

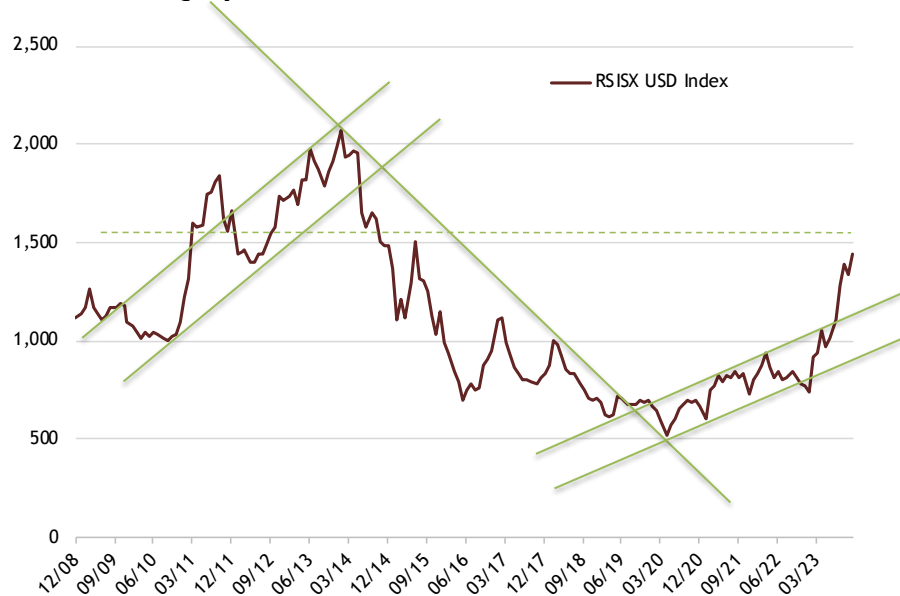
“Government Starts Implementing the Expansionary 2023 Budget”

Ahmed Tabaqchali, December 6th, 2023

The market, as measured by the Rabee Securities U. S. Dollar Equity Index (RSISX USD Index), was up 7.1% for the month, and up 85.7% for the year.

The market resumed its rally in November, ending the [short and shallow pull-back](#) that marked October, and average daily turnover increased 17.6% month-on-month. The market’s momentum moderated as the month came to an end, which suggests that the pace of the market’s momentum will also moderate especially as the index approaches long-term resistance levels (chart below). The top-quality banks continued their market leadership, however, promisingly market breadth broadened somewhat with the inclusion of top-quality names in consumer staples and telecom sectors. As discussed a few months ago in “[Banks to Fuel the Market’s Next Phase](#)”, the [investment thesis for the banking sector](#) got a substantial boost from a potent combination of recent fundamental and technical developments, that promises to accelerate the adoption of banking, and bring about a transformation of the sector and its role in the economy. Such a transformation should lead to sustainable earnings growth, particularly for the top-quality banks, which would provide the fuel for the stock market’s next phase.

Rabee Securities U.S. Dollar Equity Index



(Source: Rabee Securities, AFC Research, data as of December 5th)

Over the last couple of months, the government started implementing the expansionary [three-year budget](#) for 2023-25 which was passed into law in June. Central Bank of Iraq (CBI)’s data of the Ministry of Finance (MoF)’s sales of U.S. dollars (derived from oil revenues) to the CBI in exchange for Iraq dinars (IQD) – in order for the government to execute the budget – showed an increase of 115.7% in the average monthly volumes for August-October over those for January-July, indicating that the government was gearing up to execute the budget. However, MoF’s budget execution reports show that average monthly current expenditures were down 4.4% in August-September versus those for January-July, but within these expenditures, those for public sector salary spending were up 15.0% and for welfare spending (which includes public sector pensions) were up 4.4%. On the other hand, in the same timeframes, non-oil investment spending was down 13.9%, while the government’s special programs, which cover both current and investment expenditures, were up a combined 202.6% (*).

More monthly budget execution reports are needed to discern a clear trend that smooths over the timeliness issues and shortcomings of the data, nevertheless, the figures suggest that the government has prioritized the allocations for public sector salaries, public sector pensions, welfare spending, and its special programs as it started

implementing the new budget. The plodding bureaucratic procedures of government machinery mean that the overall budget implementation and other expenditure increases should ramp up slowly but steadily over the next few months.

The budget calls for increasing federal current expenditures by 21.5% in 2023 over 2022, representing a liquidity injection of 13.7% to 2022's estimated federal non-oil GDP. While planned non-oil investment spending for 2023 is equally meaningful and potentially far-reaching, which could add a further 13.2% liquidity injection to the non-oil economy, enhancing the liquidity injections of its current expenditures. However, given the historically [low execution](#) rates in investment spending and the state bureaucracy's capacity constraints, it is unlikely that most of this planned investment spending will actually materialize. Note: federal excludes the Kurdistan Region of Iraq (KRI), details are in the table below and notes below (**).

Federal Expenditures: Planned for 2023 versus 2022's Actual Spending

Federal Expenditures ex-KRI (IQD bn)	2023	2022	% Change	% of Non-oil GDP
Current Expenditures	116,868	96,220	21.5%	13.7%
Public Sector Salaries	49,487	43,214	14.5%	4.2%
Social Welfare (Pensions, Social Security, ... etc)	26,595	24,783	7.3%	1.2%
Goods & Services (inc. maintenance)	19,511	16,076	21.4%	2.3%
Grants, subsidies, foreign aid, ...etc	17,687	11,286	56.7%	4.2%
Programs (Special & Government)	3,587	860	317.2%	1.8%
Non-oil Investment Spending	30,656	10,694	186.6%	13.2%
Programs (Special & Government)	3,669			2.4%
Investment Spending	26,987	10,694	152.3%	10.8%
Oil Investment Spending	13,577	15,650	-13.2%	-1.4%
Federal IOCs	12,552	14,326	-12.4%	-1.2%
Ministry of Oil	1,025	1,324	-22.6%	-0.2%
Operating Expenditures (Current Expenditures + Investment)	161,101	122,565	31.4%	25.5%
Debt Servicing	18,963	9,338	103.1%	6.4%
Interest Payments	6,612	1,257	426.2%	
Foreign	1,366			
Domestic	5,246			
Repayments	12,351	8,082	52.8%	
Domestic repayments	6,439			
International	5,912			
Total Spending (Operating Expenditures + Debt Servicing)	180,064	131,903	36.5%	31.9%
Non-oil GDP (ex-KRI) est.		150,875		

(Source ***: Ministry of Finance (MoF), IMF, AFC Research, data as of June 30th)

Ultimately, it will be the government's current expenditures, in the form of the public sector payroll, welfare and social security, and spending on goods and services, which, in combination with the positive global [macro-economic](#) developments, will drive economic growth that would eventually feed into meaningful growth in corporate profits, which in turn would sustain the market's current rally.

Notes and Sources.

(*) CBI data are as of October 2023, while MoF data are as of September 2023.

(**) The 2023 budget proposal includes a meaningful allocation in 2023 for the share of the Kurdistan Region of Iraq (KRI) in the federal budget. These payments were not made for most of 2022 due to the disputes between the Federal Government of Iraq (GoI) and the Kurdistan Regional Government (KRG), which are continuing into this year with no clear sign of resolution. Thus, the analysis here focuses only on the federal (i.e., ex-KRI) allocations to allow for meaningful comparisons between planned federal spending in 2023 versus actual federal spending for 2022. Moreover, the analysis assumes that the KRI's non-oil GDP accounts for 15% of the country's non-oil GDP.

(**) Sources: (1) 2023 figures : The Council of Minister's 2023 [budget proposal](#); (2) 2022 figures: Ministry of Finance's [Open Budget Documents](#); (3) Non-oil GDP figure for Iraq-ex KRI, assumes that the KRI economy accounts for 15% of Iraq's 2022 non-oil GDP estimates as provide by IMF's Country Report No. [23/75](#).

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