“Forget the Donations, Stupid”: New dynamics in funding the reconstruction of Iraq

Ahmed Tabaqchali, 10 June 2018

Key Takeaways

In the months following the Kuwait Conference a sea change has taken place in Iraq’s financial health that has yet to be reflected in perceptions.

Higher oil prices, as a result of the changed dynamics of the oil market and the robust health of the global economy, has had a transformative effect on Iraq’s finances.

By end of 2018, based on realized oil prices of 2017 and average year-to-date for 2018, Iraq is on its way to have a cumulative two-year budget surplus of $18.8bn instead of the initially projected cumulative deficit of $19.4bn.

This would allow it to start the reconstruction process on its own resources. Coupled with a potential surplus of $9.3bn in 2019 would give the country a great deal of flexibility to fund further reconstruction over the near-term.

The surplus of $18.8bn by end of 2018 would equal a stimulus of 14.5% of non-oil GDP once reconstruction projects are underway, which would further accelerate economic activity.

However, this three-year window of opportunity faces the twin headwinds of Iraq’s corrosive corruption and all of prior governments’ failures to spend oil wealth on rebuilding the country’s infrastructure, spending it instead on expanding the state’s role in the economy.

A great deal has changed since the Kuwait Conference on the reconstruction of Iraq, which was marred by misconceptions of international observers who bemoaned that it failed to achieve its objective in raising enough donations. These were not helped by an Iraqi side that went to the conference looking for donations (investments in Iraqi speak) by focusing its efforts solely on presenting a shopping list of projects that needed $88bn in funding over five years.

These misconceptions were addressed in a prior article[1] which highlighted that over five years, Iraq should be able to fund $77bn out of this $88bn through a combination of $50bn from its oil revenues and $27bn in borrowings. Crucially, this level of direct funding and borrowing would be consistent with maintaining macroeconomic stability, which means that funding the reconstruction would not distract from the government fulfilling its traditional role in the economy, and so the reconstruction will contribute to sustainable economic growth.

This ability to fund the $77bn was derived from the IMF estimates for Iraq’s budget for 2018-2022 based on updated market-implied future Iraq oil prices, i.e. the implicit price of oil from the futures markets. In February, the implied price for Iraqi oil was $60/bbl for 2018, declining to $51 by 2022. These are in sharp contrast to the IMF's estimates in August 2017 which used Iraqi oil prices of $45.5 in 2018, increasing to $47.2 by 2022. The 2018-2022 estimates made in 2017 would have made it impossible for Iraq to fund any portion of the needed funding as it would have needed to borrow to balance its budget during these years[2].

Iraq's high dependence[3] on oil means that its budget and GDP are highly sensitive to the volume of oil it exports and to oil prices. The massive change in oil prices over the last few years, as seen from the five-year Brent crude price chart below, played havoc with Iraq's budget during the ISIS conflict 2014-2017. They forced the government into a sharp fiscal retrenchment by cutting costs and cancelling all investment spending, while increasing military spending which had substantial negative knock-on effects on the economy[4]. The significant effects of oil price changes extend to planning for funding the reconstruction directly by Iraq, and indirectly by its stakeholders who need to take into account these effects in relation to their level of contributions and expected investment returns.

Brent Crude Jun 2013-Jun 2018, Source: Financial Times[5]

The fundamentals of the oil market went through major changes over the last four years, from expectations of supply scarcity versus increasing demand up to mid-2014; fears of increasing supply overwhelming decreasing demand from mid-2014 into late-2016; easing somewhat to hopes for a rebalance by mid 2017; and finally, into growing demand exceeding declining supply. Overlay the robust health of the global economy and it is expected the oil market will continue to tighten in the immediate future. This outlook is complicated by disruptive technologies such as those behind the Shale oil boom in the US, and by geopolitics affecting major suppliers such as Iran and Venezuela. These are balanced somewhat by OPEC's actions and shifting perceptions of either its increasing dominance or increasing irrelevance. These perceptions came into sharp focus with the OPEC & non-OPEC supply cut agreement in late 2016 that started the recovery process. Recently there is news that talks have been underway to increase supply as prices have risen too high in response to threats to Iranian and Venezuelan supplies.

These would make budget planning, let alone long-term reconstruction planning, for Iraq an exercise in folly if it were to use the latest market implied future prices or to accept the prevailing wisdom at any given time as a basis for planning. This pretty much explains the conservative assumptions used by the IMF -which the world financial community depends on in assessing Iraq's financial soundness and its credit worthiness. These assumptions served as the basis on which Iraq and the IMF identified creditors and donors for Iraq to cover its estimated budget deficits for 2017-2022 as part of the IMF's 2016 Standby agreement. Moreover, the IMF updated these assumptions with new estimates for forward oil prices as part of its Kuwait Conference presentation.

A recent article[6] noted "using realized prices of Iraqi oil of $49.1/bbl for 2017, and assuming Iraqi oil prices of $60/bbl for 2018, then declining to $51/bbl in 2022, would produce a cumulative surplus of $47.4bn for 2017-2022 instead of the earlier assumed cumulative deficit of $17.6bn"[7]. While using higher estimates for oil prices would result in a cumulative surplus of $78.2bn. In the first scenario Iraq could fund the reconstruction by a combination of $50bn from its oil revenues and $27bn from borrowings, and the final $11bn from aid/donations, which is in-line with the assumptions made by the IMF at the Kuwait conference. While, in the second scenario Iraq could fund the reconstruction by a combination of $80bn from its oil revenues and $8bn from borrowings which is a vastly different proposition.

Given the impossibility of forecasting future oil prices, especially up to 2022, this article will consider the data for 2017-2019 given the higher degree of predictability in this short timeframe.

The IMF updated its global growth projections to +3.9% for both 2018 & 2019, up from its previous projections of 3.7% for both which was made in late 2017 as part of its World Economic Outlook (WEO) in April[8]. It believes that the upswing that began in 2016 has accelerated since then but it expects that it will taper off afterword's. These coupled with changed dynamics in the oil supply/demand imply higher oil price assumptions for the period, which for the short-term has positive implications for oil exporting nations in MENA as outlined in its Regional Economic Outlook (ROE) May[9].

For Iraq, these would have huge implications for its economic profile for 2017-2019 and thus to its ability to start funding the huge reconstruction demands. The table below looks at the original IMF estimates for Iraq's budget 2017-2019[10] versus updated estimates for 2017-2019 based on the latest actual data for 2017 and updated estimates for oil prices.

Year	2017E	2018E	2019E
Original assumptions (August 2017)			
Government revenue ($bn)	69.2	73.9	75.6
Government expenditure ($bn)	79.0	83.4	79.0
Budget balance ($bn)	-9.8	-9.5	-3.4
Exports (mbbl/d)	3.8	3.8	3.8
Iraq oil prices ($/bbl)	45.3	45.4	44.9
Oil Revenue sensitivity to $1/bbl ($bn)	1.4	1.4	1.4
Updated assumptions (June 2018)			
Iraq oil prices ($/bbl)	49.2	63.5	59.0
Government revenue ($bn)	65.3	103.6	98.0
Government expenditure ($bn)	63.9	86.3	88.7
Budget balance ($bn)	1.5	17.3	9.3

E= Estimates, $ = USD, mbbl/d =million barrels per day, bbl= barrel

For sources & assumptions see endnote[11]

The updated assumptions for 2017-2019 imply a cumulative surplus of $28.1bn vs earlier assumptions of a cumulative deficit of $22.8. Although Iraq has identified funding sources for each year during the budget planning stages, it is likely that it would have not utilized them due to the higher revenues as a result of the higher than planned oil prices. These unused funding sources could as high as $14.3bn by end of 2018[12].

Irrespective of the above, the upcoming government should have a cumulative surplus of $18.8bn by the end of 2018 which can be used to start the reconstruction process, which coupled with the likely surplus of $9.3bn in 2019 would give the country a great deal of flexibility to fund further reconstruction over the near-term. This flexibility would be augmented by $30bn, over five years, in investments and trade credit guarantees that Iraq received during the Kuwait Conference in February[13].

The effect of this spending flexibility on economic activity is enormous, in that should the surpluses be spent on reconstruction from 2019 over a two-year period, this would be equivalent to an economic stimulus of 14.5%[14] of 2018's non-oil GDP over this period. This is a major economic stimulus by any account that would be magnified over the next five-years should the $30bn in pledges that Iraq received materialize.

However, the risk, and the likelihood, is that the upcoming government would succumb to public pressures to use some of this extra fiscal flexibility on populist measures. Such pressures have already been applied by parliament as it amended the budget by removing the 3.8% tax on salaries and pensions to appease an angry electorate in an election year. The elections marked by the continued pro-reform demonstrations since 2015, and the large active non-participation movement imply that the upcoming government would increase spending on populist measures to pacify the electorate and provide a visible peace divided. In fact, the updated estimates for 2018 & 2019 in the table above reflect the expectations of higher expenditures, which would narrow the surplus for these two years, which in turn would detract from the funds available for infrastructure investment.

A further risk is the country's corrosive corruption which would find breathing space as a result of higher oil revenues, especially if they are spent on populist measures, in the process relieving public pressures on the government to reform and to expose corruption. Moreover, the practice post-2003 of using state contracts as a means of reinforcing political influence on selected players in the private sector could continue, further entrenching corruption, with the government ability to fund the reconstruction and ability to award contracts.

Even, if the government would not succumb to populist measures, it would still need to resort to borrowing to continue funding the reconstruction. This is especially true given the high level of government expenditures, especially its public-sector payroll and social security spending. Moreover, higher oil prices for 2017-2019 will likely lead to the government to slow the pace of fiscal consolidation in response to public demands. This therefore means that budget surpluses will decline in time, especially as oil prices are likely to moderate in the coming years[15].

Borrowing, especially from the commercial debt markets, imposes a much-needed discipline on the government to adhere to sound fiscal policy and to continue the path of reducing its role in the economy and encouraging the development of the private sector[16]. Combined with the IMF's 2016 Stand-By Agreement (SBA) this should help ensure sustainable macroeconomic stability.

Iraq's ability to assume debt that is sustainable and within the confines of maintaining macroeconomic stability is much higher than assumed by many who merely look at the headline figure. An upcoming report by the author looks into the composition and background of Iraq's debt[17]. The IMF estimates the total debt to be $122.9bn by end of 2017[18], made up of external debt of $73.7bn and domestic debt of $49.2bn.

However, $41bn out the external debt is to non-Paris Club creditors, mostly the GCC nations, that date back to the pre-2003 regime which are under negotiations to reduce them on the same terms as applied by the Paris Club of creditors. Should this happen they would likely be reduced by 90% to $4.1bn[19]. Therefore, including the unused borrowing for the 2017 deficit, this means that actual debt by end of 2017 is more likely to be $76.2bn[20] than the headline figure of $122.9bn. This would imply debt/GDP ratios of 39% for 2017 and 34% for 2018[21], giving Iraq plenty of scope to assume debts of up to $40bn and still keep debt/GDP ratio under 50% for 2018[22].

A sea change in Iraq's position has taken place since the months leading up to the Kuwait Conference, but perceptions have not. Iraq's position was that of a country with a debt/GDP ratio of 63.8%/65.3% for 2017/18, that needs to borrow to fund its budget deficit for the next few years and thus needs aid/donations to fund an urgent and massive reconstruction. The sea change, based on the IMF's May REO, is that Iraq now has a debt/GDP ratio of 58%/54.7% for 2017/18, a budget surplus and can start to fund its reconstruction. This article further shows that Iraq can start funding its reconstruction in 2018 with $18.8bn in cumulative surpluses based on current oil prices. If the argument above on the underlying nature of its debt were to unfold then Iraq can add to this by accessing $40bn in the debt markets- which is far more than its immediate needs for reconstruction.

The underlying positive for Iraq that is fortunately to a large extent free from any government planning, or mismanagement, is that the reconstruction along the lines described by the joint study of the World Bank Group (WBG) and Iraq's Ministry of Planning (MoP), on its own, will generate substitutional non-oil economic activity[23]. This activity can over the course of the next five years provide the non-oil economy with sufficient momentum for Iraq to escape its high oil dependence, which no government has attempted before. The silver lining of the trauma caused by the ISIS conflict, coupled with collapsing oil prices was that Iraq, in spite of all the improbable odds, united and climbed its way out of the abyss and of total disintegration. Given Iraq's ability to start self-funding the reconstruction, a similar silver lining is that the recovery from the same trauma, in the form of reconstruction, could lead the country's evolution away from pure oil dependence.

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[1] *http://www.iraq-businessnews.com/2018/02/22/its-not-the-donations-stupid-key-points-from-kuwait-conf/ - edn3*

[2] *IMF's estimates and presentation in the Kuwait conference are at: Session 3 after clicking on the pdf icon of the presentation. Presentation starts at minute 8.20 on the youtube link on the link below: -*
https://view.publitas.com/1692ac51-faf7-464f-a9c2-1784ed1da647/iraq-reconstruction-and-investment-part-3-investment-opportunities-and-reforms/page/1
IMF's earlier estimates are from Country Report No. 17/251

[3] *2017 estimates: Oil exports accounted for 99% of all exports, Oil revenues accounted for 87% of government revenues which in turn accounted for 32% of total GDP. Moreover, Oil GDP accounted for 38% of total GDP and indirectly accounts for the bulk on non-Oil GDP as the government's orders drives non-Oil GDP (source: Country Report No. 17/251).*

[4] *A report by the author discusses this dynamic and the government response http://www.iraq-businessnews.com/2017/07/17/economic-consequences-post-mosul/. Some highlights of which are "The government maintained overall spending on salaries and pensions, but it introduced new and increased existing consumption taxes on a large number of consumables while it also increased utility prices, Non-oil investments bore the brunt of the cuts as the government sharply curtailed all capital spending and investments."*

[5] *https://markets.ft.com/data/commodities/tearsheet/summary?c=Brent+Crude+Oil*
Iraqi oil sells for about $5/bbl discount to Brent.

[6] *http://www.iraq-businessnews.com/2018/05/23/market-review-elections-the-economy-and-the-stock-market/*

[7] *The deficit of $17.6bn was based on IMF estimates made in 2017 (Country Report No. 17/251). The IMF has since then updated its revenue estimates higher based on higher oil prices which imply a much lower cumulative deficit than the one used here, but these estimates were only up to 2019 and hence old estimates are still used. Updated data is at: World Economic Outlook April 2018 & Regional Economic Outlook May 2018 in the two footnotes below.*

The estimates depend on IMF projections which assume that the government spending would continue to be constrained but this is unlikely given public demands for an ease as a result of higher oil prices. This will be balanced in this report's higher oil price assumptions such that the surpluses would be the similar as will be seen later in this report and in the author's other recent publications.

[8] https://www.imf.org/en/Publications/WEO/Issues/2018/03/20/world-economic-outlook-april-2018

[9] http://www.imf.org/en/Publications/REO/MECA/Issues/2018/04/24/mreo0518 (data only until 2019)

[10] IMF Iraq Country Report No. 17/251 (http://www.imf.org/~/media/Files/Publications/CR/2017/cr17251.ashx). The IMF assumptions are used throughout for assumptions made in 2017, instead of available Iraq budget figures for 2017 & 2018, to ensure consistency with other estimates used throughout. Moreover, the data from the IMF country report 17/251 are used instead of the IMF updated data (footnotes above) as the updated figures provide only headline numbers without specific details that are needed for a full analysis.
Note: figures are rounded, and so total figures might not add up fully.

Below are the main differences between IMF projections and those of Iraq's budgets for 2017 & 2018, and Iraq's actual 2017 budget spending.

<u>Iraq's budget vs IMF projections for 2017</u>

- *Iraq's budget*
  - *Total revenues of $66.8bn made up of oil revenues of $57.5bn based on oil price of $42/bbl, and total exports of 3.75mbbl/d. These exports include the KRG's exports of 0.55mbbl/d.*
    - *The agreement with the Kurdistan Regional Government (KRG) was for it to export 0.55mbbl/d through Iraq's State Oil Marketing Organization (SOMO). In return the KRG would receive 17%, less sovereign expenses, of the federal budget. However, neither have fulfilled their obligations, yet, both of Iraq's budget and the IMF budget assumptions include the KRG's oil exports and its share of expenditure.*
  - *Expenditures of $82.2bn, creating a deficit of $18.3bn.*
- *IMF projections:*
  - *Total revenues of $69.2bn made up from oil revenues of $61.3bn based on oil price of $45.3/bbl and total exports 3.8mbbl/d, and non-oil revenues of $7.5bn*
  - *Expenditures of $79bn, creating a deficit of $9.8bn*

<u>Iraq's preliminary budget vs IMF projections for 2018</u>

- *Iraq's budget*
  - *Total revenues of $77.5bn made up from oil revenues of $65.2bn based on oil price of $46/bbl, and total exports of 3.888mbbl/d. These exports include the KRG's exports of 0.55mbbl/d.*
  - *Expenditures of $88.1bn creating a deficit of $10.6bn*
- *IMF Projections*
  - *Total revenues of $73.9bn made up from oil revenues of $64.3bn based on oil price of $45.5/bbl, and total exports 3.9mbbl/d and non-oil revenues of $9.3bn*
  - *Expenditures of $83.4bn creating a deficit of $9.5bn*

<u>Iraq's actual 2017 budget revenues and expenditures based on Ministry of Finance (MoF) data</u>

- *Oil revenues of $55.3bn, which exclude the revenues from the KRG's direct exports of 0.55mbbl/d (included in the IMF projections in the table used and in Iraq's budget planning). These revenues would have been higher than planned by the government which assumed an oil price of $42/bbl total, including KRG, exports of 3.75mbbl/d vs the realized price estimated at $49.2. They are also higher than the IMF est.'s which assumed a $45.5/bbl on total exports of 3.8mbbl/d.*
  - *If the KRG's exports of 0.55mbbl/d were sold at the same price, then total revenues would have been $73.6bn vs the Iraq budget plans of $57.5bn or the IMF's estimate of $61.3bn. This reflects the budgets sensitivity of $1.4n to every $1 change in oil prices.*
- *Non-oil revenues of $9.9bn for total revenues of $65.4bn (ex-KRG oil revenues).*
- *Expenditures, which excluded the KRG's share of the budget, were $63.8bn or showing a surplus of $1.6bn.*
  - *If the KRG's planned $6.4bn expenditures were to be included, total expenditure would have been $70.2bn vs the planned $82.2bn, which would have resulted in a surplus of $3.4bn.*

Note: Revenues for 2017, and likely for 2018, benefited from higher than planned oil prices. But, expenditures in 2017, and likely in 2018, were lower than planned. The under execution of the budget expenditure, especially on capital spending, is an ongoing feature of Iraqi governments due to the country's weak institutional capacity and which possess a risk to the reconstructing effort.

Sources for this footnote:
http://www.mof.gov.iq/obs/_layouts/obsServices/DownloadObs.aspx?SourceUrl=%2fobs%2fObsDocuments%2fYear-End+Report+Folder+-+2%السنة+نهاية+تقارير+مجلد2fEnd-Year+Report+2017.xlsx
http://www.bayancenter.org/en/2018/03/1461/
(http://www.imf.org/~/media/Files/Publications/CR/2017/cr17251.ashx).

[http://www.mof.gov.iq/obs/_layouts/obsServices/DownloadObs.aspx?SourceUrl=%2fobs%2fObsDocuments%2fYear-End+Report+Folder+-+2%السنة+نهاية+تقارير+مجلد fEnd-Year+Report+2017.xlsx](http://www.mof.gov.iq/obs/_layouts/obsServices/DownloadObs.aspx?SourceUrl=%2fobs%2fObsDocuments%2fYear-End+Report+Folder+-+2%السنة+نهاية+تقارير+مجلدfEnd-Year+Report+2017.xlsx)

[11] *Sources: IMF Iraq Country Report No. 17/251, IMF World Economic Outlook (WEO) April 2018 database, IMF Regional Economic Outlook (REO) statistical appendix, Iraqi Ministry of Finance (MoF).*
Assumptions:

- *Updated figures for 2017 are from MoF which show revenues and expenditures for 2017 excluding those for the KRG. However, MoF and IMF estimates and planed budget include those of the KRG (see details in footnote 9).*
- *Iraqi oil price averaged $63.5 for Jan-Jun, while Jun's average was $69.9. The YTD average is used as an estimate for the full year.*
- *Total updated revenues for 2018 & 2019 include higher non-oil revenues as the IMF in May's REO increased its growth rate for non-oil GDP to +4.4%/+5% for 2018/2019 up from 2.4%/3.7%*
- *Revenues are estimates based on updated oil price assumptions while expenditures are the updated IMF's estimates.*
- *Updated Expenditures reflect expectations that the government will ease back on its tight fiscal consolidation, however, they might very well be off-set by the historic tendency for lower budget executions.*

[12] *The IMF (Country Report No. 17/251 P: 28) notes "The program is fully financed through the next twelve months, but there is a financing gap of $7.1bn in late 2018 and 2019. The authorities have contacted one donor to fill the 2018–19 financing gap, for which there is good prospect". The financing gap is made up of $5bn and $2.1bn respectively 2018 & 2019. Which implies that Iraq has achieved full financing for 2017's $9.8bn deficit, $4.5bn out of 2018's $9.5bn deficit., and $1.3bn out of 2019's $3.4bn deficit.*

Since the actual budget achieved a surplus for 2017 and would likely achieve a surplus in 2018, then Iraq has borrowed $14.3bn ($9.8bn + $4.5bn see above) to fund a deficit that did not materialize and so the funds could either not be drawn which would lower overall debit or used to fund reconstruction projects.

However, it should be noted that "fully financed" does not imply that the all of the funds were delivered to Iraq but that funding agreements were made.

[13] *https://uk.reuters.com/article/mideast-crisis-iraq-reconstruction/factbox-pledges-made-for-iraqs-reconstruction-in-kuwait-idUKL8N1Q55RY*

[14] *This would be about 8.4% of 2018's updated GDP estimate, but as it would be spent on reconstruction it would be a stimulus of about 14.5% of non-oil GDP. It would have an added significance in that the planned for deficits would have been accompanied by restricted capital spending and continued fiscal consolidation by the government, the reversal of which alone would have expansionary effects.*

[15] *The major shortcoming of the successive governments since 2003, was to use most of the oil revenues on expanding the public payroll and social security spending as main vehicle for transfer of oil wealth. As a result very little of oil revenues went towards reconstructing and building the country's physical capital that would contribute towards diversification away from oil and to economic sustainability. The upshot is high oil dependence with the resultant vulnerability to external forces, import dependence, weak/small private sector and a skewed labor market.*

Without a fundamental change of track, such as that agreed by the IMF's 2016 SBA, the fruits of the country's expanding energy production profile as a result will perpetuate this process. However, this is unsustainable given Iraq's large rapidly growing population whose needs for public sector jobs cannot be met under any optimistic scenarios for increased oil production or prices.

The upshot, is the fundamental change of track along the SBA guidance will take a number of years to unfold, and as such the public-sector payroll and social security spending will continue to account for the bulk of government expenditure and thus the need for accessing the debt markets to fund reconstruction down the road.

[16] *As can be seen from the author's report on Iraq's debt (link on next footnote) that Iraq's only debt on truly commercial terms are two Eurobonds worth $3.7bn: A $2.7bn bond issued in 2006, due in 2028 with a 5.8% interest rate; and a $1.0bn bond issued in 2017, due in 2023 with a 6.5% interest rate. However, the third $1bn bond issued in 2017, due in 2022, is guaranteed 100% by the U.S. government, with a 2.1% interest rate, and as such does not constitute debt on commercial terms.*

Therefore, should Iraq access the commercial debt markets these would require fiscal discipline to assure the markets that debt would be serviced. Some of the requirements would take into account, debt repayments as a percentage of exports, currency stability and the level of foreign reserves in relations to months of imports, balance of payments, budget balance as a percentage of GDP. They would also take into account other liabilities and contingent liabilities such as the state guarantees discussed in footnote #22 below. All of these requirements will affect the amount of debt raised and the interest rate it would carry, which would place a much-needed significant fiscal discipline on the government. Coupled with the huge demands for reconstruction they should help ensure that Iraq's governments pursue sound fiscal policies while following sustainable macroeconomic stability.

[17] *http://www.bayancenter.org/en/2018/08/1592/*

[18] Updated figures in REO show that the updated figure for 2017 is $114.6bn of which foreign debt is $68bn. However, the older assumptions of 2017 are used as they are part of longer term projections, and crucially they served as the basis for Iraq securing finding for the expected deficits as explained in an earlier footnote.

[19] The IMF notes: "These arrears can be tolerated under the Fund's policy on Arrears to Official Bilateral Creditors because the Paris Club Agreement was found to be adequately representative (i.e., Paris Club creditors provided most of the financing contributions required from official bilateral creditors in the context of that agreement) and the authorities have since been making best efforts to conclude agreements with non-Paris Club creditors on Paris Club comparable terms. Negotiations to implement debt relief on the same terms as with the Paris Club creditors, i.e. an 89.75 percent net present value reduction, are ongoing.".

It should be noted that the use of 90% haircut in this article is an over-simplification. During the negotiations the US forgave 100% of its $4bn in debt, while the rest cut it by 80% over three stages of 30%, 30% and 20% with the residual 20% to be paid over a number of years up to 28 years. Therefore, the net-present value (NPV) of the debt is equivalent to 10.25% of the original debt. Therefore, the use of 90% (89.75% to be precise) hair cut glosses over these details in order to simplify the conclusion in that ultimately the remaining debt by Iraq is 10.25% of the original debt as of the current time.

In the current environment of the rebuilding of the relationship between Iraq and the GCC it is very likely that these negotiations will lead to a grand bargain in which both sides agree to the same 90% debt reduction in exchange for investment opportunities and long-term agreements.

[20] $122.9bn less: (1) 90% of $41 or $36.9bn, (2) Unused deficit funding of $9.8bn

[21] The IMF's updated GDP figures for 2017/2018 are $197.7bn/ $223.3bn and debt/GDP ratios of 58%/54.7%

[22] It should be noted that the government has issued 11 state guarantees that affect the total amount of debt that it can take as these are contingent liabilities. These are a total of $36bn made of which the largest is $32.4bn in guarantees of service payments to independent power producers (IPPs) in the electricity sector for the 14 years of the contacts. This makes it essential for the government to continue with the electricity sector reform and ensure the collection of tariffs-the failure of which will make the state liable to fulfil its guarantees to the IPP's which would add to the debt.

Separately, the IMF aware of all of the above liabilities, in its presentation in the Kuwait Conference, had argued that Iraq should be able to borrow up to $36bn over the next five-years while its debt to GDP would be around 50% by 2022-23. These were made under lower oil price assumptions, with more fiscal discipline in expenditures, over a longer time frame, but without the benefit of the 90% haircut to the $41bn in debt. http://www.iraq-businessnews.com/2018/02/22/its-not-the-donations-stupid-key-points-from-kuwait-conf/ - edn4

[23] The IMF has attributed reconstruction for increasing its non-oil GDP growth rates to +4.4%/+5% for 2018/2019 up from prior +2.4%/+3.7%.

These figures could be higher should the full $88bn in reconstruction spending be embarked upon over the next five years as that would be a stimulus equivalent to about 14% of non-oil GDP in each year over the five-year period. While, it is ambitious to assume that all of that amount would be properly spent, yet even half that amount would create the conditions for self-sustaining economic activity for the non-oil sector.