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The COVID-19 Crises Go beyond Iraq's Economic and Health Sectors. By Mohammed Hussein *

The spread of coronavirus, Covid-19, globally means more populations in lock downs while slowing major economic activities, but for Iraq, it goes beyond the normally expected health and economic crises. The country's political economy is designed in a way that any economic lose might lead to conventional conflict over resources. The pandemic dramatically decreased revenues of Iraqi Federal Government (FGI) and Kurdistan Regional Government (KRG) due to the recent oil price crash. The revenue-lose would force governments to pursue some painful readjustments that would probably embroil the country to devastating security instability and conflicts.

The simplest model to anticipate the Iraq's short-term expected uncertainties is conflict over resources. Major actors of the expected conflict are government backed militias, ruling political parties' patronage networks within state, and finally, but the most vitally, young protesters who have been taking streets to demand better employment opportunities and overhaul the current political regime. Additionally, FGI and KRG have been in constant long standing oil and financial disputes, and it is hard to expect them finding sustainable solution considering strains the Covid-19 associated crisis put on their budgets.

The New Financial Picture

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Iraq is the second largest oil exporter in OPEC after Saudi Arabia and exports about 3.5 million barrels per day which is more than 93% of the whole country's exports that generates about 90% of state revenues, according to the Iraqi Ministry of Finance. The new oil price crash certainly will pose huge economic hardship for the caretaker Prime Minister Adil Abdul-Mahdi, and it will be the greatest challenge for both the transitional period in the country and any new prime minister.

Iraq's draft 2020 budget was based on a projected oil price of \$56 per barrel, while the present market price is less than \$29 per barrel. Before the Covid-19 associated disruptions, Iraq's fiscal policies were not functioning in a sustainable manner. Iraq closed the 2019 fiscal year with an estimated 27 trillion IQD (equivalent to almost \$22,631,559) deficits, about 20% of the total budget (127 trillion IQD), while average price of Iraq's oil was \$64 per barrel in 2019. For 2020, Iraqi government increased the number of its civil servants by more than 17% (almost 500 thousand) just to appease protesters. Salaries of the civil servants took 57% of the 2018 budget, and it will take about 67% of the projected 2020 budget, [according to Mudher Mohammed Saleh](#), the economic adviser of Iraqi PM.

All these figures confirm that Iraq can't proceed with its 2020 draft budget, and it has to take several painful fiscal and economic measures amid risen concerns about its ability to provide salaries of the civil servants. As the Figure 1 shows, Iraqi government lost more than \$4 billion in its monthly oil revenues, which is about 58% of the 2019 monthly revenues.

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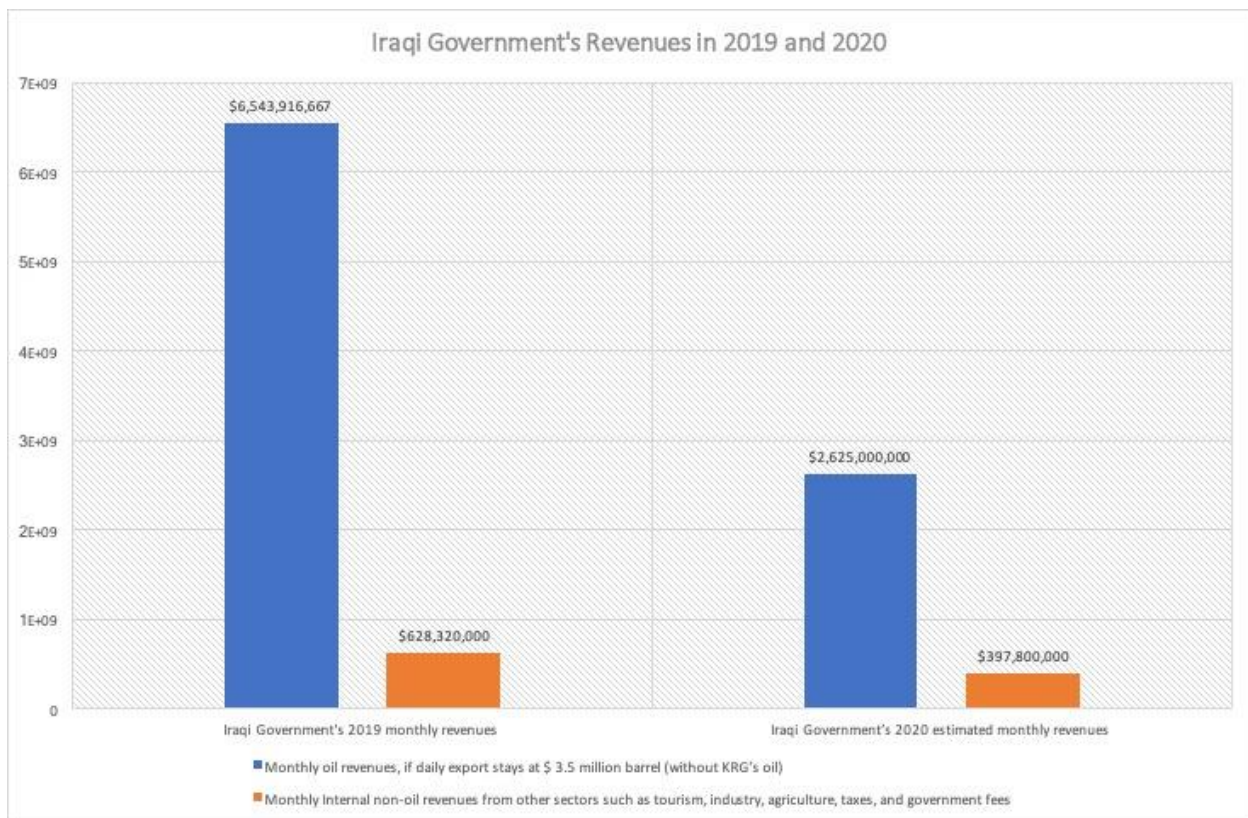


Figure 1 is a simple comparison between Iraqi government's revenues in 2019 and estimated revenues in 2020. The source of the 2019 oil revenues is Iraq's Oil Ministry. The 2020 estimated oil revenues per crude oil barrel at \$30 and Iraq's oil at \$26. Taking out the production cost and oil produced and refined inside the country and sold in subsidized prices.

Likewise, the KRG's total revenue is already slashed by 40%; if only oil prices were considered its oil revenues also slashed by 60%. However, the region's internal revenues decreased to almost zero according to Rebar Ahmad, KRG's Interior Affairs' Minister. Even considering everything the same, a hard year is awaiting the KRG. The following graph shows the KRG's current and pre-Covid19 revenues.

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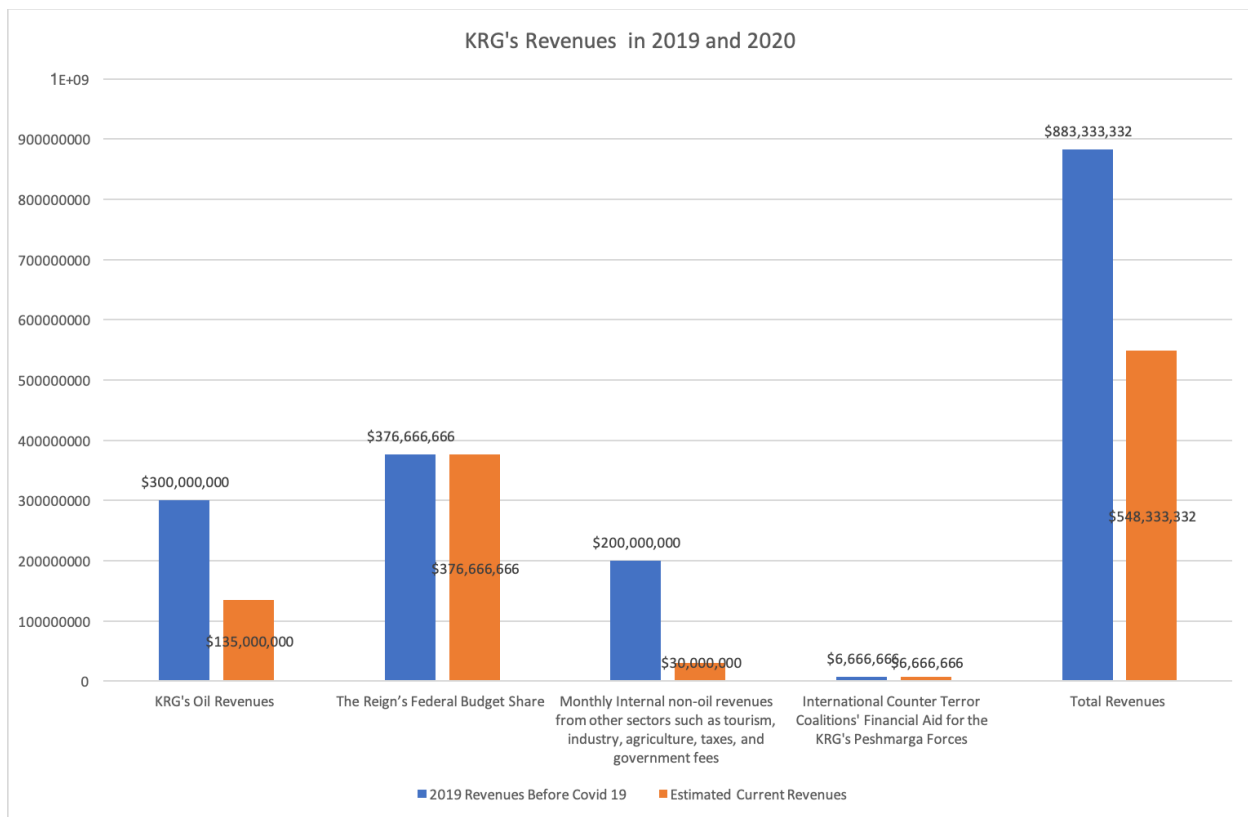


Figure 2 is presenting the estimated KRG's current revenues based on the assumption that the Iraqi Federal Government keeps paying the region's monthly transfer (national budget share) without any disruption and the region's independently exported oil revenue (\$300 million per month in 2019) would be slashed by 45% take into account the current international oil price and the constant discounts KRG has made in its oil sells. The KRG's data is taken from Kurdistan Parliament's Committee of Oil and Natural Resources.

Revenues of the KRG's monthly independent oil sales used to be more than \$650, but it was invested mostly to pay back its debts to oil traders

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and financial dues of international companies operate in the region. After current oil price crash, the KRG will have to reduce the amount of the payments to oil traders and international oil companies if not also to slash its payroll and executive expenditures by more than half.

Expecting Conflicts

All armed militias and political parties' patronage networks basically live on Iraq's and KRG's public funds. When their revenues are reduced or cut fully, possibilities of their inter-fighting conflicts arise as the following:

- Conflicts between the non-state armed groups that are organized under the umbrella of the Public Mobilization Union (PMU), funded by FGI. Conflicts between armed groups are funded by Kurdistan Government's Ministry of Peshmerga such as KDP's 80-Forces and PUK's 70-Forces, which are funded by public but reporting to the Kurdistan Democratic Party (KDP) and Patriotic Union of Kurdistan (PUK). In Federal Iraq, some of the armed units and parties are already in a constant conflict over the nomination of Prime Minister Designate Adnan al-Zurfi. In Kurdistan Region, media war has already started between KDP's and PUK's affiliated security institutions, blaming one another for spying to foreign entities and involving in various criminal activities.
- Conflict between major political blocs in Baghdad while they are in the process of government formation talks after President Barham Salah designated former Najaf governor Adnan al-Zurfi to form a transitional cabinet till the upcoming election. Most of the blocs have paramilitary wings within/outside PMU such as Badr Organization, Asa'ib Ahl al-Haq, Sadrist Movement, KDP, PUK. The armed political parties and groups only obey state institutions and orders which suit

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them, and most of them have long record of manipulating state resources for their partisan and militia interests.

- Disadvantaged ordinary citizens who might lose their incomes as a result of the Covid-19 associated financial crisis. They would probably join the ongoing protests in the major Iraqi cities, frustrating by the dare economic situation. These people are mostly labors of private sector service businesses or self-employed. Many of them have expressed their political willingness and demands by the ongoing protests.

To reach more resources, the militias have gotten involved in the regional conflicts which already some of the political parties and armed groups are engaging in while attacking the U.S. led Coalition Forces in Iraq. They have managed to translate their regional and international supports (from Iran, Saudi Arabia, and the U.S.) to receive supports and also extend their local influences and grab more resources by manipulating public funds to enhance their patronage networks in state institutions; using public jobs and government contracts.

Iraq's oil revenue, so far, has fed the conflicting groups sufficiently and allowed them to keep this interconnection between economic resources and holding political power at expense of state institutions and public interests. The Covid-19 economic disruptions and international oil price-crash have not left enough resources to finance government expenditures and feed all the parasite militias and political parties. Therefore, conflicts are looming and the stronger groups are expected to kill out weaker ones and create a food chain pyramid which naturally leads to great conflicts.

The most likely Conflicts

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Before Covid-19, Iraq has been in deep political turmoil as protesters are taking streets to demand regime change, economic reform, and better governance which forced the current PM Adil Abdul-Mahdi to resign and become the caretaker PM since December 1st, 2019. On March 17th, 2020 President Barham Salah designated Adnan al-Zurfi, to form the transitional cabinet. However, the designation divided major Iraqi political parties and blocs into supporters and foes.

Major Shia blocs like Fatah Alliance, State of Law and their affiliated political parties and armed groups have rejected the nomination, while the Sadrist Movement (Sairoon Bloc), Nasr Coalition, and PUK have supported him, lasting the ongoing polarization to infinite. The two contradicting political stands are in the process of consolidating their influences and maximizing their gains during the government formation talks.

The first group is trying to prevent al-Zurfi from forming the government and the second one is trying to shape the transitional government in a way that will let them come back as the dominant ruling party in the upcoming elections. Both political groups, as well as Zurfi, are equally rejected by the protesters and activists who have taken streets since October 1, 2020 to demand better governance, less corruption, and more employment opportunities.

Similar to the Baghdad's political atmosphere, conflicts are looming Kurdistan Region. The nature of the expected conflict is slightly different here. The strong party system of the KDP and PUK is still functional enough to prevent any farther frictional conflicts, but the parties' inter-conflict is most likely what needs to be tracked.

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KDP's and PUK's armed groups and security institutions are always possible potential for such a conflict. Plus, the KRG is expected to face popular protests by the public employees and people who might lose their incomes due to the new Covid-19 financial crisis like the daily violent civil unrests in 2018, 2017, and 2015, when civil servants were protesting for their delayed salaries. The KRG is always three months late in paying its civil servants, and it has not paid salaries of December 2019. Plus, there are always possibility of political conflicts to shake the ongoing power sharing deal between the region's main ruling parties KDP, PUK, and Gorran.

These are just usual conflicts with each financial crisis, similar to what happened in 2014 when the KDP's armed forces pushed out Gorran Movement from the KRG's cabinet and prevented Parliament Speaker Yousif Mohammed from reaching the parliament which ultimately led to closure of the parliament for more than 2 years. Similar incidents are expected to a point that can lead to paralyzing the KRG, as most of the civil unrests are started from areas controlled by PUK, and this might be used by PUK to pressure the KDP or even look for new government.

Besides, it is still not clear how both FGI and KRG are going to settle down their long standing oil and financial disputes, while they have just lost such a big amount of their oil revenues. Staying within the current understanding will be also hard as FGI may have hard time to abide by its financial obligations, which will make hard sending the KRG's monthly budget, and by that KRG will be crippled if not paralyzed financially with the current oil prices. It is clear they are heading towards tough economic and financial crises, and both ruling elites in Baghdad and Erbil hardly can find suitable solutions while they do not have enough cash in hands to pay for their civil

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servants and help heavily damaged small businesses in the after math for Covid-19 crises.

What Needs to Be Addressed

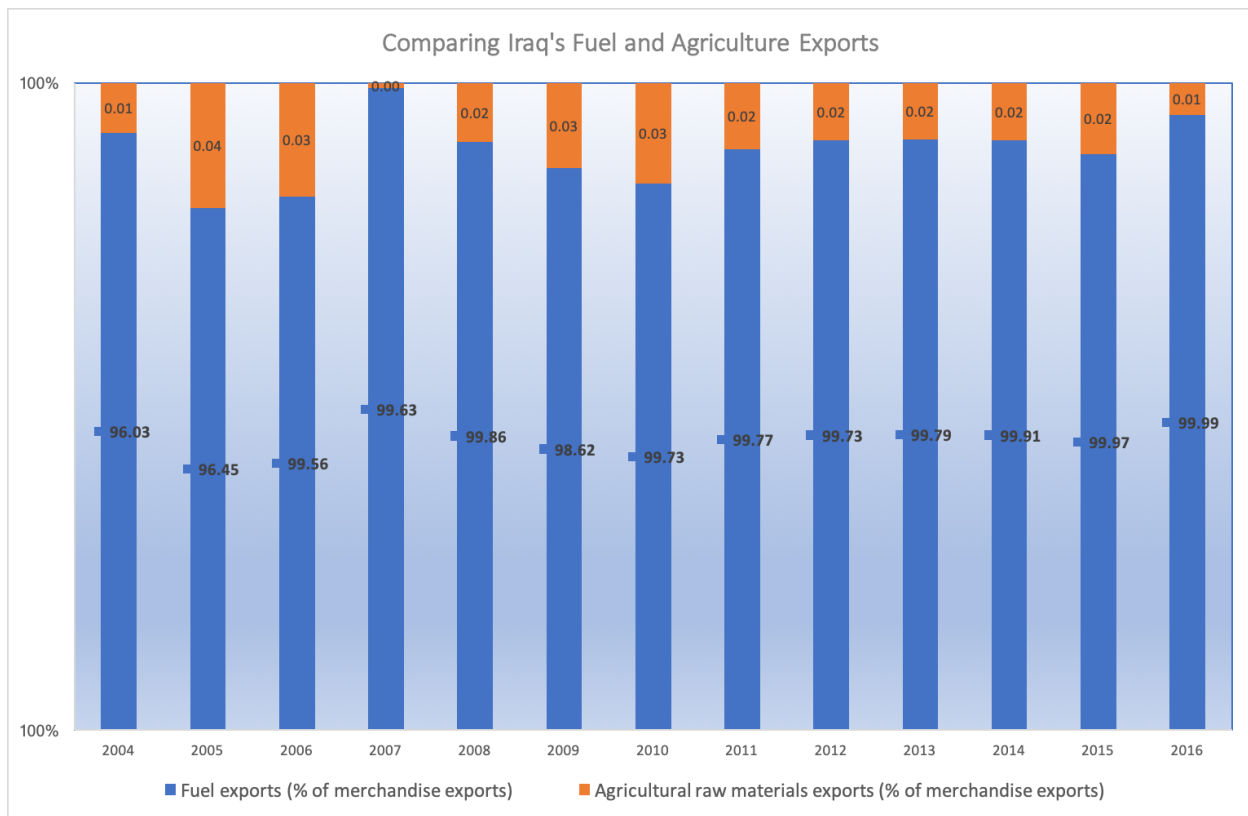


Figure 3 is comparing Iraq's oil exports to agricultural exports from 2004 till 2016. The pattern has not changed contrary to the state leaders' promises to diversify the economy and deviate from the oil dependency. Source of the data is World Bank Group's website.

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What brought Iraqi people to this dire economic situation is not only Covid-19 economic disruptions but the oil-dependent economic policy, adopted by multiple Iraqi regimes since 1970s and further consolidated by the current ruling elite. Although the Iraqi state leaders, including current Outgoing Prime Minister Adil Abdul-Mahdi, have always argued for diversifying the economy, they did nothing but further deepened Iraq's dependency on oil exports at expense of other sectors. Figure 3, which is World Bank's Data about Iraq's crude oil (fuel) and agricultural exports for the period 2004-2016, shows how the previous Iraqi governments only depended on oil exports and neglected all the other sectors, especially agriculture which is still the main job creator.

How to Address these Issues?

Certainly, there is no short-term solution for Iraq's economic problems and impending financial shortages. Fixing the oil-dependency economic model needs long-term solutions with heavy capital invest in other sectors like agriculture, industry, and tourism not to revive them but also make them competitive. Both governments do not have such a time and money to start now. Therefore, FGI and KRG have to look for faster and more immediate solutions in order to not descend to further political and security crises. And the only option is to launch a serious and comprehensive reform project that reduce corruption and cut out unnecessary public expenditures.

No reform project can be implemented if it does not start with reducing corruption in state institutions and decreasing political party's monopoly in Iraqi market. The steps would not be easy, but the cost of not doing anything will be much higher. The business as usual situation can't work anymore, and there must be immediate initiations on how to increase internal non-oil revenues, reduce public expenditures, and find an efficient

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mechanism to collect revenues in ports and border-crossing points that have been taken to pockets of armed groups' and political parties' patronage networks.

It is not realistic to expect such a reform project without having a responsible leadership that can fight the corrupt political parties and their militias. Who can take this responsibility and what social and political groups will support such a reform plan is the question which can't be answered as the Baghdad's political elite is close to open conflict and new waves protests soon may cover the whole country.

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