



Iraq Economy: The Challenges and the Strategy

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The Economic Challenges

- 1. Revenue Generation**
- 2. State of own Enterprises**
- 3. Agriculture**
- 4. International Debts**
- 5. The Security Issue**
- 6. The Unemployment and the infra structure**
- 7. Unstable Economic Policy**
- 8. Reforming the Subsidies System**



Revenue Generation



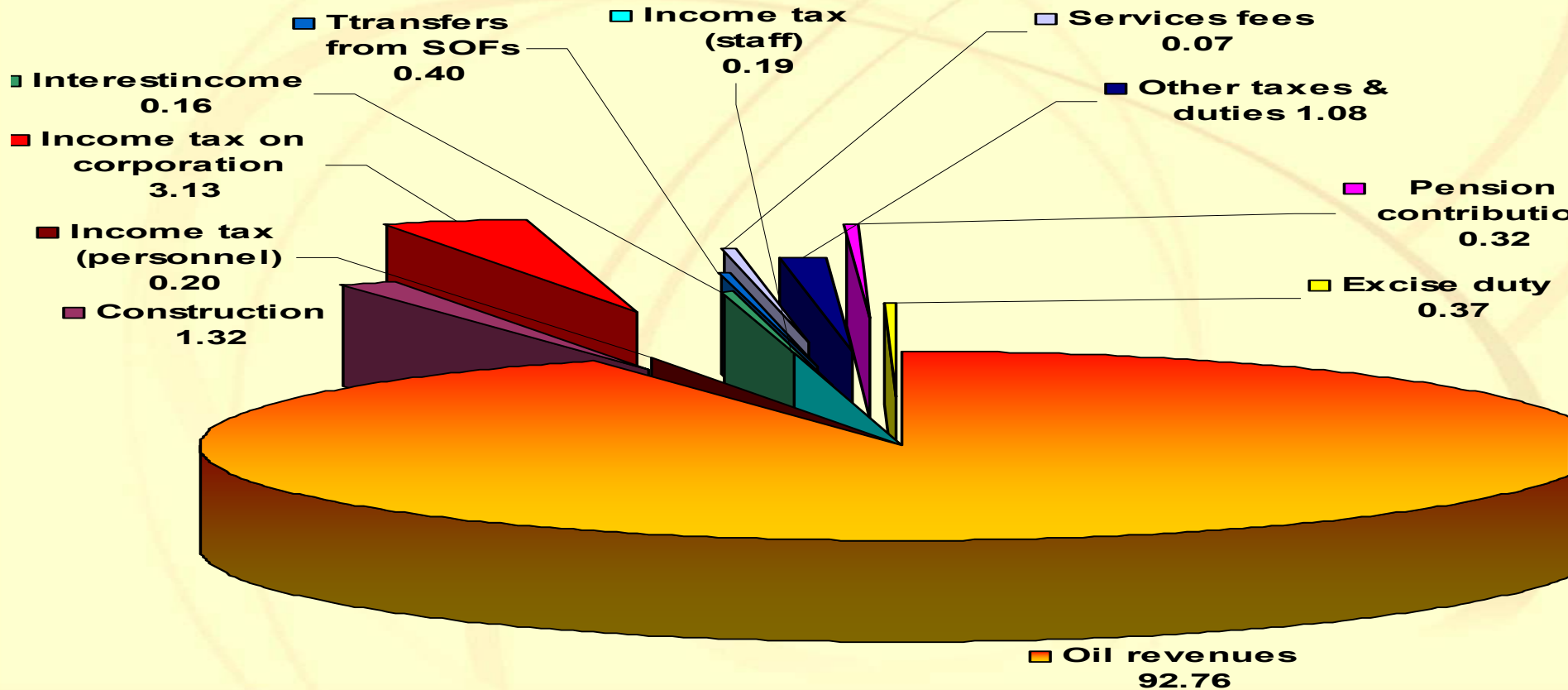
Revenue Generation

- ❖ Iraq is facing a huge bill for financing reconstruction at a time where donated grants are declining.
- ❖ Government revenue is very much limited to oil exports, currently Iraq cannot produce more than 2.3 mbd and export 1.6 mbd.
- ❖ This export makes more than 90% of total Iraqi revenue.



Revenue Generation

rates of estimated revenues planned for the year 2006 budget according to their sources



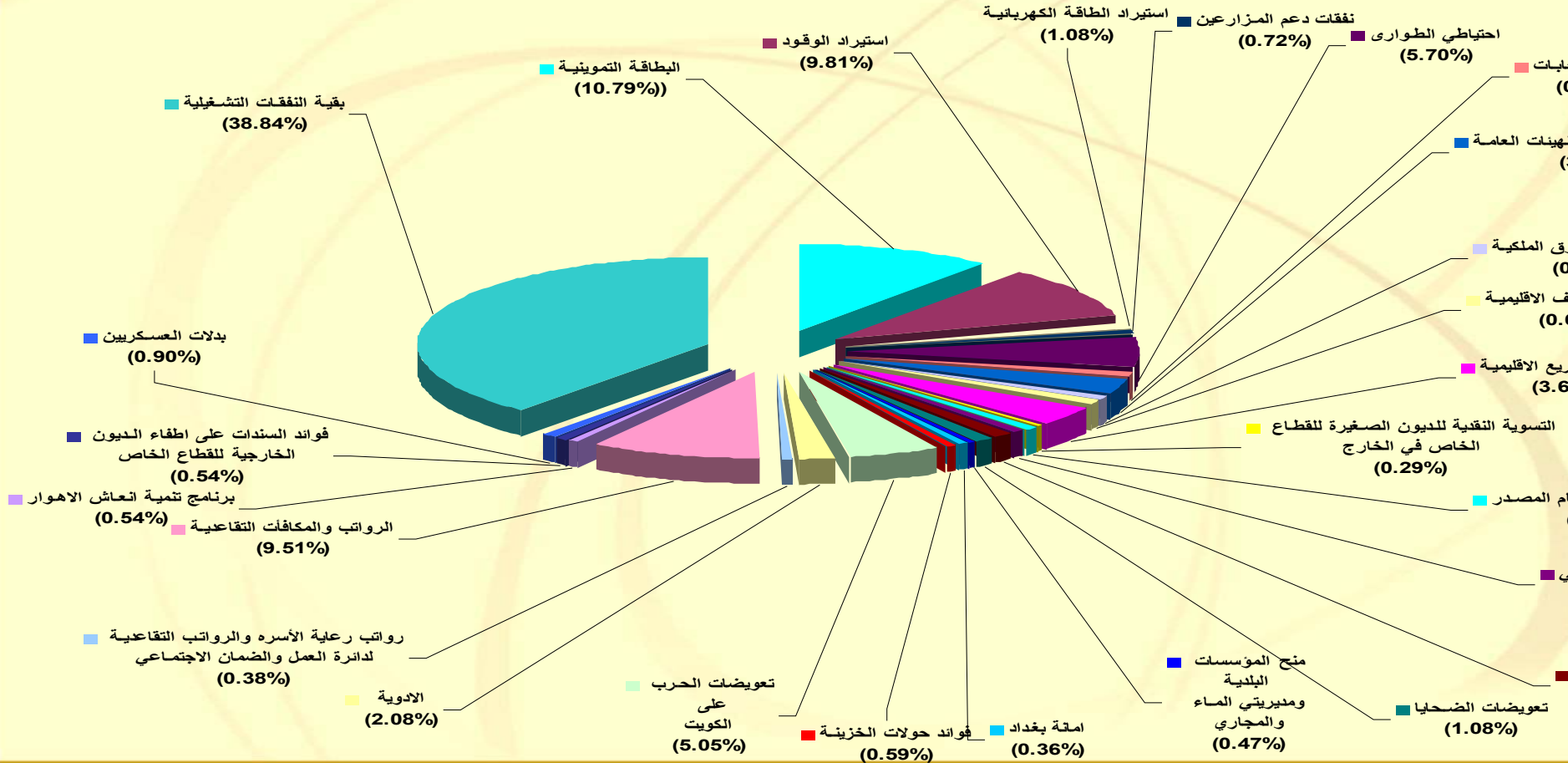


planned revenues	Percentage/ 2005 (1)	Percentage / 2006(2)	difference between (1.2)
Oil revenues	88	92.76	4.76
Construction levy	1	1.32	0.32
Income tax (personnel)	0.22	0.2	-0.02
Income tax on corporation	0.09	3.13	3.04
Income tax (staff)	0.28	0.19	-0.09
Interest income	0.05	0.16	0.11
Transfers from SOEs	7.77	0.4	-7.37
Services fees	0.02	0.07	0.05
Other taxes & duties	1.05	1.08	0.03
Pension contribution	0.68	0.32	-0.36
Excise duty	0.58	0.37	-0.21



Distribution of Expenditure/ 2006

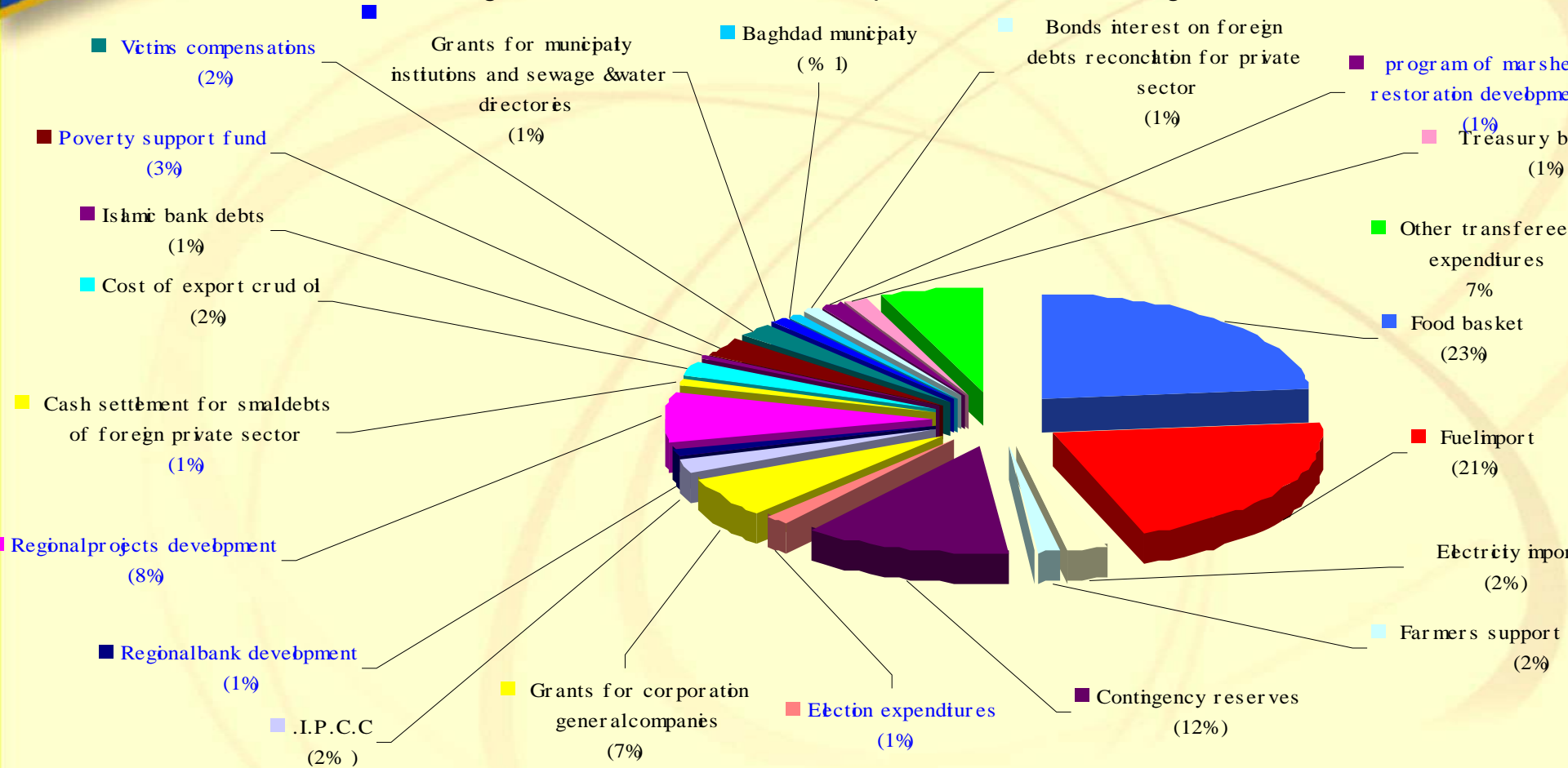
النسب المئوية للنفقات التشغيلية لموازنة عام/2006





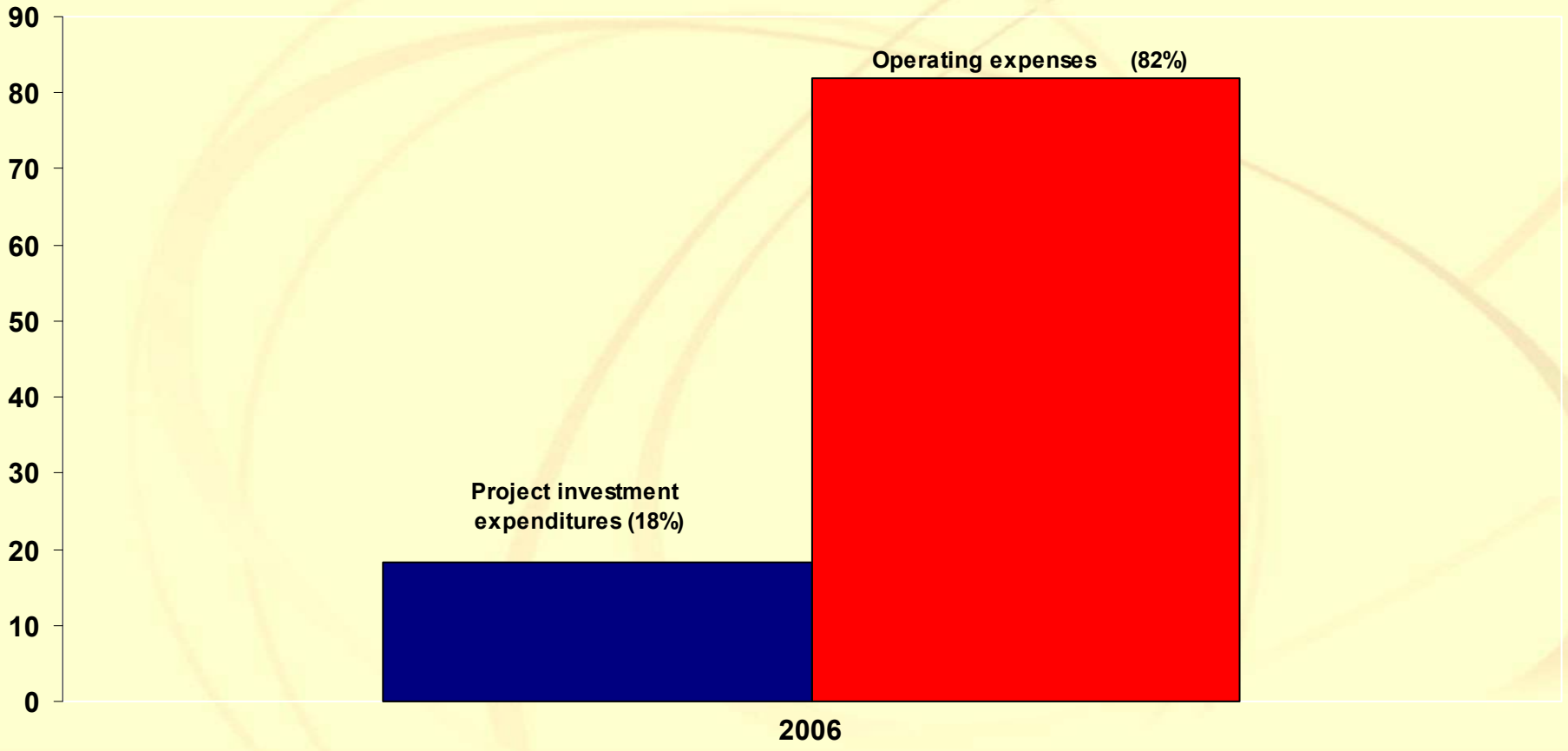
Expenditure

Percentage rates of the transferable expenditures for the budget/2006



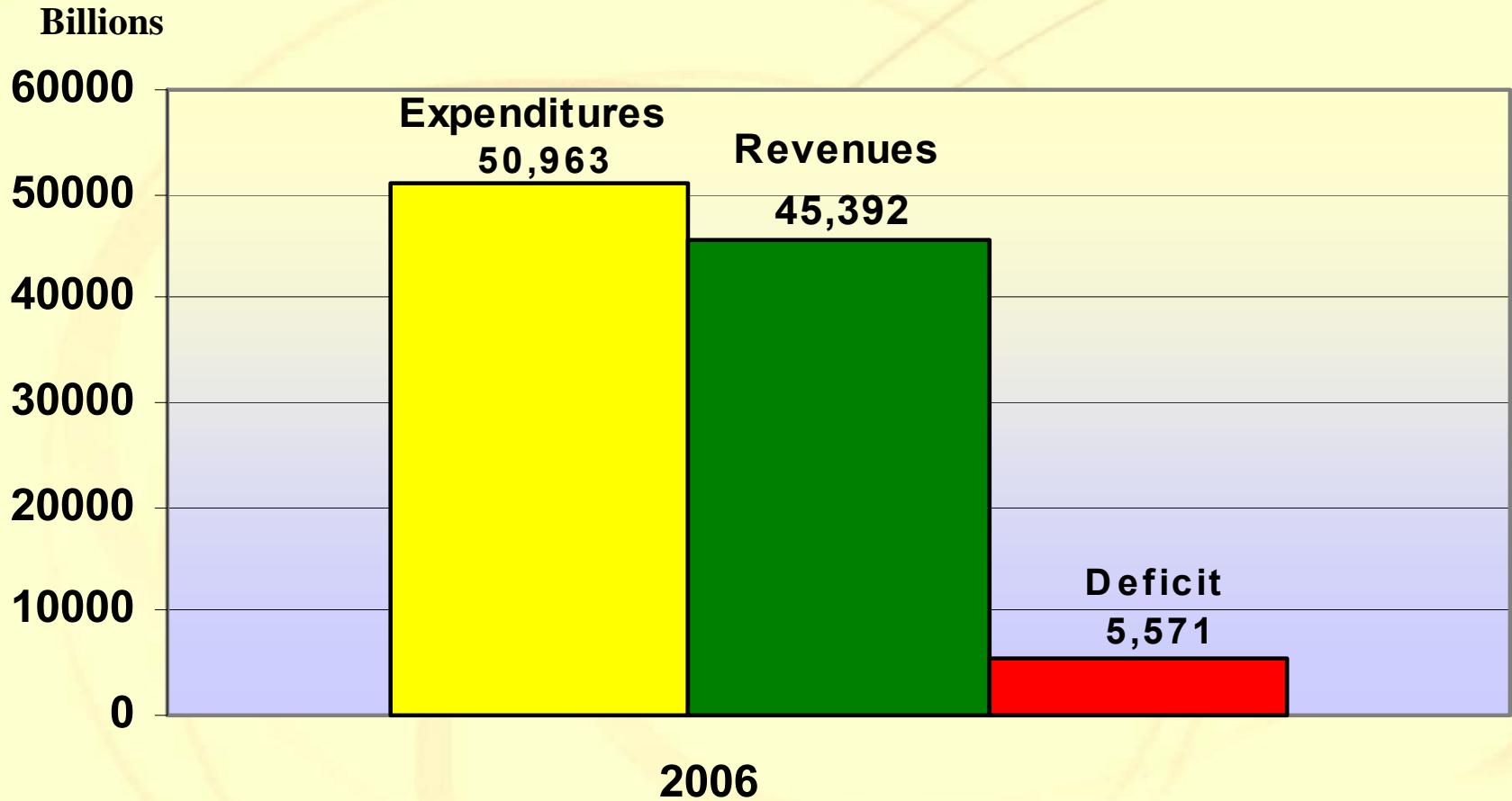


Percentage of operating and Investment Expenditures 2006





Expenditure, Revenue & Defects





Revenue Generation

The challenges are:

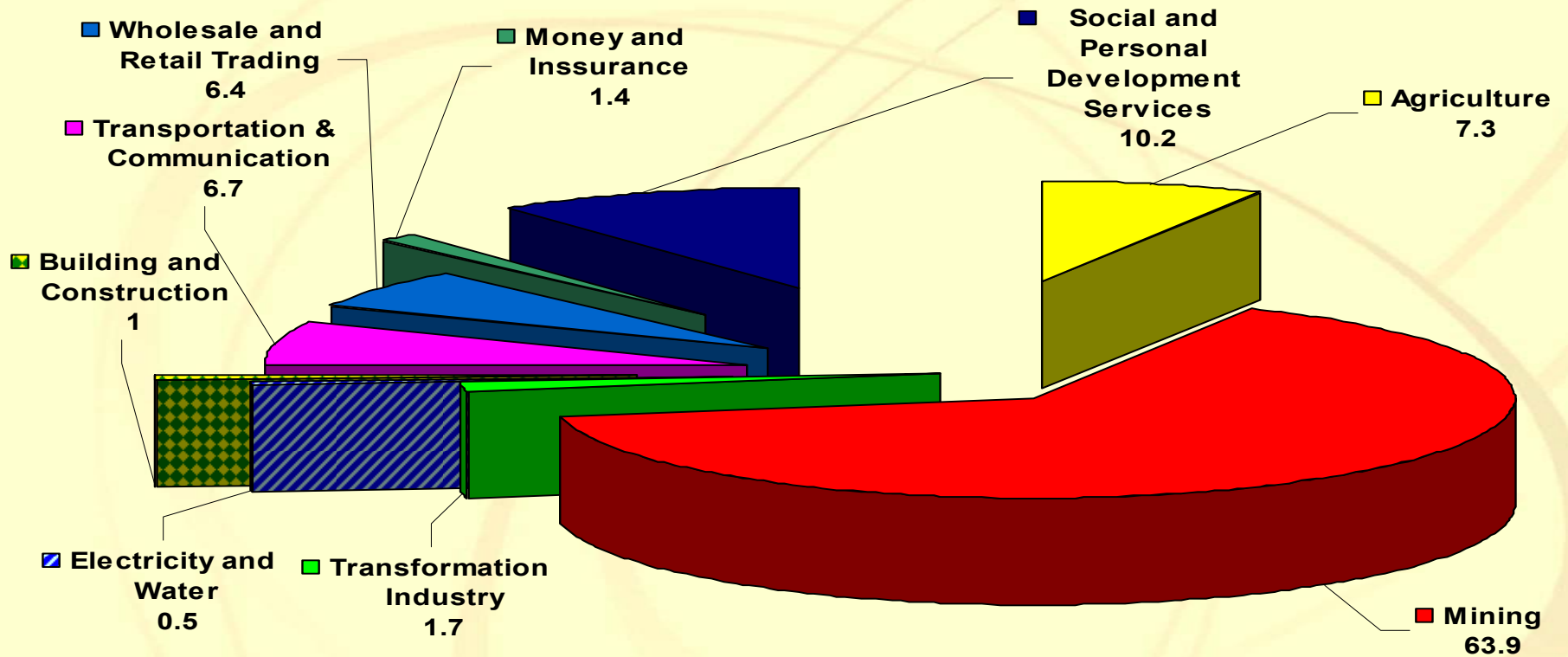
- a) to increase the production and the export rates,
- b) to increase diversity of income generation.

The current strategy is to is:

- ❖ to invest in oil sectors to the permitted limit by capacity of expanding, and
- ❖ to implement other measures to increase income generation through various type of taxations.



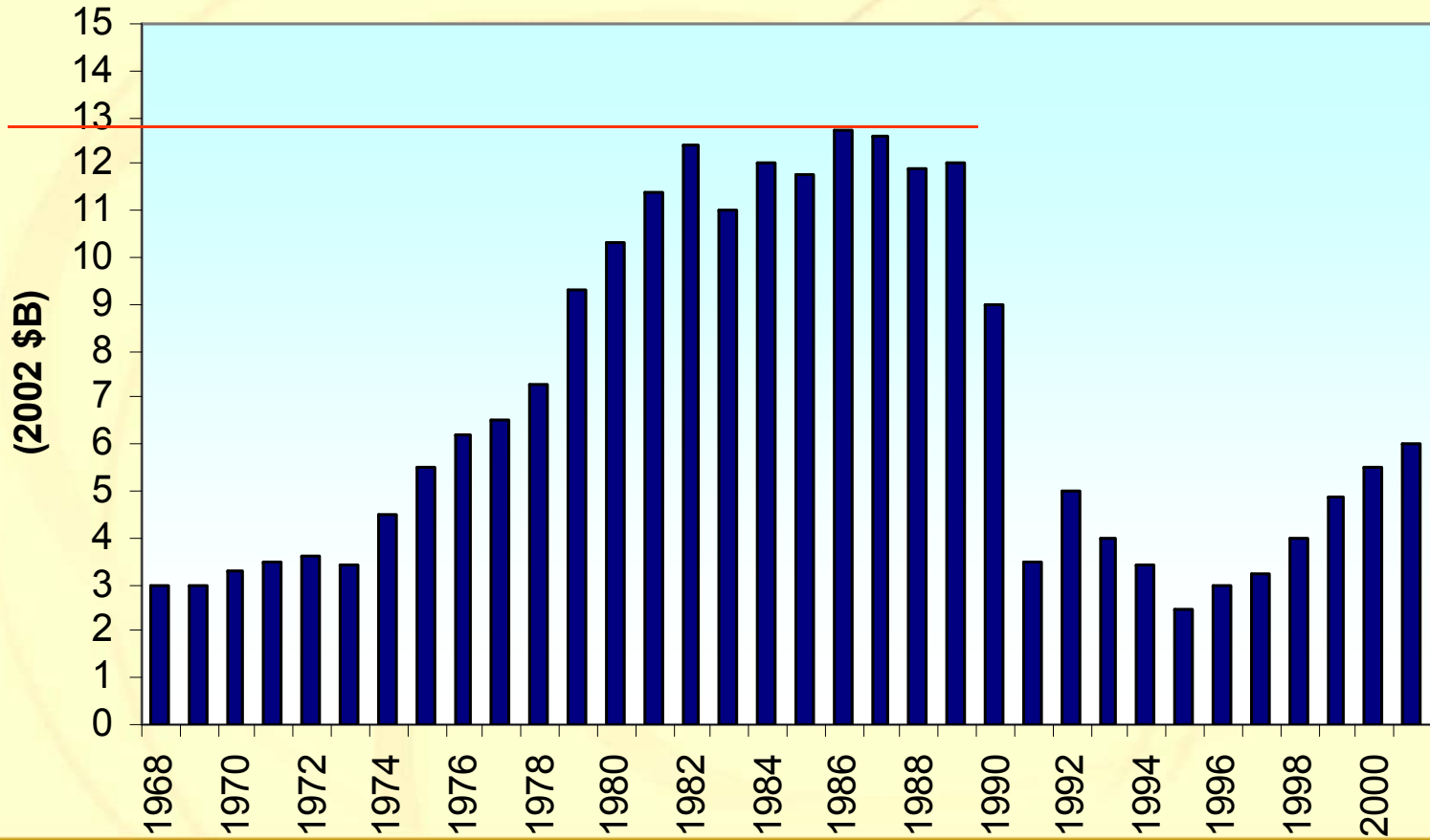
National Gross Product





State of Owns Enterprises

- ❖ SoEs used to have contributions GDP (about \$12 Billion), before the ware with Kuwait
- ❖ Currently, employ over 819 thousand employee





The State of Own Enterprises

- ❖ Because of their inefficiency, the government provides (I.D 1.26 Trillion) as subsidies.
- ❖ The challenge, is to make concise policy on what should we do:
 - 1) Is it possible now to privatising the SoEs? If not
 - 2) Shall the government invest to improve their performance?
- ❖ The other issue, some of good manufactures (e.g.; Leather Industry) stopped producing because of their inability to compete with international prices.

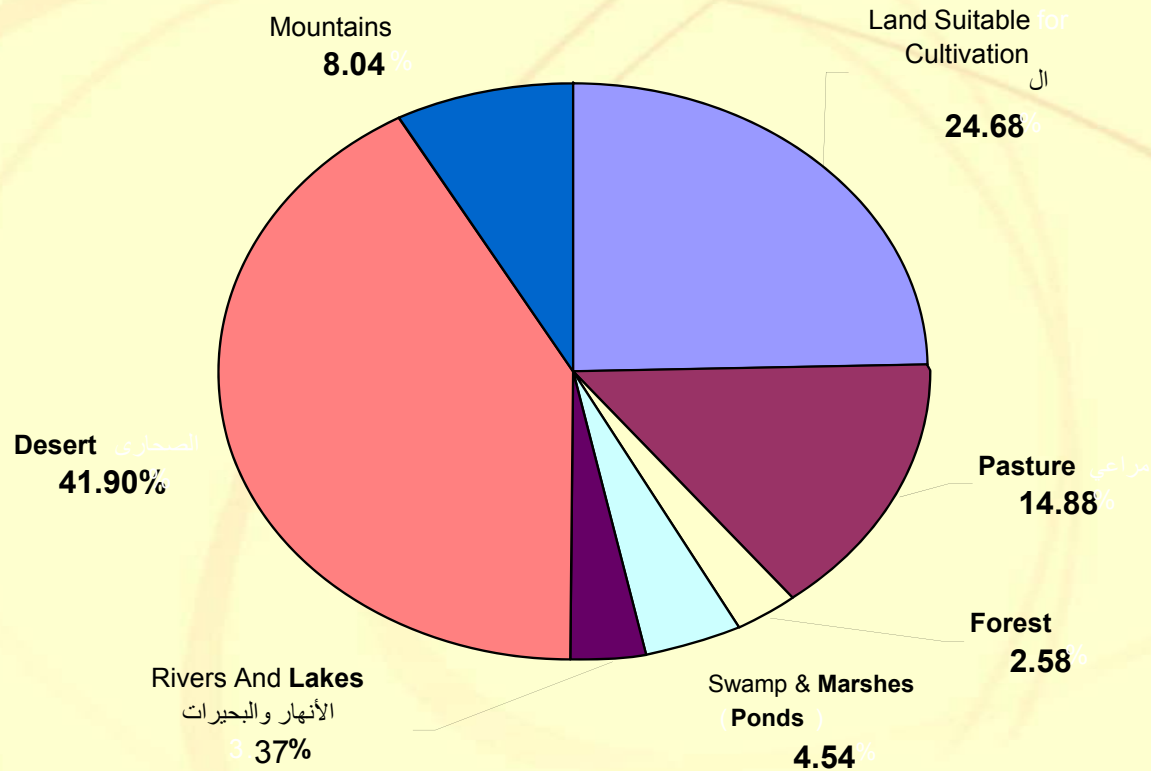


The Agriculture Sector



The Agriculture Sector

The Agriculture sector is the second important sector in the economy





The Agriculture Sector

In general, the challenge to improve productivity & efficiency is through:

1. Improving Irrigation system,
2. Utilizing fertilizers,

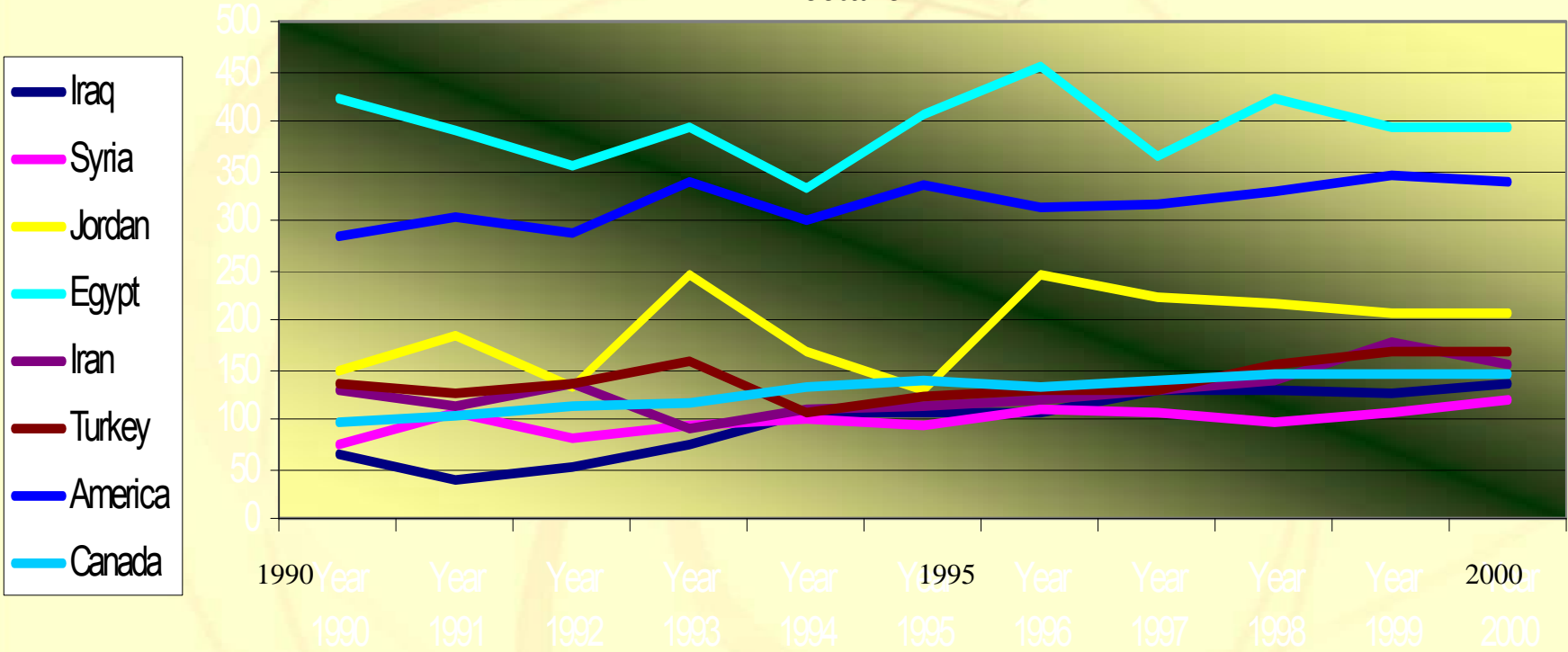


The Agriculture Sector: Productivity



The Agriculture Sector

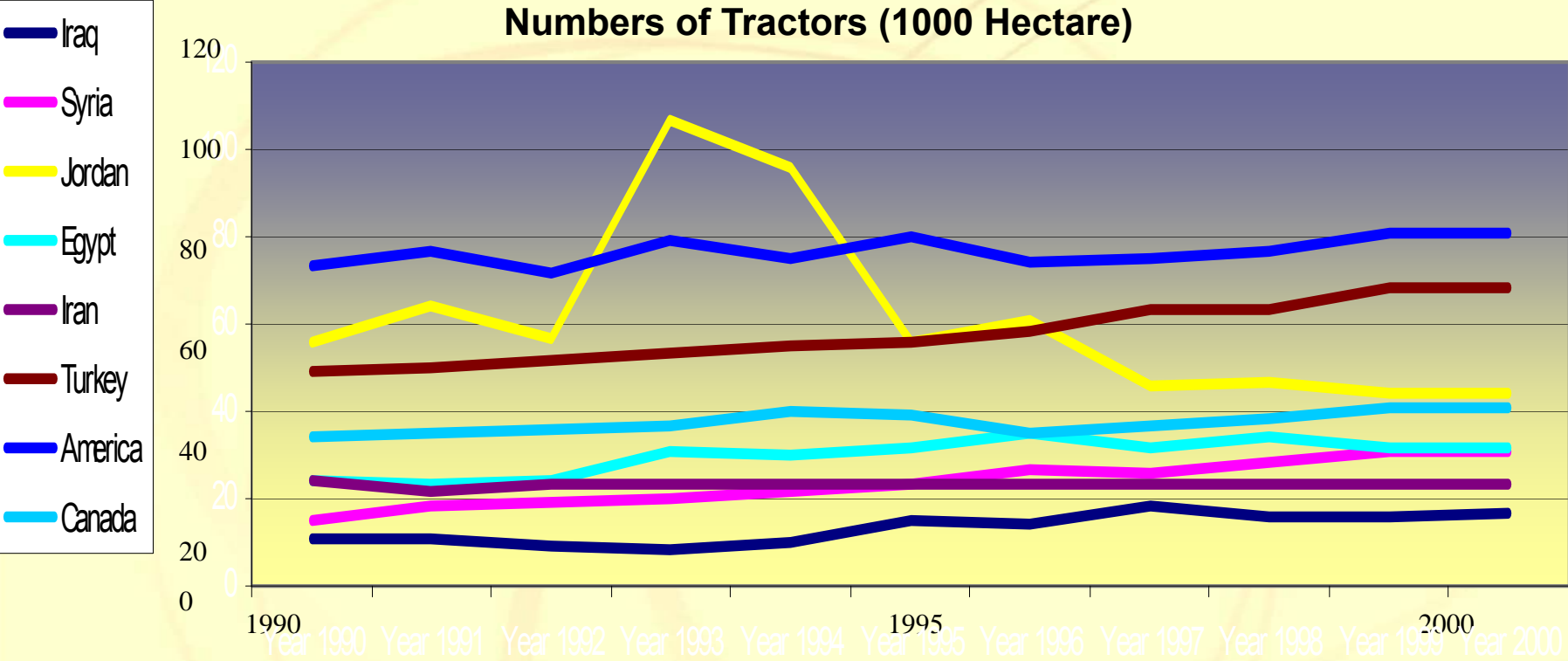
Fertilization usage in different of Countries, by Hectare





The Agriculture Sector

Numbers of Tractors (1000 Hectare)





2. International Debts:



2. International Debts:

- ❖ International Debts are a major issue in Iraq economy, the total amount is approximately \$195 billion.
- ❖ Iraq successfully negotiated with Paris Club & IMF to reduce the debts by 80% for members of Paris Club and Iraq had already signed two important agreements with IMF, these are: EPCA and SBA in 2004 and 2005, respectively.
- ❖ These agreements requires Iraq to restructure the economy toward reduce government control of the economy in ordered improve efficiency and reduce waste as in the subsidy system.



International Debts:

- ❖ Each agreement had enabled Iraq to reduce debts with members of Paris Club by 30%. After three years, and if Iraq satisfied IMF's requirements in restructuring the economy towards free market economy, Iraq will be entitled for the remaining 20%.
- ❖ The agreement with Paris Club is now taken as an important guideline for Iraq's negotiations with other, non Paris Club governmental creditors.
- ❖ For members of non Paris Club, Iraqi Government has achieved considerable success in its foreign debt resolutions, these include:



International Debts

A) Resolution of the debt of the large private creditors (those with over \$35 million in claims)

For this group Iraq proposed issuing bonds, together with a possible alternative syndicated loan, that will be used to satisfy these claims within the terms of the Paris Club deal. The bonds will have a face value of 20% of the claim, will carry a fixed coupon slightly above the best credits, and will have an average term of nearly 20 years at fixed interest rate 5.8%.



International Debts

B) Resolution for small private creditors (those with less than \$ 35 million in total claims):

For this group a cash alternative offering the creditor 10.25% of the total reconciled claim value.

C) Non Paris Club government creditors:

Iraq is now in advanced negotiation with these group of governments. There are strong indications that a satisfactory outcome to a number of these claims can be concluded in 2006.



International Debts

D) Resolution with GCC creditors:

There is a strong indication from GCC creditors that they are willing to resolve their debt issues after the establishment of the new government and after some evidences of political stability.

The reduction of Iraq's foreign debt will create the necessary climate for investment and economic recovery.



The Security Issue



The Security Issue

- ❖ Security continues to be a challenge to reconstruction. The issue is expected to be serious as Multi Nation Forces are going to be dropped off.
- ❖ The challenge for the coming years is to ensure sufficient financial resources.



The Security Issue

- ❖ The problem is rapid expenditure on security (in short period of time) may not reduce violence and disruptions (law of diminishing return may apply).
- ❖ As complementary policy, Iraq needs to spend on activating civil society organizations to participant in closing the gap between the government and members of society to establish law and order



The Unemployment



The Unemployment

- ❖ Unemployment rate is currently between (27 - 30)%. This creates both human and security costs.
- ❖ A potential solution to this problem is to expand in spending on building the damaged infra structure overall the country .
- ❖ In this investment will create incentive for the rapid growth in the economy and reduce the rate of unemployment.
- ❖ Therefore the government needs to set up priorities of projects and according to approved policy.



The Unemployment

- ❖ Creating Secure Zones over all the country, will encourage business development and then reduce unemployment rate.
- ❖ Agriculture is the major sector in the economy. Nearly Have the population areas. Investment in agriculture will create job opportunities



Unstable Economic Policy



Unstable Economic Policy

From past years evidences have shown that members of successive governments have different priorities and different policy this hampered the processes of reconstruction and make it more costly.

For example: considerable work has been on privatization, Allawi's government established a commission for privatizations. The new government of last year demolished without any warning the commission. Such a action created confusion and a waste.



Reforming the Subsidies System



Reforming the Subsidies System

- ❖ To reduce inefficiency, the government started to reforming the untargeted subsidies programmes and to begin the process of replacing their welfare implications with a well-prepared and efficient system of income transfers. The major two policies here are the food basket and fuel price subsidies.
- ❖ The strategy is to reduce subsidies gradually and as from the budget year 2006. Therefore, government for 2006 reduce the budget for both of importing fuel and for the food basket by 25%. Iraq currently spending 17% of the total budget on two subsidies (8.1% for fuel and 8.9% for food basket).



Reforming the Subsidies System

The following actions have been recommended:

- A) Fuel subsidies: increase full prices and introducing for the first time a new system 'Social Safety Net' to target the poor families and compensate them.

- b) Food basket: The government anticipated that some time during this year to start experiment with monetising the food basket in three provinces



Reforming Fuels Prices

This reform is at present time attracting considerable attentions. The government is already announce new prices. This action, as it is expected create unrest, the citizens of Iraq start asking the question:

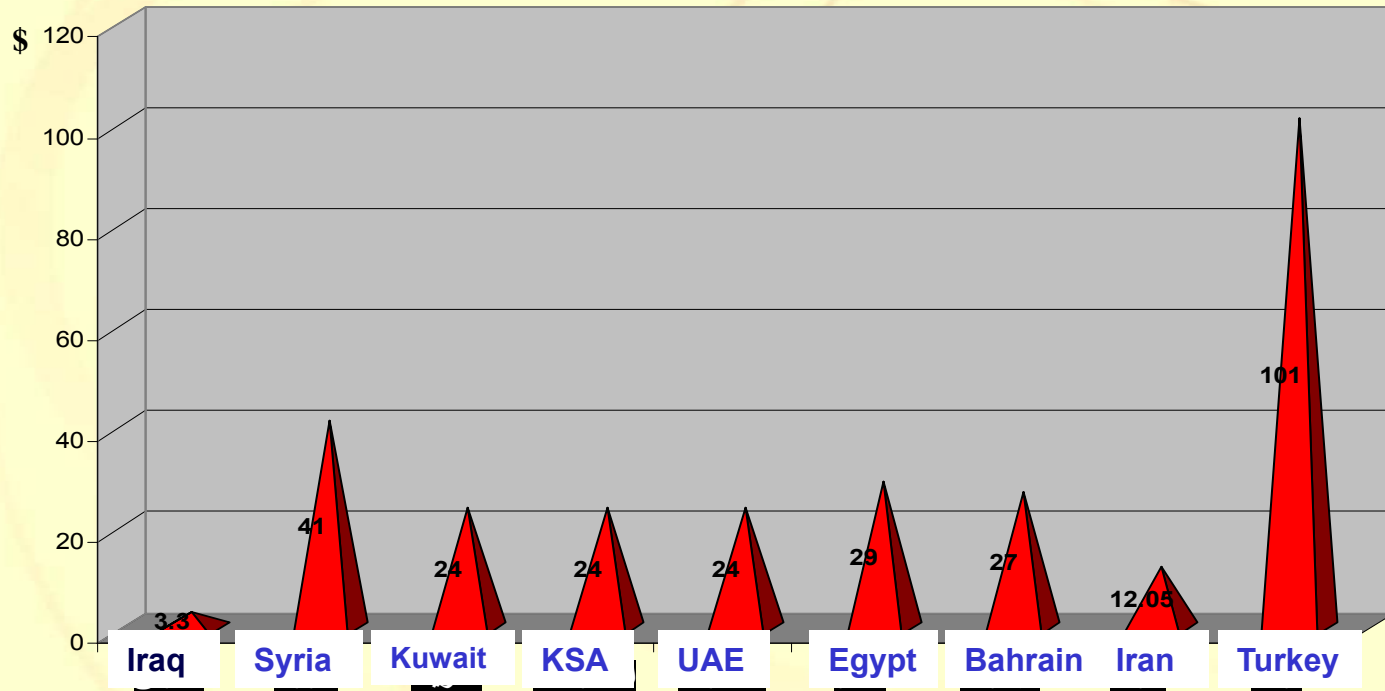
Why is a country with rich oil reserve (such as Iraq) can not afford cheap fuel?

To address this important question, let us look to the following slides.



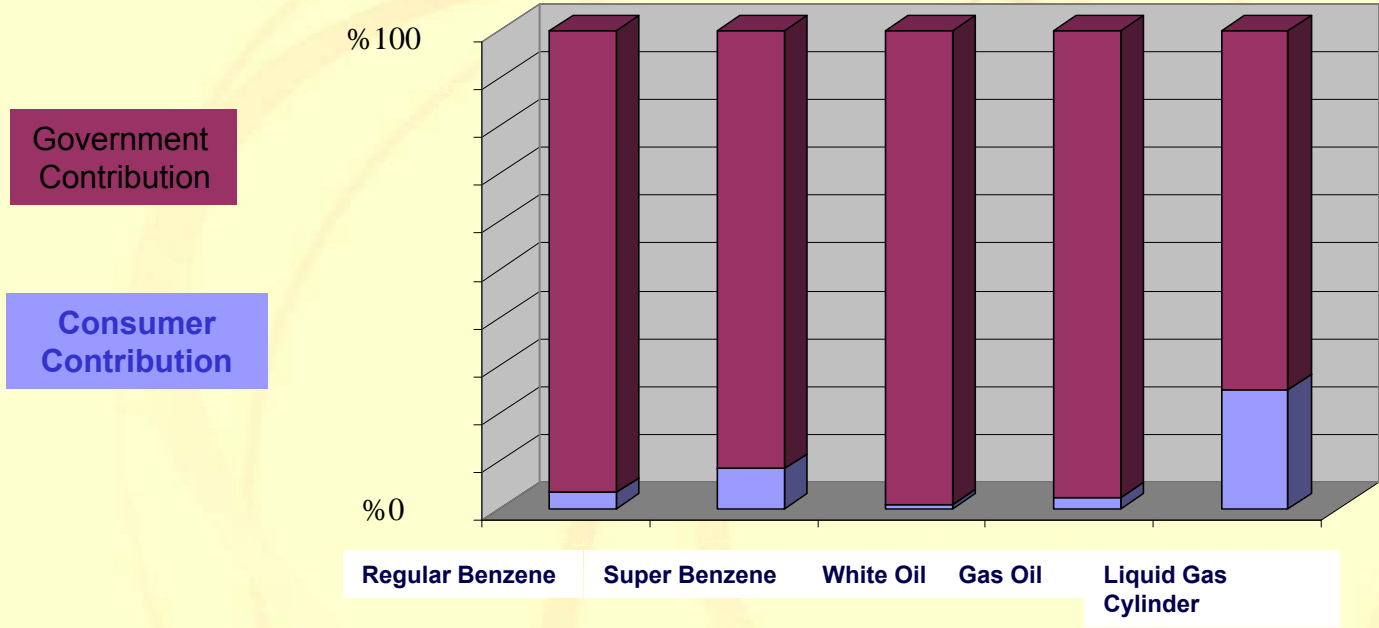
Prices of the improved Benzene (gasoline

Super Benzene



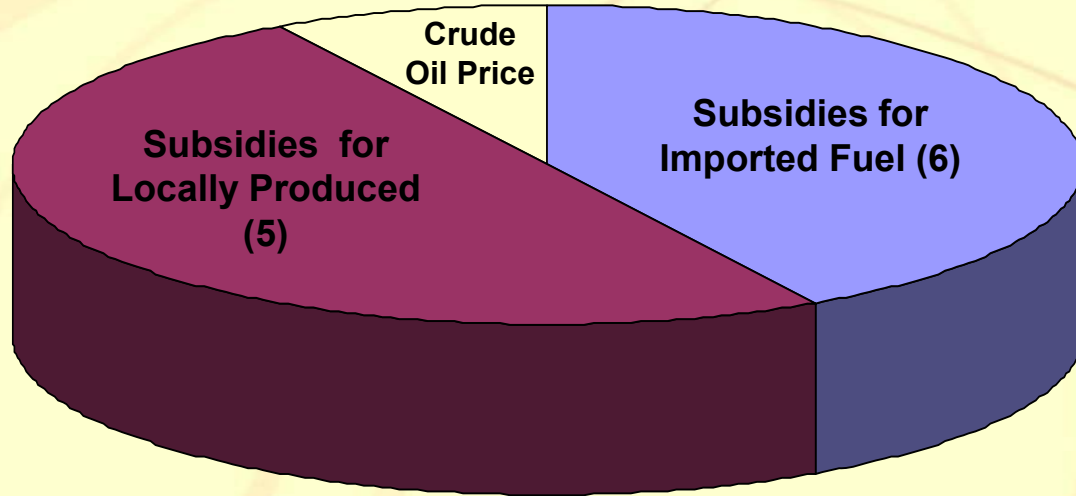


Percentage of Government and Consumer Contribution to the Cost of Fuels



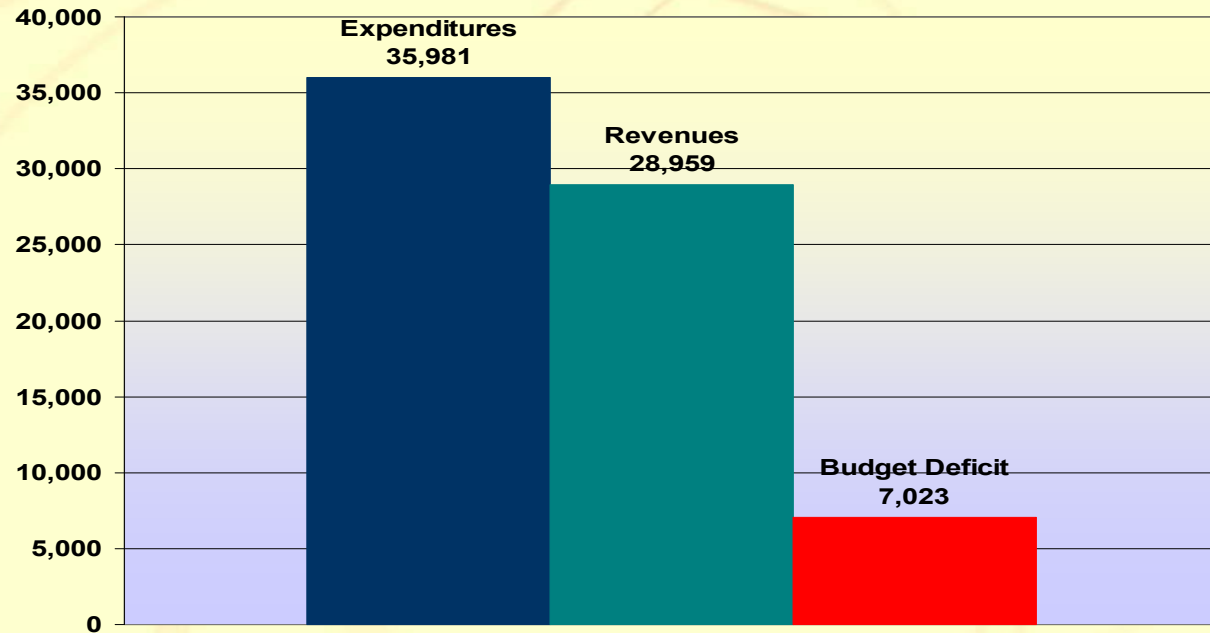


Component of Fuel Subsidies (in Trillions ID)





The Deficit in the 2005 Budget (in Billions I.D.)



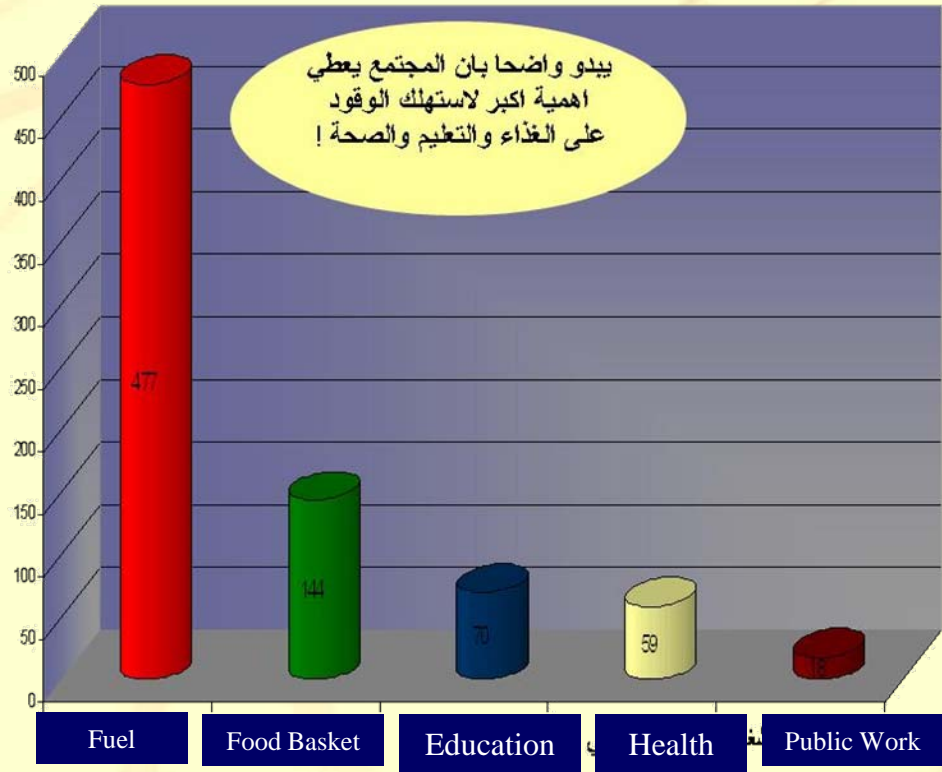


Allocation of the Budget on Select Items

Budget Allocation/ Actual Spending for 2005 (Trillion .D)	Per Capita (Thousand ID)	Items
12	477	Fuels
4	144	Food Basket
2	59	Heath
2	70	Education
0.5	18	Public Work



Budget Allocation to Fuels and other Items





Thank you