



IRAQ 2017 BUDGET AND PETRODOLLARS ALLOCATIONS

Date Published: 9th March 2017
Analysis by: Iraq Energy Institute



On December 7th the Iraqi Parliament approved the 2017 federal budget and the financial instruments it intends to use to fund the expected budget deficit. The budget will be worth IQD79.0 trillion (~US\$66.8 billion) with an expected deficit of IQD21.6 trillion (~US\$18.3 billion; 27.4% of total government revenue) according to the Ministry of Finance (refer to Table 1). The country is expected to spend IQD75.2 trillion on on-going expenses for the year (75% of total expenditure), while the remainder IQD25.4 trillion will be used to fund capital investments.

The forecast of oil prices per barrel has been set at \$42 with an average daily production of 3.75 million barrels per day (bpd). This figure includes an estimated production of 250,000 bpd from the Kurdistan Regional Government (KRG) and 300,000 bpd from the Kirkuk governorate. Iraq is currently producing around 4 million barrels per day of oil (including Kirkuk's north oil company), while the KRG production stands at 600,000 bpd.

Government Revenue	79,011
Oil Revenue	67,950
Non-Oil Revenue	11,061
Government Expenditure	100,671
Current Expenses	75,217
Capital Expenditure	25,454
Current Surplus (Deficit)	(21,660)

Table 1: Iraq Budget for 2017 (IQD, bn)
Source: Iraq Ministry of Finance (2016)

The Ministry of Finance has budgeted for a foreign exchange rate of the 1,182 Iraqi dinars per US dollar. It is worth noting that the foreign exchange rate currently stands at 1,190 Iraqi dinars per US dollar (0.7% above the budget). The movement in the currency comes on the back of a new auction method implemented by the Central Bank of Iraq (CBI) that intends to curb the involvement of brokers and stabilize the exchange rate further.

The federal budget continues to be heavily dependent on the petrodollar to fund its expenditures, as 86% of total government revenue stems from oil-related activities (refer to Chart 1). As for the IQD 21.6 trillion budget deficit, the central government in Baghdad plans to finance this shortfall via local and external debt. The Ministry of Finance plans to issue IQD 5.5 trillion worth of treasuries (25% of the total deficit) to bridge the gap. The central government also plans to tap the international bonds market and issue hard currency-denominated bonds. These efforts bore fruit when Iraq issued a US\$1 billion USD-denominated and US-backed bond at an interest rate of 2.1%, far below the price Iraq is currently paying on existing debt. The US government guarantee essentially assures investors that in the event of a default, the US government will bear the cost of satisfying the debt. The proceeds from this bonds will aid the country in its fight against the Islamic State in Iraq and the Levant (ISIL). The Ministry of Finance also expects to issue another US\$1 billion bond to satisfy the US\$2 billion planned allocation of sovereign bonds for the year.

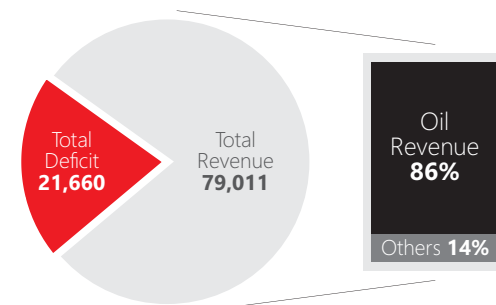


Chart 1: 2017 Government Expenditure Breakdown (IQD, bn)
Source: Iraq Ministry of Finance (2016)

The country plans secure additional funds from the International Monetary Fund (IMF), the World Bank, the European Union and other international entities and governments. The country also plans to receive arms supplies in the form of loans from the US Department of Defense (9.0% of the budget shortfall) and the Chinese Defense Ministry (4.5%). It is worth noting, however, that 9.2% of the budget shortfall will be funded by existing cash.

The Ministry of Finance has also published the allocation of its Governorates Development Program and the breakdown of each governorate's share in the petrodollars disbursements. Each governorate's share from the federal budget comes in two tranches: the petrodollars allocation and the governorate's share in the Governorates Development Program. The lion's share of petrodollars goes to Al-Basrah with 60% allocation, while Baghdad only receives 3%. The central government breaks the petrodollar allocation by region and assigns no petrodollars to the KRG, while the disputed governorate of Kirkuk receives 14% of the petrodollar allocation (refer to Table 2). The overall size of the petrodollar allocation program equals to IQD500 billion.

Governorates	Population (#)	% of Total	Petrodollars Allocation (IQD, mn)	% of Total
Baghdad	8,095,645	21%	13,037	3%
Ninawa	3,702,215	10%	4,195	1%
Kirkuk	1,588,463	4%	70,998	14%
Diyala	1,622,106	4%	-	0%
Al-Anbar	1,755,459	5%	223	0%
Karbala	1,210,568	3%	-	0%
Wasit	1,367,993	4%	27,124	5%
Salah Al-Denn	1,579,662	4%	35,894	7%
Al-Najaf	1,462,706	4%	2,286	0%
Babil	2,045,771	5%	2,662	1%
Al-Qadisiyah	1,280,622	3%	2,649	1%
Al-Muthanna	806,368	2%	1,963	0%
Dhi Qar	2,080,188	5%	16,301	3%
Maysan	1,106,212	3%	24,824	5%
Al-Basrah	2,894,591	8%	297,846	60%
Total ex. KRG	32,598,569	86%	500,000	100%
Dahuk	1,285,040	3%	Nil	0%
Al-Sulaymaniyah	2,153,288	6%	Nil	0%
Erbil	1,846,646	5%	Nil	0%
Total KRG	5,284,974	14%	Nil	0%
TOTAL	37,883,543	100%	500,000	100%

Table 2: Petrodollars Allocation
Source: Iraq Ministry of Finance (2016)

As for the allocation of the Governorates' Development Program, it depends on the governorate's population density relative to the overall population in Iraq. Each governorate receives a portion of the budget that matches the percentage of the population living in its territory. Since Baghdad is the most populous governorate, it receives 21% of the budget allocated from this program, while the KRG combined receives 14%. The size of this development program matches the petrodollar program at IQD500 billion. It is worth highlighting that when the Parliament approved the budget on December 7, 2016, one of the Kurdish parties refrained from voting due to objections to the budget and requested that the differences between Baghdad and the Kurdish authorities to be resolved first.

Putting these two tranches of funding together makes the governorate of Al-Basrah as the largest recipient of this allocation at 34% and Baghdad second with a 12% allocation (refer to Chart 2 for details).

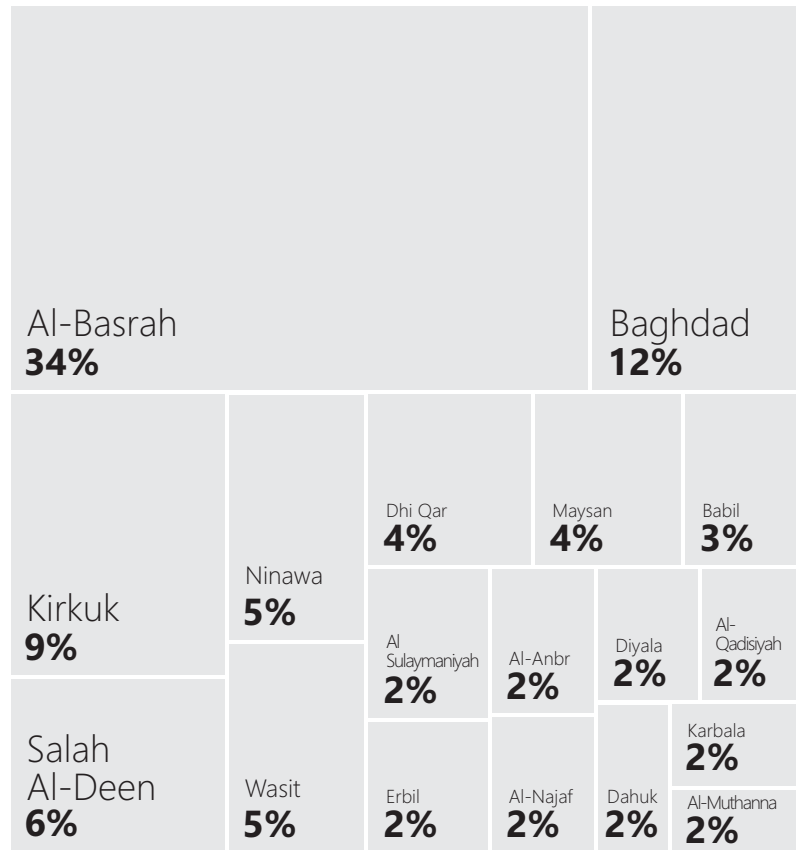






Chart 2: Allocation of the Government's Development Program and Petrodollars for 2017 (IQD, mn)



-  @IraqEnergy
-  facebook.com/IraqEnergy
-  admin@iraqenergy.org
-  www.iraqenergy.org