
LOWER OIL INCOME CUTS OUT US\$9B FROM IRAQ'S FOREX RESERVES

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Persistently low oil prices have wiped out US\$9 billion from Iraq's foreign exchange reserves over the past 12 months. The current figure is US\$50 billion, Iraqi media reported, quoting central bank chief Ali al-Alak.

One of OPEC's biggest producers has been sweating it under the combined load of the war against the Islamic State and the oil price rout, which saddled it with a budget deficit estimate for this year of around US\$25.81 billion. Prime Minister Haider al-Abadi said yesterday that this figure should shrink by 38 percent in 2017 thanks to a combination of public spending cuts and higher oil exports.

Earlier this year, Baghdad agreed a lifeline of US\$5.4 billion with the IMF, to fund its war effort and plug the lingering budget hole until oil prices recover. The three-year loan, like all IMF loans, envisages some spending cuts that were bound to be unpopular in an economy that is already running on fumes.

Luckily for Iraq, since the loan was agreed upon in May, oil prices have rebounded somewhat □□□ not enough. The country is ramping up its output anyway, in a bid to raise its exports, which are the single vital contributor to the public coffers. This is a double-edged sword, however, as more output means lower prices, but Iraq has no real alternative within its reach.

Last month, according to a Reuters survey, Iraq marketed 4.43 million bpd, after it struck a deal with the Kurdistan Autonomous Government to restart shipments from Kirkuk. This boosted OPEC's overall to 33.6 million bpd.

In this environment, the preliminary agreement on a production cap came just in time, but Iraq, plagued by its continuing money problems, was quick to voice doubts about the manner in which OPEC members' individual output quotas will be agreed. Such doubts, if they spread across other members of the organization, could shatter the prospects of a freeze.

Kaynak/Source: