

CITIZEN'S BUDGET *of* IRAQ



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Why a Citizen Budget?

The Ministry of Finance has prepared the country's first citizen budget document for 2018 to strengthen its commitment toward furthering budget transparency, helping to raise public awareness about the federal budget process. This document is a simplified version of the Iraqi Federal Budget Law. It aims to explain how the budget is prepared, illustrating the spending priorities and economic and social programs that the government will implement to improve the well-being of its citizens. The document presents information about government revenues and expenditures planned for all sectors (including health, education, social welfare, security, defense, and so on) for the current and previous years.

What you should know about the budget

The 2018 budget

introduces new non-oil revenue measures to improve the government's fiscal outlook. These measures support the government's priority spending for social safety nets for the most vulnerable, as well as for improving access to basic services (health, education, electricity, and transport).

In addition, the 2018 budget features investment expenditure for reconstruction — including increased electricity production — in areas liberated from the Islamic State of Iraq and Syria (ISIS).

Iraq is slowly emerging from the deep economic difficulties of the last three years caused by low global crude oil prices and the fight against ISIS. Declining oil prices in 2015 and 2016 meant that the government had lower revenues than in previous years to deal with heavy losses incurred during the ISIS insurgency, which required high levels of spending on humanitarian relief and security.

This situation resulted in an increase in the government's budget deficit for 2015-2017.

To finance these deficits, the Iraqi government increased its domestic and external public debt, which doubled from 30 to 60 percent of gross domestic product (GDP) from 2014 to 2016.

In 2017, the fiscal deficit — which occurs when a government’s total expenditures exceed its revenues — improved thanks to higher oil prices, increases in non-oil revenues, and government expenditure limits on wages, pensions and transfers. In fact, the improved security situation and the initial reconstruction effort saw non-oil growth reach 4.4 percent in 2017, driven by construction and services, and higher private consumption and investments. However, overall growth turned negative at 0.8 percent in 2017, in part due to a 3.5 percent reduction in oil production. The reduction was made to comply with the Organization of the Petroleum-Exporting Countries (OPEC)+ agreement to cut oil production until the end of 2018.

In 2018, Iraq’s overall economic growth outlook is expected to improve due to increasing oil production, a more favorable security environment, and a gradual increase in investments in reconstruction and economic recovery. Growth is expected to return to positive territory at 2.5 percent in 2018, and to further accelerate to 4.1 percent in 2019. With the maintenance of the exchange rate peg, average inflation — the rate at which the general level of prices for goods and services rises — is expected to remain at 2 percent over the projected period.

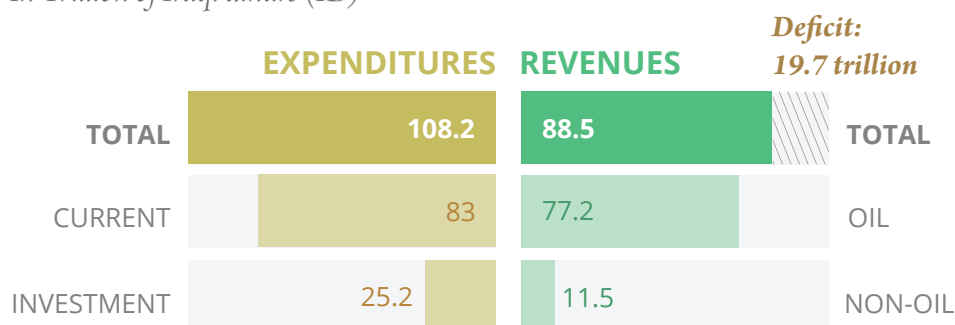
Iraq’s oil prices increased to an average of US\$48.7 in 2017, after decreasing dramatically from an annual average of US\$96.5 per barrel in 2014 to US\$35.6 in 2016.

The overall reconstruction and recovery needs are estimated at ID 104.2 trillion (US\$88.2 billion), with ID 27 trillion (US\$22.9 billion) needed in the short term (2018–19) and ID 77.2 trillion (US\$65.3 billion) needed for the medium term.

Source: World Bank. 2018. Iraq - Reconstruction and Investment: Volume Two - Damage and Needs Assessment of Affected Governorates (English). Washington, D.C.

The overall fiscal deficit expected for 2018 will be contained at ID 19.7 trillion, with planned revenues expected to reach ID 91.6 trillion, and spending expected to exceed ID108 trillion.

In Trillion of Iraqi dinars (ID)

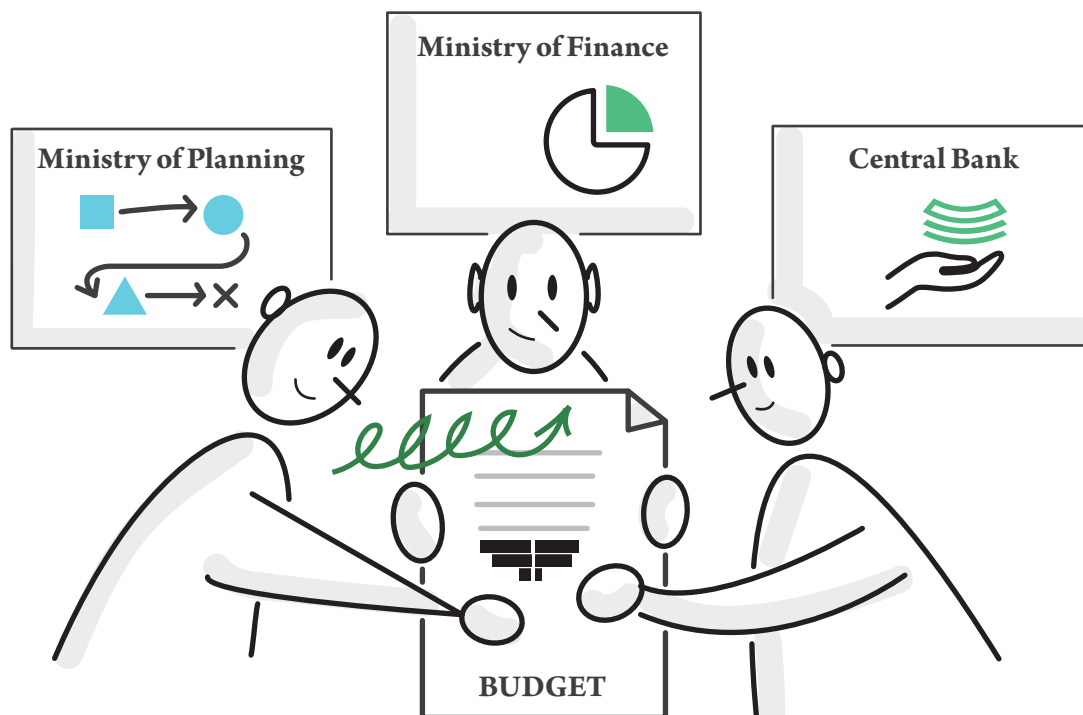


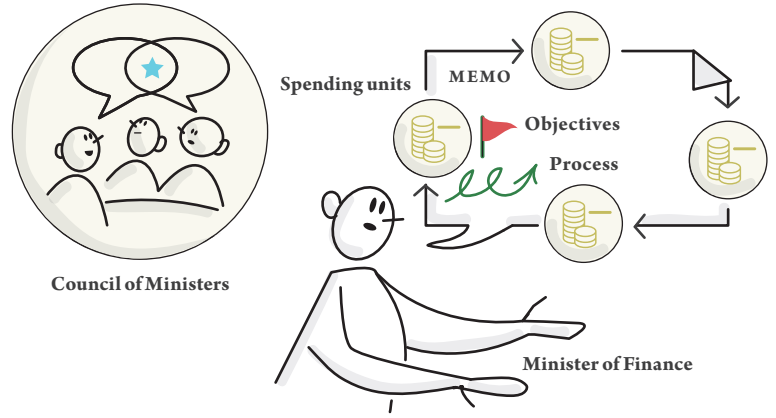
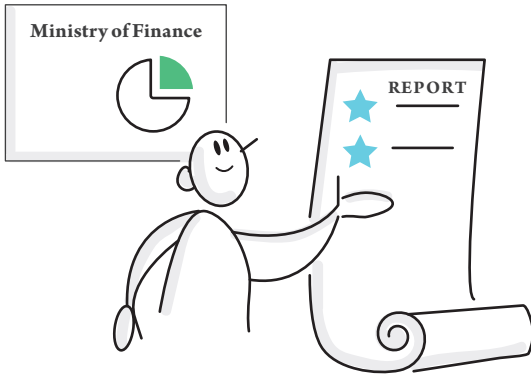
What is the Iraqi Federal Budget?

The Federal Budget Law of Iraq is the federal government's plan for a given fiscal year (January 1st – December 31st) in which it explains what policies and priorities it aims to achieve, keeping in line with its medium-term budget strategy. The Federal Budget Law is adopted and published annually and indicates the revenues (oil and non-oil) that the government plans to generate and collect, as well as its plans to spend the money on priority sectors (health, education, social welfare, security, defense, and so on). Any government deficit that may occur may be covered through government borrowing. For example, the government may borrow money to implement priority programs and strategic projects.

Calendar and preparation process

The budget preparation process is an important task carried out by the Ministry of Finance in cooperation with the Ministry of Planning, the Central Bank and other line ministries.

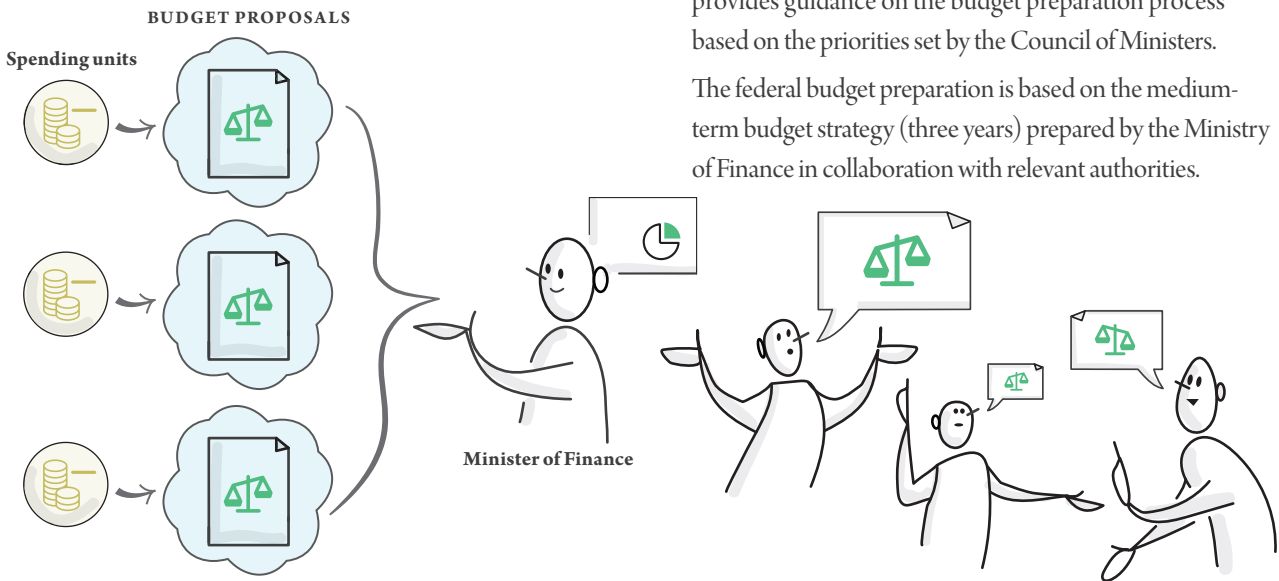




1 The process begins in **May** of each year with the issuance of a report prepared by the Ministry of Finance on fiscal policy priorities for the upcoming year.

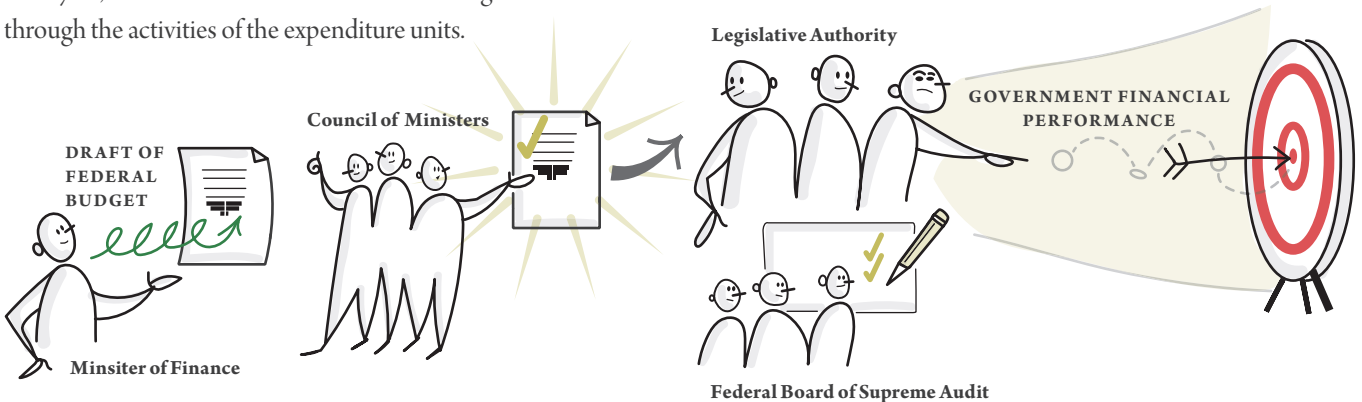
2 In **June** of each year, the Minister of Finance circulates internal memoranda to spending units in which it specifies the objectives of the government's fiscal policies and provides guidance on the budget preparation process based on the priorities set by the Council of Ministers.

The federal budget preparation is based on the medium-term budget strategy (three years) prepared by the Ministry of Finance in collaboration with relevant authorities.



3 In **July** of each year, each spending unit submits a budget proposal to the Minister of Finance. The proposal would include an estimate of expenditures for the given fiscal year, as well as an estimate of the revenues generated through the activities of the expenditure units.

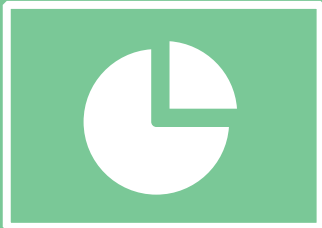
4 The proposal of each spending unit is discussed in **August** of each year according to a timetable which concludes at the beginning of September.



5 In **September** of each year, the Minister of Finance prepares a draft of the federal budget and submits it to the Council of Ministers for approval. The Council of Ministers then submits the draft to the legislative authority in **October** of the same year. According to Article (59) of the Iraqi Constitution of 2005: "The Council of Ministers shall submit the draft budget law to Parliament for approval."

6 The Legislative Authority and the Federal Board of Supreme Audit are responsible for monitoring the government's financial performance.

Understanding the Iraq Federal Budget for 2018



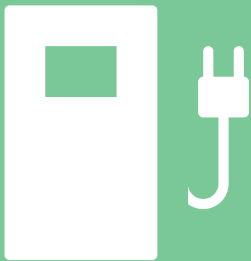
ID 1.5 Trillion

will be spent on financing the **ration card**
(public distribution system).



ID 1.52 Trillion

will be spent on financing **wheat subsidies**.



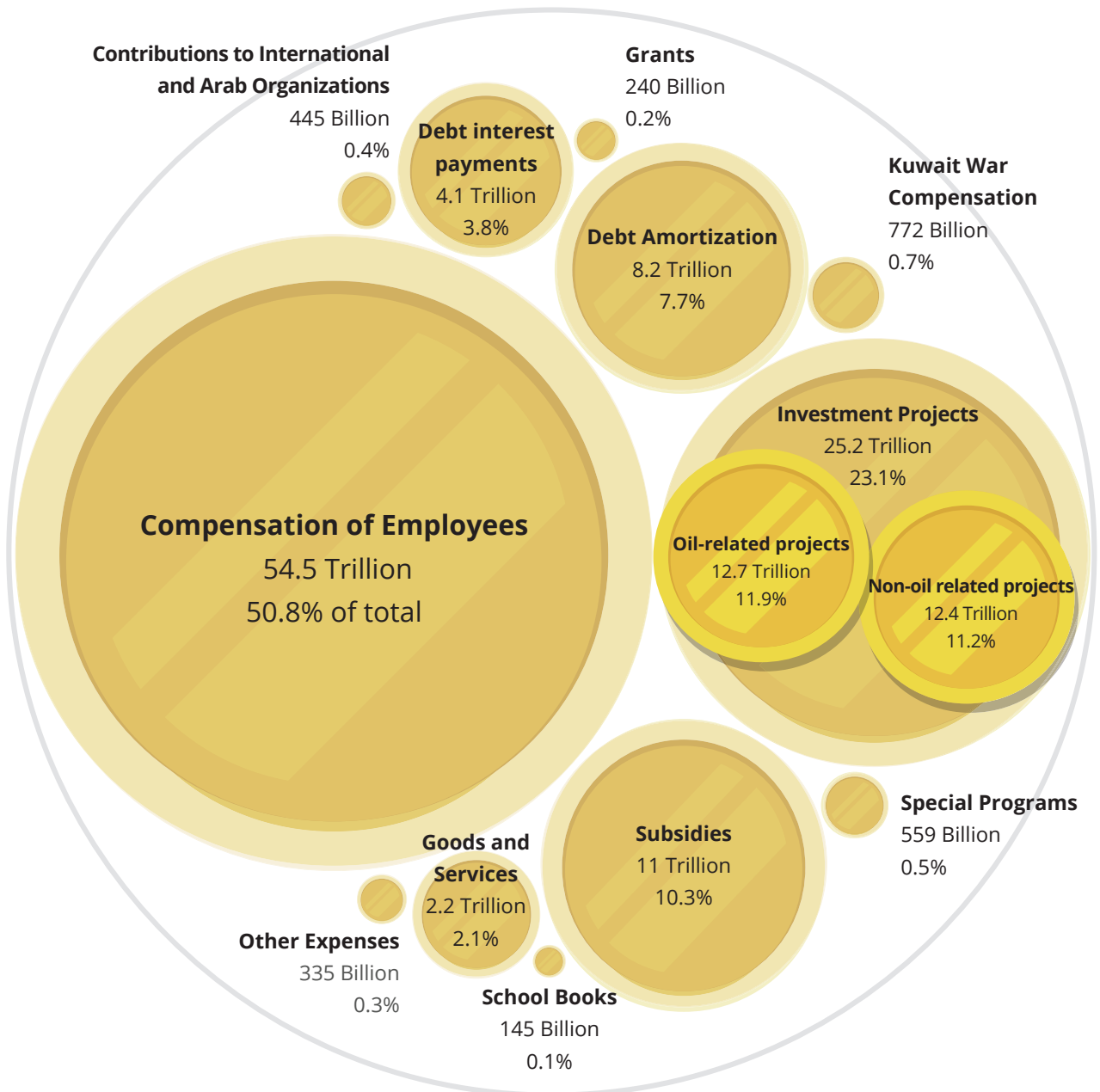
ID 1.3 Trillion

will be spent on **importing fuel and energy**.



ID 900 Billion

will be spent on financing **purchases of medicines**,
excluding other medical expenses.



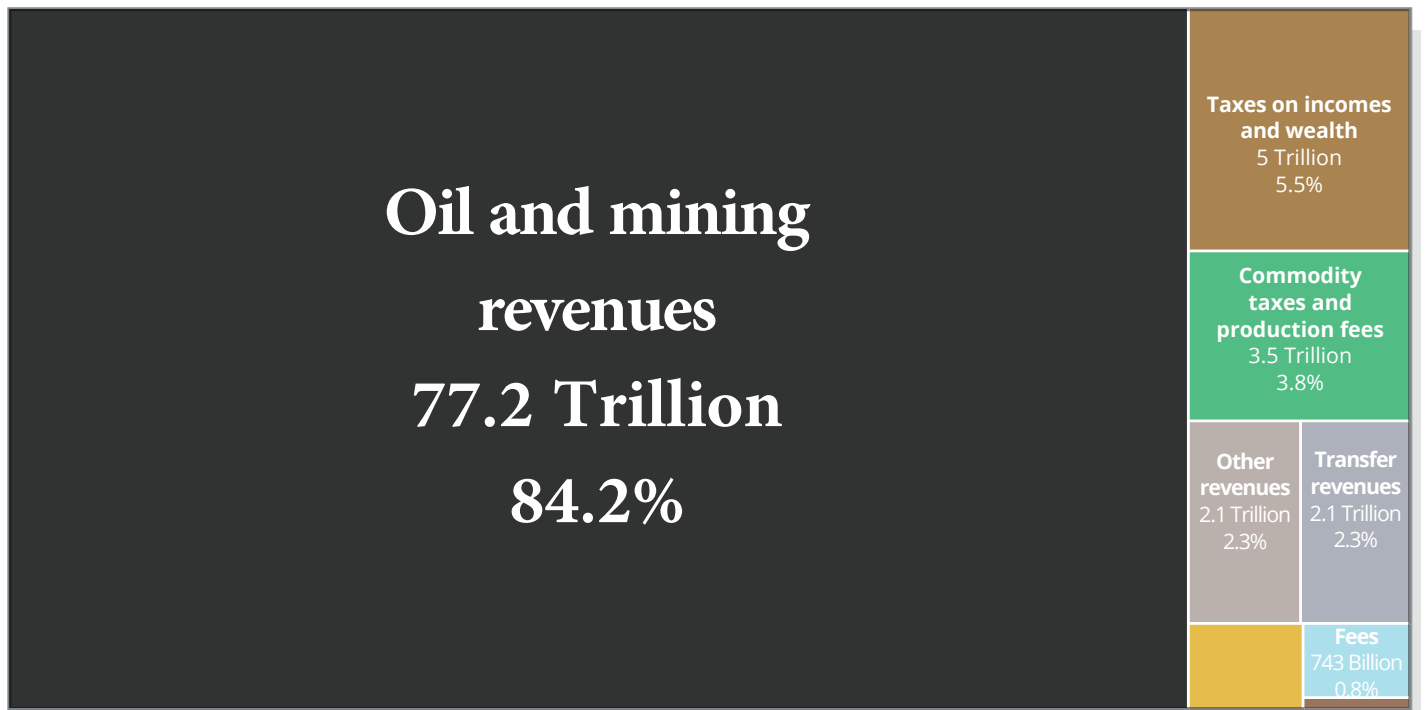
How will public money be spent in 2018?

Expenditures are expected to increase by 7.4 percent to ID 108.2 trillion compared to ID 100.7 trillion in 2017.

What is the source of public money?

The global increase in oil prices, as well as an expected increase in oil exports, are expected to have a positive impact on government revenues.

Revenues are expected to increase by 6 percent to ID 88.5 trillion, lifted by both higher oil and non-oil revenues.

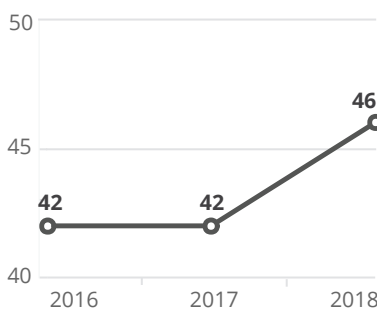


Budget's share from public sector profits Capital
927 Billion 121 Billion
1% 0.1%

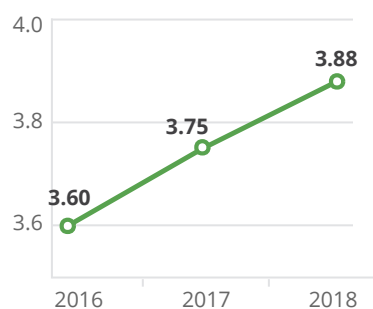
The year 2018 will witness an increase in oil revenues

The revenues from oil exports were calculated based on an average price of USD 46 per barrel and a rate of export of 3.88 million barrels per day. These are based on an exchange rate of 1,182 ID to USD for the year 2018.

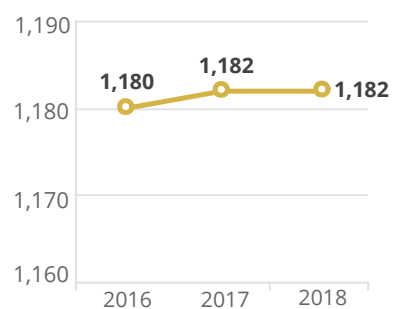
Price of oil per barrel



Average export rate



Exchange Rate ID/US Price of oil per barrel



New tax measures will be introduced in 2018 to improve non-oil revenues



20%

A 20 percent sales tax will remain on mobile phone cards and internet networks.



10%

A 10 percent sales tax on restaurants and hotels in accordance with the provisions of the dissolved Revolutionary Command Council Resolution No. 36 of 1997.



5%

A 5 percent sales tax for all goods sold, except ration card items, in malls and shopping centers and on services performed in the men's and women's hair salons.



ID 25,000

An airport tax of ID 25,000 per ticket for foreign travel and ID 10,000 per ticket for domestic travel shall be imposed at all Iraqi airports.



30%

A 30 percent tax on imported alcoholic beverages and cigarettes is levied on the value of the imported goods at the border port. Fines are levied at 200 percent.



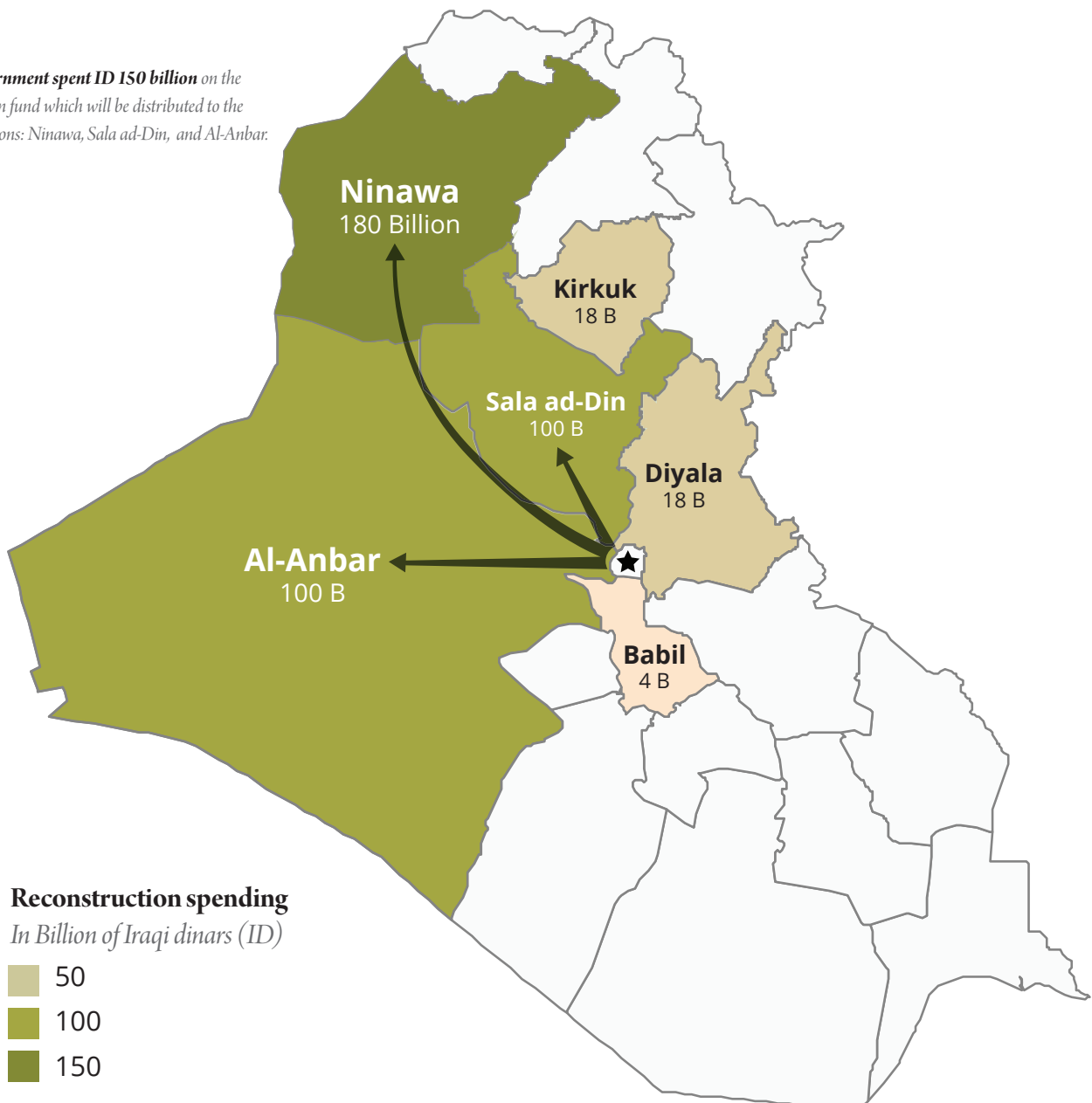
25%

A 25 percent tax on sweets, ice cream, dairy products, juices and imported carbonated beverages is levied on the value of the imported goods at the border port.

Did you know?

To support stabilization efforts and reconstruction of infrastructure in governorates and areas previously subjected to the control of ISIS terrorists, the government spent ID 150 billion on the reconstruction fund, executed a number of sector projects in these areas, and secured a number of stabilization and reconstruction loans from international organizations and partners such as the World Bank, German Government, and others. In addition, the government will be providing ID 420 billion to be spent directly in support stabilization and the reconstruction of infrastructure in these areas, and distributed as follows:

★ *The government spent ID 150 billion on the reconstruction fund which will be distributed to the following regions: Ninawa, Sala ad-Din, and Al-Anbar.*



● **The state-owned banks shall grant loans to citizens whose homes have been demolished or damaged under ISIS control of their areas or as a result of military operations.**

- Loans will have a maturity of **ten years**.
- The Ministry of Finance bears the interest for the first **five years**.
- The beneficiary bears interest on the loan in the case of not paying after the **fifth year**
- Detailed instructions issued by the Ministry of Finance.

● The Ministry of Housing and Municipalities shall **allocate lands** to the martyrs' families, political prisoners and wounded persons of the security forces and the popular mobilization forces in good areas or disburse a cash allowance for the value of the land, according to the laws in force.

● The **deduction rate** (3.8%) from salaries and allowances for public sector employees and all retirees will be **cancelled**. The equivalent amount will be deducted from the increase in the price of crude oil exports.

● **Nominal salaries** owed to employees in provinces and areas that were under terrorist control will be paid by the government in **lump sum**.

● **New staff grades** will be assigned to those who have been issued with correct decisions by the inquiry committee led by the Department of Political Dismissals Affairs of the Secretariat of the Council of Ministers.

● **Staffing and promotion decisions** will be applied in line with the approval from the ministry of finance to activate all civil service staffing and promotion decisions through 2016.

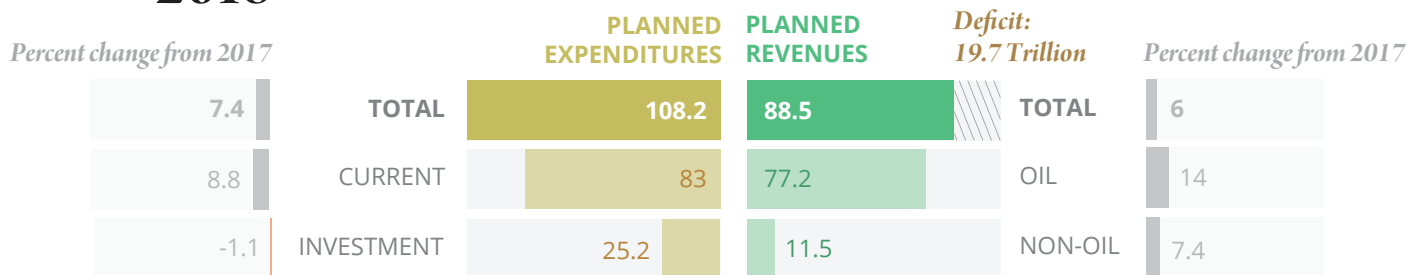
● Salary allowances of members of the Bureau of the Speaker of the Parliament, Members of Parliament, and special grade employees will be **reduced** by 50, 45, and 40 percent, respectively; this is in line with the Council of Ministers Resolution No. 282 of the year 2015.

Planned budget deficit in 2018 and 2017

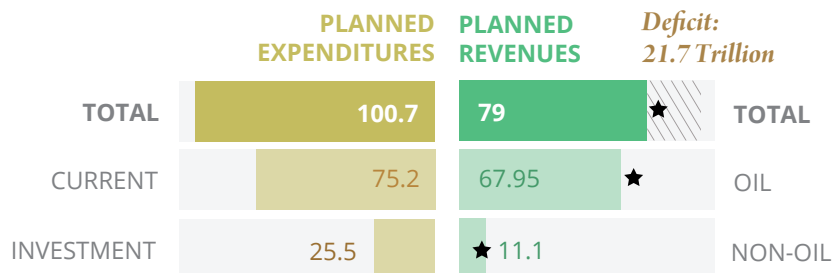
The **government budget deficit** is the difference between the money that the government has and what it will spend during a given year.

Revenues and expenditures, 2018 vs 2017

2018



2017



★ Actual revenues in 2017

Total: 83.3

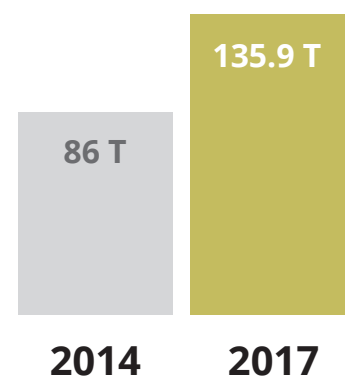
Oil: 72.6

Non-oil: 10.7

How will the government finance the budget deficit in 2018?

The increase in the federal budget deficit for the years 2014—2017 resulted in the government needing to borrow from various foreign and domestic financial sources. As a consequence, the public debt in Iraq grew from **ID 86 trillion** for 2014 to **ID 135.9 trillion** for 2017.

Public debt



The total projected deficit for the federal budget for fiscal year 2018 amounts to ID 19.7 trillion.

This amount will be mainly covered by:



External loans for investment projects 5.5 Trillion

In 2018, twenty-two (22) government departments and agencies will benefit from foreign loans in the total amount of ID 5.52 trillion to finance investment projects.



Domestic and foreign borrowing 7 Trillion

Domestic and foreign borrowing will be reimbursed by the government. To cover the budget deficit in 2018, the government will borrow ID 6.83 trillion.

Of which:

**Foreign budget support
4.9 Trillion**

**Domestic financing
2.1 Trillion**

The remaining amount will be financed from the surplus generated by changes in the oil prices.

Budget allocation by sector in Iraqi Dinar

Top five greatest increases, 2018 vs 2017



+4.7 Trillion

International and domestic debt



+3.7 Trillion

Energy



+652 Billion

Ministry of Education and Culture



+501.5 Billion

Health

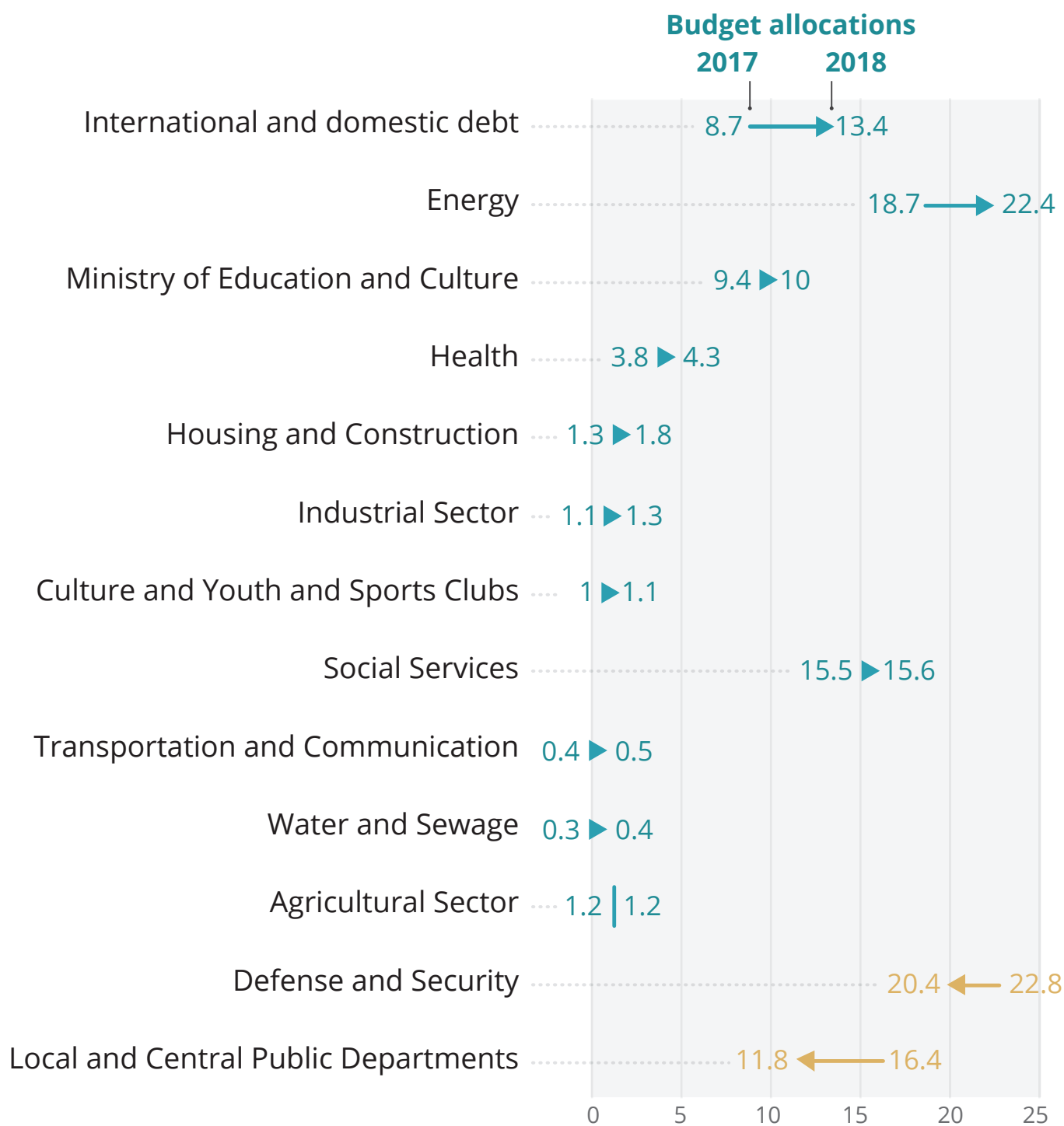


+500.7 Billion

Housing and Construction

Differences in allocations by sector, 2018 vs 2017

In Trillion of Iraqi dinars (ID)



Budget allocation for Governorates in 2018



The government will allocate **ID 16 trillion, 15% of the total budget**, to be spent by governorates across the country.

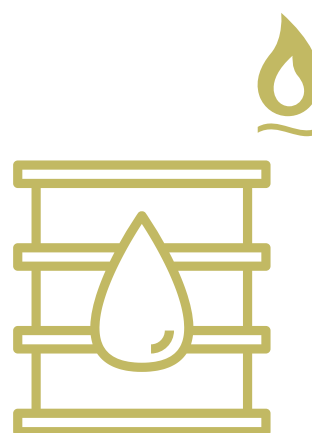
In addition, governorates will benefit from:

ID 400 billion that will be allocated for reconstruction and development projects in all governorates based on population, out of the total investment expenditures planned for 2018.



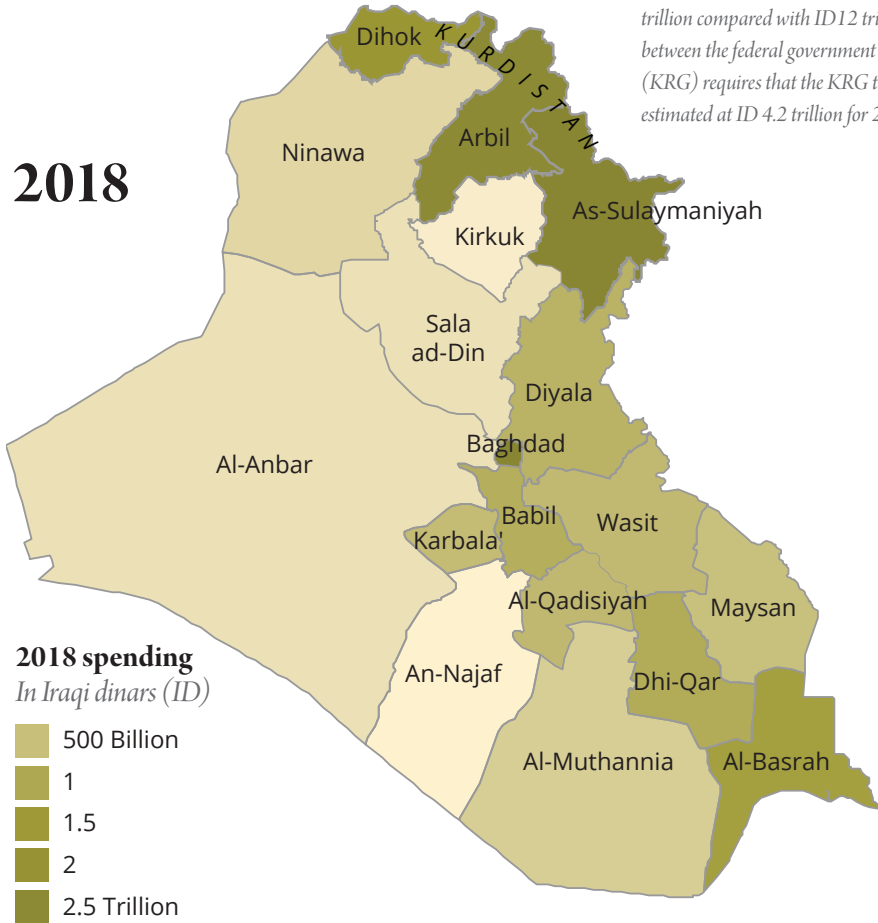
ID 400 billion that will be allocated to oil and gas producing and refining governorates for priority projects to mitigate impacts of oil and gas production and refining, including **environmental protection and preservation**, out of total investment expenditure allocations planned for 2018.

In oil and gas producing and refining governorates, each governorate will be allocated funds calculated as either (i) 5% of revenues generated from crude oil produced in a governorate, or (ii) 5 percent of revenues generated from crude oil refined in a governorate's refineries, or (iii) 5 percent of revenues from natural gas produced in a governorate.



The 2018 federal budget includes transfers to KRG expected to reach ID6.6 trillion compared with ID12 trillion in 2017. The agreement reached between the federal government and the Kurdistan Regional Government (KRG) requires that the KRG transfers the entirety of its oil export receipts, estimated at ID 4.2 trillion for 2018, to the federal government.

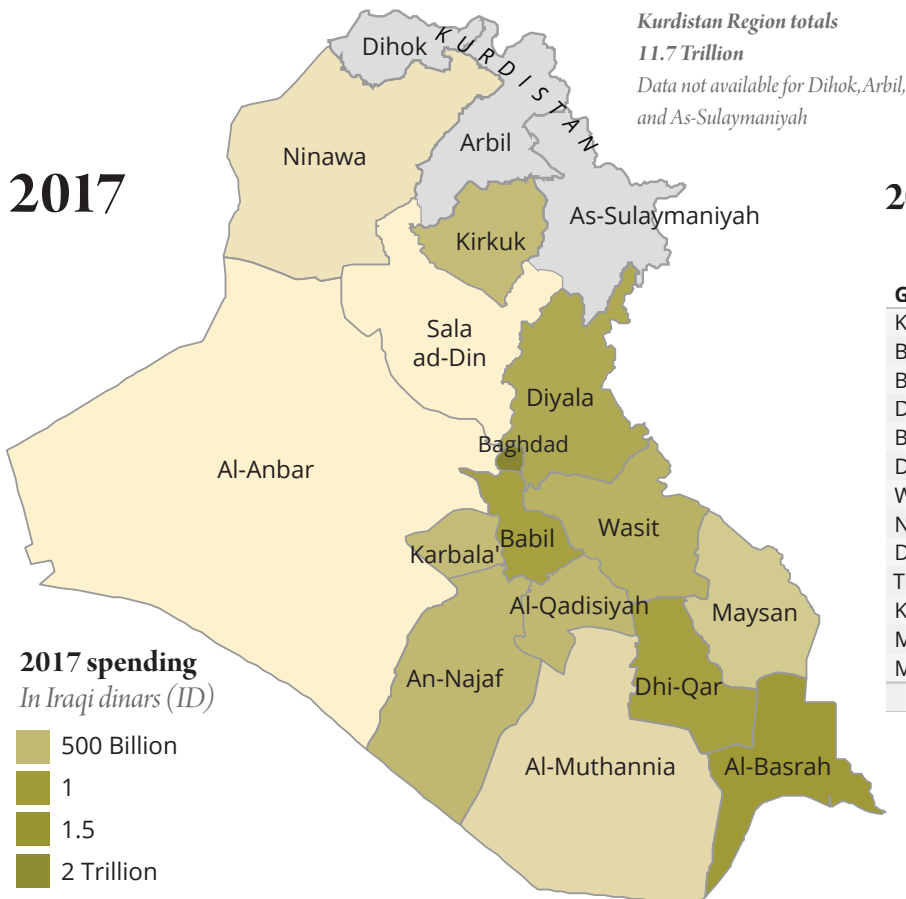
2018



2018 spending breakdown

| Governorate | Percent of spending in investments | |
|--------------------------|------------------------------------|----------------------|
| | 4% | 30% |
| Kurdistan Region* | 21% | 6.6 Trillion |
| Baghdad province | 7% | 2.74 T |
| *As-Sulaymaniyah | 19% | 2.69 T |
| *Arbil | 22% | 2.50 T |
| *Dihok | 19% | 1.65 T |
| Basra Province | 30% | 1.23 T |
| Dhi Qar province | 9% | 909 Billion |
| Babil province | 7% | 853 B |
| Diyala province | 4% | 721 B |
| Najaf Province | 7% | 602 B |
| Diwaniya province | 7% | 575 B |
| Wasit province | 13% | 569 B |
| The holy city of Karbala | 8% | 544 B |
| Maysan province | 22% | 476 B |
| Muthanna province | 6% | 276 B |
| Grand Total | | 22.9 Trillion |

2017



Kurdistan Region totals
11.7 Trillion
Data not available for Dihok, Arbil, and As-Sulaymaniyah

2017 spending breakdown

| Governorate | Percent of spending in investments | |
|--------------------------|------------------------------------|----------------------|
| | 4% | 35% |
| Kurdistan Region | 35% | 11.6 Trillion |
| Baghdad province | 5% | 2.5 T |
| Basra Province | 31% | 1.1 T |
| Dhi Qar Province | 6% | 755 Billion |
| Babil Province | 4% | 735 B |
| Diyala Province | 4% | 619 B |
| Wasit Province | 13% | 569 B |
| Najaf Province | 5% | 506 B |
| Diwaniya province | 5% | 504 B |
| The holy city of Karbala | 4% | 487 B |
| Kirkuk | 20% | 486 B |
| Maysan Province | 10% | 389 B |
| Muthanna Province | 5% | 276 B |
| Grand Total | | 20.5 Trillion |

Investment Expenditures

The development budget includes investment expenditures to improve public infrastructure and provide citizens with quality education, health, social and security services.



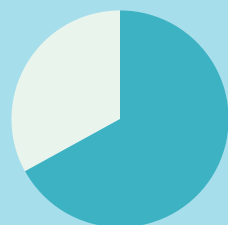
ID 25.2 Trillion

24% of total budget will be spent to undertake investment projects across the country.



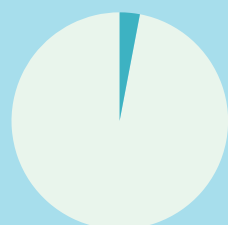
ID 5.5 Trillion

22% of total investment expenditures, will be financed by external partners.



ID 16.6 Trillion

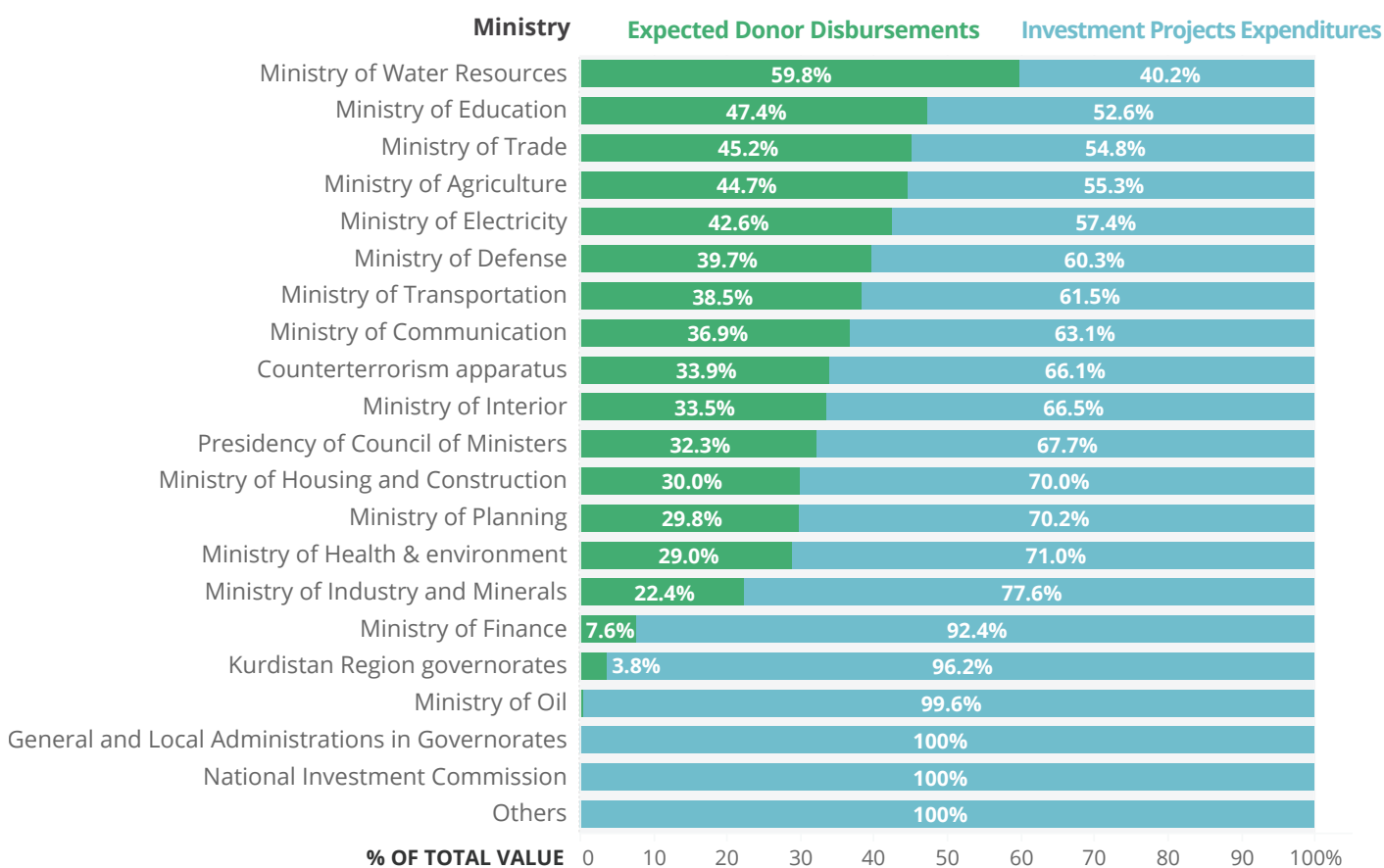
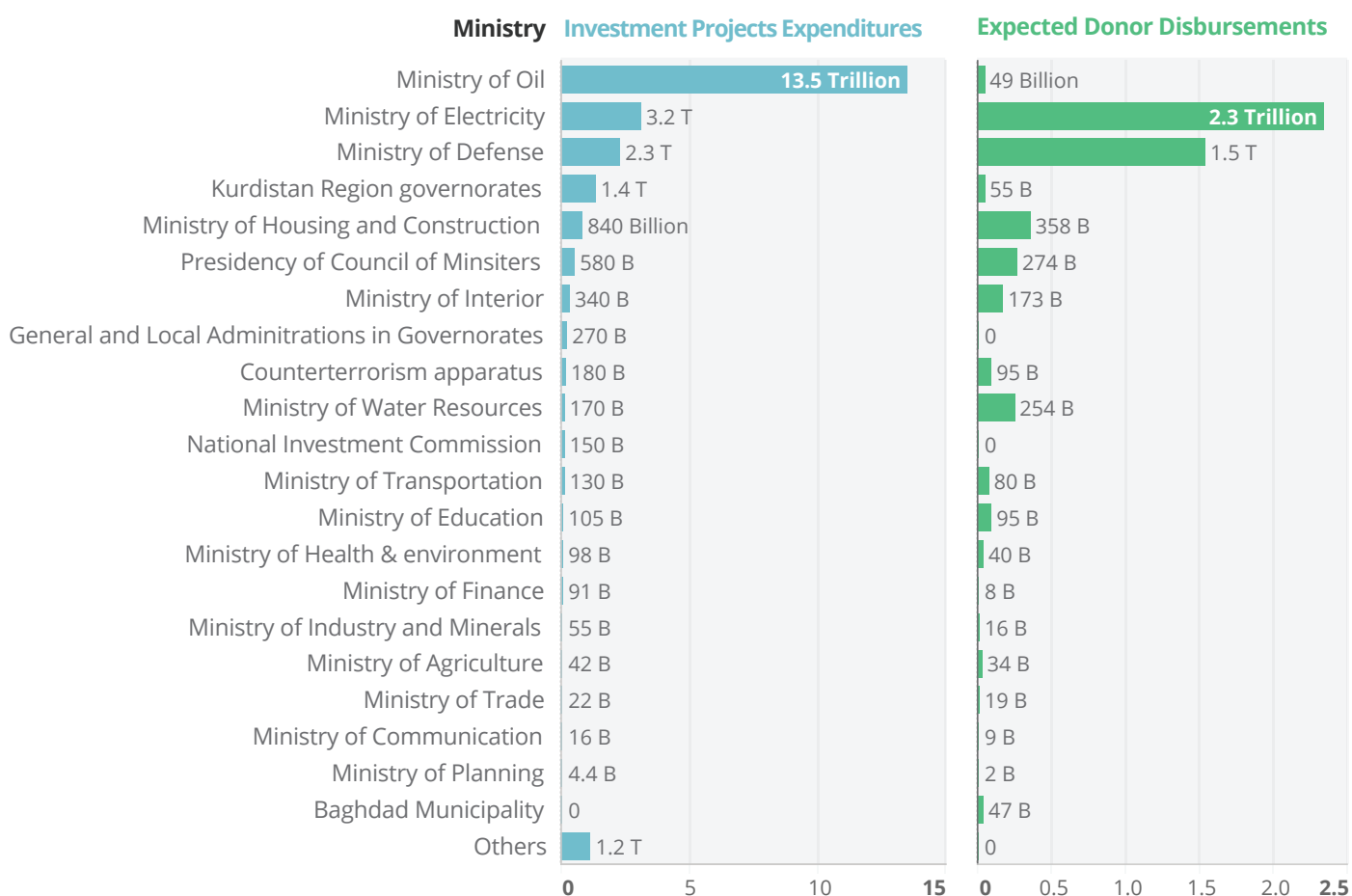
67% of total investment expenditures, will be spent on projects in the energy sector.



ID 836 Billion

3.4% of total investment expenditures, will be spent on projects executed by the Ministry of Housing and Construction.

Disbursement by Ministry, Department, and Agency



*The Municipality of Baghdad received ID 47.2 billion from external partners in support of investment projects

Budget Terminology

(glossary of terms)

The Federal Budget: Annual Law which summarizes the government's economic, fiscal and social policies and indicates the revenues (oil and non-oil) that the government plans to generate and collect as well as its plans to spend the money on priority sectors (health, education, social welfare, security, defense, etc.).

Revenues are total taxes, fees, and borrowing collected by a government, and consists of:

Petroleum means hydrocarbons, including, but not limited to, crude oil, natural gas, and natural gas liquids and refined petroleum products.

Petroleum revenue is petroleum export revenue, non-tax revenue earned from the sale of petroleum to domestic buyers (collectively, petroleum non-tax revenue), and tax revenue levied on petroleum (petroleum tax revenue).

Fiscal Revenues generated by compulsory payments including direct taxes that cover income and wealth taxes.

Borrowings are funds received in return for a legally binding agreement to repay

Expenditures are expenses made by the government to finance its operational budget, development projects, and to service its debt.

Capital expenditures refer to the use of funds to acquire or upgrade capital assets, such as buildings, structures, machinery, and equipment, and financial assets

Current expenditures are expenditures which are not capital expenditures, such as salaries, supplies, services, and fuel.

Budget deficit: A budget deficit occurs when a government's total expenditures exceed the revenue that it generates.

Government debt: All liabilities of the government that require payment or payments of interest and/or principal by the borrower to the lender at a date or dates in the future.

Inflation: Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power is falling.



Do you have questions?

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