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Iraq's 2024 budget

Not what it appears when it first meets the eye

By Ahmed Tabaqchali

The **Atlantic Council's Iraq Initiative** provides transatlantic and regional policy makers with unique perspectives and analysis on the ongoing challenges and opportunities facing Iraq as the country tries to build an inclusive political system, attract economic investment, and encourage a vibrant civil society.

Cover: Iraqi Parliament Media Office/ Handout via REUTERS.

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All errors, omissions, and mistakes are the author's own.

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EXECUTIVE SUMMARY

In early June, Iraq's Council of Representatives (CoR) approved the updated federal budget expenditure and revenue tables for 2024, which the Council of Ministers (CoM) submitted a couple of weeks earlier.[1] The tables are a necessary part of the three-year budget for 2023-25, passed by the CoR almost a year earlier, which was proposed for three years instead of the usual one.[2] However, the budget's structure was still that of the usual one-year budget, and thus for all means and purposes is a one-year budget that is replayed three years in a row. Its seventy-eight articles followed the standard one-year budget boilerplate, which were to be extended over the three-year period. Yet, its revenue and expenditure projections were for one year instead of the anticipated three-year time horizon, and as such required a submission of updated revenues and expenditures tables for the second and third years before the start of each year.

The tables project 2024 spending of IQD 211.9 trillion (USD 162.9 billion), revenues of IQD 147.8 trillion (USD 123.2 billion), and a deficit of IQD 64.0 trillion (USD 49.3 billion). Essentially, they foresee increased expenditures and revenues of 6.5 percent and 9.9 percent, respectively, on a year-to-year basis, which keeps the projected deficit essentially the same as in the prior year.

However, this budget (including the 2024 tables), like most Iraqi budgets, is not what it appears when it first meets the eye,[3] as will be unpacked in this piece. The first part reviews the updated 2024 tables and compares them against those for 2023, while the second part asks the real budget to please stand up; and the third part tries to answer what comes in 2025, and the growth of domestic debit.

1 "Iraqi Parliament Passes 2024 Budget Tables," Rudaw, June 3, 2024, https://www.rudaw.net/english/middleeast/iraq/030620241.

2 Ahmed Tabaqchali, "Debt and Ides of March: An Overview of Iraq's 2023 Federal Budget Proposal," London School of Economics and Political Science (LSE), Middle East Centre blog, May 8th, 2023, https://blogs.lse.ac.uk/mec/2023/05/08/debt-and-taxes-of-what-can-we-be-certain-in-iraqs-2023-federal-budget/.

3 The title of this piece is taken from the opening narration of an episode of The Twilight Zone, a US TV series: "It may be said with a degree of assurance that not everything that meets the eye is as it appears." The line is from a 1964 episode titled "The Long Morrow," https://www.imdb.com/title/tt0734657/characters/nm0785245.

THE BUDGET AS IT APPEARS WHEN IT FIRST MEETS THE EYE

When the 2023-25 budget was passed into law in June 2023, it was stipulated that the government would send the updated expenditure and revenues tables for 2024 and 2025 to the CoR before the start of each year to review, amend, and approve. Given that the 2023-25 budget's articles were not to be updated, it was expected that the updated tables would be a relatively straightforward process. This is because most of the changes on the expenditure side were thought to be automatic adjustments to salaries, pensions, social security, subsidies, debt servicing, updating spending figures for projects already started, and so forth. On the revenue side, the expectation was for updated oil revenue projections, taking into account expected oil exports and the outlook for oil prices for the upcoming year. Furthermore, updated nonoil revenue projections were to be based on receipts of the prior year, taking into account the effects of government measures introduced in the 2023-25 budget to increase nonoil revenues as part of its priorities to lower the dependence on oil revenues.

Nevertheless, the Ministry of Finance (MoF) did not produce these elements in late 2023, but submitted them to the CoM in late May, which in turn approved them and submitted them to the CoR, which subsequently approved the tables in early June.[4] The final tables had not yet been published in the official gazette as of the publication of this report, but they were published by local media, and the CoR published its Finance Committee's review of the tables.[5]

The bulk of the budget's expenditures are a function of the political economy of the post-2003 order, which persistently expanded the patrimonial role of the state as a redistributor of oil wealth, acting through successive federal budgets, in exchange for social acquiescence of its rule. As such, all administrations, including the current one, inherit the decisions of prior budgets, with limited room for flexibility other than making minor adjustments. The area in which the current administration has greater flexibility to pursue its vision and priorities is spending on what are termed special and government programs. These priorities include increased social welfare spending and increased provisioning of services and infrastructure to reflect its commitment to be a "government of services." After increasing substantially in 2023, these lines of spending are projected to decline by 21.2 percent for the year, accounting for 2.7 percent of total expenditures versus accounting for 3.3 percent for 2023.

Consistent with all prior budgets, operating expenditures—including salaries, pensions, social security, goods and services, and subsidies—constitute the bulk of total expenditures at 61.7 percent of the total. Operating expenditures are 8.2 percent higher compared with the year-earlier period, when they accounted for 60.7 percent.

Year-over-year increases in salaries were mostly to ensure funding for the additional employees and contractors that were added in the 2023 portion of the three-year budget.[6] The total number of public-sector employees increased by 5,209 to 4,079,906. Social welfare increases were in line with the current administration's priorities for enhanced social security provisioning for vulnerable members of society; for 2024, the spending included increased pension payments for those on small pensions, as well as social welfare payments for 650,000 families included in social welfare coverage for one year. In the same vein, the administration meant to ensure full provisioning of payments for domestic production of wheat and rice as part of the agricultural subsidy aspect of the Public Distribution System (PDS), the country's universal social safety net.[7]

Debt servicing (i.e., interest payments and repayments, or amortization) will increase by 17.4 percent, to account for 10.7 percent of expenditures, compared with accounting for 9.7 percent in 2023.

Investment spending will decline by 4.8 percent in 2024 over those for 2023, accounting for 24.9 percent of total projected expenditures versus accounting for 26.2 percent for 2023. This reflects an 18.2 percent decrease in nonoil investment spending and a 28.8 percent increase in oil investment

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4 "The Council of Representatives Votes on the Amended Tables of the Federal General Budget Law for the Year 2024," Iraqi Parliament website, June 3, 2024, https://iq.parliament.iq/blog/مجلس-النواب-يصوت-على-جداول-قانون-الموا/.

5 "Shafaq News Publishes the Budget Tables for 2024," Shafaq News, May 22, 2024, https://shafaq.com/amp/ar/اقتصاد/بالوثائق-شفق-نيوز-تنشر-جداول-موازنة-2024; "Iraq Observer Publishes 2024 budget schedules," Iraq Observer, June 2024, https://observeriraq.net/عاجل-عراق-ابزيرفر-تنشر-جداول-موازنة-2024/; and "Report of the Finance Committee on the Tables of the Federal General Budget Law for the Year 2024," Iraqi Parliament website, June 3, 2024, https://iq.parliament.iq/wp-content/uploads/2024/06/20240603155641-1.pdf.

6 This was the explanation given by the minister of finance to the CoR's Finance Committee. However, it is not clear what is meant by providing full funding given that the 2023 portion of the three-year budget should have accounted for the addition of new employees. See "Report of the Finance Committee on the Tables," Iraqi Parliament website.

7 The PDS's primary role is as a universal noncontributory social transfer program that provides a food basket to nearly every household, but it also functions as an agricultural subsidy scheme controlling the local production of wheat and rice, and purchases of this production at administratively set prices for the PDS basket (i.e., entitlement).

Table 1: Budget expenditures for 2024 vs. 2023

2024 Federal b udget (IQD bn)			vs. 2023 (%)
Total expenditures	% Total expenditures	**211,861**	**6.5**
Programs - Special and government	2.7	**5,715**	**-21.2**
Operating		3,431	2.6
Investment spending		2,284	-30.1
Operating expenditures	61.7	**130,676**	**8.2**
Public sector salaries		63,339	6.7
Social welfare (pensions, social security, etc.)		27,284	10.4
Goods and services (including maintenance)		18,558	0.5
Grants, subsidies, foreign aid, etc.		20,352	17.3
Miscellaneous payments		1,144	25.8
Debt servicing	10.7	**22,737**	**17.4**
Amortization		16,725	31.2
International debt (est.)		6,420	8.6
Domestic debt (est.)		10,305	60.0
Interest payments		6,012	-9.1
International debt (est.)		2,853	108.8
Domestic debt (est.)		3,159	-39.8
Investment spending	24.9	**52,734**	**-4.8**
Nonoil investment spending		32,380	-18.2
Oil investment spending		20,354	28.8
IOCs in federal Iraq (est.)		14,290	13.8
IOCs in KRI through KRG share of budget		2,700	
IOCs in KRI through federal Ministry of Oil (est.)		2,448	0.0
Federal Ministry of Oil (est.)		916	13.8

Sources: Data and estimates based on: the 2023 budget law; the 2024 budget tables, as released by Iraqi media; CoR's Finance Committee's reviews and notes on the 2024 budget tables; and the author's review of the 2023-25 budget. IOCs stands for international oil companies.

Table 2: Budget revenues deficit for 2024 vs. 2023

	2024 Federal budget (IQD bn)			vs. 2023 (%)
Total revenues	**% Total revenues**		**147,837**	**9.9**
Oil revenues	**81.5**		**120,496**	**2.8**
Oil export revenues				
Oil exports (bpd)		3,500,000	116,253	0.0
Federal		3,100,000	102,967	0.0
KRI		400,000	13,286	0.0
Iraq oil price USD/bbl		**70**		
Other oil revenues			4,244	324.4
Nonoil revenues	**18.5**		**27,341**	**58.0**
Income and wealth taxes			6,432	1.2
Taxes on goods and production fees			2,014	-35.6
Fees			6,802	73.5
Share of SOEs' profits			2,275	-45.1
Transferred revenues			1,485	-482.9
Other revenues			8,083	73.2
Investment income			249	99.7
Deficit			**-64,025**	**-0.5**
(total revenues less total expenditures in table 1)				

Sources: Data from and estimates based on: the 2023 budget law; the 2024 budget tables as released by Iraqi media; CoR's Finance Committee's reviews and notes on the 2024 budget tables; and the author's review of the 2023-25 budget. Note: SOEs stand for state owned enterprises; bbl for barrels of crude oil; and bpd for barrels per day.

spending—reflecting substantially increased allocations for international oil companies (IOCs) operating in the Kurdistan Region of Iraq (KRI) that follow on from those first made in 2023,[8] which will be discussed in detail in a forthcoming publication (More than meets the eye: Kurdistan's share of Iraq's 2024 budget).

Overall, federal revenues will increase by 9.9 percent over those for 2023, primarily due to a 58.0 percent increase in nonoil revenues (table 2). These assumptions are based on receipts of the prior year; however, it is unclear how these increases would be realized as the only categories that will increase significantly are fees and other revenues; no details are provided on what these are other than electricity tariff revenues are to be deposited directly in MoF's bank account.[9]

Oil export revenue assumptions remain constant with those for the 2023 budget, i.e. revenues of IQD 116.3 trillion based on exports of 3,500,000 barrels per day (bpd), at an average price of USD 70 per barrel of crude oil (bbl); the revenues to come from federal exports of 3,100,000 bpd and KRI exports of 400,000 bpd. These assumptions don't take into account the changed world demand for oil in 2024—decelerating demand amid growing supply[10]—and the implications for oil prices. They also do not account for two major factors affecting Iraq's oil export volumes: Iraq's revised OPEC+ commitments would imply making different export volume projections; and 11.4 percent of projected oil exports are supposed to be KRI exports, but these came to a halt in March 2023,[11] and have yet to resume.[12] Other oil revenues are expected to increase significantly based on reducing subsidies for domestic sales to refineries and higher prices for domestic refined oil products.

The projected deficit for 2024, at IQD 64.0 trillion, is almost the same as that of the prior year, with the bulk of deficit financing, about 72 percent, or IQD 45.8 trillion, expected to come from the issuance of domestic debt. A further 26 percent of the deficit, or IQD 16.6 trillion, is to be financed by a novel solution which assumes that oil prices would be USD 10.0/bbl higher than those made under the budget's oil revenue projections (tables 2 and 3); by the time the budget was presented by MoF to CoM for review, Iraqi oil prices averaged USD 81.3/bbl for January-May, and so a USD 70.0/bbl average for the year could be met if they averaged USD 58.7/bbl for the rest of the year – following the fall in oil prices in September, Iraqi oil prices are projected to average USD 78.0/bbl for 2024 (figure 1). The novelty seems to be making overly conservative assumptions for oil revenues; but then atoning for this by making higher assumptions and using the difference between the two as a means of deficit financing. Without this novel solution, using this higher oil price means the deficit would be IQD 47.4 trillion or about 74 percent of the original deficit.

Finally, about 2.0 percent of the deficit, or IQD 1.6 trillion, would be financed by MoF's bank balances held with the Central Bank of Iraq (CBI). However, the figure is much less than the IQD 13.5 trillion in these balances at the end of May (as shown by Central Bank of Iraq data), which coincides with the time that MoF submitted the tables to the CoM. Yet it's not clear if this is another instance of overly conservative assumptions, or that most of the IQD 13.5 trillion is earmarked for spending. Depending on the status of MoF's balances, the deficit could be as low as IQD 35.4 trillion or at about 53 percent of the original deficit.

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8 Ahmed Tabaqchali, "It Takes Two to Tango: Ramifications of the Baghdad-Erbil Oil and Budget Deals," Institute of Regional and International Studies (IRIS), June 2023, https://auis.edu.krd/iris/sites/default/files/IER8 - Energy, Power & Politics Assessing the Baghdad-Erbil Oil Deal - June 2023_2.pdf.

9 As explained by the minister of finance to the CoR's Finance Committee. See "Report of the Finance Committee on the Tables."

10 Paolo Agnolucci and Kaltrina Temaj, "Oil Market Dynamics: The Calm After the Storm," World Bank blog, June 14, 2024, https://blogs.worldbank.org/en/opendata/oil-market-dynamics--the-calm-after-the-storm- - :~:text=Oil prices are projected to,than-expected global GDP growth.

11 The KRI's oil exports came to halt in late March 2023, in response to the International Chamber of Commerce's arbitral award in Iraq's arbitration case against Turkey, which was effectively resolved in Iraq's favor. See Ben van Heuvelen et al., "Turkey Halts Iraq's Northern Exports After Landmark Arbitration Ruling," Iraq Oil Report, Strategic News International, March 25, 2023, https://www.iraqoilreport.com/news/turkey-halts-iraqs-northern-exports-after-landmark-arbitration-ruling-45601/; and Zaid Al-Ali and Ahmed Tabaqchali, "Iraq-vs-Turkey-ICC Final Award," Commentary, 1001 Iraqi Thoughts, May 24th, 2023, https://1001iraqithoughts.com/2023/05/24/commentary-iraq-v-turkey-international-chamber-of-commerce-final-award-13-february-2023/.

12 Eva Levesque, "Deal for Iraq Oil via Turkish Pipeline Coming 'Soon,' " Arabian Gulf Business Insight (news platform), June 10, 2024, https://www.agbi.com/oil-and-gas/2024/06/deal-for-iraq-oil-via-turkish-pipeline-coming-soon/.

Table 3: Financing the budget deficit

Financing mechanisms (IQD bn)	
Required financing	**64,025**
Surpluses and higher oil prices assumptions	**18,179**
MoF bank balances	1,572
Assumption of higher oil prices	16,608
(note: assumes oil prices higher by USD10.00/bbl than in table 2)	
New debt	**45,845**
Discounted bills/transfers from SOB's' statuary reserves held at CBI	5,000
Ongoing foreign, and TBI, lending for projects	4,585
Loans under Chinese framework agreement	7,710
T-Bill discounting by the CBI	20,042
Borrowing from SOBs	3,000
Domestic bonds	5,000
Unspecified	508

Sources: Data from and estimates based on: the 2023 budget law; the 2024 budget tables released by Iraqi media; CoR's Finance Committee's reviews and notes on the 2024 budget tables; and the author's review of the 2023-25 budget. Note: CBI stands for Central Bank of Iraq; SOBs for state-owned banks, i.e., Rafidain Bank, Rasheed Bank, and the Trade Bank of Iraq (TBI).

WILL THE REAL BUDGET PLEASE STAND UP?

The passage into law of the three-year budget—the 2023 budget and the 2024 tables—does not necessarily imply that budgeted expenditures would be fully implemented or even close to being fully implemented. This is especially true for nonoil investments, given their historic low execution rates as a function of the state's human and absorptive capacity constraints.[13] However, this is also true to a large extent for current expenditures, given the slow machinery of government execution, which in this case is compounded by the very late passage into law of the budget: the 2023 budget and the 2024 tables were passed in June 2023 and June 2024, respectively.

Moreover, there is always a disconnect between budgeted revenues and actual revenues. For a budget that is highly dependent on oil revenues, this is a natural consequence of the complexities of predicting oil prices. Nevertheless, this is aggravated by the usage of different accounting methods in making revenue projections and recording these revenues: effectively, oil revenue projections are based on assumptions for oil exports and prices for the year, however, MoF records oil revenues only when payments for these oil exports are received and not when they were made. As such, the lag between invoicing and payments for oil exports in any given month means that in practise, MoF recognizes each month's oil revenues with about a three-month lag. Effectively, oil revenues for any year are not those from exports in January-December of that year but in October of the prior year through September of the year in question.

Consequently, these divergences between budgeted and actual revenues and expenditures, mean that there is often a world of difference between projected and actual budget deficits. All of which leads to a huge gap between the "real" first two years of the 2023-25 budget and the budget's projections for the two years—and yet there is more than one contender for the real version of these two years. This follows from a critical accounting inconsistency between budget execution monitoring and budget planning: when making projections, the latter relies to a large extent on accrual-based accounting standards, whereas budget monitoring uses cash-based accounting standards in reporting the budget's transactions (i.e., revenues and expenditures).[14]

This inconsistency is further compounded by MoF's capacity constraints, significant delays in reporting budget execution data, gaps in cash reconciliations, and reliance on paper-based systems. Therefore, analyzing reported budget execution figures and comparing them against budgeted amounts is at best fraught with uncertainties and issues of data integrity. Nevertheless, it is possible to arrive at a picture of one contender for a real version of the first two years of the 2023-25 budget and compare it against a similar real version for 2022. This can be done by using MoF's monthly budget execution reports for January 2022 to July 2024,[15] and making projections for the August to December 2024 period,[16] based on the 2024 tables; this requires use of the cash-accounting standards of budget monitoring with all the limitations that come with this approach (table 4).

13 Ahmed Tabaqchali, "Iraq's Investment Spending Deficit: An Analysis of Chronic Failures," IRIS, December 2028, https://www.auis.edu.krd/iris/sites/default/files/Investment_Spending_Deficit_Final_for_Publication_0.pdf.

14 The key difference between the two standards is in the accounting for revenues and expenditures: in accrual-based accounting, both of these are recorded when they take place and not when payments for each are received or made; in cash accounting, revenues and expenditures are only recorded when payments are received or made. The time lag involved between an actual transaction (revenue or expenditure) and the payment for that transaction, means that the two standards would lead to different figures for revenues versus expenditures and the resultant deficit/surplus. In the case of Iraq, this leads to a significant mismatch between projected budgets (which to a large extent are made using accrual-based accounting) and budget execution monitoring using cash-based accounting standards. This inconsistency does not present a correct picture of the budget's execution in any given year. In this specific case, MoF's cash-based accounting in budget execution does not record commitments or expenditures made or arrears accumulated until actual cash payments of each are made. The World Bank notes that while most governments follow cash-based accounting, many use it in conjunction with commitment-basis accounting for budgetary control purposes, in that expenditures made but not paid yet or committed expenditures are entered into the accounting system as commitments, which in combination with cash-based accounting gives a much better picture of a budget's execution. It is such a picture that the IMF's article IV consultation with Iraqi authorities seeks to gain by starting with the cash-based accounting figures and adjusting them by taking into account the Iraqi government's commitments and arrears accumulation in a specific year, and its repayment of past arrears for any given year.

15 "Open Budget Documents," Ministry of Finance portal, filtered for 2024 documents, accessed October 21, 2024, https://mof.gov.iq/obs/ar/Pages/obsDocuments.aspx.

16 The projections are based on using the 2024 annual budget tables to arrive at figures for August to December of 2024 for operating expenditures, debt servicing, and programs. It assumes: an execution rate of 50 percent for that specific period for the budget's nonoil investments for 2024; a 75 percent execution rate for the oil spending investment budget; assuming the same monthly rate of nonoil revenues for August to December as for January to July; and using oil export revenues for October 2023 to September 2024, based on data for Iraqi oil exports for August and September as reported by the Iraq Oil Report. https://www.iraqoilreport.com (accessed October 2024).

This real version of the first two years of the three-year budget differs meaningfully from the 2024 budget tables (table 1) and from the 2023 budget,[17] which leads to significant variations between projected and real budget deficits. Not all of the 2022 surplus ends up in MoF bank balances, yet what ends up there is used to finance the following year's deficits.[18] As of September 26, MoF's cash balances would finance about 60 percent of the projected deficit, leaving forty percent that would be easily financed through the issuance of domestic debt, which is estimated to increase it to IQD 84.6 trillion from the IQD 78.9 trillion as of the end of September.[19]

17 Tabaqchali, "Debt and Ides of March," Table 1.

18 Ahmed Tabaqchali, "The Accounts That Didn't Bark: Iraq's Hidden State Balances," LSE Middle East Centre blog, July 16, 2020, https://blogs.lse.ac.uk/mec/2020/07/16/the-accounts-that-didnt-bark-iraqs-hidden-state-balances/; and Ahmed Tabaqchali, "Gone with the Muhasasa: Iraq's Static Budget Process, and the Loss of Financial Control," Issue Brief, Atlantic Council, January 2021, https://www.atlanticcouncil.org/wp-content/uploads/2021/01/GONE_WITH_THE_MUHASASA-_IRAQS_STATIC_BUDGET_PROCESS_AND_THE_LOSS_OF_FINANCIAL_CONTROL.pdf.

19 CBI data, accessed October 22, 2024, https://cbiraq.org/DataValues.aspx?dtFrm=01/31/2004&dtTo=08/20/2024&tmId=187&dtformat=MMM,yyyy.

Table 4: Budget data for 2022-2024

Real federal budget (IQD bn)	2024 est.	% vs. 2023	2023	% vs. 2022	2022
Total expenditures	**152,961**	**6.9**	**142,436**	**8.8**	**129,962**
Programs - Special and government	**1,700**	**37.6**	**1,061**	**18.9**	**860**
Operating	1,700	37.6	1,061	18.9	860
Investment spending (within non-oil investment spending)					
Operating expenditures	**107,126**	**5.9**	**100,804**	**6.0**	**94,765**
Public sector salaries	59,930	21.2	47,217	7.6	43,614
Social welfare (pensions, social Security, etc.)	26,080	4.2	24,988	0.8	24,783
Goods and services (inc. maintenance)	11,055	-27.7	14,112	-13.9	16,076
Grants, subsidies, foreign aid, etc.	9,456	-46.4	13,841	27.5	10,029
Miscellaneous payments	605	-6.7	645	59.5	261
Debt servicing	**19,969**	**18.0**	**16,378**	**43.1**	**9,316**
Amortization	13,957	30.0	9,766	17.5	8,060
Interest payments	6,012	-10.0	6,612	81.0	1,257
Investment spending	**24,167**	**-0.1**	**24,193**	**-3.4**	**25,020**
Nonoil investment spending	13,352	0.7	13,262	19.4	10,694
Oil investment spending	10,815	-1.1	10,931	-31.1	14,326
Total revenues	**138,245**	**1.9**	**135,681**	**-19.2**	**161,697**
Oil revenues	124,540	-0.1	125,882	-22.4	154,039
Nonoil revenues	13,705	28.5	9,799	21.8	7,659
Surplus/deficit	**-14,716**		**-6,754**		**31,736**
	Week ending Sep 26, 2024				
MoF bank balances	**9,003**		**10,531**		**23,701**

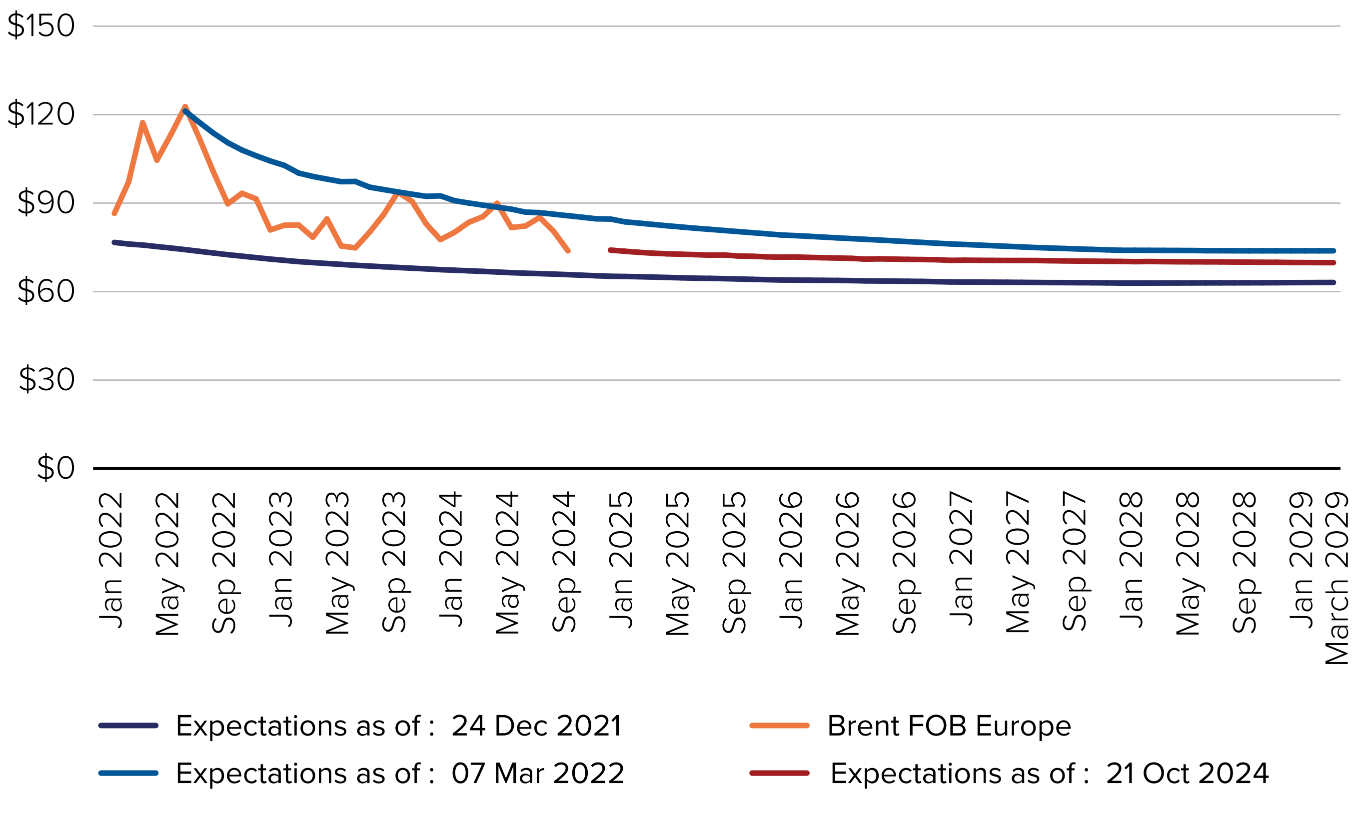
Sources: Data sourced from MoF's monthly budget execution reports for January 2022 to July 2024, CBI, State Oil Marketing Company (SOMO), and Iraq Oil Report. Author's estimates and projections for August to December 2024.

2025 AND THE GROWTH OF DOMESTIC DEBT

The current environment for oil prices (figure 1) and a repeat delay in presenting and approving the 2025 tables imply that budget expenditures for 2025 could be up to 10 percent higher than those of 2024, while based in current market projections (figure 1) revenues would likely be 14 percent lower than those of 2024, with the result that a deficit of around IQD 49.2 trillion is likely. However, unless oil prices are much higher than projected and/or actual budget expenditures are much less than projected, it's unlikely that MoF's bank balances would contribute to financing this deficit. Instead, this could be financed through domestic debt issuance. Thus, the stock of domestic debt could increase up to IQD 133.8 trillion by the end of 2025—which, while manageable in the short term, will raise the cost of debt servicing in successive years and further increase future deficits.

The budget's extreme sensitivity to oil prices would alter these figures under a different oil price scenario than the one used here.[20] Nevertheless, this would not alter the trajectory for domestic debt to increasingly augment oil revenues to support future expenditures. The rub though, is that debt servicing in successive years will account for ever-increasing percentages of total spending, which over time leads to crowding out other budget spending: first it would affect investment spending, but eventually it would affect the rigid operating expenditures such as salaries, pensions, social welfare, subsidies, etc. Eventually, tough spending decisions will need to be made, but this is something neither the ruling elite nor the population are willing to contemplate, irrespective of painful past experiences.[21]

Figure 1: Market expectations for future oil prices, measured by Brent Futures Contacts (USD per barrel)



Sources: Wall Street Journal, Brent Crude Oil Continuous Contract; and US Energy Information Administration, Spot Prices, Petroleum & Other Liquids, data as of October 21, 2024. Note: Market expectations for future oil prices, measured by Brent Futures Contracts, have moved over the last few years between two bands: a lower band following the emergence from the COVID-19 period in late 2021 (black line), and a higher band following the invasion of Ukraine (blue line). FOB stands for "free on board," and is a proxy for spot Brent prices.

20 Every $1.0/bbl change in annual average Iraqi oil prices translates to a revenue change of IQD 1.7 trillion based on exports (as in table 2) and the current $/IQD exchange rate.

21 Ahmed Tabaqchali, "Missed Opportunities for Economic Reform," Chatham House, May 4, 2023, https://www.chathamhouse.org/2023/03/iraq-20-years-insider-reflections-war-and-its-aftermath/missed-opportunities-economic.

In the near term, the oversized role of the government in the economy means that its actual expenditures will result in meaningful liquidity injections into the nonoil economy over the next six to eighteen months, which will continue to fuel economic growth and, in the process, increase the ruling elite's public legitimacy. Though this would likely benefit the government much more than the parties within the State Administration Coalition—the drivers of the government's formation in October 2022—which in turn will set the stage for living in interesting times[22] of intra-elite competition going into the 2025 parliamentary elections.

22 The BBC, "The Quote 'May You Live in Interesting Times" 2014.

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