

# Analysis of the Impact of Debt Refinancing Mechanisms in Directing the General Budget in Iraq: Suggested Scenarios<sup>1</sup>

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## ABSTRACT

Public debt represents one of the tools of financial policy that would have a positive or negative impact on the variables of economic activity, and its effect depends on the way it is used. Debt financing, as these mechanisms work to limit its increase by either changing the size of the debt (replacement or scheduling) or changing the creditors (securitization and investment), as these mechanisms have a major role in influencing the direction of the public budget by influencing its spending sides and revenue. The research concluded that there is a positive relationship between some debt refinancing mechanisms represented by (scheduling and indicators of public debt sustainability) and directing the general budget in Iraq. While the researcher suggested the need to implement the scenario presented in this research, even if partially, in order to reduce the public debt and move towards achieving guidance in the general budget.

## INTRODUCTION

The Iraqi economy suffers from the problem of indebtedness, which was reflected negatively on directing the general budget due to the wars as well as the economic sanctions that were imposed on it during the nineties of the last century, and accordingly Iraq bore the burdens of debts and compensation resulting from those wars even after 2003, as well as The increase in public debt due to the global crisis in 2009, in addition to the double shock that the Iraqi economy was exposed to, represented by the drop in oil prices, which resulted in internal debt and the subsequent security deterioration that burdened the budget, and the increase in the deficit in the general budget will result in the accumulation of public debt This necessitates the need to find ways to reduce the effects of public debt through the use of refinancing mechanisms on the one hand, and the possibility of its contribution in directing the public budget in the direction that can achieve the sustainability of public finances and achieve as much as possible of its objectives. After 2003, Iraq sought to reschedule its public debt on both the external and internal levels. Indeed, a large part of the external debt has been written off and the remaining part of it rescheduled. The process of rescheduling the internal debt began in Iraq partially and on one type of debt incurred by it, which is represented by the restricted debt. The Ministry of Finance, and as a result, the Ministry of Finance has sought to reach an agreement with the Central Bank to schedule those debts, by paying those debts in the form of quarterly installments for a period of seven and a half years, provided that repayment begins from the first quarter of 2006, while Iraq lacked Use of other refinancing mechanisms.

## Research Problem

The research problem revolves around the dependence of financial management on the use of traditional lending tools with ease in conducting and speed in collecting money, which increased the volume of public debt in Iraq in light of the weakness of the use of debt refinancing mechanisms with the lack of a strategic vision to diversify the lending tools that can be used. Direct influence in directing the general budget.

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### Research Importance

The importance of the research lies in identifying the appropriate ways and means to refinance the public debt through the presence of additional financing sources (debt refinancing mechanisms) that contribute to directing the general budget in light of a strategic vision for the sustainability of debt in the future to reduce its effects on the overall economy.

### Research Aims

The research aims to:

- Analyzing the role of debt refinancing mechanisms in directing the general budget in Iraq.

Developing future scenarios for the possibility of applying debt refinancing mechanisms in Iraq in order to reduce public debt and support the public budget.

### Research Hypothesis

The research stems from the hypothesis that debt refinancing mechanisms play an important role in influencing the direction of the public budget in Iraq.

### Search Limits

The time dimension of the research is determined by the period (2004-2020).

The spatial dimension of the research is determined by studying the mechanisms of refinancing and the general budget in Iraq

### Research Methodology

In order to achieve the goal of the research and to prove or refute its hypothesis, the researcher relied on the deductive method in analyzing the data for the purpose of reaching the nature of the relationship between debt refinancing mechanisms and directing the general budget in Iraq.

### Research Structure

The research included three sections, the first section dealt with the conceptual framework of debt refinancing mechanisms and directing the general budget, while the second section dealt with the analysis of the relationship between debt refinancing mechanisms and general budget guidance in Iraq, while the third section included future scenarios for the possibility of using debt refinancing mechanisms in Directing the general budget in Iraq.

## FIRST TOPIC: THE CONCEPTUAL FRAMEWORK FOR DEBT REFINANCING MECHANISMS AND DIRECTING THE GENERAL BUDGET

### First : The conceptual framework for debt refinancing mechanisms

There are many types of refinancing mechanisms, and this multiplicity is caused by the different components of the debt itself and its conditions on the one hand, and the development of the financial market on the other hand, and in the following, the most important refinancing mechanisms can be stated:

#### 1. Debt Scheduling

Debt rearrangement or restructuring, generally involving extension of the original repayment schedule in respect of a particular debt or group of debts. And that rescheduling is one of the options available to a country that is facing difficulties in "serving" its external debt, that is, in paying principal and interest installments when they fall due, meaning that the rationale for rescheduling is to save time in cases where the debt problem results from a temporary deficit in foreign exchange. (Zivkovic, 2005: 2-4).

#### 2. Securitization

It is one of the innovative financial activities, through which a debtor can transfer non-negotiable financial rights secured by assets, to a specialized facility with a special purpose called a securitization company with the aim of

issuing new negotiable securities in the stock market (Amer, 2009: 46) . Others use the term “securitization” instead of “securitization” on the basis that the papers that are issued are bonds, just as the term “securitization” is widely used in Islamic financial work (Mahdi, 2012: 46).

### 3. Investment and Privatization

Converting debt into investments is among the solutions offered for the refinancing process, and the debt conversion process requires a third party, the investor who is often a multinational company, where the company purchases the public debt in hard currency at a certain discount, and then obtains from the debtor country a return for the amount in the local currency But with a lower discount, and thanks to this amount, the investor (the multinational company) buys parts of local companies as a kind of privatization process, or buys local shares or a government project (Al-Abbas, 2014: 18). Thus, this process is defined as "a process through which creditors waive their debts and obligations for the benefit of a public sector structure or a private institution, but not at their original value, but rather at a discount. Therefore, the debt conversion process is represented in replacing the debt with another debt or a specific financial instrument, and this includes The process is changing the foreign currency debt into financial obligations specified in the local currency and at a discount rate, and thus the debt is considered paid and the financial receivables are transformed into another form. 2021).

### 4. Debt Renewal

Renewal is an agreement intended to replace an old obligation with a new one, different from it in one of its elements, the debtor, the creditor, or the debt. Therefore, renewal is at the same time a reason for the termination of the obligation and a source of its creation, because it expires the old obligation and creates the new obligation. who takes his place (Al-Sanhouri, 1998: 813).

#### Second : The conceptual framework for guiding the general budget

The process of directing the general budget is one of the basic necessities for financial decision makers, as it reflects the government’s future vision towards economic activity and the extent of its impact on it using its fiscal policy, which is expressed in the general budget. Therefore, it requires ensuring that the federal budget is corrected and made a tool for stability and an umbrella to enable reform policies to reach The national economy without exorbitant economic and social costs, and work to review the usual traditions of managing public finances, modernizing the legislative base, and developing human resources in line with the requirements of economic and financial reform and change, while defining the spending priorities that must be implemented. Therefore, directing the general budget is known as the process through which it is directed Public spending in areas of social and economic benefit, as well as diversifying sources of public revenues and not relying on a specific source (Al-Ta’ma, 2020: 2).

#### SECOND TOPIC: ANALYZING THE RELATIONSHIP BETWEEN DEBT REFINANCING MECHANISMS AND DIRECTING THE GENERAL BUDGET IN IRAQ

For the purpose of clarifying the relationship between debt refinancing mechanisms and directing the general budget in Iraq, we must address the direct and indirect effects of debt refinancing mechanisms in directing the general budget in Iraq as follows:

#### First : The direct impact of debt refinancing mechanisms in directing the general budget in Iraq

##### 1- Debt scheduling and its impact on directing the general budget in Iraq

Based on what has been scheduled of the public debt in Iraq, as it is clear from table (1) that this matter was positively reflected in directing the general budget in Iraq during the study period until 2009 and achieving financial surpluses continuously as a result of that scheduling on the one hand and maximizing public revenues on the one hand On the other hand, and benefiting from it in the reconstruction of the country, as well as in increasing the financing of investment projects, so this debt scheduling left positive effects on the national economy, and this is evident through the growth rates of those variables, as it is noticed when scheduling the debt with a negative sign, it is matched by a surplus in the general budget , which confirms the real positive impact of debt scheduling in guiding the general budget in Iraq. In 2010, as a result of the effects of the global financial crisis, which left its impact on the decrease in the volume of public revenues in Iraq, which led to the Ministry of Finance stopping paying its domestic debt installments after 2010, in 2009 and 2010 under the pretext of decreasing public revenues due to the global financial crisis. Debt rescheduling. In addition, the process of paying the external debt installments and borrowing began again, which increased the volume of the public debt to affect directing the general budget to achieve a state of financial deficit in 2010 with the limits of (-345537) million dinars, and this increases the interdependence between the two variables. .

Also, the return of the Ministry of Finance to approach the Central Bank to reschedule the debts, and an agreement was reached that the Ministry of Finance would pay quarterly installments for a period of four years, and the first installment would be at the end of the first quarter of 2011, which greatly affected the debt scheduling. Positive, to be reflected in achieving a surplus in the general budget until 2014, as this scheduling had a major role in decreasing the volume of debt restricted to the Ministry of Finance, which had a positive impact on the public debt, indicating its decrease at those times. The strong link between scheduling public debt and directing The general budget, as there was a correlation between these variables in light of the rule of stability and the economy not being exposed to financial crises.

Therefore, it becomes clear how necessary it is to work with the public debt scheduling mechanism as a whole and not to limit it to a part of its structure in order to reduce the public debt with the possibility of amortizing it, and to take advantage of the time granted by scheduling in embarking on an investment approach in projects that contribute to increasing public revenues and through which that debt can be paid and achieved sustainability.

**Table (1) Debt scheduling and its impact on directing the general budget in Iraq for the period 2004-2020**

Years	total public debt (Million dinars)	debt rescheduling	Public budget (Million dinars)
2004	78216820	-	11114061
2005	58089380	-19.718	1467423
2006	42098740	-17.884	9604616
2007	42083340	1.230	11560937
2008	24294340	-21.290	15657012
2009	28548280	-3.477	13363860
2010	29256520	5.562	- 345537
2011	28119600	-4.966	44022
2012	25633500	-2.125	25231423
2013	22148520	-3.158	14677649
2014	26994620	0.936	- 5287480
2015	47621240	3.076	21830397
2016	61208120	-0.765	- 3927263
2017	61105220	62.438	- 12658167
2018	54319380	-43.077	1845840
2019	49938660	-5.961	-4156600
2020	155731620	-4.463	-12882700

Source: Ministry of Finance, Public Debt Department, External Debt Department, for the years (2004-2020)

The Central Bank of Iraq, the official statistical website, <https://cbiraq.org>

## 2. The investment mechanism and its impact on directing the general budget in Iraq

The ratio of investment expenditures to the volume of public debt is an important indicator of directing the public budget, as it is clear from table (2) that the percentage of this indicator has gradually increased from about (5%) in 2004 to about (61.6%) in 2008, and this is due to the increase in public revenues Hence the investment allocations as well as the decrease in public debt. It is also noted that the investment expenditures used from the public debt have not increased, which is supposed to reflect positively on directing the public budget and achieving surplus rates, although public expenditures of an investment nature have a positive role in the reconstruction of infrastructure. And provide an important part of the appropriate environment for that investment, and the ratio of investment expenditures to public debt decreased to reach (33.8%) in 2009 as a result of the deterioration of the security, political and economic

conditions in the country, which affected the volume of investment spending on the one hand and the increase in public debt on the other hand. After that, the ratio of investment spending to internal public debt gradually increased until the year 2013, which reached its peak at a rate of (182.3%). The occurrence of the double shock at the end of 2014, which was represented by the increase in the volume of current spending, especially the military one, on the one hand, and the decrease in the volume of revenues on the other hand, which led to an increase in the volume of public debt, reaching at the end of the study period (155,731,620) million dinars in 2020, which negatively affected the The percentage of this indicator and reaching (2.1%) in 2020, which means that even in years in which the ratio of investment spending to public debt rises, it has no impact on the ground as a result of political, security and economic unrest, in addition to administrative and financial corruption and poor monitoring of spending channels. On this basis, the relationship between public debt and investment is important and necessary, as a percentage of the public debt should be directed towards real investment, and whenever this debt is exploited economically, it will lead to an increase in the gross domestic product, an increase in income levels, an increase in savings, and filling the shortage in the financial resources needed to finance investment projects. Therefore, the accumulation of public debt works to reduce investment spending as a result of paying the costs of debt principal and debt service, which negatively affects savings, the decline in the ability of banks to grant loans to the private sector, the decline in investment, the decline in gross domestic product, and the decline in economic growth rates. Thus, this percentage did not help to direct the general budget with its spending and revenue aspects, and this is due, as we mentioned above, to the lack of a clear and real vision for the recovery of the Iraqi economy from oil rents.

**Table (2) Ratio of investment expenditures/total debt and its impact on directing the general budget in Iraq for the period 2004-2020**

Years	total public debt (Million dinars) 1	Investment expenditures (million dinars) 2	Ratio of investment expenditures to total debt (%) 3	Directing the general budget (Million dinars ) 4
2004	78216820	3924260	5.0	11114061
2005	58089380	3765000	6.5	1467423
2006	42098740	5277000	12.5	9604616
2007	42083340	6588000	15.7	11560937
2008	24294340	14976000	61.6	15657012
2009	28548280	9648000	33.8	13363860
2010	29256520	15553341	53.2	- 345537
2011	28119600	17832112	63.4	44022
2012	25633500	29350951	114.5	25231423
2013	22148520	40380749	182.3	14677649
2014	26994620	24930767	92.4	- 5287480
2015	47621240	18564676	38.9	21830397
2016	61208120	15894009	25.9	- 3927263
2017	61105220	16464461	26.9	- 12658167
2018	54319380	13820333	25.4	1845840
2019	49938660	24422600	48.9	-4156600
2020	155731620	3208900	2.1	-12882700

Source: Prepared by the researcher based on:

1- Republic of Iraq, Ministry of Finance, final accounts, various annual reports.

2 and 4 - Central Bank of Iraq, Department of Statistics and Research, various annual reports.

3 - The proportions of the researcher's work

**Second: the indirect impact of debt refinancing mechanisms in guiding the general budget in Iraq****3. Local savings channel**

It is clear from Table (3) the increase in the volume of domestic savings in Iraq, continuously and gradually, as it increased from (5354425) in 2004 to (57337892) million dinars in 2014, and this is a result of changing levels of income and wages after the change in the political and economic conditions in the country and the increase in oil exports and then The volume of domestic saving increased, which led to a gradual increase in the ratio of domestic saving to the total public debt, from about (6.8%) in 2004 to about (116.2%) in 2008. Despite the increase in domestic saving, its ratio to public debt soon decreased. To reach (100%) in 2009 as a result of the economy's exposure to the global financial crisis, which led to an increase in public debt. This means the disconnection of the correlation between domestic saving and directing the general budget in Iraq, as domestic saving rises in the presence of a deficit in the general budget, and this is contrary to the reality of the relationship between the two variables, as domestic saving should decrease as a result of financing the deficit, and this is also evident in 2014 and thus There is no relationship between the two variables, as they operate independently of each other, and the increase and decrease in the ratio of domestic saving to public debt is linked to public debt and the improvement of the political and economic conditions in the country and its achievement of a state of economic recovery, and based on the above, those who lend to the government are mostly Deficit cases is the banking sector that has always sought to use its deposits in safe and profitable investments.

**Table (3): Public debt, domestic saving, and the general budget in Iraq for the period 2004-2020**

Years	total public debt (Million dinars)	local savings (Million dinars)	Public budget (Million dinars)
2004	78216820	5354425	11114061
2005	58089380	7360806	1467423
2006	42098740	10120283	9604616
2007	42083340	17332489	11560937
2008	24294340	28236300	15657012
2009	28548280	28765540	13363860
2010	29256520	42937219	- 345537
2011	28119600	43023109	44022
2012	25633500	46295571	25231423
2013	22148520	54598821	14677649
2014	26994620	57337892	- 5287480
2015	47621240	51416957	21830397
2016	61208120	49119141	- 3927263
2017	61105220	35931797	- 12658167
2018	54319380	56521250	1845840
2019	49938660	56820127	-4156600
2020	155731620	61987534	-12882700

Source: 1- Republic of Iraq, Ministry of Finance, final accounts, various annual reports.

2- The Central Bank of Iraq, Department of Statistics and Research, various annual reports.

#### 4. Debt Sustainability Indicators Channel

##### a. Index of public debt to gross domestic product

This type of indicator gives the extent of the government's ability to fulfill its obligations to creditors without resorting to structural changes in the economy with the aim of achieving apparently high levels of output with which these obligations can be fulfilled. It is supposed to negatively affect the public budget deficit and vice versa. When that ratio is low, it leaves a positive impact on the general budget surplus. This naturally results from the extent of the public debt burden. It is clear from Table (4) that the continuous and gradual decline in the debt-to-output index The gross domestic product until 2009 decreased from (146.9%) in 2004 to (15.4%) in 2009. Despite this decline, it did not affect the direction of the budget, as it witnessed fluctuations in the size of the surplus in it inconsistently with the decrease in that indicator. The surplus in the budget witnessed clear fluctuations related mainly to oil revenues and not the debt index, and despite the decrease in the index percentage in 2010 and reaching 18.1%, the general budget witnessed a deficit of (345537) million dinars in the same year as well as in subsequent years, as the two variables are proceeding smoothly It is independent of each other, and therefore this indicator in Iraq does not affect directing the public budget because the budget is linked to other criteria than this indicator, which is mainly related to the oil market because the increase in public debt is linked to a decrease in revenues on the one hand, and the decrease in GDP is linked to oil exports that Affected by the drop in oil prices on the other hand, and therefore this indicator does not affect the direction of the budget, either directly or indirectly.

**Table (4) The relationship between the public debt index to the gross domestic product and the general budget guidance in Iraq for the period 2004-2020**

Years	Public debt index / GDP %	Public budget (Million dinars)
2004	146.9	11114061
2005	78.9	1467423
2006	44.0	9604616
2007	37.7	11560937
2008	15.4	15657012
2009	21.8	13363860
2010	18.1	- 345537
2011	12.9	44022
2012	10.1	25231423
2013	8.1	14677649
2014	10.1	- 5287480
2015	24.4	21830397
2016	31.1	- 3927263
2017	27.5	- 12658167
2018	20.2	1845840
2019	17.9	-4156600
2020	78.3	-12882700

Source: Prepared by the researcher based on:

- 1- Republic of Iraq, Ministry of Finance, final accounts, various annual reports.
- 2- The Central Bank of Iraq, Department of Statistics and Research, various annual reports.

**B. Index of public debt to exports**

This indicator represents the ability of exports to pay the public debt, as its rise indicates that the debt has become greater than the country's basic resources of foreign currencies, which may expose it to problems in fulfilling its financial obligations towards creditors on the one hand, in addition to the high volume of financial burdens on the other hand. Then the volume of spending allocated to amortizing the debt and its benefits increased, and this naturally affects directing the general budget negatively, and in light of our study of the Iraqi reality, as it is clear from Table (5) that the decrease in the public debt index to exports did not positively affect directing the general budget, as it is noted in The decrease in the value of the indicator from (261.1%) in 2004 to (45.9%) in 2010, however, this was not accompanied by an increase in the surplus of the general budget, but when the decrease occurred, the general budget achieved a financial deficit of (345537) million dinars in 2010, and this matter is not theoretically consistent with the relationship Between the two variables, and this justifies the independence of each of the two variables from the other in the Iraqi economy. It is also noted that in some years there is an association between the two variables because of the components of the two variables themselves, as both of them are affected by oil prices directly, which shows a kind of association between them, and therefore this indicator does not affect the direction of the general budget in Iraq, since the latter is not subject to those standards, but to the will political, not economic.

**Table (5) The relationship between the public debt index to exports and directing the general budget in Iraq for the period 2004-2020**

<b>Years</b>	<b>Public Debt Index / Exports %</b>	<b>Public budget (Million dinars)</b>
<b>2004</b>	<b>261.105</b>	<b>11114061</b>
<b>2005</b>	<b>145.354</b>	<b>1467423</b>
<b>2006</b>	<b>86.302</b>	<b>9604616</b>
<b>2007</b>	<b>82.261</b>	<b>11560937</b>
<b>2008</b>	<b>30.741</b>	<b>15657012</b>
<b>2009</b>	<b>55.462</b>	<b>13363860</b>
<b>2010</b>	<b>45.799</b>	<b>- 345537</b>
<b>2011</b>	<b>29.130</b>	<b>44022</b>
<b>2012</b>	<b>22.654</b>	<b>25231423</b>
<b>2013</b>	<b>20.411</b>	<b>14677649</b>
<b>2014</b>	<b>26.028</b>	<b>- 5287480</b>
<b>2015</b>	<b>70.873</b>	<b>21830397</b>
<b>2016</b>	<b>110.578</b>	<b>- 3927263</b>
<b>2017</b>	<b>81.278</b>	<b>- 12658167</b>
<b>2018</b>	<b>49.504</b>	<b>1845840</b>
<b>2019</b>	<b>47.522</b>	<b>-4156600</b>
<b>2020</b>	<b>157.073</b>	<b>-12882700</b>

**Source: Prepared by the researcher based on:**

- 1- Republic of Iraq, Ministry of Finance, final accounts, various annual reports.**
- 2- The Central Bank of Iraq, Department of Statistics and Research, various annual reports.**

### 5. Channel of corruption

The events that Iraq went through after 2003, the confusion in laws on the one hand, and the large oil revenues on the other hand, provided great opportunities for the magnitude of political and administrative corruption. Perceptions of corruption in Iraq and its impact on directing the public budget through table (6), where we note that the deficit or surplus in the general budget is affected by the high or low score of the Corruption Perceptions Index, as we note that Iraq has obtained the highest score in the Corruption Perceptions Index of 22 for the year 2005. Despite this degree, the general budget achieved a surplus of 1467423 million dinars, but when Iraq scored the lowest score for the Corruption Perceptions Index, it reached 13 for the year 2008, but the general budget achieved a larger surplus amounting to 15657012 million dinars, and this confirms the existence of a relationship between the index Perceptions of corruption and directing the public budget in Iraq.

**Table (6) The relationship between the Corruption Perceptions Index and directing the general budget in Iraq for the period (2004-2020)**

Years	total public debt (Million dinars)	Corruption Perceptions Index	Public budget (Million dinars)
2004	78216820	21	11114061
2005	58089380	22	1467423
2006	42098740	19	9604616
2007	42083340	15	11560937
2008	24294340	13	15657012
2009	28548280	15	13363860
2010	29256520	15	- 345537
2011	28119600	18	44022
2012	25633500	18	25231423
2013	22148520	16	14677649
2014	26994620	16	- 5287480
2015	47621240	15	21830397
2016	61208120	17	- 3927263
2017	61105220	18	- 12658167
2018	54319380	18	1845840
2019	49938660	19	-4156600
2020	155731620	21	-12882700

Source: Republic of Iraq, Ministry of Finance, final accounts, various annual reports.  
 - Central Bank of Iraq, Department of Statistics and Research, various annual reports.  
 - Transparency International data, Corruption Perceptions Index report, multiple years.

### THIRD TOPIC: FUTURE SCENARIOS FOR THE POSSIBILITY OF USING DEBT REFINANCING MECHANISMS TO DIRECT THE GENERAL BUDGET IN IRAQ

The aim of the future research lies in demonstrating the possibility of using refinancing mechanisms in reducing public debt and its negative burdens in light of the inefficient financial management, which burdened the general budget as a result of its failure to achieve financial discipline in light of the continued rentiness of the Iraqi economy and its association with the oil market, which is of an unstable nature associated with With multiple factors other than economic factors, and as a result of what has been observed in the analytical side of this research, it has been shown

that the extent of the significant correlation between the public debt and the public budget, which is increasing positively with the increase in the size of the deficit in the public budget without taking into account the effects left by the tools of That debt is on the Iraqi economy, whether in terms of the extent to which the sustainability of public debt is achieved or the extent to which the rule or the golden principle of public debt and borrowing is achieved for investment, not consumption. Accordingly, we are trying to reduce the volume of public indebtedness and develop new mechanisms through which to improve the future of the productive economy, by identifying how the oil wealth will shape the future of the country from a developmental and productive perspective, and if this future is associated with the extent of a real will to develop and progress, as Oil is an effective and powerful external variable in shaping the future and formulating its scenarios.

### **First Requirement : The Basic Data For Proposing And Making Scenarios**

As part of our endeavor to build effective scenarios that can be relied upon by those concerned in financial management, we must indicate the most important basic data of the current reality that simulate the current environment of the Iraqi economy and its challenges, and this is in order to present scenarios that are characterized by real realism on the one hand, and the desires and capabilities aimed at achieving the goals desired on the other hand. Accordingly, some challenges can be stated as follows:

**First** : Structural imbalances are among the most prominent challenges that the Iraqi economy suffers from. Gross domestic product, and the role of the industrial sector is limited to the production of consumer goods mostly, relying on the international market to meet its needs of intermediate and capital goods, which made the Iraqi economy dependent and closely linked to the oil sector, as it increases with its increase and decreases with its decrease. This resulted in the inability of public finance management to invest large revenue streams in times of financial prosperity to benefit from them in times of crises to which the economy was exposed, which indicates its failure in those times. The problem does not lie in how to finance the fiscal deficit, but rather in developing policies and strategies to limit public expenditures. Or maximizing revenues, or both together, even with the government's ability to borrow domestically, there must be a remedial vision that helps reduce the budget deficit gap. Therefore, the politicization of the national economy is the most realistic factor in the survival and continuation of the national economy lagging until now.

**Second** : The rampant corruption in the country, which affects both the performance of the economic sectors and leaves dangerous social dimensions that cannot be understood or underestimated. Research in this field has proven that it weakens economic growth, as it affects the stability and appropriateness of the investment climate, increases the cost of projects, threatens technology transfer, and weakens the positive impact of investment for local and foreign projects, especially when bribes are demanded from project owners to facilitate the acceptance of their projects, or bribed employees ask for a share. From the return on investment, and then corruption is considered a tax of a harmful nature and hinders the development of the economy and on the investment side in particular, and with the increase of corruption, investors add the amounts resulting from bribes and commissions to the costs, which raises the total cost of the project and reduces the return on investment, and corruption negatively affects The spirit of initiative and innovation weakens efforts to set up new projects.

**Third** : Unemployment, as it is one of the biggest challenges it faces, because of its large, deep and dangerous repercussions on the various economic, social and security levels. Of these manpower for the production and service sectors. Therefore, its growth clearly reflects the extent of the structural imbalance of the service sector, which must be addressed at the macroeconomic level.

**Fourth** : The mechanism for implementing projects is lagging, as the salient feature of development and reconstruction programs is slowness and lack of clarity, which is shrouded in ambiguity, as the percentage of what is implemented in reconstruction programs is very limited. Also, one of the most prominent repercussions of the problem of poor performance in the implementation of projects in the Iraqi economy is the problem of (citizenship) and not the problem of financial resources and allocations as some imagine, and it is embodied in the weak interaction of the individual with the economic process and the lack of workers exercising their required roles, and the lack of harmony between public and private interests, which we find Its expression is the lack of respect for the rule of law, and the weakness of good citizenship and weak social cohesion negatively affect the political, security and economic aspects that Iraq has suffered and is still suffering from.

**Fifth** : The flight of national capital, and this is a logical result of the current inappropriate conditions that Iraq is going through, due to the owners' feeling that foreign banks are safer than national ones, or because of the economic and political instability in the country and the absence of rewarding opportunities and the quest to benefit from the incentives provided by other countries.

**Sixth** : There is a very limited role for the Iraqi stock market in attracting investment, both foreign and local, and this is evident through the widening gap between the volume of funds destined for investment in the stock market and the volume of funds present as deposits in the Iraqi banking system, and this reflects the extent to which savers prefer to keep their money in the form of deposits to be invested in the financial market, which calls for more efforts to attract part of these deposits and direct them towards investment in that market.

**Seventh** : The increase in the volume of public indebtedness in the country as a result of the accumulations of the past represented by wars and economic sanctions that were imposed on it during the nineties of the last century, and what followed after 2003, due to the global crisis in 2009 and the double shock in 2014 that resulted in internal debt and the subsequent consequences. A security deterioration that burdened the priest of the budget, and an increase in the deficit in the public budget will result in the accumulation of public debt, which necessitates the need to find ways to reduce the effects of public debt, with which it is possible to achieve the sustainability of public finances and achieve the largest possible amount of its goals.

**Eighth** : The limited diversification of public debt instruments in Iraq, in addition to the absence of a clear policy for managing it, as it depends on its dependence on the direction of oil prices and quantities in an inverse way, so the first increases with the decrease of the second and vice versa.

### **Second Requirement : The Proposed scenario to reduce the size of indebtedness and stimulate the productive economy**

Public debt represents one of the tools of fiscal policy that will influence the variables of economic activity in the country, and this impact may be negative or positive, and this, of course, depends on how public debt is used and in what fields, and the size and level of economic development has a direct and effective impact On the extent of the economy's ability to bear the debt and its burdens and the threshold that it can reach, so the debt is not always bad, as it can be a financing tool for economic development, which increases the volume of production capacity in the national economy, and then achieves a higher income than the debt results. The year is a burden, so indebtedness problems appear with the increase in the volume of debt in light of its misuse and spending.

#### **1. The base scenario : refinancing the public debt**

In this scenario, reliance is placed on harnessing the oil wealth to support the process of paying the public debt, as this process should be at the forefront of the present and future priorities of the financial management, in order to make the best use of that wealth. Not only because oil was, is and will remain the main resource in the economy, but also because the way the oil sector is managed and how its revenues are distributed will largely determine the future of the social, political and economic system in the country.

The Iraqi economy, according to indicators of financial sustainability, slightly exceeds the standard ratio for public debt to GDP, and therefore it does not fulfill this condition of sustainability on the one hand, and on the other hand, the mechanisms that were actually adopted in Iraq for refinancing (scheduling) were not of economic feasibility Especially when the domestic debt was scheduled because it was linked to oil revenues, when a crisis occurred, the payment stopped, and this is what happened after the 2009 crisis, and in light of the selected international experiences that were previously discussed, it became clear that the best methods of refinancing lie in converting public debt into investments through privatization, especially And that investment opportunities and ingredients are available in Iraq, and accordingly we can show the structure of public debt in Iraq for the year 2020 as follows:

**Table (7) Public debt structure in Iraq for the year 2020 (billion dinars)**

Treasury transfers	bonds	Financial institution loans	A debt owed by the government	external debt (Million dollars)	Burdens and installments of public debt
46105	1916	14668	1555	36711	17628

Source: prepared by the researcher based on the data of the Central Bank of Iraq, the official statistical website <https://cbiraq.org/>

#### **The basic assumptions for this scenario are :**

1. The rate of export of crude oil during the past five years amounted to 3.3 million barrels per day. Accordingly, this rate is expected to increase, assuming relative stability in the oil market, towards a decline.
2. It is assumed that the average number of working days in the oil sector ranges between 320-340 days per year.

3. It is proposed to deduct 5 dollars from each barrel exported under the name of deduction in order to pay off the debt.

4. The volume of deductions for debt repayment is according to the above assumptions and on average during the first year (5445) million dollars, provided that debt players resulting from scheduling or preparation for this process are allocated.

5. The process of implementing this scenario begins within (1-2) years, provided that the total refinancing period is (10) years, divided into four stages as follows:

#### The first stage : the stage of preparation and study

At this stage, the general framework for the work is defined, as at this stage:

- Studying the debt that can be refinanced
- Studying the refinancing mechanisms that will be used
- The duration of this phase is two years.

The second stage: the selection stage

At this stage, the debt that can be refinanced and the appropriate mechanisms and ratios are determined according to the structure of the public debt and the appropriate time frame for implementation, as follows:

**Table (8) Basis of the selection stage for the use of refinancing mechanisms in Iraq**

operation	profile	Timing	pedigree	
			stage 3	stage 4
Determine the refinanceable debt	A debt owed by the Ministry of Finance	1-2 years, the third stage		
	bond	2-3 years for the third stage		
	Treasury transfers	2-4 years for the third stage		
	Financial institution loans	3-4 years of the third stage		
	foreign loans	1-4 years of the third stage		
Refinancing mechanisms used	debt rescheduling	Debt owed by the Ministry of Finance bonds	%30	70% investment
	Turning debt into investment	Treasury transfers and external loans	% 25	49%
	securitization	Institutional loans	%35	70%

#### Third Stage : The Initial Implementation Stage

This stage extends for a period of 4 years, starting from the end of the previous stage. During this stage, what was planned in the previous stage is approved. The contents of this stage can be explained as follows:

**Table (9) Results of the initial implementation phase of the scenario of using refinancing mechanisms in Iraq**

Religion type	debt size	The mechanism used	details	amount used	Remaining amount
What is your financial liability	1555	scheduler	Over a period of 4 years, provided that the repayment process begins at the beginning of the fourth stage	466.5	1088.5
bond	1916	scheduler	Over a period of 3 years, provided that the repayment process begins at the beginning of the fourth stage	574.8	1341.2
Treasury remittances	46105	investment	agricultural sector (7%)	11526.3	34578.7
			Industry sector (7%)		
			Housing sector (6%)		
			Tourism (5%)		
foreign loans	26711	investment	Tire manufacturing company	6677.7	20033.3
			Fallujah White Cement Factory		
			Babylon solar power plant		
Institutional loans	14668	securitization		5133.8	9534.2

Note : All amounts are in billion dinars, with the exception of foreign loans, one million dollars.

As a result of the implementation of what was planned at this stage, the following will follow:

1. A decrease in the volume of domestic debt by (17701.4) billion dinars compared to what it was before the refinancing process.
2. A decrease in the volume of external debt by (6677.7) million dollars, compared to what it was before the refinancing process.
3. A decrease in the volume of public debt service and its installments by (4114.2) billion dinars, i.e. a decrease of (23.3%).
4. Revitalizing the financial market as a result of the securitization process, which will be directly supported by the Iraqi government, in a step to enhance confidence in the banking financial sector and to improve the culture of saving and investment.
5. Increasing the output of the productive and service sectors and diversifying the sources of national income on the basis of investments transferred to it from debt.
6. A decrease in unemployment rates in the country as a result of the aforementioned investment operations.
7. Agreeing with the authorities concerned with the scheduling process to give a grace period without entailing financial burdens, in a national step towards achieving growth and prosperity in Iraq, with the possibility of using part of the money withheld to pay off the debt.

#### **The fourth stage: the final implementation stage**

This stage extends for a period of 3 years, starting from the end of the third stage, as in this stage the completion of what was implemented in the previous stage, and the contents of this stage can be explained as follows:

**Table (10) Results of the last implementation phase of using refinancing mechanisms in Iraq**

Religion type	debt size	mechanism used	details	amount used	Remaining amount
What is your financial liability	1399.5 assuming 10% payment	investment	housing sector	979.7	419.8
			industry sector		
bond	1724.4 assuming 10% repayment	investment	housing sector	1207.1	383.2
			industry sector		
			Agriculture sector		
Treasury remittances	31120.8 assuming 10% payment	investment	Agricultural sector (14%)	15249.2	15871.6
			Industry sector (14%)		
			Housing Sector (11)		
			Tourism (10%)		
foreign loans	18029.9	investment	Tire manufacturing company	8834.7	9195.2
			Fallujah White Cement Factory		
			Babylon solar power plant		
			The possibility of investing in other opportunities		
Institutional loans	8580.8	securitization		6006.5	2574.3

Note : All amounts are in billion dinars, with the exception of foreign loans, one million dollars.

As a result of the implementation of what was planned at this stage, the following will follow:

1. The volume of domestic debt continued to decline, reaching an amount at the end of the period (41143.9) billion dinars, compared to what it was before the refinancing process.
  2. The volume of external debt continued to decline, reaching an amount at the end of the period (15512.4) million dollars, compared to what it was before the refinancing process.
  3. The continued decline in the volume of public debt service and its installments by (2038.1) billion dinars, at a rate of (15%) within the last stage, and thus the amount of the decrease at the end of the period is (6152.3) billion dinars.
  4. It is expected that the financial market will be effective and the trading volume will increase.
  5. Continue to increase the output of the productive sector and diversify sources of national income on the basis of investments transferred to it from debt.
  6. The continued decline in unemployment rates in the country as a result of the aforementioned investment operations.
1. The corresponding scenario: directing the general budget

Based on what was proposed in the previous scenario, it is natural that there will be similar procedures in terms of directing the general budget as a corresponding basic step on the one hand, and an obtained result on the other hand, and accordingly we will show the most important results accompanying the base scenario on the one hand, and the consequences of it from other aspects, This is through the following statement:

1. The spending side: On the spending side, there is a decrease in the volume of public debt burdens, which represent current spending, and it is possible to exploit this to increase the volume of investment allocations in the infrastructure that stimulates increased investment in the economy.
2. The revenue aspect: the measures taken in the base scenario are reflected in the increase in the size of the tax base in the economy as a result of the improvement and increase in the level of investment in the productive sector, which increases tax revenues in the economy, and this is a basic result. In keeping with the basic scenario, protection of the local product should be done by activating customs duties and controlling border crossings, as this generates large revenues that contribute to diversifying the sources of income in the country.

### **Conclusions and recommendations**

1. Most countries resort to using refinancing mechanisms, especially scheduling, when they need to save time. In cases where the debt problem results from a temporary deficit in foreign exchange, rescheduling gives time to improve that deficit, in addition to reducing the burden of debt and giving time. To take appropriate corrective measures in order to improve the balance of payments.
2. Debt refinancing mechanisms have a positive impact on directing the general budget in both its spending and revenue sides, as it reduces operating expenses on the one hand and increases the volume of investment allocations on the other hand, which increases investments and the gross domestic product, and then the expansion of the size of tax bases and the multiplicity of their types to contribute in maximizing public revenues.
3. The increase in the volume of domestic savings in Iraq in an accelerated and gradual manner, and this indicates the extent of banking awareness among members of society on the one hand, and the extent of their need for the return resulting from their savings in the banking sector, not to mention the volume of money hoarded outside the banking system.
4. The public debt refinancing mechanism (scheduling) had a positive impact in directing the general budget in Iraq and achieving financial surpluses continuously as a result of that scheduling on the one hand and maximizing public revenues on the other hand and benefiting from them in the reconstruction of the country as well as in increasing the financing of investment projects.
5. The rise and fall in the ratio of investment spending to public debt has no impact on the ground as a result of the political, security and economic unrest, as well as corruption and poor monitoring of public spending channels in Iraq.
6. The indicator of the public debt-to-GDP ratio does not affect directing the public budget because the budget is linked to other criteria than this indicator, which is mainly related to the oil market because the increase in public debt is linked to the decline in revenues on the one hand, and the decline in GDP is linked to the output of the oil sector Which is affected by the drop in oil prices on the other hand, and therefore this indicator does not affect directing the budget, either directly or indirectly.
7. The public debt refinancing mechanisms (scheduling and corruption perceptions index) had a positive impact on directing the public budget in Iraq, while there is no effect of other debt mechanisms on directing the public budget in Iraq.

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