion dinars in 2015 to (1,921) billion dinars in 2019, and its contribution to the total internal public funding was modest during the years (2015-2019), at rates ranging between (0.1%) and (4.9%), and it achieved an average contribution rate of about (3.9%) during the research period, and it ranked fourth after the international institutions loans tool.

## **Findings and Recommendations**

### **First: the results**

1. The Iraqi economy suffers from the issue of structural imbalance, as the contribution of the output of the economic sectors after excluding the oil sector was in the average research period (2004-2019) about 44%, which concludes that the contribution of those non-oil sectors was low, and it can be attributed to the absence of economic policies Which is intended to promote the development of the national economy, in addition to the main dependence on oil exports, the low production capacity and the weak diversification of the national economy.
2. The internal public finance during the period (2004-2019) witnessed a fluctuation in its growth due to the changes in its components due to the changes in the balance of the general budget between the deficit at one time and the surplus at other times, in addition to the changes in oil prices that played a major role in moving towards internal financing, and in In this regard, the debt of the Ministry of Finance dominates most of the components of internal financing, so the average research period is about 45.7%, followed by treasury transfers in the second place, bringing the percentage of its contribution to an average growth of about 45.5%, and then in the third place international institutions loans with a contribution rate of about 24.3% and ranked The latter was in favor of bonds by about 3.9%, and the total volume of external debt, which was dominant during the research period, constituted 82.9%. As for the contribution of the total internal debt, it amounted to about 17% for the average period for

the whole period, given that external financing is one of the important sources that governments resort to in order to cover part of the deficit that occurs in its government budgets when domestic savings are insufficient, as well as the accumulation of external debt in this area.

### **Second: Reco**

1. It requires the government to move towards relying on the size of the internal public debt due to its ability to finance increased spending and to avoid dependence on external debt.
2. The necessity of reducing the public budget deficit by compressing current expenditures / and avoiding their direct impact on the total public debt, because this increases the debt burden on future generations in repaying debts.
3. Directing the external and internal public debt towards the productive sectors, and investing them towards achieving development and paying off debts and their benefits.
4. Develop a strategy aimed at reducing the size and burden of external and internal debt, as they represent pressure on expenditures, as most of these expenditures go to pay off debts and their interests.
5. Develop rational policies for public borrowing by laying down foundations that include the terms of the loan on the one hand and how to use it on the other hand, in a manner that ensures the reduction of debt burdens and allows raising its effectiveness in projects that increase investment flows.

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