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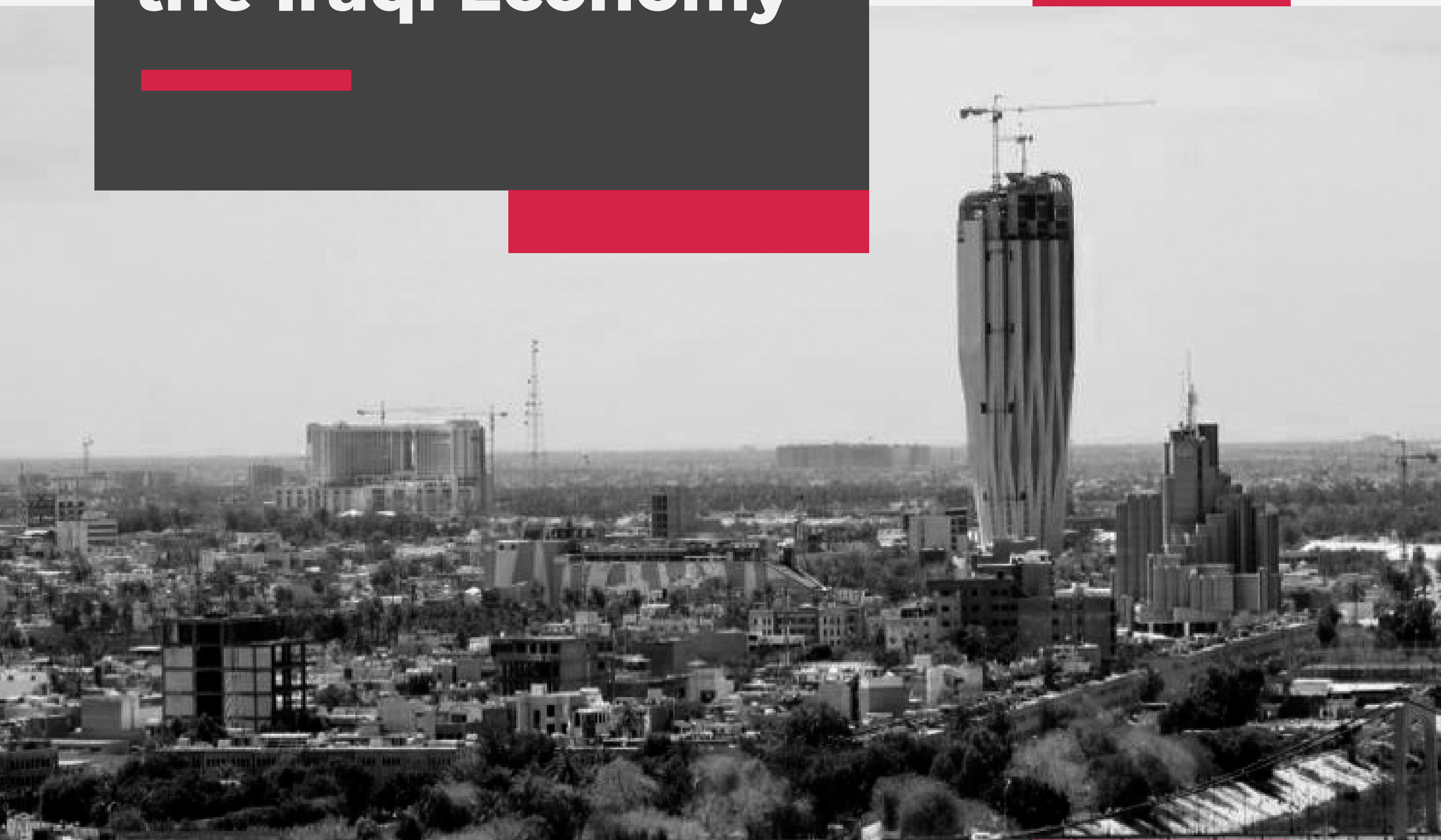
Rising Public Debt and its Impact on the Fiscal Sustainability of the Iraqi Economy



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Introduction

Although Iraq managed to reduce its external debt following the rescheduling of debts owed to the Paris Club and other countries at the end of 2004—based on the support and assistance convention signed with the International Monetary Fund (IMF), which recommended that creditor states write off more than 80% of Iraq's outstanding debt—it is notable that external and domestic borrowing has increased from a variety of sources, despite higher oil revenues. Domestic and external debt has increasingly become one of the main sources for financing the government's general budget deficit. This, in turn, has had a significant impact on the structure of economic growth in Iraq. The continued reliance on deficit financing has led to a rise in both external and domestic debt. This is largely due to the increase in projected public expenditures that surpass projected revenues, in order to cover the government's domestic obligations, including salaries, wages, and other operational expenses, as well as external commitments such as war reparations, interest payments, and external debt installments. In addition, the lack of proper planning for development projects has meant that many external loans were directed toward operational budget expenditures, rather than being optimally invested in infrastructure development or in launching projects capable of achieving sustainable development, through which Iraq could have generated returns to service its debts. On another front, the need for external and domestic borrowing grew in response to a series of economic, political, and security crises, including the decline in global oil prices, the war on terrorism, rampant financial and administrative corruption across most sectors of the Iraqi state, and the dual health and economic crisis of 2020. All of this has led to a rise in Iraq's domestic and external debt. Since 2003, not a single year has passed without Iraqi governments resorting to borrowing.

Research Hypothesis:

This study is based on the hypothesis that "Iraq's ability to achieve fiscal sustainability in the medium and long term depends on controlling operational expenditures and investing its resources to enhance its productive and export capacity in the oil sector, while redirecting its revenues to restructure and reform the economy, diversify sources of income, and reduce reliance on borrowing, with a view to achieving social welfare and safeguarding the rights of future generations."

Accordingly, the study is divided as follows:

1.Iraq's External Debt after 2004

2.Iraq's Domestic Debt (2010–2024)

3.Measuring Iraq's Fiscal Sustainability According to External Debt Indicators (2004–2023)

4.Projected Growth in Public Debt (Domestic and External) amid Rising Deficits in the General Budget (2024–2029)

1. Iraq's External Debt after 2004

The total external debt stood at USD 88.788 billion by the end of 2004, following a 30% write-off in the first phase of Iraq's agreement with the Paris Club[1]. It then decreased to USD 58.532 billion by the end of 2006 after a second-phase write-off of an additional 30%. The decline continued, reaching USD 44.452 billion by the end of 2008, following the full implementation of the debt settlement agreement with both Paris Club and non-Paris Club creditors. In 2009, the debt rose to USD 44.685 billion (an increase of USD 233 million compared to 2008) due to the global decline in oil prices in the aftermath of the 2008 subprime mortgage crisis. By 2011, it had increased further to USD 45.159 billion, reflecting a rise of USD 474 million. Subsequently, the debt began to decline as the government adhered to repaying the debt installments and interest on time, falling to USD 21.883 billion by the end of 2019. However, in 2020, it climbed again to USD 24.016 billion as Iraq was impacted by the dual global crisis: the health crisis (COVID-19 pandemic) and the economic crisis (collapse in international oil prices). It then dropped to USD 20.837 billion in 2021 and further to USD 15.976 billion by the end of 2023 (Ministry of Finance, Transparency Table Report as of 31/12/2023). In April of 2024, the Iraqi government announced that the volume of external debt had decreased to less than USD 9 billion, following the repayment of debts owed to the IMF and the settlement of matured external bonds, in addition to its commitment to the regular payment of external public debt installments and interest upon maturity (www.alarabiya.net), excluding frozen debts, as shown in Table (1).

Table (1): Iraq's External Debt (2004–2021) – USD Million

Year	Paris Club Countries	Non-Paris Club Countries	Commercial Creditors	Interational Financial Institutions	Total	Rate of Change
2004	28,994	11,579	19,922	28,293	88,788	——
2005	14,691	9,835	18,461	28,293	71,280	-20%
2006	16,14	10,031	4,097	28,257	58,532	-18%
2007	16,478	10,070	4,097	28,257	58,902	0.6%
2008	9,930	2,719	3,686	28,117	44,452	-25%
2009	10,094	2,830	3,681	28,080	44,685	0.5%
2010	10,094	2,830	3,681	28,048	44,653	-0.1%
2011	10,586	2,879	3,681	28,013	45,159	1.1%
2012	9,444	2,712	3,681	27,977	43,814	-3.0%
2013	8,639	2,545	3,681	27,938	42,803	-2.3%
2014	8,385	2,462	3,681	27,920	42,448	-0.8%

Year	Paris Club Countries	Non-Paris Club Countries	Commercial Creditors	Interational Financial Institutions	Total	Rate of Change
2015	7,153	2,211	3,558	27,835	40,757	-4.0%
2016	5,979	2,044	3,558	27,835	39,373	-3.4%
2017	5,819	1,878	3,558	27,763	39,018	-0.9%
2018	5,195	1,711	3,558	27,766	38,230	-2.0%
2019	4,612	1,539	2,790	12,942	21,883	-42.8%
2020	4,144	1,366	2,615	15,891	24,016	9.7%
2021	3,981	1,264	2,650	12,942	20,837	-13.2%
2022	2,863	1,020	1,918	12,992	18,793	-9.8%
2023	0				15,976	-15%

- Compiled by the researcher based on data from the IMF and the Bank for International Settlements; data published on the FRED website: https://fred.stlouisfed.org.

- Sakar Omar Ali, Domestic and External Debt and Accrued Interest as of 31/12/2022, Iraqi Council of Representatives, Department of Parliamentary Research and Studies, Budget Research Division, Baghdad, March 2023.

According to World Bank (WB) estimates, Iraq's external debt was distributed by creditor type as follows, after the total outstanding external debt declined from USD 27.836 billion in 2018 to USD 22.588 billion by the end of 2022. Bilateral debts accounted for 58% of Iraq's total debt, distributed as follows: Japan (27%), the United States (7%), France (5%), and other creditors (19%). Multilateral debts represented 20% of the total, with 18% owed to the World Bank. Private debts made up 22% of the total external debt, including 6% in the form of guaranteed sovereign bondholders, as illustrated in Table (2).

Table (2): Iraq's External Debt According to World Bank Estimates (2018–2023) – USD Million						
Indicator	2018	2019	2020	2021	2022	2023
Total Outstanding External Debt	27,836	27,488	26,388	25,341	22,588	20,331
Long-Term External Debt Guaranteed by the State	22,514	22,707	22,864	20,595	17,588	15,699
– Official Creditors	17,451	16,970	16,891	15,139	13,817	13,025
– Multilateral Debt	3,497	3,568	3,623	3,607	3,462	3,294
of which: –World Bank	3,466	3,550	3,618	3,606	3,460	3,291
– Bilateral Debt	13,955	13,402	13,256	11,531	10,356	9,731
– Private Sector Creditors	5,062	5,737	5,973	5,457	3,984	2,674
– Bondholders	2,000	2,000	2,000	2,000	1,000	0
– Commercial Banks and Others	0	0	0	0	0	0
– Use of IMF Credit Allocations	4,741	4,019	2,944	4,126	3,632	3,632
– IMF Credit	3,163	2,450	1,130	307	0	0
– Special Drawing Rights (SDRs)	1,578	1,569	1,634	3,820	3,632	3,662
– Short-Term External Debt Balances	582	762	580	620	1,155	971
– Long-Term Payments on Public Sector Debts Guaranteed by the Government	1,876	1,324	1,709	826	1,620	1,662
– Principal Repayment (Long-Term)	905	1,074	1,972	2,528	3,761	3,682
– Long-Term Interest Payments on Public Sector Debt Guaranteed by the Government	852	845	803	675	591	606

World Bank Group, International Debt Report 2023-2024, IRAQ, p. 109, 134.

2. Iraq's Domestic Debt* (2010–2024)

Iraq's domestic public debt began to increase after 2010, reaching USD 27.01 billion in 2015, up from USD 8.701 billion in 2010. This rise was the result of a dual crisis: the war to liberate Western Iraq from terrorist groups in 2014, and the collapse of global oil prices to under USD 20 in 2015. The war effort required additional financing through borrowing from state-owned institutions and banks, pushing domestic debt to USD 39.8 billion in 2016. It then decreased to USD 36.582 billion in 2018, but subsequently rose to USD 49.268 billion after the Iraqi parliament passed legislation obligating the Central Bank to lend the government IQD 27 trillion (the equivalent of USD 22.881 billion) directly and in violation of Central Bank Law No. 56 of 2004. This move was driven by the second dual crisis: the COVID-19 pandemic and the collapse of global oil prices. The borrowed amount was used to cover government expenditures, specifically for paying the salaries of public employees and retirees, as well as social protection allocations. However, the debt declined slightly to USD 48.215 billion in 2021, then rose again to USD 55.033 billion in 2023, and further to USD 60.626 billion in the third quarter of 2024. It was expected to reach USD 61.538 billion by the end of 2024, as shown in Table (3). This debt is characterized by the fact that it is owed to government institutions such as the Central Bank of Iraq, Rafidain Bank, Rasheed Bank, and the Trade Bank of Iraq (TBI), all of which are owned by the Ministry of Finance. Domestic debt is therefore a liability of the government to its own institutions, making it easier to renew the maturity periods of treasury bills and bonds, whose interest rates are also determined by the government. Additionally, there is no domestic debt denominated in foreign currencies, nor is any of it owed to private entities or banks.

***Iraq's domestic debt consists of borrowing by the Iraqi government from state-owned banks (Rafidain Bank, Rasheed Bank, and the Trade Bank of Iraq – TBI) and from the Central Bank, in Iraqi dinars, to finance operational expenditures in the general budget. The debt figures were converted fzrom Iraqi dinars to US dollars at the exchange rate applicable in the year of borrowing, in order to standardize public debt analysis.**

Table (3): Evolution of Iraq's Domestic Debt (2010–2023) – USD Million		
Year	Debt Volume*	Rate of Change (%)
2010	8,701	-----
2011	10,638	7.38%
2012	10,761	14.5%
2013	10,759	8.1%
2014	16,079	7.27%
2015	27,010	89.4%
2016	39,800	20.8%
2017	40,906	22.2%
2018	36,582	-10.6%
2019	34,176	-6.6%
2020	49,268	4.4%
2021	48,215	-2.1%
2022	48,624	0.8%
2023	55,033	13.1%
Q3 2024	60,626	10.1%

Central Bank of Iraq / Statistics Department / Electronic Statistics Division.
Published on the official website: https://www.cbi.iq.

*Debt data were converted from Iraqi dinars to US dollars based on the official exchange rate adopted by the Central Bank for each respective year.

3. Measuring Iraq's Fiscal Sustainability According to External Debt Indicators (2004–2023)

Fiscal sustainability is the government's ability to generate sufficient cash flows to meet its obligations and avoid unsustainable debt accumulation. This can be achieved by diversifying income sources, reducing reliance on a single revenue stream such as oil, and maintaining long-term fiscal balance by reducing dependence on external borrowing while meeting present needs without compromising the ability of future generations to meet theirs. Therefore, fiscal sustainability means the government's capacity to preserve or enhance social welfare by providing better public services, both quantitatively and qualitatively, using the least possible amount of resources, and without infringing upon the rights of future generations to fulfill their needs, despite the continuous increase in public debt (Peter et al., 2017, p. 113).

Iraq's economy has increasingly relied on domestic and external public debt to finance public expenditures, even though public revenues have grown. This situation signals a potential decline in the government's ability to maintain actual fiscal sustainability, as illustrated by the following indicators:

1. Indicators of External Debt and Fiscal Sustainability in Iraq (2004–2023)

Several international financial institutions, including the International Monetary Fund and the World Bank, have focused on fiscal sustainability across countries. Since 1990, they have been monitoring debt levels and fiscal sustainability, examining their impact on various economic sectors and on per capita income in borrowing countries. As a result, a set of indicators has been developed to measure fiscal sustainability, the most prominent being the vulnerability index (as defined by the IMF) to assess creditworthiness. Additionally, the European Union adopted the Maastricht Treaty, signed in December 1991 and implemented in 1992. Under this treaty, member states were required to comply with several conditions, including financial ones, such as that the budget deficit should not exceed 3% of GDP and that public debt should not exceed 60% of GDP. This benchmark has since become a general standard applied by most states (**https://www.un.org/ar/site**).

1.1 Ratio of External and Domestic Debt to Gross Domestic Product (GDP) in Iraq (2004–2023)

This is considered one of the most important indicators due to its simplicity and ease of use. It expresses the extent of external debt relative to a state's economic activities and indicates the government's capacity to bear the burden of external debt and meet its obligations. GDP is one of the key variables, as it reflects the strength of a state's economy. The relationship between GDP, external debt, and interest rates is inverse: The higher the GDP, the lower the external debt ratio—and, conversely, the lower the GDP, the higher the debt ratio. Additionally, any increase in interest rates leads to greater deductions from GDP growth, thereby reducing financial resources available for new productive investments and weakens national economy of the state (Abdul Karim Jabbar Al-Issawi, 2012, p. 76).

High levels of external debt are considered an obstacle to development in developing economies due to their negative impact on economic conditions—particularly the general budget, which must allocate funds for interest and debt repayments instead of funding public services. Additionally, borrowing countries may be exposed to economic crises that could lead to defaults and consequently higher interest rates. As shown in Table (4), Iraq's GDP stood at USD 36.6 billion in 2004, and the external debt-to-GDP ratio reached 242.6%. GDP then began to increase and grow gradually, reaching USD 131.6 billion in 2008. The external debt-to-GDP ratio dropped to 33.8% as a result of this growth and the cancellation of more than 80% of Iraq's external debt. GDP continued to rise, reaching USD 234.6 billion in 2013, accompanied by a decline in the debt ratio to 18.2%. Then, it fell again to USD 166.8 billion in 2015 due to an unprecedented dual crisis: the collapse of global oil prices and the occupation and complete control by ISIS terrorist groups of three provinces. This situation required large-scale financing to liberate those areas and eliminate terrorist groups, leading to a GDP decline and an increase in the external debt ratio to 25%. However, in 2019, the ratio dropped to 9.4% after GDP climbed to USD 233.6 billion. Yet it rose again to 13.3% in 2020, as GDP fell to USD 180.9 billion due to the dual global crisis of the COVID-19 pandemic and the collapse in global oil prices. The ratio then decreased again to 6.3% in 2023 due to the increase in GDP to USD 250.8 billion and the reduction in external debt to USD 15.976 billion, following Iraq's commitment to regularly repay debt interest and principal installments on time. From the above, we conclude that Iraq's external debt, after the implementation of the Paris Club agreement and the cancellation of more than 80% of debt owed to member and non-member states, did not pose a burden or exert significant pressure on Iraq's economic resources—especially considering that the rescheduled debt will be fully paid by 2028.

As for the total public debt ratio (external and domestic), it has been on a declining trend despite the increase in domestic debt, thanks to Iraq's success in meeting the requirements of the Paris Club agreement, the cancellation of 80% of external debt, and timely and consistent repayment of interest and annual principal installments. Consequently, the total debt ratio dropped from nearly four times the GDP in 2004 to 28.3% in 2023.

Table (4): External Debt-to-GDP Ratio – USD Billion

Year	GDP	External Debt	Domestic Public Debt	Total Public Debt	External Debt Ratio	Domestic Debt Ratio	Total Debt-to-GDP Ratio
					GDP%	GDP%	GDP%
2004	36.6	88.78	4.17	92.96	242.6%	13%	383.1
2005	50.0	71.28	4.479	75.76	142.6%	11%	531.3%
2006	65.1	58.53	3.827	62.73	90%	7%	96.3%
2007	88.8	58.90	4.099	63.00	66.3%	5%	70.9%
2008	131.6	44.452	3.801	48.25	33.8%	3%	36.6%
2009	111.7	44.685	7.202	51.89	40%	6%	46.4%
2010	138.5	44.65	8.701	53.35	32.2%	6%	38.5%
2011	185.7	45.15	10.638	55.79	24.3%	6%	30%
2012	218.0	43.814	10.761	54.57	20%	5%	25%
2013	234.6	42.803	10.759	53.56	18.2%	5%	25.2%
2014	228.4	42.448	16.079	58.52	18.6%	7%	25.6%
2015	166.8	40.757	27.010	67.77	25%	17%	40.6%
2016	166.7	39.373	39.800	79.17	24.4%	24%	47.5%
2017	187.2	39.018	40.906	79.92	20%	21%	42.6%
2018	227.4	38.230	36.582	74.81	17.2%	17%	32.9%
2019	233.6	21.883	34.176	58.28	9.4%	17%	24.9%
2020	180.9	24.016	49.268	73.28	13.3%	38%	40.5%
2021	207.7	20.837	48.215	69.05	10%	34%	33.2%
2022	264.2	19.72	48.624	68.35	7.4%	18.3%	25.9%
2023	250.8	15.976	55.033	71.00	6.3%	22%	28.3%
2024	279.6	14.270	63.87	78.15	5.1%	13.2%	27.9%

Compiled by the researcher based on data from the Central Bank of Iraq / Statistics Department / Statistical Portal – available at https://cbiraq.org.

2. Analysis of the Structure of Iraq’s Public Revenues (2004–2023)

The primary source of funding for Iraq’s general budget revenues is oil revenues, which are tied to the total quantities exported and global oil prices, as well as revenues generated from taxes imposed on goods and services. As shown in Table (5), total revenues gradually increased from USD 22,595 million in 2004 to USD 68,806 million in 2008, of which external debt accounted for only 65%. However, revenues declined to USD 47,216 million in 2009 due to the drop in global oil prices following the subprime mortgage crisis. Consequently, the coverage ratio of external debt to total revenues rose to 95%. Total revenues then resumed their upward trend, reaching USD 102,759 million in 2012, leading to an improvement in Iraq’s fiscal position. The coverage ratio of external debt to total revenues declined to 43%. This revenue increase was mainly attributed to rising global oil prices and Iraq’s increased production quota within the Organization of the Petroleum Exporting Countries (OPEC). After Iraq faced its first dual crisis, i.e. the ISIS crisis in 2014 and the sharp decline in oil prices in 2015, total revenues fell to USD 45,188 million in 2016, pushing the external debt coverage ratio up to 87% of total revenues. Revenues began to rise again, reaching USD 77,301 million in 2019, and as a result, the external debt coverage ratio dropped to 28%. In 2020, total revenues dropped to USD 33,043 million due to a compounded global economic and public health crisis following the COVID-19 pandemic, which led global oil prices to plummet below USD 20. Consequently, the external debt coverage ratio surged to 73%, before falling again to 28% in 2021.

Table (5): External Debt / Structure of Public Revenues – USD Million							
Year	External Debt	Oil Revenues	Debt to Oil Revenues	Non-Oil Revenues	Debt to Non-Oil Revenues	Total Revenues	Debt to Total Revenues
2004	88,788	22,346	397%	248	35,802%	22,595	393%
2005	71,280	26,856	265%	576	12,375%	27,432	259%
2006	58,532	33,714	173%	1,551	3,774%	35,266	160%
2007	58,902	43,673	135%	1,490	3,953%	45,164	130%
2008	44,452	66,191	67%	2,614	1,701%	68,806	65%
2009	44,685	44,242	101%	2,974	1,503%	47,217	95%
2010	44,653	58,421	76%	1,559	2,864%	59,981	74%
2011	45,159	91,602	49%	1,394	3,240%	92,997	49%
2012	43,814	100,909	43%	1,849	2,370%	102,759	43%
2013	42,803	95,973	45%	1,659	2,580%	97,632	44%
2014	42,448	86,044	49%	4,338	979%	90,383	47%
2015	40,757	53,648	76%	2,586	1,576%	56,235	72%
2016	39,373	37,190	106%	7,998	492%	45,188	87%
2017	39,018	56,300	69%	9,089	429%	65,390	60%
2018	38,230	82,226	46%	7,934	482%	90,160	42%
2019	21,883	71,271	31%	6,029	363%	77,301	28%
2020	24,016	29,742	81%	3,304	727%	33,047	73%
2021	20,837	66,652	31%	8,575	243%	75,228	28%
2022	19,729	118,490	16.6%	5,891	335%	124,372	15.8%
2023	15,976	96,832	16.5%	7,537	212%	104,370	15.3%
2024	14,270	96,373	14.8%	10,182	140%	108,287	13.1%

Compiled by the researcher based on data from the Ministry of Finance / Accounting Department / Department of Consolidation / State Accounts Consolidation System for the operational and investment budgets for the period 2004-2023.

The fluctuation in the ratio of external debt coverage to public revenues is primarily due to the volatility of oil revenues, which account for more than 90% of total revenues. It is also notable that the Iraqi government has remained committed to meeting its financial obligations (interest and debt installments) to external creditors on time, with the total external debt reaching USD 20,837 million in 2021, down from USD 88,788 million in 2004.

3. Analysis of the Structure of Public Expenditures for the Period 2004–2023 and Measuring the External Debt-to-Total Expenditures Ratio

Total expenditures in Iraq are high, despite the fact that most of them are operational (current) expenditures. These expenditures amounted to USD 21,589 million in 2004. This year is considered an exception, as the final accounts were later adjusted and the estimated budget was treated as the actual budget. It marked the lowest value recorded during the study period. Thereafter, estimated total expenditures continued to rise, reaching USD 51,076 million in 2008, while actual expenditures amounted to USD 57,403 million. Actual expenditures then declined to USD 47,511 million despite a planned amount of USD 59,115 million. This decline is attributed to the impact of the global crisis (the mortgage crisis) in 2008 on the Iraqi economy. Expenditures later rose again, with actual expenditures reaching USD 102,166 million in 2013, compared to an estimated USD 118,717 million. Both planned and actual expenditures then declined to USD 89,589 million and USD 62,421 million, respectively, as a result of the first dual crisis experienced by the Iraqi economy, prompting the government to adopt austerity measures to face it, most notably reducing and controlling public expenditures, particularly investment spending. Subsequently, expenditures increased again, with the planned figure reaching USD 112,612 million and actual expenditures amounting to USD 71,955 million in 2019. However, actual expenditures declined sharply to USD 44,375 million, affected by the steep drop in oil revenues in 2020. It is worth noting that the government did not submit or approve the 2020 budget, as was the case in 2014. Actual expenditures then increased to USD 70,931 million in 2021, as shown in Table (6).

Table (6): Structure of Public Expenditures for the Period 2004–2024 – USD Million							
Year	Estimated Budget {1}		General Budget {1}			External Debt	Debt
	Estimated Expenditures	Estimated Revenues	Current Expenditures	Investment Expenditures	Total Expenditures		Total Expenditures
2004	13,797	----	18,902	2,687	21,589	88,788	411%
2005	24,410	19,646	18,362	2,554	20,916	71,280	341%
2006	36,637	32,633	25,102	1,851	26,953	58,532	217%
2007	42,503	34,564	26,884	5,413	32,297	58,902	182%
2008	51,076	43,323	44,625	12,778	57,403	44,452	77.4%
2009	59,115	43,084	39,265	8,246	47,511	44,685	94.1%
2010	72,357	52,765	46,649	13,293	59,942	44,653	74.5%
2011	82,617	69,175	52,072	15,241	67,313	45,159	67.1%
2012	100,456	87,759	64,998	25,171	90,169	43,814	48.6%
2013	118,717	102,313	67,535	34,631	102,166	42,803	41.9%
2014	No Budget		74,243	33,234	107,477	42,448	39.5%
2015	101,067	79,567	48,152	23,500	71,652	40,757	56.9%
2016	89,589	69,121	46,668	15,573	62,241	39,373	63.3%
2017	85,026	66,733	49,852	13,905	63,757	39,018	61.2%
2018	88,120	77,533	56,727	11,692	68,419	38,230	55.9%
2019	112,612	89,314	60,941	11,013	71,955	21,883	30.4%
2020	No Budget		43,227	1,149	44,375	24,016	54.1%
2021	89,650	69,875	61,743	9,188	70,931	20,837	29.4%
2022	No Budget		99,126	9,968	109,094	19,729	18.1%
2023	153,093	103,501	96,520	20,824	117,423	15,976	13.6%
2024	162,970	113,720	113,565	22,867	136,432	14,270	10.4%

Table prepared by the researcher based on data from:
{1} The Federal Budget Law for the years 2004–2024, published in the Official Gazette of Iraq.

{2} Ministry of Finance / Accounting Department / Department of Consolidation / State Accounts Consolidation System for the operational and investment budgets for the period 2004-2023.

The application of the external debt-to-total expenditure indicator in Iraq, which reflects the level of debt consumption as a percentage of expenditure, indicates that the costs of external debt are being financed by acquiring new debt. A high ratio reflects the government's continued reliance on borrowing to finance public expenditures. This indicator expresses the degree to which debt dominates the structure of total expenditures (Thomas J. Nicklas, 2019, p. 175).

The ratio of debt to public expenditures has fluctuated and gradually declined, as shown in Table (6). The external debt-to-total expenditure ratio reached 411% in 2004, meaning that debt exceeded expenditures by more than fourfold. This ratio dropped to 77.4% in 2008 following the implementation of the Paris Club agreement to reschedule Iraq's debt. It then rose again to 94.1% in 2009 before gradually declining to 39.5% in 2014. The ratio increased again in 2015 and 2016, reaching 56.9% and 63.3% respectively, before falling to 30.4% in 2019. Due to the second dual crisis in 2020, the ratio rose again to 54.1%, before declining to 29.4% in 2021.

The fluctuation in Iraq's external debt-to-public expenditure ratio between 2004 and 2021 can be attributed to several factors:

- Iraq's successful implementation of the Paris Club agreement, which enabled the cancellation of more than 80% of its external debt.

- Iraq's consistent commitment to repaying external debt interest and installments on time—except in 2015, when the country was engaged in fighting terrorism and liberating occupied provinces—with support from international financial institutions, particularly the International Monetary Fund.

- The rise and fluctuation in operational expenditures in the estimated and general budgets. Actual operational expenditures rose from USD 18,902 million in 2004 to USD 74,243 million in 2014, then declined to USD 46,668 million in 2016, before rising again to USD 60,941 million in 2019 and dropping once more in 2020 to USD 43,227 million. In 2021, operational expenditures rose to USD 61,743 million due to increased allocations for salaries and wages, resulting from the appointment or reappointment of dozens of employees, particularly in the security institutions, which accounted for more than 39% of the Iraqi government workforce. In fact, salary and wage allocations for these institutions represented 48.1% of total operational expenditures in 2021 (Official Gazette of Iraq, Law No. 23 of 2021).

- The increase in the external debt-to-public expenditure ratio in certain years was also due to a decline in total public expenditures caused by global economic crises, the adoption of austerity measures, and a shift toward domestic borrowing from local sources.

4. External Debt-to-Exports Ratio during the 2004–2023 Period

The external debt-to-exports indicator is considered a measure of a country's ability to meet its financial obligations. This indicator is based on exports, which play a significant role in the process of economic development. The larger the volume of national exports, the greater the state's foreign currency reserves, which enhances its foreign exchange reserves and elevates its position in global markets.

There is an inverse relationship between exports and external debt. When exports are high, the state's ability to cover its external debt obligations increases. Conversely, low export levels indicate rising indebtedness and reduced foreign currency revenues, exposing the government to difficulty in meeting its obligations to creditors (Mahmoud Hamed Abdul Razzaq, 2016, p. 135).

As shown in Table (7), Iraq's exports witnessed significant changes after 2003. Following the lifting of the embargo on the Iraqi economy, exports began to rise gradually, reaching USD 20,568 million in 2004. At that time, the external debt-to-exports ratio equaled more than four times the export volume, reaching 432%—the highest level throughout the study period. This was due to the high level of external debt on the one hand, and the low volume of exports on the other. The ratio declined to 70% in 2008, thanks to the successful implementation of the Paris Club agreement that cancelled 80% of Iraq's external debt, in addition to the rise in global oil prices and the volumes exported. Total exports reached USD 63,726 million, marking a 310% increase compared to 2004. The ratio rose again to 113% in 2009 due to the drop in oil export revenues, which brought down total exports to USD 39,430 million following a decline in global oil prices. Subsequently, the external debt-to-exports ratio decreased to 47% in 2013 due to a decline in external debt and a rise in export value, which reached USD 90,587 million. The ratio rose again to 95% in 2016 due to a significant drop in oil revenues, following a decrease in global oil prices and exported quantities after terrorist groups took control of Mosul and destroyed the strategic pipeline transporting oil to Turkish ports. It then dropped again to 27% in 2019, despite the decrease in export value from USD 86,360 million to USD 81,585 million in 2019. This decline is attributed to the government's repayment of interest and debt installments from previous years, which led to a significant drop in the external debt level—from USD 38,230 million in 2018 to USD 21,883 million in 2019. The ratio then rose to 51% in 2020 due to the combined economic and health crises, which led to a collapse in global oil prices. Iraq's commitment to the OPEC+ agreement, which reduced its oil production by over one million barrels per day, further decreased export revenues to USD 46,829 million. In this context, the government resorted to both external and domestic borrowing to finance public expenditures, resulting in an increase in external debt to USD 24,016 million.

Table (7): External Debt-to-Total Exports Ratio – Million USD

Year	Total Exports	External Debt	External Debt / Total Exports
2004	20568	88788	432%
2005	23697	71280	301%
2006	30529	58532	192%
2007	39587	58902	149%
2008	63726	44452	70%
2009	39430	44685	113%
2010	51764	44653	86%
2011	79681	45159	57%
2012	94209	43814	47%
2013	90587	42803	47%
2014	85370	42448	50%
2015	51338	40757	79%
2016	41298	39373	95%
2017	57559	39018	68%
2018	86360	38230	44%
2019	81585	21883	27%
2020	46829	24016	51%
2021	83800	20837	29%
2022	118045	19729	16.7%
2023	99149	15976	16.1%

Compiled by the researcher based on data from: Central Bank / Statistics Department / Electronic Statistics Division - Published on the website: https://www.cbi.iq/.

With increased oil revenues—driven by higher global oil prices and rising volumes of oil exports—and the government's commitment to repaying part of the external debt due, the ratio of external debt to exports fell to 16.1% in 2023.

It is evident from the above that the indicator of external debt-to-exports ratio is influenced by two main factors:

The first is the government's regular repayment of interest and debt installments, which enhanced Iraq's capacity to bear the burden of external debt. This improvement is attributed to the reduction of external debt from USD 88,788 million in 2004 to USD 15,976 million in 2023, and a drop in the ratio from 432% to 16.1%.

The second is the fact that Iraq's export earnings are heavily tied to fluctuations in the global oil market, since oil exports constitute the backbone of the country's total exports.

This indicates that the continued monostructure of Iraq's economy—relying almost exclusively on oil as its primary source of public revenue—renders it more vulnerable to global economic volatility.

5. Ratio of External Debt to Foreign Currency Reserves (2004–2023)

This indicator, often referred to as the "External Vulnerability Indicator," is one of the key metrics in economics, particularly for assessing a country's capacity to meet the cost of its external debt. A lower ratio of external debt to foreign currency reserves indicates a greater ability to service external debt installments and interest (IMF, 2013, p. 16). As shown in Table (8), the ratio of external debt to foreign currency reserves is fluctuating. Iraq's foreign currency reserves increased gradually, reaching USD 6,923 million in 2004, and the external debt-to-reserves ratio stood at 1282%, the highest during the study period. As exports grew, reserves rose, leading the ratio to decline to 88% in 2008 as reserves reached USD 50,305 million. However, the ratio increased again (to 100%) affected by the decline in exports to USD 44,635 million due to the global mortgage crisis, which pushed reserves down to USD 44,635 million. Reserves climbed again to USD 77,270 million, pushing the ratio of external debt to reserves down to 55% in 2013. Yet the ratio rose once more to 76% due to declining exports resulting from falling global oil prices and the war on terrorist groups. By 2015, reserves had dropped to USD 53,667 million. In 2019, the external debt to foreign currency reserves ratio fell to 32% thanks to higher reserves (USD 67,612 million) and lower external debt (USD 21,883 million). But in 2020, the ratio increased again to 48% as reserves shrank to USD 49,947 million due to the economic and health crises. In 2023, the ratio declined to 14.3%, driven by a significant increase in foreign reserves to USD 111,736 million and a decrease in external debt to USD 15,976 million.

It is therefore clear that foreign currency reserves are positively correlated with exports:

As exports rise, reserves rise—and vice versa. The ratio of external debt to reserves, in contrast, is inversely correlated: When reserves fall or debt rises, the ratio increases. Iraq's foreign currency reserves are also affected by the Central Bank's sale of currency to banks and exchange offices.

Table (8): Budget Surplus or Deficit to External Debt – USD Million

Year	Foreign Currency Reserves	External Debt	External Debt / Foreign Reserves
2004	6,923	88,788	1282%
2005	12,107	71280	589%
2006	18,805	58532	311%
2007	31,532	58902	187%
2008	50,305	44452	88%
2009	44,635	44685	100%
2010	50,652	44653	88%
2011	60,785	45159	74%
2012	69,735	43814	63%
2013	77,270	42803	55%
2014	66,014	42448	64%
2015	53,667	40757	76%
2016	44,928	39373	88%
2017	48,896	39018	80%
2018	64,312	38230	59%
2019	67,612	21883	32%
2020	49,947	24016	48%
2021	63,811	20837	33%
2022	107,758	19729	18.3%
2023	111,736	15976	14.3%
2024	100,276	14,270	14.2%

Compiled by the researcher based on data from:
Central Bank / Statistics Department / Electronic Statistics Division, Annual Economic Report – available at the website https://www.cbi.iq/.

6. Indicator of Budget Surplus or Deficit to External Debt (2004–2023)

This indicator is used to evaluate the effectiveness of fiscal policy in achieving financial sustainability. According to Article 6 (iv) of the Federal Financial Management Law No. 6 of 2019 (Official Gazette of Iraq, Federal Financial Management Law No. 6 of 2019, p. 7), and in alignment with the Maastricht Treaty on EU accession requirements, the budget deficit must be maintained at a certain level not exceeding 3%. As shown in Table (9), the budget surplus or deficit fluctuates between negative and positive values. The deficit amounted to -USD 5,927 million after deducting the surplus from advances granted by the Ministry of Finance. Its ratio to external debt was -6.6% in 2004. The surplus rose to USD 8,706 million in 2007, representing 14.8% of external debt. In 2009, an actual deficit of -USD 14,495 million was recorded, impacting the external debt (32.4%), due to the 2009 global subprime mortgage crisis. A significant surplus of USD 21,087 million was achieved in 2011, amounting to 46.7% of external debt. However, in 2016, the budget recorded a deficit of -USD 13,156 million, equivalent to -33.4% of external debt. This was later reversed with an actual surplus of USD 21,740 million in 2018, or 77% of total external debt. The surplus turned once again into a deficit of -USD 3,279 million in 2019. Despite rising global oil prices and increased export volumes, a deficit of USD 14,629 million was recorded in 2021 due to the government's inability to spend the full amount allocated in the 2021 general budget. The deficit decreased to USD 8,538 million in 2023, even though the general budget was planned with a deficit of USD 49,591 million. This is due to the delayed approval and ratification of the general budget by Parliament, which was not passed until the end of August 2023, thereby limiting the government's spending capacity.

The realized surplus in the mentioned years does not align with the size of public debt—whether domestic or external—which indicates the absence of genuine financial sustainability as a result of the fiscal policy adopted by the government. The deficits incurred in these years undermine financial sustainability. Therefore, the government must adopt substantial reforms in its fiscal policy and rigorously control public spending in order to achieve true financial sustainability.

Table (9): Budget Surplus or Deficit to External Debt – USD Million

Year	Planned Deficit {1}	Actual Surplus or Deficit {2}	Off-Budget Advances {3}	Net Surplus or Deficit {4} 2-3	External Debt {5}	Ratio of Actual Surplus or Deficit to External Debt {6}
2004	1,084	597	6,524	-5,927	88,788	-6,6 %**
2005	4,765	9,539	3,665	5,874	71,280	8,2 %
2006	4,005	7,368	1,778	5,590	58,532	9,6%
2007	8,760	13,092	4,386	8,706	58,902	14,8%
2008	7,745	18,121	13,230	4,891	44,452	11%
2009	16,031	2,288	16,783	-14,495	44,685	-32,4%**
2010	19,591	4,381	1,729	2,652	44,653	5,9%
2011	13,451	33,476	12,389	21,087	45,159	46,7%
2012	12,680	25,250	14,650	10,600	43,814	24,2%
2013	16,404	10,975	6,189	4,786	42,803	11,2%
2014			***	17,882	42,448	42,3%
2015	21,500	-3,323	7,619	-10,942	40,757	-26,8%**
2016	20,102	-11,551	1,605	-13,156	39,373	-33,4%**
2017	18,293	1,631	1,000	631	39,018	1,6%
2018	10,587	21,740		21,740	38,230	77%
2019	23,297	3,516	6,795	-3,279	21,883	-15%**
2020			***	***	24,016	N/A
2021	19,774	-4,910	-9,719*	-14,629	20837	-70,2%
2022	---					
2023	49,591	-5,195	-3,343	-8,538	15,976	-45%

Compiled by the researcher based on the following data:
{1} Federal Budget Law for the years 2004-2023
{2}, {3}, and {4} Final Accounts for the years 2004-2021
{5} Table (2).

* Advances settled for previous years.

** The impact will be negative on external debt.

*** Lack of budget.

7. External Debt Service in 2004-2023

Debt service refers to the total amount paid by a debtor beyond the principal amount, which represents interest, commissions, receipts, and debt installments (United Nations, Resolution No. 67/198 of 2013). International financial institutions, including the IMF, the World Bank, and the External Debt Relief Group, have set a series of criteria to measure the impact of external debt on the economy in developing countries. This is to determine the possibility of granting loans upon request, as well as their impact on GDP, per capita income, and the sustainability of external loans. Table (10) shows that the IMF and the External Debt Relief Group have determined debt burdens with common standards calculated on the basis of the external debt to GDP indicator, and external debt and debt service to national income, as follows:

Table (9): Budget Surplus or Deficit to External Debt – USD Million

Year	Indicator	External Debt Relief Group	IMF
1	External Debt / GDP	20%-25%	25%-30%
2	External Debt / National Income	92%-%167	90%-150%
3	Debt Service / National Income	28%-63%	25%-35%

Source: External Debt Management, a periodical series on development issues in Arab countries– Issue 30, June 2004.

When comparing Iraq's external debt indicators with the indicators and obstacles set by international institutions to determine the extent of the impact of external debt burdens on the economy, as well as the strength of external debt and its impact on other economic indicators in Iraq, the results of the indicators were as follows:

7.1. External Debt to National Income during 2004-2021

National income is the value of goods and services produced by an economy in a single year, i.e., the net value of all economic activities in a country during a single year. This value is determined by the amount of money. We note from Table (11) that national income gradually increased to reach USD 36,680 million, while the ratio of national income to external debt reached 242% in 2004. National income rose to USD 135,100 million, and the external debt ratio decreased to 32.9% due to the rescheduling of Iraqi debts in 2008. National income then decreased to USD 114,750 million due to the global financial crisis. The external debt-to-national income ratio then rose to 38.9% in 2009, after which the national income increased further to USD 233,580 million. However, the external debt-to-national income ratio decreased to 18.3% in 2013, as the national income dropped to USD 165,620 million. The external debt-to-national income ratio rose to 24.6% due to the first dual crisis (the collapse in oil prices and the takeover of three provinces by ISIS terrorist groups) in 2015. The national income increased again, reaching USD 232,470 million, and the external debt-to-national income ratio dropped to 9.4% in 2019. National income then declined to USD 182,170 million, and the external debt-to-national income ratio rose to 13.2% due to the second dual crisis (the oil price crisis and the pandemic) in 2020. In 2021, national income rose to USD 206,090 million, while the external debt-to-national income ratio dropped to 10.1%.

The national income is directly related to global oil prices and quantities, due to the country's overreliance on oil. The higher the volume of exports, the higher the national income, and vice versa. When comparing the external debt-to-national income ratio with the standards set by the IMF and the External Debt Relief Group, Iraq's external debt appears simple, falling below the minimum standard for most of the study years, with the exception of the years 2004, 2005, and 2006, due to previously accumulated debts and decreased national income.

Table (11): External Debt to National Income – USD Million

Year	National Income {1}	External Debt {2}	Ratio of External Debt to National Income	Rate of Change in National Income
2004	36,680	88,788	242%	---
2005	45,430	71,280	156.9%	24%
2006	61,590	58,532	95%	36%
2007	85,770	58,902	68.6%	39%
2008	135,100	44,452	32.9%	58%
2009	114,750	44,685	38.9%	-15%
2010	140,110	44,653	31.9%	22%
2011	185,510	45,159	24.3%	32%
2012	219,060	43,814	20%	18%
2013	233,580	42,803	18.3%	7%
2014	227,110	42,448	18.7%	-3%
2015	165,620	40,757	24.6%	-27%
2016	165,040	39,373	23.9%	0%
2017	185,780	39,018	21%	13%
2018	225,610	38,230	16.9%	21%
2019	232,470	21,883	9.4%	3%
2020	182,170	24,016	13.2%	-22%
2021	206,090	20,837	10.1%	13%
2022	258,690	19,729	7.6%	25.5%
2023	251,820	15,976	6.3%	-2.6%

Compiled by the researcher based on the following data:
{1} https://data.albankaldawli.org/indicator/NY.GNP.MKTP.CD?locations=IQ.
{2} Table (5).

7.2. External Debt to GDP during 2004-2023

Table (4) on measuring the ratio of external debt to GDP and measuring these ratios with the standard ratio set by the External Debt Relief Group, as well as with the standard ratios of the IMF, shows that the ratio of external debt to GDP of the Iraqi economy was below the tolerance standards set by these institutions since 2010. This means that the external debt does not pose a major risk to the Iraqi economy and that these institutions may provide support and assistance upon request. This was reinforced by Iraq obtaining a B- rating with a stable, optimistic outlook from the international rating agencies Standards & Poor's and Moody's (Abdulrahman Al-Mashhadani, 2020, p. 2).

7.3. Debt Service to National Income during 2004-2021

This is an indicator among the standards set by the IMF and the External Debt Relief Group. Based on Table (12), successive governments have committed to paying the due installments of the external debt on the agreed dates. Iraq has committed to paying USD 513 million in implementation of the first phase of the rescheduling agreement with the Paris Club, which constituted 1.4% of the national income in 2004, after which Iraq will pay an amount of USD 1,975 million in the third phase of the external debt rescheduling agreement with creditors. The debt service-to-national income ratio was 1.46% in 2008, with interest and debt payments rising to USD 1,857 million and representing 0.85% in 2012. Interest and debt payments increased to USD 1,819 million in 2016, as the debt service-to-national income ratio reached 1.1%. Payments then equaled USD 1,285 million, representing 0.62% of national income in 2021.

Based on the above, we note that Iraq's external debt repayments did not burden the general budget or national income. They amounted to less than 1.5%. External debt is considered medium if it ranges between 28% and 63% of national income, heavy if it exceeds 63% of national income, according to the International Debt Relief Group's standards, and heavy if its service ratio exceeds 35%, as per the IMF's standards.

Table (12): Debt Service and Public Debt Installments to National Income – USD Million				
Year	External Debt Repayments {1}	National Income {2}	Ratio of External Debt to National Income	Rate of Change in External Debt Repayments
2004	513	36,680	%1.40	---
2005	545	45,430	%1.20	6%
2006	758	61,590	1.23%	39%
2007	954	85,770	1.10%	26%
2008	1,975	135,100	1.46%	107%
2009	552	114,750	0.48%	-72%
2010	861	140,110	0.61%	56%
2011	1,002	185,510	0.54%	16%
2012	1,857	219,060	0.85%	85%
2013	1,564	233,580	0.67%	-16%
2014	1,092	227,110	0.48	-30%
2015	1,435	165,620	0.87%	31%
2016	1,819	165,040	1.10%	27%
2017	1,024	185,780	0.55%	-44%
2018	1,246	225,610	0.55%	22%
2019	1,431	232,470	0.61%	15%
2020	1,123	182,170	0.61%	-22%
2021	1,285	206,090	0.62%	14%
2022	3,898	N/A		
2023				

Compiled by the researcher based on the following data:
{1} Final accounts for the years 2004-2023.
{2} Data from Table (15).

4. Projected Growth in Public Debt (Domestic and External) amid Rising Deficits in the General Budget (2024–2029)

The government sought to organize a three-year budget for the years 2023-2025 with estimates that have significantly increased compared to previous years, especially in operating expenses, in which allocations for salaries and wages (employee salaries, retiree salaries, and social safety net payments) increased, reaching approximately IQD 90 trillion, equivalent to USD 69.23 billion, and constituting 73% of the total expected oil revenues for the year 2024. Furthermore, governing expenditures, such as interest payments and public debt installments, amounted to USD 9.808 billion, in addition to the expenditures of oil companies operating in Iraq under licensing round contracts (USD 11.538 billion), and expenditures for purchasing food basket items, energy, and medicine, which total more than USD 7.7 billion. Therefore, total governing expenditures due would be USD 98.26 billion, higher than oil revenues if Iraqi oil prices remained at USD 70 and exported quantities remained at the 3.500 million barrels projected in the budgets. Therefore, we find that the three-year budgets were organized with a planned annual deficit exceeding USD 49 billion. This annual deficit is covered through domestic and external borrowing, the sources of which are diverse and include more than 21 international and regional lending institutions. This deficit is expected to continue over the next five years due to the escalating increase in expenditures on salaries, wages, pensions, and the social safety net, as per Table (13):

Table (13) Revenues, Expenditures, and General Budget Deficit for the Years 2023-2025 - USD Billion			
Indicator	2023	2024	2025
Total Revenues	103.5	113.7	
- Oil Revenues	90.2	92.7	
- Non-Oil Revenues	13.3	21.0	
Total Expenditures	153.1	162.9	
- Operating Expenditures	102.5	120.6	
- Salaries and	45.4	48.7	
- Retirement Pensions & Social Security Net	21.5	20.9	
- Investment Expenditures	38	42.3	
Total Deficit	49.6	49.2	
Deficit Financing Through Domestic Borrowing	22.7	25.4	
Deficit Financing Through External Borrowing	7.6	9.5	

Source: Republic of Iraq, Ministry of Justice, Official Gazette of Iraq, Law No. (13) of 2023, Federal General Budget of the Republic of Iraq for the Fiscal Years (2023-2024-2025), Issue No. 4726, June 26, 2023.

The increased reliance on domestic and foreign borrowing to finance operating and investment expenditures for government budgets will certainly lead to an increase in Iraq's external and domestic debt. The IMF's estimates of Iraq's debt indicate a continued increase for the years 2024-2029. It is projected to rise from USD 128.1 billion in 2024 to USD 181.9 billion in 2026, then to USD 298.8 billion in 2029. The public debt-to-GDP ratio will increase from 48.2% in 2024 to 62.2% in 2026, and then to 86.6% in 2029. It is noteworthy here that the IMF adds outstanding debts incurred by Iraq since the 1980s, which financed the Iran-Iraq war. These unclaimed debts are estimated at USD 40.902 billion, and Iraq has not paid any interest on them since 2004 (Central Bank of Iraq (CBI), 2014 Annual Report, p. 77). When these debts are subtracted, external debt and public debt drop to record levels, as shown in Table (14).

Table (14): IMF's Estimates of Iraq's Debt for the Years 2024-2029 – USD Billion						
Indicator	2024	2025	2026	2027	2028	2029
GDP*	265.9	278.8	292.1	307.5	325.2	345.1
Oil Production Rate (mbpd)*	4.11	4.39	4.58	4.78	4.98	5.20
Oil Exports Rate (mbpd)*	3.44	3.71	3.88	3.96	4.13	4.31
Public Debt-to-GDP Ratio*	48.2%	54.6%	62.2%	70.5%	78.6%	86.6%
Total Public Debt*	128.1	152.2	181.9	216.7	255.8	298.8
External Debt Size*	56.6	55.2	54.5	53.8	53.8	54.3
Outstanding External Debt**	40.9	40.9	40.9	40.9	40.9	40.9
Net External Debt***	15.7	14.3	13.6	12.9	12.9	13.4
Revised Gross Public Debt***	87.2	111.3	141	175.8	214.9	257.9
Public Debt-to-GDP Ratio***	33.9%	39.9%	48.2%	57.1%	66%	74.7%

* IMF eLibrary, Iraq: 2024 Article IV Consultation-Press Release; Staff Report, p. 24, https://www.elibrary.imf.org › article-A001-en.
** CBI, 2014 Annual Report, p. 77.
*** Researcher's conclusion.

Even if inflated, these estimates indicate that the size of domestic public debt has increased to alarming levels. According to IMF estimates, the debt-to-GDP ratio for the same year was USD 298.8 billion, representing 86.6% of the GDP in 2029. These figures decrease after excluding outstanding debts, as the total public debt totals USD 257.7 billion, representing 74.7% of the GDP for the same year.

The rising estimates of the size of public debt and its rising ratio to GDP indicate an increasing reliance on domestic borrowing to finance the government's operating expenses. This could pose a significant risk to future generations, especially since these funds finance increased operating expenses after 2023 and are not directed to financing development projects and building infrastructure for the Iraqi economy. This could plunge the latter into a debt trap, making it impossible to pay interest on loans for years to come, especially given that global forecasts indicate it will be difficult for global oil prices to remain above USD 75 per barrel. This is compounded by Iraq's inability to increase its oil production to record levels of 6 mbpd, with the possibility of price wars emerging among producers in global oil markets. This could drop global oil prices to below USD 30, keeping in mind that oil revenues constitute the backbone of financing operating and investment spending in the Iraqi general budget.

5. The Impact of Increased Public Debt on Government Spending in Social Sectors

The continued reliance of successive governments on domestic or external borrowing to finance their operating expenses, even if allocated to salaries and wages, will ultimately lead to an increased burden of these debts through higher interest and public debt installments paid, which will certainly come at the expense of financing service and social projects. This is evident in Table (15), which shows the size of the interest and installments due on the domestic and external debt, paid for the years (2021-2024). These payments exceed the total investment allocations for the education, health, housing and municipal sectors by a significant margin, and that gap is subject to increase as the annual operating expenditures continue to rise, increasing from IQD 50,418 billion in 2020 to IQD 96,380 billion in 2024 (https://mof.gov.iq/Pages/MainMof.aspx). This affected the implementation of government programs to build schools and hospitals and create job opportunities. In turn, this was reflected in unemployment rates that reached 16.8% of the workforce, not to mention poverty, which reached 17.5% of the population (Ministry of Planning and Development Cooperation, results of the 2025socio-economic survey).

Table (15): Interest, Public Debt Installments, and Investment Allocations for the Education and Health Sectors – USD Million

Public Debt Interest, Installments, & Investment Allocations	2019	2020	2021	2022	2023	2024
External Debt Installments	1,431	3,123	3,455	361	3,392	1,639
External Debt Interest	931	853	684	482	549	264
Domestic Debt Installments	5,522	1,413	620	1,099	4,602	1,568
Domestic Debt Interest	1,344	304	326	166	3,773	611
Total Annual Interest & Installments	9,228	5,693	5,085	2,108	12,316	4,082
Ministry of Education Investment Allocations		84	14	52	20	84
Ministry of Health Investment Allocations		174	33	144	153	174
Ministry of Higher Education Investment Allocations		2	7	16	35	22
Ministry of Housing, Construction, and Municipalities Allocations		163	288	700	563	1,800
Total Investment Allocations of Ministries		418	342	912	771	2,080

Source:
- Iraqi Ministry of Finance, Public Debt Department, Public Debt Department Data Dissemination Tables, Transparency Dissemination Tables for the Years 2019-2024.
- Republic of Iraq, Ministry of Finance, General Financial Reports, State Accounts for the Years 2020-2024, published on the Ministry's website: https://mof.gov.iq/Pages/MainMof.aspx.

Finally, we conclude the following:

- The rising public debt in Iraq has not led to financial sustainability as it has been and will be used to finance current expenditures, not investment expenditures, which would generate new capital additions that would in turn generate returns for interest payments and public debt installments.

- Future oil resources linked to global markets may be insufficient to pay the interest bill and public debt installments due to the significant expansion in current spending and the tendency to resort to external and domestic borrowing to cover the growing government deficit. This is despite the restrictions imposed by Federal Financial Management Law No. (6) of 2019, specifically Article 6 (iv), which stipulates that the planning budget deficit may not exceed 3% of GDP (Official Gazette of Iraq, Financial Management Law No. (6), p. 7). Therefore, in order to achieve sustainable economic growth, fiscal policy must be reformulated and implemented to achieve greater sustainability at the level of public finance and public debt.

- Identifying a single trend for the risks and depth of the economic and financial crisis that the Iraqi economy could face in the coming years as a result of poor planning, mismanagement, and widespread corruption, in addition to the weak financial capabilities to implement development projects, rehabilitate and build infrastructure, and reconstruct, stems from the continued increased reliance on the oil sector as a primary resource for the economy and the general budget, as it is the primary source of public revenues.

- The continued marginalization of the private sector and the failure to grant it an active role in leading the national economic process—alongside the dominance of political considerations over economic ones—have hindered the possibility of attracting foreign direct investments and/or achieving genuine economic reforms in recent years. This is despite repeated calls by the IMF and the World Bank to expedite real economic reforms and involve the private sector in driving the economy forward.

- The wage and salary system, as well as the social insurance and pension schemes, are marked by structural distortions and social injustice—despite accounting for more than 55% of total government spending. This indicates the inability to achieve financial sustainability in the relatively short term. There is an urgent need for structural and institutional reforms to secure financial sustainability in the medium term.

- All economic indicators point to the government's growing reliance on direct and indirect borrowing from local and foreign institutions. This will lead to an increase in Iraq's external and domestic debt, which is expected to reach USD 175 billion by the end of 2027. Moreover, there are expectations of a decrease in the Central Bank's cash reserves. This will limit the government's ability to initiate or implement infrastructure and reconstruction projects, thus weakening Iraq's ability to achieve financial sustainability.

- Interest payments and annual installments on public debt have reached high levels, more than double the investment allocations for basic service sectors for citizens, such as health, education, municipalities, and housing. This has impacted the social welfare of the population, in addition to increasing unemployment and poverty rates.

- The Iraqi economy is unlikely to achieve financial sustainability over the next decade, with public debt-to-GDP ratios remaining within the critical range of over 40%, according to the Maastricht Treaty. Continued reliance on public debt to finance public expenditures has not and will not lead to financial sustainability in Iraq, given that public debt is directed to cover current expenditures in public budgets.

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