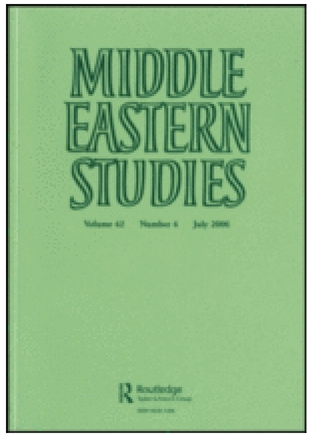


# The Rise of Iraqi Indebtedness, 1979-2003



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# The Rise of Iraqi Indebtedness, 1979-2003

In 1979 Iraq was a net creditor to the world. Fifteen years later, its government debt-to-GDP was over 1,000 per cent. At the time of the US invasion in 2003, Iraq was saddled with around 130 billion US dollars in external debt. How does a country incur so much debt, so fast? In answering this question, the article reconstructs the build-up of Iraqi debt through the 1980s and 1990s. This article is the first to create a debt series going back to 1979. The rise in Iraqi indebtedness was a consequence of global geopolitical trends in the 1980s where political lending trumped solvency concerns. It allowed Iraq to obtain financing on terms more favourable than the US government, without conditionality of reform.

JEL classification: H63, N25, N45.



In 1979 Iraq was a net creditor to the world, due to its large oil reserves and lack of external debt. Fifteen years later, its government debt-to-GDP (Gross Domestic Product) was over 1,000 per cent, with few assets to speak of. At the time of the US invasion in 2003, Iraq was saddled with around 130 billion US dollars in external debt, making it the most indebted nation in the world. Can a country incur so much debt, so fast, without some of the debt being considered odious? I argue that in the case of Iraq, some of its debts were odious (or illegitimate), which are loans that are not approved by, nor for the benefit of, the people.[1] The story of Iraqi debt, defaults, and the subsequent restructuring has been scantily covered in the sovereign debt and economic history literatures, with no full historiography of Iraqi debt. Earlier studies of the rise of Iraqi indebtedness were undertaken before sovereign debt restructuring in 2003-2006, which decided what claims were considered legitimate.[2] The Iraq history is therefore ripe for a re-examination.

In this article, I show the rise of Iraqi indebtedness was a consequence of geopolitical trends, in particular American political and commercial interests in the region. Political lending trumped solvency concerns, and loans were given on terms more favourable than those of the US government, with no reform conditionality except the need to fight a war against Iran. I argue that much of the debt can be considered odious as a result. To show this, I reconstruct the build-up of Iraqi debts through the 1980s and 1990s. I identify debt levels at four key points in time: in 1979 as Saddam Hussein took power; in 1988 at the end of the Iran-Iraq War; in 1991 at the end of the Gulf War; and on the eve of the US invasion in 2003. I work backwards from claims submitted in the 2003-2006 restructuring and trace the loans to the time of their origin, creating a time series of the Iraqi debt stock going back to 1979. It enables, for the first time, the creation of a continuous time series of Iraq debt-to-GDP going back to 1979.

## Historical background

The literature on Iraq's political economy and security situation is rich but the Iraqi debt history is insufficiently covered in the literature. Studies of course exist, but none have set out to trace the debt from 1979 to the restructuring. Earlier studies, such as Abbas Alnasrawi's *The Economy of Iraq*, Ahmed Jiyad's *An Economy in a Debt Trap*, and David Caron's *The Reconstruction of Iraq*,[3] tell parts of the story but did not have the benefit of knowing which loans were considered legitimate in the 2003-2006 sovereign debt restructuring, or did not focus on it.[4] Other studies concentrate either narrowly on reparations[5] or the reconstruction.[6] Studies such as Eric Chaney's *Assessing Pacification Policy in Iraq* that detail market reactions to

Iraqi political developments from 2006 based on bond yields are impossible for earlier periods because of data gaps.[7] The era leading up to one of the largest sovereign debt restructurings in history is therefore ripe for re-examination.

The Iraqi debt restructuring occurred from 2003 to 2006 and included around 130 billion US dollars of debt, excluding reparations payments from the Gulf War.[8] Most of the debt can be traced back to the early 1980s, despite the country having had no external debt in 1979. Table 1 shows who Iraq owed money to in 1979, with foreign exchange reserves at 65 per cent of GDP and little debt.

Table 1 here

Saddam Hussein took power in 1979 after a decade of strong economic growth; but prosperity in the 1970s was followed by economic collapse in the 1980s. The Iran-Iraq War started in 1980 and continued throughout the decade to 1988, with Iraq enjoying broad international political support. Almost all Iraqi debt was incurred during the war, helped along by both the West and the East. The US and Europe did not want a post-revolution Iran to win the war, and happily provided money and weapons to Iraq. Half-way through the war, it became clear the country was insolvent as contractual payments were deferred and rescheduled. New external money kept coming in, as credit was politically motivated and not given on market terms. A full default on external debt followed in the late 1980s.

In 1990, after the end of the Iran-Iraq War, Iraq invaded Kuwait in what became known as the Gulf War. But the political winds had shifted: this time the US led a coalition to defeat Iraq. After the war, the United Nations (UN) forced Iraq to pay war reparations and placed it under international sanctions in 1990. It left Iraq isolated from the global economy for much of the 1990s. The outcome was a phenomenal rise and fall in Iraqi debt-to-GDP from 1979, which can be seen in Figure 1 for the first time.

Figure 1 here

The increase in the debt-to-GDP ratio between 1979 and 1995 comes from both the numerator and the denominator: the absolute level of debt soared as output also collapsed.

The following sections trace the build-up of debt in Iraq over the decades after 1979, culminating with the sovereign debt restructuring in 2003-2006. The method, where possible, is to take the restructured debt amounts and work backwards, identifying where the loans originated and reconstructing a loan chronology. Below is an attempt to give a best guess of debt levels in 1988, 1991, and 2003. The data in this section is drawn from primary sources (government reports, investigations, declassified intelligence reports, historical data) and secondary sources.

**The Iran-Iraq War (1980-88)**

The year 1979 brought momentous change to the Middle East. Saddam took power in Iraq and the Iranian Revolution overthrew the US-backed Shah in favour of Ayatollah Khomeini.[9] Change in Iraq came on the back of the 1970s' roaring economy, where output growth had averaged 12 per cent a year after the nationalization of the Iraq Petroleum Company and the rise in oil prices. Oil production had increased fortyfold.[10] Iraqi petroleum fields were among the largest in the world, producing 3.5 million barrels a day in 1979, with revenues from oil totalling 26 billion dollars in 1980.[11] Two-thirds of output came from oil-related activity and the country relied on fuel exports. The economy was controlled by the state and almost all activity ran through the state bureaucracy, from oil policy to control over imports and the allocation of capital.[12] In 1979, Saddam took over a virtually debt-free economy and 35 billion dollars in foreign exchange reserves. However, the roaring 1970s were replaced by the miserable 1980s, and the Iraq economy plunged into war and disaster: Table 2 shows the average yearly growth rates for the periods. From over ten per cent growth on average in the 1970s, the Iraqi economy contracted on average about five per cent a year in the 1980s.

Table 2 here

This was because of the Iran-Iraq War. After months of political attacks and skirmishes, Saddam invaded Iran on 22 September 1980. Almost all countries in the world supported Iraq. During the Iranian hostage crisis at the US embassy in Tehran in 1979, the US had frozen all Iranian assets and in turn, the new Iranian government had repudiated all foreign debts.[13] The US went to the International Court of Justice in The Hague which ruled in its favour shortly after, ordering Iran to return the embassy and release the hostages. Iran was massively out of international favour.

Consequently, after the Iraqi invasion of Iran, the US designated Italy as a go-between during initial discussions with Baghdad, to avoid being seen as favouring Iraq.[14] Neutrality was just for show, though. Iranian objections to the invasion fell flat – due to its low standing following the hostage crisis – and its petition to the UN went nowhere.[15] The international community was on the Iraqi side – explicitly or implicitly – with few even daring to sell arms to Iran. From early in the war, Iraq had access to politically motivated borrowing from its Gulf State neighbours, the US, and the Soviet Union, with everyone under the understanding that further arms purchases would require a debt restructuring or payment in oil.[16] The Soviet Union would supply weapons to Iraq worth 3 billion dollars financed by loans and indicated it was willing to restructure Iraq's debt early in the war.[17]

In 1981, Italy started selling vessels to Iraq worth 1.8 billion dollars; the Soviet Union supplied arms (initially through its Eastern European satellites); Britain signed a trade pact; and French nuclear physicists arrived on the ground to help build a nuclear reactor near Baghdad.[18] The Iraqi government might have thought a quick victory was possible but as Iran started to fight back, the economy began to hurt. Oil exports collapsed by 75 per cent, as export facilities and terminals were destroyed by bombs.[19] Iraq had relied on two oil pipelines – one through Syria, one through Turkey – that quickly dwindled to one: Syria declared support for Iran and cut off access. Iraq quickly depleted its foreign reserves and was forced to borrow; loans from the Gulf States totalled 16 billion dollars through 1981. The Gulf States backed Iraq throughout the war, lending a total of 40 billion dollars.[20] The Gulf States considered the money a loan; for Iraq, on the other hand, they had been grants.[21] Iraq also began to request deferral on contractual dues early on, mainly to European suppliers.[22] Creditors agreed to reschedule 85 to 90 per cent of the debt that was to be repaid in 1983 and 1984. The rescheduled debt was to be repaid in equal instalments over four years, starting in 1985. The remaining debt (the ten to fifteen per cent) was repaid either in cash or financed by commercial credits.[23]

The US removed Iraq from its list of countries sponsoring terrorism in 1982, making it easier to undertake commerce.[24] Arms sales to Iraq increased, both directly from the US and through proxies. In June 1982, President Reagan issued a secret directive to make sure Iraq would not lose the war, putting the CIA in charge of supplying Iraq with weapons.[25] The decision came after the CIA warned that from a military perspective, Iraq had essentially lost the war.[26] Fighting escalated throughout 1983 and the UN was unable to negotiate a ceasefire. Iraq continued to have easy access to weapons and credit. Jordan joined in, extending loans worth 125 million dollars to Saddam.[27] The total eventually reached 1.3 billion dollars.

In 1982, the Central Bank of Iraq issued about 50 million Iraqi dinars worth of bonds, which was mostly bought by domestic commercial banks.[28] In 1983, the Eurobond market was still open to its state-owned enterprises. Rafidain Bank issued 500 million dollars of loans and the Iraq National Oil Company issued 120 million. Debt service at the end of 1983 was around one per cent of exports.[29] However, the International Monetary Fund (IMF) was unable to satisfactorily assess the balance-of-payments because the quality of data provided was poor, but stated that interest rates on external debt to a sub-set of creditors (excluding the Gulf States) amounted to about a third of the principal.[30]

US support for Baghdad became explicit in 1984 – even after Iraq started using chemical weapons – and the Central Intelligence Agency (CIA) stepped up its war effort.[31] France provided 500 million dollars in new loans and refinanced 1.4 billion dollars of maturing debt.[32] The international community – via bilateral negotiations by the US with the Soviet Union and the UN – pushed to end the conflict in 1985, with no luck. Instead, Iraq went on the offensive in early 1986 via air raids, secretly urged on by the Reagan administration, to little effect.[33] Despite Iraq's best efforts, the war was being fought on Iraqi soil now, and the military situation was deteriorating. Oil prices halved in 1986 and the oil-reliant Iraqi economy continued its downward spiral. The fall in oil removed the last ability of Iraq to self-finance the war.[34] The economy of 1980s Iraq was a war economy. Military expenditures and imports related to the war effort took up a large part of the national economy. This coincided with declining oil revenues. To sustain the war, Iraq went into debt.

Figure 2 shows military expenditures, oil revenues, and imports as a percentage of output. It shows how revenues declined at the same time as all spending was directed to the war effort.

Figure 2 here

During 1987, the UN passed several resolutions calling for an end to the conflict. As no agreement was reached, the West ramped up pressure to force a negotiated peace and arms sales to Iraq continued unabashedly in parallel to efforts to contain Iran via sanctions and embargoes. In early 1988, the Soviet Union and China agreed to UN sanctions, forcing Iran to the negotiating table.[35] The cease-fire was signed on 20 August 1988. Iran had had little international support and initially could only buy weapons from Libya. In 1982, the Soviet Union, Syria, North Korea, and Israel had started to supply Iran, mostly in return for oil. Iraq, on the other hand, had, as we have seen, had plenty of help from across the globe. Loans came in the form of grants, transfers, commercial lending, or covert arms deals. From 1983-93, for instance, Iraq received 2 billion dollars in loans from the US Department of Agriculture.[36] Underpinning this was a strong geopolitical desire for Iraq not to lose the war to Iran.

The largest commercial claim submitted in the restructuring in 2003-2006 exemplifies the interconnectedness and shows how Iraq was able to maintain market access until the end of the 1980s. Between 1985 and 1990, a small Atlanta branch of the state-owned Italian bank, Banca Nazionale del Lavoro (BNL), extended loans worth 4 billion dollars to Iraqi individuals and entities. This included 1.6 billion dollars of loans backed by the US Department of Agriculture's Commodity Credit Corporation.[37] Officially, the loans were designated for agricultural imports, but the money was used for weapons (illegally). The

Department of Justice prosecuted the Atlanta branch manager, arguing he had acted without approval from BNL headquarters in Rome. However, the District Court judge, Marvin H. Shoob, wrote in an opinion that the CIA had likely known about the illegal financing of arms. He also noted that BNL Rome was not a victim, indicating that they had been aware of the loans.[38] The CIA intervened and withheld certain information, triggering a Senate investigation. Recall that President Reagan had secretly put the CIA in charge of arming Iraq.[39] Thus the BNL was owned by the Italian state; received loan guarantees from the US Department of Agriculture; and extended loans worth 4 billion dollars from a small branch in Atlanta, with US intelligence services involved in the court case.[40] Regardless of whether it was officially sanctioned, two governments were implicitly involved.[41] Eventually, the loans were defaulted on and restructured along with all other commercial claims, but the episode underscores how Iraq obtained financing in the 1980s. The loans were made to pay for a war that was supported by most of the Western states, at a point in time when Iraq had lost the ability to borrow on commercial terms without subsidies.[42]

Iraq emerged from the Iran-Iraq War a country in crisis. After ten years of conflict, Iraqi external debt was a staggering 86 billion dollars. In less than ten years, the country had gone from being a net creditor to a net debtor, with a debt-to-GDP ratio of 278 per cent. Debt service in 1989 was more than half Iraqi oil revenues.[43] Table 3 shows the breakdown of Iraqi debt at the end of 1988.

Table 3 here

There is to this day disagreement over whether the Gulf State loans in fact constituted a grant. Iraq considered them grants, but Saddam also tried to get the loans cancelled, which is inconsistent.[44] Since there were attempts to restructure all debts, I treat it as debt throughout the article. The overall level of debt is murky, timelines do not match up, and Gulf States debt levels range from 30 to 60 billion dollars in the literature.[45] Considering known debt levels three years later in 1991, approximate lending in the ensuing years, and the quality of sources, the best estimate is 40 billion dollars. Neither contemporary nor historical sources have been able to pin down the dates and conditions of the loans, as contracts were not kept.[46] Financing from the Gulf States mainly took place at the beginning of the war, but the exact years of the loans are an estimate and interest rates for the loans are unavailable. Debt to commercial creditors is estimated at 6 billion dollars, but this obscures the role of the US government. The overall level of indebtedness is clear, however. Iraq spent more money on weapons and imports, while exports collapsed. As Figure 3 makes clear, the trade deficit was almost 50 per cent of GDP, while total trade (exports plus imports) collapsed.

Figure 3 here

In the mid-1980s, the first 'soft' default happened.[47] The initial default can be traced to non-payments on contractual goods and services during the war, extending payments for as long as forty months. Iraq also rescheduled various loans but remained current on others.[48] A small amount of hard currency bonds and bank loans went into default, but most of the credit extended during the Iran-Iraq War kept being serviced for the rest of the decade.[49] Interest rate and amortization payments made by Iraq during the war totalled over 24 billion dollars, mainly to Paris Club creditors, suggesting prioritisation of payments to friendly creditors.[50] Official creditors in the UK and the US were paid ahead of other creditors, with the previous loan from the US Department of Agriculture being repaid until 1990.[51] It allowed Iraq to maintain access to new credit, with willing political lenders standing by. Everyone could see that Iraq was insolvent, with debt payments more than half of oil revenues, but if everyone pretended the debt would either be forgiven or rolled over, Iraq could keep borrowing to repay maturing debt. Problems began when the political and financial winds shifted.

**The Gulf War and reparations (1988-91)**

The cost of war can be high, and for Iraq it was. Reconstruction costs have been estimated as high as 230 billion dollars,[52] yet the oil sector produced revenues of only 15 billion in 1989, 55 per cent lower than in 1980. Iraq's net external debt increased by some 120 billion dollars over the course of the war.[53] In 1990, inflation reached 40 per cent and cash reserves was just enough to cover three months' imports.[54] Despite the economic issues, Iraq did not reduce its military expenditures.[55] Saddam saw himself as a strongman who had defeated Iran on behalf of all the Gulf States. He wanted to use the Iraqi military to bully neighbouring states, foremost Kuwait and to a lesser extent Saudi Arabia, and consolidate his power.[56] Kuwait was owed 14 billion dollars for loans during the war and refused to cancel the debt, leading to strained relations between the two countries in 1989. The price of oil fell in early 1990 and the Iraqi economy worsened. Saddam blamed Kuwait for low oil prices and accused the neighbour of attempting to drill in Iraqi oil fields. This was the pretext used for war: on 2 August 1990, Iraqi forces invaded Kuwait. Iraq quickly gained control of the territory and annexed Kuwait on 28 August.[57]

Unlike the war with Iran, this time Iraq did not have the backing of the international community. The US swiftly sent military support to avoid an invasion of Saudi Arabia by Iraq, and the UN passed Resolution 661[58] on 6 August imposing economic and financial sanctions on Iraq.[59] The sanctions contained very few exceptions (humanitarian aid) and forbade any financial transaction with Iraq, including payments under existing contracts.[60] Iraq was isolated from the global economy; any new external debt would be illegal. As the sanctions did not deter Saddam, a US-led military coalition authorised by the UN began *Operation Desert Storm* in January 1991. The coalition swiftly won, and Iraq signed a permanent cease-fire in April. Kuwait, however, was left with extensive damage.[61] The UN Security Council therefore established the United Nations Compensation Commission (UNCC) to oversee reparations payments. Reparations could be awarded to individuals, businesses, or governments for damages stemming from the illegal invasion of Kuwait. Annual claims could not exceed thirty per cent of oil exports although this was reduced to five per cent after the American-led invasion in 2003.[62]

War reparations are compensation for war damages and are a mainly monetary restitution; they should, however, also represent broader justice for the victims.[63] Reparations constitute liabilities but are not technically debt according to the Paris Club definition.[64] For Iraq, the UN Compensation Fund automatically receives revenue from Iraqi oil exports to fund the payments. In total, 2.7 million claims totalling 353 billion US dollars had been made as of July 2019. 52 billion have been authorised and 48 billion have been paid out to 1.5 million claimants, with the remaining expected to be paid in the future.[65] Estimates for Iraqi liabilities in the early 1990s were higher, at around 100 billion dollars at 1990s prices.[66] Enforcement of reparations payments are overseen by the UN, which has a legal framework for ensuring payments are made, unlike unsecured government debt.[67] Reparations add substantially to the Iraqi debt burden and must be included in a fair summary of external liabilities, but given they are left out of the Paris Club definition of debt are sometimes excluded. The amounts included in are actual payments awarded by the UNCC on behalf of Iraq as of 2019, despite initial estimates being higher. Table 4 shows Iraqi debt by creditor in 1991, compared to output that had collapsed to 12.3 billion dollars from over 50 billion before the war.[68]

Table 4 here

A quick methodological note is required before continuing. After 6 August 1990, when Resolution 661 was passed, it became impossible for Iraq to get external loans. Working backwards from the restructuring, I use nominal amounts from the Paris Club, the IMF and the UNCC. This means there is also a potential incoherence between Table 3 and Table 4, though both are the best estimates available for each year. For instance, the Gulf States debt, 53 billion dollars, is drawn from Joanna Chung and Stephen Fidler's 'Why Iraqi Debt Is No Longer a Write-Off' and are amounts that the restructuring team mentioned in 2006. Other bilateral loans (i.e., Paris Club countries and Soviet Union in 1991) include only amounts that were restructured; if a loan was secretly written off between 1991 and 2003 it is not included. Commercial loans outstanding in 1991 are similarly the principal amount claimed in the restructuring. Therefore, the changes in debt levels from 1988 to 1991 are difficult to trace, as there are few historical sources. Jiyad in 'An Economy in a Debt Trap' suggests Iraqi debt decreased after the war, but the amounts are minor compared to overall debt levels.[69] The politically motivated lending and the blurred lines between bilateral and commercial lending makes a perfect reconciliation difficult. Nonetheless, Table 4 presents a reasonably accurate snapshot of Iraqi debt as sanctions were imposed and the country withdrew from the global economy.

**Sanctions (1991-2003)**

Following the Gulf War, Resolution 678 placed Iraq under sanctions.[70] It was a terrible time for Iraqi living standards: output collapsed, society was uprooted, child mortality increased three-fold,[71] and personal freedoms were reduced.[72] Oil production had already been decimated during the war, and what limited sales there was were hit by the low price of oil in the 1990s.[73] No bank, investor, or government would touch anything flowing through Iraq, as failure to comply with sanctions would lead to exclusion from international financial markets. Iraq went into arrears to the IMF in 1990 and one US dollar bought 1000 Iraqi dinars in 1995 compared to the official exchange rates of 0.311.[74] The sanctions were meant to be short-lived and force out the government, yet Saddam's grip on power only increased, at least in Southern Iraq.[75] A part of Northern Iraq became a separate de-facto Kurdish state. Sanctions that had been intended to destabilize the government instead enhanced state power, which increased in every facet of daily life, especially the rationing of goods.[76] Saddam wanted sanctions lifted but had to settle for the Oil-for-Food programme, enacted in 1996, which allowed some oil sales and food imports.[77] Consequently, Iraqi GDP – which had been falling for fifteen years – tripled from 1996 to 2003, though this barely enabled it to surpass 1988 levels (see Figure 4).

Figure 4 here

Various domestic debts and credits existed but no new external debt was taken on. The sanctions period devastated Iraq. Crime increased – perhaps surprisingly given Saddam's tight grip on the country – and the economy was in ruins.[78] This meant the nominal value of Iraq's external debt – most of which was in hard currency, and mostly in dollars – had neither been eroded by inflation nor outgrown by a larger economy. Iraqi debt in 2003 can be seen in Table 5. It includes all debts that were restructured by the Paris Club; old debt from the Gulf States in their nominal amounts; non-Paris Club bilateral loans that were (to some extent) restructured, commercial debt – and reparations. All amounts are before any restructuring.

Table 5 here

Non-Paris Club bilateral outstanding debt represents IMF debt minus Gulf State debt (the IMF does not break out by country). Reparations are what remained to be paid in 2003. By 2003, the Soviet debt had been absorbed into the Paris Club debt, while a separate non-Gulf, non-Paris line of debt appeared.

At the eve of the invasion in 2003, Iraq was the most indebted nation in the world measured by its debt-to-GDP. It was the outcome of a phenomenal rise in debt to pay for wars in the 1980s combined with an economic collapse.

**Terms of Iraqi borrowing**

Geopolitics allowed Iraq to obtain financing on terms more favourable than market terms. Iraq paid a total of 24.3 billion dollars in debt service from 1980 to 1990, of which 6.7 billion were interest and the rest amortizations.[79] The majority (96 per cent) of known payments went to pay off Paris Club and commercial creditors, and the loans from the Gulf States appear to have had no identifiable interest rate. It suggests a prioritisation of debt service to Iraq's political backers in the war. The backers in turn offered generous terms of financing, even as negotiated reprofiling of debt occurred early, and defaults later, in the war.

The normal rationale for providing loans is to receive a return on the money lent. The interest rate is set to reflect the creditworthiness of the debtor and to compensate the creditor for the risk, balancing the supply and demand of credit. If a bank or an investor provides the credit, the main risk is to not be repaid (a default). The loans given to Iraq had a different purpose and the actors involved were not primarily interested in a financial return. The lenders were a variety of financial institutions, corporates, and sovereigns, but in most cases, they were not the ultimate underwriter. The end-creditor was a country. The US, the Soviet Union, and the Gulf States did not have a positive financial return as the primary, or even secondary, objective – their goal was political and military victory. In many ways, the loans look more like grants, despite being treated as debt by all parties. There was no public disclosure or transparent debt contracts that we know of, which makes it impossible to ascertain if the debt carried any specific conditions. The fact that much of the debt was given in complex and murky arrangement suggests that it was for arms purchases. Similar loans from the IMF or the World Bank would have required macroeconomic or fiscal adjustments, but it would also have required a debt sustainability analysis. As I have laid out, Iraq was not able to borrow except from politically motivated lenders as its debt was unsustainable. Yet it managed to continue to borrow to finance its military expenditures throughout the war.

To understand just how generous Iraqi debt financing was, let us first compare it to US Treasuries, the safest asset in dollars. Between 1985 and 1990, yields on Treasury bonds with a five-year maturity averaged 8.5 per cent. Because of inconsistent and missing data, it is impossible to construct a time series of Iraqi interest rates, so let us start by making a few conservative assumptions to calculate a risk premium on Iraqi loans. First, interest paid was 6.7 billion dollars. Second, assume that Iraqi debt service started in 1985, which is when most of the debt was reprofiled to. It is likely overly cautious because interest-bearing loans were given before 1985. Third, assume only Paris Club and commercial debt carries interest, which is 35 billion dollars, ignoring debt from the Soviet Union and the Gulf States. Solving for the interest rate under a five-year repayment (1985-90) equates to an interest rate of 3.8 per cent on average for Iraqi debt. A comparison to US Treasuries and risky corporate debt for the period is found in Table 6, with all interest rates in US dollars.

Table 6 here

It is a crude comparison to make, but it suggests a negative risk premium for a country with a ballooning debt stock that negotiated moratoriums and extensions as early as 1982. There are several unknown factors, as there might have been non-public transfers of oil or direct payments. But debt service payments as a share of the total debt stock seem low regardless. High yield bonds, or junk bonds, had an average interest rate of 13.4 per cent during the same period, where the default rate was six per cent.[80] Iraq thus commanded a full 10 percentage points discount in its borrowing compared to highly risky companies issuing debt.

Another way to look at Iraq's debt is to compare it to other countries that required large external financing to fight a war. A similar picture emerges, which is one in which Iraq was unique in its ability to obtain debt financing, while still being required to repay the money. A clear risk to analyse is if the debt is legitimate or if it was at risk of being declared odious. The covert loans given to Iraq, as described in earlier sections, could easily fall under the definition of illegitimate debt that does not benefit the people.[81] The risk of having the debt declared odious should carry a risk premium, which should translate into a higher interest rate. There are scant episodes where the doctrine of odious debt has been used, but logic dictates that if the debt is at risk of being cancelled it should increase the risk, in the form of high interest rates or punitive conditionalities. One of the few historical episodes where 'odiousness risk' was present were Cuban bonds issued by the occupying Spanish force in the 1890s. The bonds demanded a premium of over 200 basis points as the bonds were ex-ante deemed unfair.[82] No such risk premium existed for Iraq.

Even if the there was no risk of the debt being declared odious, Iraqi borrowing was cheap by historical standards. It is possible to see this by looking at historical precedents where countries borrowed to fight a war, while either being close to losing the war, or having a financially powerful ally it could borrow from. The first example of a country at the risk of collapsing is Mexico. Mexico was able to keep borrowing as the state collapsed in 1912-13, with a long list of overseas banks offering credit. Mexico was able to borrow money but did so at a material risk premium of over four per cent.[83] Other historical episodes of countries with a poor capital market reputation, such as the Confederate states during the US civil war, required an even higher risk premium.[84] If we look at countries borrowing from a powerful financial ally, good examples are the two world wars. In the First World War, UK interest rates were high and volatile to avoid capital flight.[85] During the Second World War, the US offered interest-rate free loans via the Lend-Lease Act, but it was to be repaid with an effective interest of 1.6 per cent after the war. The US issued debt itself at a nominal interest rate between 0.4 and 2.5 per cent during the Second World War, so the loans were given with no distinct risk premium attached. The financing provided to its allies therefore never saw similar negative risk premium on its loans.[86] Looking at more recent history, the lowest risk premium for emerging market external debt (the EMBI index) was 1.8 per cent during 2006, at the height of capital inflows into emerging market debt securities. Even in all these exceptionally accommodating historical circumstances, it is difficult to find comparable episodes of negative risk premium, with almost no stated conditionality, but still a demand for repayment of the loans.

Financial repression often happens to finance wars, but it is only possible for debt in your own currency. Iraqi borrowing costs on its external debt, meanwhile, were lower than those of the US government. What made Iraqi war financing special was, I would argue, the desire to avoid a regional hegemony in the Middle East. The geopolitical importance of Iraq as a proxy in its war against Iran meant it had many deep-pocketed international friends. Many countries were happy to provide loans early in the war, with few strings – or in some cases, no interest rates – attached. The military motivations for extending credit were clear: to avoid an Iranian regional hegemony. The hard-line approach that was imposed on many other sovereign debtors during the 1980s was noticeably absent from Iraq. But on the other hand, so was debt relief in the late 1980s. The military dominance of Iraq was not followed up by economic dominance. The geopolitical importance of avoiding an Iranian victory meant creditors were willing to extend loans to Iraq extremely cheaply. But it also meant that, to avoid Iraq emerging from the war as a new regional hegemon, its creditors were unwilling to restructure its debt burden in the aftermath of the war, to maintain a degree of economic and political control.

If there is one thing to take from Iraq's path to indebtedness, it is that it brought no good things for the citizens. Transparent debt agreements and public disclosure of debt should be a minimum requirement. The money Iraq borrowed went to fight a war, not to invest in infrastructure or build a durable welfare state. The money went to buy weapons which are still causing havoc in the region to this day. The political consequences are similarly long-lasting, both domestically and internationally. As great powers use proxies to fight in wars, it is important to remember that loans come with strings attached, even if they do not carry any fiscal conditionalities. The conditions in this case were that Iraq kept fighting a war it did not have the money to continue. The way Iraq's so-called allies used the country while it was becoming indebted should be a warning to everyone in future conflicts. The covert financing arrangements prolonged the conflict, even as the stated goal was a negotiated peace.

## Conclusion

In this article, I show that Iraq's entire debt stock was a consequence of the geopolitics of the 1980s. During the Iran-Iraq War, Iraq benefitted from US, European, Soviet, and Gulf State support to finance its increased military spending. Those countries showed a willingness to disregard solvency concerns and gave loans to Iraq on non-market terms, at interest rates below that of the US government. The loans came with no reform conditions and were often given covertly to help finance the war.

In less than fifteen years, the war turned Iraq from a net creditor in 1979 to having a government debt-to-GDP of over 1,000 per cent. Its economy and institutions crumbled, and while Iraq was victorious militarily, it emerged from the Iran-Iraq War a failed state. Its creditors were unwilling to engage in debt relief. As the geopolitical tide turned against Iraq after its invasion of Kuwait in 1990, Iraq was defeated and isolated by sanctions. It owed money to everyone: from Gulf States to the developed world, from banks to individuals. The money was spent on weapons which had long term consequences for the region. The rise of Iraqi indebtedness is the story of war finance with few strings attached, that saddled the country's citizens with the largest debt burden in the world.

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## Notes

[1] For a discussion of the history and definition of the term ‘odious debt’, see Jeff King, *The Doctrine of Odious Debt in International Law* (Cambridge: Cambridge University Press, 2016).
[2] Simon Hinrichsen, ’The Iraq sovereign debt restructuring’, *Capital Markets Law Journal* vol. 16, no. 1 (2021), pp.95-114.
[3] Abbas Alnasrawi, *The Economy of Iraq: Oil, Wars, Destruction of Development and Prospects, 1950-2010* (Connecticut: Greenwood Press, 1994); Ahmed M. Jiyad, ‘An Economy in a Debt Trap: Iraqi Debt 1980-2020’, *Arab Studies Quarterly* vol. 23 (2001), pp.15–58; David Caron, ‘The Reconstruction of Iraq: Dealing with Debt’, *U.C. Davis Journal of International Law & Policy*, vol. 11 (2004), pp.123-43.
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[5] Rodney J. Morrison, ‘Gulf War Reparations: Iraq, OPEC, and the Transfer Problem’, *American Journal of Economics and Sociology* vol. 51 (1992), pp.385–99.
[6] Bessma Momani and Aidan Garrib, ‘Iraq’s Tangled Web of Debt Restructuring’ in Mokhtar Lamani and Bessma Momani (eds), *From Desolation to Reconstruction: Iraq’s Troubled Journey* (Waterloo: Wilfrid Laurier University Press, 2010).
[7] Eric Chaney, ‘Assessing Pacification Policy in Iraq: Evidence from Iraqi Financial Markets’, *Journal of Comparative Economics* vol. 36 (2008), pp.1–16.
[8] The restructuring itself is covered in Hinrichsen, ‘The Iraq sovereign debt restructuring’.
[9] The two countries did not get along. Iranian-backed militias attempted to assassinate several Iraqi ministers and Iraq deported thousands of Iranians: see Devin Kennington, Joyce Battle, and Malcolm Byrne, ‘The Origins, Conduct, and Impact of the Iran-Iraq War, 1980-1988’, *Timeline* (Washington DC: Wilson Center, 2004), p.1.
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[13] Warren Christopher and Richard M. Mosk, ‘The Iranian Hostage Crisis and the Iran-U.S. Claims Tribunal: Implications for International Dispute Resolution and Diplomacy’, *Pepperdine Dispute Resolution Law Journal* vol. 7 (2007), pp.165–75.
[14] Kennington et al., *Timeline*, p.3.
[15] For a full timeline of the Iran-Iraq War, see Kennington et al, *Timeline*, pp.3-44; for the economic impact of the war on Iraq, see Alnasrawi, *The Economy of Iraq*, pp.79-126 and Caron, ‘The Reconstruction of Iraq’, pp.128-33; and for a discussion of the geopolitical origins of the war, see Will D. Swearingen, ‘Geopolitical Origins of the Iran-Iraq War’, *Geographical Review* vol. 78 (1988), pp.405–16.
[16] Central Intelligence Agency, ‘Iran-Iraq: Buying Weapons for War’, *An Intelligence Assessment*, declassified in 2011 (originally from 1984), pp.9-19. Link: https://www.cia.gov/readingroom/docs/CIA-RDP85T00283R000500120005-5.pdf (accessed 4 September 2020).
[17] Ibid., p.10. Most arms agreements were concluded in 1982.
[18] Kennington et al., *Timeline*, p.7.
[19] Mehdi, ‘Iraqi Oil’, p.3.
[20] Alnasrawi, *The Economy of Iraq,* p.109.
[21] Jiyad, ‘An Economy in a Debt Trap’, pp.42-43. The disagreement is still outstanding (as are most of the loans) but the US Treasury pushed (unsuccessfully) to include them in the 2003-2006 restructuring.
[22] Ibid., pp.17-18.
[23] Commercial credit is a short-term credit facility at a bank, usually paid back quickly.
[24] Kennington et al., *Timeline*, p.11.
[25] Seymour M. Hersh, ‘U.S. Secretly Gave Aid to Iraq Early in Its War Against Iran’, *New York Times* (26 January 1992).
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[30] International Monetary Fund, 'Iraq - Recent Economic Developments', *Preliminary Article IV consultation memoranda* 83/178 (1983), pp.28-33 and 53. Link: https://archivescatalog.imf.org/Details/ArchiveExecutive/125067308 (accessed 4 September 2020).
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[33] The apparent contradiction between the official negotiation position of the US and its covert operations, later acknowledged, was likely a consequence of the desire to see Iraq victorious. Douglas Frantz and Murray Waas, 'Bush Tied to '86 Bid to Give Iraq Military Advice', *Los Angeles Times* (7 May 1992). Link: https://www.latimes.com/archives/la-xpm-1992-05-07-mn-2518-story.html (accessed 4 September 2020).
[34] Ibrahim Al-Marashi, 'Iraq, Saudi Arabia, and the Counter-Shock' in Duccio Basosi, Giuliano Garavini, and Massimiliano Trentin (eds), *Counter-Shock: The Oil Counter-Revolution of the 1980s* (London: I.B. Tauris, 2018), pp.140-58.
[35] Kennington et al., *Timeline*, pp.40-43.
[36] Martin A. Weiss, 'Iraq's Debt Relief: Procedure and Potential Implications', *CRS Report for Congress* vol. 15 (2011), p.2; Central Intelligence Agency, 'Iraq Economic Data (1989-2003)', *DCI Special Advisor Report on Iraq's WMD*, vol. 1 (2004). Link: https://www.cia.gov/library/reports/general-reports-1/iraq_wmd_2004 (accessed 4 September 2020). The CIA suggested Iraq had spent 22 billion dollars on weapons halfway through the war, while Iran had spent 5 billion dollars. Rachel Schmidt, 'Global Arms Exports to Iraq, 1960-1990', *RAND Corporation report* (1991), p.12 suggest total Iraqi weapons imports during the war was 63 billion (in 1990 dollars).
[37] Senate Select Committee on Intelligence, 'The Intelligence Community's Involvement in the Banca Nazionale Del Lavoro (BNL) Affair', *103rd Congress* vol. 103–12 (1993), pp.8-9. Link: https://fas.org/irp/congress/1993_rpt/ssci_bnl.pdf (accessed 4 September 2020).
[38] Rodney Stich, *Iraq, Lies, Cover-Ups, and Consequences* (Nevada: Silverpeak Enterprises.Stich, 2005), pp.94-95.
[39] The U.S. Senate in its report cleared the CIA of any direct knowledge of illegality, see John Kerry and Hank Brown, 'The BCCI Affair: A Report to the Committee on Foreign Relations', *102nd Congress* vol. 102–140 (1992). Link: https://info.publicintelligence.net/The-BCCI-Affair.pdf (accessed 4 September 2020).
[40] Another bank, the BCCI, was investigated simultaneously by the US Senate Committee on Foreign Relations. Senators Kerry and Brown showed in their report how BCCI was a criminal empire that facilitated money laundering and weapons smuggling in Iraq. BCCI provided loans to Iraq, as well as holding deposits and providing funding for BNL (ibid., pp.69, 579). The CIA was involved and knew about the criminality at BCCI (ibid., p.9).
[41] The point being that the Department of Agriculture guaranteed loans were used for weapons (ibid., pp.69, 514, 578-79).
[42] See section 0 for a discussion of the generous terms of Iraqi sovereign borrowing.
[43] Alnasrawi, *The Economy of Iraq,* pp.93-109.
[44] Jiyad, 'An Economy in a Debt Trap', pp.42-43.
[45] Ibid.
[46] Momani and Garrib, 'Iraq's Tangled Web of Debt Restructuring', p.168. Hand-shake deals and covert operations did not have documents that could be traced, while some records were likely lost between the origin of the loans in the 1980s and the restructuring after a decade of sanctions in the 1990s.
[47] Caron, 'The Reconstruction of Iraq', pp.131-32; Joanna Chung and Stephen Fidler, 'Why Iraqi Debt Is No Longer a Write-Off', *Financial Times* (16 July 2006).
[48] Ibid.
[49] According to Bank of Canada's Credit Rating Assessment Group database on sovereign defaults, outlined in David Beers and Jamshid Mavalwalla, 'The BoC-BoE Sovereign Default Database Revisited: What's New in 2018?', *Bank of England Staff Working Paper* vol. 739 (2018). Link: http://www.bankofengland.co.uk/working-paper/2018/the-boc-boe-sovereign-default-database-revisited-whats-new-in-2018 (accessed 4 September 2020).
[50] Jiyad, 'An Economy in a Debt Trap', p.20. It is also possible payments were made but not noted down in any documents or by paying in oil.
[51] Rangwala, 'The Finance of War', pp.101-102.
[52] Talal Z. A. Alazemi, 'Kuwaiti Foreign Policy in Light of the Iraqi Invasion, with Particular Reference to Kuwait's Policy towards Iraq, 1990-2010' (PhD thesis, University of Exeter, 2013), p.98.
[53] Alnasrawi, *The Economy of Iraq,* p.106
[54] Justin Alexander and Colin Rowat, 'A Clean Slate in Iraq: From Debt to Development', *Middle East Report* vol. 228 (2003), pp.32–36.
[55] Alazemi, 'Kuwaiti Foreign Policy', pp.97-98.
[56] Andrew T. Parasiliti, 'The Causes and Timing of Iraq's Wars: A Power Cycle Assessment', *International Political Science Review* vol. 24 (2003), pp.151–65.
[57] For a full timeline of the invasion of Kuwait, see Colin Warbrick, 'The Invasion of Kuwait by Iraq', *The International and Comparative Law Quarterly*, vol. 40, no. 2 (1991), pp.482–92 and Colin Warbrick, 'The Invasion of Kuwait by Iraq:

Part II', *The International and Comparative Law Quarterly*, vol. 40, no. 4 (1991), pp.965–76.. For the geopolitical and local reasons for war, see F. Gregory Gause, 'Iraq's Decisions to Go to War, 1980 and 1990', *Middle East Journal* vol. 56, no. 1 (2002), pp.47–70 and Parasiliti, 'The Causes and Timing of Iraq's Wars'.

[58] UN Security Council Resolution, *U.N. Doc S/RES/661* (1990).

[59] Colin Warbrick, 'The Invasion of Kuwait by Iraq', *The International and Comparative Law Quarterly* vol. 40 (1991), pp.482–92.

[60] Hadi N. Deeb, 'Project 688: The Restructuring of Iraq's Saddam-Era Debt', *Restructuring Newsletter, Cleary Gottlieb*, vol. Winter (2007), p.3.

[61] Colin Warbrick, 'The Invasion of Kuwait by Iraq: Part II', *The International and Comparative Law Quarterly* vol. 40. (1991), pp.965–76.

[62] UN Security Council Resolution, *U.N. Doc S/RES/705* (1991); UN Security Council Resolution, *U.N. Doc S/RES/1483* (2003).

[63] Clara Sandoval and Miriam Puttick, 'Reparations for the Victims of Conflict in Iraq: Lessons Learned from Comparative Practice', *Minority Rights Group Report* (2017), pp.7-16.

[64] Paris Club is a group of (mostly) developed countries that negotiate restructurings collectively. For a history of the Paris Club, see Gong Cheng, Javier Díaz-Cassou, and Aitor Erce, 'Official Debt Restructurings and Development', *World Development* vol. 111 (November (2018), pp.181–95.

[65] See the UN Compensation Commission website: https://uncc.ch/home (accessed 16 July 2019).

[66] Morrison, 'Gulf War Reparations', p.393.

[67] One issue not addressed by the UNCC was, if a claim was submitted and partially awarded, would the claimant forgo the rest? Were the UNCC to use an election of remedies; one would be debarred from suing in court. This would later cause headaches for the lawyers undertaking the restructuring.

[68] Alnasrawi, *The Economy of Iraq*, p.159 cites some sources that estimate output declined by as much as 50 per cent after the invasion.

[69] Identified debt decreased by 300 million dollars, however the overall stated debt is far lower from the actual and some scepticism is required for the numbers given.

[70] UN Security Council Resolution, *U.N. Doc S/RES/678* (1990).

[71] Alberto Ascherio, Robert Chase, Tim Coté, Godelieave Dehaes, Eric Hoskins, Jilali Laaouej, Megan Passey, et al., 'Effect of the Gulf War on Infant and Child Mortality in Iraq', *New England Journal of Medicine* vol. 327 (1992), pp.931–36.

[72] Peter Sluglett, 'Iraq under Siege: Politics, Society and Economy, 1990-2002' in Mokhtar Lamani and Bessma Momani (eds), *From Desolation to Reconstruction: Iraq's Troubled Journey* (Waterloo: Wilfrid Laurier University Press, 2010), pp.13-33.

[73] No Iraqi oil sales were allowed but small exports were approved subsequently, see Sarah G. Brown, *Sanctioning Saddam: The Politics of Intervention in Iraq* (London: I.B. Tauris, 1999), pp.56-104.

[74] International Monetary Fund, 'Overdue Financial Obligations to the Fund - Development in Cases of Protracted Arrears to the Fund and Statistical Update', *Prepared by the Treasurer's Department* (1995), p.3. Link: https://archivescatalog.imf.org/Details/ArchiveExecutive/125122921 (accessed 4 September 2020).

[75] Toby Dodge, 'The Failure of Sanctions and the Evolution of International Policy towards Iraq, 1990–2003', *Contemporary Arab Affairs* vol. 3 (2010), pp.83-91; Charles Tripp, *A History of Iraq* (Cambridge: Cambridge University Press, 2002), pp.259-75; and Brown *Sanctioning Saddam.*

[76] Nimah Mazaheri, 'Iraq and the Domestic Political Effects of Economic Sanctions', *Middle East Journal* vol. 64 (2010), pp.253–68.

[77] Sluglett, ‚Iraq under Siege', pp.20-22

[78] Ibid., pp.13-15.

[79] Jiyad, 'An Economy in a Debt Trap', pp.20-21.

[80] Edward Altman, 'Revisiting the High-Yield Bond Market', *Financial Management* vol. 21 (1992), pp.78–92.

[81] Seema Jayachandran and Michael Kremer, 'Odious Debt', *American Economic Review* vol. 96 (2006), pp.82–92.

[82] Stephanie Collet, 'The Financial Penalty for "Unfair" Debt: The Case of Cuban Bonds at the Time of Independence', *European Review of Economic History* vol. 17 (2013), pp.364–87.

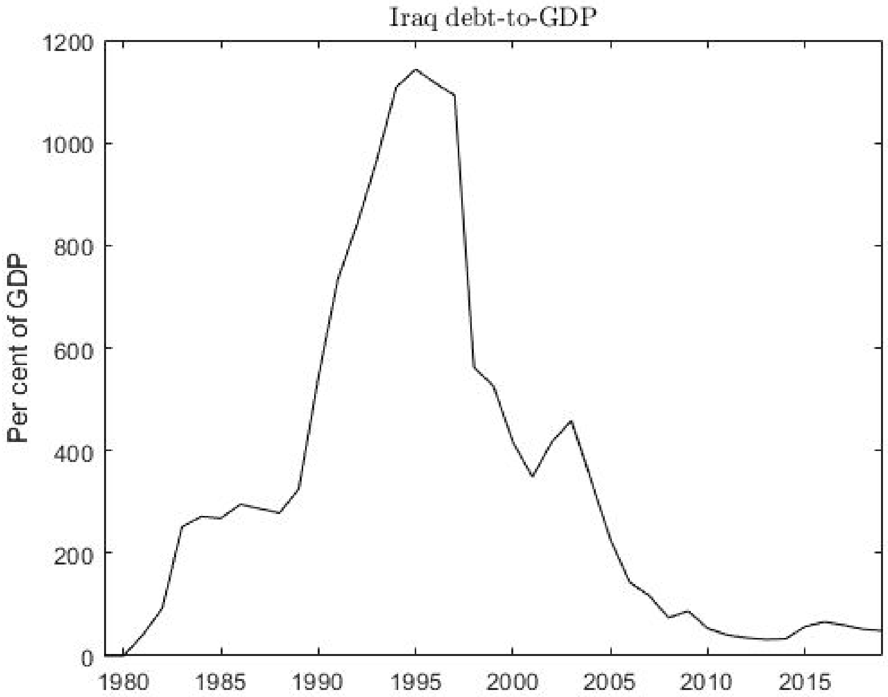
[83] Leonardo Weller, 'Loans of the Revolution: How Mexico Borrowed as the State Collapsed in 1912–13', *Economic History Review* vol. 72 (2019), pp.1028–47.

[84] Marc D. Weidenmier, 'Gunboats, Reputation, and Sovereign Repayment: Lessons from the Southern Confederacy', *Journal of International Economics* vol. 66, no. 2 (2005), pp.407–22.

[85] See J. R. T. Hughes, 'Financing the British War Effort', *Journal of Economic History* vol. 18, no. 2 (1958), pp.193–99.

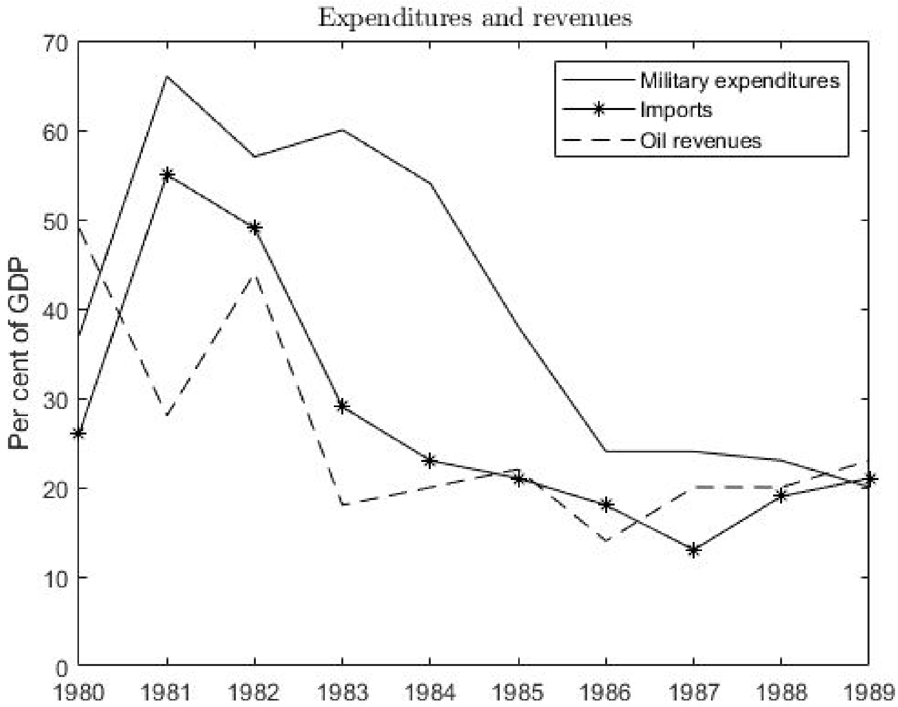
[86] See Judd Polk and Gardner Patterson 'The British Loan', *Foreign Affairs* vol. 24, no. 3, pp.429–40 and Lee E. Ohanian, 'The Macroeconomic Effects of War Finance in the United States: World War II and the Korean War', *American Economic Review* vol. 87, no. 1 (1997), pp.23–40.

Figure 1. Iraq government debt-to-GDP (1979-2020).



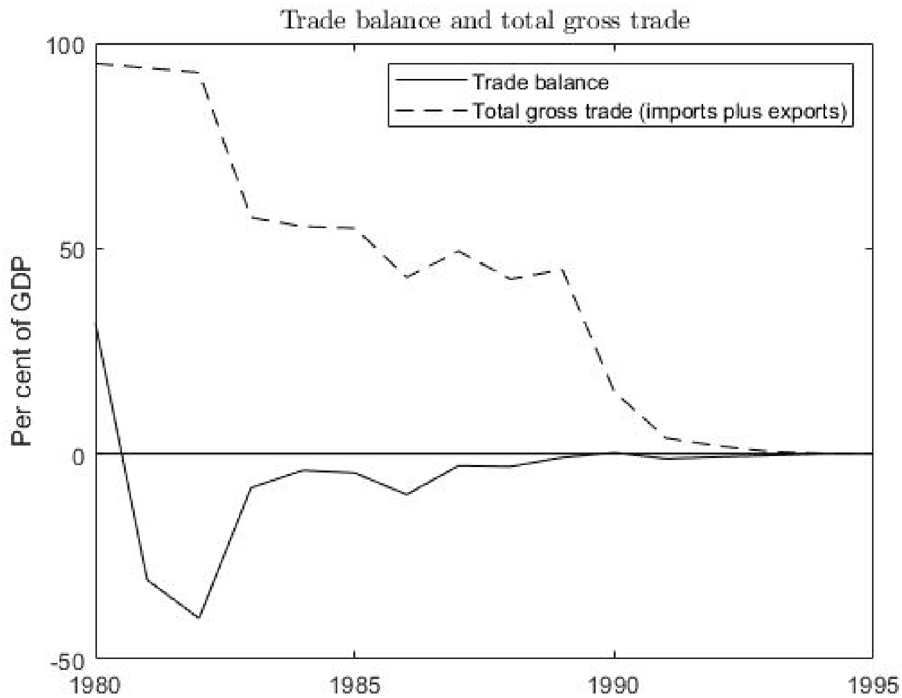

Sources: See sections 3 through 5.

Figure 2: Iraqi expenditures and revenues (1980-89)



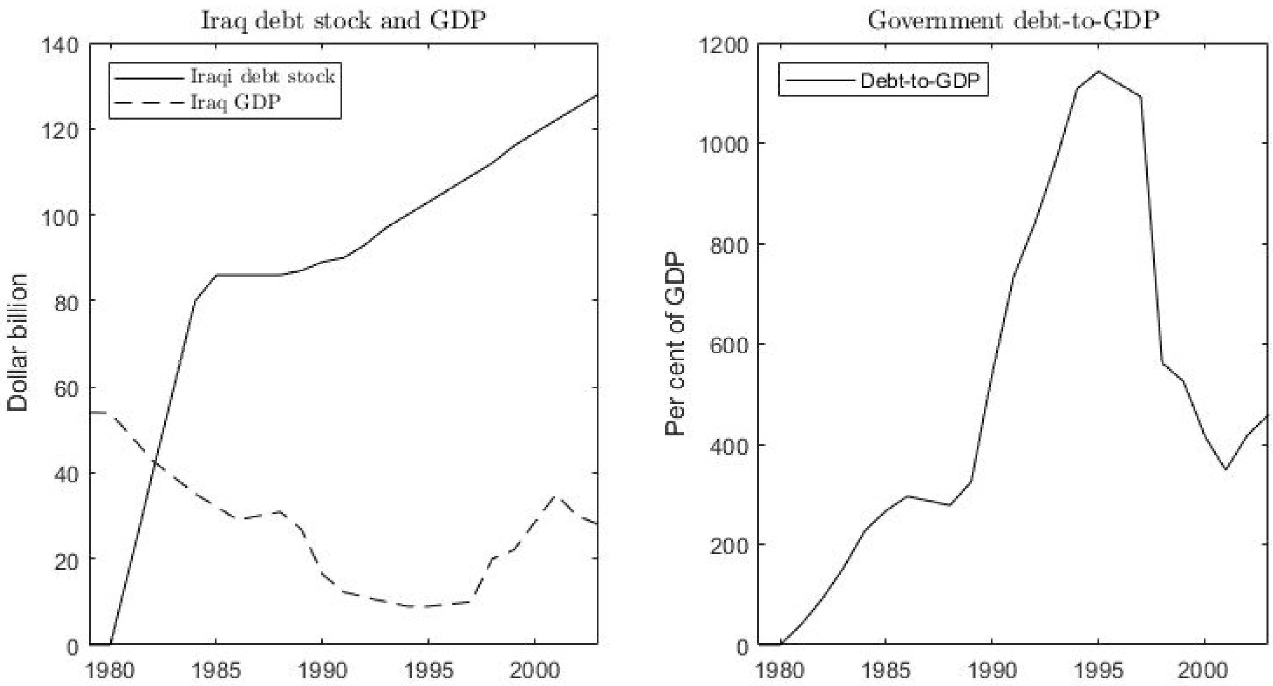

Source: Based on data from Alnasrawi, *The Economy of Iraq*, pp.93-96.

Figure 3: Iraqi trade balance and total trade in percentage of GDP (1980-95)




Source: World Bank Development Indicators.

Figure 4: Iraqi debt and GDP




Sources: Data for 1979-93 is from Alnasrawi, *The Economy of Iraq*, p.152; for 1993-2003 the source is the Central Intelligence Agency, *Iraq Economic Data*, p.208. Debt stock data is cited in previous tables and text. Note: Iraq was isolated; little information flowed in or out. A healthy dose of scepticism around the numbers is therefore required, especially after the sanctions period.

Table 1. Iraqi debt by creditor, 1979

| | Outstanding debt (dollar billion) | Per cent of GDP |
|---|---|---|
| Paris Club | 2 | 3 |
| Gulf States | - | - |
| Soviet and allies | - | - |
| Reparations (non-debt) | - | - |
| Commercial debt | 1 | 2 |
| Foreign exchange reserves | -35 | -65 |
| Total | -33 | -60 |

Sources: Caron, 'The Reconstruction of Iraq', *U.C. Davis Journal of International Law & Policy*, vol. 11 (2004), p. 131; Jiyad, 'An Economy in a Debt Trap', *Arab Studies Quarterly* vol. 23 (2001) p. 19; and Alnasrawi, *The Economy of Iraq,* p. 152. Note: The negative number denotes creditor status for Iraq. The negative number remains the consistent format, appearing again in later tables, all tracing Iraqi debt.

Table 2. Iraqi growth rates, 1970-89 (yearly average in percentage).

| | 1970-79 | 1980-89 |
|---|---|---|
| Government consumption | 13.6 | -2.9 |
| Private consumption | 13.2 | -6.1 |
| Investments | 27.6 | -0.9 |
| Exports | 4.4 | -5.0 |
| Imports | 22.5 | -5.6 |
| Domestic trade | 16.8 | -4.8 |
| GDP | 11.7 | -4.9 |

Source: Alnasrawi, *The Economy of Iraq*, p. 101.

Table 3: Iraqi debt by creditor, 1988

| | Outstanding debt (dollar billion) | Per cent of GDP |
|---|---|---|
| Paris Club | 29 | 95 |
| Gulf States | 40 | 129 |
| Soviet and allies | 11 | 36 |
| Reparations (non-debt) | - | - |
| Commercial debt | 6 | 19 |
| Foreign exchange reserves | - | - |
| Total | 86 | 278 |

Sources: Alnasrawi, *The Economy of Iraq* pp. 109, 159; Helen C Metz, *Iraq: A Country Study* (Washington DC: Federal Research Division, Library of Congress, 1990), p. 126.

Table 4: Iraqi debt by creditor, 1991

| | Outstanding debt (dollar billion) | Per cent of GDP |
|---|---|---|
| Paris Club | 18 | 143 |
| Gulf States | 53 | 431 |
| Soviet and allies | 11 | 89 |
| Reparations (non-debt) | 52 | 423 |
| Commercial debt | 9 | 71 |
| Foreign exchange reserves | - | - |
| Total debt (ex-reparations) | 90 | 733 |
| Total liabilities | 142 | 1156 |

Sources: Paris Club; Chung and Fidler, 'Why Iraqi Debt Is No Longer a Write-Off'; UNCC; Alnasrawi, *The Economy of Iraq*, p. 109.

Note: All debts (except Gulf States) are nominal amounts restructured in 2003, i.e. minus accrued interest. Reparations are total reparations awarded as of July 2019. Table 3 and Table 4 do not reconcile because both are best estimates at each time, based on available sources.

Table 5: Iraqi debt by creditor, 2003

| | Outstanding debt (dollar billion) | Per cent of GDP |
|---|---|---|
| Paris Club | 39 | 139 |
| Gulf States | 53 | 189 |
| Non-Paris Club bilateral | 17 | 60 |
| Reparations (non-debt) | 32 | 114 |
| Commercial debt | 20 | 70 |
| Foreign exchange reserves | - | - |
| Total debt (ex-reparations) | 128 | 458 |
| Total liabilities | 160 | 573 |

Sources: Paris Club, IMF, UNCC.

Table 6: Iraqi borrowing costs in US dollars and risk premium (1985-90)

| | Average interest rate | Risk premium |
|---|---|---|
| U.S. Treasuries | 8.5 | - |
| U.S. Investment grade | 9.4 | 0.9 |
| U.S. High yield | 13.4 | 4.9 |
| Iraqi borrowing costs | 3.8 | -4.6 |

Sources: Jiyad, 'An Economy in a Debt Trap', *Arab Studies Quarterly* vol. 23 (2001) pp. 20-21; Richard C. Wilson and Frank J. Fabozzi, *Corporate Bonds: Structure and Analysis* (John Wiley, 1994), p. 184; and the Federal Reserve.

Note: Average rates for the period are used. The US Treasury rate is the five-year constant maturity.