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PRESS RELEASE

The 2021 Federal Budget Law would not go well without effective Reform measures

The ongoing discourse on Iraq's 2021 draft Federal Budget raises concerns. The draft has been substantially revised by the Parliament's Financial Committee in a way that would keep Iraq within its current "business as usual" status and neglect the long-time needed reforms. In particular, there is no indication that the Financial Committee has introduced any structural changes on the draft, in line with the optimal international standards and practices in budgeting and financial management. Additionally, the process of budget formulation and the subsequent review and revision lacked an adequate level of transparency and violated the deadlines and controls set in the Law of Financial management No. 6 (2019).

In this context, the Iraqi Economists Network (IEN) calls all political factions, MPs, academia, citizens, and NGOs to act and utilize the Federal Budget Law as a tool of reform, to address the structural problems and imbalances in Iraq's economy and fiscal policy.

Statements from the Finance Committee's members and some leaked information on the discussions indicate that the 2021 Federal Budget is not in line with the reform plans that the Government of Iraq declared, particularly the White Paper as well as other reform policies, strategies and plans. This deviation would lead to serious consequences, keeping Iraq's economy vulnerable to external shocks as consequence of fluctuating oil prices, while disregarding the serious issue of unemployment, particularly among the young.

The Federal Budget debate has been overwhelmed by political factions' rentier approaches, which will ultimately keep Iraq's economy within the same challenges, imbalances, and vulnerability.

Apparently, none of the intended reforms in the White Paper is pursued in the revised draft Federal Budget. Actually, the draft adopted certain fiscal and monetary measures, such as imposing income tax on civil servants, imposing additional sales taxes and devaluating the Iraqi Dinar, and these, by all means, don not represent real reform measures.

Moreover, the IEN expresses its concern over some misjudgment regarding the rising crude oil price as Brent price reached \$69. The rising oil price would, inarguably, increase Iraq's revenues, but it may discourage the Governorate of Iraq and policy



makers from taking the needed reform steps as they see their interests in keeping the same unsustainable fiscal and economic approaches. The oil rent would never guarantee sustainable growth for Iraq unless the country undergoes a set of institutional and policy reforms that help improve the enabling business environment, revitalize the private sector, and then diversify the economy. The increasing oil rent should be used towards these goals rather than feeding patronage networks of the ruling political parties.

The IEN calls on Iraqi lawmakers, Council of Ministers and political leaders to utilize the Federal Budget and the increase in oil prices and revenues as an opportunity to address some of the structural economic issues and not being embroiled by the short-term politics to gain electoral wins. Hence, the IEN calls the MPs to revise the budget draft towards radical reforms and sustainable growth. particularly allocating more funds for public investment and modernization of physical and social infrastructure, specifically the pending school, health, transportation and telecommunication projects, as well as reconstructing the war-affected territories. Also, MPs, the Council of Ministers and the political leaders are expected to expedite reform measures in the labour market and to encourage private investment, which will generate the much-needed new jobs. However, this should be done in parallel with actions and measures to mitigate the negative impact of the Iraqi Dinar devaluation on the poor and vulnerable by allocating more funds for the Public Distribution System to improve quality and increase quantity of the food basket items.

Iraq can't tolerate anymore the same economic problems, the pervasive and intrusive corruption and the overall mismanagement while unemployment and poverty rates continue to increase. The Federal Budget Law should set a realistic roadmap to help small businesses and SMEs hit by the COVID-19 pandemic to recover through a specific dedicated microfinance programme. Preliminary steps for most of the Iraq's fiscal and economic solutions should be initiated today, as postponing any solution would make it more expensive and painful in the coming years.

The IEN strongly recommends the decision maker to increase the share for investment expenditures from the planned 17 % in the present draft to a minimum of 35% of total expenditures.

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