

# Falling oil prices shatter Iraqi budget forecasts

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The fall in world oil prices is slashing the revenues of the US-backed regime in Iraq, forcing it to drastically reduce its projected budget for 2009. Deputy Prime Minister Barham Saleh told a recent conference in London: "The decline in oil prices has serious implications on the Iraqi economy."

As much as 90 percent of the Iraqi government budget is derived from oil revenues—despite more than five years of so-called "reconstruction" and the expenditure of tens of billions of dollars in US and Iraqi funds. Outside of employment in the military, the police and other security-related occupations and the salaries paid in the nepotistic and corrupt state apparatus, little in the way of economic activity has developed under US military occupation.

Dependence on oil sales has made Iraq extremely vulnerable to the rapid shift in global demand that has followed the worst economic contraction since the 1930s Depression. Not only has the price of oil collapsed from \$US140 a barrel to a range between \$40 and \$50, but overall Iraqi oil exports have fallen by 25 percent from a post-invasion peak of some 2 million barrels a day to just 1.65 million barrels.

Former oil minister Baham al-Uloom told the Iraqi news agency *Azzaman*: "This represents a big challenge to the government. The 2009 budget has been based on the assumption of exporting 2 million barrels a day and an estimated price of not less than \$80 for a barrel."

The exponential rise in oil prices from 2006 to the first half of 2008 delivered unexpected revenues. Iraq registered a budget surplus of some \$29 billion between 2005 and 2007 and, as recently as August, the US Government Accountability Office (GAO) was issuing

excited memorandums that the 2008 surplus could be as high as \$50 billion.

Such projections were decidedly premature.

Most of this year's surplus of some \$22 billion was spent in a June supplementary budget that handed over \$14.3 billion in "operational expenses" to various federal departments, provincial governments and city councils, in payment for services rendered to the US occupation. The forecasts for the 2009 budget are now being drastically reduced. On estimates of an oil price of about \$70 a barrel, the budget had already been slashed in November from \$80 billion to \$67 billion. If current prices persist, the actual figure will be less than \$50 billion.

Finance minister Baqir Jabr al-Zubeidi has already raised the prospect of Iraq having to seek international loans to finance government spending. At the same time, public sector wage rises have been put on hold and government departments have been instructed to slash expenditure.

The implications of the budget crisis for the mass of the Iraqi people are immense. It virtually guarantees that resources will not be made available to improve the nightmarish conditions of life that they endure.

It is estimated that returning Iraq to the relatively developed state it had reached before being virtually destroyed by two US wars and punitive sanctions would require at least \$400 billion to repair, replace or modernise destroyed or damaged infrastructure.

The "reconstruction" undertaken under the US occupation has utterly failed to address the situation. A draft congressional report alleges that a considerable

proportion of the \$117 billion spent by the US military and Iraqi government since 2003 was squandered on ill-conceived projects or disappeared due to waste and corruption. Most of the spending was directed toward the Iraqi military and police or other security related projects, not improving the lot of the population.

No area of the country—including the autonomous Kurdish region in the north—provides continuous electricity to the population. The average power supply ranges from 14 hours per day to less than 8 hours in working class districts of Baghdad and several southern provinces.

The sewerage system in most cities is dysfunctional. Baghdad's was built to cater for a population of just 750,000, not the five million inhabitants now crowded into the city. Raw effluent flows in the streets. A councillor in the suburb of Sadr City told Bloomberg last month: "Getting rid of this waste has become a dream. I fear that when I die, I will be buried in it." Garbage collection is also substandard, with piles of rubbish left uncollected for days or weeks.

The water system is a disaster. The Iraqi health ministry estimates that a third of the water used by the population of Baghdad is unfit for human consumption. Nationally, 17 percent of the water supply is contaminated. A spokesman for the Baghdad water directorate told the United Nations IRIN agency: "Our water pipes are over 30 years old and that is the main reason for contamination as the water gets mixed with either sewage or underground water."

The health system is dysfunctional due to lack of investment and chronic staff shortages. Mental health services barely exist—in a war-ravaged country where a survey last year found that 70 percent of primary school age children showed signs of psychological trauma, such as bed-wetting, stuttering, voluntary muteness, poor academic performance or aggressive behaviour.

The staggering infrastructure problems that the Iraqi people face in their day-to-day lives aggravate the misery produced by the lack of jobs and grinding poverty.

Close to six years after the invasion, official unemployment is estimated to be at least 17.6 percent and underemployment as high as 38.1 percent. Some 70

percent of families subsist on less than \$210 a month. With the average family consisting of 6 to 10 people, that breaks down to an average income of less than \$1 per day for close to 17 million Iraqis.

At least 6.2 million people depend upon the state-funded Public Distribution System (PDS) to avoid starvation. Radically cut back earlier this year, the scheme only supplies eligible families with 9 kilograms of flour, 3 kg of rice, 2 kg of sugar, 1 litre of cooking oil and 250 grams of milk powder, per family member, per month.

The most destitute Iraqis have been reduced to scavenging through garbage dumps, particularly those used by nearby US military bases, in search of discarded food or items that can be sold. Saad, a 14-year-old boy rummaging through waste on the outskirts of Najaf, told Asharq Alawsat last month: "My friends here cannot read or write and their sole concern is how they will get hold of some food for the day. Our work begins at dawn and ends at sunset. At lunchtime we always think about the way we are living our lives and why we cannot be like other young people..."

The combined effect of war, malnutrition, preventable disease and lack of medical care has caused Iraqi life expectancy to slide from 66.5 years in 1990 to 59 for women and 57 for men. Infant mortality has soared from less than 50 per 1,000 births to 120. A quarter of all children have suffered stunted growth due to malnutrition.

These grim statistics will only worsen as the cash-strapped Iraqi government cuts into social programs like the PDS and turns a blind eye to the infrastructure crisis.



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