Recent Data Draws Bleak Prospect for Iraq Next Year

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The Iraqi economy has been in a bad shape and, in the short term, it is going to get worse; nothing new about this and there is almost a consensus about it despite differences in the cited material' verifiable evidences, manifestations and root-causes for such degenerating situation.

A "multi-whammy" combination, or association, of effective impacting factors and circumstances plaid their part in what the country has been and is facing. These include political instability and divisions; fragile security conditions; vulnerability of high-dependency economic structure; bad and inefficient management and decision making; Kleptocracy governance coupled with hyper corruption, particularly the formalized and institutionalized; and impacting external intrusion, among others.

Data and information on these factors and circumstances are massive, and hardly any day passes without adding new items to the long list of cases and examples reported by the media, formal entities, experts and legal authorities; the apparent outcome of all that is a severely deteriorated economy of Iraq.

Data I compiled from a recent IMF report regarding main macroeconomic indicators are presented in the below table. The table provides the progression of 26 macroeconomic indicators over the last two decades using three different sets of data: the first is the average, of a long and rather up-normal period 2000-2016; the second, annual data for each of the last three years 2017:2019, and the third are projections for 2020 and 2021.

The focus in this brief contribution is on the prospect of the economy in this and next year in comparison with the last three years.

GDP is destined for sever contraction in both real and nominal terms during 2020 and 2021. Real GDP declines by (12.1 p.a) in 2020 then improve by (2.5 p.a) in 2021; in both years, real GDP growth rates are much lower than what it was in 2019. Similarly, nominal GDP in 2020 is projected to be at lowest level, of $178.1billion, compared with the increasing trend that prevailed during previous years.

When GDP declines while population grows, per-capita GDP deteriorates at higher rate than that for GDP. Iraqi population increases by more than one million a year, leading to staggering reductions in nominal per-capita GDP at 24.6% and 19% in 2020 and 2021, respectively comparing with 2019. Based on these data a preliminary finding suggests that every one percentage point decline in GDP causes 1.09 percentage point reduction in per-capita income in year one and 1.29 percentage point in year two.

Moreover, per-capita GDP is only a quantitative measure that says absolutely nothing on the equitable distribution of income or the related social consequences particularly during economic downturns. Absence of credible verifiable and systematic data on income distribution in Iraq makes formal data on poverty a vital measure to keep in mind when addressing social ramifications of economic decline. 2018 poverty survey by the Ministry of Planning shows poverty ratio at the national level was 22.5% at end of 2018, with very large provincial variations ranging between 52% in Muthana and 4.5% in Sulaimaniya. By the first half of 2019, national poverty ratio increased to 34% according to the Ministry of Labour and Social Affairs. Analytically therefore, it is safe to assume that poverty and poverty variations would get even worse in 2020 and 2021.

Crude oil production was, is and will continue to be the main driver in the Iraqi economy; effectively nothing was done to address this structural imbalance and thus it could be deepened even further. IMF projected a decline of crude oil production in 2020 to 3.98 million barrels per day-mbd and to 4.02mbd in 2021from 4.57mbd in 2019. Obviously, the projected decline in 2020 oil production was attributed to the combined effects of "OPEC+ agreement" and COVID19 pandemic.

A few remarks are due on projection for 2020. The projected production level was lower than actual production, of 4.124mbd, for the first eight months of this year. As for the remaining four months of the year, we should take note and implications of the recent directives by the Ministry of Oil to increase oil production by 0.250mbd in October; if that was realized and continued to the end of the year, then actual oil production for 2020 could be much higher than IMF projection.

IMF report makes no mention to NGL production and it appears that it was not included within oil production, though it is relatively low. Data compiled from JODI database shows an NGL production during the first eight months of this year at 0.067mbd, representing 1.6% of actual crude oil production in the same period.

There is enormous uncertainty on the health of the world economy and, consequently on global oil demand and supply in the immediate future, i.e., next year. The current new surge of COVID19 infection cases, particularly in western hemisphere, calls for stricter lockdown

measures and, thus, causes much of the uncertainty on the demand side and, consequently on supply side.
One serious omission in IMF report is related to “natural gas” production; it mentions nothing!! It is a well-known fact that Iraq produces significant associated gas and most of it flared. Data compiled from Ministry of Oil monthly reports indicates that so far in 2020, Iraq produces 2639 million standard cubic foot daily-mmscfd of associated gas and ca. 52% are flared. Both flared and utilized associated gas has consequences and, thus, it is a serious flaw to ignore this item in IMF report.

IMF projection for crude oil export in 2020 and 2021 follow similar pattern to that of crude oil production; it declines significantly in 2020 then improves slightly a year later. Export declines by 0.520mbd in 2020 compared to 2019, or by 13%. But again, there is big difference between IMF projection and actual exports during the first three quarters of 2020: IMF gives 3.45mbd while data compiled from SOMO’ monthly reports gives 3.058mbd. One possible explanation for this 0.392mbd difference is that IMF included KRG oil export while SOMO did not. If this is valid, then IMF report suffers from a case of methodological inconsistency: excluding KRG when addressing crude oil production while including it when addressing crude oil export.
Moreover, IMF report ignores the export of NGL, LPG, fuel oil, Naphtha and other condensates; another IMF omission. Though the combined magnitude of their exports is insignificant comparative to crude oil export, they are indicators for a very modest diversification along petroleum value chain.

So far, 2020 state budget law has not been passed and there are no indications it will be anytime soon or during the remaining two months of the year. Absence of a budget law, the government relied on the “1/12 role”, i.e., a monthly current expenditures equal to 1/12 of actual expenditures of the previous (2019) year. Despite this fact, IMF projects the Fiscal Breakeven Oil Price-FBOP to increase from $52.3/b in 2019 to $63.6/b and $64/b in 2020 and 2021 respectively. And the External Breakeven Oil Price-EBOP declines slightly from $56.7/b in 2019 to $56.2/b in 2020 before it increased to $61.9/b. In reality, actual price for the exported Iraqi oil during the first nine months of this year is $36.92/b; it is much below the projected FBOP and EBOP for the same year. Furthermore, that actual price for the exported Iraqi oil during the first nine months of this year is lower than the $41.69/b projected by IMF for 2020.

Current Account Balance-CAB is projected to be in a negative territory in 2020 and 2021 with a deficit of $22.5billions and $23.7billions respectively compared to the surpluses during the three previous years. Much of the surge in CAB deficit in 2020 was attributed to the differential decrease: a sharp contraction of export of goods and services from $93.9billions in 2019 to $53bilions in 2020 (a decline of 43.54%), while the value of the corresponding imports declines from $86.7billion in 2019 to $70.9billion in 2020 (a decline of 18.22%). CAP deficit in 2021 was projected to increase by 1.3 percentage point over 2020 and that is attributed to the differential increase in both exports and imports, as the table tells.

National indebtedness provides further manifestation on the state of the economy. IMF predicts a reversal of previous declining trend into a staggering increase in gross debt measured to GDP. Gross debt (as % to GDP) was projected to increase from 46.9% in 2019 to 68.3% and further to 75% in 2020 and 2021 respectively. Measured by the same way, gross external debt ratio during the stated years are 30.9%, 40.5% and 36.1% respectively.
A few alarms can be raised based on these data: first, gross debt to GDP during 2020-2021 is going to surpass the internationally accepted threshold (of 60% to GDP); second, since external debt is part of the gross debt, that indicates to an increasing reliance of the government on domestic borrowing in financing its fiscal deficit; third, that could lead to an erosion of the country credit worthiness, increased risk of lending and exacerbates the cost of sovereign borrowing; fourth and consequently, Iraq could be moving fast into yet another indebtedness trap, with all what this implies.
A recent information by a well-known government senior advisor shed lights on the composition, prospects and consequences on Iraq's worsening debt problem.

Not surprisingly therefore, that Gross Official Reserves-GOR in both volume and import coverage, are alarming as well. Again, reversing an improved trend up to 2019 by a rapidly declining one during this and next year is further manifestation of a deteriorating economy. GOR gradually increased from $49.4billions in 2017 to $68billions in 2019, but is projected a nosedive to $47.9billions and then to $36.6billions in 2020 and 2021 respectively. Similarly and with increasing level of imports, GOR coverage of imports will go down from 11.5 months to 8.6 months and to 5.3 months for years 2019, 2020 and 2021 respectively.

The above analysis and narrative were primarily premised on data published by an international entity, i.e., IMF that has been since 2003 couching Iraqi authorities, in association with the World Bank, on how to manage the economy.

With a country at such a state of affairs that was unable to pass a law for its annual budget, time will only tell how could the recently adopted "White Paper" and the newly established "Economic Contact Group" address the above highlighted short-to-medium term formidable challenges that are facing this "fragile state"!!??

Iraq's main Economic Indicators: 2000-2021

	Average				Projections	
	2000–16	2017	2018	2019	2020	2021
Real GDP Growth (Annual change; %)	11,3	-2,5	-0,1	4,4	-12,1	2,5
Nominal GDP (Billions of U.S. dollars)	113,4	195,4	225,7	230,1	178,1	196,3
Non-Oil Real GDP Growth (Annual change; %)	10,5	-0,6	2,0	5,7	-10,5	5,1
Oil Real GDP Growth (Annual change; %)	12,2	-3,5	-1,3	3,7	-13,0	0,9
Crude Oil Production (Millions of barrels per day)	2,51	4,47	4,41	4,57	3,98	4,02
Natural Gas Production	0,00	0,00	0,00	0,00	0,00	0,00
Crude Oil Exports (Millions of barrels per day)	2,18	3,80	3,86	3,97	3,45	3,48
Natural Gas Export	0,00	0,00	0,00	0,00	0,00	0,00
Fiscal Breakeven Oil Prices ($/b) (1)	82,5	42,3	45,4	52,3	63,6	64,0
External Breakeven Oil Price ($/b) (2)	67,4	45,4	53,2	56,7	56,2	61,9
Consumer Price Inflation (Year average; %)	11,8	0,1	0,4	-0,2	0,8	1,0
Core Consumer Price Inflation (Year average; %)	9,9	0,2	-0,1	0,1	1,0	1,0
Broad Money Growth (Annual change; %) (3)	17,5	2,6	2,7	8,4	11,1	9,3
Central Government Net Lending/Borrowing (%GDP)	-4,6	-1,6	7,8	0,9	-17,5	-13,1
Central Government Fiscal Balance (%GDP)	-4,6	-1,6	7,8	0,9	-17,5	-13,1
Central Government Total Revenue, Excluding Grants (%GDP)	43,6	33,0	39,6	36,5	30,7	31,6
Central Government Non-Oil Fiscal Balance (% of non-oil GDP)	-66,7	-41,1	-44,5	-47,7	-55,9	-52,2
Central Government Non-Oil Revenue (% of non-oil GDP)	5,5	6,8	5,6	4,3	4,5	4,3
Total Central Government Gross Debt (%GDP)	100,6	58,9	48,9	46,9	68,3	75,0
Exports of Goods and Services (US$, billions)	58,2	74,5	98,8	93,9	53,0	60,0
Imports of Goods and Services (US$, billions)	56,3	69,7	81,1	86,7	70,9	80,4
Current Account Balance (US$, billions)	1,1	3,6	15,1	2,6	-22,5	-23,7
Current Account Balance (%GDP)	-0,6	1,8	6,7	1,1	-12,6	-12,1
Gross Official Reserves (US$, billions)	42,3	49,4	64,7	68,0	57,9	36,6
Total Gross External Debt (%GDP)	141,8	35,5	30,4	30,9	40,5	36,1
Gross Official Reserves (Months of Imports) (4)	7,9	7,3	9,0	11,5	8,6	5,3

Source & Notes: The table was constructed and its components are compiled by this author from "Excel data" file of the Statistical Appendix of the English version of IMF, Regional Economic Outlook: Middle East and Central Asia, October 2020. The Arabic version of the report does note comprises this Excel data file. (1): The oil price at which the fiscal balance is zero; (2): The oil price at which the current account balance is zero; (3): Broad money is defined to include nonresident deposits (M5) and includes currency, demand deposits, quasi money, and long-term deposits; (4): Calculated as reserves in months of next year's imports.

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