

# **Analysis of the internal public debt trend in Iraq for the period (2003-2018)**

## **Researchers:**

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## **Abstract**

The public debt is one of the variables that result from the financial policy and whose effects are reflected in the variables of economic performance in different countries, due to the deficit in their public budgets due to the outweighing of public expenditures over public revenues, and the phenomenon of internal public debt in Iraq has emerged in different dimensions that the Iraqi economy suffered since the eighties of the last century, and it increased after 2003 due to the pursuit of economic policies that negatively affected its economic situation, especially the variables of economic performance, which led all of this to the accumulation of the total public debt from it and the decrease in its revenues from foreign currencies. The research came to discuss the conceptual aspect of the internal public debt and its theoretical origin. As well as the most important characteristics of the national economy and the trend of the internal public debt during the period (2003-2018). The research concluded that some fluctuations occurred in the path of internal debt and their correlation with fluctuations in the path of GDP and the volume of exports during the same period.

**Key words: Iraq, total public debt, internal public debt, GDP, exports.**

## **Introduction**

Public debt is one of the most serious problems facing developed, emerging and developing economies alike, because of its great impact on the economic, social and political conditions of these countries, as it represents a cost that the government bears to finance its various economic activities, and it is intended to borrow the government or the government's internal and external liabilities. It should pay interest and due installments, as studying public debt in its various aspects, especially the topic of research (internal public debt) contributes to making sound decisions. Iraq is one of the countries that have been exposed to this phenomenon and government debt, including the internal ones, played a dangerous role on the national economy as a result of wars The country has been subjected to, in addition to the economic sanctions imposed on it, such as stopping the export of crude oil and then reducing its revenues from the foreign currency needed to cover imports, which led to the decrease in the volume of commodity supply and the high prices.

The phenomenon of the internal public debt in Iraq has emerged in various dimensions from which the Iraqi economy has suffered since the eighties of the last century, and increased after 2003 due to the pursuit of economic policies that negatively affected its economic situation, especially in the variables of economic performance, which led all of this to the accumulation of total public debt from it and a decrease in its revenues from Foreign currencies.

## **Research importance**

The importance of the research lies in that the problem of the internal public debt is one of the phenomena that the Iraqi economy suffers from, due to its high volume and its negative repercussions on the national economy, especially during the period (2003-2018). Therefore, research and analysis in it to identify the path of its manifestation contributes to finding The real ways to treat it, and an urgent need to find out what interferes with appropriate policies to exit them towards reforming the reality of the internal public debt and the ability of Iraq to fulfill its obligations towards those debts.

## **Research problem**

The issue of the exacerbation of public debt, especially the internal one in Iraq, is undermining the economic development in Iraq, as its economy is a rentier economy whose economy is exposed to economic shocks, especially oil.

## **Research objective:**

To answer the questions raised in the research problem, it requires clarification of the objectives of the research, including the following:

1. Identify the conceptual aspects of the internal public debt.
2. Review and analysis of the most important features of the Iraqi national economy through some macroeconomic variables.
3. Show the trend of the internal public debt through some of its indicators during the period (2003-2018).

## **Research hypothesis**

Based on the nature of the research problem and in pursuit of its objectives, the research is based on the hypothesis that:

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

## **Research Methodology**

To achieve What the research aims to achieve, the researcher relied on the deductive approach to analyze and describe the phenomenon and the most important indicators that lead to its exacerbation.

## **Research Structure**

In order to achieve the goals of the research and verify its hypothesis, the research was divided into three main investigations with a conclusion to the most important conclusions and recommendations, as follows:

## The first topic

### Internal public debt (conceptual and theoretical framework)

#### First: The concept of public debt.

Public debt is an important source of public revenues that the state receives when other revenues are unable to finance its public expenditures. Its borrowing of these sums to finance the deficit in its general budget, along with its commitment to repay this debt with the interest resulting from it, according to the terms agreed upon by the two parties.<sup>1</sup>

While the International Monetary Fund defined it as a group of debts contracted or guaranteed by public agencies that are paid to residents and non-residents (foreigners) in the country and are due to be paid at a specific date, while it was defined according to the World Bank that it is the full balance of government contractual obligations with a fixed term that are due Payment on a specific date, in other words, it includes both the internal debt and the external debt<sup>2</sup>

Public debt is also defined as an amount of money that the state obtains from the external or internal market and undertakes to return it with interest paid on it according to certain conditions and is divided into two parts, the internal public debt and the external public debt.<sup>3</sup>

#### Second: The concept of internal public debt

The internal public debt arises when the government resorts to borrowing from natural and legal persons inside the country or residents regardless of their nationalities, and it is the total public debt owed by the government, official bodies and public institutions towards the national economy of the country, or it is what the state owes to various creditors of its citizens, When the state borrows domestically and puts its bonds at home in its local (national) currency, and is subscribed to by the citizens of that state and residents of individuals or other economic units, and in this regard, issuing the local debt is based on a set of considerations, including the extent of availability of the surplus of domestic savings in The market or surplus to the need for local private investment, and the readiness of these savers to

subscribe to loan bonds, as well as the benefits provided by the state that may not differ from the prevailing in the local market.<sup>4</sup>

Based on all of this, the domestic or domestic public debt is a prior agreement between two parties on the basis of which the creditor party (national financial institutions, individuals) provides an amount of money to the government through the purchase of government bonds and treasury transfers in exchange for the government's pledge to pay it with interest within the specified period. The loan here is a national loan.<sup>5</sup>

It is also expressed in the presence of a surplus of the market need for savings matched by the willingness of savers to subscribe to loan bonds, due to the guarantees and benefits provided by the state, on the condition that it is not less than the prevailing in the market. Foreign exchange rates and their money have negative effects on the national economy, and thus their impact on the subscriber to this loan.<sup>6</sup>

## **The second topic**

### **Features and indicators of the Iraqi economy for the period (2003-2018)**

In this field, the researcher reviews some basic features and indicators of the national economy, the most important of which are the following:

#### **First: The Iraqi economy is a rentier economy.**

Given the Iraqi economy's dependence on revenues from crude oil, it is a Rentier Economy, which has led to many imbalances in various economic sectors. The size of oil revenues in Iraq can be explained, as they amounted to about 96062935 million dinars in 2018, after it was about 15728400 million dinars in 2003 due to the changes in crude oil prices<sup>7</sup>.

#### **Second: the imbalance and lack of diversification of the productive structure**

The Iraqi economy suffers from structural imbalances that have impeded its economic growth. As the economy is characterized by weak economic diversification and low production capabilities, and its reliance heavily on the

production and export of crude oil, this formed an imbalance in the structure of exports, which made it lose competitiveness in trade exchange<sup>8</sup>.

### **Third: Financial and administrative corruption.**

Financial and administrative corruption in Iraq is a major impediment to economic development that several factors contribute to that were accompanying the policies of successive Iraqi governments. Global corruption reports indicate that Iraq ranks 175 out of 183 countries in the world in 2011, with a corruption index of 1.9 degrees. And with a global position at 171 in 2013, and 169 in index 1.8 out of 180 countries, in 2017<sup>9</sup>.

### **Fourth: The exacerbation of the external indebtedness.**

Iraq faces a set of international obligations, which is evident in the high level of external debt, which constitutes the largest percentage of the total public debt due to the ease of borrowing from international institutions.<sup>10</sup> Several factors contributed to its increase, including the decline in foreign monetary resources, until Iraq became one of the indebted countries in the 1980s, with an amount of about 35 billion dollars.<sup>11</sup> The International Monetary Fund estimates that the external debt amounted to about \$ 125.9 billion<sup>12</sup>. However, after Iraq entered ongoing negotiations with the International Monetary Fund and the Paris Club, especially after 2004, some debts were scheduled<sup>13</sup>, not to mention the decline in crude oil prices and their negative effects on crude oil revenues.

### **Fifth: Unemployment rates in Iraq**

Iraq has been suffering from unemployment for decades, especially in the eighties of the last century. After it was about 3.5% in 1987, it rose in 1997 to about 13.5% and around 40% in 2002 for various reasons, including the increasing population growth and the demobilization of large numbers of employees of the armed forces as well. About the weak absorptive capacity of economic activity and the weakness of the role and performance of the Iraqi local private sector in generating new job opportunities<sup>14</sup>, It recorded a decline to about 28.1% in 2003 and 26.8% in 2004, then to 21.9% in 2012, and to increasing rates, reaching 22.6% in 2018, due to the inability of the private sector to absorb them.<sup>15</sup>

## The third topic

### **Analysis of the reality and indicators of the internal public debt in Iraq for the period (2003-2018)**

Public debt indicators are one of the important matters for evaluating public debt and its development and showing the state's ability to pay it and its ability to avoid potential risks in the future, and as an early system for expected crises<sup>16</sup>, and the most important of these indicators are the following:

#### **First: Analyzing the index of the ratio of internal public debt to gross domestic product**

This indicator measures the ratio of internal debt to GDP, as it reflects the percentage of resources available to serve the internal public debt through the transfer of resources from the production of domestic goods to the production of exports.<sup>17</sup> As it is clear from Table (1) that Iraq suffers from an increase in the total internal public debt and indicates early warning of potential crises and that the government was not able to pay the actual payment, as

This indicator was characterized by fluctuation according to economic and security conditions, after it reached about 18.55% in 2003, it decreased to 1.70% in 2013 and then increased to about 23.23% in 2016 and then to 16.4% in 2018 due to the decline in global oil prices, which led to a decrease in the volume of output The GDP on the one hand, and the poor security situation in the country due to the military operations against the terrorist organization ISIS and the trend towards increasing public spending, especially military<sup>18</sup>, From it, it can be concluded that there are some economic problems and a state of early warning towards potential crises.

**Table (1)**

**Total public debt and domestic debt to GDP in Iraq  
for the period (2003-2028)**

<b>year</b>	<b>exchange rate the window</b>	<b>GDP At current prices Billion dollar</b>	<b>Internal debt One billion dinars</b>	<b>Internal debt Billion dollar</b>	<b>External debt Billion dollar</b>	<b>Total public debt Billion dollar</b>	<b>Total public debt / GDP %</b>	<b>Internal public debt / GDP %</b>
2003	1772	16.87	5544	3.13	74.1	77.23	457.79	18.55
2004	1460	36.46	5915	4.05	87.6	91.65	251.36	11.11
2005	1460	50.17	6256	4.28	79.47	83.75	166.93	8.54
2006	1391	68.72	5307	3.82	64.83	68.65	99.89	5.55
2007	1217	91.58	5194	4.27	52.26	56.53	61.72	4.66
2008	1217	129.03	4456	3.66	50.51	54.17	41.98	2.84
2009	1170	111.66	8434	7.21	41.21	48.42	43.36	6.46
2010	1170	138.52	9181	7.85	57.03	64.88	46.84	5.67
2011	1170	185.75	7447	6.36	52.36	58.72	31.62	3.43
2012	1166	218.03	6548	5.62	57.71	63.33	29.04	2.58
2013	1166	234.64	4658	3.99	58.72	62.71	26.73	1.7
2014	1166	228.49	9520	8.16	58.43	66.59	29.15	3.57
2015	1182	168.96	32143	27.19	58.03	85.22	50.44	16.09
2016	1182	172.48	47362	40.07	60.41	100.48	58.26	23.23
2017	1184	190.64	47679	40.27	65.99	106.26	55.74	21.12
2018	1182	215.63	41823	35.38	83.3	118.68	55.04	16.41

**Source:**

- 1. The Central Bank of Iraq, General Directorate of Statistics and Research, various annual bulletins.**
- 2. International Monetary Fund external debt statistics**



## **Second: Analyzing the indicator of the ratio of the growth rate of the internal public debt to the growth rate of the GDP.**

This indicator measures the level of debt in relation to economic activity, as it shows the government's ability to repay and measure the sustainability of the internal public debt by comparing the growth of internal debt with the growth of GDP, as under the Maastricht Treaty on membership of the European Union in (1991), according to which Certain conditions have been set, among which the public debt must be less than (60%) of the size of the gross domestic product, with a deficit percentage in the public budget and within the limits of (3%) or less than it, in order for the situation to be safe<sup>19</sup>.

According to the data in Table (2), despite the annual average growth of internal public debt for the period of research (2003-2018) exceeding 26.47%, compared to the average growth of GDP for the whole period of about 17.84%, there are some severe fluctuations in The index ratios, especially because they were between negative and positive due to the negative growth of GDP from it in some years, and After the index reached about 9% in 2004, it retreated to -3984% in 2014 and increased again in 2016, reaching 2276%, and then retreating to a rate of 9% in 2018 due to the positive development in the growth of the gross domestic product after positive changes in oil prices and the increase in oil revenues and the tendency to finance the pride through external debt, which indicates its connection with the economic conditions represented by changes in oil prices and the growth of GDP on the one hand and circumstances The security services mentioned earlier on the other hand, and this indicates the lack of stability in this area and the occurrence of these fluctuations, especially since there are some risks that may affect the national economy.

**Table (2)****Index of the growth of the internal public debt to the growth of GDP in Iraq  
for the period (2003-2018)**

year	GDP At current prices One billion dinars	Annual growth %	Total public debt One billion Dollars	Annual growth %	Internal debt One billion dinars	Annual growth %	Rate Growth of total public debt / GDP %	Rate Internal public debt growth / GDP %
2003	29894.5		77.23		5544			
2004	53235.4	78.08	91.65	18.67	5915	6.69	16.08	9
2005	73253.4	37.6	83.75	-8.62	6256	5.77	-22.93	15
2006	95588.5	30.49	68.65	-18.03	5307	-15.17	-48.77	-50
2007	111456	16.6	56.53	-17.65	5194	-2.13	-53.05	-13
2008	157026	40.89	54.17	-4.17	4456	-14.21	-10.2	-35
2009	130643	-16.8	48.42	-10.61	8434	89.27	78.83	-531
2010	162065	24.05	64.88	33.99	9181	8.86	141.27	37
2011	217327	34.1	58.72	-9.49	7447	-18.89	-27.83	-55
2012	254226	16.98	63.33	7.85	6548	-12.07	45.17	-71
2013	273588	7.62	62.71	-0.98	4658	-28.86	-12.86	-379
2014	266420	-2.62	66.59	6.19	9520	104.38	-236.26	-3984
2015	199716	-25.04	85.22	27.98	32143	237.64	-107.41	-949
2016	203870	2.08	100.48	17.91	47362	47.35	861.06	2276
2017	225722	10.72	106.26	5.75	47679	0.67	54.61	6
2018	254870	12.91	118.68	11.69	41823	-12.28	89.17	-95
<b>Average%</b>		17.84		4.03		26.47	51.12	-255

**Source:**

Central Bank of Iraq, General Directorate of Statistics and Research, various annual bulletins.

**Third: Analysis of the index of the ratio of internal public debt to exports**

This indicator measures the extent of the government's ability and ability to pay off the foreign debts it owes through what is deducted from its exports, and because most of the countries that suffer a large burden of that debt are

developing countries as a result of deducting a significant percentage of their exports from raw materials, especially oil-producing countries, which is reflected in the overall its economic activity. This indicator is identified through the ratio of the public debt, especially the subject of research (internal public debt) to (total exports), and through it is possible to identify the country's ability to provide hard currencies.<sup>20</sup>

**Table (3)**

**Index of public debt to exports in Iraq for the period (2003-2018)**

<b>year</b>	<b>Exports Billion</b>	<b>Internal Billion</b>	<b>Internal Exports %</b>	<b>Total Exports %</b>
2003	10.082	3.13	457.8	766
2004	17.81	4.05	251.4	514.6
2005	23.697	4.28	166.9	353.4
2006	30.529	3.82	99.9	224.9
2007	39.587	4.27	61.7	142.8
2008	63.726	3.66	42	85
2009	39.43	7.21	43.4	122.8
2010	51.764	7.85	46.8	125.3
2011	79.681	6.36	31.6	73.7
2012	94.209	5.62	29	67.2
2013	89.768	3.99	26.7	69.9
2014	83.981	8.16	29.2	79.3
2015	51.328	27.19	50.4	166
2016	40.753	40.07	58.3	246.6
2017	57.559	40.27	55.7	184.6
2018	87.091	35.38	55	136.3

**Source:**

1. Tables (1 and 2)

2. The Central Bank of Iraq, the General Directorate of Statistics and Research, various annual bulletins.

## Conclusions and recommendations:

### First: the conclusions

1. The phenomenon of internal public debt in Iraq emerged in various dimensions, which increased after 2003 due to the pursuit of economic policies that negatively affected its economic situation, especially in the variables of economic performance, which led all of this to the accumulation of total public debt from it and a decrease in its revenues from foreign currencies.

2. That Iraq suffers from an increase in the total public debt at the beginning of the research period in 2003 and the corresponding decrease in the size of the gross domestic product. The analysis of the ratio of public debt to gross domestic product shows the weakness of the government's ability to actually repay due to the state of economic instability and bad Public debt management in the matter of controlling this indicator.

3. The index of the ratio of internal public debt to GDP is also characterized by fluctuation according to economic and security conditions. After it reached about 18.55% in 2003, it decreased to 1.70% in 2013 and then increased to about 23.23% in 2016 and then to 16.4% in 2018 given The decline in global oil prices, which led to a decrease in the volume of GDP on the one hand, and the worsening security situation in the country due to the military operations against the terrorist organization ISIS and the trend towards increasing public spending, especially military ones, which concludes that there are some economic problems and a state of early warning towards Potential crises.

4. The growth of the internal public debt indicates its connection with the economic conditions represented by changes in oil prices and the growth of the GDP on the one hand and the previously mentioned security conditions on the other hand, and this indicates the lack of stability in this area and the occurrence of these fluctuations, especially since there are some risks that may affect National economy.

5. The variation in the ratios of the internal public debt index to exports from one year to the next due to the fluctuations in the size of the internal debt of

the state as well as the fluctuations in domestic exports abroad and the correlation of this indicator with changes in the volume of exports.

### **Second: Recommendations**

1. The necessity to limit public debt to domestic debt by following a fiscal and monetary policy that contributes to controlling spending on the one hand, and controlling credit on the other hand.
2. The transformation to find new sources to finance the budget deficit by supplying and supporting the private sector, and then imposing appropriate taxes for financing purposes instead of borrowing financing.
3. The necessity of adopting a policy of reducing imports and encouraging non-oil exports, given that the growth of exports contributes to reducing the growth of the internal public debt.
4. The need to take advantage of debt scheduling programs in a manner that ensures the orientation of the Iraqi economy.
5. Work to develop and implement a strategy appropriate to the conditions of the Iraqi economy to manage the internal public debt by activating the role of other macro variables, especially working to revitalize the role of financial markets.
6. The necessity of directing the internal loans that contribute to the high internal debt towards productive sectors and projects.

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