Al-Qadisiyah Journal for Administrative and Economic Sciences ISSN$_{Online}$: 2312-9883
QJAE, Special Issue (2024) ISSN$_{Print}$: 1816-9171

Analyzing The Relationship Between The Growth Of Government Debt And Economic Growth Under The Economic Crisis In Iraq

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Abstract : The world is facing the recurrence of economic crises during the last two decades, which posed a major challenge to the macroeconomic policies around the world. The recurrence of economic crises creates an unstable economic climate and pessimistic expectations, regarding economic relations around the world. The research sheds light on the role of those economic crises, in the relationship between the growth of government debt, which is increasing in all countries of the developed and developing world, and economic growth in Iraq. The problem of the research is the increasing need for government debt in order to meet government expenditures in light of the decline in public revenues due to economic crises, and what is the impact on economic growth and Iraq suffers from a sustainable imbalance in the structure of domestic production, the research aims to analyze the relationship between government debt growth and economic growth in light of Economic crises in Iraq, the research concluded an inverse relationship between the annual growth of government debt and economic growth, and the extension of the impact resulting from economic crises to varying degrees according to the type of government debt in economic growth, the research recommended to monitor the repercussions of economic crises and reduce the harmful effects resulting from them , with rationalizing government debt and increasing the efficiency of fiscal policy and fiscal control in order to improve the environment for economic activity and consequently economic growth.

Keywords: internal government debt, external government debt, economic activities, economic growth.

INTRODUCTION: Weak macroeconomic performance under the failure of economic policies distorted production relations, and caused the perpetuation of the imbalance in the structure of local production, and with the conditions of security and political instability and the accompanying deterioration of most economic indicators, public revenues declined in oil revenues alone, which recognized the dependency of the local economy. In Iraq, oil prices moved globally, so the economic crises in light of this atmosphere had a more severe impact on the Iraqi economy, which already suffers from deteriorating production relations, weak overall supply, and lack of diversification in public revenues.

Problem Statement: The expansion of the government's role in the Iraqi economy, coupled with the decline in public revenues due to structural imbalances in the activities of the economic sectors, caused an increase in the growth of government debt in conjunction with the recurrence of economic crises, which led to the government's inability to address the problems of the Iraqi economy and fulfill its financial obligations from that debt.

The Aims of the Study: The research aims to analyze the relationship between government debt growth and economic growth in light of the economic crisis in Iraq.

The Significance of the Study: The high annual growth of government debt, directed towards consumer rather than investment areas, has increased the burden of debt and the difficulty of sustaining its service. This led to weak sustainability indicators in government debt and, thus, a decline in the structure of domestic production and economic growth.

(I): The Hypotheses of the Study:

The increasing growth of government debt weakens economic growth in light of economic crises.

(II): Research Methodology

Adopting the deductive approach in analyzing the relationship between the variables of the phenomenon under research, based on sources such as books, periodicals, bulletins, and data from official authorities.

The second topic: A conceptual framework for economic crises and the relationship between government debt and economic growth

First:- Economic crises:

(I) The concept of economic crises:

The global economy has witnessed many economic crises, as a result of which many macroeconomic variables were disturbed, financial markets were ravaged, and economic performance declined as a result.

The Great Depression in 1929 is considered the beginning of these economic crises, whose impact extended across capitalist and developing economies in a different way and left a diverse impact on various economic sectors. Perhaps the most severe economic crises are the ones that remain in memory because their impact extends to the entire world. The impact of the crises was economic, but their content was mostly financial, so the world experienced many financial crises, including the global debt crisis in the 1980s and the Asian crisis in 1997, which began with the collapse of the local currency of Thailand as a result of the adoption of the decision to float the exchange rate, which faced a severe wave of financial speculation that ended with financial instability. Then came the Internet bubble crisis at the beginning of the third millennium at the end of the twentieth century, as a result of which the global financial markets witnessed a severe recession that caused a sharp decline in the prices of traded stocks (Kurtel and Raziq, 2009, 4-5), leading to the mortgage crisis in 2007 and then a price crisis. Global oil production in 2014 ended with the Corona pandemic crisis, as a result of which the world witnessed an economic closure that had never been seen throughout history, as a result of which it resulted in the redistribution of economic roles on the global map, the renaming of some regional and international blocs, the entrenchment of others, and a new split for some at the expense of the dispersion of some interests. Economic and declining cooperation between some regional blocs resulted in various economic conflicts, starting from the energy market towards regional economic sustainability.

An economic crisis is defined as an unexpected disturbance that affects the economic stability and balance in a country or a number of countries, as a result of which production relations are disturbed and an imbalance between production and consumption is created. (Mishkin & Eakins, 2018, 46).

The financial crisis is defined as (a sudden disturbance that directly and indirectly affects financial variables and the components of the financial portfolio and wealth, which affects the economic balances of the financial markets and then the rest of the markets in the economy. (Mrabet, 2008, 2). It is also defined as a sudden decline in the prices of financial and physical assets, which may be severe and lead to bankruptcy for many institutions operating in the local economy. (Saho, 2008, 258). The economic crisis is also defined as (a sharp and sudden disturbance in a number of economic variables that causes the collapse of a number of financial and banking institutions and then the spread of that disturbance and directing instability to the rest of the economic sectors. (Abbas and Mahmoud, 2012, 731).

(II) Types of crises:

The world has known several types of financial crises, the most important of which are:

Banking crisis: This is when banks face a sudden and large demand to withdraw bank deposits, which leads to a banking liquidity crisis and then a banking panic that ends in a banking crisis. It could be a credit crisis as a result of banks' lack of confidence in customers, despite having a good amount of bank deposits. . (Al-Lozi et al., 2011, 28).

Currency and exchange rate crisis: It occurs due to the intensification of speculation in the local currency, taking it far away from the actual equilibrium areas, which prompts the central bank to raise interest rates or sell part of foreign exchange reserves to defend the value of the local currency, and the continued decline in the value of the currency leads to a crisis. Finance. (Raziq and Aqoun, 2011, 25).

Debt crisis: This is the cessation of borrowers from repaying their debts, as it is often accompanied by a rise in interest rates and fueled by a wave of pessimistic expectations that result in an increase in financial risks and then a sharp decline in capital flows. (Al-Aqoun, 2012, 7).

International liquidity crisis: It occurs due to a mismatch between the maturity dates of international assets and liabilities, which causes the international financial system to lose its liquidity and become unable to confront economic shocks. (Al-Aqun, previous source, 11).

(III) Causes of economic crises :

There are several reasons for economic crises, but the most important are: (Arab Monetary Fund, 2008, 3-10)
1. Debts rise to very high levels.
2. Increase the use of financial derivatives in transactions in financial markets.
3. The lack or absence of monitoring and monitoring the activity of financial institutions and their tools.
4. Integration of economies around the world.
5. Weak confidence among traders in local and international markets occurs when the slightest economic turmoil occurs.

Second:- Government debt :

(I) The concept of government debt :

Government debt is defined as cash amounts borrowed by the government from individuals or local or international institutions, under which the government undertakes to pay its installments and interest according to certain conditions and according to eligibility, with the aim of covering government consumption or investment activity. (Al-Mahjoub, 1979, 483). While external government debt is defined as (a financial obligation with an original or specified maturity period of more than one year, repayable to non-resident individuals or institutions and repaid in foreign currencies or with goods and services in accordance with the terms of the debt,". (IMF, 1991, 39).

(II) The effects of government debt on the economy :

The rise in government debt to critical levels causes several macroeconomic effects (Al-Tanbour, 2018, 13).
1. The transfer of capital belonging to the private sector to the government sector deprives the economy of benefiting from these funds in the income and production cycle, as they are often unproductive in the government sector.
2. An increase in the tax burden due to government debt servicing.
3. High interest rates locally (the effect of crowding out) hinder economic activity and push towards misdistribution of economic resources, which reduces economic growth.
4. High government debt often ends with inflationary pressures that lead to a loss of confidence in the local currency and a difficult standard of living.

Third: The relationship between government debt and economic growth

The classical theory recognized the state's non-interference in economic life, which allowed the government to borrow to a limited extent and only in exceptional times. The Keynesian theory allowed the government to borrow with the aim of achieving economic balance through fiscal and monetary policy. (Azzazi, 2013, 55). Milton Friedman then returned, through the neo-classic, to limit the role of the state and prevent the government from borrowing due to the harsh inflationary pressures that accompany this government activity. Therefore, government intervention in economic activity results in a sustainable government deficit that is mostly fueled by borrowing, which allows the emergence of stagflation and bad distribution of economic resources, which then negatively affects private investment and thus declines in economic growth. (Jaber, 2020, 82).

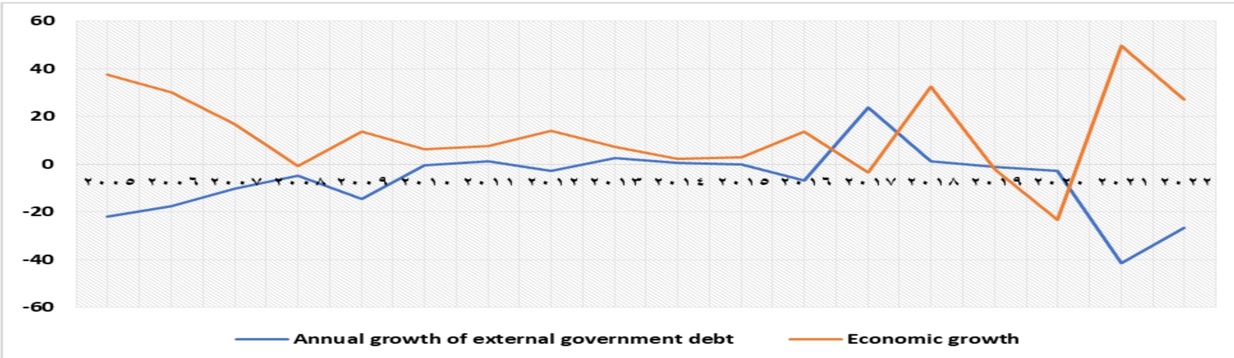
In the short term, government debt affects the capacity of the national economy and the ability to provide hard currency to pay off government debt and affects foreign exchange reserves, which affects consumption, investment, output, and then economic growth. (Delinquents, 2006, 56).

Government debt in the long term affects the stages of economic growth and the process of sustainable development applied in most developing countries in particular, which creates weakness and turmoil in economic policies, which leaves turmoil in most economic variables, which leads to the emergence of social and economic problems and then the faltering implementation of the stages. Economic development and weakness in government financing of its stages, which negatively affect investment productivity, weakness in domestic saving, and weakness in export growth in light of the government’s inability to confront its debt, which negatively affects the creditworthiness of its banking system, which leads to the flight of private capital abroad, which causes a decline in economic performance and weak economic growth. (Attiya et al., 2006, 23).

The Third Topic : Analyzing the relationship between government debt growth and economic growth

According to Figure (1), the inverse relationship between the growth of external government debt and economic growth in Iraq was achieved as a result of the mortgage crisis in 2008, as the growth of external government debt increased and economic growth decreased, and the impact of this crisis continued until the end of 2013. The effect of the double crisis of 2014 (the global crude oil price crisis and attacks by terrorist organizations on Iraqi governorates) began in 2014 and continued until the end of 2015, as this economic crisis caused a slowdown in economic growth and a decrease in external government debt. Due to security and political instability, turmoil prevailed in both the growth of external government debt and economic growth. As for the economic crisis of the Corona pandemic, it led to a decrease in the growth of external government debt and economic growth due to the conditions of economic closure and quarantine and the accompanying decline in economic relations.

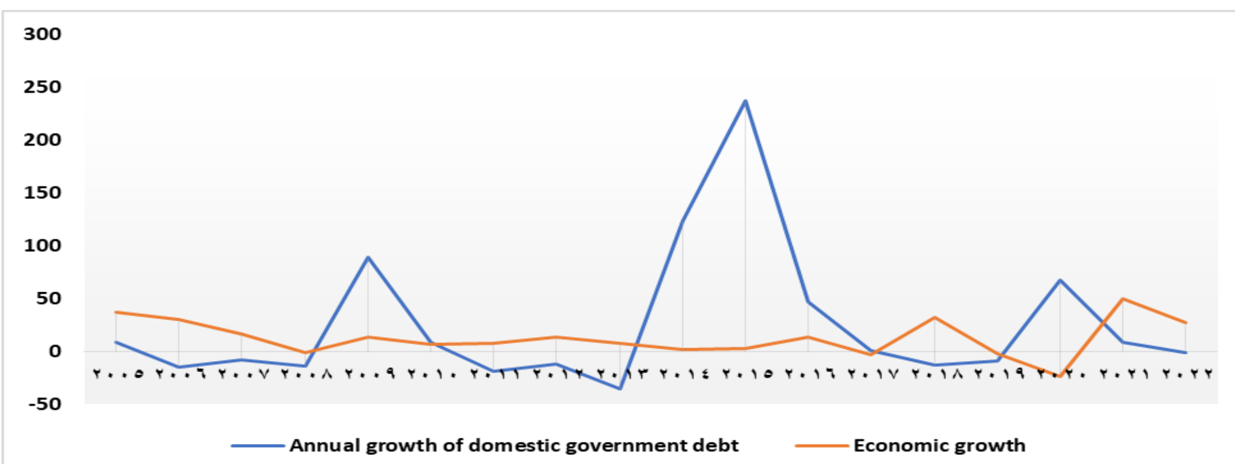
Figure (1): Annual growth of external government debt and economic growth in Iraq for the period (2005-2022) (%).



Source: From the work of researchers based on data in Appendix (2).

As for the growth of internal government debt, it is clear from Appendix (2) that it ranged between (31.9%) in 2020 as a maximum and (2.42%) in 2013. The impact of the mortgage crisis was evident at the beginning of 2009, as the growth of internal government debt increased with the slowdown in growth. Economic, but an inverse relationship did not emerge between them until a year later. As for the dual economic crisis in 2014, it caused a major disruption in the growth of internal government debt. The inverse relationship did not begin until after 2017, and to a limited extent. The repercussions of the 2014 crisis continued until the year 2019. As for the economic crisis of the Corona pandemic, it began after the year 2019, as the inverse relationship emerged more clearly during this period: the increase in the growth of internal government debt arising from weak public revenues and the collapse of global oil prices with the closure of markets and the spread of health measures, austerity cases, quarantines, etc., with decreased economic growth as a result.

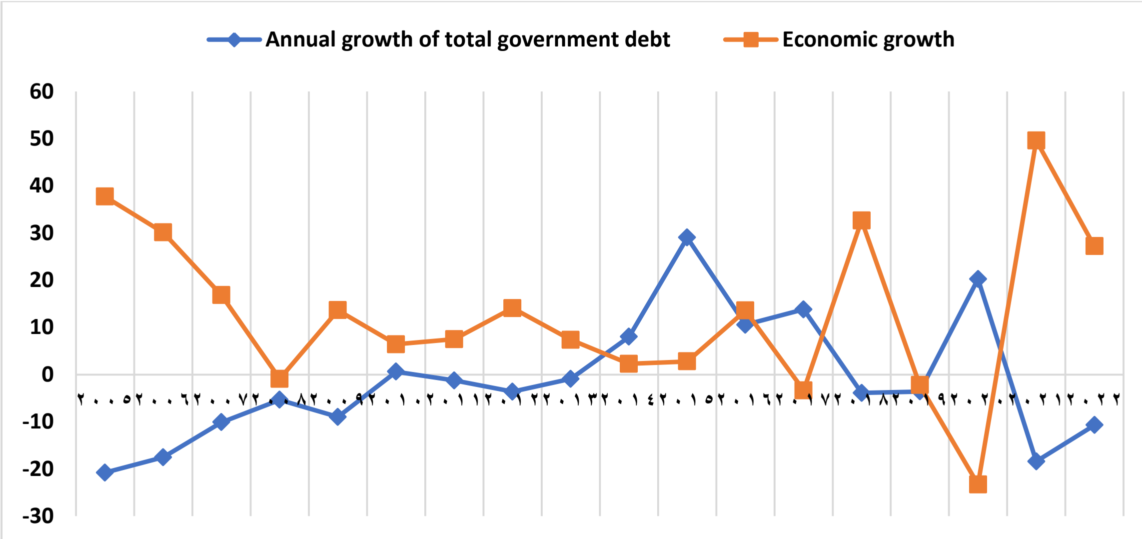
Figure (2): Annual growth of internal government debt and economic growth in Iraq for the period (2005-2022) (%).



Source: From the work of researchers based on data in Appendix (2).

According to Figure (3), the inverse relationship between the growth of total government debt and economic growth is very clear. as the repercussions of the economic crisis in 2007 materialized in 2008 and continued until the end of 2013, and the impact of the economic crisis in 2014 began after 2014 and continued according to Figure (3). Until 2019. A direct relationship was established between the growth of total government debt and economic growth in this crisis for the period (2014-2016), due to the strong influence of the growth of internal government debt, after which the inverse relationship returned until 2019. The economic crisis of the Corona pandemic began after the year 2019, An inverse relationship was formed between the growth of total government debt and economic growth.

Figure (3): Annual growth of total government debt and economic growth in Iraq for the period (2005-2020) (%).



Source: From the work of researchers based on data in Appendix (2).

The repeated economic crises and the rentierism of the Iraqi economy have left a harmful impact and many economic losses on the economic activity of the Kurdistan Region. Every economic crisis leads to a disturbance or decline in oil prices, which causes a decrease in financial returns and then a weakness in the ability of the regional government to meet its financial obligations, which is what It caused a narrowing of the financing channels necessary for economic activities, which caused widespread unemployment, poor productivity, distorted production relations, and a lack of investment opportunities. Most importantly, it is a significant decline in the total productivity of commodity, distribution, and service activities locally, which led to an imbalance in the structure of local production in the region. The repercussions of economic crises are present in this context. The economic growth in the Kurdistan Region was large, which caused an increase in government debt and a decrease in economic growth, with the disruption of the central financing of the region's general budget due to the failure to reach an agreement with the central government in Baghdad, which prompted the regional government to reduce the payment of salaries and wages to workers in the region, which caused the spread of... A wave of recession reinforces the trend of the economic crisis, especially the Corona pandemic crisis.

The Fourth Topic : Conclusions and Recommendations:

First: - Conclusions

1- The high annual growth rate of external government debt caused a major disruption in economic growth as a result of economic crises, which caused the emergence of an inverse relationship between the growth of external government debt and economic growth in light of a significant decline in the productivity of workers in the central government and the Kurdistan Regional Government.

2- The annual growth of internal government debt was less than the annual growth of external government debt due to narrow financing channels and local financial markets and weak public confidence and financial institutions in the government, which prompted an increase in the growth of external government debt. Therefore, the inverse relationship between the growth of internal government debt and the growth of economic as a result of the economic crisis, the duration of the research was very limited. Whether at the local government level or the Kurdistan Regional Government,.

3- The time course of the data proves the existence of an inverse relationship between total government debt and economic growth, which contributed to the decline in the performance of the local productive institution, the distortion of production relations, and the decline in the importance of productive activities in favor of reciprocal activities and foreign trade, which caused an increase in imports and the flight of foreign currency.

Second: - Recommendations

1- Reducing the growth of external government debt because the financial burdens of debt service are very difficult and exposed to international fluctuations in interest rates.

2- Rationalizing government debt through developing other public revenue channels, such as taxes, fees, and others. And benefiting from the tourism characteristics of Iraq in general and the Kurdistan Region in particular, which strengthen the structure of the economy in the face of economic crises.
3- Directing the bulk of government debt towards investment, which ends with increased production and then economic growth, which strengthens the local economy in the face of economic crises and reduces the burden of future generations in extinguishing that debt in the future.
4- Raising the efficiency of financial policy and reducing government debt growth rates within international debt sustainability indicators is necessary in order to maintain the security and stability of the economy and achieve an efficient financial policy that works to allocate resources in a better way. This gives the possibility for the central government and the Kurdistan Regional Government to pay financial obligations and stimulate the production cycle and thus economic growth.

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Appendix (1): Government debt, its types, and gross domestic product at current prices in Iraq for the period (2004-2020) (billion dinars)

Years	External government debt	Internal government debt	Total government debt	GDP
2004	143570930	6061000	149631930	53235358
2005	111948640	6593000	118541640	73533598
2006	92128500	5645000	97773500	95587954
2007	82708960	5193000	87901960	111961230
2008	78734960	4455000	83189960	110489604
2009	67273950	8434000	75707950	125457241
2010	67005900	9180000	76185900	133436974

2011	**67778100**	**7446000**	**75224100**	**143566477**
2012	**65948960**	**6547000**	**72495960**	**163513290**
2013	**67576640**	**4255000**	**71831640**	**175683380**
2014	**68068980**	**9520000**	**77588980**	**179481183**
2015	**67972800**	**32142000**	**100114800**	**184497574**
2016	**63331800**	**47362000**	**110693800**	**209986371**
2017	**78302000**	**47678000**	**125980000**	**202608171**
2018	**79242100**	**41822399**	**121064499**	**262917150**
2019	**78409100**	**38331548**	**116740648**	**262917150**
2020	**76160000**	**64246550**	**140406550**	**201249143**
2021	**44637606**	**69912394**	**114550000**	**301152818**
2022	**32770000**	**69495737**	**102265737**	**383064152**

Source: Ministry of Planning and Development Cooperation, Central Bureau of Statistics, Department of National Accounts, various years.

Appendix (2): Annual growth of government debt, its types, and economic growth in Iraq for the period (2004-2020) (%)

Years	External government debt annual growth	Internal government debt annual growth	Total government debt annual growth	GDP annual growth
2004	-	-	-	-
2005	**-22.03**	**8.78**	**-20.78**	**37.73**
2006	**-17.7**	**-14.38**	**-17.52**	**30.13**
2007	**-10.22**	**-8.01**	**-10.1**	**16.84**
2008	**-4.8**	**-14.21**	**-5.36**	**-0.9**
2009	**-14.56**	**89.32**	**-8.99**	**13.63**
2010	**-0.4**	**8.85**	**0.63**	**6.42**
2011	**1.15**	**-18.89**	**-1.26**	**7.51**
2012	**-2.7**	**-12.07**	**-3.63**	**14.08**
2013	**2.47**	**-35.01**	**-0.92**	**7.36**
2014	**0.73**	**123.74**	**8.02**	**2.28**
2015	**-0.14**	**237.63**	**29.03**	**2.8**
2016	**-6.83**	**47.35**	**10.57**	**13.58**
2017	**23.64**	**0.67**	**13.81**	**-3.35**
2018	**1.2**	**-12.28**	**-3.9**	**32.67**
2019	**-1.05**	**-8.35**	**-3.57**	**-2.23**
2020	**-2.87**	**67.61**	**20.27**	**-23.28**
2021	**-41.39**	**8.82**	**-18.42**	**49.64**
2022	**-26.59**	**-0.6**	**-10.72**	**27.2**

Source: From the work of researchers based on data in Appendix (1).