



Iraq Economy: the challenges & Opportunities

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Iraq Economy: the challenges

- 1. Security and Economic Welfare**
- 2. Diversity of Revenue Generation**
- 3. State Owned Enterprises**
- 4. Agriculture**
- 5. External Public Debt**
- 6. The Unemployment and the Infra Structure**
- 7. Unstable Economic Policy**
- 8. Reforming the Subsidies System**



Security & Economic Welfare

- ❖ 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 problem is rapid expenditure on security (in short period of time) could not reduce violence and disruptions (law of diminishing return may apply).



Security & Economic Welfare

- ❖ As complementary policy, Iraq needs to spend on activating civil society organizations. Community participating will help in establishing law and order.



Security & Economic Welfare

Community participation can be achieved by relating the country resources and assets to ownership of the citizens, and any damage to them will affect their economic welfare in negative way,

It is important that for the government to demonstrate it real attention for not discriminate against the citizens, whether they are in the north or in the south,

An effective way to demonstrate these policy, is through equal direct distribution of oil's revenue to citizens.



Security & Economic Welfare

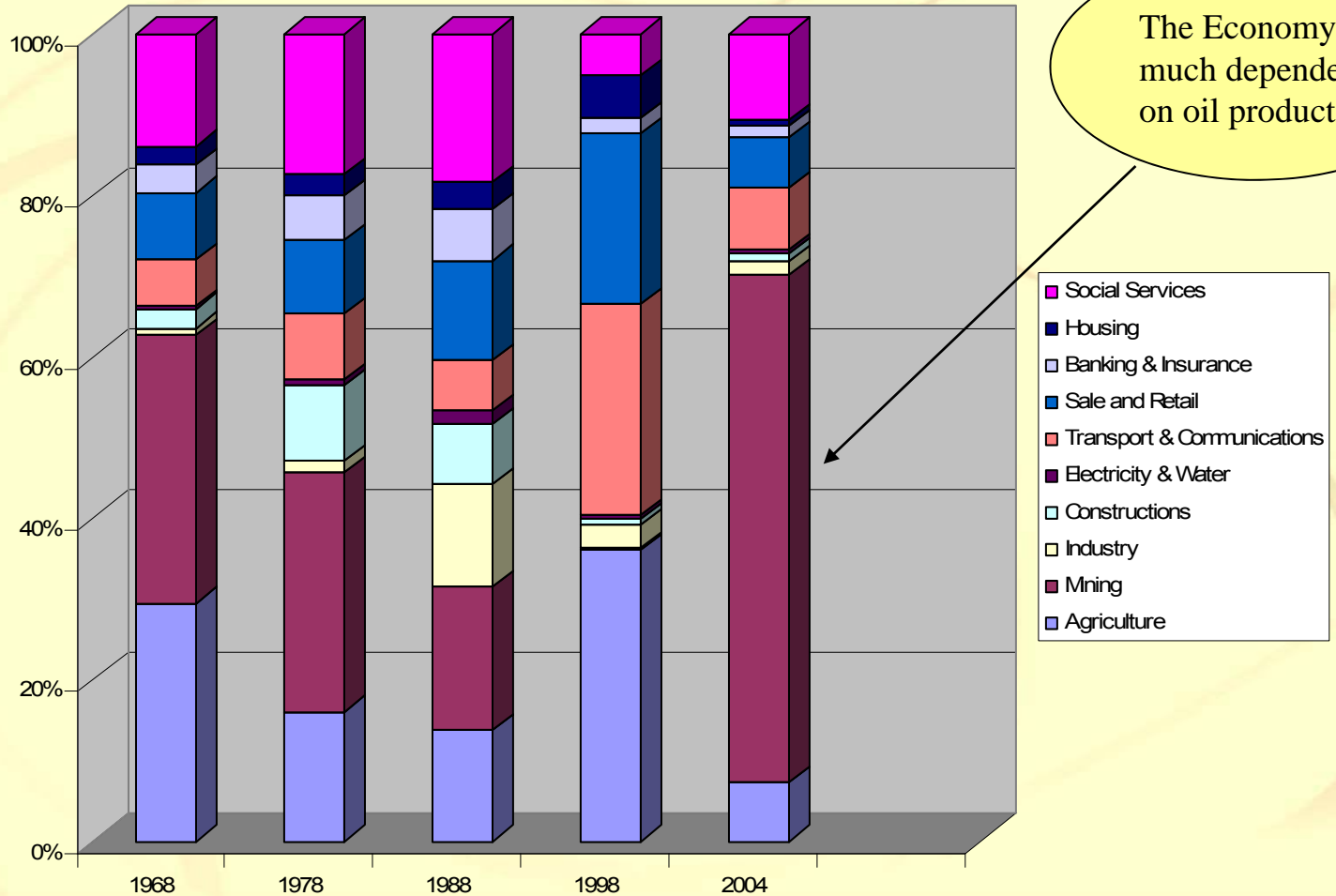
- ❖ Economic reform can not be achieved in absence of law and order, which is badly need it.
- ❖ There is serious disruption to economic reconstruction and employment generation programmers. This can not be allowed to continue (because of possible large population revolt).
- ❖ As alternative, while the political process is evolving, International communities should put the necessary pressure on the politicians to form a technocrat based committee to mange establish law and order and ensure efficient use of resources.



Diversity of Revenue Generation



% Contribution of elements of GDP over time



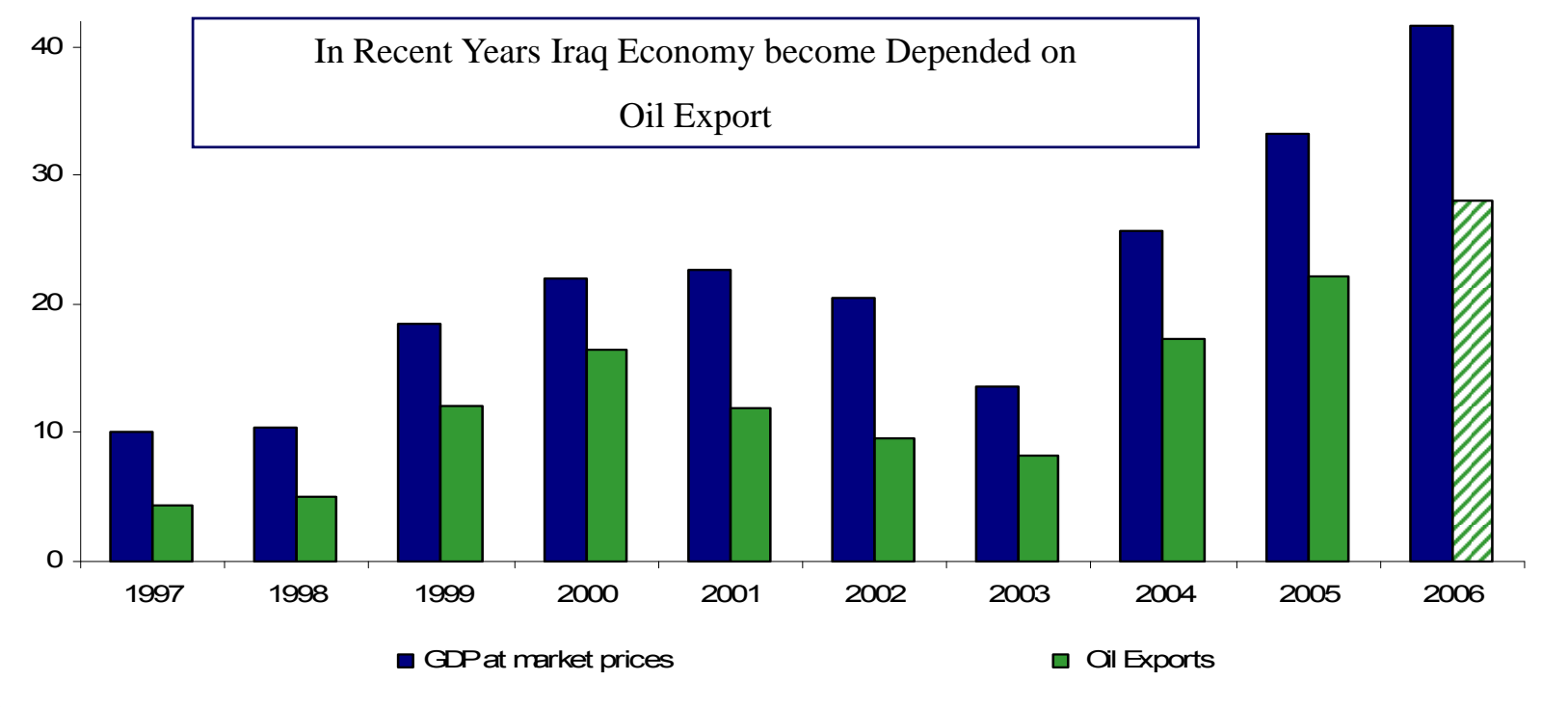
Agriculture, Industry & construction sectors are all shrinking more than ever.

The Economy very much dependent on oil production

- Social Services
- Housing
- Banking & Insurance
- Sale and Retail
- Transport & Communications
- Electricity & Water
- Constructions
- Industry
- Mining
- Agriculture

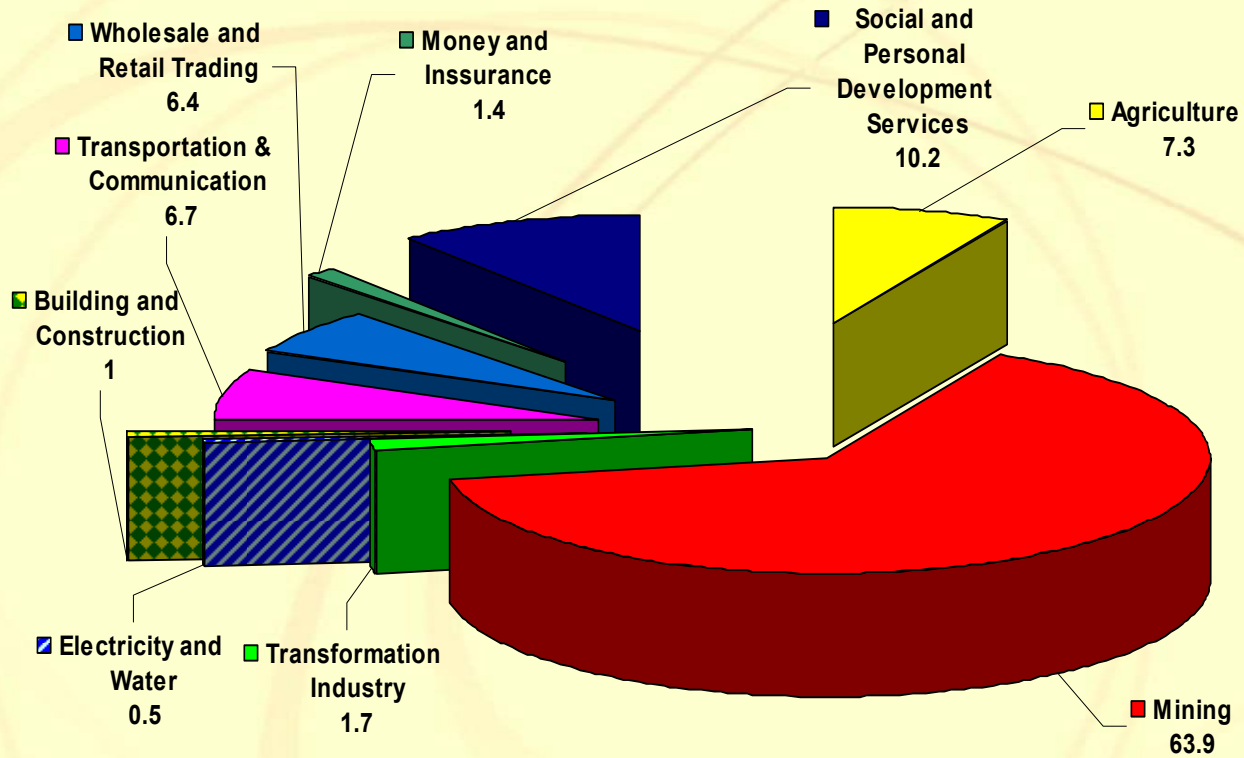


Nominal GDP and Oil Exports (US\$ Billion)



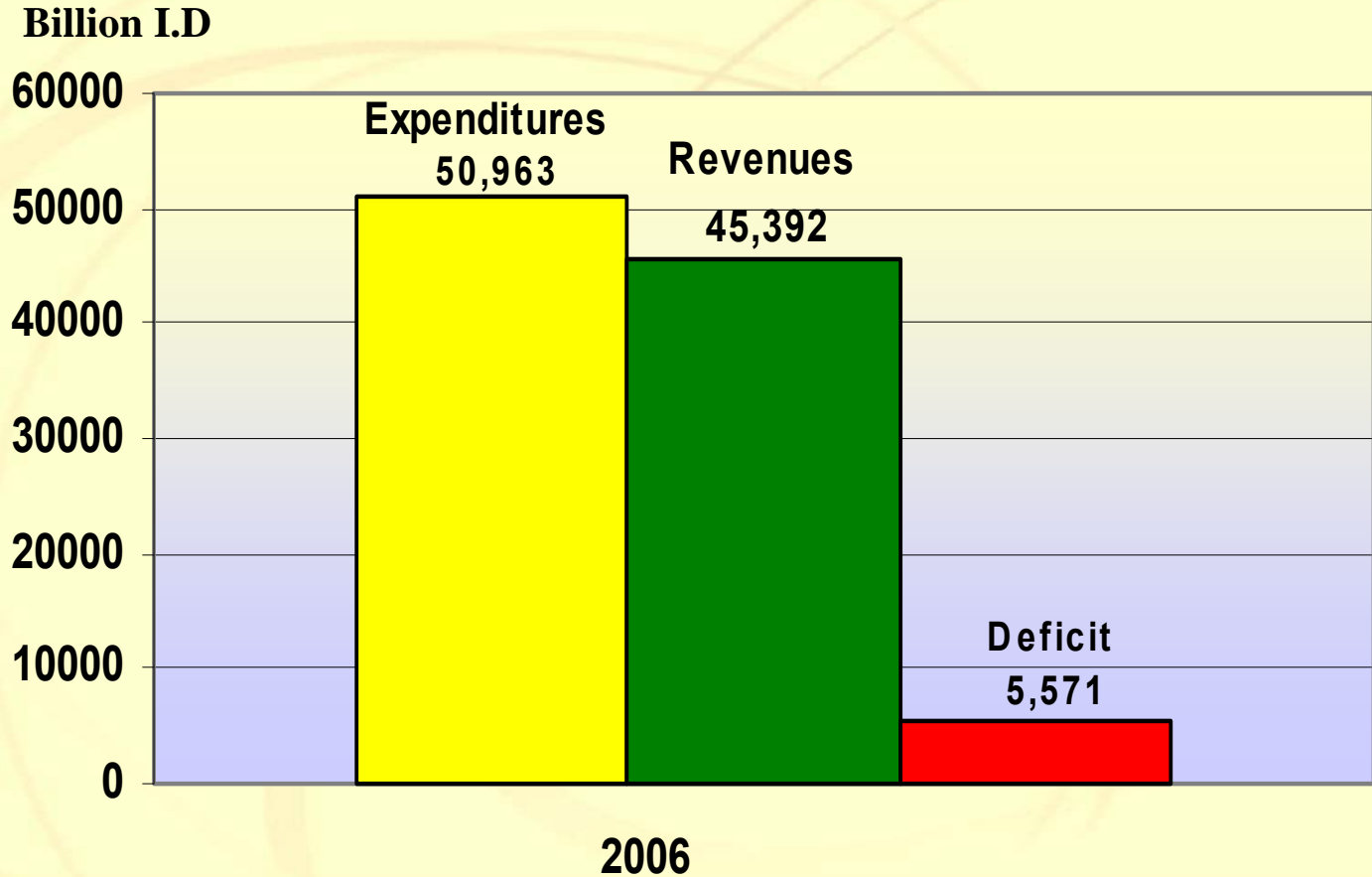


Gross Domestic Product 2005



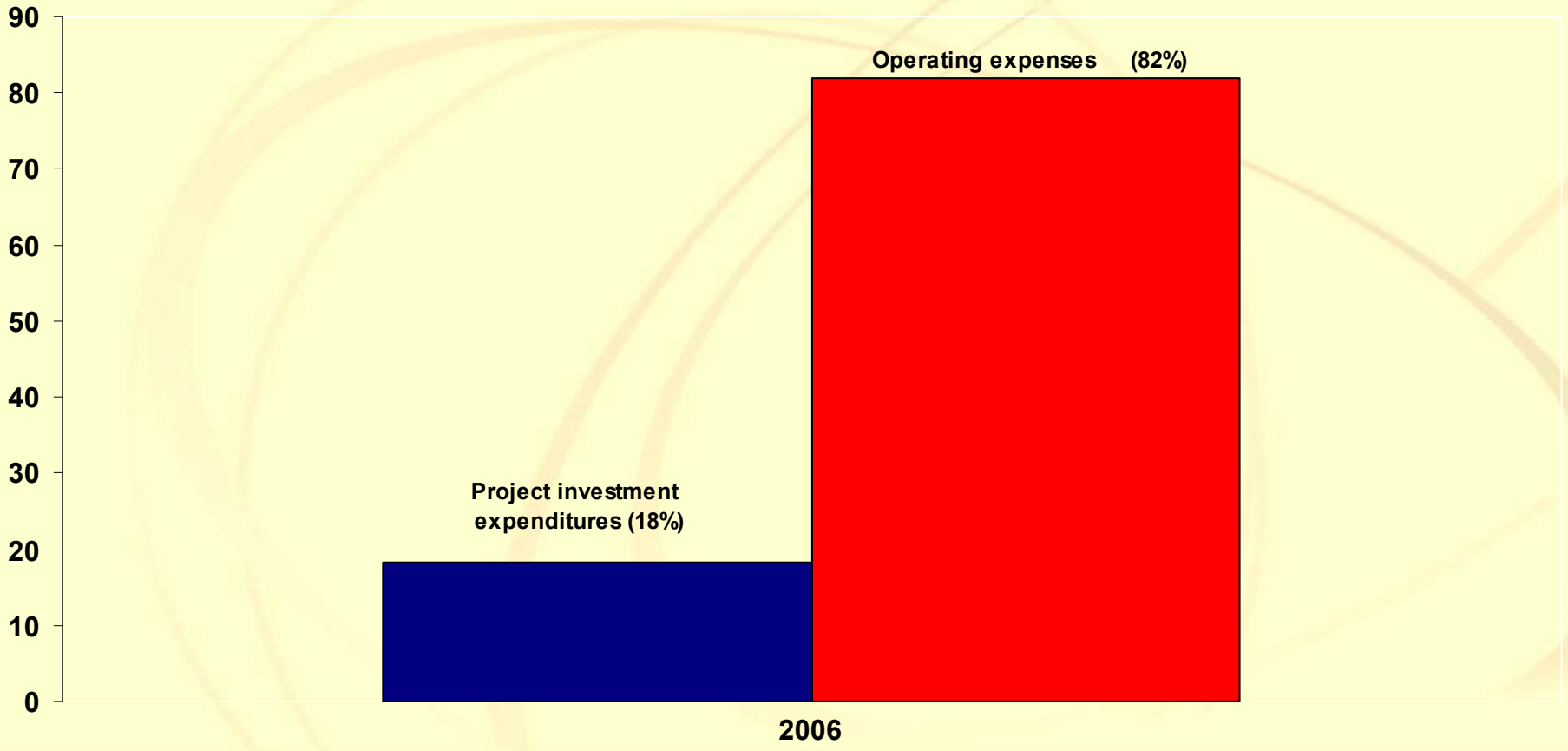


The Budget 2006: Expenditure, Revenue & Defects





Percentage of operating and Investment Expenditures 2006





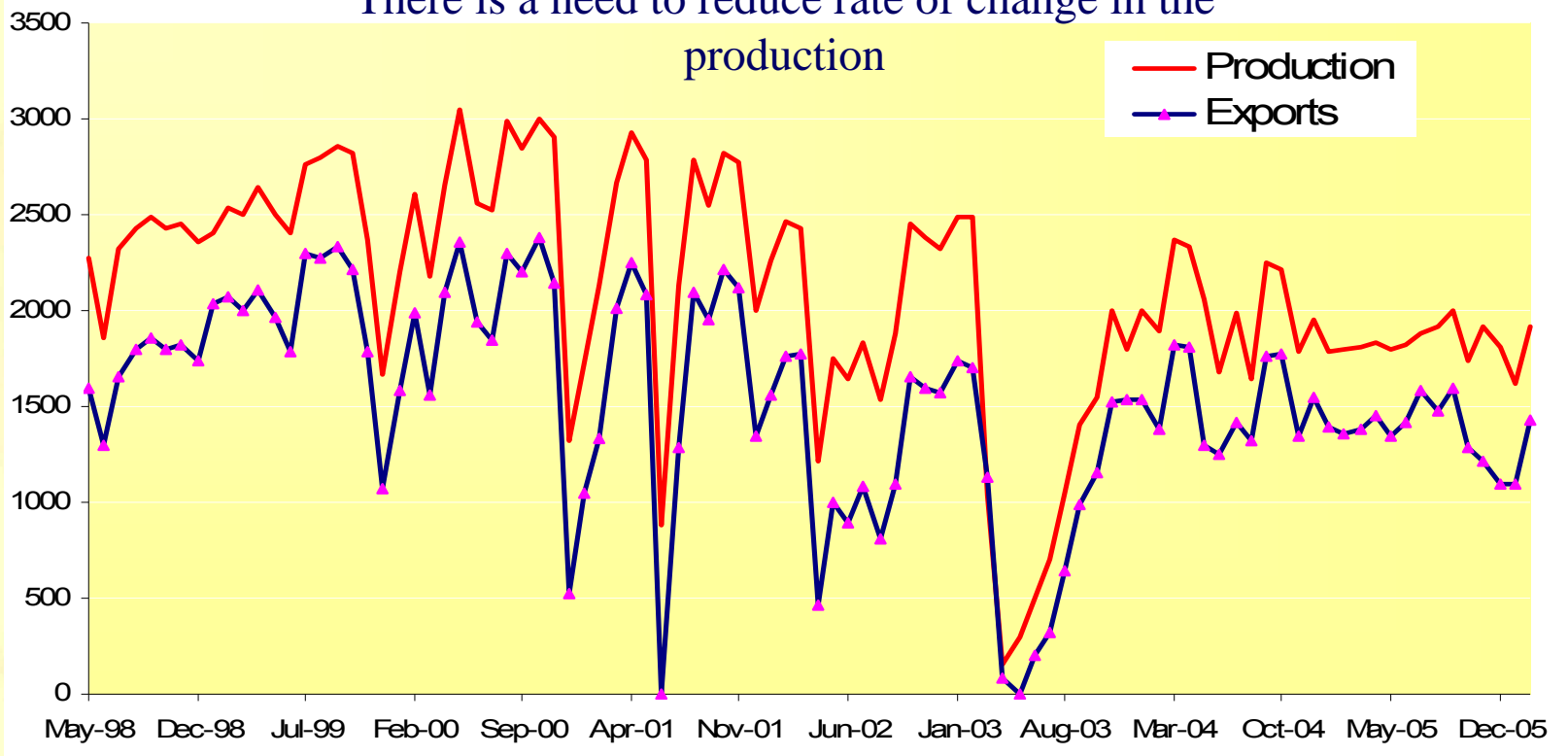
Revenue Generation

- ❖ 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.



Crude Oil Production and Exports ('000b/d)

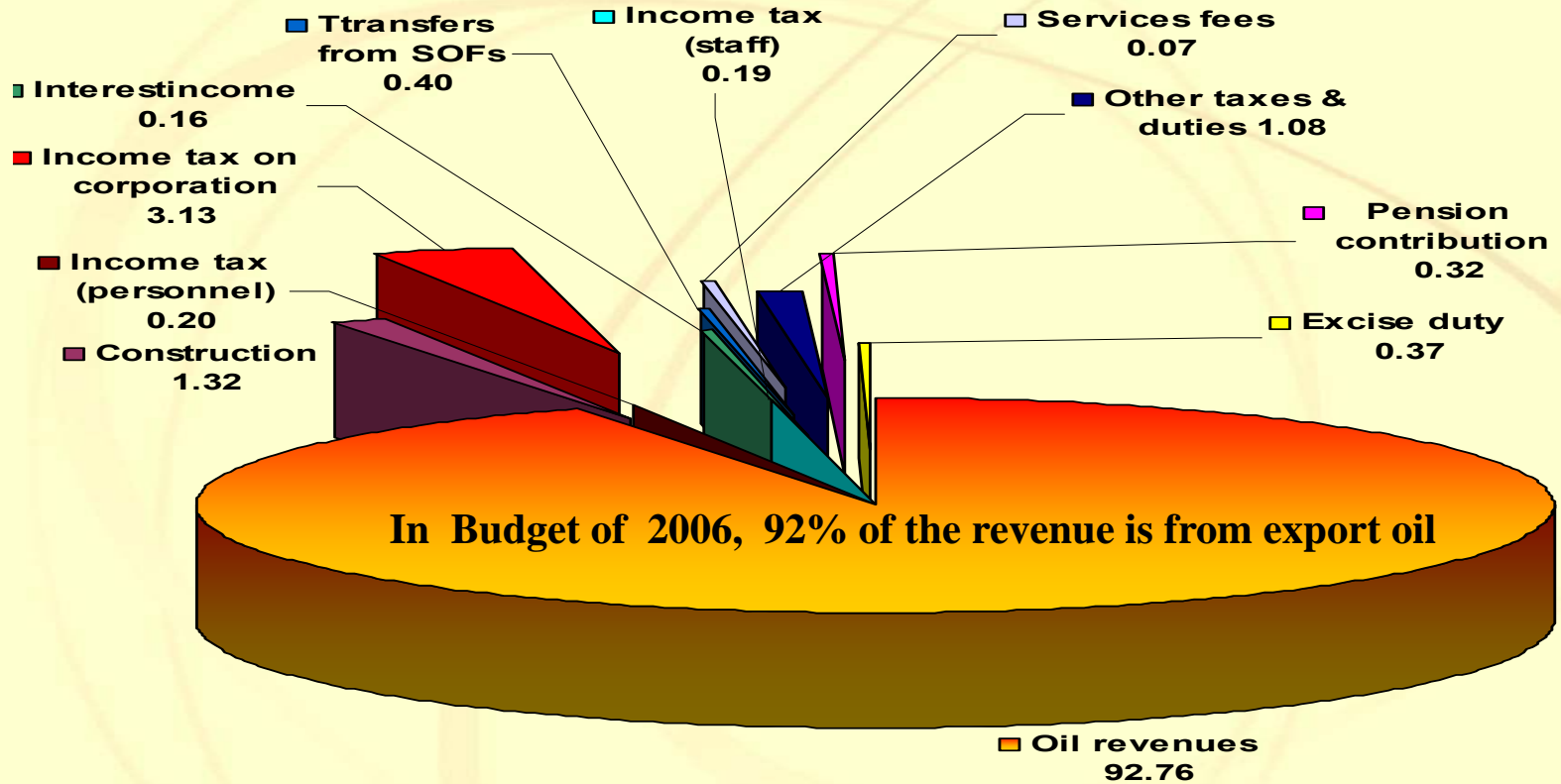
There is a need to reduce rate of change in the
production





Revenue Generation

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





Revenue Generation

Iraq is facing a huge bill for financing reconstruction at a time where donated grants are declining.

a) to increase the production and the export rates:

There is a need for massive investment (to bring current field up to standard and develop new fields),

Improve the competency and capacity at the management level, The national state oil company is to be re-established (without monopoly),

There is a need to remove the confusion in the constitution about authority in policy making. In some paragraph grant authority to central government, but in other paragraph authorise the regions (see, paragraph 108 &109)



Revenue Generation

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.



Industry

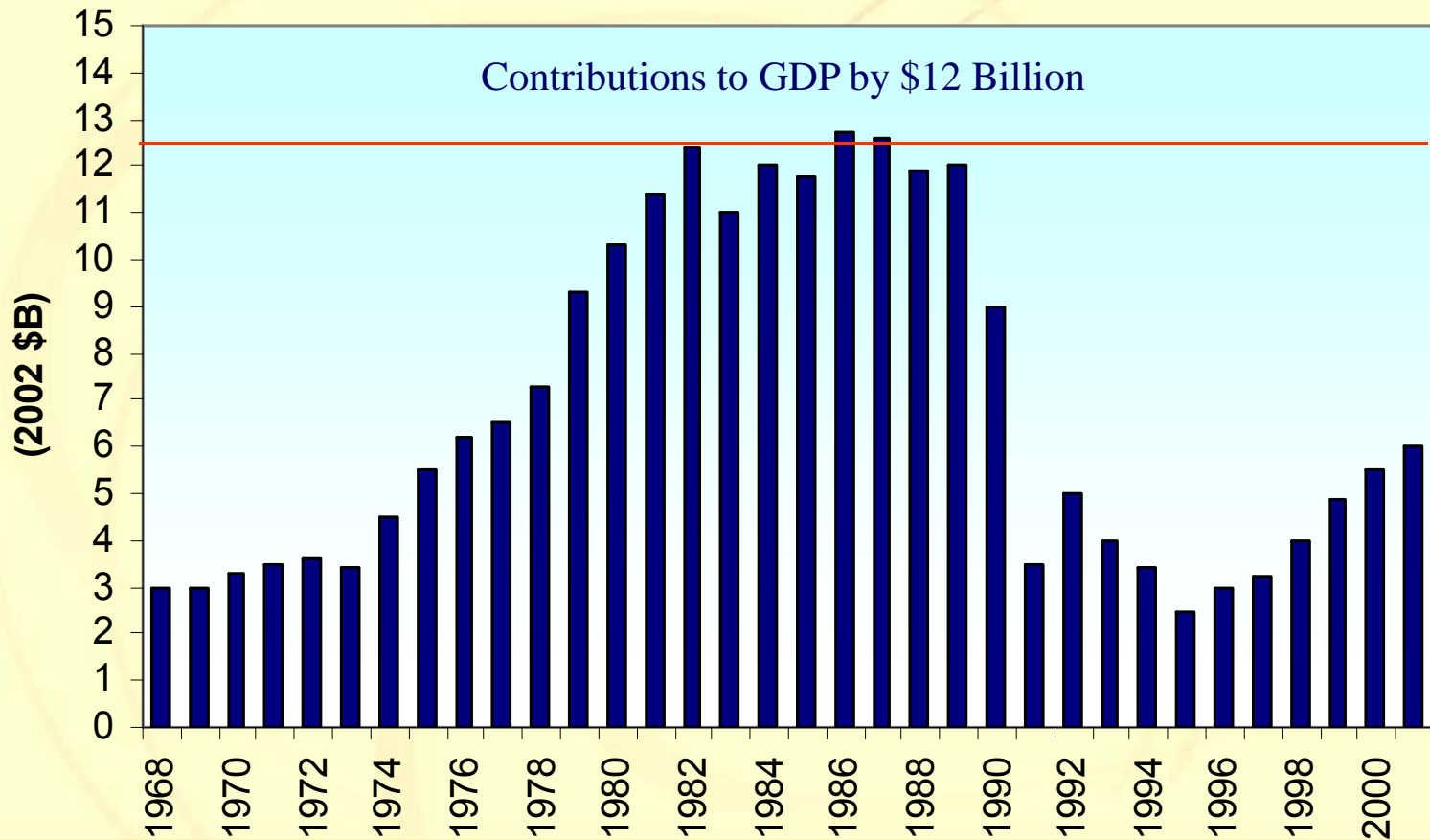


State Owned Enterprises

- ❖ Most enterprises in the industry are State Owned Enterprises,
- ❖ In the past, SOEs used to contribute to GDP by \$12 Billion (before the war with Kuwait)
- ❖ Prior to 2003, many SOE's earned profits, a portion of which was transferred to the national budget, but since 2003, this contribution has ceased.
- ❖ Currently, SOEs are inefficient: employing over 580 thousand employees, and receiving (I.D 1.26 Trillion or USD 840 M) as subsidies.



The State Owned Enterprises





The State Owned Enterprises

- ❖ Opening Iraqi markets to import competition, and opening government procurement to more private firms, has made many SOE's "non-profitable", so that they face a "bleak future."

Even the good enterprises (e.g.; Leather) ceased producing because of their inability to compete.



The State Owned Enterprises

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?



Privatization & State Owned Enterprises

The effort to privatize state-owned enterprises (SOE's) in Iraq has suffered from

- a) lack of commitment on concise strategy,
- c) Investment Law: Current investment law opened Iraq-based enterprises to up to 100 percent foreign ownership. Its weakness, however, is that it does not permit foreign individuals or enterprises to own land. The clause was initially intended to restrict direct foreign investment in real property, but has been interpreted to prohibit even indirect foreign investment, such as foreign purchase of shares in Iraqi companies that own real property. The effect has created a formidable barrier to any but small and informal capital inflows.
- d) Strangely, some advocates of privatization have tended to view it as a one-step solution, rather than as part of a process of economic reform.

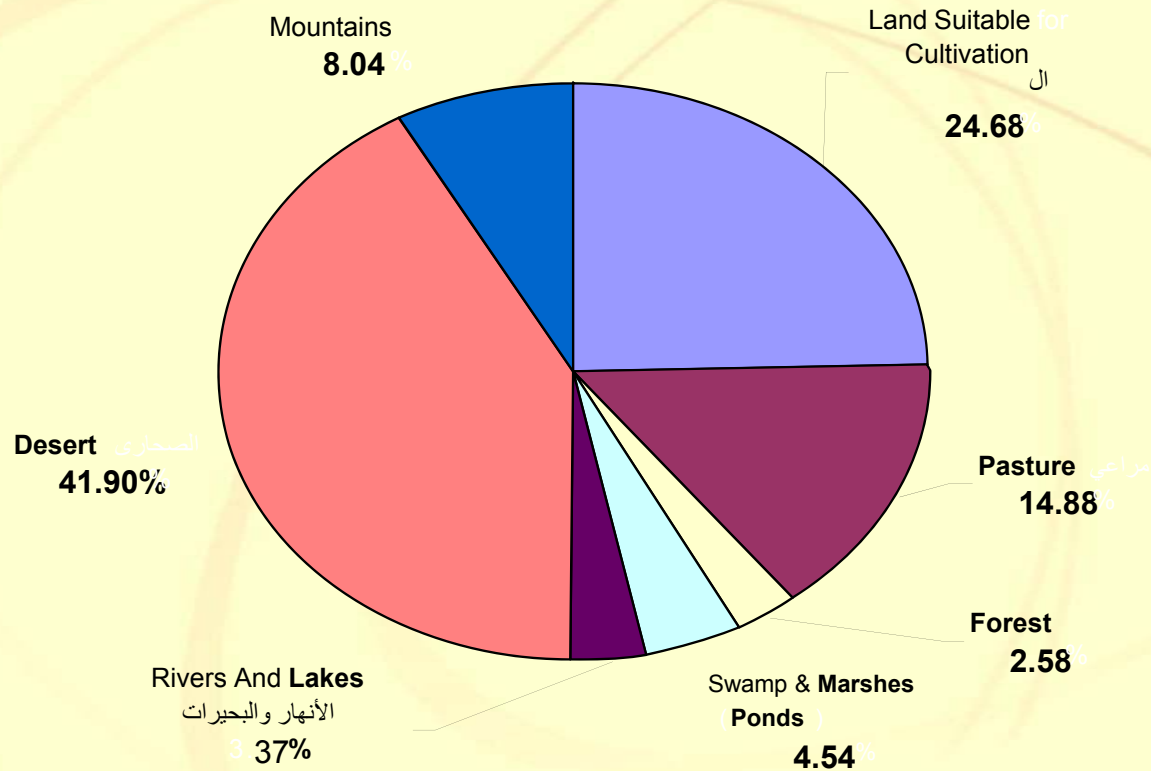


The Agriculture Sector



Structure of the Land in Iraq

Agriculture is the second important sector in the economy





Improving Agriculture Productivity

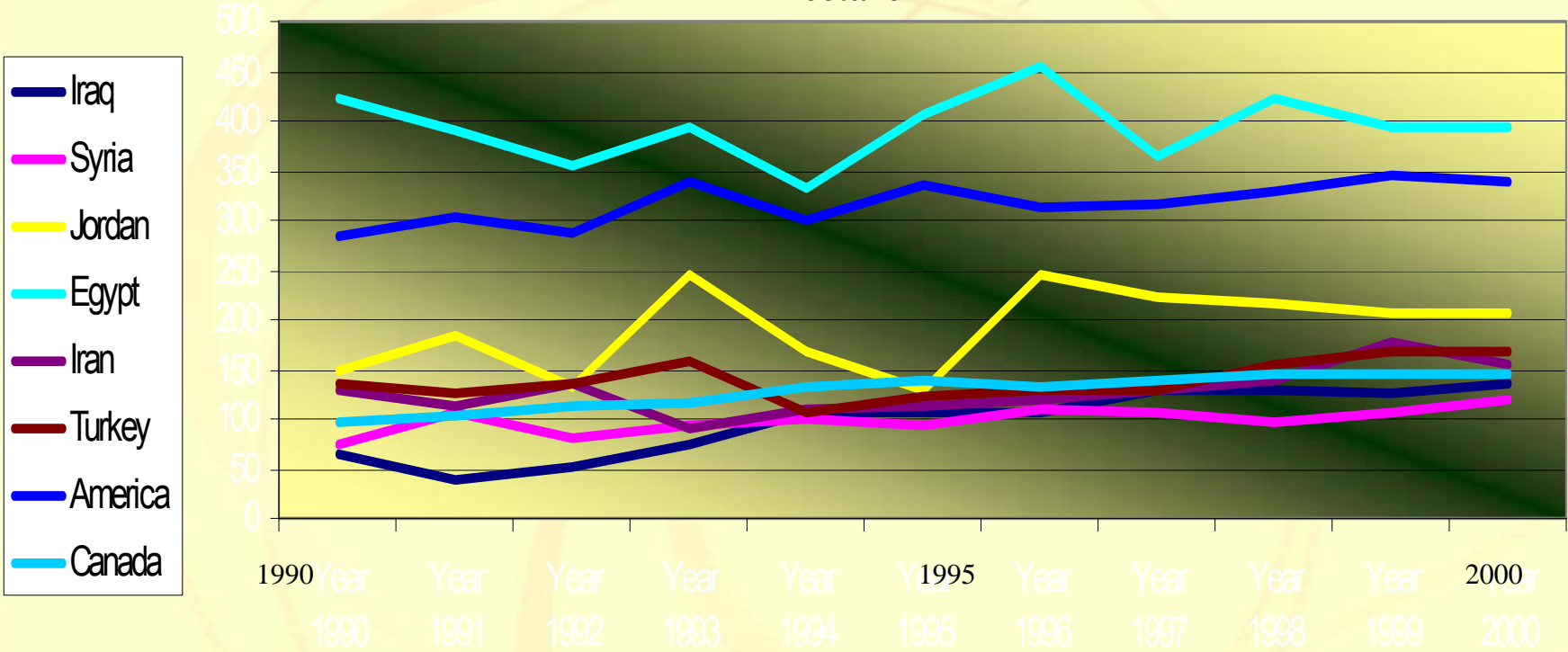
- ❖ In the past Iraq used export agriculture products, but now this is not the case and currently, Iraq import even what used to export,

- ❖ In general, the challenge to improve productivity & efficiency is through:
 1. Improving Irrigation system,
 2. Utilizing fertilizers,



Productivity in Agriculture

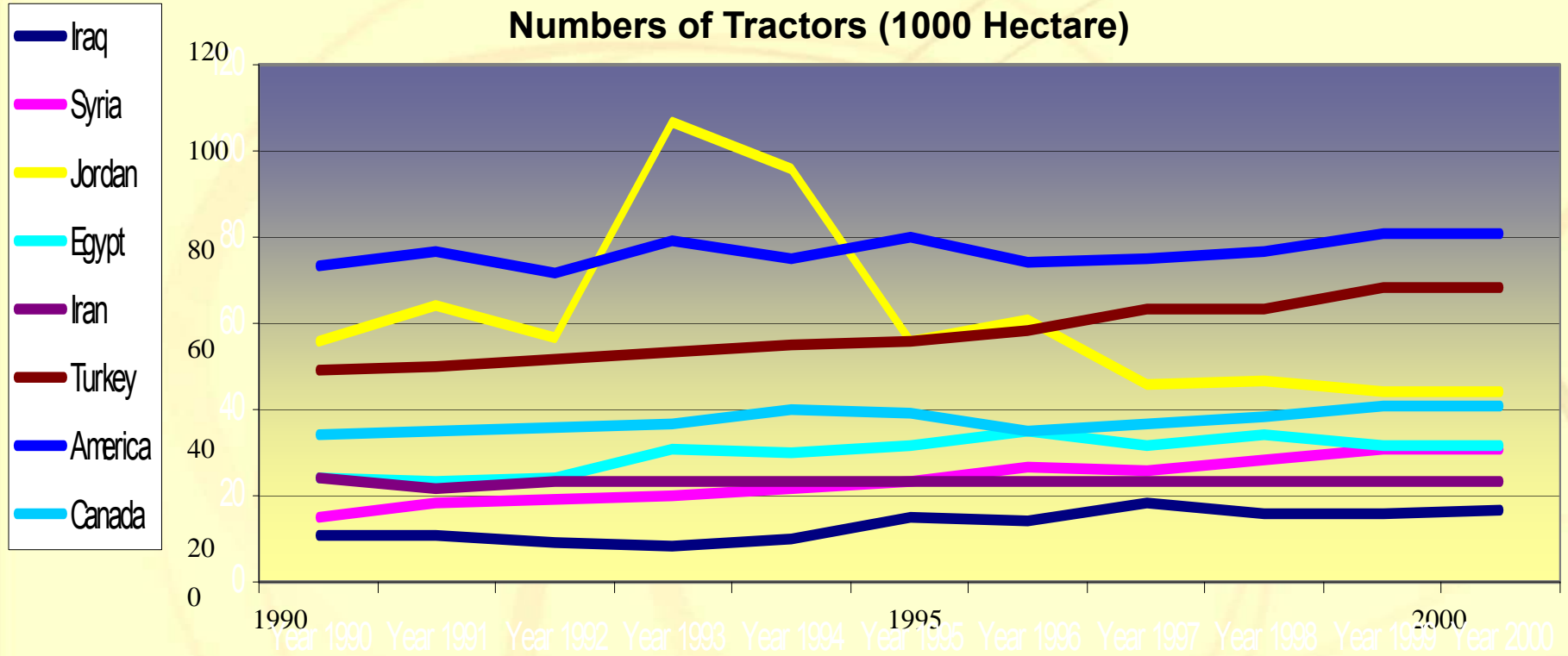
Fertilization usage in different of Countries, by Hectare





Productivity in Agriculture

Numbers of Tractors (1000 Hectare)

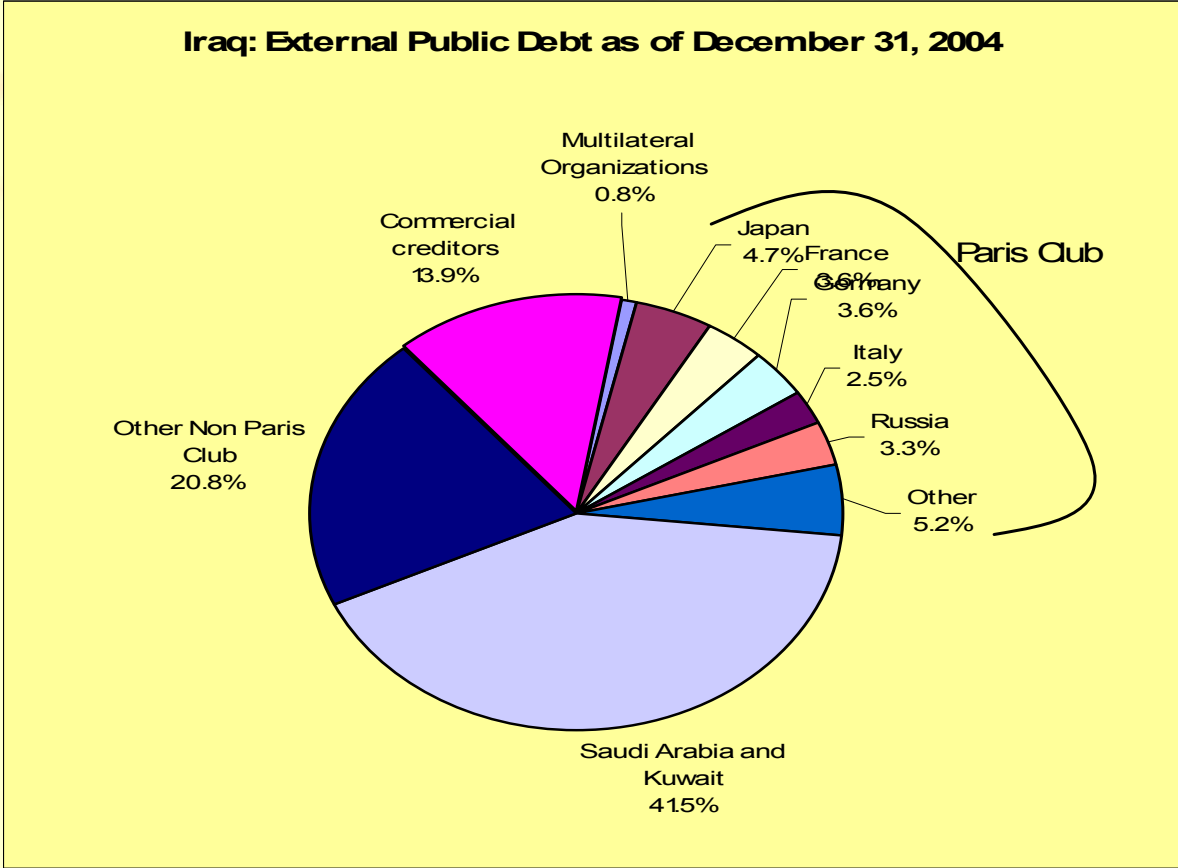




International Debts



Structure of International Debt





External Public Debt

- ❖ 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.

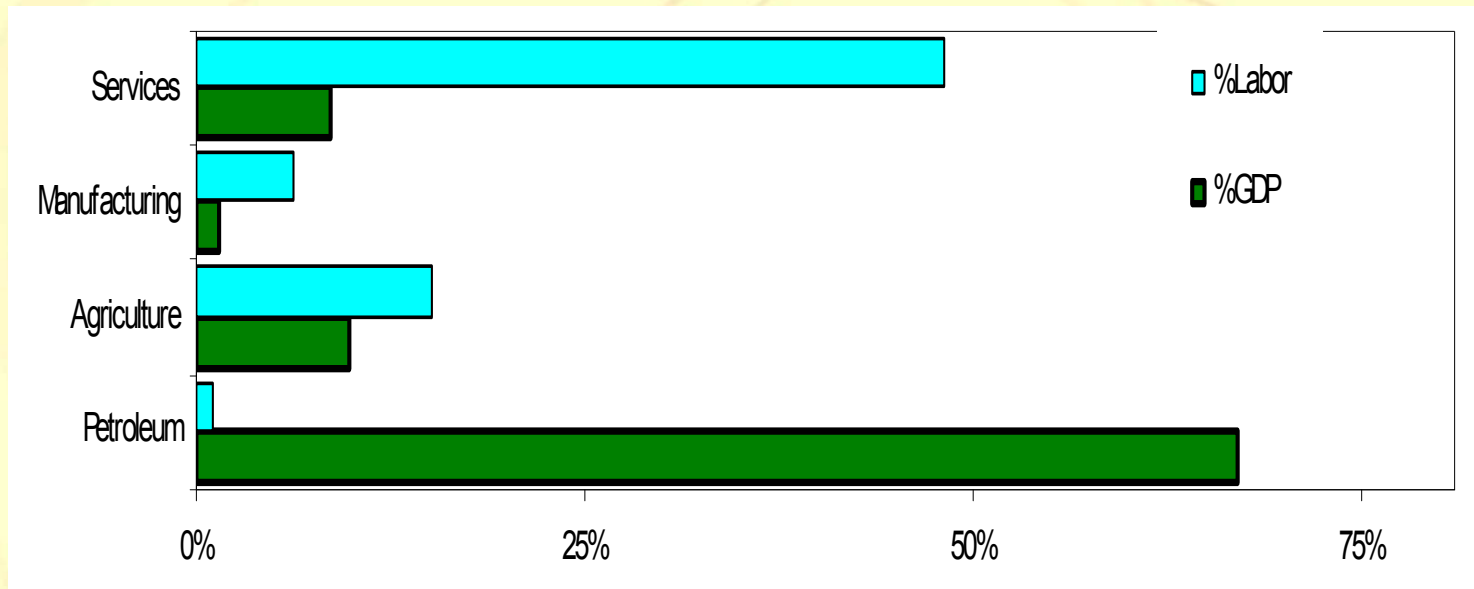


Unemployment



The Unemployment

Unemployment rate is currently between (27 - 30)%. This creates both human and security costs.



Distribution of Employments & Contributions of Sector to GDP



The Unemployment

- ❖ A potential solution to this problem is to expand in spending on building (housing) the damaged infra structure overall the country,
- ❖ In this investment will create incentive for the rapid growth in all sector of the economy and reduce the rate of unemployment,
- ❖ The government needs to set up priorities of projects.



The Unemployment

- ❖ Creating Secure Zones over all the country, will encourage business development and then reduce unemployment rate.



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.

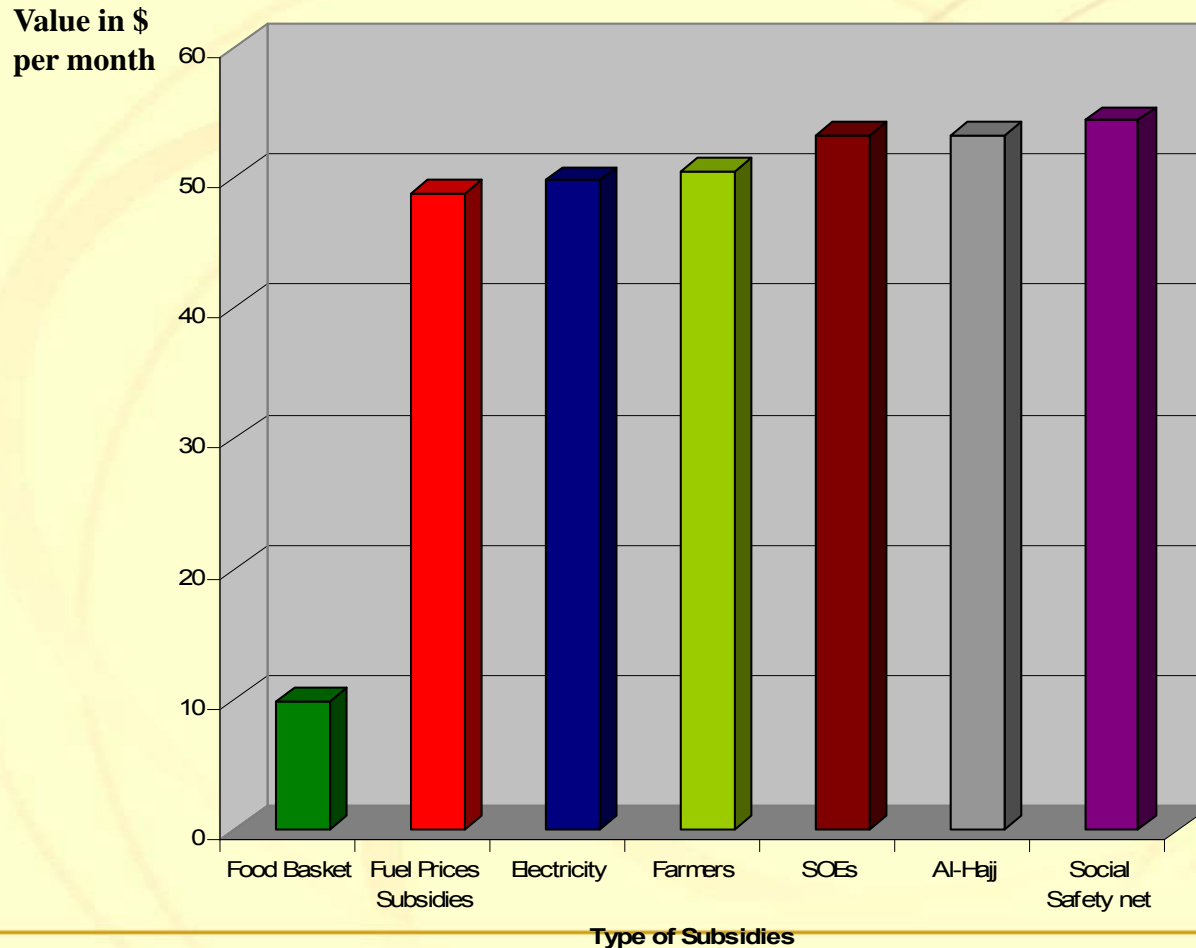
For example: considerable work has been on privatization, Allawi's government established a commission for privatizations. The new government of last year demolished without any warning the commission. Such a action created confusion and a waste.



Reforming Economic Subsidies



The Cumulative Distribution of Subsidies per Capita



Per Capita per month the value of food basket and fuel subsidies is \$ 49.

These subsidies create waste and corruption and distortion of resource from market values

Is it in the advantage of the citizen to monetise these subsidies?



Subsidies System

If 50% of the Oil revenue distributed directly to the population, then the per capita and per family and per month dividend is \$37 and 185

(Based on 2005 oil returns)

Type of Subsidies	Cumulative Subsidies per capita per month In \$	Cumulative Distribution per Family per Month in \$
Food Basket	10	49
Fuel Prices	49	244
Electricity	50	249
Farmers	50	252
SOEs	53	266
Al-Hajj	53	266
Social Safety net	54	272



Subsidies System

Direct distribution of Oil's return will have impact on the following:

- 1) Politically: will show there is no different treatment for member of the population,
- 2) Security: there will be a feel of ownership of resources and motivation to protected,
- 3) Economically: reduce the waste of administration and corruptions



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:

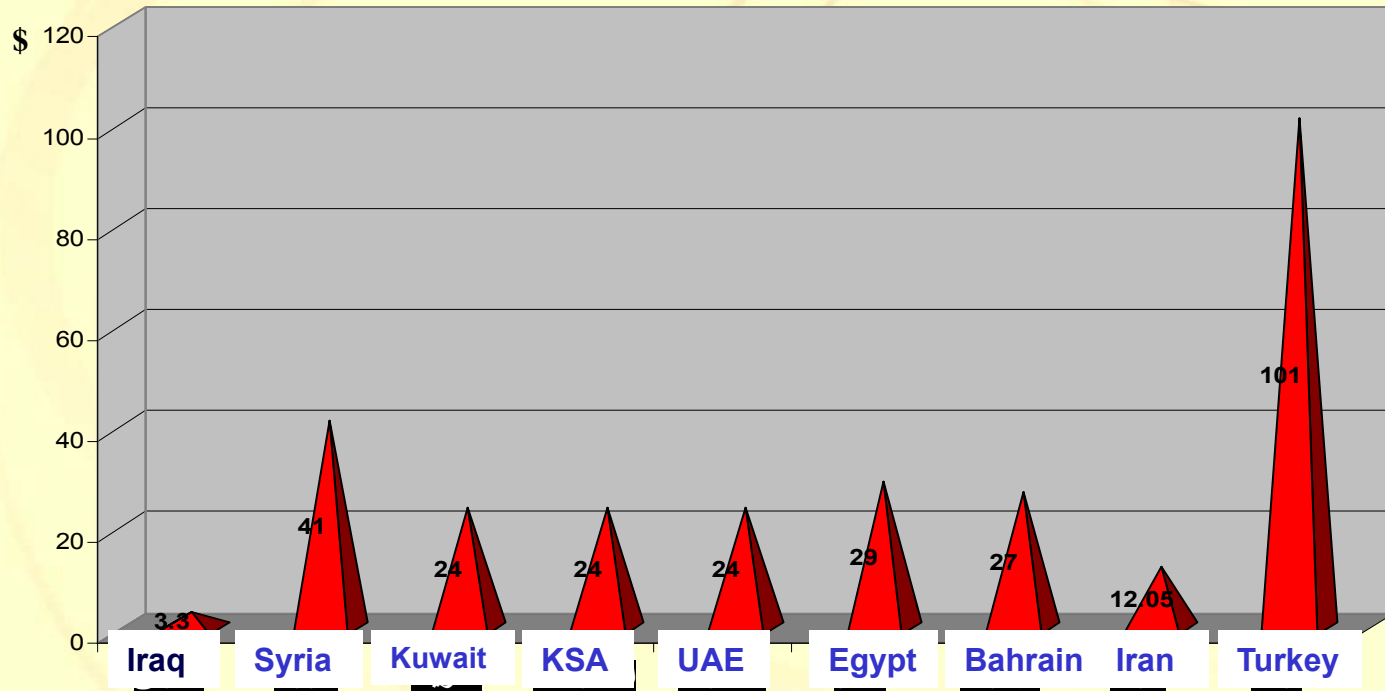
Why is a country with rich oil reserve (such as Iraq) can not afford cheap fuel?

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



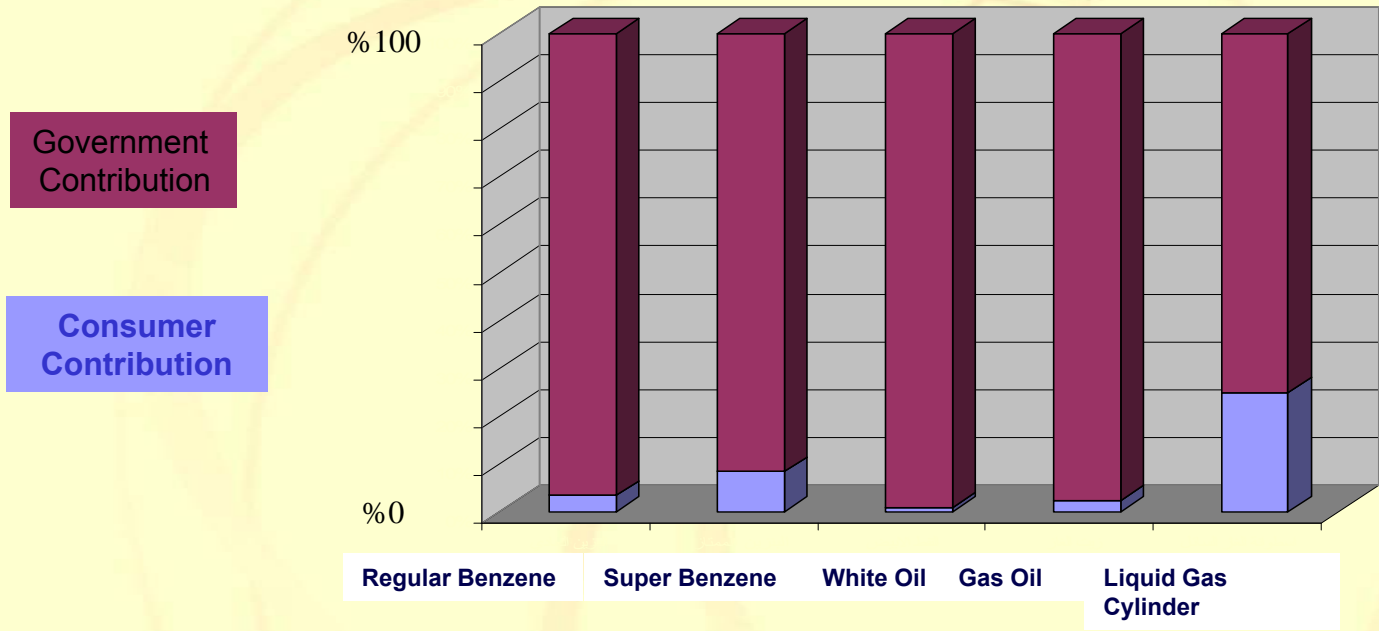
Prices of the improved Benzene (gasoline

Super Benzene



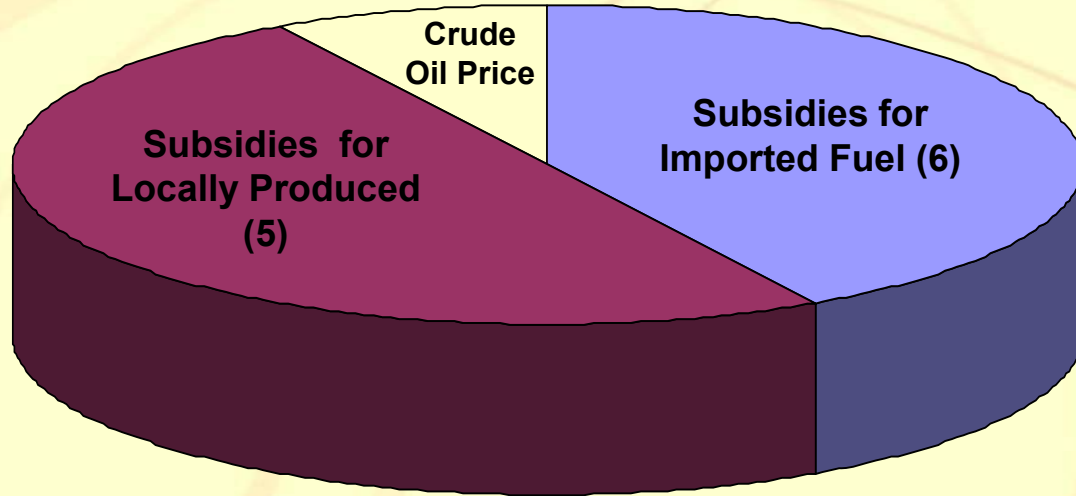


Percentage of Government and Consumer Contribution to the Cost of Fuels



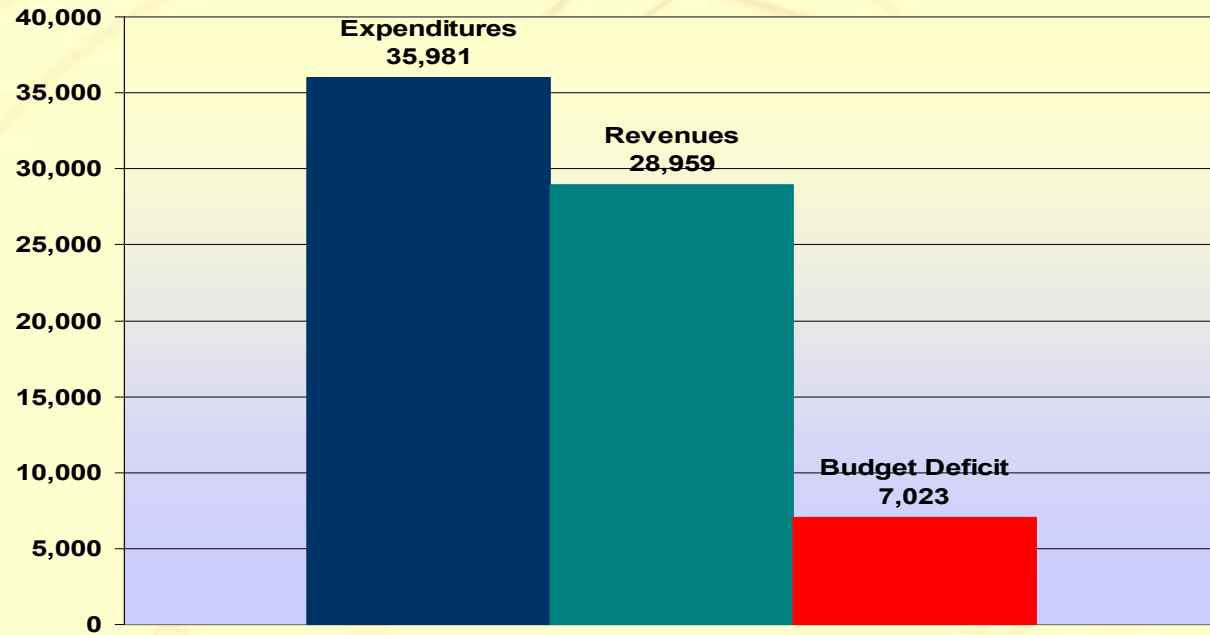


Component of Fuel Subsidies (in Trillions ID)





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



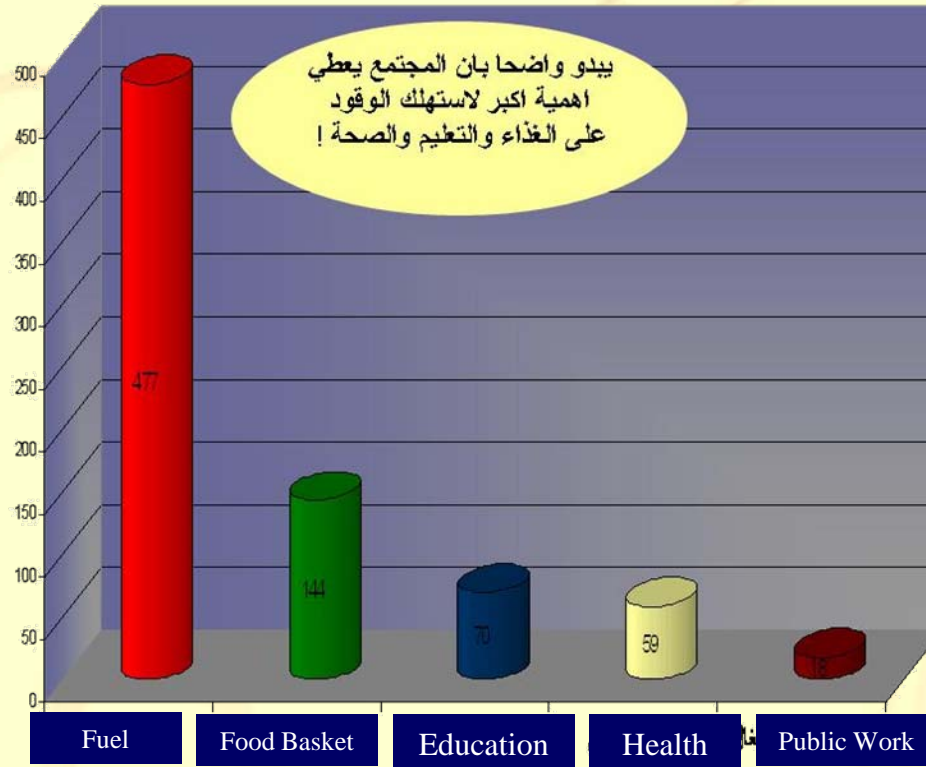


Allocation of the Budget on Select Items

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