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The Impact of The Sovereign Credit Rating on The Possibility of Financing External Loans to The Iraqi Economy

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Abstract:
External loans are a source of credit revenue. The process of obtaining it requires determining the degree of credit risk by predicting the financial solvency of the economy to judge its financial ability to pay the principal and interest dues of the loan at the specified maturity date. Considering that ability is a determinant of the creditworthiness of his economy, the extent to which financing can continue with this external credit source and its cost. The government of Iraq faced the difficulty of financing external loans from the international capital markets with its high return due to the lack of a sovereign credit rating that measures the risk of default through a process to determine the degree of that risk for investors of external lending funds. Therefore, the research came to show the effect of determining the sovereign credit rating on the extent to which the Government of Iraq can finance foreign loans, whether from capital markets or foreign governments and the impact of this classification on the credit facilities granted. The research concluded that the economy of Iraq got a sovereign credit rating within the degree of creditworthiness according to the classification of speculation to reflect the possibility of default in payment due to the dependence of the financial solvency of its economy on oil revenues, as the credit risks rise due to the inability to pay in the event of a decline in prices in the foreign market. However, relative stability within the short term enabled the Iraqi government to obtain foreign loans, with the requirement that Iraq provide guarantees by foreign governments and institutions in exchange for this source of credit.

Paper type: Research paper.
Keywords: Sovereign Credit Rating, External Loans, Credit Risk, Iraqi Economy.

Introduction:

Investment decisions in international capital markets, especially for developing countries, are linked to the sovereign credit rating, as it determines the degree of sovereign credit confidence in the economies of these countries to enable them to access those international markets. This is done by measuring the credit risks related to the possibility of default by predicting their financial solvency according to the available liquidity and private economic growth to be reflected in the expectations of investors - whether for international bonds or loans and the allocation of foreign investments - as well as by bond issuers to evaluate their ability to repay the burdens of periodic external loans. This sovereign classification is carried out according to a systematic evaluation method that analyses quantitative and qualitative factors (political, economic, social and environmental) and the macroeconomic variables included in these factors, representing the extent of political will availability to achieve financial goals. Then, strive to achieve economic performance that diversifies the economic structure and works to enhance the strength of the economic base. Its revenues enable it to achieve financial flexibility to face shocks to judge the extent of its current and future financial commitment to payment within the periodically agreed-upon period. The weakness of this ability leads to a higher risk of default, which is reflected in an increase in the degree of credit risk within the degree of speculation and thus raises the costs of those loans and vice versa.

1.1 Literature Review:

Many studies dealt with the sovereign credit rating and its impact on the sovereign creditworthiness. Among these studies are the following:

A study by Chen et al. (2016) proposed the extent to which the change in the sovereign credit rating responds to the economic growth of a country through several factors (political, economic and social) to assess the government's current and future financial capacity. To demonstrate the reflection of that change on the financial markets through interest rates and capital flow, as it found a relationship between them.

A study by Watran and Nashur (2017) referred to the problem of the impact of the decline in the sovereign credit rating of Iraq on the increase in external borrowing costs. To identify the factors that positively or negatively affect the sovereign credit rating of Iraq. They conclude that the sovereign credit rating of Iraq is within the negative degree of speculation because the investment environment is below the required level, with a low ability to fulfil financial obligations.

The study of Al-Murshidi (2017) showed the method Standard & Poor's adopted to assess Iraq's sovereign creditworthiness. Therefore, the objective of the sovereign credit rating methodology statement came to the extent and accuracy of the degree obtained by Iraq. Moreover, he reached several conclusions, including the accuracy and objectivity of a score (B-) for Iraq, as it came from obtaining files of external risks and debt burden with a score of (3). In contrast, the political file got a low score of (3).

The study of Moore et al. (2018) illustrated the reflection of sovereign credit rating on creditworthiness and the probability of default. Therefore, I suggested adopting self-rating, especially for low-rated developing countries, by predicting the chances of default in the short term. It has reached a limited impact on external loan costs.

Boumparis et al. (2019) investigated the traditional information gap by credit rating agencies that publish their sovereign credit ratings as measures of the likelihood that a country will not pay its debts in full and on time. It reached several results, most notably the effect of defaulting on external loan obligations and the uncertainty of achieving a financial surplus that would fulfil the payment obligations based on several economic indicators that would lower the sovereign credit rating.

Wahhab et al. (2020) discussed the relationship between Iraq's credit rating and its impact on foreign direct investment flows from 2010-2018. In order to determine the link between foreign investment and credit rating, as well as a statement of the extent of the impact of credit rating on the flow of foreign investment and its relationship to factors affecting economic stability. It was concluded that there is an effect between investment and credit rating.

Khaled and Obaid (2021) emphasised the risks of Greece defaulting on its financial obligations towards sovereign loans and the importance of indicators of economic stability and the ability to fulfil the financial obligation as indicators of the sovereign credit rating. Through this, he proved the existence of a strong relationship between them.

The study of Nguyen et al. (2023) showed that three major international agencies (Moody's, Standard & Poor's, and Fitch) dominated the credit rating sector and faced criticism for lack of confidence in their rating because this is related to the political orientation of the rating agency. . And I concluded that there are preferential ratings by delaying the negative signals to classify companies with pro-government political orientations.

Anand et al. (2023) investigated the effect of ESG ratings on sovereign credit risk by measuring those risks within a market approach. It was concluded that the sustainability performance is higher at the micro level and reduces sovereign credit risk. However, it does not consistently affect the measure of sovereign credit risk.

The research problem lies in the impact of Iraq's sovereign credit rating's low rating within the degree of speculation (B-) on the difficulty of financing from the international capital market or foreign governments, accompanied by the high costs of foreign loans the research aimed to state the following:

1. Determine the justifications that necessitated the request to assess the degree of credit confidence in the Iraqi economy.
2. Analyze the objective reasons for assessing the sovereign credit rating of Iraq within the degree of speculation.
3. Determining the size of the Iraqi economy's credit risks in light of the sovereign failure and its impact on the costs of obtaining external loans.

1.Material and Methods:

Financial solvency is achieved through the optimal use of foreign exchange funds generated from foreign loans through productive use in real economic sectors and the improvement of services (Ali, 2022). This use recognises the impact of spending - especially investment - on the amounts of these external loans in achieving economic growth and sustainability (Hamdan & Hussein, 2020). It works to raise the degree of the sovereign credit rating since the weak fulfilment capacity of the economy leads to a high risk of default (Rashim & Abd Allah, 2018); the assessment of credit risks is reflected in the high degree of these credit risks within the degree of speculation on the high costs of those loans, and vice versa. Among these costs are the interest rates on these loans, which constitute more costs than a source of income (Akkawi & Abdel Latif, 2023). Hence, we find that determining the degree of the sovereign credit rating affects the possibility of financing external loans and the cost of those loans, which is determined based on the degree of credit risk associated with the availability of the financial solvency of the borrowing country's economy to meet its current and future financial obligations and the impact of this on the possibility of providing external loans and the size of the return to investors. Funds represent two aspects of risk; the first relates to the magnitude of risks arising from providing credit to the lender, while the second relates to the risk of the borrower's affordability by determining the degree of confidence in the ability to repay or the lack of that economic ability to repay (Financial et al., 2018).

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Verification is carried out through the descriptive analytical method by reflecting the quantitative and qualitative criteria of the sovereign credit rating methodology on the economic indicators of Iraq.

2.1 Hypotheses :

Iraq's economy's internal and external risks impact the degree of creditworthiness of its sovereign rating and, therefore, the possibility of obtaining external loans and the accompanying costs and credit facilities.

2.2 Sovereign Credit Rating:

2.2.1 Concept of Sovereign Credit Rating.

The Sovereign credit rating represents a systematic assessment process based on determining the degree of sovereign creditworthiness [1] by measuring credit risk and the probability of default over the expected time frame. Moreover, the extent of the possibility of defaulting on the payment of the financial obligation by assessing the economic, political and social risks (Elkhoury, 200) 8(. Thus, it represents the borrower's assessment of its future ability and obligations to pay interest and periodic instalments on time (Hamad & Abdel Latif, 2018). Alternatively, it means a relative assessment of the probability of default that is made through an extensive assessment of the government's ability to show The extent of willingness to repay the principal amount of the external loan and the interest at the agreed maturity date or not, as credit risks are determined by the ability to fulfil and respect the performance of the financial obligation. We can summarize the following (Afonso et al.,2007):

[1] Defined as the credit provided in a foreign currency based on the legal and financial confidence to request external loans, coupled with the willingness and ability to fulfil this financial obligation within the specified time frame and under conditions of uncertainty. (Caplinsicu and Tvaronaviciene, 2020).

Ease of access to international financial markets: Obtaining financing through external borrowing requires access to international financial markets on easy terms determined by the degree of creditworthiness. The assessment of the sovereign rating will be reflected in the ease of access of the borrowing country and its economic and financial institutions to these markets.

1. High economic growth affects the possibility of financing through external loans: the high economic growth index is a measure of the ability to repay, and thus the continuation of obtaining the necessary foreign loans for that - especially for countries that suffer from a lack of funds -, on the one hand. Thus, their continued growth depends, on the other hand, on their ability to obtain external loans at reasonable costs.
2. External borrowing costs: Costs are represented by interest rates on external borrowing - the return on investment -. External parties determine it based on fixed interest rates, that is, the price plus an additional margin added within periods between (3-6 months or a year) to determine the total interest cost. Moreover, the costs of issuing the loan are reduced by reducing the interest by reducing the additional margin with the increase in the degree of creditworthiness, and vice versa.
3. Determining investment risks for investors: The degree of credit risk depends on the investment return of external loan bonds. The higher the degree of credit risk, the higher the return, and vice versa.

It is clear from this that the sovereign credit rating represents an assessment of the sovereign's creditworthiness based on predictions made by the rating agencies (CRAs), which are institutions whose function is to estimate and evaluate risk (Margate, 2019). It is carried out worldwide by three major USA agencies out of more than 130 agencies (Moody's, Standard and Poor's, Fitch). These companies acquired 90% of the sovereign credit rating market in 2012, with Moody's and Standard and Poor's ratings of 126 and then Fitch at 100 ratings. These agencies' opinion represents the sovereign government's willingness and ability to fully fulfil the financial obligation within the stipulated time (Radi & Salal, 2018). The rating agencies CRAs build the rating based on risk and safety based on the following:

1. Investment Category: It means a low level of risk and, therefore, a high level of credit, defined by the rating (AAA -BBB).
2. Speculation Category: It means a high level of risk and, therefore, a low level of credit. It was identified by rating (CCC-D). Whereas Category C represents a medium credit rating, indicating the probability of default and thus low recovery of principal. As for Class D, it represents a low credit rating, representing the degree of bankruptcy. Note that the classification scores for each agency referred to differ from the others, as shown in Table (1). It considers the difference in the degree of classification between short and long-term, where the symbols AAA or AAA refer to the long-term. As for the symbol A-1 in the short term (Ntswane, 2014).

Table 1: Sovereign Credit Rating Scores According to The Time Period.

Class	Rating Degree	Degree Interpretation	Time period	Moody, s	Standard &poor's	Fitch
Investment Degree	Low credit risk	High ability to pay interest and principal amount and strength of collateral	long	Aaa	AAA	AAA
	Very low credit risk	High ability to pay interest and principal amount		1 Aa	AA+	AA+
				2 Aa	AA	AA
				3 Aa	AA-	AA-
	Low credit risk	Good ability to pay interest and keep the amount with the change of the guarantee according to the economic conditions	short	A 1	A+	A+
				A 2	A	A
				A 3	A-	A-
	Moderate credit risk	Medium ability to pay interest and the principal amount with its weakness due to the change of the guarantee according to the economic conditions	Long	Baa 1	BBB+	BBB +
				Baa 2	BBB	BBB
				Baa 3	BBB -	BBB-
Speculative Degree	Significant credit risk	Low ability to pay interest and the principal amount according to the repayment period		Ba 1	BB +	BB +
				Ba 2	BB	BB
				Ba 3	BB -	BB -
	High credit risk	Possible non-payment of principal and interest	Short	B 1	B +	B +
				B 2	B	B
				B 3	B -	B -
	Very high credit risk	Default with potential for recovery	Long	Caa 1	CCC +	CCC +
				Caa 2	CCC	CCC
				Caa 3	CCC -	CCC -

Degree of Insolvency	potential risk of bankruptcy	Defaults with poor recovery probability		Ca	CC	CC
	Bankruptcy and non-compliance with the agreement	Inability to pay	Short		C	C
				D	DDD	DDD
					D	DD
						D

Source: The researcher based on:-(Hamadou, 2017) and (Margit, 2019) .

The sovereign credit rating is requested by the borrowing country's government requesting a credit rating and paying a fee for that. They are taking into account the lack of government opinion in that classification. Also, obtaining a low rating is less risky than not having it, as the risks are high in the latter due to the expectation of high defaults (Ratha & Mohapatra, 2007). Especially in developing countries, investors pay attention to it when investing in their credit bonds because of the seriousness of the economic situation and the low quality of information flows in these countries compared to developed countries (Williams et al., 2015).

2.2.2 Sovereign Credit Rating Methodology.

Credit Rating Agencies (CRAs) use weighted scores, from (1-6), where (1) is the strongest and (6) is the weakest, to determine creditworthiness according to quantitative and qualitative criteria. The adoption of a (-) or (+) sign for the predictive future outlook that specifies the direction of the classification change to indicate the extent of the borrower's economy's ability to pay the costs of external loans within the different periods (Dimitrijevic et al., 2011). The two models of sovereign credit rating criteria are as follows, as shown in Figure (1):

The first model is quantitative Criteria.

Reputation forms the basis for the political and economic files by showing the flexibility of the country's economy and the strength and stability of its government institutions through the risks below.

1) Political Risks:

It means the extent of the political desire and will to mobilize resources to fulfil the financial obligation, which is determined by the following factors (Amira, 2019):

1-1 The effectiveness of government policies and the predictability of their direction.
1-2 The degree of transparency and reliability of the data.
1-3 External threats.
1-4 The extent of commitment to repay the external government debt.
1-5 External relations, such as membership in international organizations and relations with neighboring countries and countries worldwide. and its impact on the development of national policies.
1-6 Political instability. It includes several variables (demonstrations, coups, assassinations and civil wars).
1-7 The institutional organization of the government, in terms of the degree of democracy and governance.
1-8 The international policy of organizing elections and the level of corruption.

2) Internal Economic Risks: Represented in the following:

➢The extent of the flexibility of the economic structure, through its diversity and thus the possibility of sustaining its growth.

➢The size of the revenue base is based on the ratio of tax revenue to total revenue and GDP. Moreover, according to the average per capita share of the gross domestic product, the income level enables the government to obtain tax revenue to enhance the ability to fulfil the financial commitment. Its most prominent indicators are as follows:

2-1 Gross Domestic Product growth rate: It reflects the extent of economic activity development based on the contribution of its economic sectors, especially those working to achieve added value - the indicator does not apply to countries producing and exporting essential commodities -. Its development requires more investments that exceed the available local resources, which requires more financial resources represented by external loans and the consequent burdens resulting from their service. The higher the output growth rate with investment, the higher the ability to repay. It is sustaining its growth rate over an extended period without creating inflationary pressures or economic disturbances (Barisone & Lennkh-Yunus, 2022).

2-2 Income level: The average per capita share of GDP indicates how tax can be withheld from per capita income. The average per capita share reflects the ability of the government tax system to generate sufficient revenues for the various expenditure items - including the external loan instalments and its service -. The deficit reflects the lack of domestic savings that can be invested, which weakens the government's ability to generate the necessary tax revenue to cover current expenditures and pay the burden of external borrowing (Barisone & Lennkh-Yunus, 2022).

2-3 Inflation rate: A quantitative measure that indicates whether or not there are structural imbalances in the country's economy, as a high rate indicates an imbalance in the economic structure and thus the government's inability to pay, as well as resorting to monetary financing with inflation, leading to its rise and political instability. As a result, this is reflected in the decline in the government's ability to obtain foreign loans (Rowland & Torres, 2004).

2-4 Balanced government budget: The balanced budget shows the government's ability to pay the costs of the external loan, on the one hand. On the other hand, the ability of the tax system to generate the necessary revenues to meet the spending requirements. A deficit in the government budget reflects the government's failure to pay and the inability of tax revenues to cover spending (Rowland & Torres, 2004)

2-5 Trade balance deficit: The trade balance is an essential point in the government's ability to generate stable foreign exchange, as it measures the country's ability to export, the extent of its presence in foreign markets, and a measure of internal demand for imports. Dependence on one commodity, such as oil and tourism services, exposes the economy to shocks and deflation. The persistence of the deficit is evidence of an imbalance in the economic structure (Barisone & Lennkh-Yunus, 2022).

The second model: qualitative criteria.

They represent dynamic indicators that analyze the level of risk represented in the following:

1) External Economic Risks:

Performance and flexibility are determined, being linked to solvency, to reflect confidence in the economy's ability and liquidity, on the basis of which the level of external economic risks is determined (Jennson, 2021). It is done according to the following indicators:

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1-1 Solvency indicators: It reflects the size and stability of the internal economy based on its ability to pay within the long term, and thus indicates whether or not it is possible to borrow at low costs(Cantor and Packer, 1996), and its most prominent indicators are the following:

1-1-1 Structure of external loans: The indicator relies on analyzing the external loan structure according to different time periods, for the purpose of assessing the government's financial ability to face shocks and achieve financial sustainability. As the high short-term external loan structure reflects the increasing risks of inability to meet the government's financial obligations, which is reflected in the decline in the sovereign credit rating, as well as its inverse relationship with economic growth (Barisone and Lennkh-Yunus, 2022).

1-1-2 Economic development: The change in the economic structure depends on the degree of industrialization - according to the International Monetary Fund's classification of developing countries - and thus the possibility of the availability of foreign exchange necessary for payment (Al-Ani and Jouhi :2017).

1-1-3 The ratio of external loans to total exports: Goods and services exports are the basis for the foreign exchange of the borrowing country. As the high external loan index means a decrease in the ability to fulfill the financial obligation, indicating the state of the creditworthiness of the government of the borrowing country (Al-Ani and Jouhi :2017).

1-1-4 Average net external loans: The extent to which the country continues to borrow externally or not, to reflect the increasing burdens of these loans at the present time and in the future.

1-1-5 Total external loans to the gross domestic product: It is one of the most important indicators because it shows the amount of foreign loans that must be repaid by the government compared to the amount of its production. As the high number of the loan reflects the lack of financial solvency - financial insolvency - because the annual production is less than the money that the government has, which will be directed only to pay the dues of this type of loan (Tomas, 2012) .

1-2 Liquidity indicators :Liquidity is represented in each of the exports, gross domestic product and international reserves of the national economy. To show the extent of financial flexibility through its ability to cover external obligations within the short term. Especially with regard to paying each of the value of imports, serving the burdens of external loans (interest and periodic installments). It includes the following indicators (Al Issa, 2021):

1-2-1 The ratio of external loan service to exports: It indicates the extent of the borrowing country's ability to pay off the loan burdens. The safety ratio of the external loan service rate to exports is less than 20%. As the high rate of loan service reflects the size of the burden borne by the economy of the borrowing country, compared to the remaining foreign exchange available from the proceeds of exports to finance the necessary imports. Thus, it measures the percentage of exports that are transferred to pay for that burden, indicating its degree of sensitivity - that is, the burden - to any unexpected decline in exports. In addition, it reflects the phenomenon of reverse financing of resources from the borrowing country to the lending country.

1-2-2 External loan service ratio to GDP: A real indicator that reflects the real deductions rate. If the growth rate of interest on the external loan is less than the growth rate of the gross domestic product, then this means a decrease in its cost, as its rise reflects negatively on the national economy.

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1-2-3 The ratio of international reserves to external loans: As the international reserves - gold, foreign currencies and the gold segment in the International Monetary Fund - refer to the country as a function of its national income level. The safety rate ranges between 30-50%, covering imports for a period of 3-5 months, which indicates the strength and capacity of the country's external liquidity - and thus the ability to face the accumulated burdens resulting from withdrawals from external loans. In the sense that the reserves are greater than the external loan.

1-2-4 The ratio of the external loan service to the revenues: It shows the volume of the periodic burden that must be repaid from the revenues. It evaluates the financial health for the purpose of demonstrating the ability of the central government to meet its short-term obligations. According to the following equation:
* Liquidity ratio = total operating income / total revenue.

2) Environmental Risks:

It is determined by climatic factors and the environment represented by the risks of natural disasters and the lack of resources, due to its impact on supply and demand for the economic system and the high climate costs (Fitrawati and Juanda, 2018).

3) Social Risks:

The dependency ratio, unemployment rate, labor force participation and income inequality. Realizing its impact on economic development and public finances in the medium term (Barisone and Lennkh-Yunus, 2022).

To be clear from the foregoing, the need for the government to adopt economic policies that increase the financial solvency of its economies, or adopt policies that contradict the global economic conditions towards stagnation or recession, or the collapse of capital markets (Jaafar and Al-Badroni, 2022).

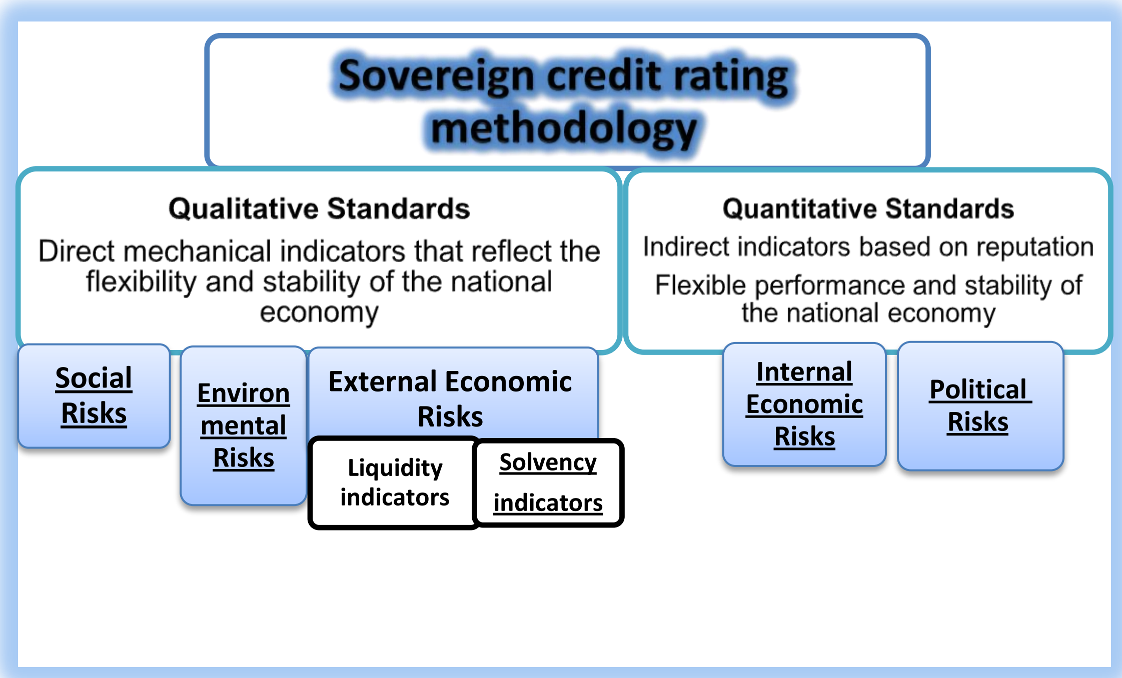

Figure 1: The Main and Secondary Criteria for The Sovereign Credit Rating.

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Table (2) below shows the essential criteria for the sovereign credit rating. These secondary risks derive from each criterion and the measurement indicators to determine the weight of each risk to reach a degree of confidence in the sovereign's creditworthiness. Where everyday low-risk matters are given a score of (1), and unusual and most dangerous matters are given a score of (6) (Dimitrijevic & Beers, 2011). They bear in mind that this evaluation methodology prioritises the criterion of qualitative flexibility and quantitative performance, as it shows external economic risks - represented by traditional and complementary indicators - to reflect the path and ability of the national economy to bear the costs of external lending. In contrast, political risks are Indirect effects (Barta & Makszin, 2021)

It is clear from the preceding that the sovereign credit rating determines the degree of sovereign creditworthiness based on forecasts based on the relative arrangement of credit risks. Which were referred to above, based on which the interest rate - cost - that the government can borrow from foreign governments is determined by capital markets or international institutions (Abdul et al., 2018).

Table 2: Standards and Indicators of The Sovereign Credit Rating Methodology.

Standard	Risks	The weight	The purpose	Measurement Indicator
Quantity	Political	%15	Stability of its institutions	Degree of transparency
			Policy effectiveness	Human development index
			Legal obligation	Corruption index
	Internal economics	%25	Flexibility of the economic structure	GDP growth rate Average GDP per capita The share of the real sectors in the output GDP growth rate Average GDP per capita The percentage of the real sector's contribution to the output
			Government budget balance	The ratio of tax revenue to total revenue The ratio of tax revenue to GDP Government budget deficit rate
Quality		%20	External loan structure	The short-term external loan to the total external loan The ratio of the medium-term external loan to the total external loan Total external loan to GDP
			Trade balance equilibrium	External loan ratio to total exports The ratio of imports to exports
			Liquidity	The ratio of external loan service to exports The ratio of the external loan service to the foreign reserve External loan service ratio to revenues
	External economic	%20	Climate changes	desertification rate carbon emissions ratio
		%20	The size of the economic activity of the population	dependency ratio Unemployment rate Labor Force Contribution Percentage
			trade balance equilibrium	External loan ratio to total exports The ratio of imports to exports
			Liquidity	The ratio of external loan service to exports The ratio of the external loan service to the foreign reserve External loan service ratio to revenues The ratio of external loan service to exports
	Environmental	%20	Climate changes	Desertification rate Carbon emissions ratio
	Social	%20	The size of the economic activity of the population	Dependency ratio Unemployment rate Labor Force Contribution Percentage

Source: Prepared by researcher.

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2. Discussion of Results

3.1 The Reasons For Iraq Obtaining The Sovereign Credit Rating And Its Impact On Financing By External Loans.

The sovereign credit rating of Iraq was determined in 1982 within the group of high-risk countries, with an evaluation score of (23.1) and a sequence of (111), to represent the end of the sequence down to the sovereign failure resulting from the economic blockade that extended from the nineties of the last century until the beginning of the twenty-first century, which made its economy within the point of strategic failure resulting from the external debt, which constituted a value of (10,389) million dinars in 2006. To overcome that point, negotiation with the creditors of the Paris Club, according to which 80% of its total value was settled. This made Iraq enjoy an informal rating of (B), which was reflected in Iraq's bonds offered in the international market in 2006, at a value of (2.7) billion dollars, at a fixed interest rate of (5.8%) for twenty years, to enable Iraq to extinguish its commercial debts by 80%. It sold for about 80 cents per dollar, achieving a return of about (9.2%) with the rise in oil prices in the foreign market (Qasim, 2012).

Iraq faced a double shock in 2014, which led to an actual deficit in its government budget, as a result of the increase in public spending - military spending in particular - with the decline in its oil revenues due to the drop in oil prices in the external market to (36) $ / barrel, which resulted in the following:

The first model: Quantitative Criteria.

1. Trade balance imbalance: a drop in export earnings by (19.3%), forming a deficit of (7%) of GDP, due to a decline in non-oil investment spending, which was reflected in a decline in commodity imports.

2. Government budget deficit: As a result of the above point, budget revenues decreased by an estimated rate of about (19.3%) of GDP, so that the deficit constituted about (14.2%) of GDP. Along with the increase in military spending, which was estimated at about (1.78) in 2016 - according to the estimate of the International Monetary Fund - as well as the increase in spending on subsidies to provide support for the displaced, in contrast to the decrease in investment spending on projects except for the oil sector.

3. The average per capita GDP: It declined from (5,139,431.3) thousand dinars in 2013 to (5,776,532.4) thousand dinars in 2015, which resulted in an increase in poverty rates to (40%), as the number of the poor was estimated at about (2.8) million people.

The second model: qualitative criteria.

Foreign reserves at the Central Bank: The foreign exchange reserves decreased from (67) billion dinars in 2014 to (59) billion dinars in 2015, to cover the latter imports of goods and services for (8.5) months (The World Bank, 2015).

To reflect all of the above, a real deficit in financing in 2016, represented by a deficit in the trade balance amounting to about (-5,610,819) million dinars. And it led to an actual deficit in the government budget amounting to about (12,658,167-) million dinars. Which required the introduction of external loans to finance the budget deficit. And given that Iraq did not obtain a degree of confidence in its credit worthiness, it resulted in its inability to borrow from the international capital market as a result of the high interest rate, which amounted to 12% (Qasim, 2016). Accordingly, he began seeking to determine the degree of sovereign creditworthiness of his economy, in order to enable him to obtain foreign loans at low costs, by determining the extent of the financial solvency of his economy to pay its costs within the time periods specified in the external loan agreement and without requesting rescheduling.

3.2 Assessment of the sovereign credit rating of Iraq according to standards approved by international rating companies.

The sovereign credit rating methodology uses quantitative and qualitative criteria for the purpose of assessing the degree of sovereign credit confidence in the Iraqi economy for the purpose of obtaining the external loans required to support the government budget, as shown in the details of that table (3). The results of those criteria were as follows:

1.The reputation factor / political costs:The criterion is related to the extent of political stability, the strength of the institutional system, and the will to implement government policies, and it is based on indicators (business activities, human development, corruption perceptions), which came in low percentages.

2.Performance factor**:** It is associated with internal economic costs, in order to determine the degree of financial strength of the government to mobilize the necessary resources to pay the dues of the external borrowing burden based on the real sectors, which reflected the low rates of their contribution to the output and thus the lack of diversification of the economic structure and its lack of resilience in facing shocks - see table (3)-.

3.Flexibility factor: It is the ability to obtain foreign exchange, through the available liquidity to fulfill the financial obligation. Where tax revenues constituted a percentage that did not exceed (2.5%) of the total revenues. This reflected the poor response to the external shocks represented by the drop in oil prices in the foreign market or the decline in demand for it.

Table 3: Criteria and indicators of the sovereign credit rating of Iraq.

	Standards	Costs Cost	Indicators	2014	2015	2016	2020	2021	2022
Quantity	Reputation	Politics	Business activities	151	166	165	172	-	-
			Human Development	120	-	-	123	121	-
			Perceptions of corruption	-	-	-	160	157	-
	The performance	Economical	Diversification of the economic structure	The oil sector contributes about 50% of GDP					
			The flexibility of the economic structure	not flexible					
			GDP per capital	5214504.2	5776532.4	5523229	-	-	-
			Revenue diversification	Oil revenue constitutes about 75% of the total revenue					
			Trend of public spending	Current expenditures accounted for 75% of total expenditures					
Quality	The performance	Economical	The ratio of the short-term external loan to the total external loans	-	-	-	-	-	%47
			The ratio of long-term external loans to total external loans	-	-	-	-	-	46%
		Social	Dependency	-	-	%76.6	-	-	-
	Flexibility	Liquidity	External loan service ratio to GDP	-	-	-	%55	-	-
		Finance	The ratio of tax revenue to GDP	1.1	1.1	1.8	2.4	2.3	-
		Cash	Actual budget deficit or surplus	+	-	-	+	+	-
			Inflation rate Inflation rate	2.6-	1.7	0.4	0.4	0.2-	-
			Deficit or surplus of the trade balance	+	+	-	+	+	-

Source: Prepared by researcher.

The above criteria reflected, the lack of diversification of the economic structure and thus its inflexibility. It was reflected in the weakness of a non-oil revenue base that enhances the financial ability to pay financial obligations at the time of maturity, so that the evaluation results are as follows (Al-Murshidi, 2017):

1. Nstitutional evaluation is weak.
2. Economic evaluation is poor.
3. External evaluation is impartial.
4. Financial evaluation:

4.1 The budget weak.
4.2 Public debt neutral.

That is, the neutrality of each of the external assessments, with a positive trade and financial balance represented by the general government debt, so that Iraq obtained the first sovereign credit rating in 2015 with a speculative degree (B-) (Al-Murshidi, 2017). That assessment was carried out by three international rating agencies (Standard, Poor's, Moody's, and Fitch) and the degree of creditworthiness has been determined for risks, as shown in Table (4) below, according to the following (Wartan and Nashur, 2017).:

1. Rating of (Standard & Poor's and Fitch) (B-) based on the following considerations:

1-1 Investment environment: below a good level, prone to risk.
1-2 Rating trend: stable, that is, the rating degree remains for a medium time period.

2. Moody's Rating Agency (Caa1) with the following in mind:

2-1 Investment environment: very weak, high risk for speculation.
2-2 Rating trend: stable.

And in light of the continued imbalance of the economic structure by relying on the oil revenue, with the expectation of future stability for a period of (one to two years) as a result of the increased production and export of crude oil, to be reflected in a negative sign meaning a decrease in the long credit rating, leading to a low sovereign worth that amounted to (-B) during the period (2015-2022) is an indication of the low solvency of the Iraqi economy's ability to achieve financial surpluses and, consequently, the possibility of defaulting on the payment of its financial obligations, including the costs of external loans-see table (4)-.

Table 4: Assessment of Iraq's credit rating according to international rating companies.

S&P	Moody's	Fitch	TE
B-	Caa1	B-	23

Source: https://ar.tradingeconomics.comTRADING ECONOMICS.2022

To reflect the impact of this classification on the degree of credit risk for investors by requiring the provision of a guarantee worth (one billion) dollars by the United States on the request of the Government of Iraq to obtain an external loan to finance the 2017 budget from the international capital markets by issuing bonds worth only (2) billion dollars (Al-Alaq, 2022).

4. Conclusion

The determination of the sovereign credit rating of the Iraqi economy was reflected in its ability to obtain external loans from global capital markets. However, determining the possibility of a high default rate and thus a low degree of credit security to classify it within the speculative category (B-), resulting from the weak non-oil revenue base and the lack of diversification of sources of income, and therefore its dependence on foreign exchange resulting from oil exports, made its economy characterized by fragility and relative instability. In addition to political instability and security risks, all of this led to an increase in the costs of both the interest rate and the demand for guarantees as a result of the expectation of the possibility of sovereign failure due to the difficulty of the government's commitment to reducing the sovereign deficit. Periodic payments. Burdens on external lenders and investors, which was reflected in the possibility of financing with external loans, but according to credit terms that include high costs

Authors Declaration:

Conflicts of Interest: None

-We Hereby Confirm That All The Figures and Tables In The Manuscript Are Mine and Ours. Besides, The Figures and Images, Which are Not Mine, Have Been Permitted Republication and Attached to The Manuscript.

- Ethical Clearance: The Research Was Approved By The Local Ethical Committee in The University.

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تأثير التصنيف الائتماني السيادي على إمكانية التمويل بالقروض الخارجية للاقتصاد العراقي

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مستخلص البحث:
تعد القروض الخارجية مصدرا ايرادي ائتماني. تشترط عملية الحصول عليه تحديد درجة المخاطر الائتمانية، من خلال التنبؤ بملاءة الاقتصاد المالية للحكم على مقدرته الإيفاءية لدفع مستحقات أصل القرض وفوائده عند اجال الاستحقاق المحددة. باعتبار تلك المقدرة محددا للجدارة الائتمانية لاقتصاده، بمدى امكانية استمرار التمويل بهذا المصدر الائتماني الخارجي وكلفه. اذ واجهت حكومة العراق صعوبة التمويل بالقروض الخارجية من اسواق راس المال الدولية مع ارتفاع عائده. نتيجة الافتقاد لتصنيف ائتماني سيادي يقيس مخاطر التخلف عن السداد عبر عملية لتحديد درجة تلك المخاطر لمستثمري اموال الاقراض الخارجي. لذا جاء البحث بغرض بيان اثر تحديد التصنيف الائتماني السيادي على مدى امكانية حكومة العراق التمويل بالقروض الخارجية سواءا من اسواق راس المال او الحكومات الاجنبية. وكذلك تأثير هذا التصنيف على ما يتم منحه من تسهيلات ائتمانية. ليصل البحث الى استنتاج حصل اقتصاد العراق على تصنيف ائتماني سيادي ضمن درجة جدارة ائتمانية وفق تصنيف المضاربة، ليعكس وجود احتمال التخلف عن السداد لارتكان الملاءة المالية لاقتصاده على الايرادات النفطية، حيث ارتفاع المخاطر الائتمانية بعدم امكانية السداد في حال تراجع اسعارها في السوق الخارجية. الا ان الاستقرار النسبي ضمن الامد القصير مكن حكومة العراق من استحصال القروض الخارجية مع اشتراط تقديم العراق لضمانات من قبل حكومات ومؤسسات اجنبية مقابل هذا المصدر الائتماني.

نوع البحث: ورقة بحثية.
المصطلحات الرئيسة للبحث: التصنيف الائتماني السيادي للعراق، القروض الخارجية، درجة المخاطر الائتمانية، الاقتصاد العراق.

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