

Analyzing The Relationship Between Internal Public Debt and Public Spending in Iraq For the period (2015–2020

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Abstract

Public debt is one of the financial tools for financing public spending, especially since there was an imbalance in the structure of the public budget, and Iraq follows the policy of public debt, both internal and external, in financing spending in order to solve the problem of the budget deficit. The descriptive method was used in analyzing the data. Reaching a set of conclusions, the most important of which was that Iraq is located within the safe limits of the public debt index, to the gross domestic product, and that adopting the internal debt method is less dangerous than relying on public external debt, Based on this, the researchers recommend to resort to the internal public debt as an optimal solution to finance the budget deficit, especially the bond component, with the need to diversify financial resources.

Keywords: public debt, internal public debt, external public debt, public budget, bonds, public spending.

Introduction:

Public debt plays an auxiliary role in development if it is managed and used in an optimal manner that achieves a return that exceeds the cost of borrowing, and thus the economy will be able to meet its obligations. developed, emerging and developing countries, which appeared in the form of cases of large deficits in public budgets and a sharp rise in public debt rates, and with the increase in the budget deficit, borrowing increases with it and thus increases the burden of its services from interests and installments from year to year, as these burdens deduct a large part of public expenditures And Iraq is one of the countries in which the budget deficit leaves a reason for internal borrowing, and thus increases the burden of the internal public debt.

In view of the foregoing, the issue of public debt and its impact on spending is due to its importance to the fore in economic discussions as a proposal that aims to identify the extent to which the financial gap has reached in Iraq, through which it is possible to know the trends of fiscal policy and the extent of the impact of public debt on public spending.

Search problem:

Given what the public debt and its accumulation leave from an increase in financial deficits on the one hand, and the impact on financial variables, especially public spending, the problem of the research is the size of the effects left by the expansion of public debt and the assessment of the relationship between it and public spending.

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Research hypothesis:

The research stems from a main hypothesis that ((the expansion of the internal public debt leaves negative effects on public spending)).

Research objectives:

The research aims at the following:

1. Analysis of the evolution of the internal public debt and public spending in Iraq for the period (2015–2020).
2. Clarifying the relationship between public debt and public spending in Iraq for the period (2015–20209).

Research Methodology:

The research depends on the deductive approach based on the extrapolation of reality and descriptive data analysis to reach the results.

Research Structure:

The research included the following investigations:

The first topic: the path of the internal public debt in Iraq for the period (2015–2020).

First: the conceptual framework of the internal public debt

Public debt is understood as a balance of the financial sums owed by the government that it uses to pay its financial obligations and within a specified time schedule⁽¹⁾, or it is the sums that the national economy borrows and in which the loan

period exceeds one year or more and are due for payment to the creditor, whether by method of payment or by The government or one of its official bodies is a guarantee of the obligations of individuals and private institutions⁽²⁾. Others view it as money borrowed, whether from internal or external sources, used by the government for the purpose of financing government expenditures, by issuing government bonds or other government securities, in return for the government undertaking to return these funds with the payment of interest due on them on a specific date in the future⁽³⁾.

As for the 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. to its various creditors, when the state borrows at home and issues its bonds at home and in its local (national) currency and subscribes to it by the nationals of that state and its residents from individuals or other economic units⁽⁴⁾. Of the current savings in the market or the excess of the need for local private investment, and the extent of the willingness of these savers to subscribe to loan bonds, as well as the advantages offered by the state, which may not differ from the prevailing in the local market⁽⁵⁾.

Based on all of this, the internal or local public debt is a prior agreement between two parties on the basis of which the crediting party (national financial institutions, individuals) provides an amount of money to the government by purchasing 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⁽⁶⁾.

It is also expressed in the presence of an excess of the market's need in savings, offset by a willingness by savers to subscribe to loan bonds, because of the guarantees and benefits provided by the state, provided that it is not less than what prevails in the market, and therefore the international's ability to maintain the internal balance of the economy while preventing cases of inflation and emerging fluctuations At foreign exchange rates and their money from negative effects on the national economy and thus their impact on the subscriber of this loan⁽⁷⁾.

Second: Analysis of the trends of the internal public debt in Iraq for the period (2015–2020)

It is clear from Table (1), which includes the structure of the internal public debt in Iraq for the period (2015–2020), the acquisition of treasury transfers with commercial banks, with a contribution rate of about 67.4%, in the average period of the whole

period, followed by loans and financial institutions, which contributed at a rate of about 24.2%. The third rank was in favor of loans to financial institutions, with a contribution rate of about 4.8%, while the last rank came from the share of bonds, with an average contribution of about 3.7% for the same period as well.

Table (1)

Components of the internal public debt in Iraq for the period (2015–2020)

Billion dinars

Years	Debt on the Ministry of Finance %	Treasury transfers at commercial banks %	bond %	Loans and Financial Institutions %	total internal debt	annual growth%
2015	7.3	60.1	0	32.5	32143	237.6
2016	5	69.2	3.6	22.3	47362	47.3
2017	4.5	67.7	5.6	22.1	47679	0.7
2018	4.7	67.9	4.7	22.7	41823	-12.3
2019	4.6	67.8	5	22.6	38332	-8.3
2020	2.4	71.8	3	22.8	64247	67.6
average	4.8	67.4	3.7	24.2	45264.3	19.0

Source:

1. The Central Bank of Iraq, the General Directorate of Statistics and Research, Economic Reports, various bulletins.
2. Ministry of Planning, Central Statistical Organization, Directorate of National Accounts, Consolidated Accounts.

The decline in the proportion of the contribution of both bonds and loans to financial institutions was due to their emergence as new sources of financing the budget deficit after 2014, especially after the aggravation of the planned budget deficit, which was reflected in the development and expansion of the sources of internal public debt. As for the modest contribution, it was from the share of bonds and loans of financial institutions⁽⁸⁾. The decrease in the volume of internal debt from 41,823 billion dinars in 2018 to 38,332 in 2019 led to a decline in the volume of oil revenues due to the drop in oil prices due to the repercussions of the financial crisis, in which the debt clause contributed to the Ministry of Finance, with a decrease of about 0.1%⁽⁹⁾. In 2019, it is worth noting that the role of non-bank financial institutions in the internal lending process was at the beginning of the year 2015 to give an indication of the public budget deficit, and that the decline in the volume of the internal public debt in 2019 is an improvement due to the control of the terrorist organization and the accompanying decrease in Military spending and the rise in Iraq's oil revenues as a result of the

increase in the price of points, while the increase in the volume of the internal debt in 2020 came as a result of the decrease in the prices of points in the wake of the repercussions of the Corona pandemic and the decrease in global demand for oil, which required going to fill the state budget deficit through the internal public debt ⁽¹⁰⁾.

The second topic: the path of public spending and its relationship to the internal public debt in Iraq for the period (2015–2020).

First: the conceptual framework of public spending

Government spending can be understood as government expenditures to enhance economic growth rates, or it is a cash amount that comes out of the state's financial disclosure or one of its organizations with the intent of satisfying a general need ⁽¹¹⁾, and it can be divided into the following ⁽¹²⁾:

1. Consumer spending: General consumer spending consists of two parts. The first includes the services provided by states to members of society and the means associated with these services, as they include wages, salaries and military expenditures. The second type is the aid and subsidies provided by the state to projects and individuals, usually called transformational expenditure.
2. Investment spending: It is the second component of individual income after consumption and the issue of its exposure to fluctuations that affects the entire economy, and that investment is a stream of new spending on fixed capital goods and services such as machinery, factories, roads, intermediate goods and new construction during a certain period.

The spending policy, according to the classical economic doctrine, was to maintain the principle of balance of the public budget, that is, the equality of public revenues with public expenditures without affecting public expenditures, and this was reflected in giving a narrow role to public spending on the grounds that the expansion of spending is a danger that should not be approached, and that The justification of the classics in the necessity of balancing the general budget seems clear through their opposition to the surplus or deficit in the general budget, since the existence of a surplus means an increase in the financial burden on members of society, given the neutralization of the role of the state from any intervention or active participation in the management of economic life, and this came A reflection of classic ideas ⁽¹³⁾.

As for Keynes, according to the Keynesian theory, it allowed the state to intervene using its fiscal policy represented by the expansion of public spending, with the aim of

increasing effective aggregate demand and achieving full employment ⁽¹⁴⁾. While monetary theory led by (Friedman) called for the necessity of the role of the state and limiting it to traditional jobs and leaving freedom for the economy, and thus neutralizing the role of fiscal policy by advancing the level of economic activity in the short term due to crowding out public spending for private spending and crowding out the private sector and then on aggregate demand ⁽¹⁵⁾.

The elements of government spending can be extracted as follows:

- a. It's cash.
- b. Government spending is issued by a public authority.
- c. It aims to satisfy a general need.

Second: Analysis of public spending trends and their relationship to the public debt in Iraq for the period (2015–2020).

It is clear from Table (2) that government spending in Iraq in its total form increased from (70398) billion dinars in 2015 to (76083) billion dinars in 2020, with an average annual growth of (4.3%), which was contributed by each of the current spending by (6.73%).) in 2015 and (95.8%) in 2020, with an average contribution of about (80.8%), which exceeds the percentage of investment spending's contribution to the total government spending, which amounted to about (2.19%) for the whole period. Subsidies or debt service beside current spending ⁽¹⁶⁾. However, the annual growth rates of government spending for the whole period fluctuated between the decline in certain years and the rise in others during the period (2015–2020). Changes in the components of government spending can be attributed to fluctuations in oil prices that Reflected on making changes in the field of oil revenues, whose contribution rate is more than (90%) in financing government spending, in addition to the fact that the Iraqi economy depends on those revenues to cover government spending. due to double shock The war against terrorism and what it required to go towards increasing government spending.

Table (2)

Components of public spending in Iraq for the period (2015–2020)

Billion dinars

Years	total overhead	annual growth rate%	investment overhead	current overheads	Investment expenditures/overheads%	Current expenses/overhead expenses%
2015	70398	--	18565	51833	26.4	73.6
2016	67067	-4.7	15894	51173	23.7	76.3
2017	75490	12.6	16465	59026	21.8	78.2
2018	80873	7.1	13820	67053	17.1	82.9
2019	111724	38.1	24423	87301	21.9	78.1
2020	76083	-31.9	3209	72874	4.2	95.8
average		4.3			19.2	80.8

Source:

1. The Central Bank of Iraq, the General Directorate of Statistics and Research, Economic Reports, various bulletins.
2. Ministry of Planning, Central Statistical Organization, Directorate of National Accounts, Consolidated Accounts.

As the volume of government spending continued to increase until 2019, its growth increased to (38.1%) in 2019 following the increase in oil prices and then the increase in financing public spending in 2019, and due to the decline in the volume of public spending in 2020 as a result of the repercussions of the Corona pandemic, oil prices fell, and then Financing public spending, which led to a decline in the growth of public spending to turn negative towards (-31.9%) in 2020.

It is concluded from all of this that despite the impact of fluctuations in oil prices and their reflection on the volume of public revenues and in view of the inevitable dependence of the national economy on revenues from crude oil and the low contribution of other revenues, it contributed to the adoption of an expansionary fiscal policy at one time and a contractionary fiscal policy at other times (that is, the so-called fiscal discipline) ⁽¹⁷⁾ .

As for the type of relationship between the internal public debt and public spending, it is clear from Table (3) that the annual growth of both variables in their total form (internal debt, public spending) were not compatible according to the logic of the economic theory, which indicates that the accumulation of public debt and its benefits did not lead to The increase in public spending during the period (2015–2020), but there was a state of fluctuation in the type of relationship between them. After the growth of the internal public debt reached 47.3% in 2016 and decreased to 0.7% in

2017, public spending increased to 12.6% in 2017. While the matter was according to the logic of economic theory in 2018, that is, the relationship was direct, as the decline in the internal debt with a growth rate of (-12.3%) in 2018, the growth of public spending had also decreased to 7.1% in 2018, and in an inverse relationship in 2020, the increase in the growth of internal debt led The decline in the growth of public spending, and this indicates the reliance mostly during the research period on financing public spending on external debt and oil revenues, in addition to internal debt.

Table (3)

The structure of the internal public debt and the growth of public spending in Iraq for the period (2015–2020) .

Billion dinars

Years	debt/ finance %	Remittances %	Bonds %	Loans %	total internal debt	annual growth %	public expenditure	annual growth %
2015	7.3	60.1	0	32.5	32143		70398	
2016	5	69.2	3.6	22.3	47362	47.3	67067	-4.7
2017	4.5	67.7	5.6	22.1	47679	0.7	75490	12.6
2018	4.7	67.9	4.7	22.7	41823	-12.3	80873	7.1
2019	4.6	67.8	5	22.6	38332	-8.3	111724	38.1
2020	2.4	71.8	3	22.8	64247	67.6	76083	-31.9
Average	4.8	67.4	3.7	24.2	45264.	19.0		4.3

Source:

1. The Central Bank of Iraq, the General Directorate of Statistics and Research, Economic Reports, various bulletins.
2. Ministry of Planning, Central Statistical Organization, Directorate of National Accounts, Consolidated Accounts.

Conclusions and Recommendations

First: the conclusions

1. The decline in the share of bonds and loans of financial institutions due to their emergence as new sources of financing the budget deficit after 2014, especially after the aggravation of the planned budget deficit, which was reflected in the development and expansion of internal public debt sources.
2. Changes in the components of government spending can be attributed to fluctuations in oil prices, which were reflected in changes in the field of oil revenues.

3. The fluctuations in oil prices have direct effects on the financing of public spending, as it reflects on the volume of public revenues and, consequently, on fiscal discipline.
4. The relationship between the internal public debt and public spending was not consistent according to the logic of the economic theory, which indicates that the accumulation of public debt and its benefits did not lead to an increase in public spending during the period (2015–2020), but there was a state of fluctuation in the type of relationship between them.

Second: Recommendations

1. The necessity of adopting a spending policy that would activate the role of the productive sectors through the optimal use of resources and benefit from internal borrowing.
2. Given Iraq's reliance on an expansionary spending policy, it requires an increase in public investment spending, and this requires restructuring public spending and the need to direct it towards balance to achieve economic development and growth.
3. The need to direct public investment spending towards diversifying the structure of the Iraqi national economy, by focusing on income-generating investment projects, and then their contribution to the gross domestic product.
4. The necessity of adopting a rational policy for the internal public debt by adopting clear criteria those are compatible with the economic requirements of the country and the limits of its financial capabilities.

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