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### Iraq Government's Economic Strategies\*. By Kadhim Al-Hassani \*\*

#### **Iraq's Macroeconomic Context**

Iraq was hit in 2014 by a dual crisis – the Islamic State and Significantly Lower Oil prices

With 95% of revenues coming from oil sales, Iraq had a significant budgetary Deficit as it took time to adjust expenditures down

Initially investments both in the oil sector and the non-oil sector were reduced significantly

This caused arrears to IOC's as well as to government contractors generally

In late 2015, Iraq engaged with the International Monetary Fund with a Staff Monitoring Program, and was followed in 2016 with a Standby Arrangement (SBA)

The principal goals of the SBA were:

- i. Getting rid of arrears (payments to all IOC's are now current and payments to other contractors have been rescheduled)
- ii. A strong fiscal consolidation program, in which expenditures were curtailed and non-oil revenues increased (leading to a reduction in deficits as part of the GDP as well as a reduction in the non-oil primary balance deficit)
- iii. Establishing a sustainable debt program



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iv. Reversing the downward path of Central Bank Reserves

Other goals of the Economic Reform

- i. Reduction of corruption and introduction of a new procurement program
- ii. Reform of the Banking Sector
- iii. Shift Away from an oil based economy, while continuing to develop the oil sector

Engagement with the International Financial Markets

- i. Two bond issues in 2017
- ii. A number of ECA financings for infrastructure projects

Introduction of a Unified Accounting System and a new public wage bill management system

### **Financing Strategies for the Oil Sector**

a. You obtained an overview from H.E. the Minister on the major strategic projects of the Ministry of Oil. As such the key strategies of the oil sector can be summarized as follows:

- i. Continued increase in crude oil production and exports
- ii. Increased capture of associated gas and development of the natural gas fields



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iii. Continued engagement with key strategic international players in the oil sector

iv. Delivery of key strategic projects to improve the performance of the oil sector

b. With such an ambitious development program for the oil sector, it is important to ensure that the financing of this development is coordinated with our macroeconomic targets and budgetary constraints. We would therefore need to devise structures that do correspondingly allow for the development of the oil sector while not significantly increasing our debt, especially in the period 2020 – 2022 which is a critical period for Iraqi debt repayments

c. Therefore, we would need some PPP structures, as well as reliance on medium – long term ECA backed financings and possibly other project finance structures or engagement with international capital markets

d. To this end, we have taken steps to improve Iraq's investment policies:

i. Establishment of the Higher Committee for Investments and Projects, headed by H.E. the Prime Minister that overlooks all strategic investments and projects, as well as devising simpler investment strategies

ii. Establishment of an Economic Reform Unit at the Office of the Prime Minister

iii. Iraq's entry into the New York Convention on the Recognition of Arbitral Awards



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### **Strategies for the Electricity Sector**

- a. The electricity sector requires major reform. In conjunction with the World Bank and other assistance, this reform program can be divided into three or four major parts
- b. In terms of numbers, in 2017, the electricity sector in the federal region of Iraq cost the Iraqi government approximately 14.5 trillion dinars (which figure includes the effective price of fuel subsidies at actual international fuel prices) and in return Iraq received approximately 1.3 trillion dinars in tariff collections. This demonstrates the fiscal imbalance caused by the electricity sector.
- c. The following are the key strategies for the electricity sector
- d. Increasing production in an orderly fashion. Over the last few years, Iraq's electricity sector has increased production significantly and new projects were entered into both in the context of the private sector and in the government sector. The government will focus on completing existing stalled projects and converting existing plants into combined cycle plants
- e. The government will try to increase the use of gas (both associated gas and natural gas) from heavy fuel oil and crude oil as the fuel of preference for the electricity sector, because this would increase productivity of the plants and reduce fuel costs
- f. The government will commence a more effective solar power program with involvement of the private sector



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g. The government will need to spend significant sums on the transmission sector. Currently, the government has significant shortages of substations and transmission lines. The Ministry of Electricity has recently entered into a number of transactions with Siemens, Toyota Tsusho, ABB and GE to purchase substations and transmission lines (financed through ECA structures)

h. In order to improve tariff collections, the government has commenced short term privatised tariff collection programs and will plan a more developed program in due course

i. There will be a restructuring of the public electricity sector by reducing the scope of the Ministry of Electricity and transferring it into independent electricity companies

### **Strategies for Diversifying the Economy – Other Investment Sectors**

a. Encouraging investment in the non-oil sector by focusing on the following areas:

- i. Ports – encouraging expansion of Umm Qasr and new port of Al-Fao
- ii. Establishment of a Petrochemical sector
- iii. Privatising the industrial sector, this is controlled by state owned enterprises
- iv. Expansion of the Housing Sector
- v. Development of up to 3,000 new schools
- vi. Roads and other transportation sector – developments of new roads and possibly railways

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vii. Development of the tourism sector, in particular religious tourism

viii. Development of a private airport in Mid-Euphrates

(\*) Dr Kadhim Al-Hassani is the Economic Advisor to the Iraqi Prime Minister. The original script was delivered by the Author as Power Point presentation on the Iraq Petroleum Conference held in Berlin on 27-28 of February 2018. We thanks the Organizer CWC for the allowance to publish it on our website.



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