

POSSIBILITIES AND OPPORTUNITIES TO ACHIEVE FINANCIAL SUSTAINABILITY IN IRAQ AFTER 2003 (FUTURE VISION)

*Extracted Research

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ABSTRACT

Many studies in the last three decades have focused on public debt management, known as financial sustainability, as public debt is considered financially sustainable if it fulfills the condition of the ability to pay the debt (solvency condition fiscal). For this condition to be fulfilled there must be a primary surplus in the budget sufficient to pay off this debt, whether it's essential value or the benefits accruing from it; that is, this condition requires that the volume of the current deficit, in addition to the current discounted value of spending, not exceed the present value of the return. In other words, the present value of the debt should be greater than the current discounted value of the total revenues minus the non-interest spending.

KEYWORDS

financial sustainability, budget surplus and deficit, international financial institutions.

Introduction

Interest in financial sustainability increased in the eighties of the last century after the exacerbation of the debt value suffered by many countries. Iraq became one of the countries that inherited a heavy legacy of external indebtedness due to the economic collapse and the cessation of exporting crude oil. Then the failure to pay its external obligations, in addition to the large sums that Iraq committed as compensation for the wars that Iraq fought in the past periods, in return for the deepening of Iraq's dependence on oil as a primary source of financing the budget, and then the decline in oil prices creates the need to resort to borrowing, whether internal or external, and this exposes the economy to significant risks as well as burdens Debt servicing. The accumulated fiscal deficits and the sharp increase in public debt rates have led to a review of the sustainability of public finances and the government's ability to fulfill its debts without exposure to bankruptcy risks. However, there are multiple means of financing that debt, perhaps the most prominent of which are government bonds funded by the private sector, which in turn leads to crowding out) to find practical solutions to the problem of increasing government fiscal deficits, the situation requires resorting to public debt in general and internal debt in particular,

which requires building a strategy for internal public debt, specifically the establishment of a government bond market in two-time frames. Short-term and long-term, the short-term market aims to develop financial tools in the financial market to achieve price stability, while the long-term market is to achieve coordination between fiscal and monetary policies to maintain the continuity of the economy in its correct balancing track.

Research problem:- The research problem stems from the view that the need to resort to public debt in its two parts (internal and external) on an ongoing basis does not achieve financial sustainability in Iraq without risks and that the budget constraints cannot exceed public expenditures within the limits of their financing.

The importance of the research:-providing a solid theoretical and practical framework for analyzing financial sustainability and the general budget in Iraq after 2003.

Research hypothesis:- The study was based on the hypothesis of the study that Iraq suffers from high indebtedness and that the public debt in both parts (internal and external) has not led to achieving financial sustainability in the Iraqi economy since the year (2003), and despite the indebtedness, it can bear its burdens and can sustain it. His debt results from the economic resources he possesses that can solve the debt problem if appropriately invested.

Research Objective:-The main objective of the study is:

Determining the country's ability to achieve financial sustainability through indicators through which the possibility of sustainability can be determined or not in light of the seriousness of Iraq's indebtedness.

Research methodology:- The study relied on the analytical approach to financial sustainability and budget surplus and deficit in Iraq for the period (2003-2019), relying on the data of the Ministry of Finance, the Central Bank, and the Ministry of Planning in Iraq, as well as reports issued by international organizations and institutions.

Research Structure:- To validate the hypothesis and reach the research objectives, it was divided into two sections. The first topic dealt with the theoretical framework of financial sustainability. The second topic dealt with the analysis of the deficit and surplus of the general budget and its impact on financial sustainability (2003-2019), while the third topic dealt with A future vision of financial sustainability by the directions of international financial institutions for the period (2019-2024).

Part One:- the concept of financial sustainability

It can be defined as the financial situation in which the state can continue spending and revenue policies in the long term without a decrease in financial solvency and without being exposed to the risk of bankruptcy or the inability to fulfill current and future obligations⁽¹⁾.

That is, the main objective of fiscal policy is that it is not related to achieving a certain level of the public budget deficit as much as it aims to maintain a sustainable financial situation in light of the objectives of public policies. Therefore, maintaining financial sustainability represents the most critical objective among public finance objectives⁽²⁾.

¹ Izquierdo and panizza, " Fiscal Sustainability Issues for emerging market countries" , Egyptian of Economic studies, Wp.No, 95, Cairo Egypt , 2004, p6-7.

² Kamal Amin Al-Wasal, Infrastructure and Public Investments in the Arab World between the Necessity of Development and the Dilemma of Funding , 1st edition, Lebanon - Beirut, Arab Center for Research and Policy Research, 2018, p. 155 .

(Blanchard)^(*) defines financial sustainability as that policy that ensures the stability of the public debt-to-GDP ratio. Public debt is not a problem as long as it does not negatively affect economic growth rates in the country and the government can employ borrowed funds in profitable projects and investments. A real positive impact on the gross domestic product, which helps to develop the economy and increase production rates as well as work to achieve economic development, even if the debt-to-GDP ratio is high, but if the borrowed funds are used to cover current expenses such as the salaries of employees and retirees, the public debt is not considered sustainable. As it happens in Iraq⁽³⁾.

Financial sustainability is also defined as the possibility of achieving a constant ratio between GDP and debt and that the ratio returns to its standard rates after removing external influences and emergency events⁽⁴⁾.

As for the financial sustainability requirements, they can be explained as follows:

a. Intergenerational Fairness :

The issue of financial sustainability always includes questions related to the distribution between generations and the sharing of risks, and it is often formulated as leaving future generations the same options as the current generations. Future generations are debts that cannot be met⁽⁵⁾.

b. Solvency Financial :

It is expressed by (financial ease). Solvency expresses the ability of the state to fulfill its financial obligations, as its lack of availability can lead to financial problems in any national economy and, thus, over-reliance on debt, after which the growth of debt accelerates whenever the government tries to finance its interest payments by issuing more debts. This leads to a vicious circle in which increasing amounts of debt are issued to pay higher interest charges. Eventually, debt service costs will exceed the government's ability to pay for it and thus become unsustainable. To achieve a way to maintain the financial solvency of the national economy, additional revenue must be generated. Sufficient to cover the expected increase in growth-promoting public spending⁽⁶⁾.

c. stable taxes :

Tax stability is represented by the government's ability to finance future financial obligations while maintaining tax burdens at their current level or lower, and this is achieved through a balanced budget in the medium term that gives a reasonable degree of stability in the total tax burden, which represents one of the main requirements for financial sustainability⁽⁷⁾.

d. Growth Economic:

It is a positive increase in specific economic quantities over a relatively long period. Although economic growth and the resulting economic development are the outcomes of economic and non-economic factors, it is an increase in the economic welfare of the population, That is, the number

* He is an English economist. In his article "An Essay on Dynamic Theory." In his achievement, he relied on the ideas of the general theory of work Keynes. After the fame he gained, the latter's name was linked to the American economist Avsi Domar (1914), and from there, they called the Harrod-Domar model or the Keynes model of growth. He is also famous for his well-known book entitled "International Economics."

³Blanchard,O,J,c,Suggestun for new set of fiscal indicators,OECD,working paper, No79, 1999, p.4.

⁴ OECD, "Fiscal sustainability" 'in Government at a Glance, OECD Publishing, Paris , 2013, p1.

⁵ Torben . m. , Fiscal sustainability and fiscal policy targets, Economics working papers, Department of Economic and Business Economics, Aarhus University, 2012, p.2.

⁶ Schick.A, Sustainable Budget Policy: Concepts and Approaches, OECD JOURNAL ON BUDGETING, Volume 5, NO1, 2006, P.110.

⁷ Schick.A, Sustainable Budget Policy: Concepts and Approaches, op cit, p112.

of goods and services produced and placed at the disposal of citizens during a specific period at lower costs or with better quality and larger quantities than before⁽⁸⁾.

That is, financial sustainability is summed up in the idea that governments must manage their financial affairs wisely to ensure the desired targeted growth in the future, and sustainable growth is one of the most important goals of the European Union's Stability and Growth Pact, which obliges member states to have a deficit of less than (3%) of GDP and gross debt less Of (60%) These limits are based on the argument that growth will not be sustainable if the deficit and debt violate these criteria and for all countries, the long-term financial goal for Britain, for example, is to ensure that public finances are sustainable, and contribute to a stable environment that promotes economic growth⁽⁹⁾.

Part Two: Analysis of the deficit or surplus in the public budget and public debt and its impact on financial sustainability in Iraq for the period (2003-2019)

The deficit in the general budget is one of the main features of public finance in most countries. The reason for the deficit achieved in some years is the drop in international oil prices, which fell to less than 40 dollars per barrel, while the government estimated the price of a barrel of exported oil at (56) dollars. Moreover, the decrease in the actual price of a barrel from the estimated one dollar means a loss of revenues estimated at approximately (1.5) billion dollars, as the Iraqi economy suffers from a fundamental problem represented in the failure of public revenues to cover public expenditures, so this led to the emergence of a public budget deficit crisis, and the problem between revenues increases. And expenditures year after year, and as it is known that the Iraqi economy is a consumer economy that is unable to meet the needs of citizens, which makes import from abroad the only resort, especially with regard to securing necessary commodities such as foodstuffs and medicines, and thus leads to an increase in the prices of these materials globally, which is reflected in an increase The demand for foreign loans and the increase in public debt to pay the rest of the imports, which leads to the benefit of the producing countries by increasing their exports at the expense of the non-productive economies, including Iraq, where the prices of imports were rising at rates more significant than the prices of exports, and this matter led to the depletion of the public revenues of the country, which is limited to oil revenues and the lack of Non-oil revenues, and through this indicator it is possible for the Iraqi economy to achieve financial sustainability by stopping or reducing external imports and thus not leaving oil revenues, i.e. at least reducing the trade balance deficit by meeting the very necessary needs of society and thus reducing external debts destined for consumption (non- the product).

Table (1) shows that the general budget from (2003-2012) achieved a surplus during this period. The reason for that was the lifting of economic sanctions, which increased oil revenues. In contrast, public revenues witnessed a noticeable decrease in 2009 to reach 55,209,353 million Iraqi dinars, with a growth rate Negative amounted to (31.2%) and the main reason for the decline was the global financial crisis and the changes that occurred in the prices of crude oil in the global markets as a result of it. Annual growth (27.1%) and (10.1%), respectively, but the years (2013-2019) public budgets achieved a deficit due to the drop in oil prices, which led to a decrease in public revenues while government spending remained without an increase. This deficit generates public debts for the country, Both internal and external, which makes achieving financial sustainability difficult in the event of non-diversification

⁸ Abdel Moneim Al-Sayed Ali, Introduction to Economics (Principles of Macroeconomics), Part Two, Al-Mustansiriya University, College of Administration and Economics, Baghdad, 1984, p. 344.

⁹ Schick.A, Sustainable Budget Policy: Concepts and Approaches, op cit, p112

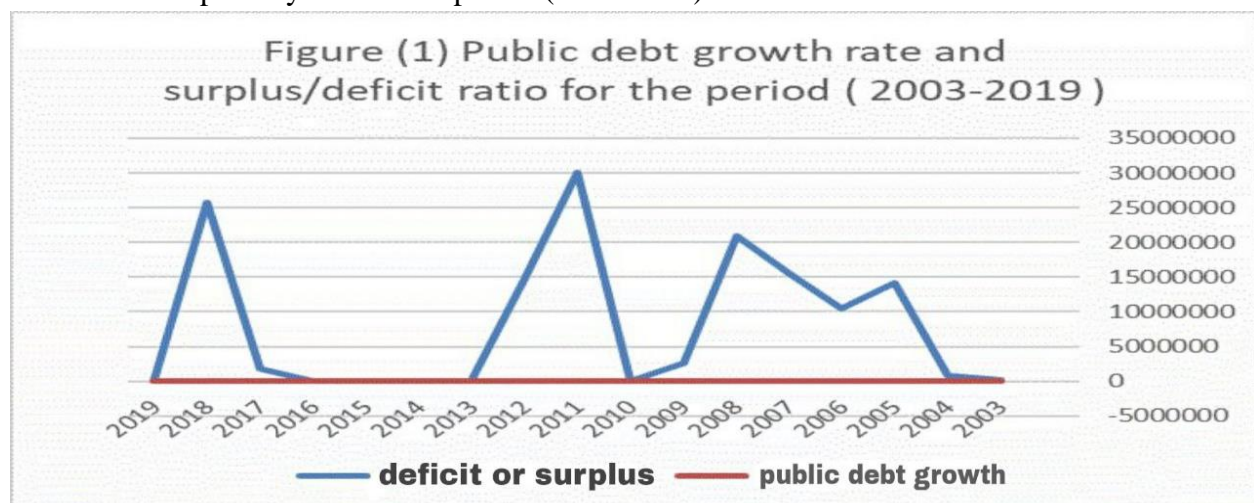
of revenue sources that limit the noticeable imbalance between expenditures and revenues. As for the years (2017) and (2018), the budget achieved a surplus of (1845840) million dinars and (25696645)) respectively, due to the increase in oil prices and the decrease in government spending, and the reason for this is the austerity policy pursued by the government, as shown in Figure (1)

Table (1) The surplus and deficit in Iraq's budget and public debt and its growth rate for the period (2003-2019) / million dinars

the years	Total revenue the public Million) (dinars	Revenue growth rate	overhead Million) (dinars	public expenditure growth rate	deficit or surplus	total public debt	public debt growth
2003	2,146,346	-	1,982,548	-	163,798	136848884	-
2004	32982739	1436.7	32117491	1520	865248	135555541	0.9 -
2005	40502890	22.8	26375175	-17.9	14,127,715	111322289	17.9 -
2006	49055545	21.1	38806679	47.1	10425670	86725020	22.1 -
2007	54599451	11.3	39031232	0.6	15568218	76965008	11.3 -
2008	80252182	47.0	59403375	52.2	20848807	59114133	- 23.2
2009	55209353	-31.2	52567025	-11.5	2642328	61101599	4.3
2010	70178223	27.1	70134200.2	33.4	44022	64,778,036	6.0
2011	108807392	55.0	78757667	12.3	30049726	60282889	- 6.9
2012	119817224	10.1	105139575	33.5	14,677,648	58083553	- 3.6
2013	113767395	-5.0	119127556	13.3	5360161 -	54,163,847	6.7 -
2014	105386623	-7.4	112192126	-5.8	7863800 -	59895883	10.6
2015	66470252	-36.9	70417515	-37.2	3927263 -	84,780,811	41.5
2016	54,409,270	-18.1	67067437	-4.8	12658167 -	99597195	17.5
2017	77335955	42.1	75490120	12.6	1845840	120832236	21.3
2018	106569834	37.8	80873000	7.1	25696645	90448698	25.1 -
2019	107566995	0.9	111723523	38	4156528 -	82918428	8.3 -

Source: the researcher's work based on:

- Central Bank of Iraq, Department of Statistics and Research, annual statistical releases, for the period (2003-2019).
- The Iraqi Ministry of Finance, the General Budget Department and the Public Debt Department, bulletins for separate years for the period (2003-2019).



Source: from the researcher's work based on Table (1).

Through the preceding, it is clear that there is a set of risks that affect the sustainability of fiscal policy in Iraq, especially with its characteristics, as follows⁽¹⁰⁾:

1. Significant vulnerability to shocks: These countries are affected by changes in what happens outside their control, trade rates, capital flows, economic crises, and the consequent changes in economic growth these countries.
2. The fragility of the administrative institution of public finance: This results from the fact that many financial decisions are ill-considered and do not consider the economic conditions and the conditions of the goods and services market, and their lack of credibility prevents the implementation of the previously prepared government program.
3. Determinants of deficit financing: The limited capabilities make Iraq dependent on borrowing from external sources in addition to short internal loans, and in light of the spread of the so-called dollarization process, i.e., the dominance of the dollar over other internal and external currencies and their high levels, these countries are forced to adjust interest rates, and as a result, The burden of servicing the domestic short-term public debt is increasing.
4. Low rates of creditworthiness: Most of the financial literature emphasizes the dependence of developing countries on external borrowing, and this coincides with the high risk of burdens of servicing these debts, which depend mainly on exchange rates characterized by continuous volatility and their vulnerability to economic cycles.

Chapter Three: A future vision of financial sustainability in Iraq according to the directions of international financial institutions for the period (2019-2024)

Iraq has received special attention from international institutions because it is a founding member of them and signs cooperation agreements with those institutions to obtain direct loans or help it obtain loans from other international bodies and institutions or to obtain advice and technical support from them. The most prominent of these institutions that issued their reports, especially with their expectations of economic indicators for the coming years, are: the International Monetary Fund, the World Bank, the international rating agency Standards & Poor's, and among the most prominent of its expectations regarding our country are as follows:

The first requirement: International Monetary Fund expectations for financial sustainability in the Iraqi economy for the period (2015-2024) expectations and possible opportunities

On 26/7/2019, the International Monetary Fund prepared its annual report on the future of the Iraqi economy after concluding its consultations on Article 4 with Iraq, in which it clarified its expectations for economic indicators until 2024. A summary of what was stated therein can be summarized as follows⁽¹¹⁾:

1. The improvement in the security situation and the recovery of oil prices led to a reduction of vulnerabilities in the short term. The public finances and the current account recorded large surpluses in 2018, estimated at (8%), and (6%) of the gross domestic product, which allowed

¹⁰ Alvarado ,Iquierdo,&Panizza, Fiscal Sustainability in Emerging Market Countries with Application to Ecuador, working paper series 511 , inter-American Develop bank, 2004,p11.

¹¹ Report of the Executive Board of the International Monetary Fund, Article IV Consultation with Iraq on 7/19/2019. <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

the government to pay part of the domestic debt and the formation of safety margins in the public finances, and the total international reserves amounted to 65 billion dollars.

2. The 2019 budget includes a significant degree of financial easing that would increase weaknesses and the fragility of the financial situation. It is expected that current spending will increase by (27%) annually due to the increase in the public sector wage bill, while revenues will weaken due to the abolition of non-oil taxes.
3. The continued decline in the public financial position and the external position in the medium term, unless changes occur in policies, with the continued decline in reserves to less than adequate levels and the erosion of safety margins in public finances, although the level of public debt will remain within tolerable limits, and therefore financing needs will increase—total public finances.
4. There are expectations that oil prices will witness large fluctuations, reflected in the volume of Iraqi oil exports and, thus, in a decrease in oil revenues, which will necessarily lead to a sharper decline in financial reserves or an increase in public debt.
5. The International Monetary Fund confirmed, based on the expectations of its experts, the possibility of significant fluctuations in global oil prices that will be reflected in its adverse effects on the Iraqi economy, indicating the expectations that the global economy will enter a major economic crisis that may push the global economy towards recession as a result of the escalation of the trade war between the United States of America And China, which led to a decline in global economic growth rates and a decline in global trade growth rates, its features became apparent in 2020 and coincided with the outbreak of the Corona pandemic in most countries of the world, which paralyzed all joints of the global economy and deepened the economic crisis after taking health precautionary measures and imposing a health curfew that As a result, the movement of land, air and sea transport, which consumes (70%) of the energy in the world, stopped, which led to a decline in benchmark oil prices (Brent) in the global markets to less than 30 dollars, which negatively affected the Iraqi economy, just like other economies in different parts of the world. Dr. Mazhar Muhammad Salih called it surprises and price caveats at low oil prices, which calls for the inevitable economic diversification⁽¹²⁾.

The most important expectations of the International Monetary Fund experts for the economic indicators for Iraq until 2024 can be seen in Table (2) as follows:

1. The expected estimates of the International Monetary Fund indicated that government expenditures for the Iraqi state constituted about (43.1%) of the total gross domestic product in 2020. It is expected to decrease to (40.5%) in 2024, while the percentage of operating expenditures was estimated at (34.7%) in 2020. Then it decreased to reach (33.9%) in 2024, so its percentage of total public expenditures reached (80.5% - 83.7%) from 2020-2024.
2. The weakness of investment allocations and their continued decline, estimated by the Fund's experts (investment expenditures) at about (8.4%) in 2020, then declining to reach (6.6%) in 2024, and that the percentage of these allocations is not sufficient to finance the reconstruction

¹² Mazhar Muhammad Salih, The General Budget in Iraq - A Dialogue of Opportunities and Axes, a research paper published on the website of the Iraqi Economists Network, pp. 1-2, 202 <http://www.iraqieconomists.net>

requirements estimated by the World Bank At the Kuwait conference with (88) billion dollars for the reconstruction of Iraq during the ten years from 2018-2028⁽¹³⁾.

This is in addition to the decline in foreign investments that left Iraq and received from their countries or moved to other countries, which amounted to (36.251) billion dollars for the period from 2013-2018, and the exit of (1.191) billion dollars from local investments of the same period, according to the investment report for the year 2019⁽¹⁴⁾.

Table (2)

International Monetary Fund experts for indicators of the Iraqi economy until 2024 (%)

the years variable	2020	2021	2022	2023	2024
Public expenditures to GDP	43,1	41,2	40,5	40,5	40,5
operating expenses to gross domestic product	34,7	33,6	33,5	33,7	33,9
Operating expenses to overheads %	80.5	81.3	82.7	83.2	83.7
investment expenditures to GDP	8,4	7,5	7	6,8	6,6
investment expenditures to overheads %	19.4	18.2	1.7	16.8	16.3
public revenue to gross domestic product	39,6	37,9	36,5	35,5	34,6
Oil revenues to GDP	36,3	34,5	33,1	32	31
Other non-oil revenues to GDP	3,3	3,4	3,4	3,5	3,5
disability to the gross domestic product	-3,5	-3,3	-4,0	- 5,0	- 5,9
GDP (billion dollars)	241,5	254,1	267,3	281,1	296,5
Government public debt (\$ billion)	121,9	128,5	137,5	150,7	167,3
Government public debt as a percentage of GDP	50,5	50,6	51,5	53,6	56,4
External public debt (billion dollars)	76,2	77,6	75,8	75,3	73,8
Domestic public debt (billion dollars)	45,7	50,9	61,7	75,4	93,5

Source: International Monetary Fund, Report of the Executive Board of the International Monetary Fund, Article IV consultations with Iraq on 7/19/2019.

<http://www.imf.org/external/np/sec/misc/qualifiers.htm>

¹³ Abd al-Rahman Najm al-Mashhadani, Iraq, the arena of conflict between the removal of forces and the possibility of imposing American sanctions, Center for Policy Making for International and Strategic Studies, Turkey - Istanbul, 2020, p. 6

¹⁴ UNCTAD, World Investment Report, (2019), p214.

3. The general government revenues of the Iraqi state were estimated, according to the Fund's report, to be about (39.6%) of the gross domestic product, decreasing to reach (34.6%) in 2024, as oil revenues constitute what represents (90%) of the total public revenues, and this indicates the continued adoption of the budget. The public sector depends on oil as its main source, and its preparation is affected by the fluctuations that occur in the global oil markets.
4. The continued decline in public revenues, as well as the continuing increase in the deficit in public budgets, which is expected to rise from (3.5%) in relation to GDP in 2020 to (5.9%) in 2024 indicates that Iraq continues to rely on internal and external borrowing to finance this deficit. Despite the legislation of the Financial Management and Public Debt Law No. (6) issued in 2019, which stipulates that it is forbidden to increase the deficit in the public budget to (3%) of the gross domestic product, which means the inability to achieve financial sustainability.
5. An increase in public debt from (121.9) billion dollars in 2020 to (167.3) billion in 2024, both internally and externally, To reach (73.8) billion dollars in 2024, at a time when the report indicates an increase in internal public debt from (45.7) billion dollars in 2020 to (93.5) in 2024.
6. An increase in the ratio of public debt to GDP from (51.4%) in 2020 to (56.4%) in 2024; however, estimates indicated a decrease in the ratio of external government debt to GDP from (31.5%) in 2020 to (31.5%) in 2020 (24.9%) in 2024.
7. The persistence of expectations of a rise in the public debt-to-GDP ratio that exceeds (50%) means the inability to achieve the sustainability of the public debt as determined by the Maastricht Agreement, which specified the debt-to-GDP ratio at the market price of developing countries, provided that it does not exceed (60%), as well as the ability and potential to achieve financial sustainability for the coming years, noting that this percentage may increase or decrease from one year to another and from one country to another.
8. In a previous study of the fund presented by the fund's vice president at the Kuwait conference in February 2018, in which he warned the Iraqi government against continuing to borrow, despite the existence of a funding gap estimated at (33) billion dollars for the period 2017-2023 and the debt remaining constant, debt services will rise from (3) billion in 2017 to (16) billion dollars in 2023, and if the government continues to borrow, the ratio of public debt to GDP will exceed (58%) and that public debt services will reach (33) billion dollars in 2023 and there will be a financing gap It exceeds (87) billion dollars, which means that the government will not be able to implement its development or reconstruction programs and that the oil revenues will go the bulk of them to paying debt installments and interest⁽¹⁵⁾.

The second requirement: expectations of the international rating agency Standards & Poor's for the Iraqi economy (2019-2023)

International credit rating institutions are institutions specialized in collecting appropriate information and analyzing them in order to issue them in the form of periodic reports that express what is called the creditworthiness of a country, which means the amount of confidence that the bank gives to customers in exchange for disposing of its capital during a specific period, with opportunities to obtain The necessary guarantees for the payment of dues, and the main objective of the credit rating is to classify

¹⁵ Jozs. Ch, Iraq Macroeconomic Framework Overview, Deputy Division Chief, IMF, Invest in Iraq Conference, 2018, p4.

and classify debt instruments in this country based on its ability to fulfill its obligations that affect negatively or positively through its ability to borrow⁽¹⁶⁾.

As Standard and Poor's agency issued its annual credit rating for the Iraqi economy at B-/B on 3/26/2020, as the Ministry of Finance announced on Thursday, 9/30/2021, Iraq continues to maintain its credit rating with a stable outlook. Until 2023, due to economic reforms, and according to a report submitted by Standard & Poor's on credit rating, the Iraqi economy continues to maintain its credit rating due to the ongoing economic reforms of fiscal policy in Iraq.

He added, "The new classification came to reflect the continuation of maintaining the level of foreign currency reserves in a manner that exceeds the service of external public debt and the fulfillment of other external financial obligations as a result of the rise in crude oil prices and their recovery in the third and fourth quarters of the current year."

It also emphasized the possibility of improving the credit rating of Iraq in the event of a high rate of economic growth in Iraq, diversifying the state's oil and non-oil revenues, increasing the per capita share of national income, and continuing the procedures for reforming the financial and economic policy as mentioned in the economic reform paper (the white paper) that would strengthen the policy. The financial and economic of the Iraqi government⁽¹⁷⁾.

Table (3) includes the most important forecasts for the economic indicators of Iraq. Among the most prominent observations made in the report are⁽¹⁸⁾:

1. The downward shock of oil prices will triple the fiscal deficit in Iraq and push the current account balance into a deficit during 2023.
2. Iraq will remain the fourth largest oil producer in the world and challenge the lowest-cost producers, and this would ensure that the trade situation for goods in the country remains stable despite the terms of the trade shock.
3. Reducing spending and assets from the sizeable fiscal surplus of 2018 is expected to mitigate the overall impact of the shock partially.
4. The rating can be reduced if the government increases spending beyond the expectations of the experts of the Standard & Poor's rating agency, if it leads to a decrease in foreign currency reserves or a sharp rise in its net debt and service costs, or if oil revenues decrease. The government is unable to reduce spending and implement countermeasures.
5. The affirmation of the assessment for Iraq (B-) depends mainly on the ability of the government to reduce spending while the economy continues to depend on oil.
6. Obtaining bilateral or multilateral external funding to finance projects is expected to take more work.
7. Given the end of the International Monetary Fund program with Iraq and the lack of approved budget support in the year (2019-2020), therefore, the government will be forced to finance the deficit in 2020 by using the remaining financial assets accumulated from the 2018 budget surplus and relying on short-term domestic financing (permits The treasury purchased by commercial

¹⁶ Sarmad, A Beautiful Planet, An Introduction to Financial Institutions Management, Theories, and Applications, 1st Edition, Academic Publishing House, Amman - Jordan, 2018, p. 236.

¹⁷ The White Paper, Final Report of the Emergency Cell, previous source, pp. 40-41-42.

¹⁸ Shaima Fares Hassan, The increase in public debt and its impact on reducing financial sustainability in Iraq from 2004-2018, previous source, pp. 109-110.

banks and securities sold to the retirement fund), so it is expected that the average net government debt of liquid assets will reach (64%) during the expected period 2020-2023.

8. The public debt in Iraq at the end of 2022 reached (94.936) trillion dinars, distributed between (24.431) trillion dinars of external debt (excluding the stalled Gulf debt) and (70.505) trillion dinars of internal debt. It is expected that the principal payments will increase to pay off external debts for the period 2023- 2020 until the date of repayment of the debts of the International Monetary Fund and Eurobonds.

Table (3) The most important economic and financial indicators according to the expectations of the International Rating Corporation Standard & Poor's(%)

the years pointer	2019	2020	2021	2022	2023
GDP (billion dollars)	210	172	202	218	228
Exports/GDP %	81.1	66.6	69.6	72.7	73
Net FDI/GDP %	2.0 -	2.0 -	1.0 -	1.0 -	1.0 -
Total External Financing Needs % of Usable Reserves	73.8	78.0	123.8	114.7	111.7
Revenue to GDP %	42.2	31.3	38.1	39.6	39.0
Expenditures/GDP ratio	47.4	47.1	44.6	44.6	44.0
Public Debt/GDP Ratio %	54.4	76.1	71.4	71.1	73.2
interest/revenue ratio %	4.1	7.0	5.6	5.5	5.8
Public Debt/Revenue Ratio %	129	244.2	178.3	179.6	188
Net Debt/GDP Ratio %	40.7	65.4	62.1	62.6	65.0

Source: https://www.standardandpoors.com/en_US/web/

- Shaima Faris Hassan, previous source, p. 110.

9. There is a possibility that the ratio of revenues to GDP will drop to less than (40%); at the same time, the ratio of public expenditures to GDP will remain between 47% in 2020 and 44% in 2023.
10. The ratio of public debt to public revenues will increase (244%) in 2020 to decrease to (188%) in 2023. As for the internal and external public debt installments (installment + interest) in the 2023 budget, it is equal to 18.962 trillion dinars.
11. The ratio of net debt to GDP will remain more than average rates, as it will rise from (40.7%) in 2019 to reach (65%) in 2020, then decrease to (62.1%) in 2021, to rise again to reach (4.65%).) In the year 2023, the total gross domestic product, which is higher than the natural rates, which are supposed not to exceed (40%) for developing countries⁽¹⁹⁾.
12. The data of the international rating agency Standards & Poor's relies on official data and statistics issued by the International Monetary Fund in cooperation with the Central Bank of Iraq (economic indicators), as well as the Iraqi Ministry of Finance (financial

¹⁹ Translated pages taken from a group of electronic links belonging to the website:

https://www.standardandpoors.com/en_US/web/

indicators), the Central Bureau of Statistics, and the Bank for International Settlements (external indicators).

The third requirement: World Bank expectations for the Iraqi economy for the period (2019-2022)

The World Bank issued a special report on Iraq, "Navigating the Perfect Storm," focusing on laying the foundation for a new economy in Iraq, digital transformation. 2017), in which he shows the fragility of the economic situation and the difficulty and seriousness of the financial crisis facing the Iraqi government due to the collapse of global oil prices and the worsening of the health situation as a result of the outbreak of the Coronavirus and the inability of the health system in Iraq to contain the virus and limit its spread, significantly after infections exceeded the barrier of (2500). One daily infection after mid-July due to the lack of sufficient operational and financial capabilities to contain and control it, in addition to the continuation of political and social unrest and the spread of corruption in most parts of the state.

Saroj Kumar Jha, Regional Director of the Levant Department at the World Bank, says: "Controlling public finances and economic diversification through increased private sector participation is extremely important to reduce Iraq's vulnerability to external shocks⁽²⁰⁾.

Among the most important things mentioned in the World Bank report on the financial and economic situation of Iraq, which shows part of it is Table (4), which identifies the most critical risks threatening the Iraqi economy in the future⁽²¹⁾:

1. The package of stimulus measures taken by the government of former Prime Minister (Adel Abdul-Mahdi) at the end of 2019 to address the problem of unemployment led to a reduction in the 2018 budget surplus from (11.2%) of GDP 2018 to (3%) of GDP. In 2019.
2. The total government spending tended to finance operating expenses at the expense of reducing investment spending allocated to financing development programs and programs to rebuild the country's infrastructure and reconstruct the liberated areas.
3. Despite the slight increase in investment spending, which amounted to (5%), the implementation rate was at most (45%) of the amounts included in the general budget.

Table (4) Economic and financial indicators of the Iraqi economy, according to the expectations of the World Bank For the period (2019-2022)

variable \ the years	2019	2020	2021	2022
GDP (billion dollars)	234,1	171,3	194,3	210,9
Government revenues and grants as a percentage of GDP %	38.9	22.1	24.5	25.7
Oil Revenues as a Share of GDP %	35.9	18.2	20.8	22.7
Non-oil Revenues as a % of GDP	3.0	3.9	3.7	3.5
Expenditure as a share of GDP %	37.6	51.8	45.1	42.7
Current Spending as a % of GDP	28.8	45.3	39.4	37.4

²⁰ <https://www.albankaldawli.org/>

²¹ world bank, Reconstruction, Recovery.E, and Cohesion.F.S, "Iraq Economic Monitor, Navigating the Perfect Storm (Redux" world bank grup.P xi,xii,2020, 16,17.

Investment Spending as a % of GDP	8.8	6.5	5.7	5.3
Oil Investments as a % of GDP	6,9	5,3	4,6	4,3
Non-oil investments as a share of GDP %	2,0	1,2	1,1	1,0
Total government public debt (\$ billion)	104.4	139.0	163.9	184.3
External public debt (billion dollars)	54.0	n/a	n/a	n/a
Domestic public debt (billion dollars)	50.4	n/a	n/a	n/a
Total Government Debt to GDP %	44.6	81.2	84.4	87.4
Oil production (MBI)	4,83	4,03	4,02	4,44
Oil exports (MBI)	3,54	2,84	27,8	3,03
The expected price of a barrel of oil	61,1	30,0	39,8	42,3
Total cash reserves (billion dollars)	67,9	33,9	13,2	3,6
Duration of Covering Reserves for Imports (month)	10,1	6,0	2,3	0,7

Source: The table is from the researcher's work, based on: - world bank, Reconstruction, Recovery.E, and Cohesion.F.S, "Iraq Economic Monitor, Navigating the Perfect Storm (Redux)" world bank grup, 2020,.P, 16,17.

4. Investments in the non-oil sectors amounted to only (18%) of the total investment allocations, which mostly tended to finance investments in the oil sector because they are sovereign expenditures that must be paid to the oil companies operating in the oil licensing rounds, which negatively affected the services provided that were characterized With its negativity, which is represented by the interruption of electricity, the scarcity of potable water, the increase in urban areas that are not served by sewage networks, in addition to the decline in the levels of health and education services provided, the halt of the reconstruction program, and the increasing number of people covered by social care.
5. The report indicates that the prospects for Iraq involve significant challenges, the most important of which is the collapse of global oil prices and the disruption of production and supply chains at the global level as a result of the outbreak of the Coronavirus, which will cause significant damage to the Iraqi economy.
6. Securing budget financing will be a significant challenge in light of the absence of a financial control plan and the deterioration of financial conditions in addition to debt amortization, especially the extension of local treasury bills contracts and the exacerbation of the ongoing debt movement. It must be noted that Iraq's total financing needs may reach \$67 billion. US (more than 39% of GDP) in 2020 and increased in 2022.
7. The failure to take deliberate measures to control public finances and spending makes it expected that the general budget deficit will rise at the end of 2020 to (54) billion US dollars 2020, equivalent to (19%) of the gross domestic product, assuming the average price of Iraqi oil. It is sold within the limits of (30) dollars per barrel. However, if salaries and wages continue to be paid according to their current rates and without resorting to austerity measures, the deficit rate is expected to rise to (29%) of the gross domestic product because this requires that oil prices be at least (58) dollars to cover these expenses.
8. Iraq could face a persistent deficit in the current account in 2020, mainly driven by low oil prices and stable imports. This deficit is expected to be financed using the reserves of the Central Bank of Iraq and commercial banks such as Al-Rafidain, Al-Rasheed, and the state-owned Iraqi

Trade, which makes it more vulnerable at the time. It also increases the exposure of the Iraqi economy to external shocks during the expected period, as these reserves decrease to less than three months of imports by 2022.

However, Iraq can increase oil production and not adhere to the new OPEC + agreement to mitigate the widening deficit or follow the approach of financial distillation (authorization) to manage the public budget and spending⁽²²⁾.

9. Iraqi oil production is expected to decline from 4.8 million barrels per day in 2019 to 4 million in 2020. As a result, there are expectations that the oil sector will contract by 13% in 2020 amid pessimistic expectations of the global oil markets.

10. The country's significant financing needs are expected to continue in 2021 and 2022, which raises questions about sustainability and current fiscal policy directions.

We conclude from the preceding that governments seek to achieve financial sustainability to ensure the conduct of business and not to expose the country to a state of financial failure, and the accumulation of debt is only the outcome of the government deficit that has been going on for years (especially the structural deficit). In order to avoid the risk of the indebtedness problem and ensure the achievement of financial sustainability, economic policymakers must go towards rebuilding the economic structure and preparing for an economy without oil by developing a strategy of economic diversification, developing local production, and controlling borders by following An effective customs system and import substitution policies in the first phase of implementing these reforms in preparation for the transition after that to the stage of pioneering industries in which Iraq has a comparative advantage such as the petrochemical industry and construction industries, in addition to the food industries because Iraq is an agricultural and productive country.

Conclusions

1. The researcher's findings proved that the public debt in Iraq did not lead to achieving financial sustainability in the economy because most of the debts were directed to finance the annual budget deficit, especially in the years when global oil prices fell and the years of fighting terrorism that require more spending to finance war operations.
2. The results of the predictive study, whether prepared by the three international institutions (the International Monetary Fund, the World Bank, and the international rating agency Standards & Poor's), have proven that the deficit in public budgets will continue for the next eight years and that this deficit will continue to be financed through internal borrowing from national financial and banking institutions for the most part. From external borrowing, which is mostly going to finance salaries and wages expenses.
3. International institutions were interested in preparing future studies of the Iraqi economy and demonstrating the possibility of achieving financial sustainability according to economic indicators. They found that Iraq will be exposed to major economic crises due to its increasing dependence on oil as a primary source for financing the general budget and gross domestic

²² Mazhar Muhammad Salih, Possibilities of the economic conditions in Iraq under the global recession - an early vision, a research paper published on the website of the Iraqi Economists Network on 4/30/2020, pg. 4.

www.iraieconomistis.net/ar/

product. The government will resort to borrowing to finance the deficit in public revenues. The International Monetary Fund and the World Bank advised that the Iraqi government should resort to internal borrowing, which is expected to rise to more than (93.5) trillion dinars in 2024, offset by a decrease in the reserves of the Central Bank of Iraq to (3.5) billion dollars.

4. Financial reform policies are the most important factors of economic stability that lead to economic growth. Structural reforms are usually carried out parallel to financial and economic stability policies.

Recommendations

1. The need to set safety limits ratios, especially for the Iraqi economy, that measure the state's ability to pay, whether short- or long-term.
2. In order to achieve the conditions of financial sustainability, the sources of financing the general budget must be diversified. Factual mature tax bases must be available in the economy that reflects the existence of a real mature internal activity that possesses the conditions for its sustainability from within the movement of the internal economy in order to be able to generate tax revenues that are highly stable and unaffected. Oil market fluctuations are very much affected, and one of the conditions for enhancing financial sustainability is the existence of a complementary relationship between revenues and long-term public expenditures.
3. Building a pattern of budgeting programs and performance to help achieve financial sustainability, because it is considered the most appropriate for the developments of the current financial situation in Iraq, and then oblige the state ministries to send programs in each draft planned budget that they submit for the following year and evaluate their performance by the concerned authorities.
4. They are paying attention to the study of reform issues that include financial programming models due to their importance and the limitations of Arab studies in them.

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