



Ortadoğu Arařtırmaları Merkezi
مركز دراسات الشرق الأوسط
Center for Middle Eastern Studies

ANALYSIS 274
FEBRUARY 2021



CURRENT ECONOMIC OUTLOOK OF IRAQ AND ECONOMIC RELATIONS WITH TURKEY

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Publication Date: 25 April 2021

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Photos : Anadolu Agency (AA)

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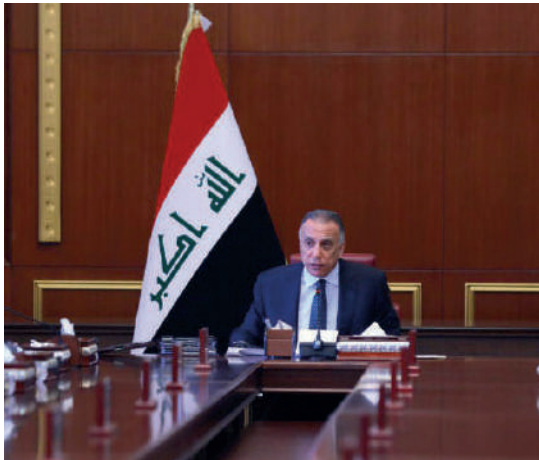
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INTRODUCTION

Political stability is the main factor affecting the economic performance of a country and political stability is positively associated with sustainable economic development. As concepts such as democracy, human rights, and the rule of law, which express political stability, come to the fore, the economic attractiveness of countries increases. However, economic problems arise in the opposite situation where unemployment rates rise, income distribution is unfair, the public sector's budget deficit increases, and the level of indebtedness is unsustainable. The problems experienced in Iraq, especially in the post-2003 period, also developed within this vicious circle. The war, conflicts, riots, and prolonged terrorist incidents before and after 2003 caused political instability, and this situation led to political corruption, bribery, and rent problems, and ultimately presented great challenges in the country's economy.

As the steps to be taken in fighting against the insufficient administrative capabilities in Iraq such as corruption have failed in practice, this situation has been accompanied by many structural problems. This is so much so that these administrative malpractices have weakened the socio-economic and institutional structure on which economic development is based, caused domestic and foreign investors to leave the country, limited economic growth, increased income inequality and poverty, reduced the quality of public infrastructure facilities, reduced tax revenues from imports and companies and effectuated deterioration of the structure of public expenditures. In the corruption perception index (CPI) published since 1995, Iraq has been included in the analysis after 2003 and ranked at the bottom of the list every year. Embezzlement, money laundering, oil smuggling, and bureaucratic bribery that have led the country to the bottom of these rankings, combined

The war, conflicts, riots, and prolonged terrorist incidents before and after 2003 caused political instability, and this situation led to political corruption, bribery, and rent problems, and ultimately presented great challenges in the country's economy.

with the prolonged destructive conflict environment disrupted the economy, legal and political order.

In Iraq, as the economic problems, caused by political instability, such as corruption, income inequality, unemployment, and poverty were perceived to become permanent, public demonstrations erupted in October 2019 across the country. As the protests intensified, Iraqi Prime Minister Adil Abdul-Mahdi resigned, and efforts were initiated to establish a new government. In this context, although the former communications minister Mohammad Tawfiq Allawi was appointed in February to form a government, he announced his resignation in March 2020 as he could not gather enough support.¹ After Allawi, the Iraqi President Barham Salih appointed former Najaf Governor Adnan al-Zurfi to form the government on March 17.² However, Zurfi announced his resignation as he also failed to form a government and then he was replaced by al-Kadhimi, who was also supported by Shiite parties, Sunni and Kurdish groups. In this process, the ongoing protests were also stopped with the rapid spread of the epidemic in the country and neighboring Iran.

In this period when the country was driven into more uncertainty, under the growing economic crisis the task of forming a government was given to the director of the Iraqi National Intelligence Service Mustafa al-Kadhimi, and Kadhimi received the vote of confidence of the Iraqi parliament to serve as Iraq's new prime minister. The new administration in Iraq has promised to take steps to resolve fundamental socio-economic and political problems such as non-accountability, nepotism, widespread corruption, and the ensuing economic injustice, which were the root causes of the uprisings. In this context, the published studies such as the final report of "the Emergency Cell for Financial Reform" pointed out the aforementioned basic problems and put forward the policies to be implemented to solve them. Moreover, Kadhimi made his own appointments in the state bureaucracy, including economic institutions.³ Among these appointments the governor of the Central Bank of Iraq, the head of the Iraqi Securities Commission and lastly the head of the Integrity Commission were related to the economy.

However, the ongoing political and security problems

¹ Haydar Karaalp, "Irak'ta Muhammed Tefvik Allavi, hükümeti kurma görevinden çekildi", AA, March 2, 2020

² Haydar Karaalp, "Irak'ta Zurfi, hükümeti kurma görevini iade etti", AA, April 9, 2020.

³ Irak Başbakanı Kazimi'den bürokraside değişiklik kararı", Dünya, September 14, 2020.

accompanied by economic instability have made the Iraqi economy very fragile. The country's economy, which its budget and expenditures are heavily dependent on oil due to its natural resource-dependent structure, has entered a deep crisis with the global epidemic and low oil prices. Realizing that it is not possible to save the country's fragile economy and overcome its structural problems in the current global crisis, the Iraqi government has made an effort to formulate long-term policies despite social reservations. However, in this environment where there is no economic diversity and the central authority is weak, the low price of oil, which is the most important source of income, appears as the biggest obstacle to the realization of the reforms. Therefore, reducing the fragility of the economy by implementing emergency action

plans and realizing development projects has been determined as the primary goal for the new government in Iraq.

In order to strengthen the Iraqi economy, first of all, the necessary infrastructure investments should be taken immediately. Based on this, the added values and supports that Turkey, an important neighbor, and ally from the point of view of Iraq, can provide to the people and economy of the country come to the fore. The agreements signed between the Iraqi government and Turkey have shown that the Iraqi government will adopt policies in this direction. The policies to be developed in this direction will ensure that the two countries will experience significant positive developments in many areas, from energy security to reducing regional risks, together with common economic gains.

CURRENT OUTLOOK OF THE IRAQI ECONOMY



The average number of the vehicles passing through the Habur border crossing per day has increased from 1200 to 1800 with the normalization after the implementation of measures against the new type of coronavirus (Covid-19).

Iraq could not manage its budget in 2020 due to its oil-based economy, poor governance, and internal instability; its revenues decreased with the falling oil barrel prices first due to the oil wars and then due to the epidemic, and its financial burden increased due to the impact of the epidemic and shut-downs. The general economic situation of the country for 2020 was negative, mostly due to international developments. The Iraqi government, trying to increase its inadequate revenues despite its increasing financial burden, took initiatives to increase its oil-based revenues and decided to devalue the local currency in line with the recommendations of the IMF. International financial and valuation institutions have also included the negative economic course in their reports on the Iraqi economy. Moreover, although it is desired to start the restructuring efforts of the country as soon as possible, as a result of these developments and evaluations, it is obvious that if the

process is left only to the administration of the Iraqi government, there will be delays.

Budget Discussions for 2021 in Iraq

After the Iraqi government finished 2020 without a budget, it prepared its 2021 budget based on the bad course of the country's economy and the effects of the epidemic.⁴ After the draft budget, the administration officials went to Baghdad on December 3 to discuss the share of the Kurdistan Regional Government (KRG) of Iraq in the budget and the salaries of the KRG employees. The delegation led by the KRG Deputy Prime Minister Qubad Talabani held talks with central government officials on budget and other financial privileges to pay the region's civil servant salaries. Qubad Talabani declared that they are ready to deliver the oil, border, and customs revenues to Baghdad if the budget amount to be allocated to the region is determined.⁵

⁴ "Irak hükümeti: IKBY ile 2021 bütçesinde anlaştık", TRT Haber, December 19, 2020.

⁵ Haydar Karaalp, "IKBY Başbakan Yardımcısı Talabani: Petrol gelirlerini Bağdat'a teslim etmeye hazırız", AA, December 14, 2020.

Qubad Talabani declared that they are ready to deliver the oil, border, and customs revenues to Baghdad if the budget amount to be allocated to the region is determined.

As a result of the agreements reached on financial matters, the Iraqi Finance Minister announced on December 19 that the Iraqi central government reached an agreement with the KRG on the central budget for 2021. According to the agreement, the KRG achieved persuading the central government to allocate the requested amount. At the end of the three-day session in the parliament, the 2021 budget, which focused on the reduction of unsustainable expenditures, new taxes, and the share of the KRG in oil revenues, was voted and approved.⁶ The Iraqi economy, which experienced economic recession and financial crisis due to low crude oil prices in 2020, has set up the oil price as 42 dollars per barrel in the 2021 budget, which was 56 dollars in the 2019 budget, and envisages a revenue of 150 trillion Iraqi dinars (approximately 103 billion dollars). For the two governments, total budget deficit has been estimated at 63 trillion dinars (about \$43 billion). According to the budget forecast, it is expected that 3.25 million barrels of oil per day will be exported from the KRG region in 2021. Another important point in the draft budget is the decision to reduce salaries and devalue the national currency to cope

with the effects of the severe economic crisis.

The Iraqi Dinar's Devaluation

In October, Iraqi Finance Minister Ali announced that as a result of a meeting with the International Monetary Fund (IMF) to find a solution to the liquidity problem experienced by the country's economy, the IMF proposed the devaluation of the Iraqi dinar, at a rate of 1650 dinars to the dollar, as the first step to be taken for a solution. The Iraqi government, deemed this politically difficult, postponed this recommendation and preferred to borrow from the Iraqi Central Bank reserves and used it to pay public salaries and pensions, which reached \$5 billion per month. However, as the country's reserves decreased to 50 billion dollars and the country did not offer a permanent solution to the current budget imbalance, it was announced that the IMF's proposal to reduce the value of the local currency would be adopted and the Iraqi dinar would be devalued by 22 percent.⁷ This has been the highest devaluation rate since 2003.

While before the devaluation, the previous official rate was 1,182 Iraqi Dinars, the Minis-

⁶ Haydar Karaalp, "Irak'ta 2021 bütçesine göre bakanların maaşlarından yüzde 40 vergi alınacak", AA, December 21, 2020.

⁷ Chloe Cornish, "Iraq devalues currency by a fifth as oil-price collapse hits", Financial Times, December 20, 2020.



Iraq's oil revenues fell by about 50% in 2020 compared to the previous year.

ter of Finance Allawi announced that the Central Bank set the new rate for the dinar at 1,450 IQD for the Iraqi Finance Ministry, for the public at 1,470 IQD and for other banks at 1,460 IQD.⁸ The main purpose of devaluation is to protect the dollar reserves of the Iraqi economy, which is experiencing a liquidity crisis, and to enable the government to fulfill its responsibilities towards employees and retirees by paying their salaries. In addition, it is aimed to increase the country's exports slightly and to increase domestic production by decreasing imports. However, this move will only be useful in maintaining the country's dollar reserves. This is because it does not seem possible to increase production and export products in a country where domestic production is limited and production inputs depend on imports.

Although the Iraqi government will fulfill its responsibility by paying salaries with this

step, decreases in the salaries of employees accompanied with the decrease in the value of the salaries has increased dissatisfaction of society. In addition, considering the ongoing global effects of the pandemic, it seems likely that the devaluation decision will create a high level of inflationary effect throughout the year and in the medium term. Historically, inflation, which reached 53% with the effect of devaluation in Iraq in 2003, was partially controlled during the civil war years. Thus, the Iraqi economy will perform in 2021 under an unfavorable and uncertain environment caused by the impact of falling income sources, increasing financial burden, and high inflationary expectations.

Iraq's Revenue Sources

The fragile economic structure of the Iraqi economy is caused by the fact that a large

⁸ Samya Kullab, "Iraq's central bank devalues dinar by 22% amid public anger", Associated Press, October 21, 2020

part of the budget, revenues, and expenditures is dependent on oil. The economy has entered into a deep crisis with the global epidemic and low oil prices. Moreover, there is a revenue loss due to high bribery and corruption in the country. In his statement confirming this economic situation, Iraqi Finance Minister Allawi stated that if the price of oil does not reach \$70 per barrel, the government's efforts to implement reform will not be successful, the economy will be in a crisis due to the nature of the economy and so the public expenditures may be cut.⁹ On the other hand, it is known that only a tenth of the payable annual income of the country's customs border, 8 billion dollars, has been paid to the Iraqi treasury and officers in some police stations collect bribes which varies between 50 thousand and 100 thousand dollars even for small-scale jobs, and sometimes exponentially much more.

With the new types of coronavirus cases seen in Iraq on February 24, 2020, the first lockdown measures came into effect across the country in March.¹⁰ This one-month lockdown measure was eased in April¹¹, but due to the increase in the number of cases, a nationwide lockdown was re-imposed on certain days in May and July-August.¹²

In August, the restrictions were eased again, but as a result of the mutation of the virus in England, a one-night curfew was de-

clared again in the country as of December 24.¹³ The epidemic, which caused national and international shutdowns, led to the cessation of productive sectors, trade, transportation, consumption. More than one sector is affected and the epidemic further deepened the existing economic crisis. The decline in prices was at first due to the oil wars between Saudi Arabia and Russia, followed by the slowdown in global oil demand which caused a sharp decline in the revenue of oil-exporting countries such as Iraq.

The monthly fall in the Iraq's oil exports between 2019 and 2020 can be clearly understood from the table above. Due to the decrease in oil demand after the settlement of the dispute between Russia and Saudi Arabia, the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC oil-producing countries (OPEC+) decided to cut the total production by 10 million bpd¹⁴ between 1 May and 30 June, and 7.7 million bpd between 1 July and 31 December.¹⁵ As a result of the decision, Iraq has committed to cutting 400 thousand barrels of production per day, but could not comply with this decision due to its economy.¹⁶ In the meeting held in June, countries that did not comply with the cut decision were asked to compensate for this, but Iraq could not adapt to this compensation adequately.¹⁷

⁹ Patrick Wintour, "Iraqi deputy PM says economy in crisis and 'riddled with corruption'", The Guardian, 24 November 2021.

¹⁰ Lujain Elbaldawi, "Is Iraq taking necessary measures to prevent COVID-19 spread?", AL-Monitor, March 20, 2020.

¹¹ "Iraq eases some lockdown restrictions ahead of Ramadan", Reuters, April 21, 2020.

¹² "Iraq to impose full lockdown during Eid to prevent COVID-19", Middle East Monitor, July 23, 2020.

¹³ Sinan Mahmoud, "Iraq orders 1.5 million vaccine doses and issues travel ban to UK and seven other countries", The National News, December 22, 2020

¹⁴ Fotios Katsoulas, "Difficult for Iraq to restrict crude oil exports to only 2.8 million b/d in June", IHS Markit, 16 June 2020.

¹⁵ Ovunc Kutlu, "OPEC prepares to ease oil production cut to 7.7 mbpd", AA, 15 July 2020.

¹⁶ Anthony Di Paola, "Iraq's Oil Output Cuts Fall Short of OPEC+ Target", Bloomberg, 16 June 2020.

¹⁷ "Market rebalancing, full commitment to conformity remains the focus – JMMC", OPEC, 18 June 2020.

Table 1: Iraq's monthly oil export volumes, 2019-2020

	2019				2020			
	Crude Oil Production (bpd)	Crude Oil Exports (bpd)	Price Per Barrel (\$)	Export Revenue (Billion \$)	Crude Oil Production (bpd)	Crude Oil Exports (bpd)	Price Per Barrel (\$)	Export Revenue (Billion \$)
January	4.575	3.649	56.2	6.367	4.470	3.306	60.1	6.163
February	4.545	3.621	20.9	6.179	4.500	3.391	51.3	5.053
March	4.500	3.370	64.0	6.709	4.500	3.390	28.2	2.962
April	4.500	3.466	67.5	7.021	4.480	3.438	13.8	1.423
May	4.595	3.572	66.1	7.330	4.068	3.212	21.4	2.136
June	4.600	3.520	60.3	6.373	3.698	2.816	33.9	2.871
July	4.620	3.556	60.5	6.692	3.697	2.763	40.7	3.492
August	4.650	3.603	57.4	6.413	3.578	2.597	43.3	3.490
September	4.620	3.576	58.9	6.321	3.600	2.613	40.4	3.167
October	4.576	3.447	57.2	6.121	3.842	2.876	38.4	3.411
November	4.595	3.500	60.0	6.305	3.685	2.709	41.8	3.403
December	4.535	3.428	63.0	6.698	3.857	3.307	47.76	4.2

Reference: Ministry of Oil (Iraq), OPEC

During the year, the economic costs of both global and local lockdowns were hard to deal with for Iraq. Oil revenues, which constitute 33% of the country's GDP and 86% of its total exports, decreased by almost 50% compared to 2019. On the other hand, the effect of the closure in the country reduced individual and corporate expenditures, as well as the mandatory increase in public expenditures and support packages, has also led to an increase in the financial burden on the government. Thus, the Iraqi government entered into a domestic payment crisis as a reflection of the deepening economic problems.

The government, which earned \$ 3.45 billion from oil export revenues in October, was unable to cover the salaries, social benefits, and other basic expenses of public employees and retirees.¹⁸ In a situation where Iraq is so dependent on oil revenues, Allawi also explained that they are not accepting the production restriction decision without taking into account the economic and political conditions of the member countries of OPEC and that they can leave this network.¹⁹ Iraq, which is the second-largest producer of OPEC, has already failed to comply with the quota set by OPEC for most of this year due to its financial and political struggles. Iraq exceeded its

¹⁸ Samya Kullab, "Bloated public salaries at heart of Iraq's economic woes", Associated Press, October 23, 2020.

¹⁹ Dania Saadi, "Iraq reaching limit of accepting 'one-size-fits-all' OPEC model: deputy PM", S&P Global, 23 November 2020.

quota by increasing its oil production from 3.6 million barrels per day in September to 3.842 million barrels a day in October, including the KRG region.

The Iraqi government has launched a tender to make a long-term crude oil supply agreement, in which it will receive \$2 billion in cash, to increase its inadequate revenues despite the quota overruns in production.²⁰ It has also made an offer to potential buyers, which must respond by 27 November. The Iraqi government opted for this method to pay public employees' salaries without further borrowing. With this prepayment agreement, the oil buyer country will be the lender to the country and the collateral for the loan will be barrels of oil.

Among the requests for the proposal, it was announced that Iraq was close to agreeing with China.²¹ The bidder close to the proposal is ZhenHua Oil, a largely state-owned company linked to the Chinese military. According to the terms of the tender announced by the Iraqi government, the agreement will last for 5 years, and the Chinese company will be supplied with four million barrels of oil per month or about 130 thousand barrels per day and total value of the first-year supply will be received in cash. If the tender is completed and the agreement is realized, the Baghdad government will temporarily resolve the cash shortage problem and gain time until oil prices rise. However, the lack of a certain date for the prices to increase indicates that the risk

will continue for a while. Ultimately, this development will help the Iraqi government in the short term to pay salaries of civil servants and retirees without borrowing more.

Expectations Regarding the Iraqi Economy

According to the World Bank²², one of the international organizations evaluating the effects of the economic crisis and the epidemic on Iraq, it is predicted that the Iraqi economy will shrink by 9.5% at the end of 2020, while 12.1% according to the IMF²³ and 9% according to the credit rating agency, Fitch.²⁴ Iraq uses oil revenues to cover 90% of government expenditures, including \$5 billion spent on the monthly salaries of public servants. It is estimated that the country's total government expenditures for the fiscal year 2020 are on average 96 trillion Iraqi dinars, of which 64 trillion dinars, equivalent to 67%, are made up of employees and pensions. Public salaries made up 47% of total expenditures last year.²⁵

It is stated that the increase in the share of public salaries is caused by the previous Iraqi administration decision to employ more people for calming the anti-government protests. This situation pushed the government to make a difficult decision that could increase the probability of further civil strife in Iraq. The Kadhim government submitted a package on economic reform to the parliament. The scope of the package offered includes reducing the allocated share of public salaries from 25% to 12.5%, cutting benefits and allow-

²⁰ Javier Blas and Laura Hurst, "Iraq seeks \$2 billion upfront for oil supply contract as its economy falters", World Oil, 24 November 2020.

²¹ "China's Zhenhua Oil is frontrunner in Iraq's 5-year crude supply tender", Hellenic Shipping News, 10 December 2020.

²² "COVID-19 and Low Oil Prices Push Millions of Iraqis into Poverty", The World Bank, November 11, 2020.

²³ "Iraq At a Glance", IMF

²⁴ Fitch Affirms Trade Bank of Iraq at 'B-'; Outlook Negative", Fitch Ratings, 22 June 2020.

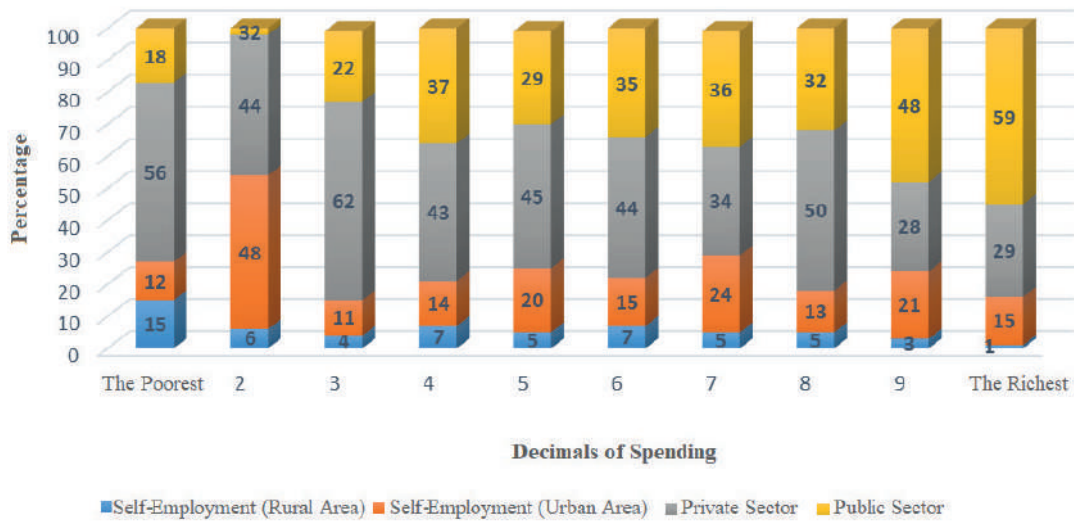
²⁵ "As new Iraq prime minister takes helm, public salaries on chopping block", The Japan Times, May 7, 2020.

ances, and gradually eliminating subsidies to the non-critical sectors in the economy, particularly the power-related sectors. In a statement Prime Minister Kadhimi stated that a deduction will be made from the presidential salaries by 40%, from the salaries of the deputies and ministers by 30%, and a symbolic deduction will be made from employees who receive a salary of 100 thousand dinars and no deductions will be made from the citizens

whose monthly income is less than 500 thousand dinars.²⁶

The World Bank also stated that, in Iraq, which has a problematic economic structure, millions of Iraqi citizens will face poverty due to the epidemic and low oil prices. The World Bank has announced that even in the good scenario, approximately 5.5 million people will be included in the poor population.²⁷ Also, The

Chart 1: Distribution of employees in Iraq by employment types



Source: World Bank

World Bank forecasts that between 400,000 and 1.7 million people could live at the poverty level as a result of the government's plans to reduce public salaries and pensions.

In Chart 1, which displays Iraq's income distribution statistics by occupational groups in decimal groups, a significant portion of individuals in wealthier households are employed in the public sector, whereas the poorer popu-

lation is mostly employed in the private sector. This is an important indicator of how high the level of bribery and corruption in public employment in Iraq has reached. Self-employment and private sector workers in urban areas were also the first to be affected by the economic crisis and epidemic. Due to underemployment and the epidemic, the current high unemployment rate has also increased further.

²⁶ Zenn and Pearson, pp. 47-49

²⁷ "Iraq Economic Monitor – Protecting Vulnerable Iraqis in the Time of a Pandemic: The Case for Urgent Stimulus and Economic Reforms", The World Bank, November 11, 2020.

Table 2: The spending Structure of the Iraqi economy, as percentage of GDP

	Capital expenditures on oil	Non-capital expenditure on oil	Public salary and pensions	Other current expenditure	Public salary and pensions/ oil income
2010	6.8	1.7	16.6	25	44.6
2011	5.3	1.3	14.1	20.8	32.4
2012	7.5	1.9	14.2	25.3	38.9
2013	5.6	11.8	15	15.6	38.9
2014	8.7	9.3	14.7	10.7	40.8
2015	9.2	6.4	20.3	7.5	73
2016	7.1	4.4	20.1	9.1	88.1
2017	5.5	2.8	18.6	7.8	64.3
2018	4	1.4	18.2	8.4	49.6
2019	7.4	3	20.4	12.5	55.7
2020T	4.6	1.2	25.9	8.3	107.1

Source: Fitch Ratings

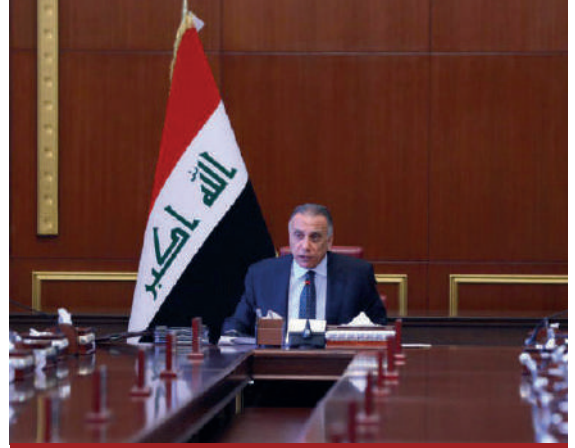
According to the spending structure table of Iraqi governments by years, the share of employees and pensioners in GDP increased in 2020. The government, which had difficulty financing the growing financial burden with the economic crisis, preferred the path of domestic borrowing. The Iraqi government, which borrowed 23.9 billion dollars from the central bank in May and August, used up all of its domestic borrowing options.²⁸

However, the government needed more funding, and negotiations were held with the

IMF in this direction. It is necessary to implement gradual reform and regulation programs to receive an aid package from the IMF. Therefore, the fact that this time-consuming process cannot contribute to the economy in the short term has pushed the Iraqi government to seek other options. Therefore, while the government started to implement the devaluation decision on the recommendations of the IMF, it also opened a pre-sale oil export tender that will provide income in the short term.

²⁸ "Iraq Fiscal Reforms Key to Curbing Forex Reserve Decline", Fitch Ratings, November 9, 2020.

THE EMERGENCY CELL FOR FINANCIAL REFORM (WHITE PAPER)



Iraqi Prime Minister Mustafa al-Kadhimi chaired the first cabinet meeting after taking office.

The Kadhimi government in Iraq shows that it intends to use its power, which has been reinforced by the support of the religious authorities, in combating the financial and economic crises in the country and structural problems such as corruption. This situation should be considered as a result of the ongoing economic and social crisis period and the people's taking to the streets and voicing these demands aloud during the establishment of the new temporary government. The "Emergency Cell for Financial Reform", as the first step in this manner, was set up on 12 May 2020 with the decision of the Council of Ministers to carry out financial reform, to identify the required solutions to improve the performance of financial institutions and to manage the financial situation within the framework of the current financial crisis.²⁹

The Prime Minister personally heads the Emergency Cell. The cell, which has received

reports and recommendations from all relevant state institutions and private sector representatives since its establishment, prepared the "Emergency Cell for Financial Reform (White Book)" and revealed the country's economic needs and possible policy recommendations.³⁰ The report provided recommendations to the government on main issues, to establish a common basis to be agreed upon, then adopting the necessary laws and implementing enforcement procedures.

The report mainly addresses the disagreements between OPEC member countries and non-OPEC oil-producing countries, the impact of shale gas and oil, the market share problem of Russia, the oil price shocks caused by the effects of the epidemic, and the pressure of the Iraqi economy after the devastating economic effects of COVID-19. However, strikingly, even if these double shocks have not been experienced recently, it is predicted that the

²⁹ Ruba Husari, "Iraq's reform program: A white paper with no action plan", Middle East Institute, November 2, 2020.

³⁰ Ali Al-Mawlawi, "Can the White Paper Deliver on Economic Reform?", Iraq-business news, October 15, 2020.

The report mainly addresses the disagreements between OPEC member countries and non-OPEC oil-producing countries, the impact of shale gas and oil, the market share problem of Russia, the oil price shocks caused by the effects of the epidemic, and the pressure of the Iraqi economy after the devastating economic effects of COVID-19.

Iraqi economy will face similar economic and financial crises due to the structural problems that have become chronic since the 1970s, which are the basis of the fall in oil prices. The main structural problems in question are the inability to diversify the economy and the increasing state intervention in all areas of the economy. Especially not being able to transfer oil revenues to production, failure to fight against corruption, youth unemployment problem, and failure to create employment are listed as other important structural problems.

It is seen that the basic principles suggested in the report have a scope that offers permanent solutions to structural problems. It is aimed to redefine the role of the state in the economy and society within the framework of the implementation of constitutional principles to solve the existing structural problems, to make radical improvements in the general financial system management of the state, to provide the necessary environment for creating a vibrant, dynamic and competitive economic structure, to restructuring the financial and banking system, to eliminate the factors that cause a decrease in productivity in the country and to protect the weak segments in society during and after the implementation of the reforms.

Policy Recommendations in the Report

In Iraq, the government's budget deficit due to extremely high public employment has reached an unbearable level. The ongoing low oil prices made the situation unsolvable. The idea of arranging their 2021 budget plans according to the price of 45 dollars per barrel can be seen as an effort to take precautions against potential crises. While a series of policy recommendations are presented in the mentioned report to overcome the crisis, it is striking that the proposed policies do not have integrity. At the same time, considering the current conjunctural structure and social habits of the country, it is seen that policy suggestions are far from reality and cogency.

In order to evaluate the rationality of the report, the policy recommendations set out as targets in the report should be examined in general. It is seen that the necessity of redefining the role of the state in the economy and society has been emphasized. In an environment where the state has dominance over every level of the society and economy since its establishment, underdevelopment of the private sector and the deficiencies in providing employment are the main structural problems. Therefore, it is essential to gradually minimize the role

of the state and establish a system based on the rule of law. A solid public infrastructure is one of the most important conditions for protecting the integrity of the country. Besides, it is important to create a vibrant, dynamic, and competitive economic structure.

In addition, another policy proposal that stands out in the report is to make radical improvements to the general financial management of the state. Failure to maintain budgetary discipline due to structural and social problems in budget structures, mainly on natural resources, disrupts the functioning of the financial system. Current expenditures such as personnel salaries, which have an important place in the budget and lay a great burden, should be regulated. During periods of crisis in the form of conjuncture fluctuations, practices such as cuts in staff salaries or no payments have both reduced public trust towards the government and created negative effects on the welfare level of the households. Therefore, ensuring economic diversity and creating new sources of income are important for the functioning of the financial system. Practices that can be proposed as a solution to the budget discipline can be put forward as early retirement, layoffs, and privatization. However, it does not seem possible to apply all these theoretical suggestions in practice due to socio-cultural and state mechanisms. In this respect, it is expected that the government will take steps as salary cuts or no payments for certain periods, as previously applied, as the first measures regarding budgetary discipline.

On the other hand, the fact that the tax phenomenon, which should be the most important financial income item, does not have a settled consciousness in the country poses a great risk for the future of the country's economy. It is a great deficiency that Iraq has not been able to fully implement a tax structure,

especially over the expenditures, even natural resource-abundant countries such as Saudi Arabia and the United Arab Emirates (UAE) have started to introduce during economic fluctuations due to oil price shocks. As it is known, Saudi Arabia has increased the rates of these tax items by three times during the current pandemic period and implemented some kind of financial insurance against the crisis. Failure to implement similar practices is one of the structural problems for Iraq. However, it will take a long time to gain these habits in a society that has difficulties even in paying bills.

Another policy suggestion has been the necessity of restructuring the financial and banking system. First of all, the report reveals that the country does not have a sustainable and solid financial system. The transformation of a system in which even staff payments, which occupy a large place in the current budget expenses in the country, are largely made as cash in hand, will be difficult and time-consuming. In this respect, it is essential to bring the deposit and credit system, which forms the basis of the financial system, to a sustainable structure as the priority target. Attracting foreign direct investment to the country within the scope of privatization items will be possible with a functioning financial system setup. Efforts to spread the banking habit in the country should be the first field of study.

One of the important policy recommendations in the report is to improve the factors that cause a decrease in productivity in the country. The necessity of implementing policies to increase the productivity and employment level in the country was emphasized. The productivity data for 2018 remained below the productivity levels of the country in the 1970s. As mentioned before, the first way to overcome this is to reduce the density of the public sector in the economic structure, to

develop the commercial commodities sector, to spread the concession and subsidy practices that pave the way for the private sector, and to make the non-competitive Iraqi dinar more competitive, especially the agricultural and industrial sectors should be revived. Here, it would be appropriate to emphasize the phenomenon of devaluation in possible future exchange rates.

In conclusion, the necessity of protecting the deprived segments of society during and after the implementation of the reforms was put forward in the report. Providing social protection to the deprived segments of the society is possible by increasing education, health, and social security investments. It is doubtful to what extent the country's economy, which is currently struggling with the problem of large budget deficits, will handle the new expenditures. It is considered that the most urgent needs of the country are the establishment of a comprehensive social security system, the protection of the deprived segments of society by fully providing education and health services, and the directing of scarce resources to these segments during the difficult transition period. However, especially if the young population is not employed via solving the youth unemployment problem, these items will create extra and severe burdens on the state budget in the long-term. The inclusion of young people, who have recently been at the forefront of social events, into production with a well-designed education system to catch up with the modern age will give hope to the future by providing great value-added to the country's economy.

Evaluation of the Report

It is observed that foreign support is not sought for the financing of the solution proposals included in the report. In particular, there is no IMF or similar external support.

However, with the current structure of the Iraqi economy, it seems unlikely that these policies will be implemented without external economic and/or political support. Additionally, the support of international institutions such as the IMF is also important for the reliability and success of the policy for other investors. However, for Iraq, which cannot attract foreign direct investment under current conditions, it does not seem possible for international organizations to invest.

While the necessity of reducing public employment and related expenditures is clearly stated, it is also stated that measures will be taken in this direction. When the past experiences of Iraq are examined, it can be thought that this policy will delay salary payments or increase the possibility that no salary payments will be made. On the other hand, it seems unlikely to implement it in order to reduce public employment significantly. It does not seem possible for Iraq to get out of this economic issue permanently without increasing the employment of the private sector.

The report also mentions that the program to be implemented will depend on a serious decrease in the exchange rate (devaluation) and central bank resources (inflation). Devaluation is inevitable even if a program is not implemented to get out of the economic crisis in Iraq. However, it can be said that, even if high inflation occurs, it will not be permanent. In addition, the report puts forward the necessity of collecting unpaid electricity bills, which amount to \$10 billion annually. This is a must for the future of the country's economy. However, in an environment where political stability is weak, it will not be easy to take the necessary steps in this direction.

Even if measures to increase oil revenues are mentioned in the report, this does not seem realistic due to low oil prices. Because,



Public officials in Sulaymaniyah, Iraq, staged a demonstration, demanding payment of their salaries.

in such a conjuncture, it will not be possible to increase oil export revenues at the desired amount by increasing production. On the other hand, while talking about the importance of fiscal tightening measures, mentioning populist policies such as establishing nuclear power plants, encouraging the import of electric vehicles, and gathering schools under one umbrella may question the seriousness of the program. The applicability of these items of the program does not seem realistic without external support.

As a result, in Iraq, the government's budget deficit, caused by extremely high public employment, has reached an unbearable level. The ongoing low oil prices has made the situation unsolvable. The idea of arranging their 2021 budget plans according to the price of 45 dollars per barrel can be seen as an effort to take precautions against potential crises. While a series of policy recommendations are presented with the mentioned report to overcome the crisis, it is striking that the proposed policies do not have integrity. At the same time, considering the current conjunc-

tural structure and social habits of the country, it can be seen that policy suggestions are far from reality and cogency.

Based on the results of the report and the evaluation of these results, it can be seen that the report has various risks and opportunities in terms of Turkey and the integrity of Iraq. In particular, the current economic structure, becoming more fragile during the aforementioned twin shocks, causes the country's economy to become unmanageable. It can be said that this financial picture, which is unnerving the integrity of the country, can be expected to result in many events.

It is a matter of survival for the country to take the measures mentioned in this economic picture, which is thought to accelerate the KRG's recent independence efforts. However, another point that should be mentioned here is that the KRG does not have a self-sufficient financial system yet, and at least the capacity to execute its own financial and monetary policy, which is the main condition for independence, reduces the chances of success in independence initiatives.

On the other hand, agriculture and tourism seem to be the sectors that can be prioritized to compensate for declining oil revenues. A possible devaluation may create an advantage in terms of paving the way for the sectors that will provide foreign exchange receipts. In this way, it will be possible to contribute to the financing of policies that will be implemented in achieving the goals set out in the report. However, it can be said that in the country where the current political and economic instability continues, it will not be easy to achieve the goals set in the report, on the contrary, the country is expected to experience deeper political crises.

THE RECENT STATE OF ECONOMIC RELATIONS BETWEEN TURKEY AND IRAQ AND THE FUTURE PROVISION



President Recep Tayyip Erdogan welcoming Iraqi Prime Minister Mustafa al-Kadhimi at an official ceremony at the Presidential Complex

Although Turkey's exports in 2020 have been suffered from the global epidemic, its exports have increased along with domestic production, recovering rapidly from the second half of the year. In particular, Turkey's exports have reached record levels monthly

from September 2020 until the end of the year. Turkey's exports to Iraq, on the other hand, have dropped more sharply than its total exports since the Iraqi economy is structurally affected more negatively by the epidemic and other factors.

Table 3: Turkey's Exports in 2019 and 2020

Rank	Exporting countries	2019 (Million \$)	2020 (Million \$)	Balance
1	Germany	16.617	15.977	-3,85%
2	England	11.279	11.242	-0,33%
3	USA	8.971	10.186	13,54%
4	Iraq	10.223	9.136	-10,63%
5	Italy	9.753	8.078	-17,17%
6	Other countries	123.990	114.895	-7,34%
	Total	180.833	169.514	-6,26%

Source: Republic of Turkey, Ministry of Trade

During Al-Kadhimi's visit to Turkey on December 17, under the economic chapter, increasing mutual trade volume, elimination of double taxation, the opening of the Habur - Ibrahim Al-Khalil Border Gate, which is of great importance to developing trade, as well as the opening of the Ovaköy Border Gate, the railway project to extend to the Persian Gulf, and increasing Turkish investments in Iraq have been discussed in the meeting.

From Turkey's point of view, the economic situation of Iraq, one of the Turkey's largest trade partners in the region, is of great importance. Due to the epidemic, Turkey's total exports in 2020 fell by 6.26%, while its exports to Iraq fell by 10.63% and Iraq, which ranked the 3rd in 2019 on the country list which Turkey exports the most, ranks the 4th place in 2020 (Table 3).

The decline in the trade volume between Turkey and Iraq will increase again in direct proportion to the recovery of the global economy. However, when the two countries' administrations understood that turning this period into an opportunity, to take steps to improve trade and economic cooperation has been added to agenda. This issue was one of the main topics of Iraqi Prime Minister Mustafa al-Kadhimi's visit to Turkey in December.³¹ Accelerating the steps to be taken towards the realization of the investments and development projects that Turkey can make in Iraq has been decided.

The Economy During Al-Kadhimi's Visit to Ankara

During Al-Kadhimi's visit to Turkey on December 17, under the economic chapter, increasing mutual trade volume, elimination of double taxation, the opening of the Habur - Ibrahim

Al-Khalil Border Gate, which is of great importance to developing trade, as well as the opening of the Ovaköy Border Gate, the railway project to extend to the Persian Gulf, and increasing Turkish investments in Iraq have been discussed in the meeting. It was decided to increase the effectiveness of the Joint Economic Committee led by the oil and energy ministers of the countries and the High-Level Strategic Cooperation Council between the two countries to achieve the goals established as a result of the negotiations on these issues. In addition, al-Kadhimi met with Turkish businessmen and investors and held one-on-one meetings to offer state guarantees for companies to provide the appropriate environment for operating in Iraq.

Iraq's Restructuring Necessities

Within the scope of reconstruction, Iraq has many needs such as schools, hospitals, roads, dwellings, and administrative buildings. According to the report published by the Republic of Iraq - Ministry of Planning in 2019, it was stated that the financial resource needed for the restructuring of the country was 100 billion dollars.³² Therefore, in Iraq, where needs and costs are high, export and job opportunities are quite high for many

³¹ Ali Jawad, "Iraqi PM to discuss security, economy on Turkey visit", AA, December 13, 2020.

³² Ahmed Aboulenein, "Iraq seeks \$100 billion to reconstruct transport, agriculture and oil sectors", Reuters, February 9, 2020.

Turkish companies from different sectors. At the same time, Turkey committed to a loan of 5 billion dollars for the restructure of rail systems and highways from the northern side to the south of the country in the reconstruction of Iraq at the Kuwait conference held in 2019.³³ Within the scope of this commitment, providing loans for Turkish companies to be used in investment and commercial transactions for projects they will undertake in Iraq is planned. After the Iraqi Prime Minister al-Kadhimi visited Turkey this month, he stated in his country that Turkey confirmed its readiness to support Iraq, under commitment.

The 710-kilometers part of the Toprakkale-Çobanbey-Habur-Mosul-Baghdad-Basra Railway Project, which is carried out by the Ministry of Transport General Directorate of Railways and Ports and Airports Construction (DLH) General Directorate together with the Iraqi authorities, is located within the borders of Turkey. Within the scope of the project, a new railway between Toprakkale-Kilis-Çobanbey and Nusaybin-Cizre-Silopi-Habur will be laid and the existing railway between Çobanbey and Nusaybin will be rehabilitated. Under this project, the Iraqi government will lay a new line of approximately 160 kilometers between Habur -Zaho-Duhok-Mosul and rehabilitate the railway between Mosul-Kirkuk-Baghdad. It will also add connection to the existing railway between Baghdad and the Persian Gulf. According to the last stage of the project, the projects of the Toprakkale-Kilis-Çobanbey route have been completed by DHL, and the Nusaybin-Cizre-Silopi-Habur route projects are being prepared. DLH General Directorate is waiting for the Iraqi government to complete the projects of the railway planned to be built between Habur-Zaho-Duhok-Mosul to submit a tender of construction on the To-

prakkale-Kilis-Çobanbey route. It was stated that the Persian Gulf Project was accelerated during al-Kadhimi's visit to Ankara.

The biggest step of the project is the connecting of the Al-Faw Port situated on the Persian Gulf to Turkey. It is estimated that when the project is completed freight shipment will be carried out mainly by the railway which connects the Persian Gulf to the ports in Turkey and Europe. Currently, loads transported by ships from the Persian Gulf to the Mediterranean which take a long time will be delivered to Europe via Turkey or to the Mediterranean with lower prices and in less time by completing the railway.

As a result of the steps taken to develop the railway line between the two countries, the first train service between Gaziantep and Mosul in February 2010 started with the arrival of the passenger train departing from Mosul to the Nusaybin district of Mardin.³⁴ This important step contributed to the strengthening of the ties between the two countries and also strengthening of the existing social and economic relations. In a statement made in September, the Governor of Mosul stated that with the support of Turkish companies, a new modern rail line will be started to be laid between the two countries.³⁵ The new rail line, which will be built towards Mosul city center and the Turkish border, will also have benefits for reducing the density at the land border gate. Besides, Turkey attaches importance to especially the construction of the airport and the third and fifth bridges in Mosul.

Both governments, agreed on the development of trade between the two countries, should first ensure that the Ovaköy Border Gate, an alternative to the active highway

³³ "Turkey to provide \$5B loan to Iraq: FM", AA, February 3, 2019.

³⁴ "Türkiye-Irak Seferleri Başladı", UTİKAD, February 24, 2010.

³⁵ İdris Okuduci, "Musul ve Türkiye arasında demiryolu inşa edilecek", AA, September 20, 2020.

Habur Border Gate, will rapidly become operational. In addition to the trade volume advantage of this gate, it will be valuable in contributing to the development and facilitation of commercial activities in Iraq's domestic lines by spreading across the country. Also, Turkey will contribute to reducing logistics costs and improving its trade by facilitating its access to the South Asian market via the Persian Gulf. It will also be possible for this border gate which will be a direct gateway from Turkey to Mosul, to contribute to the increase of the Iraqi Turkmen's weight in commercial activities and their development.

Turkey's Possible Investments

A total of \$ 30 billion in loans and grants was committed at the conference held in Kuwait for Iraq's \$ 100 billion reconstruction cost.³⁶ As a result of this conference, in which Turkey also committed a loan, Iraq started its project by accelerating the restructuring process. However, there have been delays due to several reasons, both the internal instability of the country and the epidemic. The al-Kadhimi government, on the other hand, has decided to start these projects quickly and started to implement them.

The Iraqi government will submit tenders for completing the Ovaköy Border Gate, constructing a highway and railway between Ovaköy and Baghdad, establishing the Mosul airport and industrial zone, developing the water infrastructure projects, and realization of the project for the expansion of Basra Airport, within the context of Turkey's 5 billion dollar loan commitment. Companies that win

tenders will be financed by loans and carry out projects within the scope of Turkey's commitment. Especially the initiation of the reconstruction process of Mosul is important in terms of restoring the symbolic structures of the city, protecting and preserving the historical assets in the region, and the existence of Turkish identity. Also, Turkey can ensure rapid action by establishing institutions, organizations, and supervisory-regulatory structures in cooperation with international organizations for the efficient use of grants and loans to Iraq and also by managing the process in the position of a guarantor. In this way, Turkey will offer Iraq and its people the most important added value that can be given for the reconstruction and stability of Iraq.

Turkey will play an active role in the region with its knowledge and experience if necessary stability is achieved and favorable conditions are established in solving the deficiencies and problems in electricity, water, drinking water, infrastructure, and health services, which are among the biggest problems of Iraq. Turkish companies are also closely following the right time to capture the potential in the region. In terms of the banking system, the country also has almost no infrastructure. By taking an active role, Turkey will be able to ensure the creation of a solid infrastructure in the reforms to be made in the banking sector and the financial system of Iraq and in the establishment and expansion of the national and international electronic money network. In this way, this will both make Iraq reliable and facilitate the process in the realization of Iraq's trade and payments with Turkey and other countries.

³⁶ Maher Chmaytelli and Ahmed Hagagy, "Allies promise Iraq \$30 billion, falling short of Baghdad's appeal", Reuters, February 14, 2018.



At the Habur Border Crossing, important measures are being taken upon the instructions of the Ministry of Trade to continue exports to Iraq.

CONCLUSION

The Iraqi economy has performed below its potential due to internal instability, political conflicts, occupations, and regional instabilities that have started since the war in 2003. The high fragility of the country's economy due to its structure based solely on oil revenues has led it to rank first among the countries most affected by the global epidemic that began in 2020 and the decline in oil barrel prices. Iraq, which is the second-largest producer of OPEC, has been the third-largest country experiencing an economic contraction in the Arab world following Lebanon, devastated by the explosion in the port of Beirut, and Libya, devastated by the ongoing civil war, in the Middle East and North Africa region. With the start of budget negotiations towards the end of 2020, the Iraqi government decided to carry out economic reforms despite social reactions. The effects, sustainability, and success of the decisions are controversial. However, developments that will enable the Iraqi economy to overcome its existential crisis in the short-term will be the normalization of the global economic course by reducing the im-

pact of the epidemic and the increase in oil prices.

It is important that both governments, which agree on the development of economic relations between Iraq and Turkey, should quickly take steps in this direction. Iraq needs reconstruction and development projects. It is a great advantage for Iraq that Turkey, which is dominant in the region and has a common cultural and historical background, and its companies with practical references are capable of doing these projects. Turkey's proactive role in the development and implementation of these projects will ensure the spread of development throughout Iraq and Iraq's regional strength.

From the point of Turkey, reaching the Persian Gulf via highway and railway that it will build and ensure security is strategically important in order to increase its political and economic influence in the region. While Turkey has more than 370 kilometers of border gates with Iraq but only two border gates which are Habur and Üzümlü, the mere fact

that Iran has 1450 kilometers of borderline with Iraq and also nine border gates create politically, economically, and socially disadvantageous situation. Moreover, both of Turkey's existing border gates open to the KRG region. For this reason, the opening of the Ovaköy border gate has great importance for

Turkey, the Iraqi central administration, and the Turkmen in the region. Also, the financial system, which will be established in the country under the leadership of Turkey, will make a significant contribution to the safe realization of financial transactions such as payment, receipt, assurance.

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