

Republic of Iraq

**REVISIONS TO
2004 BUDGET**

Ministry of Finance
Ministry of Planning and Development

March 2004

(a) The following definitions are used in this Budget Revisions paper:

"Budget year" refers to 2004.

"One billion" is equal to one thousand million.

(b) Figures in tables and generally in the text have been rounded. Discrepancies in tables between totals and sums of components are due to rounding.

(c) Estimates are in billions of new Iraqi Dinar (ID).

1. REVISIONS TO BUDGET 2004

This document sets out the revisions to the Iraqi national budget for 2004, updating the fiscal framework to take into account changes that have occurred since the original 2004 budget was published in October 2003.

Increased resources and their use

The fiscal circumstances for Iraq have changed significantly since the publication of the original 2004 Budget in October of 2003. Greater than expected capital inflows resulted in a higher than expected opening financial capital at the beginning of 2004. A lower-than expected need for central bank reserves and some transfers of assets from abroad have increased net capital inflows.

Buoyant prices and greater output have greatly increased oil revenues over expectations, more than compensating for a reduction in expected tax revenues. These combined increases in resources have all been allocated to increased expenditures and to a prudent increase in the forecast closing financial capital.

Table 1. Use of increased resources	Change
<i>Increased resources</i>	
Increased opening financial capital (1 Jan 2004)	+ 6,602.4
Increased revenues	+ 2,470.3
Increased capital inflows	+ 750.0
<i>Sub-total</i>	<i>+ 9,822.7</i>
<i>less Increased use of resources</i>	
Increase in expenditure	+ 9,744.7
Change in closing financial capital (31 Dec 2004)	+ 78.0
<i>Sub-total</i>	<i>+ 9,822.7</i>
UNALLOCATED RESOURCES (Difference)	0

The remainder of this document sets out the specific changes in resources and expenditures. Annex A shows the changes in Budget forecasts for 2003 and 2004, tracking the changes by date of publication.

2. INCREASED RESOURCES

Projected resources available for 2004 are expected to be ID 9822.7 bn greater than was projected in October last year. This increase consists of changes in opening financial capital, net capital inflows plus increased revenues (primarily oil).

Table 2.1 Total expenditures (ID bn)	Original	Revised	Change
Opening financial capital (1 Jan 2004)	1,513.8	8,116.2	+ 6,602.4
<i>plus</i> Net Capital Inflows	-450.0	300.0	+ 750.0
<i>plus</i> Revenues	19,258.8	21,729.1	+ 2,470.3
TOTAL RESOURCES	20,322.6	30,145.31	+ 9,822.7

This increase has been incorporated into the revised Budget 2004 as the baseline and has therefore already been allocated. These allocations are reflected in the expenditures listed in the revised Budget.

Opening Balance

On December 31st 2003 there was ID 8116.2 bn remaining of uncommitted funds in the DFI account. Uncommitted funds are those that have not been earmarked to pay for money released under Budget 2003 or to pay for outstanding bills. Compared to the projection made in October 2003 this reflects an increase of ID 6602.4 bn. This reflects greater than expected capital inflows in 2003.

Increase in projected net capital inflows for 2004

Projected net capital inflows have increased by ID 750 bn over the projections made in October. These increases come from a lower than expected need for central bank reserves, which has substantial reserves of over ID 2,250 bn and given the appreciation of the Iraqi Dinar no requirement is foreseen. There has also been an ID 300 bn transfer of Iraqi assets from Jordan. However, the projected refunds from the Oil-for-Food programme (OFF) materialised in 2003.

Table 2.2 Capital inflows (ID bn)	Original	Revised	Change
<i>Capital Flows in</i>			
Transfer of Iraqi assets from abroad	0.0	300.0	+ 300.0
Oil for Food Programme Refunds	900.0	0.0	- 900.0
<i>Less Capital Outflows</i>			
Transfer to Central Bank	1,350.0	0.0	- 1,350.0
TOTAL NET CAPITAL INFLOWS	-450.0	300.0	+ 750.0

**Columns will not add because only changed lines are shown above.*

Increase in projected revenues in 2004

Projected revenues for 2004 have increased by ID 2470.3 bn over the projection made in October. These projections come from increases in oil revenues and a proposed Civil Service Pension Contribution. However, expected revenues from state-owned enterprises (SOEs) are not expected to materialise in 2004.

Oil revenues are estimated using a prudent assumption of a gradual fall in net oil price received to US\$ 21 per barrel (ID 31,500) in June. Oil exports are assumed to reach 1.9 million barrels per day by the end of the year. If oil prices rise significantly or exports are greater than expected then there could be a very notable increase in net revenues - but for budgeting purposes a more cautious approach is needed.

Tax revenues are expected to fall. The late implementation of the Reconstruction Levy will reduce the expected revenue from this tax and revenues for other taxes have also been revised downwards.

Table 2.3: Revenues (ID bn)	Original	Revised	Change
Oil Revenues	18,000.0	21,262.9	+ 3,262.9
Reconstruction Levy	450.0	172.5	- 277.5
Personal Income Tax	15.0	7.5	- 7.5
Civil Service Pension Contribution	0.0	101.4	+ 101.4
Corporate Income Tax	30.0	0.0	- 30.0
Transfers from State Owned Enterprises	562.5	0.0	- 562.5
Excise Tax	15.0	3.0	- 12.0
Land Tax	15.0	10.5	- 4.5
TOTAL REVENUES*	19,258.8	21,729.1	+ 2,470.3

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3. INCREASED EXPENDITURES

Expenditures in 2004 are projected to rise by ID 9756.3 bn.

Table 3.1 Total expenditures (ID bn)	Original	Revised	Change
Total Staff Expenditure	3,159.0	3,879.5	+ 720.5
Total Operating Expenditure	1,959.7	2,961.7	+ 1,002.1
Total Ministry Capital Projects	1,118.4	3,797.5	+ 2,679.1
Total Transferred Expenditures	11,921.3	15,882.7	+ 3,961.4
Total Foreign Obligations	925.2	2,172.8	+ 1,247.7
Total Salaries and Retirement Rewards	1,050.0	1,195.5	+ 145.5
TOTAL EXPENDITURES	20,133.5	29,889.8	+ 9,756.3

Increase in Staff Expenditures in 2004

The move from the 4-tier to the 11-tier scale plus the Facility Protection Service and the introduction of Hazardous Duty Pay has increased projected staff expenditures by ID 720.5 bn.

Table 3.2 Staff expenditures (ID bn)	Original	Revised	Change
Ministry Salaries (including reserve for new salary scale)	2,461.5	2,800.7	+ 339.2
Hazardous Duty Pay	0.0	225.0	+ 225.0
Facility Protection Service Guards	0.0	90.6	+ 90.6
Iraqi Civil Defence Force Pay	0.0	65.7	+ 65.7
TOTAL STAFF EXPENDITURES*	3,159.0	3,879.5	+ 720.5

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Increase in non-staff Operating Expenditures in 2004

Projected spending on non-staff operating expenses in 2004 has risen by ID 1002.1 bn. Most of the change results from increases in Ministry operating costs, including ID 129 bn for increased Ministry of Interior security operations. Funding for consultancies was removed from the Budget. Spending on pharmaceuticals has dropped by ID 63 bn, but this simply reflects a shift in resources from pharmaceuticals towards other health spending, under normal ministry operating expenditure.

Table 3.3 Operating costs (ID bn)	Original	Revised	Change
Normal Ministry Operating Expenditure	1,384.6	1,850.0	+ 465.5
Pharmaceuticals	930.0	867.0	- 63.0
Oil for Food Audit	0.0	4.5	+ 4.5
IMN Operating Contract	0.0	144.0	+ 144.0
Consultancies	75.0	0.0	- 75.0
TOTAL OPERATING COSTS*	1,959.7	2,961.74	+ 1,002.1

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Increase in Ministry Capital Projects in 2004

Spending on capital projects by ministries is now projected to be almost three times larger than was originally projected – an increase of ID 2679.1 bn.

Table 3.4 Ministry capital projects	Original	Revised	Change
Ministry capital projects	1,118.4	3,797.5	+ 2,679.1

Increase in Transferred Expenditures in 2004

Projected transferred expenditures are ID 5202.7 bn higher than estimated in October 2003.

Expenditures that were previously allocated to service Ministry of Finance domestic debt obligations underestimated these costs. At present, the Ministry of Finance has ID 4,600 bn in outstanding Treasury bills. The revised figure of ID 75 bn reflects expected debt servicing costs in 2004, including a need to convert a Ministry of Finance overdraft with the Central Bank to domestic securities that will also result in additional interest costs.

Table 3.5 Transferred expenditures	Original	Revised	Change
Debt Negotiations Costs	0.0	75.0	+ 50.0
Reconciliation of External Debt	0.0	6.0	+ 4.0
Fuel Imports	0.0	3,150.0	+ 3,150.0
Interest on Treasury Notes	210.0	319.5	+ 109.5
Public Distribution System	5,250.0	3,600.0	- 1,650.0
Transfer Payments (was Contingency Fund)	1,125.0	2,506.1	+ 1,381.1
Transfer Capital	0.0	300.0	+ 300.0
Salary Reserve	0.0	19.2	+ 19.2
Local/Regional Government Grants	1,117.5	1,246.2	+ 128.7
KRG Normal Operating Costs	0.0	1,200.0	+ 1,200.0
KRG Ongoing Projects	0.0	900.0	+ 900.0
Municipal Services Directorate Support	0.0	46.5	+ 46.5
Water Directorate Support	0.0	44.7	+ 44.7
Sewerage Directorate Support	0.0	12.5	+ 12.5
Baghdad Amanat Salaries	0.0	27.3	+ 27.3
Baghdad Amanat Support	0.0	57.3	+ 57.3
Baghdad Amanat Capital Projects	0.0	30.0	+ 30.0
Dewan support	0.0	9.4	+ 9.4
Regional Development Projects	1,116.0	0.0	- 1,116.0
Commanders Emergency Response Programme (CERP)	0.0	105.0	+ 105.0
Rapid Regional Response Programme Funds	0.0	337.6	+ 337.6
State-Owned-Enterprise Support	750.0	1,330.2	+ 580.2
Economic Restructuring Programs	750.0	0.0	- 750.0
125,000 Jobs Programme	0.0	187.5	+ 187.5
Employment Centers	0.0	13.5	+ 13.5

Additional Security Spending	0.0	750.0	+ 750.0
Oil Export Production Fee	109.5	127.8	+ 18.3
Oil for Food Contracts	0.0	404.3	+ 404.3
Iraqi Property Claims Commission	0.0	52.5	+ 52.5
Commission on Public Integrity	0.0	30.0	+ 30.0
Militia Reintegration	0.0	3.6	+ 3.6
Nation Building	937.5	856.8	- 80.7
TOTAL TRANSFERRED EXP.*	11,921.3	17,124.0	+ 5,202.7

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Nation building measures are broken down in more detail in Annex B.

Increase in Foreign Obligations in 2004

Higher than projected oil revenues mean that Kuwaiti War Reparations are higher, as these are 5% of gross revenues. Oil for Food Contracts have risen also, combining to increase projected spending for 2004 by ID 843.1 bn.

Table 3.6 Foreign obligations (ID bn)	Original	Revised	Change
Kuwaiti War Reparations	900.0	1,063.1	+ 163.1
International Monetary Fund and World Bank Arrears	0.0	680.0	+ 680.0
TOTAL FOREIGN OBLIGATIONS*	925.2	1,768.3	+ 843.1

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Increase in Salaries and Retirement Rewards in 2004

Quarterly public sector pensions have been increased for every pensioner by ID 25,000 from 1st April, increasing costs by ID 145.5 billion in 2004. This will be financed by the new Civil Service Pension Contributions of ID 101.4 bn, the remainder of which will go to financing existing pension obligations.

Table 3.7 Salary & retirement rewards	Original	Revised	Change
Pensions and other transfer payments	675.0	820.5	+ 145.5
TOTAL SALARIES & RETIREMENT*	1,050.0	1,195.5	+ 145.5

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Annex A. CHANGES IN BUDGET ESTIMATES

This annex sets out the different estimates that have been made for budget financing for financial years 2003 and 2004. There are three publications that have set out budget estimates:

1. (May 2003) *Budget Revenues and Expenses 2003*. Sets out initial estimates for financial year 2003 only.
2. (Oct 2003) *2004 Budget*. Sets out revised estimates for 2003 and initial estimates for 2004.
3. (March 2004) *Revisions to 2004 Budget*. This document, with estimated out-turn for 2003 and revised estimates for 2004.

Table A. Published budget estimates (ID bn)	Date of Publication of Estimate		
	May 2003	October 2003	March 2004
Financial year 2003	<i>(estimate)</i>	<i>(estimate)</i>	<i>(provisional)</i>
Opening financial capital (1 July)	8,104.5	3,675.0	3,675.0
<i>plus</i> Net Capital Inflows	-3,150.0	2,475.0	7,886.8
<i>plus</i> Revenues	5,831.6	4,596.0	5,589.4
<i>less</i> Expenditures	9,149.4	9,232.2	9,035.0
Closing balance 31 Dec 04	1,636.7	1,513.8	8,116.2
Financial year 2004		<i>(estimate)</i>	<i>(estimate)</i>
Opening financial capital (1 July)		1,513.8	8,116.2
<i>plus</i> Net Capital Inflows		-450.0	300.0
<i>plus</i> Revenues		19,258.8	21,729.1
<i>less</i> Expenditures		20,145.1	29,890.9
Closing balance 31 Dec 04		177.5	254.4

Annex B. NATION BUILDING AND OTHER PROJECTS

The tables below break down the totals given in table 3.5 for Nation Building Projects and R3P projects (Rapid Regional Response Programmes).

Table 3.1 Nation Building (ID bn)	Original	Revised	Change
Mortgage Bank	0.0	45.0	+ 45.0
Elections Assistance	75.0	390.0	+ 315.0
Elite Athlete / Olympic Team Support	0.0	15.0	+ 15.0
Olympic Stadium Refurbishment	0.0	4.5	+ 4.5
Armoured Cars (Money Movement)	0.0	15.0	+ 15.0
New Commissions and Organization	0.0	15.0	+ 15.0
National Assembly Building Renovation	0.0	19.8	+ 19.8
Constitutional Development	45.0	0.0	- 45.0
Civil Society and Community Development	30.0	0.0	- 30.0
Other Projects	435.0	0.0	- 435.0
TOTAL NATION BUILDING*	937.5	856.8	- 80.7

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Table 3.2 R3P Funds (ID bn)	Original	Revised	Change
Rapid Regional Response Programme	0.0	256.5	+ 256.5
Local Governance Funds	0.0	72.0	+ 72.0
Samarra	0.0	6.0	+ 6.0
Nasiriyah	0.0	3.0	+ 3.0
TOTAL R3P Funds	0.0	337.6	+ 337.6