

Financial Policy Challenges in Triple Crisis (Political – Health – Financial)



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Case Study:
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(Political – Health – Financial)

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An Overview of RCD

Al-Rafidain Center for Dialogue is a qualitative center in Iraq that brings together to its platform the political, economic and academic elites, leading the visions and influencing both the decision-making process and the public opinion. It is an independent intellectual center (a think tank), seeking to encourage dialogues in politics, culture and economy among Iraqi elites to reinforce democracy, foster social peace and help the state institutions to develop itself by providing expertise and strategic visions. Thus, the Center represents a salon for an objective and neutral dialogue whose outputs are employed to put pressure on decision-makers and shape public opinion towards building a State of Institutions, within the framework of democracy, supremacy of law and respect of human rights.

The Center was founded on first of February 2014 in the holy city of Najaf as a virtual group in the cyberspace that included a limited number of politicians, academics and intellectuals. The idea later evolved which led to its legalization by registering the Center in NGO section of General Secretariat of the Iraqi Council of Ministers.

Today, RCD brings together more than 700 Iraqi members from all political trends, academic disciplines and religious branches, which resembles a miniature of Iraq, in which everybody agrees upon adopting dialogue as a fundamental pillar to face problems and generate strategic solutions attuned to the Center's vision to build a prosperous country. In addition, 30 employees from different disciplines work in the Center's administrative divisions.

The Center managed, in a short period, to make a number of achievements through harnessing the different potentials and employing the outputs in favour of the Iraqi issue, benefiting from the new electronic communication with elites who are at the centre of decision-making, surpassing barriers of geography, time and security imperatives that may hinder the dialogue.

The Centre did not only communicate virtually, but also set up a range of activities on the ground, including a number of seminars, conferences, workshops and dialogue sessions in several fields. These include, but not limited to, developing the banking sector and stock market, promoting national reconciliation between the parties and mediating in crises between the central and regional

governments. They also include improving the services sector, getting rid of the administrative bureaucracy and routine, achieving water and food security, as well as investigating other contentious issues such as constitution, petrol, foreign relations, Popular Mobilization, border-crossing points, investment, social care, etc.

The RCD Forum is a true milestone within the Centre's activities; it is the first-ever broadest and most organized forum in Iraq. It aims at enriching the dialogue between decision-makers regarding issues of concern to the country, promoting discussions about them and sharing experiences with academic experts.

Vision, Mission and Objectives

The Center's Vision

The Center is the station where views of elites and decision-makers of all political, religious and national spectrums meet, providing a positive interactive environment that widens the common space between these views and helps building a prosperous country.

The Center's Mission

To encourage and develop objective and meaningful dialogues among Iraqi elites and decision-makers, thereby enhancing democracy as well as achieving social peace and sustainable development in Iraq.

The Center's Objectives

The Center seeks to achieve a number of objectives including:

- To achieve the social peace and ensure its continuity by encouraging constructive dialogue and intellectual exchange among Iraqi elites within a national comprehensive rules and frameworks.
- To promote a sense of national responsibility in society by shaping the public opinion towards a sustaining democracy, and maintain a balanced relation and mutual trust between the elites on one hand, and the state bodies and institutions on the other hand.
- To help the government institutions and bodies to develop solutions for the problems facing their work by presenting

the studies, consultations and strategic visions of specialised researchers.

- To broaden the base of female members among political and social entities by providing an objective environment that guides the dialogue in a way that benefits the public interest of the country and citizens.

Strategies

To achieve its objectives, the Center adopts the following strategies:

- Holding conferences, seminars and specialized forums in political, social, economic and cultural fields, as well as providing media coverage for these activities and their outputs.
- Publishing original language and translated books, magazines, newspapers, publications and researches in Arabic and other languages, both paper-based and electronically.
- Developing agreements and partnerships with high-ranking universities and colleges in Iraq and abroad, to organize joint

scientific events that help achieving the Center's objectives.

- Establishing research communities for scientific, intellectual and cultural studies, and forming standing or temporary specialized committees that encourage the scientific research activity, thus contributing to the achievement of the Center's goals in issues concerning Iraq and the Middle East region.
- Holding dialogue and understanding workshops among the conflicting parties, whether their conflict is ethnic, racial or political; to develop mechanisms of understanding the other as an introduction to discover the national commonalities, making it a launching pad for a meaningful dialogue to achieve social integration.

Introduction

The Iraqi economy is a crisis economy since the founding of Iraqi state until the present time, whether crises are internal or external. All problems faced by Iraqi economy after April 2003 are the result of the political transition, which has disrupted the elements of Iraqi economy that lacked the economic philosophy on which its management is based. Therefore, describing the economic system is a necessary condition to diagnose the shift level in the economic policy and determine the necessary economic policies to overcome crises it suffers from, last of which is the current crisis that represents a triple shock. The first shock was due to demonstrations that erupted in November 2019. The second shock was the result of oil price collapse and the reduction of oil production by OPEC+ agreement. The third is related to corona pandemic and the resulting shock in supply and demand simultaneously, leading to a slower economic growth.

Most of Iraqi economy problems are related to the rentier type of economy that made the state determines its relations with society in the presence of oil rent and by being dependent on it,

which has made it move away from its society, weakening the efficiency of civil society institutions role as well as its monitoring role, especially regarding economy.

The economic philosophy, after April 2003, has been doctored in favor of market economy. The American occupier has tried to shape this economic system on the reality of the Iraqi devastated economy, resulting in more economic chaos. The current Iraqi constitution does not include any clear perception of economic philosophy. For instance, the article 25 exposes the blurred nature of the new economic system in Iraq, stipulating that: “The State shall guarantee the reform of the Iraqi economy in accordance with modern economic principles to insure the full investment of its resources, diversification of its sources, and the encouragement and development of the private sector.” This implies providing grounds to the transition from a centralized economy to a market economy, through adopting a long-term developmental economic strategy aiming at restructuring the national economy, and widening the productive base and economic diversity. It also implies making the shift gradually, in addition to giving more active role to the private sector in leading

the development process, allowing direct capital investment of all forms and nationalities to invest, liberalizing economy from constraints of exchange, prices and trade, and attracting foreign investment by creating an atmosphere that ensures favorable conditions for the development process.

The rentier state's financial structure has personified the public expenditure process, reinforced traditional concepts of authority, politicized public expenditure and strengthened politicians' tendency towards rentier economy. This has been reflected on the financial planning methods in the country and the relapse into traditional methods used in preparing public budget, as well as the acceptance of growing deficit in the budget without regard for the strategic priorities, economic situation and public finance conditions. This has moved the public budget away from translating the economic policy's objectives into reality. In addition, it has influenced the non-rationalization of public finance in both its expenditures and revenues and decreased government spending efficiency, effectiveness and revenues. Simultaneously, the quality of public services and government

performance has declined steadily in spite of oil revenue abundance.

Some of the manifestations associated with this are poor transparency in government financial processes, especially those related to government procurements, bidding grants and tenders, and the increasing cases of financial corruption, especially that these processes are related to the activity of private sector that has beneficial anomalous relations with the state institutions.

The spread of coronavirus in Iraq has coincided with the historical decline in crude oil prices. The first corona case in Iraq was reported on 24 February 2020, which was not surprising on many levels, because of Iraq's proximity to Iran, the world's second largest epicenter of the virus. Everybody believed that the virus emergence in Iraq was just a matter of time. During the previous period (between 24 February until 8 July 2020), the number of coronavirus cases in Iraq was 67442, while the total recovered cases was 37879. The total number of active cases is still huge, reaching 26784, in addition to 403 cases hospitalized in intensive care and 2779 deaths.

Thus, the three interacted shocks have influenced the Iraqi economy, leading to a serious growing deficit in public budget due to collapse in oil prices resulted from coronavirus and the reduction of oil production, whose revenues make up over 90% of budget revenue and around half of the GDP. Moreover, the oil exports make up 98% of total exports. In other words, the economy is dependent on oil.

Public Financial Management Crisis in Iraqi Economy

The Ministry of Finance's Act No. 92 of 1981 has defined specific financial objectives, including financial planning that shall remain within "the framework of state's public policy, and national development plans, as well as finding ways for preparing a plan and supervising its implementation" (Section I/Article 1/First). Moreover, the Ministry shall provide limited "financial" means to achieve this. However, its powerful impact in economic activity comes from the central bank's association with it, and from including it within its administrative divisions (Section II/Article 2). This has made its decisions include both financial and monetary dimensions

in the economic policy, especially during 1980s and 1990s.

The ministry have lost this influence with its independence from the central bank and the government, while the council of ministers' decision, whose number is L2812\46\1\6 issued on 4 April 2005 under which the economic directorate of the ministry was founded, has failed to increase its influence in the national economy. As a result, it has continued to function as the "government's financial accountant" without being able to link the public budget with the national economy or coordinate with the central bank that has shied away from it.

The "accountant" role played by the Ministry of Finance has made it trapped in this role. It is the mastermind behind the strict spending, through which it could engage other ministries under its generous spending of its allocations approved within the federal budget. Every month, Ministry of Finance funds the salaries of ministries and institutions through the banks of al-Rafidain and al-Rashid with amounts it considers appropriate. At times when there is no budget law, like what happened in 2020, it has more power in defining the spending rule 1/12. The government

institutions often complain about the mechanism with which the ministry calculates its previous allocations and what was spent from it, leaving these institutions suffer from special hardship. In addition, it withholds allowances and promotions and fails to fulfill its obligations towards others, even under the enforceable rules and decisions such as court decisions for compensating citizens who call upon hundreds of institutions for violating their private property rights since the decades of the defunct regime. Even the Ministry of Finance decisions have possessed “practical” superiority over the decisions of the judiciary in a reality that cannot be justified or understood in a democratic state that is based on the principle of separation of powers.

The Ministry of Finance is still preparing the budget according to line-item budgeting approach adopted by the British since the founding of Iraqi State in 1921. This method focuses on the spending integrity in terms of its compatibility with regulations and laws in force. Although committees have been formed and demand has been made to shift to other budgeting methods, especially program and performance budgeting, listed within the agenda of the previous government, there was no implementation on the

ground. Most countries have abandoned line-item budgeting method, for it does not focus on the policy's financial goals, and it may be a vulnerability to corruption festering within the state's body.

Iraqi Economy and Corona Crisis

Since the beginning of corona pandemic outbreak, the government has not presented its plan to face implications of the complex crisis and has continued to adopt impulsive decisions and reactions to the situation imposed by the crisis. Moreover, some of these decisions were not up to the event. Because Mr. Adel Abdulmahdi's outgoing government has been a caretaker government, it had no financial authority to face the financial, health and political implications. Therefore, the public budget preparation procedures have not been completed, restricting the expenditure while facing urgent spending requirements, which was not dealt with by the government as a business cycle, but rather looked at the deficit and how to face it. **Besides, the pessimistic statements, whether by the executive branch or legislature, that the**

government was unable to pay its employees' salaries, apply compulsory saving or deduct from salaries, have created a panic, frustration, uncertainty and a dominated pessimism, making the future of national economy ambiguous.

The Iraqi economy, as a rentier economy with a high economic exposure, is influenced by crises occurring in the global economy. Since corona pandemic has led to a collapse in oil prices and a decline in global oil demand, the Iraqi oil revenues have declined seriously as well to an extent where the government became unable to endure paying salaries and wages, assuming a continuation of the pandemic.

Apparently, the government have thought about the crisis as a purely health crisis. Therefore, the committee of executive order 55 was formed early February 2020, however, the Council of Ministers has reconsidered this and decided in its 12th ordinary session (26 March) "to amend the Council of Ministers' decision No. 64 of 2020 and form a supreme committee of national health and safety, aiming at combating coronavirus." This committee is responsible for "developing policies and plans, supervising implementation, making major decisions, promoting the integration

among all executive bodies, and coordinating with legislative and judicial authorities as well as international bodies associated with combating the spread of the virus.”

The committee has been granted authorization of “Council of Ministries’ powers, being the high authority involved in combating the spread of the virus, with which all other relevant units, committees and formations are associated. It has included 12 ministers in its membership, along with 16 other members, among whom were the central bank governor and the national security advisor. As to its economic decisions related to corona crisis, they are as follows according to the official website of the Iraqi government (<https://gds.gov.iq>)⁽¹⁾:

- Its decision on 12 April to provide an urgent grant to the groups affected by the curfew. The Ministry of Planning has selected the coverage of 2.4 million families and assigned the Ministry of Labor and Social Affairs to disburse the granted amount in conjunction with Ministry of Finance and Iraqi Central Bank. The disbursement of a lump sum amount of IQD 30,000 per person has been initiated.

- To exempt renters of commercial, industrial or other real estates that belong to the municipal institutions from rental payments they owe throughout the duration of the emergent situation.
- To postpone the collection of installments owed for residential plots of lands that are sold or rented to citizens by all government institutions until the emergent situation passes and exempt citizens from monetary interests for no more than 31 July 2020.
- To exempt occupants and tenants of commercial, industrial or other real estates that belong to all municipal institutions or others from paying cleaning fees throughout the duration of the emergent situation.

These weak decisions and their limited influence in facing corona crisis do not need to be discussed. Either the government have not realized yet the gravity of economic implications, or it thinks that the Iraqi economy itself has been infected with coronavirus, and that the lockdown procedures are enough to treat it, and perhaps it would be isolated until full recovery! Otherwise, how are we supposed to take that no comprehensive and detailed rescue plan has been

announced to face the economic implications of the crisis?

Austerity Instead of Expansion in Dealing with Recession

The Iraqi economy suffers from economic recession that entails to follow expansionary monetary and fiscal policies. However, the state's direction is to take austerity measures arguing that they support the economy. Let us consider the new Finance Minister's statement about the government decisions to reduce employees' salaries and apply compulsory saving. With these procedures, the government is moving towards adopting austerity policy to face corona implications. The International Monetary Fund's report indicates that the Iraqi economy will shrink by 4.7%⁽²⁾, while the World Bank estimates the rate of deterioration at 9.7% of the GDP⁽³⁾. A number of problems has arisen due to the triple crisis implications, including:

- The complete and partial curfew procedures have led to a near complete paralysis in most of economic activities, except some of the continuing activities, as

they are related to people's lives such as groceries and foods.

- Millions have lost their jobs and compulsory unemployment has been imposed on millions of people who were left during this period without an income, with promises by government of monetary grants of IQD 30,000 per person monthly (around USD 25). At this point, a huge decline in total demand on goods and services should be expected. Suffice it simply to refer that 2.4 million families deserve the grant, namely around one third of Iraqi population whose estimated number is around 40 million. The lower oil prices caused by a decline in its global demand and the implications of Saudi-Russian price war have imposed more difficulties on the Iraqi economy that has lost two thirds of its oil revenues that fund around 92% of its budget. There has been mention of adopting a price of USD 30 per barrel as a basis for 2020 budget, which means loss of more than half of oil revenues, knowing that the budget of previous year has been prepared on basis of USD 56 per barrel.

- Iraq has approved on reducing its crude oil exports, to stop the collapse of prices, by 1.06 million barrel daily during May and June. In addition, it has approved on reducing 849 thousand barrels during the six remaining months and reducing 637 thousand barrels starting from 1 January 2021 until April 2022, namely Iraq has lost another one third of its oil revenues.
- The general economic climate is unstimulating under the prominent pessimistic expectations. Thus, this will cast a shadow on the rates of investment, consumption and prices.

As a result, the Iraqi economy will go into unprecedented recession, while the government is working on more procedures that deepen its recession and do not get it out of the crisis. The government should not come upon the remaining one third of total demand to end it with uncalculated austerity procedures. It also should reread the economic literature related to crises and emulate experiences of other countries that have prepared plans to face the implications of this economic crisis. Moreover, the economic justifications cited to address the crisis include cognitive errors that reflect a lack in

understanding reality, and they introspect an overly simplistic realization of what is happening and a misperception that the current crisis is just like all previous crises experienced by the current political elite. Therefore, to those who think that we are in a situation similar to a previous one, we say that this is not a traditional crisis and it is a very new one to our understanding.

Today, we see that most countries and international organizations such as IMF, WB and central banks have provided stimulus packages, the largest of which was⁽⁴⁾:

- US Administration procedures that exceeded a trillion dollars.
- The French government has provided a financial package of 45 billion euros to support liquidity in economy and an amount of 300 billion euros as security for bank credit given to private sector. These procedures aim at simplifying and strengthening health insurance, health care providers and financial support to small and medium-sized businesses, in addition to postponing social insurance expenses and corporate taxes.

- Australian government has promised to provide 9.7% of its GDP.
- The Canadian government has provided tax stimulus package of 0.05% to support the health system, in addition to providing poor families with a financial support of 23.6 billion dollars.
- Cameron has provided a financial package that makes up 0.1% of GDP through Emergency Ambulance Program to increase the health expenditure due to low oil revenues.
- The International Monetary Fund has provided between 0.750-1 trillion dollars as a part of emergency funding facilities it provides for low-income Member States and emerging countries.
- Whereas the World Bank has promised to provide a financial package up to 160 billion dollars.
- At the Arab level, UAE has adopted a stimulus package of 77 billion dollars, while Saudi Arabia has adopted a package up to 48 billion dollars. Qatar has announced several procedures including supporting the private sector with around 23.4 billion dollars, while Bahraini stimulus package

has reached 12 billion dollars. As to non-oil Arab countries, Egypt has adopted a package up to 7.7 billion dollars, while Jordan has provided an economic support up to 1.6 billion dollars⁽⁵⁾.

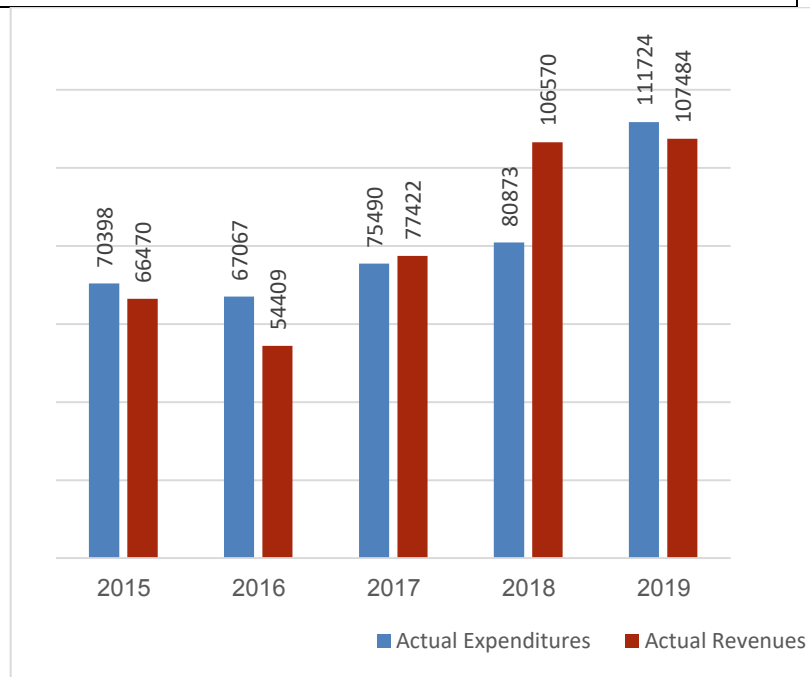
Public Budgets 2015-2020: Reading from Crisis Perspective

To reflect on the situation of Iraqi state's public budget of 2020, we need to make use of the experience gained from the five previous years, as they include cases of austerity and expansion, in order to see how the Iraqi recession had been dealt with. Let us not forget that in case of deficit in budget, the government looks for ways to cover this deficit, regardless of economy's stage. Thus, its procedures are in line with the economic cycle, and not facing it by following discretionary fiscal policy.

The Iraqi budgets indicate a lack of accuracy, whether in estimating public expenditures or public revenues. In an annual context, the budgets now are prepared with a deficit no matter what the economic situation. However, it ends up mostly with surplus, except the years of crisis. For instance, during the period of 2015-2019 (see figure 1); the two years of 2017 and

2018 enjoyed a surplus, especially 2018 whose surplus was 25.696 trillion dinars. Even for 2019, although the state account published on the Ministry of Finance's website indicates volatility in surplus or monthly deficit, it ended with a deficit of 4.239 trillion dinars. The Ministry of Finance has not published any clarifications about the increasing public expenditure in that year, just mentioned deaf statements that lack accuracy and credibility. As to how the 2018 surplus has been managed, the Ministry of Finance has not provided a comprehensive data about the conditions of that year, knowing that Kurdistan Region has demanded the government to pay its share of the recurrent surplus estimated at 4.0 trillion, namely a share of 507 billion dinars⁽⁶⁾.

Figure 1: actual public expenditures and revenues for the period of 2015-2019



Source: prepared by researchers based on the state's account published on Ministry of Finance website

The following table clarifies the actual and planned expenditures and their achievement rate. The planned public expenditures have been achieved by 87.3% in 2019 budget. The lowest achievement rate was in 2015, reaching 58.9% at the time. In general, the public expenditures were

not implemented during the period of 2015-2019. This indicates one of the following things: either the goals set are not commensurate with the possibilities for implementation, the executive bodies are unwilling to spend the allocations of public expenditures, or a supreme authority has restricted the spending possibility.

As to the public revenues, they are estimated based on the oil quantities produced and their prices that are estimated according to Ministry of Oil's view. Therefore, we see that in the years of 2015-2017, the achieved revenues were lower than the expected revenues, while the achieved revenues of 2018-2019 were higher than the planned revenues. This is simply because of reservation in adopting oil prices and the rise they went through. Regarding the coverage of revenues, the years of 2015, 2016 and 2019 showed a deficit in budget, while 2018 and 2017 achieved a surplus, and the deficit was not a problem in the Iraqi economy except in 2016, whose rate to GDP was -6.5%, whereas the standard ratio was 3%. As to the other years, there was no problem in rate.

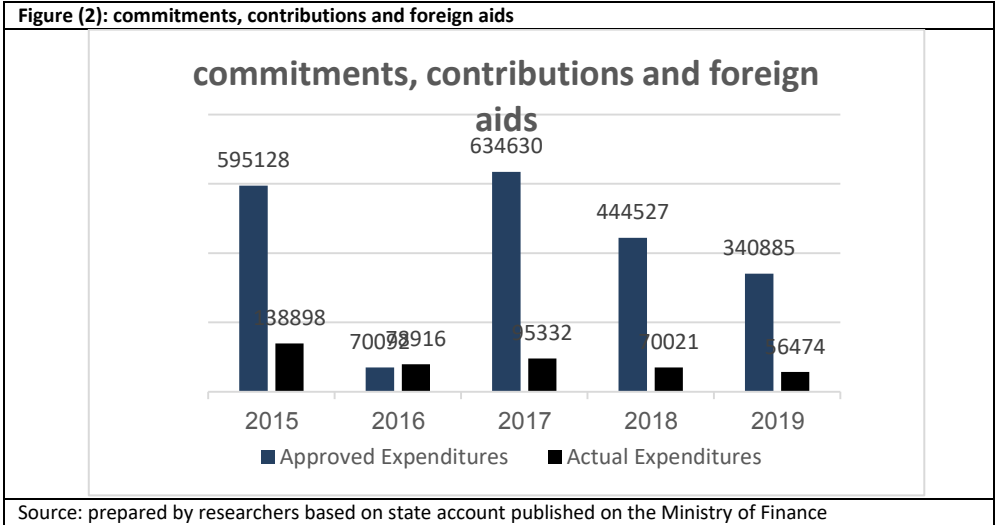
Table (1): actual and planned expenditure and revenues and achieved Rates for the years of 2015-2019 (billion dinars)

Year		2015	2016	2017	2018	2019
Expenditure (billion dinars)	Approved	11946243 1	105895722	966345 07	1027714 35	128005167
	Actual	70397515	67067434	754901 15	8087318 9	111723523
Achievement Rates (%)		58.93	63.33	78.12	78.69	87.28
Revenues (billion dinars)	Guessed	94048363	81700802	790114 21	9164366 8	105569686
	Actual	66470253	54409269	774221 73	1065698 35	107483586
Achievement rates (%)		70.68	66.6	97.99	116.29	101.81
Deficit (surplus)	Planned	- 25414068	-24194920	- 762308 6	- 1112776 7	-22435481
	Actual	-3927262	-12658165	193205 8	2569664 6	-4239937
GDP (billion dinars)		26633265 5	194680972	196924 142	2216657 10	262917000
Deficit Rate (or surplus)/GDP (%)		-1.47	-6.5	0.98	11.59	-1.61

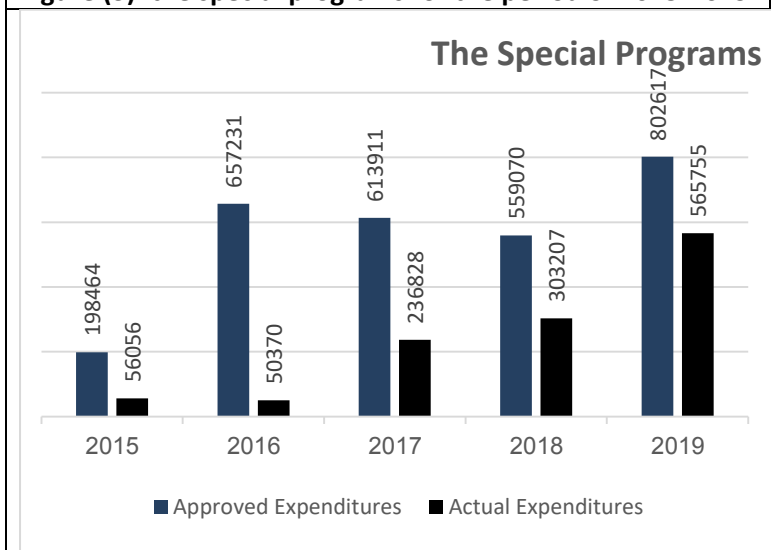
Source: prepared by researchers based on:

- Public budgets published on The Official Gazette of Iraq (Alwaqai Aliraqiya).
- Open budget available on the Ministry of Finance's website.
- State account available on Ministry of Finance's website.
- GDP, Ministry of Planning, National Accounts Directorate.
- Rates of surplus and deficit to GDP prepared by researchers.

The following diagram shows the actual revenues and expenditure and their disparities. The years of 2015, 2016 and 2019 show a deficit, while 2017 and 2018 show a surplus.

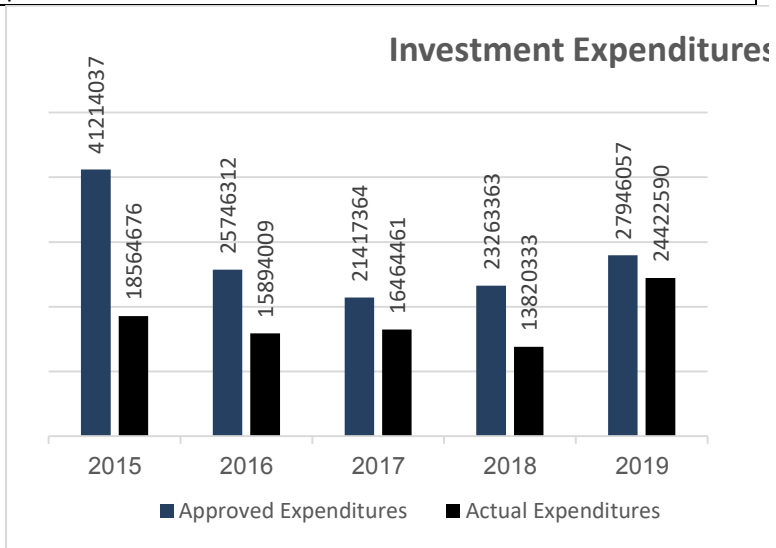


The inaccuracy applies also to the public expenditures estimation according to the economic categorization. The following diagrams indicate the disparity between the planned expenditures and the actual ones, and even the wages and salaries that must be achieved entirely. However, we see a disparity between the allocated compensations of employees and the actual expenditures.

Figure (3): the special programs for the period of 2015-2019

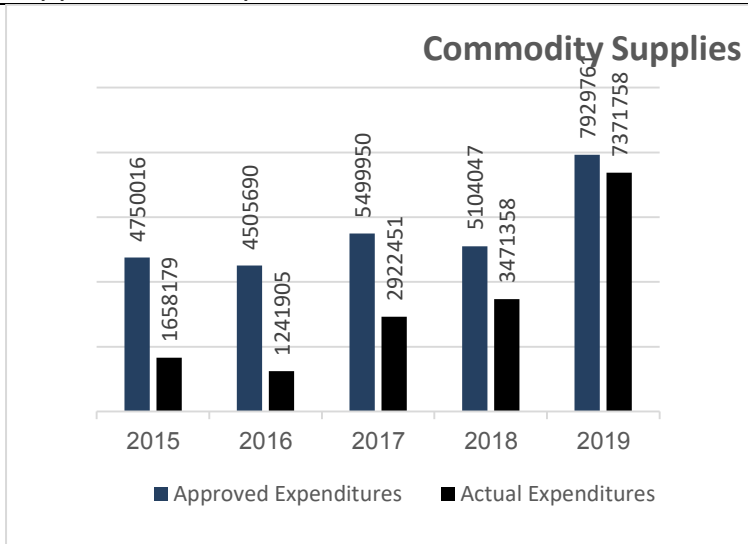
Source: prepared by researchers based on the state account published on Ministry of Finance website

Figure (4): the actual and approved services supplies for period of 2015-2019



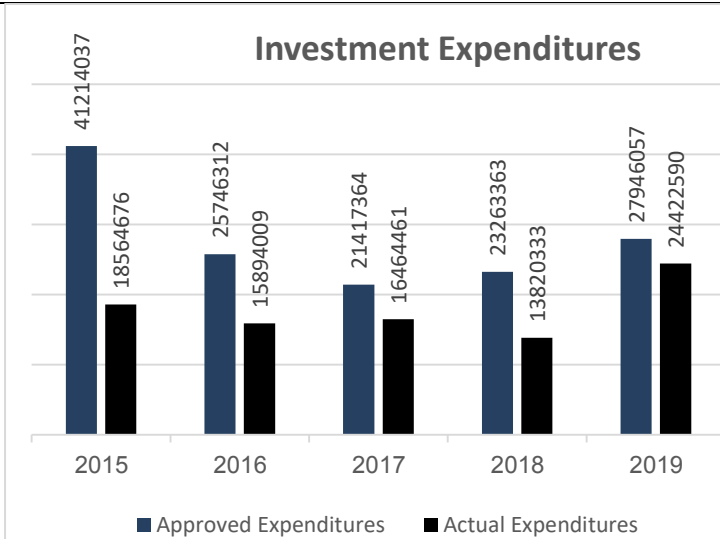
Source: prepared by researchers based on the state account published on Ministry of Finance website

Figure (5): the approved and actual commodity supplies for the period of 2015-2019



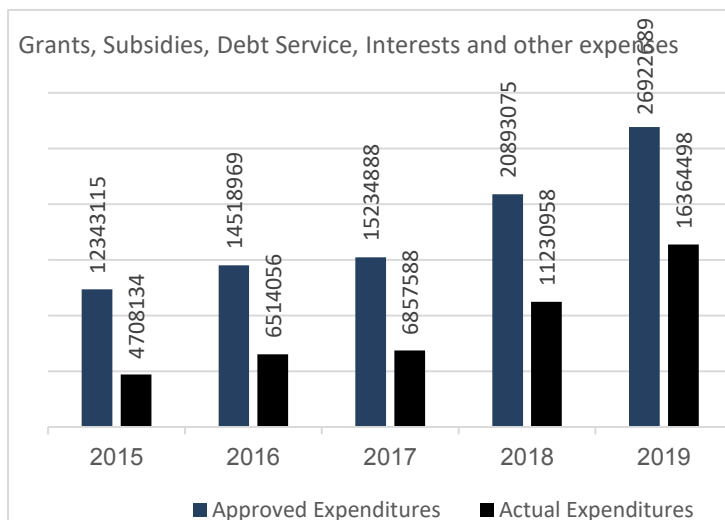
Source: prepared by researchers based on the state account published on Ministry of Finance website

Figure (6): the approved and actual investment expenditures for the period of 2015-2019



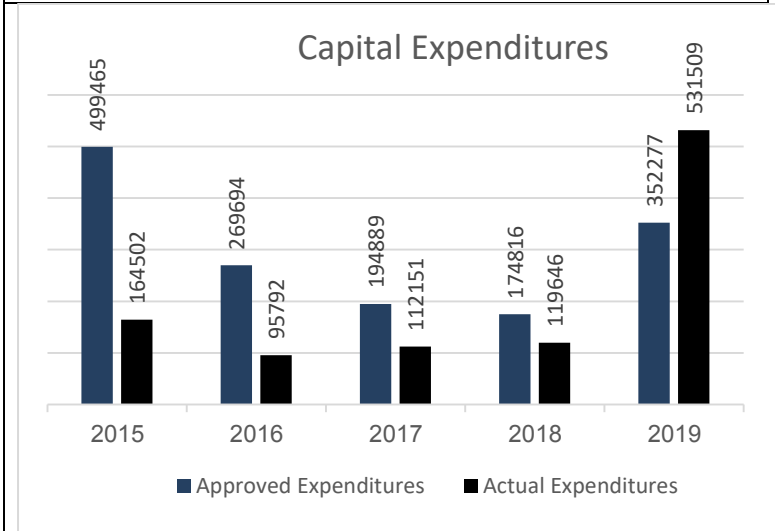
Source: prepared by researchers based on the state account published on Ministry of Finance website

Figure (7): grants, subsidies, debt service, interests and other expenses for the period of 2015-2019



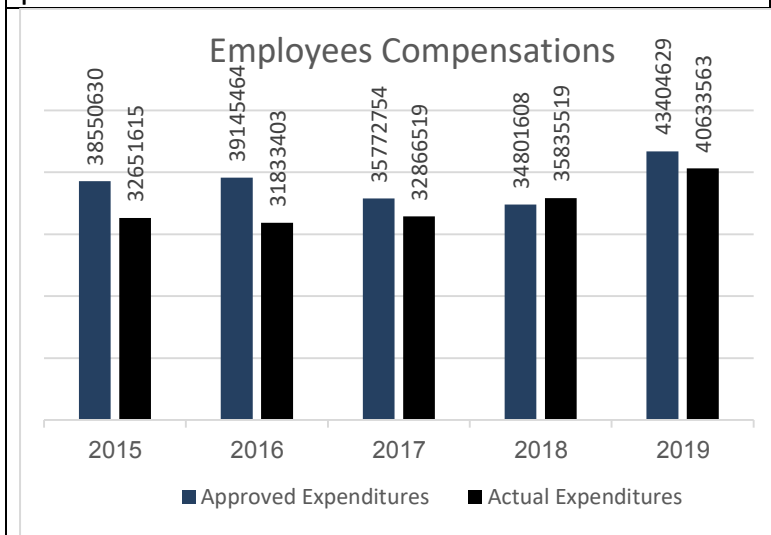
Source: prepared by researchers based on the state account published on Ministry of Finance website

Figure (8): capital expenditures for the period of 2015-2019



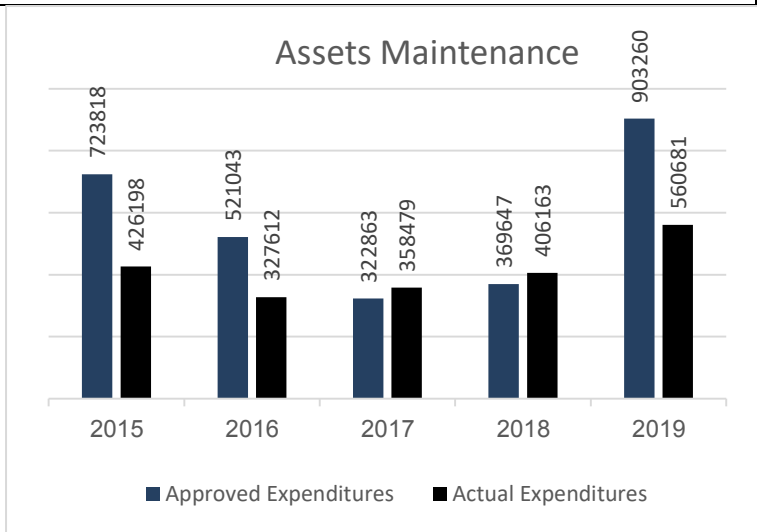
Source: prepared by researchers based on the state account published on Ministry of Finance website

Figure (9): employees compensations for the period of 2015-2019



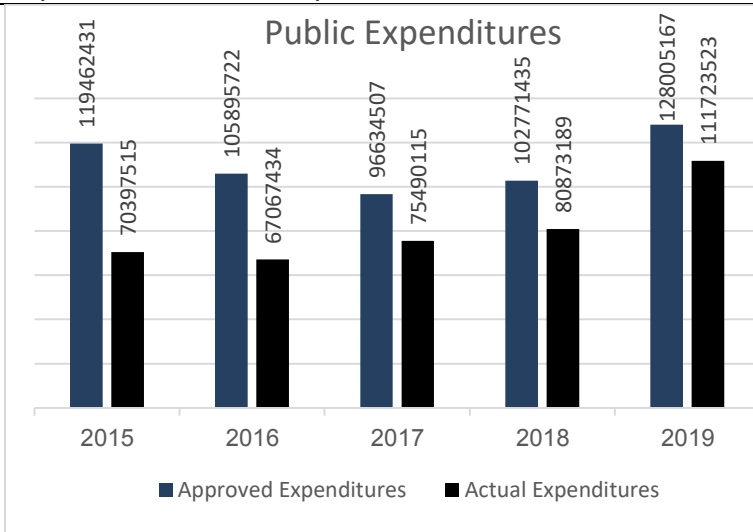
Source: prepared by researchers based on the state account published on Ministry of Finance website

Figure 10: assets maintenance for the period of 2015-2019



Source: prepared by researchers based on the state account published on Ministry of Finance website

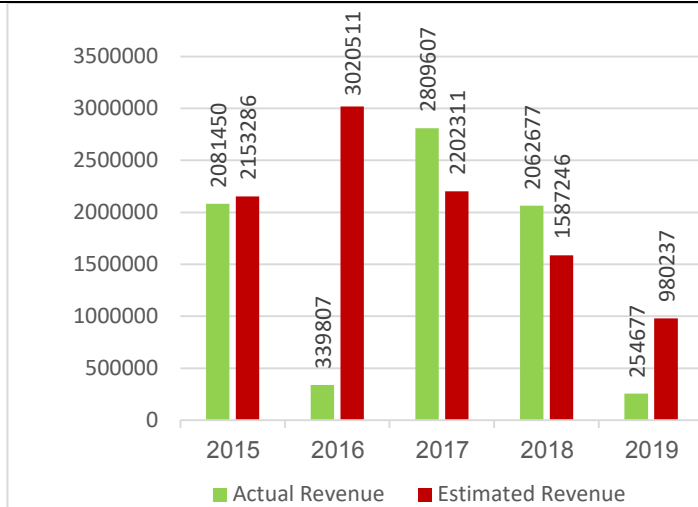
Figure (11): the total approved and actual public expenditures for the period of 2015-2019



Source: prepared by researchers based on the state account published on Ministry of Finance website

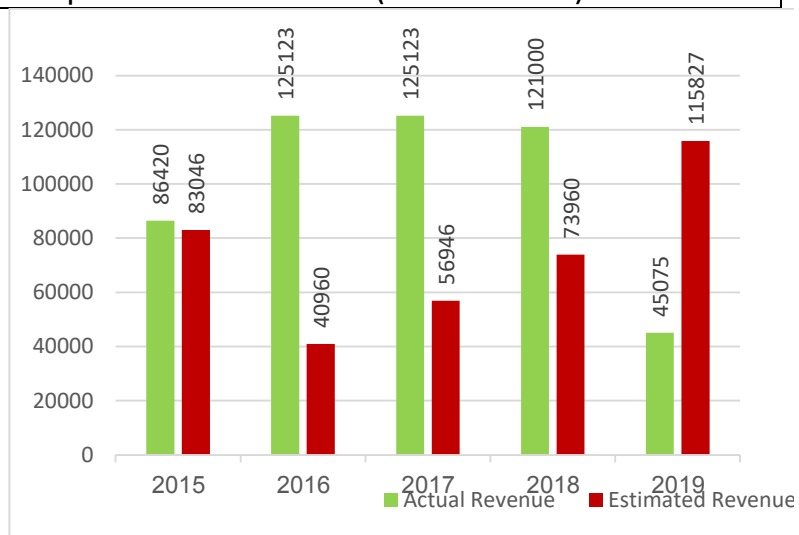
It is not only about disparity in expenditure estimations, but it is also about disparity in public revenues estimations, according to the economic categorization and as illustrated in the following diagrams:

Figure (12): actual and planned transforming revenues for the period of 2015-2019 (billion dinars)



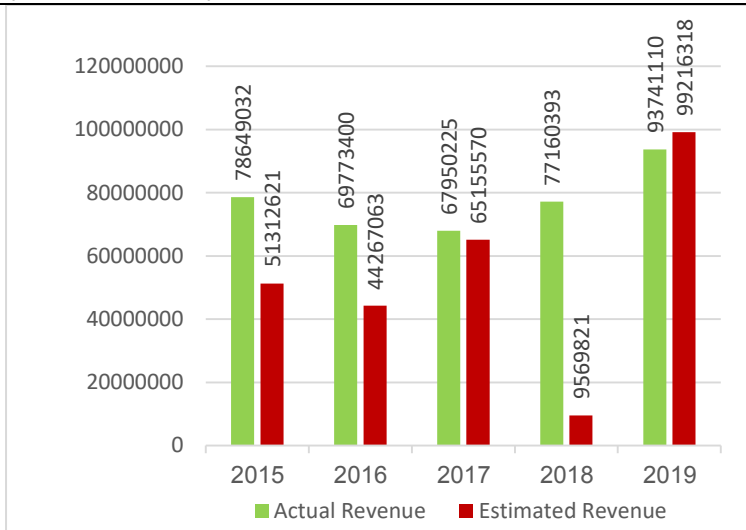
Source: prepared by researchers based on the state account published on Ministry of Finance website

Figure (13): actual and planned capital revenues for the period of 2015-2019 (billion dinars)



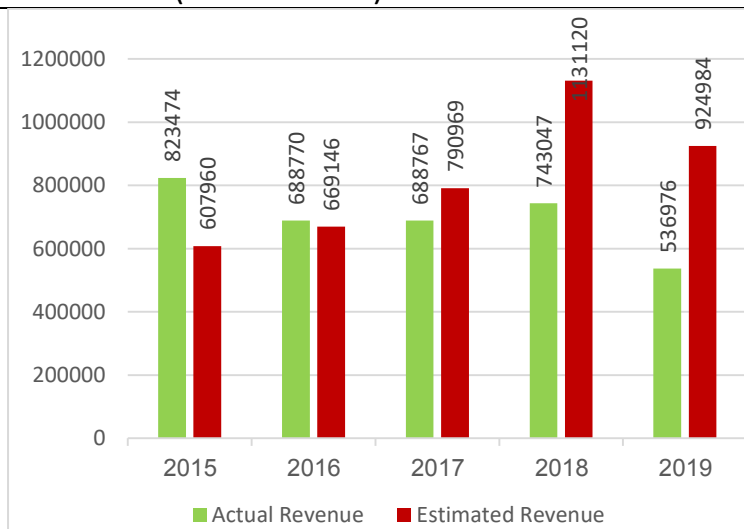
Source: prepared by researchers based on the state account published on Ministry of Finance website

Figure (14): actual and planned oil revenues and mineral wealth for the period of 2015-2019 (billion dinars)



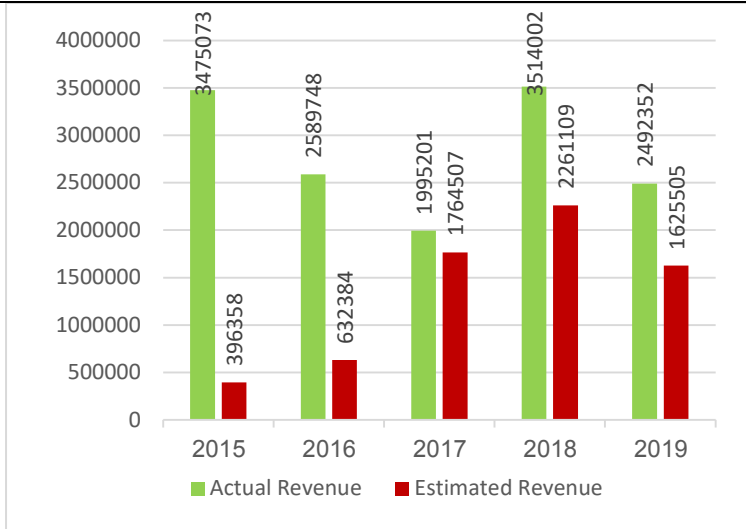
Source: prepared by researchers based on the state account published on Ministry of Finance website

Figure (15): revenues of actual and planned fees 2015-2019 (billion dinars)



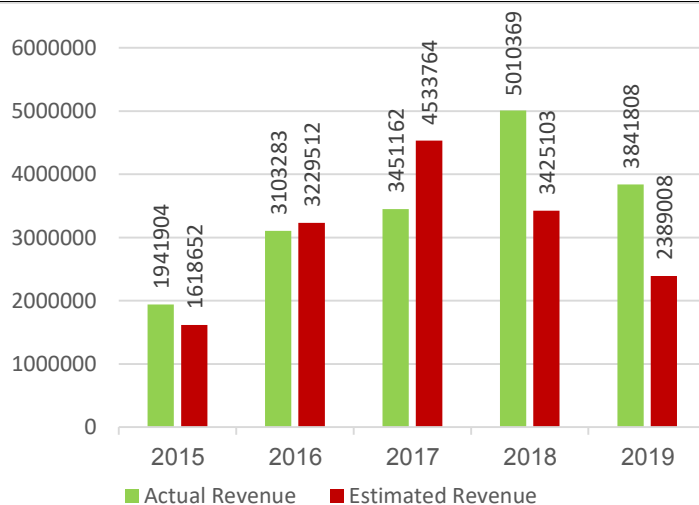
Source: prepared by researchers based on the state account published on Ministry of Finance website

Figure (16): revenues of actual and planned commodity taxes and production fees 2015-2019 (billion dinars)



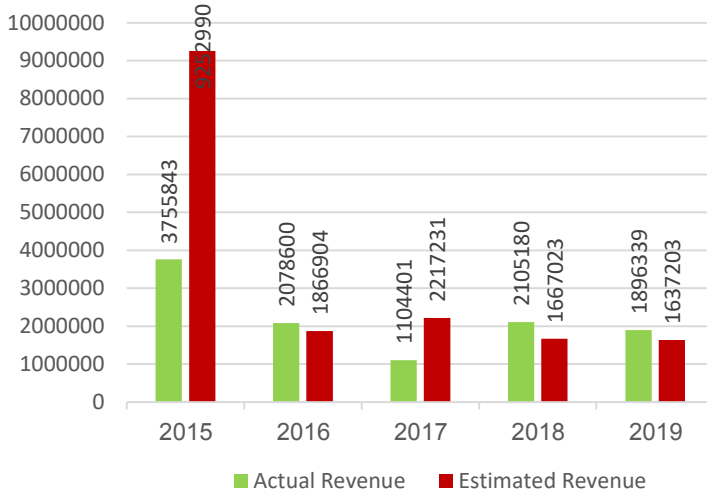
Source: prepared by researchers based on the state account published on Ministry of Finance website

Figure (17): revenues of taxes on actual and planned income and wealth



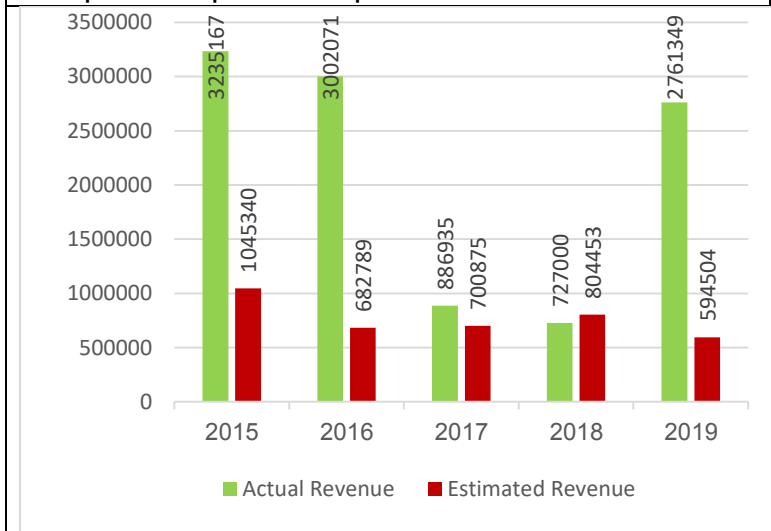
Source: prepared by researchers based on the state account published on Ministry of Finance website

Figure (18): other actual and planned revenues 2015-2019 (billion dinars)



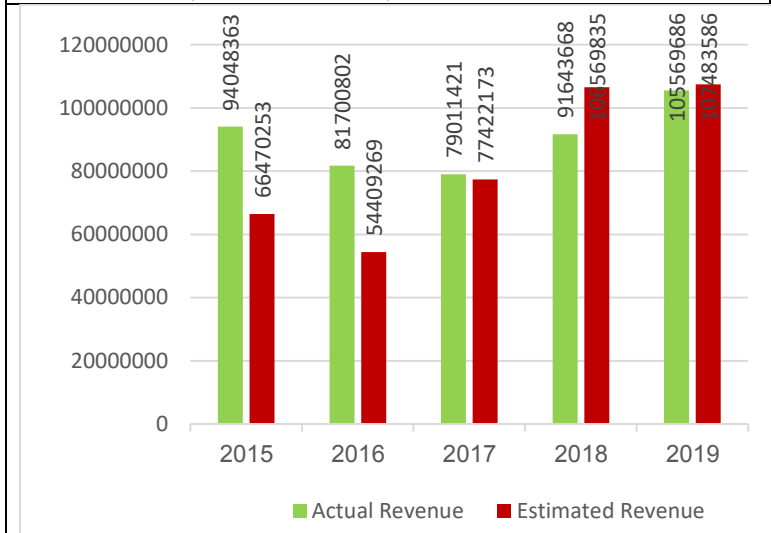
Source: prepared by researchers based on the state account published on Ministry of Finance website

Figure (19): revenues of budget share from actual and planned profits of public sector



Source: prepared by researchers based on the state account published on Ministry of Finance website

Figure (20): actual and planned total revenues 2015-2019 (billion dinars)



Source: prepared by researchers based on the state account published on Ministry of Finance website

Corona Effects on Iraqi Economy

The Iraqi economy has been largely affected by corona pandemic from different angles. However, we will confine ourselves to its effect on oil prices and consequently the oil revenues that are the

main funding resource of public budget revenues in Iraq.

Perhaps the most important effect of corona pandemic in Iraqi economy is the collapse of oil prices from February 2020. The following table shows that the oil prices and revenues have declined at a monthly rate of (8.74%) and (10.72%) respectively, while the exported oil quantities have declined by (2.96%). The total oil revenues until the first half of 2020 is around 20.342 billion dollars, namely 24.207 trillion dinars.

Table (2): barrel price, oil revenues and export rate during the first four months of 2020

Month	Average price per month (dollar/barrel)	Oil Revenues (billion dollars)	Daily Export Rate
January	60.139	6.163	3.306
February	49.232	4.842	3.391
March	28.182	2.962	3.391
April	13.801	1.423	3.351
May	21.005	2.091	3.212
June	33.864	2.861	2.816
Monthly Growth	(8.74)	(10.72)	(2.96)

- Researchers have calculated growth rates.
- Bracketed values are negative.

Source: prepared by researchers based on: the official site of Iraqi Ministry of Oil (<https://www.oil.gov.iq>).

The Finance Management Act No. 6 of 2019 allows spending by a percent of 1/12 of the current budget in case of budget non-approval⁽⁷⁾. Besides, the 3rd paragraph of the same article stipulates that (if federal budget is not approved for a financial year, the last financial statements of the previous year become a foundation for the financial statements of this year and are presented before Chamber of Deputies to be approved). Therefore, it represents the spending foundation for this year, namely 2019. The two researchers do not think that the government has the will to approve the budget. In the light of the state's account issued by the Ministry of Finance for the first four months of 2020, the wages and salaries are 13.630 trillion dinars⁽⁸⁾, which is 60% of the total current expenditures for the mentioned period that are 22.564 trillion dinars. The high rate is due to the limited spending at 1/12 because of the non-approval of budget and the spending limitation on the fundamental sections. If the Regional oil exports have been calculated under the oil prices announced by the Federal Ministry of Oil, and sales are estimated at

around 250 thousand barrels whose revenues are 1.349 trillion dinars, plus what has been spent to the Region in the first 4 months 1.359 trillion dinars, including 1.148 trillion dinars as salaries and wages, knowing that the number of regional employees according to the budget of 2019 is 682021, forming 13.2% of the Regional population, while the number of employees in 15 Iraqi provinces is 2941890, forming 7.07% of their population, then the rate for the entire country is 7.9%. This rate increases when adding those who receive their salaries from the center.

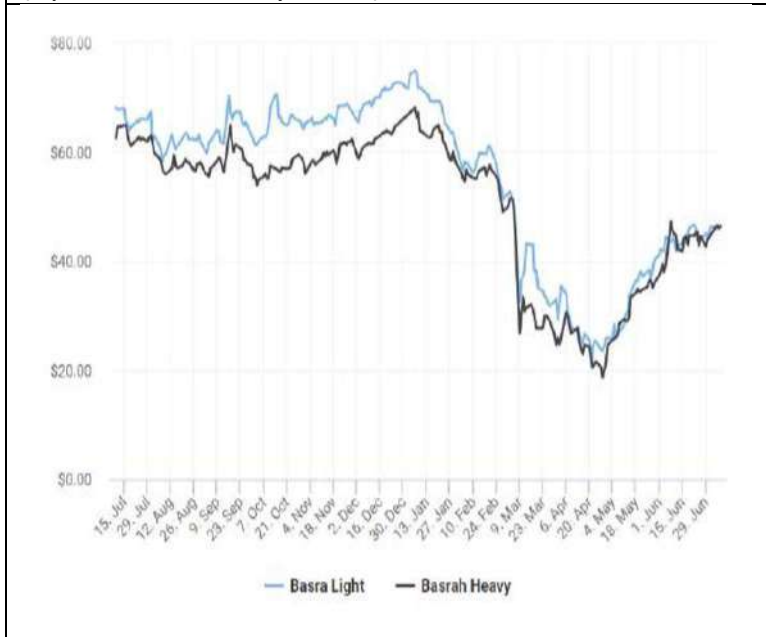
Public Budget Expectations under Corona Pandemic

When the first coronavirus case has been recorded in Iraq, the Basra light crude price was around 54.5 dollars per barrel. However, it has declined gradually reaching 46.45 dollars in eighth of July. Meanwhile, Basra heavy oil declined in a similar direction from 52.8 dollars on 26 March to 46.45 dollars on 8 July⁽⁹⁾.

The oil prices are expected to rise after most European countries have announced the partial lifting of the total lockdown. However, the falling

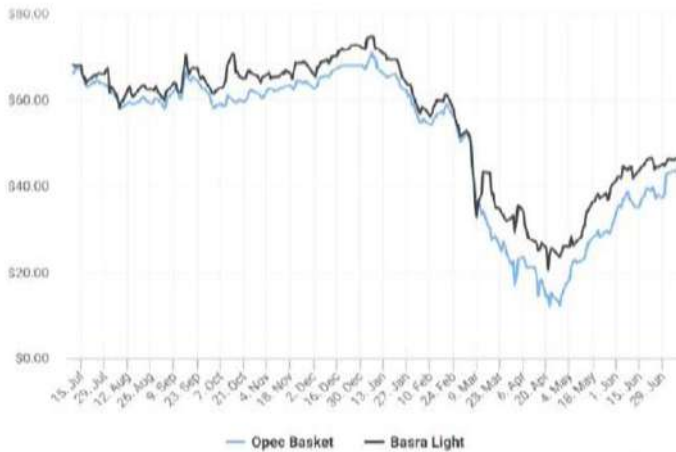
global demand and the big excess supply can affect the prices hugely. There is a need for further cooperation in achieving kind of balance in oil market, after large producers have run out of defense mechanisms against new collapse in oil prices, and achieving stability in the oil market disordered by corona pandemic implications and the price war policies of Saudi Arabia and Russia. This has influenced Brent crude price and OPEC basket or the remaining oil markets⁽¹⁰⁾. Saudi Arabia, Kuwait and UAE announced on 11 May 2020 voluntary additional reduction in their oil production⁽¹¹⁾. For instance, Saudi Arabia has cut a million barrels a day, producing 7.492 million barrels a day. Kuwait has followed it, cutting 80 thousand barrels a day, while UAE has cut 100 thousand barrels a day. This has slightly affected the prices due to the available large surplus of the oil supply. However, this might have positive results as well on prices in the medium term.

Figure (21): Basra light and heavy oil prices (updated on 8 July 2020)



https://oilprice.com/freewidgets/get_oilprices_comparison_chart/4187-4400#

Figure (22): Basra light oil prices comparing to OPEC basket (updated on 8 July 2020)



https://oilprice.com/freewidgets/get_oilprices_comparison_chart/29-4187#

To reflect the Iraqi economy vulnerability to corona pandemic, we will use the first four months of 2020 as a basis for analysis, as they represent the reality of situation. The following table represents the actual public expenditures according to expenditure sections.

Table (3): a report of expenses according to the economic categorization of the current budget until April 2020

Seasons	Current Budget	Percentage
Employees Compensations	13,629,705,660,104	60.4
Service Supplies	56,755,579,432	0.3
Commodity supplies	343,743,731,835	1.5
Assets maintenance	37,074,025,110	0.2
Capital expenditures	17,120,678,724	0.1
Grants, subsidiaries and debt service	3,733,729,904,388	16.5
Commitments and contributions		0.0
Special programs	22,257,450,011	0.1
Social care	4,723,455,907,310	20.9
Overall total	22,563,842,936,913	100.0

Table (4): a report of expenses by sectors for the investment budget until March 2020

Sectors	Investment Budget	Percentage
Agricultural Sector	8,594,861,802	4.5
Industrial Sector	34,337,107,792	17.8
Transportation and Communication Sector	95,813,706,203	49.8
Buildings and Services	43,482,711,889	22.6
Education	10,346,102,791	5.4
Overall Total	192,574,490,477	100.0

Source:

<http://mof.gov.iq/obs/ar/Pages/obsDocuments.aspx>

The total of the current and investment budgets is 22.756 trillion dinars, while the revenues achieved within the four months are 22.571 trillion dinars as shown in the following table.

Table (5): revenues according to the economic categorization for the current and investment budgets until April 2020

Revenues	Current Budget		Investment Budget		Total Budget	
	Trillion Dinars	Percentage	Trillion Dinars	Percentage	Trillion Dinars	Percentage
Oil revenues and mineral wealth	21,130	93.63	0	0	21,130	93.6
Taxes on incomes and wealth	206	0.91	0	0.1	206	0.9
Commodity taxes and production fees	325	1.44	0	0	325	1.4
Fees	208	0.92	0.33	9.7	208	0.9
Budget share of public sector profits	386	1.71	0	0	386	1.7
Capital revenues	9	0.04	0	0	9	0
Transforming revenues	84	0.37	0.04	1.3	84	0.4
Other revenues	220	0.97	2.98	89	223	1
Total	22,567	100	3.35	100	22,571	100

Researchers have calculated the percentages

Source: <http://mof.gov.iq/obs/ar/Pages/obsDocuments.aspx>

We have previously reviewed the public budgets for the years of 2015-2019 and analyzed them in terms of public revenues and expenditures, in addition to analyzing the public revenues and expenditures during the first four months of 2020. For estimating the budget during the remainder of the year (8 months), we will estimate the operating budget, wages, salaries and investment budget according to the statements of the mentioned period. Then, we will multiply them by three to get the current and investment budgets reaching 68268 trillion dinars, 40890 trillion dinars of which are wages and salaries, forming 60% of the budget, up from 36% in the previous years. This way of expenditures estimation is compatible with the Iraqi economy situation and the stage it is going through, and they are approximately the same as the budgets of 2015-2017.

As to the public revenues, they have been calculated according to the following assumptions:

- The oil revenues achieved in the first half of 2020 are around 20.342 billion dollars, namely 24.207 trillion dinars, which is true.

- The duration of the analysis has exceeded the first production reduction, which is (1.061) million barrels a day according to OPEC agreement, while the second reduction is 849 thousand barrels for the second half. Since the total oil production is 4.500 million barrels a day and the allocations for local consumption are 644 thousand barrels, the exports volume will be 3007 barrels a day.
- Adding the other actual revenues that have reached 11.828 trillion dinars in the budget of 2019.
- Assuming a range of oil prices (30, 35, 40, 45 dollars per barrel). Researchers think that the oil prices will vary from about 40 dollars for the rest of the year, which is more realistic assumption given that the Basra light and heavy oil prices varied from about the same price. A price below this is considered a pessimistic price, and a price above this is an optimistic one. However, the optimistic and pessimistic cases are governed by several constraints, most important of which are: the continuous corona pandemic and total lockdown, or the announcement of partial lockdown,

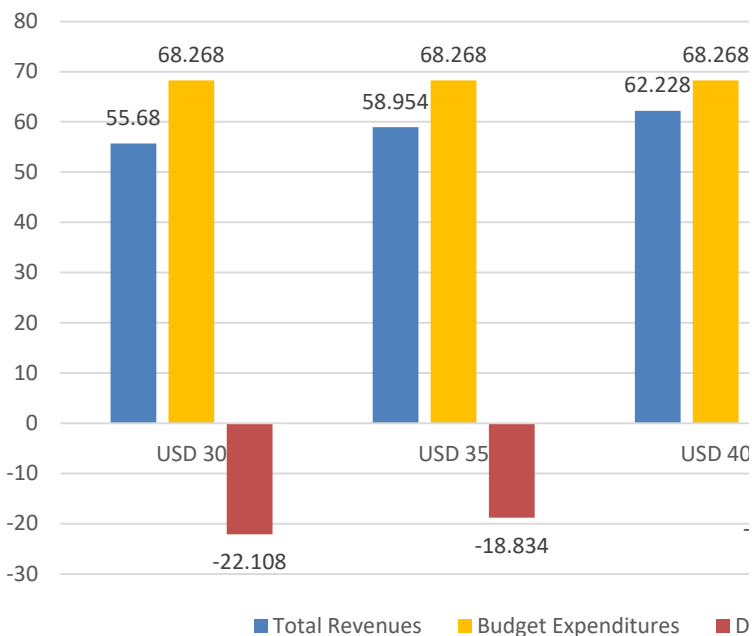
and that the trade war between China and USA has its effects on the global economy and economic growth which is one of the influencing factors in demand on oil. This is in addition to Iraq commitment to reduce the produced oil quantities in order to influence oil supply.

Under those assumptions, the public budget situation in Iraq is illustrated in the following figure, showing the seriousness of the financial situation in the country, given that the proposed assumptions of the budget are hugely strict, which will deepen the recession in the Iraqi economy. The World Bank has determined a negative growth rate in the GDP at 9.7%. Under these assumptions, the deficit will be 13 billion dollars for the entire year, which is a real deficit. Under the oil price of USD 40, the total revenues will be 62.228 trillion dinars, 42 trillion of which are wages and salaries according to the budget of 2009, given that the total of wages and salaries for the entire financial year, according to what was spent during the four months, is 40.890 trillion dinars. Therefore, we will choose the biggest allocation because we think that there are receivables that were not settled during the previous period.

Table (6): the budget in strict case: estimations of public budget and deficit for 2020 (according to the assumptions of the first four months of 2020 and oil prices scenarios)

Statement	USD 30	USD 35	USD 40	USD 45
Oil revenues: first half	24.207	24.207	24.207	24.207
Oil revenues: second half	19.645	22.919	26.193	29.468
Non-oil revenues	11.828	11.828	11.828	11.828
Total revenues	55.680	58.954	62.228	65.503
Oil production costs by foreign companies	9.520	9.520	9.520	9.520
Budget expenditures	68.268	68.268	68.268	68.268
Total budget	77.788	77.788	77.788	77.788
Deficit in dinar	-22.108	-18.834	-15.560	-12.285
Deficit in dollar	-18.578	-15.827	-13.076	-10.324

Figure (23): expenditures, revenues, and deficit under strict finance situation adopted by government



Source: prepared by researches according to assumptions made by them.

It is worth to say that the deficit under these assumptions is a real deficit, and not a seemingly one as in the previous budgets.

Advancement Scenario

If the government resorted to expansionary expenditure in dealing with the recession, benefiting from the experience of previous years of budgets situation that has promised austerity (2015-2016) and expansion of 2017-2019, we assume that the actual operating and investment budgets for 2018 are the basis. Moreover, the wages and salaries spent actually in the first four months of 2020 are also the basis for this paragraph (wages and salaries). If so, the financial situation in the country will be so serious and will need radical solutions with which the government seeks the economic development and not funding deficit. No matter what the assumptions, whether optimistic or pessimistic, the budget suffers from deficit. However, this deficit can be covered and is not a threat on the financial situation in case of strict financial policy, given that the country has tools to overcome it. Yet, the government needs to take bold decisions that are largely related to control expenditure.

The adoption of 2018 is fundamental to the advancement scenario, as 2019 arouses some problems that refer to inaccuracy in its statements; for instance, it is not acceptable that

the 10th month revenues are 400 million dinars, as illustrated in the following table:

Table (7): the actual monthly revenues and expenditures for 2019 (trillion dinars)

Month	Public Expenditures	Actual Expenditures	Surplus/Deficit
January	5.650	6.812	1.161
February	11.440	13.074	1.634
March	18.430	20.458	2.029
April	24.629	27.936	3.307
May	31.433	35.415	3.982
June	38.825	46.070	7.245
July	48.371	57.681	9.310
August	57.626	66.164	8.537
September	66.449	73.236	6.787
October	74.456	73.603	-0.853
November	85.050	91.370	6.320
December	111.724	107.567	-4.157

Iraqi Central Bank: Statistical website

<https://cbiraq.org/SubCategoriesTable.aspx?SubCatID=100>

The following table clarifies the budget situation according to the previous assumptions and operating budget assumption for 2018

Table (8): the budget in case of expansion: estimations of public budget and deficit for 2020 (according to the operating budget assumptions for 2018 and oil prices scenarios) (trillion dinars)

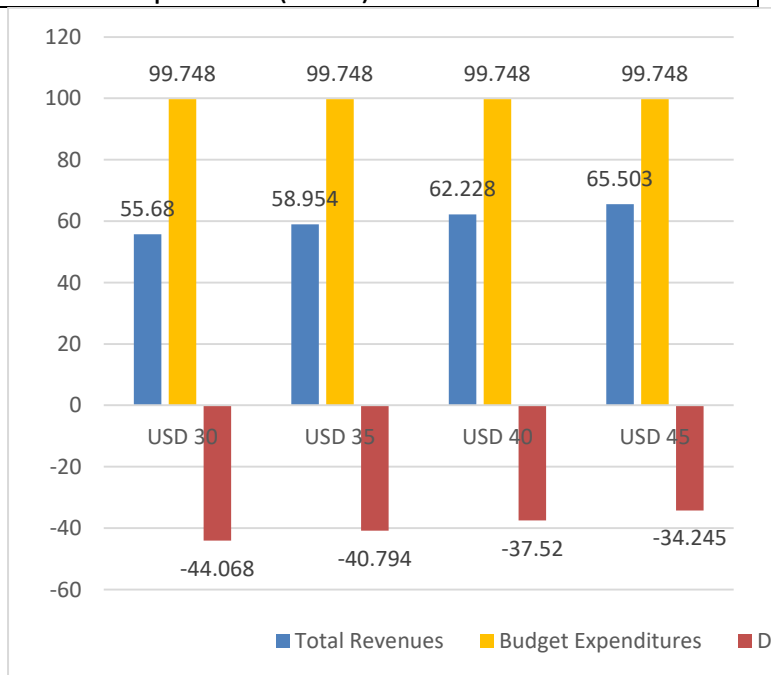
Statement	USD 30	USD 35	USD 40	USD 45
Oil revenues: first half	24.207	24.207	24.207	24.207
Oil revenues: second half	19.645	22.919	26.193	29.468
Non-oil revenues	11.828	11.828	11.828	11.828
Total revenues	55.680	58.954	62.228	65.503
Oil production costs by foreign companies	9.520	9.520	9.520	9.520
Budget expenditures	68.268	68.268	68.268	68.268
Total budget	77.788	77.788	77.788	77.788
Deficit in dinar	-22.108	-18.834	-15.560	-12.285
Deficit in dollar	-18.578	-15.827	-13.076	-10.324

Source: researchers' calculations according to assumptions made by them.

The problem of Iraqi budget in this condition is subject to factors that can be controlled in both its expenditures and revenues, and factors that cannot be controlled or anticipated; those are related to corona pandemic and its effects on the global economy.

Addressing deficit should not be seen in isolation from economy, as the Iraqi economy, just like the global economy, is going through recession. Therefore, to address recession, there should be expansionary fiscal policy integrated with expansionary monetary policy. The central bank has directed banks and underwriters to reduce interest rates on loaning from 4.8% to 3.5% within a tranche of 1-20 billion dinars, and reduce the tranche of 21- billion dinars from 6.3% to 4%. This is in addition to the central bank's decision to boost liquidity for the current projects under the initiative of (one trillion) with an amount of 5 million guaranteed by the project itself⁽¹²⁾. However, these procedures are not enough, and it entails an expansionary fiscal policy. Nevertheless, it should be combined with spending control and fiscal revenue mobilization.

Figure (24): expenditures, revenues and deficit in case of expansion (2020): advancement scenario



Source: Researcher's calculations according to the assumptions made.

Reform Requirements

The fiscal consolidation in Iraq should be done from a time perspective. Thus, there would be short-term and long-term procedures that contribute to redress the economic situation and advance it. The current situation is a warning bell for the government to reconsider its economic policies for a change. The first procedure is to abandon the traditional method in preparing the budget and follow other methods instead, best of which, we believe, in the current stage, is the budget of program and performance. In addition, there should be a real confrontation against the scourge of corruption eroding the economic body. This is in addition to disclosure and transparency in announcing the revenue and expenditure categories:

First: Short-Term Procedures

- Local oil sales to refineries, estimated at 644 thousand barrels a day. If we assume that the price of a barrel is USD 15, its annual revenue will be 3.526 billion dollars, namely 4.196 trillion dinars.

- Border crossings revenues that should be calculated according to the importation volume and the tax rate imposed on the imported goods. This entails reviewing the work of entry points and using the modern methods to control importation and apply taxes on it. It also requires closing the unofficial entry points and controlling the entry of prohibited goods, especially those entry points in the Region, knowing that Iraq importations reached 45.736 billion dollars in 2019⁽¹³⁾. If we assume that the VAT rate awarded under the Decree is 15%, the total amount would be 6.860 billion dollars, namely 8.164 trillion dinars. Meanwhile, the total commodity taxes and the actual production fees reached 1.626 trillion dinars in 2019⁽¹⁴⁾.
- To collect water and electricity bills and launch a national comprehensive campaign to file the breaches on the network and collecting fees properly.
- To obtain the state share of the cellphone company profits, and reduce costs manipulation of these companies in a way that influence the profit tax.

- To cancel double salaries for all groups without exception.
- To reconsider the salaries given according to political considerations, and give salary to those entitled only.
- To cancel the allocations given under certain circumstances.
- To review the retirement salaries and give pensions to those who have performed actual service according to legislation in force and withhold them from non-eligible people.
- To activate salary system through online payment to limit the (alien) employees.
- To rationalize unjustified spending whether in case of austerity or other cases, as it is unjustified expenditure. The budget of 2019 is a clear testament, along with the previous budgets, as the government has not used the surpluses achieved in the abundant years, on which it should have built a Sovereign Wealth Fund to benefit from during crises⁽¹⁵⁾.
- To suspend the importation of luxury and unnecessary goods and encourage the local product.

- To review the unnecessary embassies and consulates, and integrate them with those of neighboring countries.

The short-term procedures may not be enough to face the deficit on one hand, and overcome the recession on the other hand. This is because some expenditures that have been claimed for cancellation or rationalization need legalization as they are issued in accordance with laws. The government may not succeed in approving the necessary laws that control expenditures, especially those related to salaries and allocations. Therefore, the government, with its inability to control expenditures, should resort to:

- First, cross-borrowing from banks or non-bank financial institutions such as retirement fund or insurance institutions by issuing bonds, and with profitable interest rates, or offering national bonds to public as in 2015 when 3 trillion dinars were borrowed. It is worthy to say that the internal debt can be in form of remittances. The internal debt has never been a burden of such level on economy, as it reached 38.134 trillion dinars in May 2020⁽¹⁶⁾ and declined to 37.934 trillion dinars in 30 June 2020.

- Second, external borrowing in case the first option has failed to be fulfilled, as this option is more expensive on the economy, knowing that Iraq's debt currently is not a threat on it. The external debt is 23 billion dollars and the GDP is 234 billion dollars approximately in 2019, namely around 10% of GDP, which is a low rate and within boundaries that are safe. However, the problem with the external borrowing is not economic but political one, as it is believed that loan distributions are not done according to the economic criteria but other considerations, most important of which perhaps the security aspect, the liberated regions and others.
 - Third, perhaps the most dangerous solution is reducing the exchange rate in the present time, with recognizing the exaggeration in the exchange rate. Several opportunities to review the exchange rate have been passed; however, the International Monetary Fund's opinion is not to reduce, calling for liberating exchange rate in all his agreements with countries. It is worthy to say that any reduction in the currency value at this time will give inflationary signals that will affect

low-income people. Therefore, this option is not recommended.

Second: Long-Term Procedures

- To produce an inventory of state's properties and restore them from illegal occupants to lease or sale them or any other procedure according to the government vision and in accordance with the laws in force.
- To support the agricultural sector and export surplus of some products, especially fish and vegetables.
- To support industrial sector and protect the local product as well as apply the principle of (made in Iraq), in addition to support the industries through which the country can have competitive advantage, such as chemical and petrochemical industries as well as dates production and others.
- To work in accordance with the principle of partnership between public and private sector, as this experiment has proved its success in many countries and in Iraq (harbors, cement industry, chemical industries and others).

- To renegotiate with oil companies operating according to the license rounds to ensure the interests of the country properly in terms of production costs and quantities.
- To reconstruct the state's management and encourage the private sector to absorb labor as well as to legislate the necessary laws and activate the enacted ones to create a state of trust and confidence towards future.
- To accelerate the completion of oil refineries (Karbala and Baiji refineries) to suspend the importation of oil products.

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(15) The Ministry of Finance law No. 6 of 2019 has not determined the requirement to establish a Sovereign Wealth Fund. The second paragraph of article No. 19 states that in case of an increase in the actual revenues, and after covering the actual deficit, if any, the surplus is saved to be used in the budgets of next years in Sovereign Wealth Fund. See The Official Gazette of Iraq (Alwaqai Aliraqiya) Issue No. 4550 in 5/8/2019.

(16) <https://cbiraq.org/DataValues.aspx?dtFrm=01/31/2004&dt>

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Financial Policy Challenges in Triple Crisis (Political – Health – Financial)



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