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SOVEREIGN CREDIT RATING AND ITS IMPACT ON FOREIGN INVESTMENT AND GOVERNMENT DEBT: A CASE STUDY OF IRAQ AS A MODEL

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ABSTRACT

The research discusses the relationship between the credit rating of Iraq and its impact on foreign direct investment flows for the period 2010-2018. In addition, the extent of the credit rating affects the flow of investments and its relationship to other factors that affect economic stability. The researchers relied on data issued by official institutions (the World Bank. International Monetary Fund. Central Bank reports. Iraq Stock Exchange). After analyzing the data and information,it was found that the correlation and effect, e.g. affected. There are three main factors that control foreign investment, foremost of which is the credit rating of recipient countries. As investments are usually directed to countries with a high credit rating, whether in the form of companies or mutual investment between the two countries (bilateral agreements). Or by free flow from low-rated countries to highly-rated recipient countries. Or, a credit rating with a regional dimension and geographical location qualifies the country to receive foreign Investment despite the average credit rating. The researchers recommend the need for the Sovereigns. to pay attention to improving the credit rating of Iraq. as it reflects a good image among Investors. the possibility of entering the Iraqi market and direct investment in it. And exploiting the investment opportunities available in the Iraqi companies listed. On the stock market.

Key words: sovereign credit. Foreign investment. Stock markets.

INTRODUCTION

That the sovereign rating of debt. It represents a point for investment decisions. Which allows many organizations to make investment decisions. Based on the ability of the state to pay the public debt. The primary concern for sovereign rating comes from the International Monetary Fund and the World Bank. This determines interest rates. That can be imposed on loans granted to countries. That the credit rating sequence of countries gives preference to international organizations in providing credit to these countries. Also, investors monitor the credit rating. In making investment and credit decisions. Thus, sovereign ratings affect a country's access to global capital markets. Sovereign ratings also generally operate as a ceiling for ratings assigned to other companies and entities in the country (Sehgal et al. 2018: 140).

The importance of research

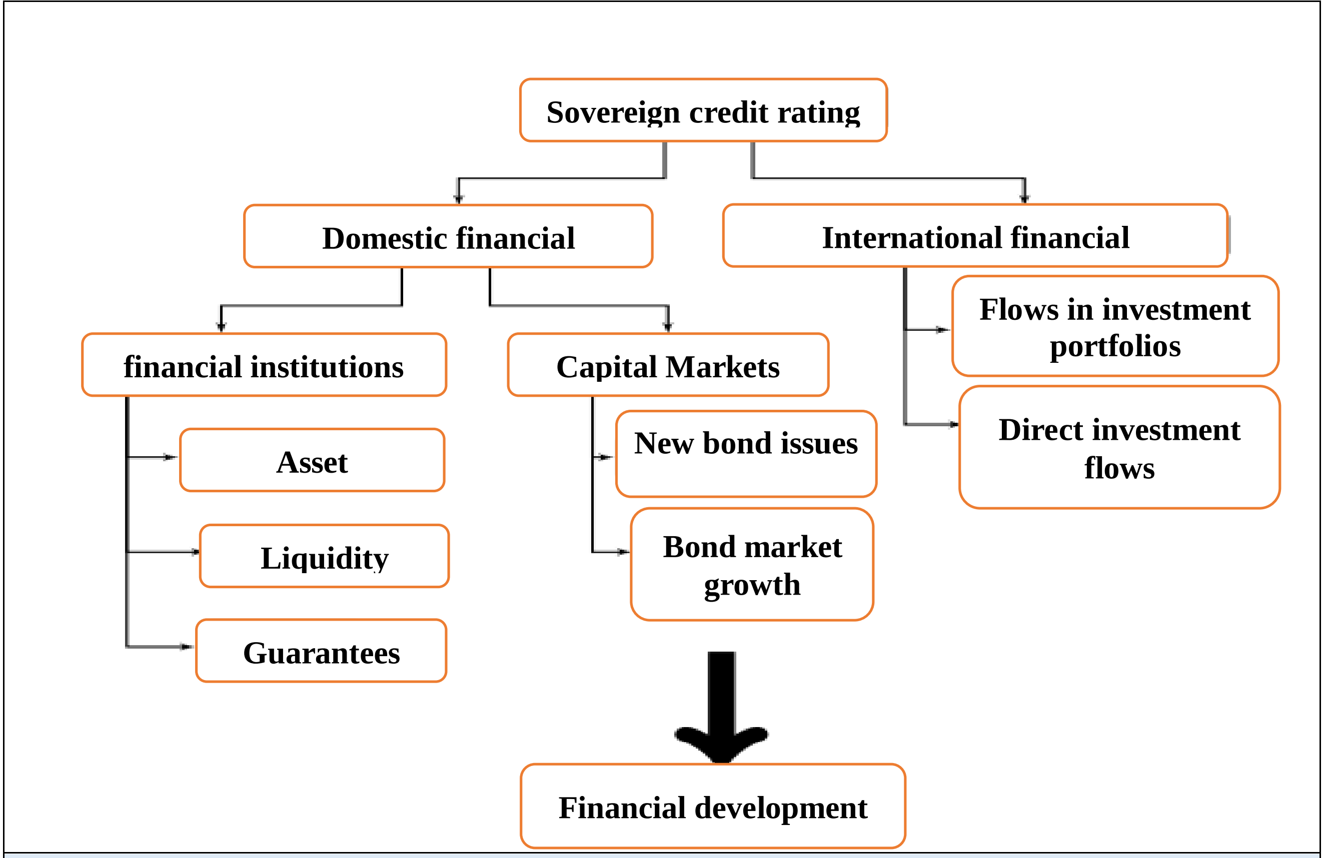
The importance of the research emerges from the relationship of credit rating of sovereign debt and the size of foreign investment. Which can flow to local markets directly or indirectly. As most investment flows, depend mainly on the ability of the economic environment to generate profits. It also takes into consideration the economic and political stability of the country. This is reflected in the degree of credit rating of sovereign debt and the ability to repay the public debt. It is an idea to link the private financial sector to the state's public policy. Turning to Iraq's access to the sovereign classification and the importance of maintaining it and working to increase the confidence of international and economic institutions in the strength of the Iraqi economy. The expression in addition, the investment opportunities available in the Iraqi environment and the financial ability of financial markets to generate cash and achieve profits.

LITERATURE REVIEW

What do we mean by sovereign credit rating

The sovereign credit rating has two aspects that are of great importance to the country. They can be determined by obtaining loans, issuing bonds, or attracting foreign investments. This is to favor investors or donors. For securities issued by a country that has a credit rating of that which does not have a credit rating. Because of the risks that surround foreign investment in general. Depending on globally unstable economic and political conditions. the expression In addition, fluctuations in world trade and the subsequent agreements between countries with major economies and their impact on the global economy. From the above it is clear the importance of the sovereign rating and the extent of its impact on the decision to allocate investment to investors. It encourages the development of the financial sector and is a catalyst in attracting capital flows. Also, to develop stock markets and the issuance of local bonds (Luitel, Vanpée, 2018: 1). As shown in the following figure:

Figure 1: The Impact of Sovereign Credit Rating on Financial Development



Source: (Luitel, Vanpée, 2018: 3)

Sovereign credit ratings are a relative assessment of the potential for repayment of external debt. And determine the degree of risk in non-payment of financial obligations to creditors. Generally speaking, the official institutions of the countries seek to obtain credit ratings. In order to enter the global capital markets. To facilitate it is internal financial assets. As most investors prefer financial assets with a sovereign rating. On Tech that does not have a sovereign credit rating. At the same time, it has the same risks. In the recent period, interest has become great. In securities denominated in unconventional foreign currencies. Which increased the demand for a sovereign credit rating. This, of course, is reflected in the nationality of local financial institutions. Which gets its sovereign credit strength from the international classification of national governments. If she wants to obtain loans or issue securities. There are several influences that fall into the sovereign credit rating of countries, the most important of which can be summarized. According to Moody's & Standard & Poor's credit rating criteria, Richard, Frank, 1996: 38-39:

- The individual tax share, which is the leader in indicators and evidence of the political stability of the country.
- Increasing the rate of GDP, which gives an indication of the improvement in the economy and the ease of debt repayment.
- The high rate of inflation reflects the extent of the decline in the government's ability to pay the due expenses. Through taxes or borrowing. As a result, governments resort to inflationary cash.
- Financial balance and the ability to absorb private savings. This gives confidence in the banking system.

- The deficit in the balance of the external balance in favor of external borrowing, the flow of funds, and the growth of external debt.

- The accumulation of external debt and the increase in the burden resulting from the accumulated benefits and the ability to balance them.

- It represents the economic growth rate and the per capita share. One of the requirements in the chain of determining the sovereign credit rating. That links the level of income and the risks that can be avoided when it reaches a certain level.

The importance of credit rating in foreign investment decisions

Sovereign ratings began to attract great interest in the previous period. Coinciding with the expansion of borrowing for poor countries that have a higher risk of default, than commitment to the agreements they have committed to. As a result, sovereign ratings are primarily opinions of governments' ability to meet their financial obligations. And that these classifications build their expectations on the results produced by the private sector as part of the sovereign economic ceiling. Accordingly, the credit ratings affect the possibility of borrowing both the private sector and governments from international markets. If the credit rating drops, it may be considered an expert early warning signals and the result. It could prevent a potential liquidity crisis that impedes governments from paying. Which raises panic among investors during the recession. This leads to capital flight and harms the local economy. (Subaşı, 2008: 47)

(Popa, 2012: 95) states that sovereign credit risk is significant and may directly affect foreign loans granted to a country. This is not related to conditions for obtaining it or the ability to pay it. Rather, it extends to the international business present in the country. It is one of the biggest risks to the country because of its importance in providing liquidity for the repayment of government loans towards international donor institutions. With regard to the failure to pay the international loans received, it is due to insufficient economic policy measures adopted by the government. Capital flows from abroad are prohibited. And that affects the position of the company in which the foreign capital was invested.

The importance of credit rating in enhancing investment in the stock market

States that after the 2008 financial and economic crisis that ravaged global markets, the yield on sovereign bonds rose significantly in many, especially in the euro area. The main reason for such developments is the financial imbalances in the aftermath of the crisis. As a result of the cuts in sovereign rating (Afonso, et al. 2011: 6). The importance of international credit rating is the subject of a deep discussion among international agencies. This has been evident since 2003. When the Basel Committee began using external credit ratings in the new capital agreement. Which increased the importance of credit ratings in global financial markets. However, subsequent experiences demonstrated the failure of credit agencies to identify and direct financial crises. Some even claim that it contributed to the widening of the gap. Because of the limitations in emerging market valuations. And the lack of clear visions to be evaluated periodically. On the basis of continuous economic behavior (Fatnassi, Ftiti, 2014: 953).

The ethical responsibility of global credit rating agencies in investment decisions

(Adelson, 2012: 1) states that the primary role of a credit rating is to help bridge the information gap between lenders and borrowers by providing independent opinions on the creditworthiness of governments. The role of rating agencies is to assess risk. Which can be summed up with two main goals:

a. Reducing asymmetry of information.

b. Improve market function and efficiency.

Accordingly, credit ratings issued by the competent international agencies are prepared. They are general guidelines based on variables from the local market. It is analyzed to predict future events. As a result, they are valid opinion data from the date on which they were expressed. It are not facts or recommendations to buy or sell securities or make investment decisions in a country. As a result, The students work hard. Global Ratings assumes no obligation to update any information after publication (Chena et al., 2020; Combita Mora, 2020;Antelm-Lanzat et al., 2020; Caliskan & Zhu, 2020; De Klerk, 2020; Dlodlo & Mahao, 2020). It is not a credit or investment adviser. Except that it is recorded as well when making decisions. It provides information that is held in its reliable time based on the information available to it on the local economic environment and indicators of analysis on the national economy. It does not assume any duty to perform due diligence or independent verification. From any information you receive. As a result, assessments and opinions can be changed, suspended or withdrawn at any time based on what you will find from the information available to them. As stated in the (S&P) Message, it acts as a catalyst for growth and transparency to operate in global markets. (www.standardandpoors.com)

The globalization of financial markets. Credit rating agencies forced to expand their business. (S&P) ranked only 12 countries at the start of its operation in the 1970s. While it has now reached more than 129 countries. The work of rating agencies has evolved in various names (Global rating agencies Standard & Poor's, Moody’s and Fitch). To include providing long-term sovereign ratings and short-term sovereign ratings. Bringing views between lenders, investors and borrowers and making decisions based on information believed to be reliable.

The concept of foreign investment

Foreign investment is a major factor in the rise of any economy. A major catalyst in development. It brings with it the factors of technological and economic development. And modern project management techniques. And contribute to the availability of job opportunities. Absorbing unemployment. Burden which on the local economy. According to the time development of the concept of foreign investment and the nature of economic relations between countries. Investment opportunities have diversified. In front of foreign investment. It is affected by the type of political relations between countries. However. The benefits of foreign investment are not realized automatically and equally between countries. Local policies and the availability of infrastructure to receive international investments. It has a great and influential role. As a result, the establishment of a transparent and effective political environment for investment. Expression In addition, creating human and institutional resources for its implementation. They are the most influential factors in attracting foreign investment to more developing countries and reaping the full benefits of foreign investment in order to achieve economic development (OECD, 2002: 5). As a result, foreign investment is: “The essential element in evolving international economic integration that is referred to as globalization. FDI, is the fastest way to form direct, stable, and long-term relationships between countries’ economies with a correct political environment. As a result, it can be an ideal way to develop domestic projects. And enhancing competitiveness ”(OECD, 2008: 14).

METHODOLOGY

The credit rating score is. An indicator of the ability to repay outstanding debts and to fulfill financial obligations. This gives confidence and confidence to investors in entering the financial markets. As a result**,** attracting investment funds is a major goal. For what that money contributes to providing job opportunities. Achieving planned economic growth. Within the national plan for the advancement of economic reality. Therefore, we must study how to obtain a credit rating from the relevant institutions. What are the main indicators of that classification? And how to benefit from it in attracting financial investments. Whether through government financial institutions or financial markets.

Research aims:

- Addressing the concept of sovereign credit classification.
- The importance of credit rating in attracting financial investments.
- The relationship between credit rating and the size of foreign investment.
- Iraq is one of the world rankings of sovereign debt.
- How to take advantage of the credit rating to promote investment opportunities.

Research hypothesis:

The research is based on a major hypothesis that states:

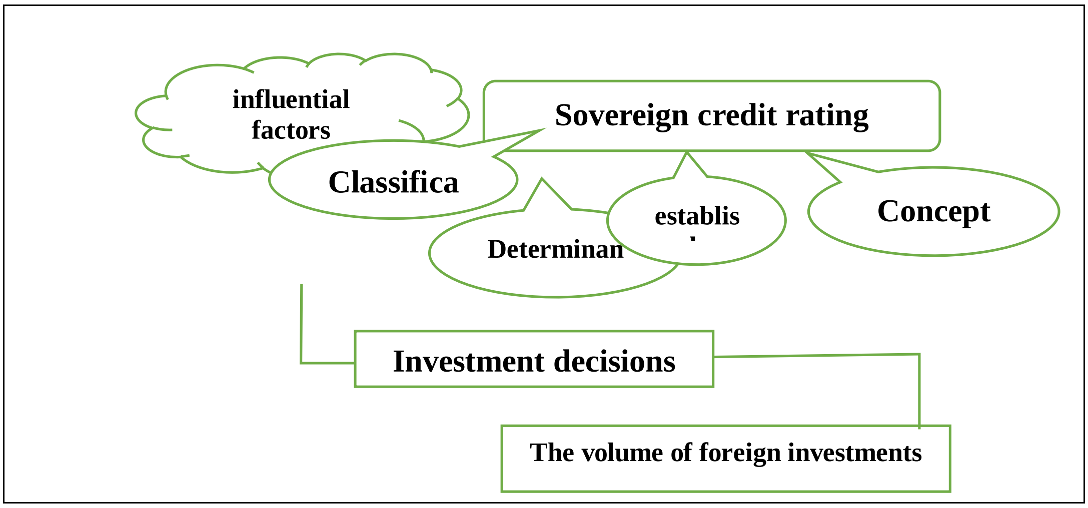
> "The sovereign credit rating affects investment decisions and the amount of money flowing to financial markets."

The following sub-hypotheses are subdivided:

- There is a correlation between the credit rating and the size of foreign investment.
- Sovereign credit rating affects investment decisions.

Research Structure:

The structure of the research will be as shown in the following figure:



Research field:

The focus will be on the amount of foreign investment in Iraq Stock Exchange. Turning to the extent to benefit from Iraq's obtaining a sovereign credit rating. International financial organizations such as the World Bank and the International Monetary Fund. And the impact of this on the volume of foreign investment. In companies listed on Iraq Stock Exchange.

Theoretical side:

- The concept of sovereign credit rating.
- The foundations of sovereign credit rating.
- Determinants of sovereign credit rating.
- Factors affecting sovereign credit rating.
- The importance of foreign investments in financial markets.
- The sovereign credit rating of Iraq.

Practical side:

- The degree of sovereign credit rating for Iraq. (International reports of relevant organizations)
- The value of foreign financial investments in Iraqi markets. (The periodic reports of the Central Bank of Iraq - the Iraq Stock Exchange - The Securities Commission).
- Analyze the data using the related statistical analysis tools.

PREVIOUS STUDIES RELATED TO THE RESEARCH TOPIC:

Study (Peilin, et al. 2018) "Are sovereign credit ratings important for FDI,?" This study examines the relationship between sovereign credit ratings and foreign investment flows for the period 1985-2012. It was applied to 31 countries. It concluded that the sovereign credit ratings of both donor and recipient countries are important factors for bilateral FDI, flows. A high credit rating has a role in increasing investment cash flows to countries and vice versa.

Study (Mugobo, Mutize, 2016) "The Impact of Sovereign Credit Rating on FDI in South Africa": The research discussed the importance of credit rating in the growth of foreign direct investment (FDI) as an attractive alternative to borrowing from multilateral institutions such as the World Bank and the International Monetary Fund. Global investors prefer to invest in countries that have received a sovereign credit rating (SCR) as they see it as a good measure of risk allocation. The research focused on the credit ratings of three of the major global rating agencies for the period (2004-2014). Study the impact of the SCR change on FDI,, inflows in South Africa. The result was that there was a statistically significant relationship between FDI, cuts and SCR cuts. Evidence also indicates that not all three credit rating cuts affect equally the investor’s decisions. Moody's ratings tend to dominate. This caused the reaction of foreign direct investment to a greater degree. However. Not only does the SCR cut determine FDI, influx. There is a variety of reasons, of other fundamental factors that the government must address to attract investment and stabilize financial markets (Brichieri-colombi, 2020; Grajetzki, 2020; Chen & Gao, 2020; Chen et al., 2020; Dubrovina & Serova, 2020; Fernandes et al., 2020; Al-Husseini, 2020; Al-Tufaili, 2020).

Study (Bayar, Kılıç, 2014)) "Effects of Sovereign Credit Ratings on FDI, Inflows: Evidence from Turkey": FDI, inflows increased globally. Since the beginning of the eighties in parallel with the technological progress and the globalization of the economy. However, in Turkey, FDI, inflows began to increase until 2001. The reason for this is the successive economic and financial crises and political instability. The study touched on the relationship between Turkey's sovereign credit ratings and FDI, flows for the period (1995-2013). It concluded that there is a positive relationship between FDI, flows and sovereign credit ratings. Accordingly, the credit ratings of countries and companies are an important indicator for international investors.

Study (Popa, 2012) Study "The Impact of Country Risk Classification on FDI, Flows in Romania": The country risk assessment is based on domestic internal indicators. It gives an important signal that the economy conveys to the external environment. Which will contribute to the economic development of the region if the degree of confidence is high in the sovereign rating. The country's risk rating agencies often have credibility with investors in general. By indicators of the impact of relevant macroeconomic variables that give their classification reliability when making decisions. This leads to the distribution of foreign direct investment in relation to the recognized competitiveness of economies seeking increasingly profitable investments. The country risk rating process is the most difficult and complex of all types of risk assessments. This was discussed in the tables of the scores of the three major rating agencies in the United States: Moody's, Standard & Poor's, and Fitch. European Agency Euro money (De Bruyn, 2020; Dunga, 2020; Makhalima, 2020; Meyer & Hassan, 2020; Muller & De Klerk, 2020).

DATA & ANALYSES:

Indicates (IMF10, 2010: 88) that a credit rating measures the relative risk that an entity or transaction will fail to meet its financial obligations. This interest payments and capital repayment, right on time. The company's rules are not fair risks are assigned to separate ratings. When the borrower fails, Pay off the principal or interest in due course. Or if there is a defaulted swap of the original debt. S&P measures hypothetical risk in terms of hypothetical probability. While Moody's rankings measure expected losses. Fitch classifies entities based on hypothetical probability. Financial instruments are based on expected loss. As a result. Theoretically the Moody ratings should differ from Fitch, S&P according to differences in loss severity. The expected loss can be estimated by the hypothetical probability factor and the severity of the expected loss. However, in practice there is little difference. Especially between investment grade ratings. Global credit rating agencies use alphabets to denote credit quality, which falls into two types of level of credit risk:

1. Grade Investment: It is an indication of the low degree of credit risk, and is coded as (A, Aa, Aaa, Baa) for Moody's. And the format (A, AA, AAA, BBB) for Standard & Poor's and Fitch.

2. Grade Speculative: It is an indication of the high degree of credit risk, and is coded as (C, Ca, Caa, B, Ba) for Moody's. And the format (C, CC, CCC, B, BB) for Standard & Poor's and Fitch.

3. The degree of non-payment risk (CCC +, CCC, CCC-, CC). Degree (D) is the highest risk.

And there are cases on which credit rating agencies add numbers or signs to the right of the rating to indicate the level of credit quality (0-5, +, -).
After reviewing the theoretical aspect of the above and touching on the concepts of research. The applied side will be covered. From the reality of the data issued by international or local responsible bodies, which is represented in the data it issues:

1. International credit rating agencies
2. United Nations Trade and Development Organization
3. The International Monetary Fund
4. The Central Bank of Iraq

Table 1:
Cash flow investment in Iraq (million dollars)

Net	Outflows	Inflows	Years
426-	89	515	2005
-78	305	383	2006
964-	8	972	2007
-1822	34	1856	2008
-1526	72	1598	2009
-1271	125	1396	2010
-1516	366	1882	2011
-2910	490	3400	2012
2562	227	-2335	2013
10418	242	-10176	2014
7722	184	-7574	2015
6560	304	-6256	2016
5110	78	-5032	2017
5073	188	-4885	2018

Source: www.unctadstat.unctad.org.com

Table 2

The sovereign classification of Iraq according to international institutions

Agency / year	Moody's		S&P		Fitch	
	Future	Categor	Future	Category	Future	Category

	outlook	y	outlook		outlook	
[a]2015	-	-	stable	B -	stable [b]	B -
2016	-	-	stable	B -	Negative	B -
2017	stable	Caa1	stable	B -	stable	B -
2018	stable	Caa1	stable	B -	stable	B -

Source: www.ar.tradingeconomics.com.

a : Entering Iraq into the international credit ratings.

b: The stable outlook reflects its view that the risks to public financial performance in Iraq will be contained.

Table 3:

Statistical program

Total	Outflow	Inflows	
-252	168	449	Median
1923.714	191.1429	-1732.57	Mean

18226648	19336.44	18236230	Variance
14	14	14	n
13	13	13	df
		Levene's	
Accept the hypothesis of correlation between the two research variables and that the differences are due to the difference between the variables. The calculated value of (T) is greater than the tabular (T) *		6.976	Test
Accept the hypothesis of correlation between two search variables because ($p < 0.05$) (Variances are Different)*		0.003	p
	0.05	a	
($T_{\cdot tab} = 1.771$)*			

Table 4:

Summary of the statistical program

		Regression Statistics
	0.008	Multiple R^2
Goodness of Fit < 0.80	0.000	R Square
	-0.083	Adjusted R Square
	4443.445	Standard Error
	14	Observations

Table 5:

ANOVA (Hoteling's T-Squared Test)

Hoteling's T-Squared	F	df1	df2	Sig
29.155	13.456	2	12	.001
				) *$F_{\cdot tab}$ = 2.60 (

Table 6:

Case Processing Summary

	Cases					
	Included		Excluded		Total	
	N	Percent	N	Percent	N	Percent
IN FLOW * NET FLOW	14	100.0%	0	.0%	14	100.0%
OUT FLOW * NET FLOW	14	100.0%	0	.0%	14	100.0%

6. Discussion:

This study analyzes the effect of sovereign credit ratings on FDI, flows in Iraq for the period 2005-2018. It was found that sovereign credit ratings (Moody's, S&P and Fitch) have a positive impact on the flow of foreign direct investment flowing into Iraq. Most investments depend on sovereign credit scores. Except for mutual investments, or based on bilateral agreements, or that have a political purpose. The pattern of FDI, inflows and the risk position disclosed also depend on national income groups in the recipient countries. The study and the result of examining the credit ratings while searching found that the countries with the highest rating. Attracting more FDI, inflows. Reverse countries with the lowest rating.

The degree of risk is directly correlated with the expected return on investment. As a result, you may be a catalyst for more investment. In countries with the lowest rank. Investors preferred a high-risk investment environment. Because of the high return on investments in these countries. There are cases in which we find that high FDI, flows. Are usually linked to closer bilateral ties in terms of common language. Geographical proximity, and the amount of trade between donor and recipient countries.

6.1. Conclusions and recommendations:

- The degree of credit rating is the path of governments. To enter the global financial markets. And determine the interest rates that can be imposed on external debt. Especially if it has the intention to issue securities to external investors.

Credit agencies enjoy market credibility as a result of correct readings of future expectations resulting from studying the local markets of countries.

Establishing a body or institution concerned with improving credit ratings for Iraq and increasing its competitive ability to attract investments. the expression In addition, work on the governance of financial procedures and the establishment of a general framework for governance for all financial joints.

- Economic factors such as taxation and the rate of GDP or high inflation have a positive impact on sovereign ratings. And the tax system must be improved effectively. In what improves the GDP and restricts annual inflation.

- The entry of Iraq into the international credit ratings and its components of the emerging economy, which is seen with a promising future look, have helped multiply foreign investments between (2005-2018) by more than 900%.

This study is mainly intended for financial policy makers and those in charge of the investment apparatus in Iraq. To submit proposals to improve sovereign ratings and related decisions related to global investors. Classifications show the amount of risk and the expected return on investment.

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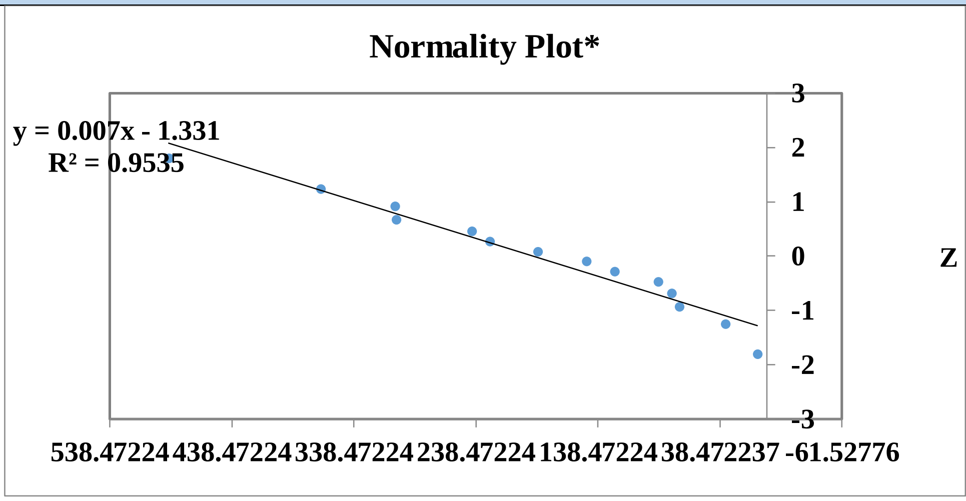
Statistical appendices

Figure (1) data propagation pattern



*** Show the direct relationship between the two variables in terms of the propagation map and degree (R2) 0.9535**