

Iraq Economic Monitor



Ali Allawi

Minister of Finance

May 2022



Introduction

- The IMF, on May 10th, released the first issue of its *Iraq Economic Monitor* containing high frequency economic and financial indicators as well as the latest published macroeconomic outlook for Iraq
- The Ministry of Finance presents its review of the economy following its formation, and its macroeconomic outlook, which broadly agrees with the IMF's positive outlook

Contents

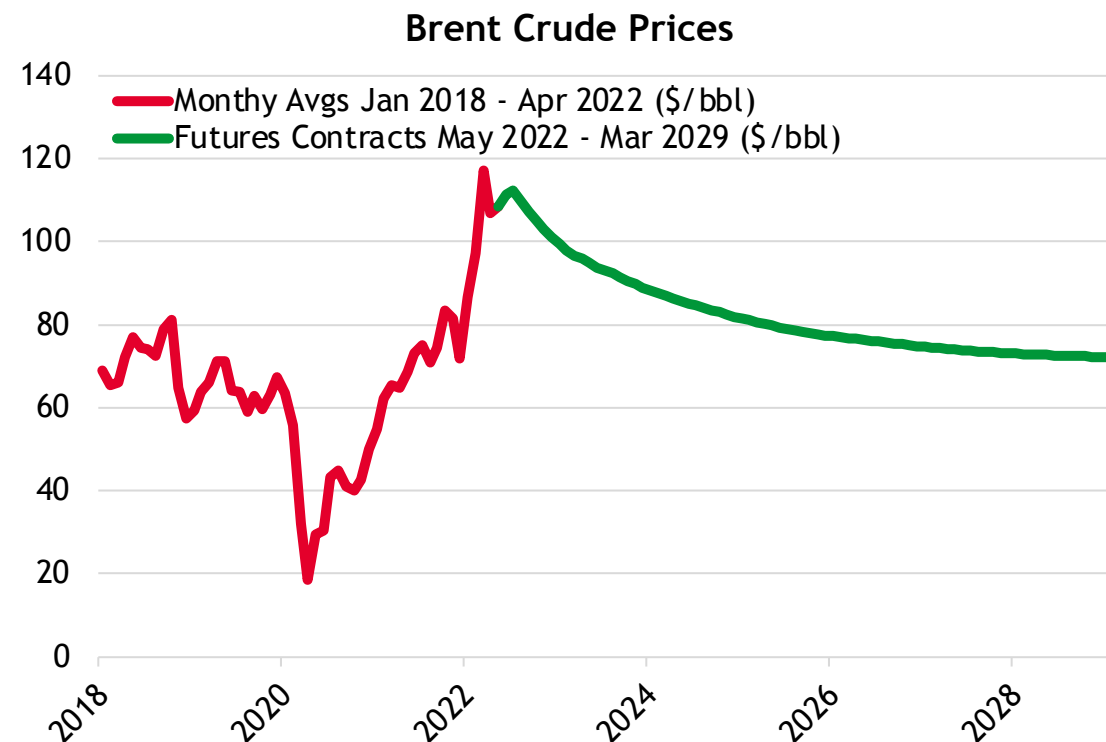
• Oil Prices and Government Revenues	4
• Financial Stability	9
• Economic Activity	15
• Inflation and Food Price Increases	19
• Public Debt	24
• Sources	26



Oil Prices and Government Revenues

Oil Markets – Review and Outlook

- OPEC+’s historic production cut agreement in April 2020, as a response to the severe drop in oil demand in COVID-19’s wake, restored balance to oil markets. This laid the foundation for the sustained increases in oil prices as global economic growth resumed. The agreement called for total cuts of 9.7 million barrels per day, or about 10% of world demand
- Iraq’s adherence, as the second largest exporter in OPEC, to its share of production cuts played a crucial part in the success of the OPEC+ agreement, and in the subsequent recovery of oil prices. This adherence, in the face of strong domestic opposition, was one of the main decisions taken by the government following its formation in May 2020
- The changing world order following the war in Ukraine is expected to lead to a period of sustained high oil prices as seen from Brent crude future contracts

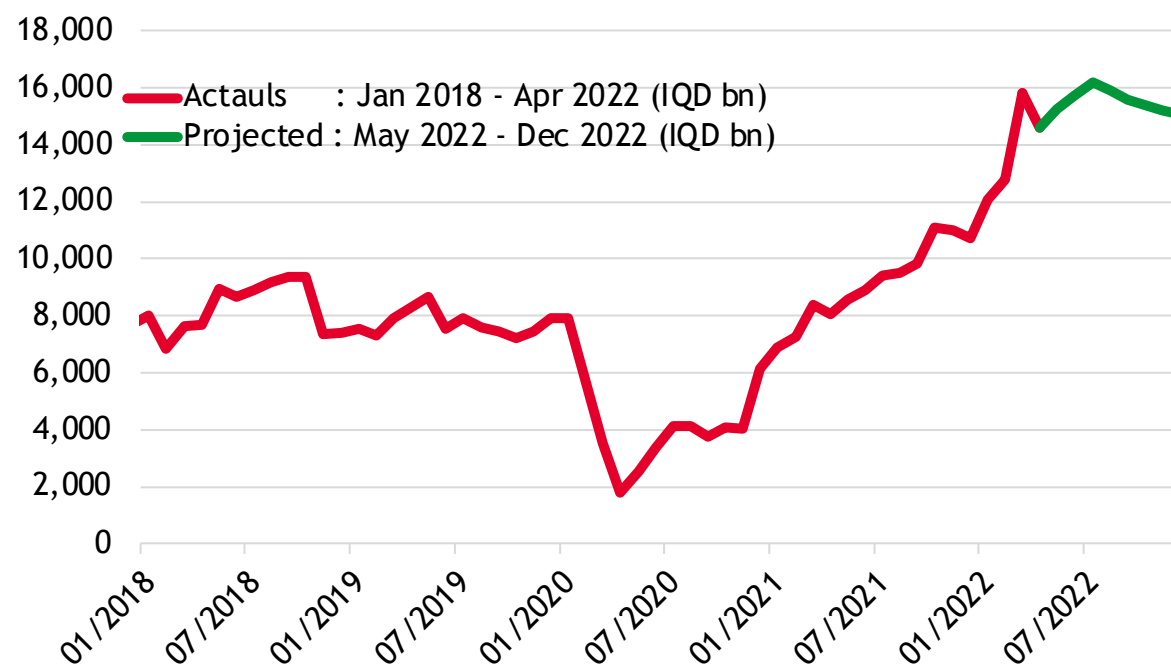


• Monthly data, as of May 20th, 2022

Oil Exports and Oil Revenues

- Iraq's adherence to the OPEC+ agreement led to increased oil export sales, and consequently to increased oil revenues (the MoF receives oil export revenues three months after sales are made)
- The IQD's devaluation vs. the USD in late 2020 led to a 23% increase in oil revenues in IQD, which provided the government with the fiscal space to respond to citizens' needs
- Projected high oil revenues, based on current oil price expectations (prior slide), and the winding down of the OPEC+ production cut agreement by end of 2022, would provide the government with the fiscal space to mitigate the effects of accelerating food price increases on the population
- *Projected high oil revenues over the next few years provides Iraq with an opportunity to address its structural imbalances and vulnerabilities as proposed by the "White Paper", and to start the process of rebuilding the country's infrastructure that was destroyed over four decades of conflict*

Monthly Oil Export Sales

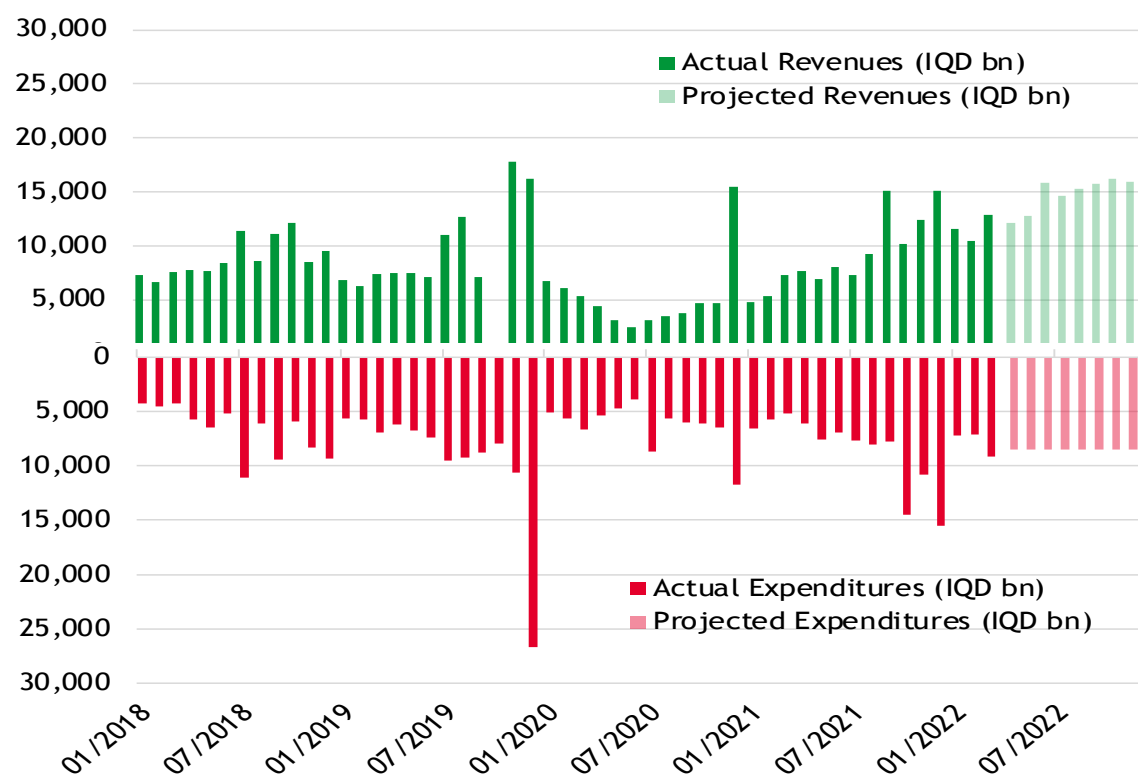


- Monthly data, as of May 20th, 2022
- MoF receives oil revenues three months after export sales

Government Revenues and Expenditures

- Prudent fiscal management, during the economic crises in May –December 2020, kept public borrowing to minimum, while maintaining the government’s provisioning of essential goods and services
- Increased oil revenues and consistent prudent fiscal management, allowed the government to increase public expenditures and to increase budget surpluses. All of which provides the government with the fiscal space to mitigate the effects of increasing food prices on the population
- Note: (1) Projected revenues (light green bars) are based on projected oil exports with a three-month lag (prior slide); (2) Projected expenditures (light red bars) are based on the 1/12th rule for the 2021’s budget. Expenditures would increase by about 25% should the CoR pass a form of the *Emergency Food Security Support* bill

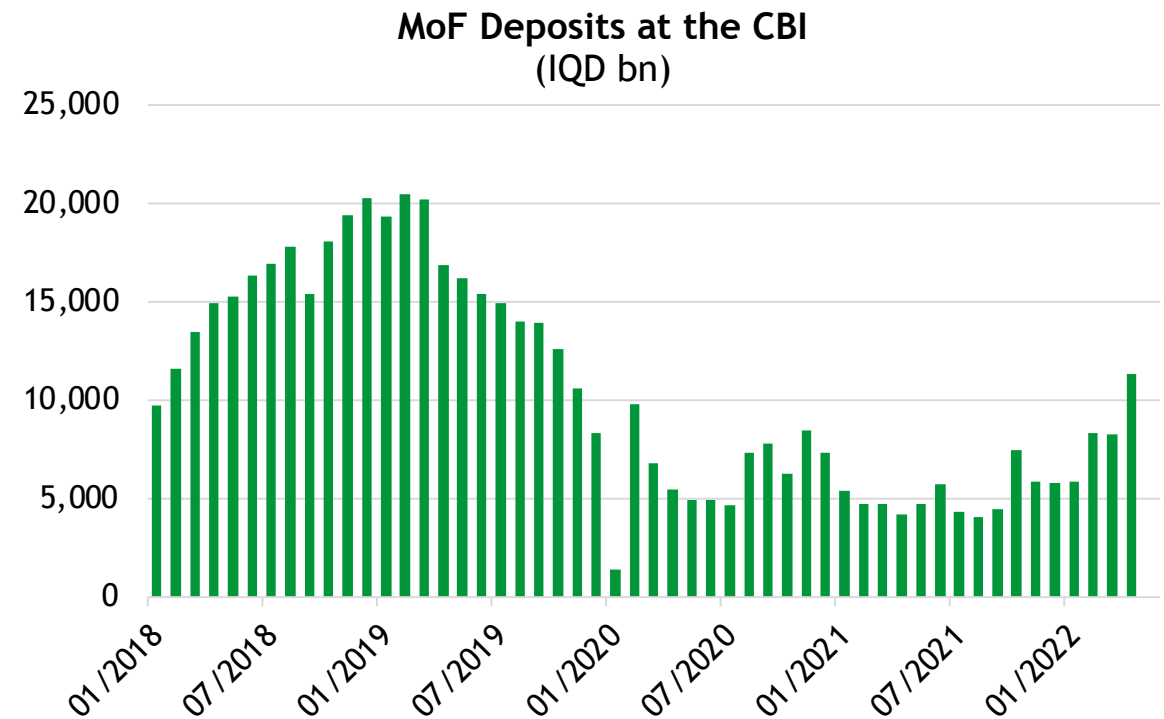
Government Revenues & Expenditures



• Monthly data, as of May 20th, 2022

Fiscal Buffer

- Increased oil revenues and consistent prudent fiscal management led to increasing MoF's deposits with the Central Bank of Iraq (CBI), which provides the government with a fiscal buffer to respond to adverse changes in oil prices.



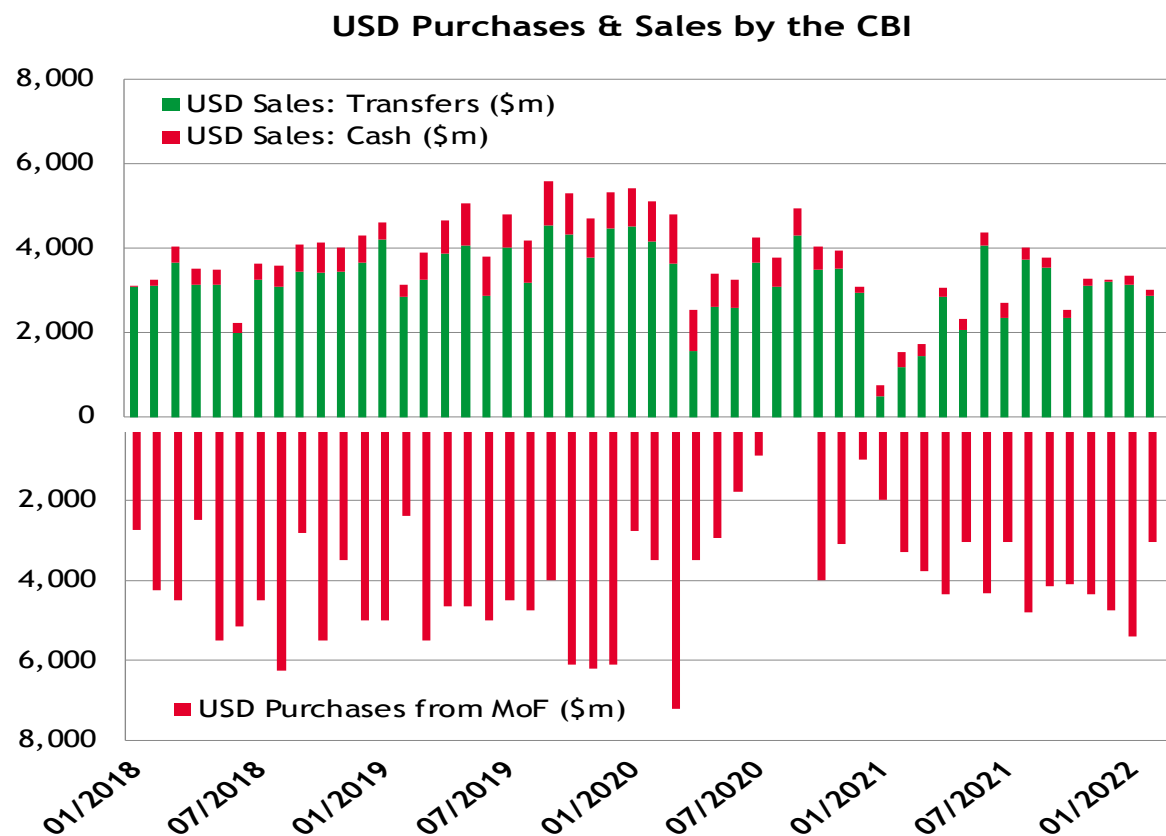
- Monthly data, as of April 2022



Financial Stability

USD: Supply & Demand

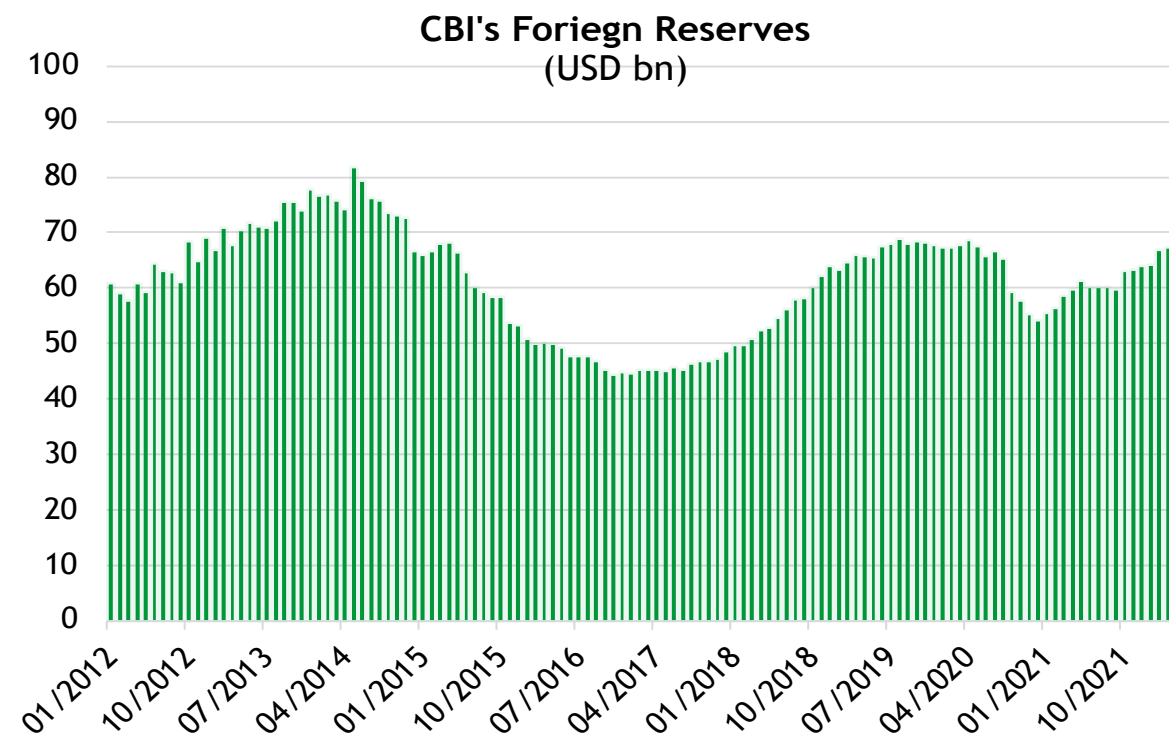
- The IQD's devaluation vs. the USD in late 2020, contributed to lower USD sales by the CBI due to lower market demand. While these sales are higher than the levels that prevailed in 2020, they are meaningfully lower than those pre-2020
- The MoF's USD sales reflect higher oil revenues and the government's increased spending on goods and services
- The CBI's foreign reserves grew as a function of higher MoF USD sales, and lower market demand for the USD



• Monthly data, as of March 2022

The CBI's Foreign Reserves

- The IQD's devaluation vs the USD in late 2020 preserved the CBI's foreign reserves after reaching critical levels in late 2020
- Increased oil revenues, and prudent fiscal management contributed to foreign reserve recovery to USD 70 bn by April
- Foreign reserves, on the back of continued increases in oil prices, are projected to grow to over USD 90 bn by end of the 2022

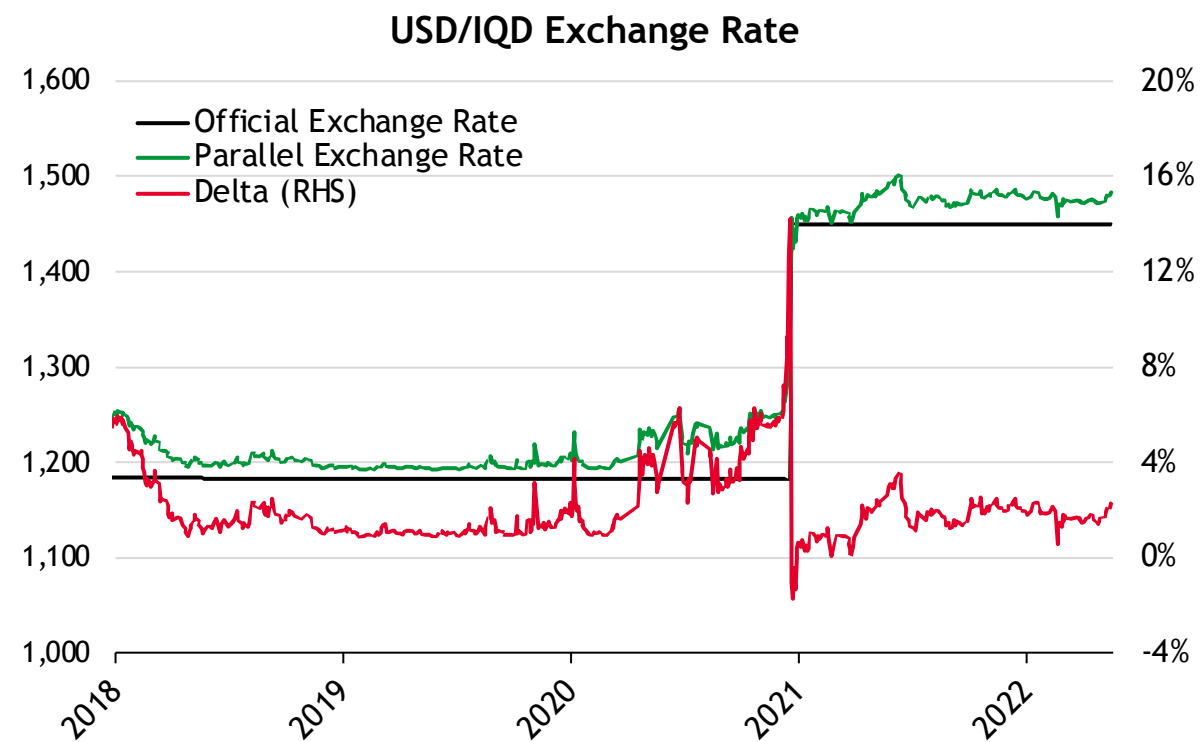


- Monthly data, as of April 2022



IQD's Exchange Rate Stability

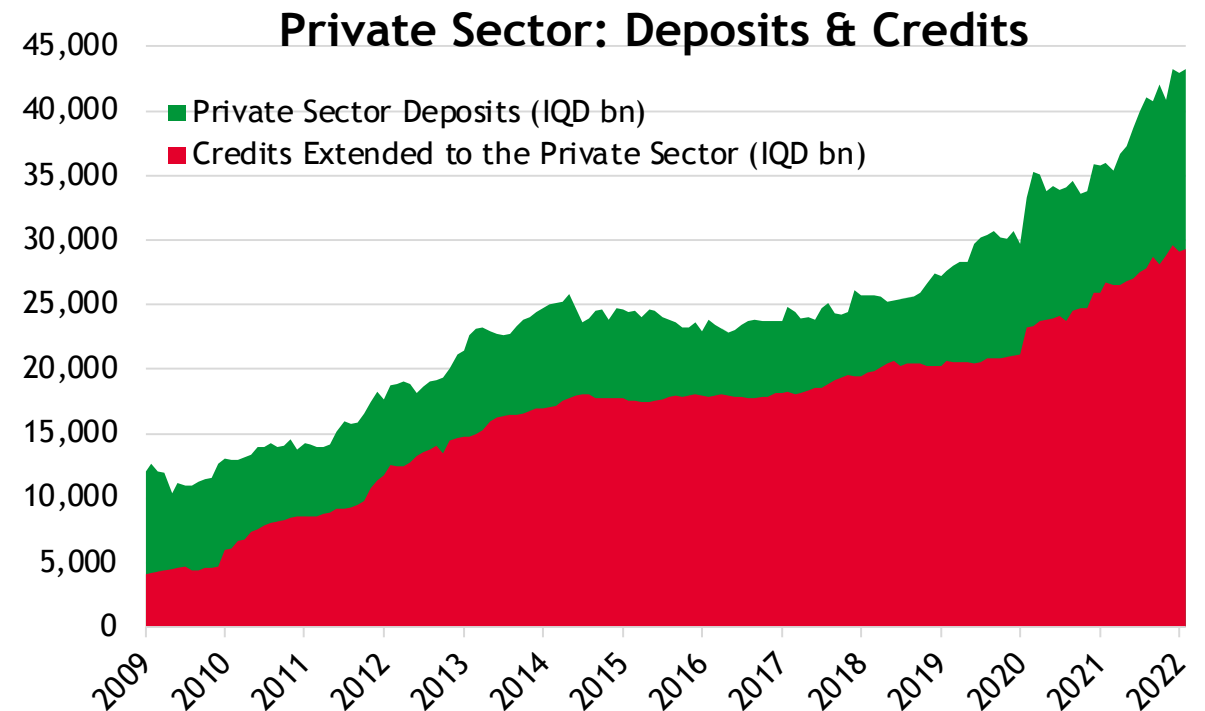
- The spread, or delta, between the official exchange rate and the parallel market rate (red line) declined significantly post the IQD's devaluation vs. the USD to about 2-3% – the same stable range that prevailed for most of 2018-2019
- The decline reflects market stability and certainty. Moreover, it removes most of the profit margin enjoyed by those who exploit the market and profit at the expense of Iraqis
- The spread increases during periods of turbulence and uncertainty as can be seen from the history of the red line. The devaluation, in enhancing Iraq's financial position, lead to the return of stability and certainty to the currency market and subsequently to the economy



- Daily data, as of May 19th, 2022

Confidence in the Banking System

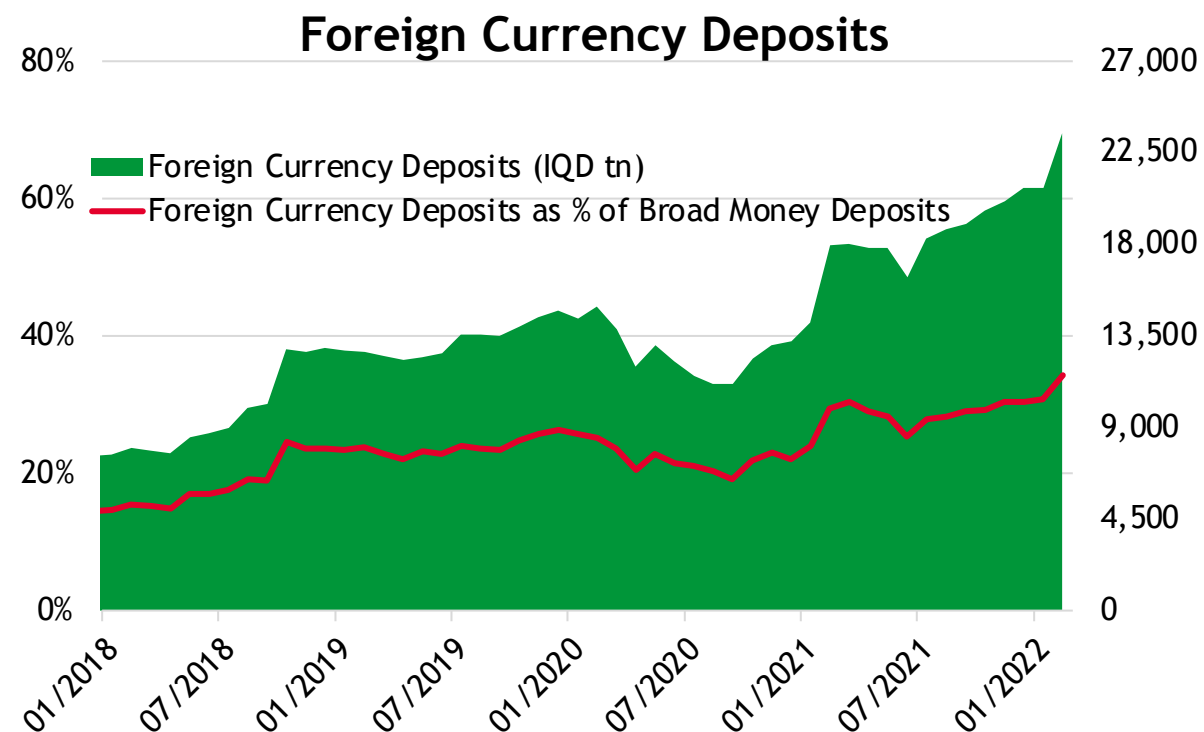
- The confidence in the banking system was solidified by the recovery in the CBI's foreign reserves, by the stability of the IQD's parallel market rate, and by the consistency of fiscal policy
- This confidence in the banking system is reflected in the continued strong growth of private sector deposits and in credits extended to the private sector
- Iraq's managed devaluation of the IQD spared the country of the chaos of a forced devaluation. Forced devaluations shake the population's confidence in the banking system, lead to hoarding of cash, dollarization and deposit withdrawals which stress the banking system



- Monthly data, as of February 2022

Confidence in the Banking System

- The growth in private sector deposits, was accompanied by growth in foreign currency deposits by the private sector and State-Owned Enterprises (SOEs) deposits – albeit at lower levels than overall private sector deposit growth



• Monthly data, as of February 2022



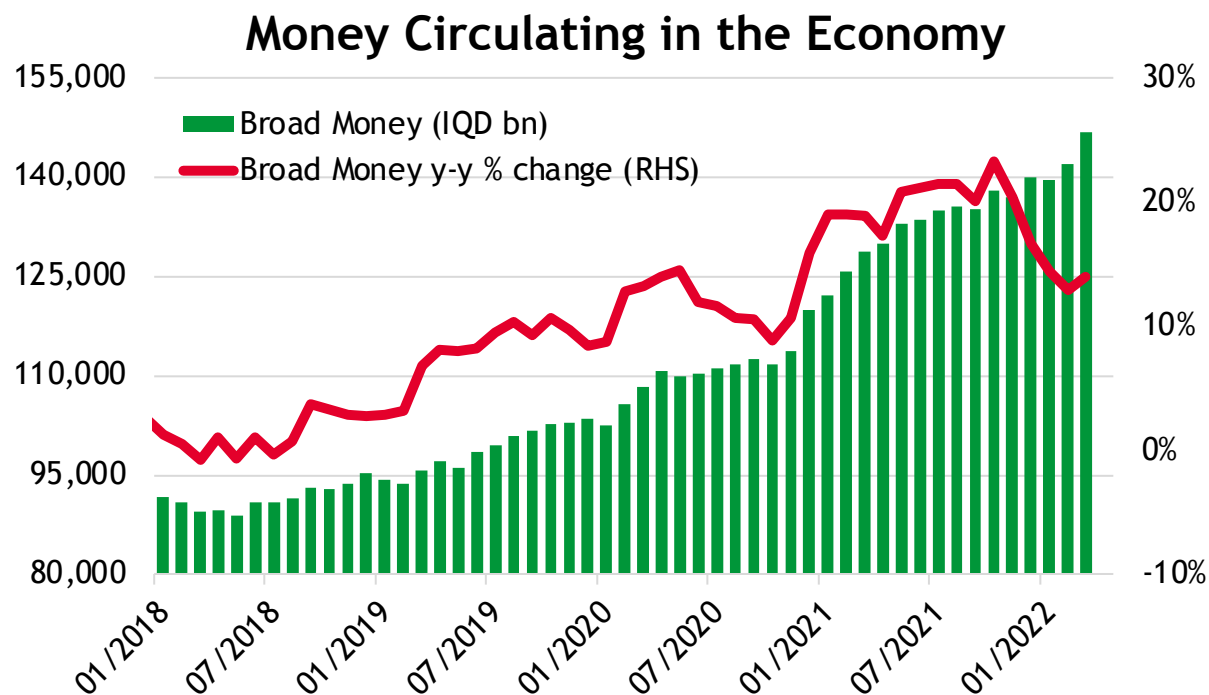
Economic Activity

Liquidity Injections to Stimulate the Economy

Starting from mid-2020 the government induced economic recovery through substantial liquidity injections

- Government borrowing in 2020 through indirect monetary financing,
- The CBI's adoption of an accommodative monetary policy to support the economy in countering the negative effects of COVID-19
- Sustained oil price increases from October 2020 onwards, allowed the government to raise spending significantly

The combination of the three liquidity injections led to a substantial increase in the amount of money circulating in the economy, as measured by broad money

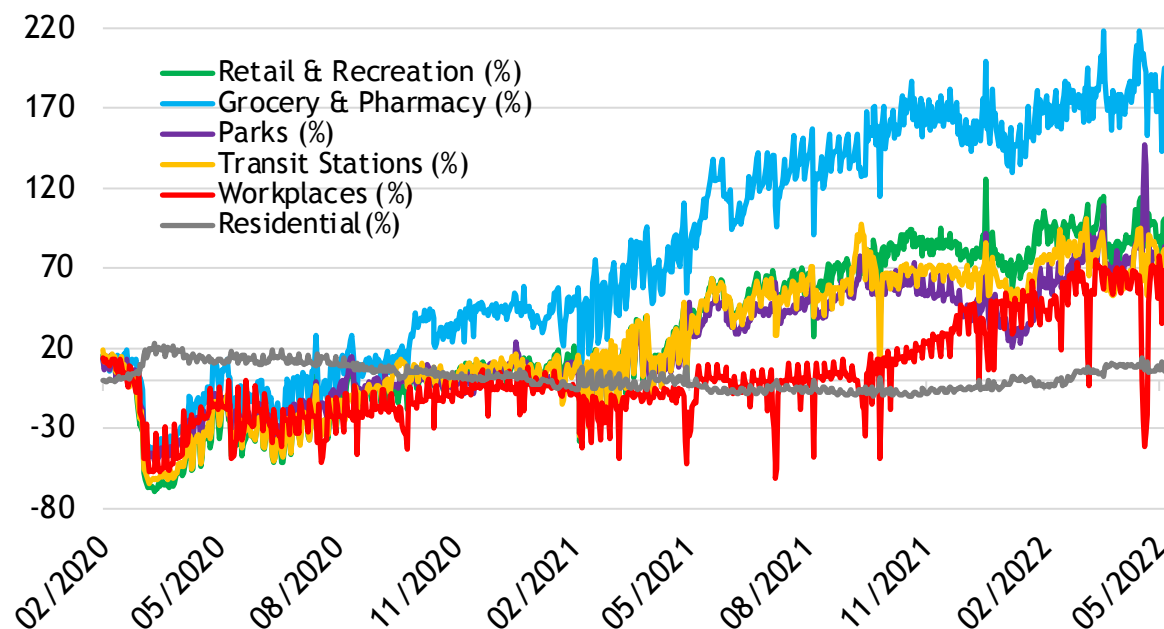


• Monthly data, as of March 2022

Increased Non-oil Economic Activity

- The liquidity injections provided a meaningful stimulus to the non-oil economy, whose effects can be seen from the noticeable increase in economic activity from October 2020 onwards coinciding with a similar noticeable increase in the year-over-year change in broad money (prior slide)
- Crucially, activities in retail and grocery—accounting for a sizeable percentage of the informal economy, largely driven by MSMEs—recovered to 90-200% above pre-COVID levels
- *Note: MSME = Micro, Small, and Medium Enterprises*

Non-oil Economic Activity

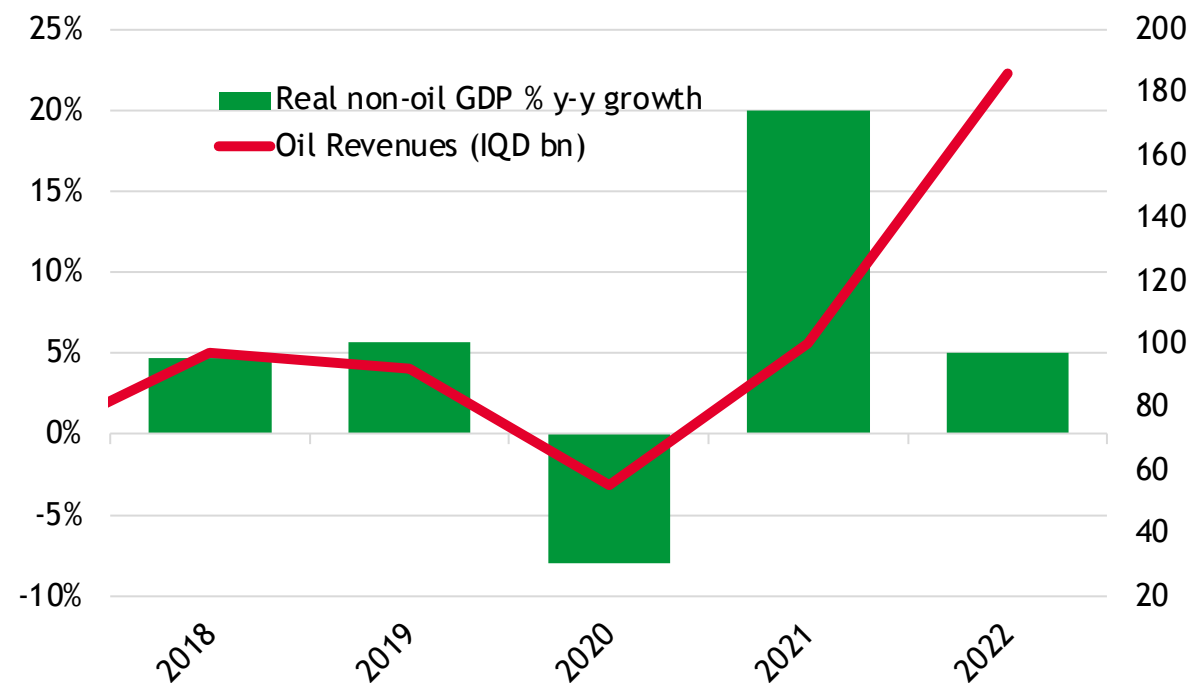


- Daily data, as of May 18th, 2022
- Data is percentage change from baseline. Baseline is the median, for the corresponding day of the week, during January 3rd - February 6th, 2020 as measured by Google

Growth in Non-oil GDP

- Liquidity injections, the growth in broad money, and the recovery in non-oil economic activity (prior slides) led to strong growth in non-oil GDP
- Non-oil GDP is estimated to have increased by 20% in 2020 following an estimated decline of 8% in 2020
- Non-oil GDP is projected to grow by 5% in 2022 on top of the estimated 20% growth in 2021

Oil Revenues vs. Non-oil GDP Growth



Note: IMF estimates and projections

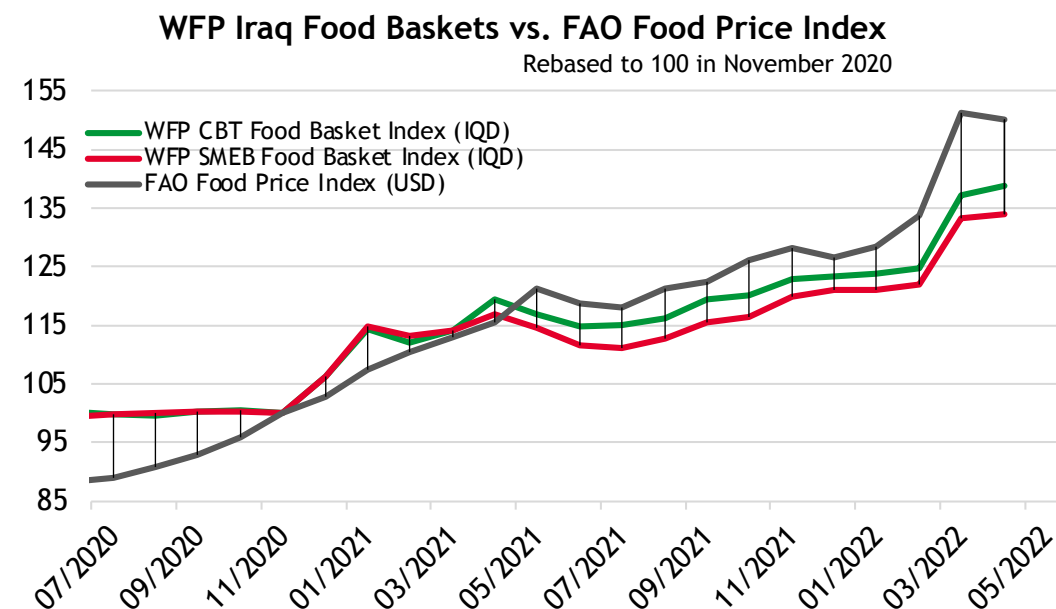
- Annual data, as of May 2022
- Note: Actuals, estimates and projection as published by the IMF



Inflation and Food Price Increases

Food Prices in IQD and in USD

- International food price increased more than Iraqi food prices both since the devaluation of the IQD in late 2020, and from the start of the war in Ukraine
- Note:-
 - WFP monitors two food baskets for Iraq,– the Survival Minimum Expenditure Basket (SMEB) & a more diversified Food Basket for its Cash Based Transfer (CBT) programme
 - The FAO Food Price Index (FFPI) is a measure of the monthly change in international prices of a basket of food commodities
 - WFP Food Baskets are for retail food prices in Iraq in IQD which include transportation, distribution, storage, and other retail costs. Moreover, they include the one-off effect of the 23% IQD devaluation against the USD. The FAO Food Price Index reflects internationally-traded food prices in USD, and does not include any of the costs imbedded within the WFP Food Baskets



	WFP CBT Food Basket Index (IQD)	WFP SMEB Food Basket Index (IQD)	FAO Food Price Index (USD)
<u>Percentage change</u>			
Devaluation + Ukraine Nov 2020 - Apr 2022	39%	34%	50%
Ukraine Feb 2022 - Apr 2022	11%	10%	12%

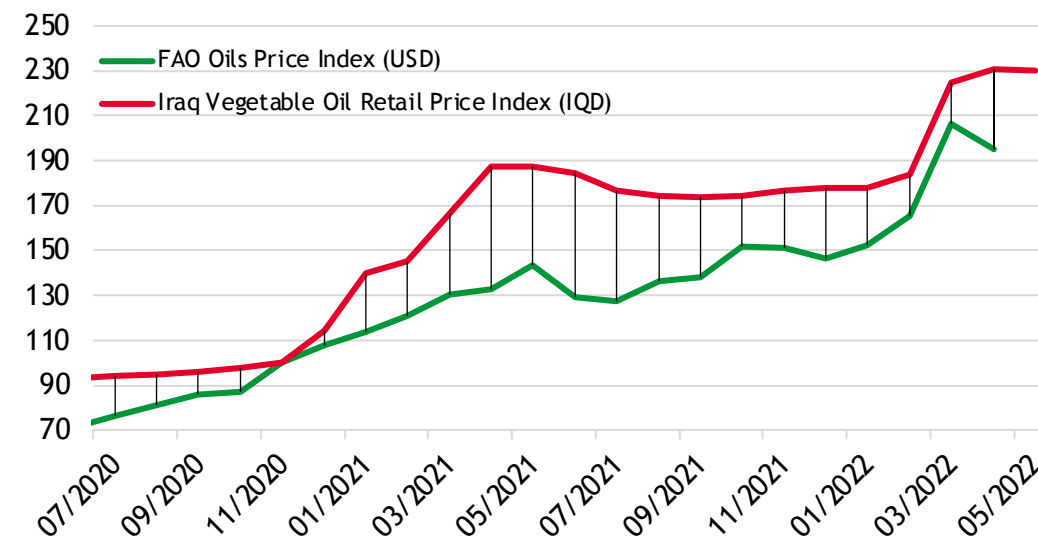
- Monthly data, as of April 2022

Food Prices in IQD and in USD

Percentage change	Iraq Vegetable Oil Retail Price Index (IQD)	FAO Oils Price Index (USD)	Iraq Wheat Flour Retail Price Index (IQD)	FAO Cereals Price Index (USD)	Iraq Sugar Retail Price Index (IQD)	FAO Sugar Price Index (USD)
Devaluation + Ukraine Nov 2020 - Apr 2022	131%	95%	40%	48%	36%	39%
Ukraine Feb 2022 - Apr 2022	25%	18%	4%	17%	11%	10%

Iraq Vegetable Oil Price Index vs. FAO Oils Price Index

Rebased to 100 in November 2020

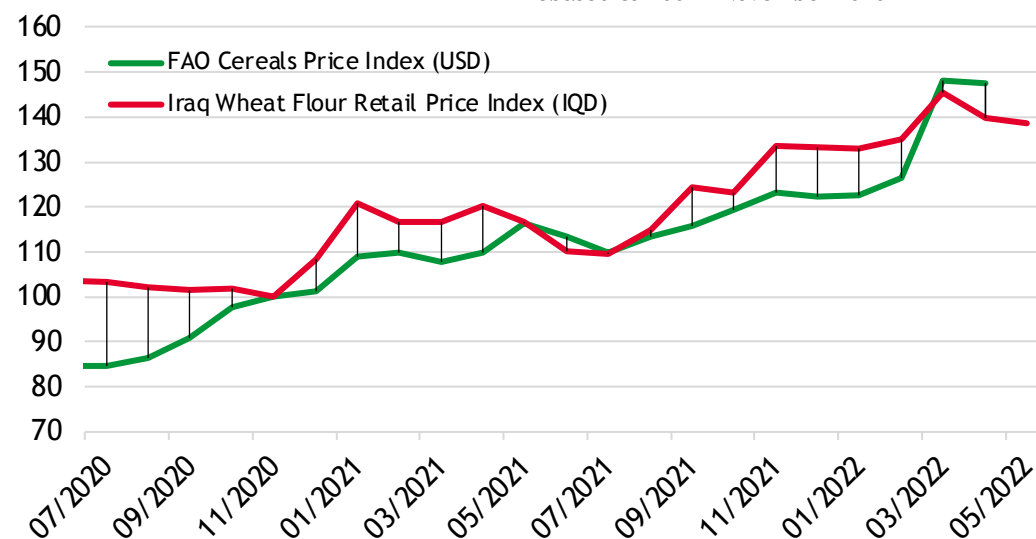


- Monthly data, as of April 2022
- Iraqi data include preliminary data for early May

Food Prices in IQD and in USD

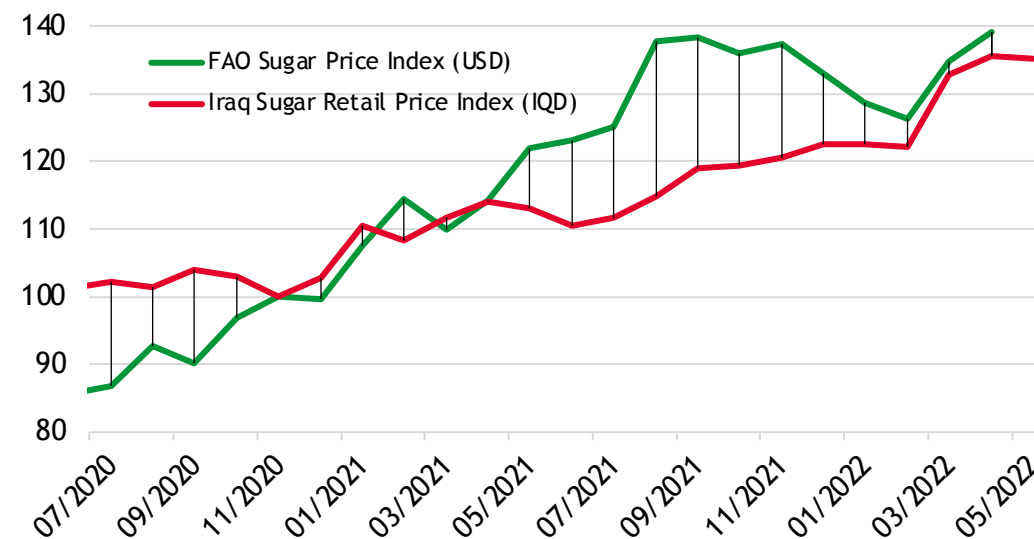
Iraq Wheat Flour Price Index vs. FAO Cereals Price Index

Rebased to 100 in November 2020



Iraq Sugar Price Index vs. FAO Sugar Price Index

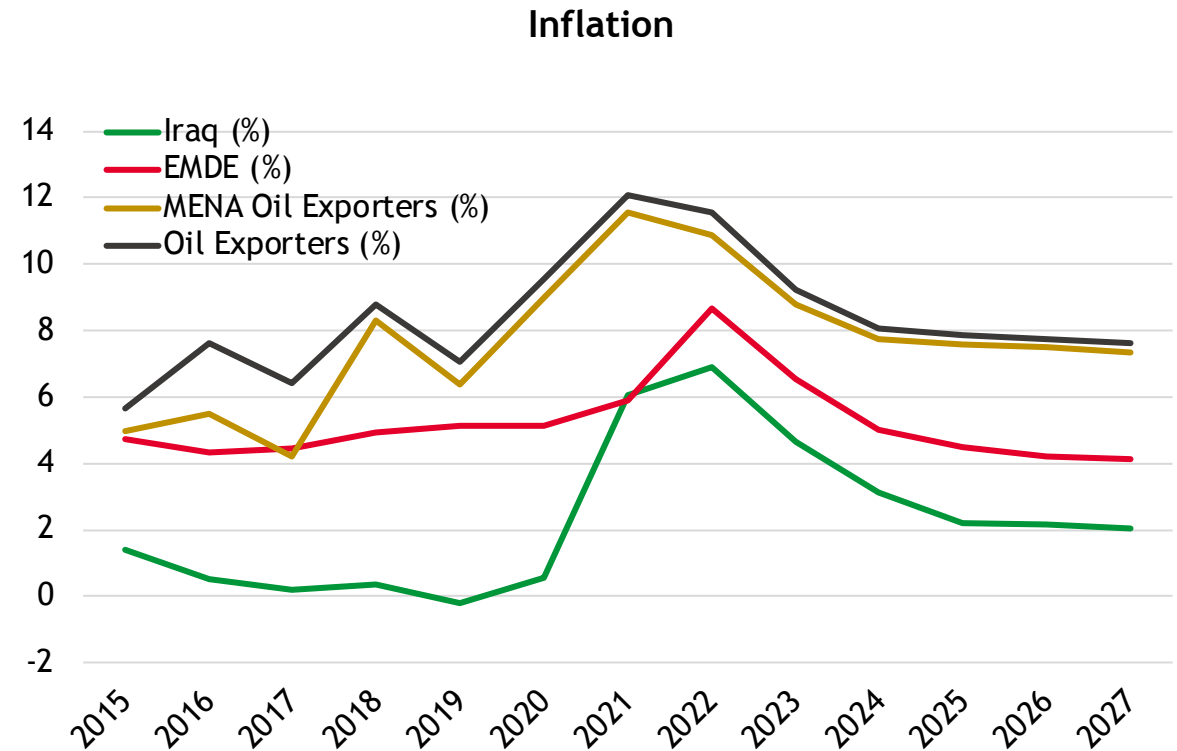
Rebased to 100 in November 2020



- Monthly data, as of April 2022
- Iraqi data include preliminary data for early May

Inflation: Iraq vs. its Peers

- Lower increases in Iraqi food prices than global food prices increases are reflected in lower inflation levels for Iraq vs. its peers in Emerging and Developing Economies, MENA Oil Exporters, and Oil Exporters according to IMF data.



- Annual data, as of May 2022
- Note: Actuals, estimates and projection as published by the IMF



Public Debt



Public Debt

Public Debt	31/12/2020	31/12/2021	01/05/2022
Internal Debt (IQD tn)	34.823	31.550	28.645
Foreign Debt (IQD tn)	65.496	72.030	71.092
Total (IQD tn)	100.319	103.580	99.737

- Iraq's only true commercial debt are two of three Eurobonds carrying interest rates of 5.8% and 6.7%, while the third carries an interest rate of 2.1% and is guaranteed by the U.S. government. Total Eurobonds outstanding as end of 2020 are IQD 6.7 tn or, USD 4.6 bn. All other debt is highly concessional
- Foreign debt does not include legacy debt from the prior regime of IQD 57.8 tn, or USD 39.9 bn. This debt is frozen from 2003, accrues not interest, and is not serviced
- The MoF as part of its work to reduce debt reconfigured all domestic debt as follows: The entire stock of domestic debt has become medium- to long-term maturity after the government agreed with the CBI and public banks to convert all existing T-bills to 10- and 20-year loans, with repayments starting in March 2021 and interest rates reduced to 2%
- The CoM on April 5th, 2022, approved the public debt repayment strategy for 2022-2024 as proposed by the public debt management unit–MoF as part of the draft 2022 budget

Sources

Note:

- Figures rounded for ease of presentation
- Data Sources:
 - Iraq: Ministry of Finance (MoF), Ministry of Oil (MoO), Ministry of Planning (MoP), Central Statistical Office (COSIT), Ministry of Trade (MoT), and The Central Bank of Iraq (CBI)
 - International: IMF, World Bank (WB), FAO, World Food Programme (WFP), Google Mobility Data, Investing.com, Statista



With the complements of the
Minister of Finance