



THE REALITY OF SOVEREIGN DEBT AND THE POSSIBILITIES OF ADDRESSING IT THROUGH FISCAL AND MONETARY POLICY MEASURES IN THE ENVIRONMENT OF THE IRAQI ECONOMY

Hayat Jumaah Mohammed
Wasit University, Faculty of Literature,
Sociology Department , Iraq – Wasit – Kut
Email: hjumaah@uowasit.edu.iq

A B S T R A C T	KEY WORDS
<p>Despite the availability of natural and other resources in the environment of the Iraqi economy, the increase and exacerbation of sovereign debt owed by Iraqi governments cause a major problem in the environment of the Iraqi economy. However, any country that enjoys abundant resources with this huge amount of diversity between agricultural, industrial, natural, tourism, and advanced human resources cannot be expected to avoid incurring sovereign debt. It is shackled by the restrictions of external debt, particularly sovereign ones. Hence, the research aims to show the importance and extent of the seriousness of sovereign debt and its repercussions on the economic sectors in any country. This is because sovereign debt significantly affects the growth of the productive sectors through the inability of those sectors to increase production. The reason for this is that it is well known to everyone. Sovereign debt is the accumulation of debt that is owed to a nation's government by its citizens. Because these debts weigh down the economy, it is impossible to increase production because all or the majority of the available revenues go to pay off those debts and the interest that accrues on them and has to be paid. Then there is no money left over to pay for anything else. It is necessary that every production process be funded either internally or externally for the production process to continue indefinitely. Providing evidence that the steps taken by decision-makers can adopt financial and monetary policies that would either prevent these debts or achieve the required balance in a way that does not impede the forward movement of development processes within the sector is an important step. Increasing both the level of productivity in these areas and the amount of cash made available to support it is a priority.</p> <p>Moreover, without burdening the economy with debts that serve no purpose in expanding these areas of the economy. In addition, a negative interaction effect begins to show up after the year 2003 through the use of two indicators with a theoretical basis. The first</p>	<p>Sovereign debt, fiscal policy, monetary policy.</p>

one is exemplified by (inconsistency in time), particularly by deviating from its primary objective (maintaining stability in the general level of prices) at the expense of providing a cover for the budget deficit and public debt through the currency window, which generates a huge cash block in economic activity while not depleting foreign reserves in the environment of the Iraqi economy. One of the most important recommendations is maintaining consistency between fiscal and monetary policies when faking inflation. The trend is heading in the wrong direction.	
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Introduction

Governments borrow when they need it to cover some of the deficit in the budget, either internally or externally, in their local or foreign currencies. The truth is that any loan, whether internal or external, entails a specific interest rate and additional costs on that debt. External, the interest in that debt has no value because that debt will incur additional costs for the governments of those countries. Hence, it is more appropriate to identify the sovereign debt with the productive debt so that these debts can achieve profits in addition to paying their costs or the interest rates that have been borrowed accordingly.

Therefore, attention must be paid to the method of consumption of those debts, which are called sovereign debts, by governments and to take monetary and financial measures that would reduce the bad types of those debts and go to the good ones that would enhance the economy in any country by increasing production by offering loans and that It was sovereign to the productive sectors in order to increase production and achieve a surplus or profit that covers interest rates and develops the productive sectors. There are many tools that decision-makers can use to reduce notorious debts and use good debts to develop the economy of any country.

Research Problem

The increase and exacerbation of sovereign debt owed by Iraqi governments, despite the availability of natural and other resources in the environment of the Iraqi economy.

Research hypothesis:

Any country that enjoys abundant resources with such a huge amount of diversity between agricultural, industrial, natural, tourism and advanced human resources must be free of the restrictions of external debt, especially sovereign ones.

Research goal:

The research aims to show the importance and extent of the danger of sovereign debt and its repercussions on the economic sectors in any country, as sovereign debt significantly affects the growth of the productive sectors through the inability of these sectors to increase production and the reason is, as is well known, that every production process must be funded either internally Or externally in order to perpetuate the production process. Since the economy is burdened with those debts, increasing production is impossible because all or most of the available revenues go to those debts, and the interests that accumulate on them must be paid.

And then demonstrate the ability of the measures taken by decision makers to pursue financial and monetary policies that would avoid these debts or the required balance that does not affect the progress of development processes in the productive sectors and provide the necessary funds for these sectors and increase them. Sectors.

Research importance :

The experiences of African and Latin American countries in the eighties confirm the bad conditions of high inflation and increased poverty rates due to the rise and increase in sovereign debt in that decade. It also took a long time to get out of that crisis and the economic repercussions resulting from the accumulation of sovereign debt in those countries. Emphasis must be placed on managing sovereign debt in a way that limits its volume and serves the economic development process in any country.

The important study also emphasizes the appropriate tools used by fiscal and monetary policies to reduce these debts in a way that allows the continuation of economic development in the country.

Chapter one :- The composition and state of affairs of Iraq's sovereign debt

The phrase "sovereign debts" has gained a great deal of notoriety as of late, particularly due to the predicament in which Greece finds itself, in which it may fail to meet its commitments regarding its sovereign debt. We started to read the term virtually every day in newspapers, hear it on radio stations, and watch it on television stations extensively. It is simply the most famous economic phrase These days! The question, therefore, becomes, what exactly are sovereign debts, why do such debts originate, and how can the issue of sovereign debt be solved? **1**

Firstly:- an explanation of the idea of sovereign debt and its historical roots.

There are always two alternatives available to the national governments of the world's countries whenever they issue bonds. The first option is to issue the bonds in the country's native currency; investors in the domestic market are often targeted for these bonds. In this scenario, the debt incurred due to the issuance process is "government debt." Alternatively, the government may issue bonds in a currency other than the nation's native currency, typically in an international currency such as the dollar or the euro. In either case, the debt is called "government debt." The term "sovereign debt" refers to the debt incurred due to this process. In light of this, the distinction between government debt and sovereign debt can be seen in the issuing currency upon which the government borrows. **2**

Generally, when the government borrows money for a certain amount of time, it is assumed that it has a temporal perception of the structure of its revenue flows, regardless of whether those flows are denominated in local or foreign currency. Based on this perception, the government can judge whether or not it will be able to fulfil its obligations to its creditors on the specified repayment dates, and the government faces a sovereign debt crisis if it misestimates the structure of future foreign currency cash flows, for instance, if it believes that. **3**

A sovereign debt crisis occurs when a government cannot repay its debts denominated in foreign currencies due to the government's inability to locate the currencies necessary to meet its commitments in accordance with the sovereign debt. It is important to note that most of the world's governments are eager to avoid defaulting on the payment of their obligations toward their sovereign debts to protect their credit rating in the borrowing market from deterioration. This is because the suspension of

payment by the government or the appearance of signs indicating that it will do so results in the loss of investors. Trust in the government of this country on international markets, as well as a refusal to take part in any future auctions for the purchase of the country's bonds; moreover, the reaction of investors is not limited to those who currently hold state bonds; rather, the financial panic has spread to the rest of the foreign investors in this country who do not currently hold these bonds. For instance, Argentina's sovereign debt crisis in 2001 caused foreign investors (who did not hold the state's sovereign debt securities) to withdraw their investments from Argentina. This resulted in massive inflows of foreign exchange outside the country and then an acute shortage of foreign exchange in the country, which led to the emergence of a crisis for the Argentine currency. ⁴

To what end, then, does the government of this country issue bonds denominated in foreign currencies? The answer is that this is because of several different factors, the most important of which is either the high rate of inflation at home, which makes the process of borrowing in the local currency a costly issue for the state given the high nominal interest rates, or the need to finance development projects in which the foreign component increases (such as machinery and equipment that will be imported from abroad). On bonds issued in the local currency, while the process of borrowing in foreign currencies is relatively cheaper, or when the country faces instability in the exchange rate of its currency against foreign currencies, it tends, in this case, to prefer issuing its bonds in foreign currencies that are relatively stable in value. This is because local currency bonds tend to carry a higher interest rate than bonds denominated in foreign currencies. On the other hand, the fact that the state has chosen to keep a debt denominated in foreign currencies opens the possibility that it will stop paying these payments. Failure on the part of the state to fulfil its legal obligations by its external debt contracts, for example, its failure to pay debt instalments on the due dates, is what is meant by "stopping payment." Failure on the part of the state means that it cannot procure or purchase the foreign currencies necessary to meet the obligations due on it promptly, which can, in extreme cases, lead to the state being declared bankrupt. ⁵

secondly:- The several categories of sovereign debt

1. Unsustainable Debt: Debt is the repayment that prohibits the government from fulfilling its commitments regarding fundamental rights (right to education, health, etc.)

A nation may depend on international law and three legal ideas to declare that its debt is unsustainable and to stop the payment of that debt unilaterally. These legal concepts include a state of necessity, a fundamental change in circumstances, and force majeure. It is possible to read the following in the Charter of the United Nations, which is the central document of international law and the document that states all parties must respect: "In the event of a conflict between the obligations of the members of the United Nations under this Charter and their obligations under any other international agreement, the obligations imposed by this Charter shall have priority." ⁶

According to a statement made by the United Nations International Law Commission in 1980: "It is unreasonable to anticipate a state to shut down its educational institutions, including its schools and universities as well as its courts, and to discontinue providing public services in such a way as to throw its society into complete disarray in order to raise funds necessary to pay off its domestic or external debts. As with any individual, there are bounds to the expectations placed on a nation."

- The state of need is a legal concept recognized by international courts and tribunals. It is specified in Article 25 of the draft articles on state responsibility drafted by the United Nations International

Law Commission. In this line, it is stated that the state does not have to continue making payments on its debts because the objective situation (which the state is not responsible for) poses a significant risk to the population and prevents it from catering to the population's most pressing need. Additionally, legal precedents are discussed regarding this idea.

- A significant shift in the existing conditions: The legal doctrine that governs the enforcement of international treaties and contracts acknowledges the possibility that the contract cannot be carried out if there has been a significant shift in the underlying conditions. Therefore, the debt payment may be put on hold if a fundamental shift in the debtor's circumstances is unavoidable. This concept is extremely relevant in light of the current circumstances of the Covid crisis, which include a severe and rapidly spreading pandemic, a significant slowdown in economic activity, the flight of capital, and an abrupt reduction in the price of raw materials.
 - The concept of "force majeure" is recognized not only in the Vienna Convention of 1969 on the Law of Treaties but also in many national laws, particularly those pertaining to the area of contract law. In addition, it is a component of the law that is recognized globally. "an unexpected incident without the respondent's control, rendering him unable to act lawfully and honour his international duties," is how the United Nations International Law Commission defines it.
2. Unfavorable debts, such as those incurred by dictatorships or debts that are employed in a manner that is counter to the interests of the public, when the creditor is aware of or is in a position to be aware of this fact. ⁷

First Example: Debts Accumulated by Dictatorships or Former Colonies: It is morally reprehensible for dictatorships and other forms of authoritarian government to run up massive debts, particularly when doing so results in gross breaches of the civil, political, economic, social, and cultural rights of the populace. The backpack is credited with having written the following: "If a despotic power contracts a religion not based on the necessities and interests of the state but to cement its tyranny, to oppress the populace that challenges it, then the entire population of the state despises religion." This religion does not tie the nation; rather, it is a system religion and represents a personal obligation to the power that contracted it; as a result, it will disappear along with this power when it is no longer in existence. When examining the nature of the debt, it is not necessary to consider where the money from the loans will end up in the case of dictatorships. Providing a criminal dictatorship with financial assistance, even if that support is used to fund hospitals or schools, is the same as contributing to the regime's consolidation and perpetuation of its power. Some good investments (roads, hospitals...) could be utilized for less-than-desirable goals, like assisting the war effort. Because of this, the concept of the interchangeability of money indicates that a government that legally borrows money for purposes that benefit the population can utilize that money for other purposes that are counter to what is in the population's best interest as a whole.

The second scenario involves a debt incurred contrary to the best interests of the general populace and with the knowledge of the creditors: - Sack does not view the fact that the debtor state is an authoritarian government as an important requirement for the existence of the terrible religion doctrine. This contrasts with what academics and social movements frequently assert about the hateful religious doctrine. To say that a certain religion is abhorrent. According to SackSack, in order for a religion to be regarded as repugnant, it must fulfil both of the following criteria: (1) that it is contracted to be opposed to the interests of the nation, the interests of the people, or the interests of the state; (2) that the creditors are unable to prove that they were unaware that the obligation

was made against the interests of the nation. Therefore, it does not make a difference what contracting regime or government is in place. What counts is how the money from this loan is utilized. If the second criterion is met, religion can also be considered hostile when it is used to borrow democratic government power against the people's interests.

3. Illegitimate debts are debts that do not follow the constitution or the laws that are now in effect in topics about contracts.

A contract between two parties is what constitutes debt. Nevertheless, for this contract to be effective, it must conform to the legal criteria and processes outlined in national and international law. In that case, it might be considered null and void. Many factors can result in religion being banned. There will be some mention of them here. **8**

- A disregard for the conventions that govern international relations

To give just one illustration, European nations who breached their unique legal commitments by lending money to Greece in 2010, 2012, and 2015, respectively, are exemplified here. The stipulated conditions in these loan contracts contravene fundamental legal, societal, and financial rights. However, member states of the eurozone have joined the International Covenant on Economic, Social, and Cultural Rights. As a result, they are expected to comply with the duties outlined within this covenant, even when they are not on their national territory. In addition, the Treaty on the Labor of the European Union includes the following provision in Article 9: "In determining and implementing its policies and procedures, the Union shall take into consideration the provision of a high level of employment, ensuring adequate social protection, combating social exclusion, as well as a high level of education and training and protecting the health of the human." The conditions embedded in the contracts for these loans involve the elimination of a large number of jobs and severe cuts to the social security system in Greece; as a result, they violate this Article 9 in a manner that is both direct and direct. •

Disregard for or violation of the constitution

A person or institution's agreement is sometimes required for the discharge of a debt to be recognized as legitimate. In many nations, the legislative body precedes the courts and must be consulted before entering any financial obligations.

Example: Even though this was a requirement imposed by the constitution, the Greek government proceeded with the issuing of loans to be settled with the Troika in 2010 without first consulting or gaining the permission of Parliament. Any international agreement needs to have approval from the Greek Parliament according to both Article 28 and Article 36 of the Greek Constitution.

- A disregard for the rules of the law

According to one provision of French legislation, "local authorities can act lawfully only on the grounds of public interest of a local character." [Citation needed] Therefore, may any loans be classified as "hazardous"? According to the French municipal authorities, based conjecture like that is against the law.

- Fraud or fraud

Fraudulent manoeuvres (dishonesty, lies, serious omissions, etc.) The ability, either natural or legal, to sign the contract.

4. Illegitimate debts are debts that do not benefit the general public but rather a select group of individuals who enjoy special privileges.

The concept of illegitimate debt needs to be defined clearly and specifically by international law. However, several lawyers specializing in international law have devised criteria to describe the illegitimacy of public debt. These criteria can be found in the following sentence: The need to repay the loan is not absolute and only applies to "debts that are taken out in the interest of the general population," according to the legal representative David Rosie. In a nutshell, one could say that an illegitimate religion is established when there is a lack of regard for the public interest and when the private interests of a privileged minority are prioritized. **9**

Chapter two:- Policies in dealing with sovereign debt through fiscal and monetary policies

Firstly: - the financial policy (Fiscal policy) :

The ancient Greeks believed that the art of managing state affairs, the science of state administration, or the principles and laws of community management were all different aspects of the same overarching idea known as politics. Many financial experts believe that the term "fiscal policy" was derived from the French word "fics," which translates to "treasury." **(10)** The term "fiscal policy" is frequently used interchangeably with "government policy." This is because its tools, which are embodied in "taxes and government spending," have a significant influence on "macroeconomic variables" such as "national income, work, production, prices, and investment" **(11)**. The fiscal policy is based on a fundamental purpose centred on determining the primary sources of public revenues for the government and the methods used to collect them. Their comparative significance when taking into account how these revenues are allocated toward the expenditures of the government in order to accomplish the objectives that the government has established in advance, which may be for social or economic reasons... etc. **(12)**.

According to (Tucker), fiscal policy is the use of each government spending and taxes to influence aggregate demand (AD) and use (E) as well as the general level of prices (P) **(13)**. This definition is supported by (Abata), who defined it as the use of government spending, taxes, and borrowing to influence macroeconomic variables (aggregate demand, output, use) through the state's management of fiscal policy efficiently and then influencing income and purchasing power to reach ecological sustainability goals **(14)**. We can derive a general concept of fiscal policy by saying that it is: "The method adopted by the government through harmonizing the tools and objectives of policies (expenditure, revenue, and the general budget) in charting the course of economic activity to achieve Goals (economic, social, and political) for the state and society." Even though there is no consensus on a unified concept in financial and economic literature, we can agree on the following definition of fiscal policy. **15**

Secondly:- financial policy.

According to the Federal Reserve Board, which serves as the Central Bank of the United States, *monetary policy* is defined as the procedures and measures utilized by the monetary authority through its direct and indirect means to influence the monetary mass and the cost of money and credit, and then its reflection on the future developments of economic activity in general by drawing a general goal in Neutralizing the rate of inflation at a rate of (2%). **16**

During the nineteenth century, the concept of monetary policy was introduced into economics and began to be published in economics. During the twentieth century, this concept exploded in popularity due to its association with managing crises caused by reoccurring economic cycles in capitalist

economies. After this, monetary policy emerged as a component of the general economic policy that directs general economic activity through particular means and tools to accomplish particular goals and objectives. (17) When discussing the idea of monetary policy, it is necessary to discuss its narrow and broad concepts. The narrow concept focuses on "controlling the money supply through managing expansion and contraction in the volume of money supply and mass." In contrast, the broad concept focuses on "managing expansion and contraction in the volume of money supply and mass." As for the more general idea, it focuses on "the means taken by each of the central bank and the public treasury in influencing cash and credit through the function of the central bank in issuing currency and government monitoring of commercial banks that create credit, as well as managing public debt, and the effect of harmonizing between these Variables on financial and banking activity in the economy." (18) The function of the central bank is to issue currency, and the government monitors commercial banks that create credit. In addition, the processes that are carried out by the monetary authority in order to ensure the optimal management of the volume of monetary mass in the economy and transfer the impact of monetary policy through its various tools to the economic sectors in order to address temporary imbalances and maintain stability in the general level of prices while stimulating economic growth as a general objective are known as monetary policy procedures.

Thirdly: The separation of monetary and fiscal policies while maintaining cooperation between them

It is not a secret that the strength of the independence of the Central Bank and the solidity of its operations gain a high degree of permanence commensurate with the degree of coordination and consultation with other authorities, particularly the financial authority, to achieve the goals of macro stability and strengthen economic development activities that monetary policy and fiscal policy aspire to some extent. This is because coordination and consultation with other authorities help to achieve the goals of macro stability and strengthen economic development activities that monetary policy and fiscal policy aspire to some extent. The robustness of the relationship between the Central Bank of Iraq and the government is predicated on the robustness of the Central Bank's relationship with the Ministry of Finance. This relationship aspires to draw a stable framework for the country's macro-economy through consultation with the fiscal policy regarding the development of the effects of two main axes of participation: monetary policy and fiscal policy. 19

1. The consistency of the exchange rate for the Iraqi dinar or the value of the dinar about other currencies.
2. The stability of the internal value of the currency and its soundness by controlling inflation and declining annual price growth rates, as well as the currency's reflection on the evaluation of administrative prices and price support for commodity items that fall within the scope of the objectives of the public finances and its annual budget .

We should also point out that the participants mentioned above, which are representative of the significance of the interdependence of the relationship between public finance and the central bank, have been embodied by the right of the successes of the current monetary policy. This policy achieved long-term stability in the value of the Iraqi dinar after its value gradually increased by approximately 25% over the past three years. Additionally, it was able to bring annual inflation down to 6% in 2011 after it had reached 34% in the previous In addition to constructing a full foreign currency reserve with a value of nearly sixty billion dollars, which is the highest in the history of Iraq's monetary system and is a support for the value and safety of the currency in addition to protecting the balance of payments

from external shocks, Iraq has been working to build up its foreign currency reserve in recent years. On this basis, the economic program of the current government has achieved remarkable success in the framework of what the monetary policy has done in achieving its objectives, as stipulated in the law governing the Central Bank of Iraq. This success has been achieved within the context of what the monetary policy has done in achieving its objectives. Note that the stability of the commodity market and the development of supply are also considered to be the result of positive results of the stability of the prevailing economic system. The stability of the general economic system was supported by monetary policy through the availability of flexibility in external transfers, stimulation of side trade exchange, and alleviating the burdens on the financial and trade policies in the main and important in the stability of the national market and the development of supply. **20**

Fourthly: The ability of governments to deal with the issue of national debt using the financial and monetary tools available to them

Long-term budget constraints are defined as not exceeding the present value of government spending and outstanding debt, as well as the net present value of receipts at the same discount rate. This applies to the entire time horizon, from when the budget process began until infinity. To express this in another way, the initial debt is greater than the current value of the budget surplus over the period in question. According to this theory, the amount of debt that could potentially be taken on is constrained by the predicted future revenues, limiting current spending.

Based on this mathematical connection, sustainability can be defined as the greatest amount of government debt stock permitted within the criteria of balance over a period longer than the yearly budgets. The only thing included in the assessment of the debt's sustainability in terms of its ratio to GDP is a comparison with averages from previous or worldwide levels. In addition, as we can see, the most appropriate method is to calculate the amount of recyclable government debt without increasing the central bank's assets from government debt securities, also known as monetization. This method can be understood in terms of observing the size the private sector wants to own within its investment portfolio. The first method, which achieves long-run equilibrium through an approach based on net present value, is the most cautious and necessitates government debt repayment. Regarding the second point, which is the size of the debt compared to the GDP, and the third point, which is the amount of recyclable material within the parameters of private sector preferences, they do not assume that payback will occur. **21**

The state will not be able to fulfil its obligations, which include the cumulative probability of default, along with other approaches that are consistent with the state's behaviour toward creditors in the recent past and the required interest rates on its new debt. This is what is meant by the term "sovereign debt risks." Creditors try to protect their debts by participating in the credit default swap market, which involves exchanging the risk for regular payments based on a percentage of the total debt amount and a spread that the buyer pays. The buyer is the creditor who risks failing to meet his contractual obligations to the person selling the security. Furthermore, the viability of public debt necessitates ruling out the possibility of a sovereign state going bankrupt. The investigation of public debt's sources is one of the ways to gain an understanding of its viability, and it has the closest connection to financial markets and the procedure of refinancing in order to recycle existing debts. In every scenario, the components of the available financial space are there, the most essential of which is the budget deficit,

the direction in which it is moving, and the chances for achieving financial sobriety to reach the primary surplus and plan for unexpected expenses.

In addition, the economy's expansion, inflation, and interest rates. In addition to these factors, the debt's weight is considered. The debt ratio to average budget revenues and GDP determines this. When the interest rate rises or the margin of risk is added to the reference interest rate, which in the case of Europe is the return on German government debt, the risk of failure increases. This is because the pressure of debt servicing expenditures on the budget increases. In addition, the risk of failure increases when the interest rate rises.

When the deficit and the debt balance continue to grow, the risk (probability) of a sovereign credit collapse also grows. This causes investors to require an additional premium, which creates a negative feedback loop between the interest rate and the amount of debt. It will become evident that the cost of insuring the loan is connected to this premium somehow. Before 2008, the price of the European debt guarantee for the countries in crisis was low compared to what is indicated by the public finance variables and other basic variables, which indicates a low appreciation of sovereign risks. This was the case because of the variables that measure public finance and other fundamental aspects of the economy. After some time had passed, the intensity rose. Also, the premium that countries have to pay during a crisis, in comparison to the return on the reference bond, and it stands to reason that when the gross domestic product grows at a faster rate than the debt, this helps to reduce the burden relatively and is reflected in the interest rate or the risk premium by lowering it. A positive balance of payments works in the same direction, but when the current account surplus is combined with net capital outflows, the debtor country does not benefit from the surplus. This is because a positive balance of payments position works in the same direction as a positive current account surplus. **22**

Fifthly: The Function of the World Bank and the International Monetary Fund in the Structural Adjustment Program for Developing Countries

- A. The International Monetary Fund (IMF) is an agency that is engaged in ensuring the stability of exchange rates and providing liberalization of the freedom to convert currencies. Its primary focus is on industrialized countries. When Mexico announced in August 1982 that it would stop making payments, the International Monetary Fund was asked to play a leading role in bringing together the concerned parties and convincing each party to contribute to the treatment of the crisis to prevent a collapse of the international banking system. This was done to avoid a collapse of the international banking system. By rescheduling debts, providing loans to the debtor state, and obligating it to several policies collectively referred to as conditionality.

The following concerns are at the centre of the Fund's conditional status: **23**

1. The distribution of the overall deficit in the budget.
 2. Getting back to the truth about the cost of things (by liberalizing internal prices, wages, and exchange rates).
 3. The removal of artificially inflated prices.
 4. The liberalization of interest rates for credit and debit cards.
- B. The Function of the International Monetary Fund: As a result of the explosion of the debt crisis, the Bank has tended to pay attention to the structural adjustment program, which is supported by the stabilization program provided by the Fund, and this is what led the two bodies to

Cooperation. The World Bank has specialized in development issues, while the attention of the Monetary Fund has been focused on issues of stability and monetary.

The commitment of the concerned countries to a wide variety of policies aimed at rationalizing the use of available resources, expanding production capacity, liberalizing foreign trade, resorting to market rules and generalizing them, and restructuring the public sector is an example of the conditionality imposed by the World Bank.

Since the middle of the 1980s of the 20th century, it has become obligatory for the calling countries, in order to benefit from the Bank's resources for structural correction, to conclude an agreement with the FMI under which they undertake to implement an economic program, or at the very least the obligation to implement the conditionality set by the other institution. This has been the case since the beginning of the current century.

In addition, cross-conditionality was extended to international private and public financial institutions that grant loans. This became a requirement to obtain a certificate of (good behaviour) from the Fund, as was the case with the rescheduling measures implemented in the Paris Club and the London Club.

Chapter three:- The management of sovereign debt in the Iraqi economy through the use of monetary and fiscal policy tools

Firstly: Sovereign debt before 2010

Iraq is one of the major economies in the world, but it is one of the economies that suffers the most from global financial burdens and obligations. The most notable of these is the accumulation of external public debt for more than two decades as a result of the conclusion of international loan contracts with a group of countries that took it upon themselves to support Iraq during the years of war and the conditions of the economic blockade. Iraq is one of the major economies in the world, but it is also one of the economies that suffer from the issue of foreign indebtedness. Iraq was a secret among the secrets of the state and even to the official institutions of significance, which is the Central Bank of Iraq, where the Central Bank of Iraq estimated the Iraqi foreign indebtedness to be 65 billion dollars. This was a secret among the secrets of the state. However, according to estimates provided by the World Bank, the International Monetary Fund, and the Bank for International Settlements, the total amount of external debt that Iraq is responsible for paying is 127 billion dollars.

However, after 2003, the creditor nations convened in an international meeting known as the Paris Club to demand payment of these obligations. As a result of the resolutions passed by the United Nations Security Council, the countries of the Arab Gulf escalated their demands to pay compensation connected to prior conflicts. For this reason, Iraq had to deal with external indebtedness within the framework of the structural adjustment program with the International Monetary Fund. By this agreement, eighty per cent of Iraq's external debt was reduced, divided into thirty per cent when the agreement was reached with the International Monetary Fund within the program (emergency aid after conflicts). On September 29, 2004, Iraq ratified the agreement. The support agreement that was signed on (December 23 2005) provided for the cancellation of thirty per cent (30%) of Iraq's debts under the condition that twenty per cent (20%) of those debts would be cancelled upon Iraq's fulfilment of the agreement's terms if the International Monetary Fund announced on one December 2008 that Iraq had become eligible to obtain the final stage of debt reduction, which amounts to twenty per cent (20%), which would mean that Iraq obtained a reduction in its external indebtedness of eighty per cent

According to Table (1), which depicts the progression of Iraq's debt throughout the period ((2004-2007), it can be seen that the debts owed to the Paris Club reduced from (51.645) billion dollars in 2004 to (16.477) billion dollars in 2007. This reduction occurred between the years 2004 and 2007. Countries not members of the Paris Club have made it clear that they are eager to assist Iraq. In order to reduce its foreign debts and dues to Iraq; this is the reason why the indebtedness of countries outside the Paris Club decreased from (9.674) billion dollars in 2004 to (1.590) billion dollars in 2007; on the other hand, commercial debts decreased from (18.443) billion dollars in 2004 to (3.285) billion dollars in 2007.

The Arab Gulf Council still owes around (28.239) billion dollars in debt, which is the same amount as before. Similarly, the obligations owed by the Arab Monetary Fund remained approximately the same at (553) million dollars. Also, the obligations of the Investment Guarantee Corporation have remained the same amount, approximately one hundred twenty million dollars.

The information presented in the table makes it abundantly evident that the amount of money Iraq owed to other countries in the world in 2004 was 108.657 billion dollars. It is noted that the support agreement achieved its most important basic objective, which is to reduce Iraq's foreign indebtedness, as part of the structural adjustment program in Iraq after 2003. As a result of applying the terms of the support agreement, Iraq's debts were reduced by approximately (80%), as Iraq's indebtedness decreased in 2007 to (50,201) billion dollars. **24**

Table (1) The evolution of Iraq's external indebtedness during the period (2004-2008), billion dollars

Year Countries	2004	2005	2006	2007
Paris Club countries	51.645	28.746	16.146	16.477
Countries outside the Paris Club	9.674	3.741	1.552	1.590
commercial debt	18.443	18.443	14.542	3.285
The debts of the Arab Gulf Council	28.239	28.239	28.239	28.239
Arab Monetary Fund debt	0.553	0.120	0.120	0.120
Investment guarantee corporation debt	0.120	0.553	0.553	0.553
the total	108.657	78.825	61.134	50.201

Source: Ministry of Finance, Economic Department

In Table (2), which illustrates the progression of Iraq's external debt, it can be seen that the debts owed by countries that are members of the Paris Club decreased from 62.1 billion dollars in 2004 to 30.1) billion dollars in 2008, while the debts owed by countries that are not members of the Paris Club decreased from 36.2 billion dollars in 2004 to 17.7 billion dollars in 2008. The total amount of money owed to commercial creditors fell from 20.7 billion dollars in 2004 to 3.2 billion dollars in 2008, while the total amount owed to multilateral creditors rose from 0.8 billion dollars in 2004 to 2.5 billion dollars in 2008. Concerning the proportion of liabilities owed to third parties About, the gross domestic product went from being (465.9%) in 2004 to being (75.8%) in 2008, and the interest on the external debt was between (0.2%) and (0.7%) throughout this period. According to the data, remarkable and

clear progress has been made in the issue of reducing the foreign debt owed by Iraq. After being estimated before 2004 at (120) billion dollars, it had decreased to approximately (50) billion dollars in 2008, as the external debt was a significant burden on the general budget in Iraq. Reducing the foreign debt owed by Iraq has been a topic of discussion for quite some time.

Table (2) The evolution of external indebtedness in Iraq during the period (2004-2008), billion dollars

Year Countries	2004 Before discount	2004 after discount	2005	2006	2007	2008
Paris Club countries	36.2	23.6	15.9	16.5	17.1	17.7
7 countries outside the Paris Club	62.1	43.5	26.1	27.4	28.8	30.1
commercial debt	20.7	20.2	19.5	3.1	3.2	3.2
Multilateral debt	0.8	1.8	1.7	1.0	1.5	2.5
share of GDP	%465.9	%345.5	%182.8	%102.2	%82.9	%75.8
total debt service	-----	0.2	0.2	1.4	0.3	0.7

First and Second Reviews Under the Stand-By Arrangement .p31Sours : International Monetary Fund

Secondly: Sovereign debt after 2010:

This period was marked by large, new sovereign debts as a consequence of the increase in government spending carried out by successive governments and the inability of the total revenues to meet the rising public expenditures. As a result, these governments were compelled to turn to internal and external debts, which resulted in the growth and deterioration of those debts in exchange for complying with the authorities' directives. The expansion of government spending characterized this period carried out by successive governments. For Iraq to obtain those loans, which were directed towards the operating budget, the lender, which included the International Monetary Fund, imposed unfair conditions on Iraq. This was done without considering what would happen after accumulating those debts and their interests, as they must be paid at a specific time with the accumulated interests. It is preferable to direct these debts toward the investment and production sectors to produce profits and pay off those debts using this method, which is the method that all countries who borrow in this manner, which is sovereign loans, use.

A security shock hit Iraq in the middle of 2014, which disrupted economic and investment activity in the country. This disruption occurred simultaneously with a collapse in oil prices, as the price of OPEC basket oil in late 2014 reached \$26.5 dollars per barrel (it decreased by more than 65%). The monthly average for 2012 was (49.49 dollars), and it fell below 100 dollars for the first time since August 2014, when it was more than that amount. This happened in January 2016. **25**

Therefore, these two shocks constitute a new challenge and obstacle in front of the fiscal and monetary policies in light of the inconsistency in the objectives and tools after 2003, as the effect of negative interaction appears through two indicators stemming from a theoretical origin. This inconsistency came about as a result of the fact that after 2003, there needed to be more consistency in the objectives and tools. The general level of prices) at the expense of providing a cover for the budget

deficit and public debt through the currency window), which generates a huge monetary block in economic activity and the depletion of foreign reserves, and with this effect, another effect represented by (financial hegemony) interacts in a reverse direction with the stability policy adopted by the policy Monetary in Iraq after 2003 and within the independence of the Central Bank by Law (56) o. The general level of prices) at the expense of This effect is embodied in the negative interaction through the burden of the enormous budget deficit and internal public debt, which embodies a negative pressure factor on monetary policy to finance that deficit, which generates inflationary pressures and acceleration in the monetary cost, causing inflationary effects, which means that the fiscal policy after 2003 abandoned the prominent role assigned to it in building a base to determine the size of the fiscal deficit. This effect is also embodied in the negative interaction through the burden of the enormous budget deficit, and internal The budget went from having a balance of (4,636,200) trillion dinars in 2003 to having a balance of (24,194,920) trillion dinars in 2016, representing an increase of an estimated (421.87%). This represents an additional burden on the monetary authorities, particularly in the years following 2010, when the deficit will be financed through loans from outside the country. The same is true for the internal debt in both of its components (debts owed by the Ministry of Finance due by the Central Bank and treasury bonds and transfers with commercial banks), as the internal public debt increased from (5,543,684) billion dinars in 2003 to reach (46,580,280) billion dinars in 2015, representing an increase of (740.24).%. Furthermore, the preliminary estimates suggest that the internal public debt for the year 2016 may reach more than (48) trillion . **26**

It is also possible to say that the government's financial hegemony was reflected in the credibility of monetary policy, particularly (the currency window) during this stage as the (dynamic stabilizer) of monetary policy, as we note the following: the monetary authority strives to control the general level of prices, and that we note the following: that the government's financial hegemony was reflected in the credibility of the monetary policy. This is made clear by the fact that there is a direct connection between the rise in government spending and the increase in the central bank's sales of dollars through the (currency window). These sales increased from six billion dollars in 2004 to fifty-three and a half billion dollars in 2013, but then they dropped to forty-four and a half billion dollars in 2015, and this decline is what led to the rise in government spending. This procedure indicates that the financial and monetary authorities must be more seriously committed to maintaining a stable level of prices or securing a stable level for the exchange rate of the dinar a. It refers to determining sales (currency window) according to Article (50) of the Federal Budget Law of 2015, which set the ceiling of the central bank's sales of dollars in (currency auction) at (75) million dollars per day for the private sector.

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These numbers indicate a chronic deficit in the public budget and that the public budget does not represent real economic activity. This is the case if we consider that the burdens of unilateral economic activity burden the financial policy, and the outlet for it is embodied in the public debt (both internal and external), which calls for the adoption of financing means. In this case, the public budget does not represent real economic activity. Its primary support comes from productive sectors, particularly those in which investment is the most important factor. They are factors that contribute to the public budget rather than the other way around. In addition, there is a significant barrier embodied in the haziness of the vision involved in the management of public debt in terms of activity, whether in the issuance market or the secondary market, because there needs to be more liquidity in the secondary market. This is a result of the need for an efficient secondary market. Therefore, the issuance and borrowing

markets are where the majority of public debt management is centred. In this situation, there is a necessity for the authorities in charge of finance and money to work together efficiently. The most responsibility rests on the shoulders of the monetary authority, which must make several agreements for monetary programming, target monetary aggregates, and target both the level of prices and inflation. **28**

Conclusions

1. Sovereign debts In general, when the government borrows for a specific period, it is assumed that it has a temporal perception of the structure of its revenue flows, whether in local or foreign currencies, and based on this perception, the government can judge its ability to fulfil its obligations to its creditors on the specified dates for repayment or No, and the government faces a sovereign debt crisis if it misjudges the structure of future foreign exchange cash flows.
2. Financial sustainability, i.e. the maximum amount of government debt stock allowed within the conditions of balance in a period that exceeds the annual budgets. As for the sustainability assessment in terms of the debt ratio to GDP, only goes beyond comparison with averages at the international level or with previous levels. Moreover, the most appropriate, as we see, is to calculate the amount of recyclable government debt without increasing the central bank's assets from government debt securities, or monetization, in the sense of observing the size that the private sector wants to own within its investment portfolio.
3. The risk of sovereign debt is the state's non-fulfilment of its obligations, including the cumulative probability of failure, along with other approaches consistent with the state's behaviour towards creditors in the recent past and the required interest rates on its new debts. Creditors seek to protect their debts in the credit default swap market, i.e. exchanging the risk for regular payments set at a percentage of the debt amount to be paid by the buyer, who is the creditor at risk of not meeting his contractual dues to the seller of the security.
4. The evolution of indebtedness in Iraq for the period ((2004-2007) It is noted that the debts of the Paris Club decreased from (51.645) billion dollars in 2004 to (16.477) billion dollars in 2007. As for the countries outside the Paris Club, they have expressed their willingness to help Iraq in order to reduce its external debt And their dues to Iraq; therefore, the indebtedness of countries outside the Paris Club decreased from (9.674) billion dollars in 2004 to (1.590) billion dollars in 2007, while commercial debts decreased from (18.443) billion dollars in 2004 to (3.285) billion dollars in 2007.
5. These shocks constitute a new challenge and obstacle in front of the fiscal and monetary policies in light of the inconsistency in the objectives and tools after 2003, as the negative interaction effect appears through two indicators stemming from a theoretical origin. The first is embodied in (time inconsistency), especially by moving away from its main goal (stability). in the general level of prices) at the expense of providing a cover for the budget deficit and public debt through the currency window, which generates a huge cash block in economic activity and not depleting foreign reserves in the Iraqi economic environment.

Recommendations

1. The obligation to repay the debt is not absolute and applies only to "debts taken in the interest of the general community. Therefore the sovereign debt must be paid in full.
2. Relying on internal debt as much as possible to bridge the deficit in the annual budgets without resorting to internal debt resulting from increased government spending.
3. Directing debts towards the productive sectors permanently allow these sectors to pay the principal debt with interest accrued from that place, especially the foreign sovereign debts.
4. Consistency between fiscal and monetary policies when facing any potential deficit to reduce debts to the lowest possible level for the sake of general balance in the economic environment and to preserve financial indicators from a downward trend.
5. Iraqi governments should take into account and reduce sovereign debts as much as possible, and head towards internal debts and direct them towards productive and investment sectors in order to avoid the problem of inability to pay the accumulated debts in the environment of the Iraqi economy, especially the debts of the International Monetary Fund, which for a long time shackled Iraq with restrictions that would fight development. Economy and not relying on ready-made recipes from the International Monetary Fund because it is always in the interest of the major countries looking for their interests inside Iraq.

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