

# Leaked 2021 draft budget set to pauperise Iraqi workers and their families

**Jean Shaoul****23 December 2020**

The leaking of Iraq's federal budget has provoked widespread anger. The budget will devalue the Iraqi dinar and cut public sector salaries, amid an escalating healthcare, economic and political crisis.

Thousands took to the streets, blocking the main roads leading to oil installations and bridges in oil-rich Basra city, and the port of Umm Qasr in the south of the country, demanding unpaid wages. There were protests in several areas of Basra province by day-rate employees of the government, including in the energy sector, demanding payment of salaries they have not received in months.

This follows similar protests earlier this month demanding unpaid wages in the semi-autonomous Kurdistan Regional Government (KRG), which employs three out of four workers. Protesters in Sulimaniya burned down the regional government buildings and the offices of the two main Kurdish political parties. Protests have continued, on a smaller scale, after the KRG's security forces cracked down viciously, leading to 10 deaths—eight protesters and two members of the security forces—scores injured, hundreds detained and journalists threatened with violence.

Prime Minister Mustafa al-Kadhimi's government faces a catastrophic financial crisis following the collapse in oil revenues which provide more than 90 percent of its income. It has borrowed from the Central Bank to pay the public sector wage and pension bill of \$5 billion a month, as income fell to \$3.5 billion, depleting the country's dollar reserves.

According to the leaked draft 2021 budget, al-Kadhimi has agreed to devalue the dinar as a means of raising government income. With oil prices denominated in dollars and the dinar pegged to the dollar, this will give the government more money to spend. The draft budget assumes a devaluation of around 23 percent, is based on an exchange rate of 1,450 dinars per dollar, compared to

the current 1,182 dinars per dollar. The value of the dinar has already fallen on the street, ahead of the official devaluation, as exchange houses in Baghdad sell the dollar for 1,300 Iraqi dinars.

The International Monetary Fund estimated that Iraq's economy will shrink by 11 percent in 2020. It had proposed an exchange rate of 1,600 dinars to the dollar as part of a package of economic and financial conditions for granting a loan to Iraq's desperate government. That loan will only be forthcoming if Baghdad falls in line with Washington's political and economic requirements—curbing the power of Iranian-backed militias and politicians and implementing economic "reforms," including the restructuring of Iraq's large state-owned banks, privatisations, and above all the slashing of public sector wages and benefits.

The devaluation means a huge cut in workers' living standards as their purchasing power falls, pushing ever more into poverty, and raising fears that the dinar's value will continue to slide. As a doctor at a Covid-19 ward in Baghdad told AFP, "Our salaries will be worthless." Day labourers and those without work face immediate destitution.

Even after the devaluation, there will be a record \$40 billion budget deficit. The budget envisages expenditure of \$103 billion, with just \$63 billion in revenue. The government's White Paper had sought to halve the public sector wage bill, slashing it from 25 percent of GDP to 12 percent, threatening not only workers' jobs and wages but also the patronage system from which most of the political parties draw their funding and power. The draft budget appears to have retreated a little from this target figure, but has cut salary benefits, including danger pay, higher education degrees and expenses for high-level officials.

Nevertheless, the slashing of benefits, which can in some cases serve to double workers' paltry wages,

combined with the devaluation is a massive assault on the working class. As Ali Kadhim, 50, a teacher told *Al Jazeera*, “The majority of Iraq’s work force are government employees. We are the middle class, but (the government’s latest) decisions are going to make us the poorest class.” He added, “I am paying off two loans that take up a third of my salary. After these decisions I don’t know how much I am going to earn.”

In October, the United Nations Development Programme (UNDP) warned that the slump in demand and plummeting oil prices, along with the limited restrictions put in place to deal with the pandemic—Iraq has confirmed more than 585,000 cases and 12,700 deaths—would deepen inequality. At least 13 percent of Iraqis and 36 percent of young people are officially unemployed. According to ReliefWeb, around 8 percent of households (3 million people) were not getting enough to eat in September, while the World Bank’s November report estimated that up to 5.5 million of Iraq’s 39 million population were at risk of falling into poverty, meaning that more than 40 percent of Iraq’s predominantly young population—the median age is 20 years—would be living in poverty.

Iraqi children have been some of the worst affected by the trauma of war, poverty and the disastrous state of the country’s education system, once one of the best in the Arab world. Some 3.2 million school-aged children are out of school. In conflict-affected areas, almost all school-aged children are missing out on an education, leaving them vulnerable to exploitation, abuse, early marriage, child labour, and recruitment by Iraq’s numerous militias.

With one in every two schools damaged, many have up to 60 children in a class and operate a shift system. The number of qualified teachers has fallen at all educational levels as spending on education has declined and Iraq’s educated and professional class fled abroad following the wave of assassinations of colleagues since the US-led invasion of the country in 2003. The closure of schools earlier this year due to the pandemic affected more than 10 million children, causing a further educational decline for those who have already lost years of schooling.

The budget is likely to exacerbate tensions with Kurdistan, which is dependent upon the federal government in Baghdad for cash to pay its employees. The budget requires the KRG to contribute 250,000 barrels of oil per day in return for its budget allocation of \$8.6 billion, while containing provisions for reducing or eliminating its transfers to the KRG.

Kadhimi, a former intelligence officer with close ties to

Washington, became prime minister earlier this year after the previous government was brought down by mass protests that started in October 2019, against inequality, poverty, corruption and the sectarian political system. While he promised an investigation into the more than 600 protesters who were killed by the security forces during the crackdown, those responsible have not been identified or brought before the courts. He pledged to hold elections next June based on new legislation that would overturn Iraq’s sectarian political system but has been unable to secure the necessary political agreement in parliament.

Writing in *Foreign Policy*, Farhad Alaaldin and Kenneth Pollack warn that Iraq’s economic collapse could lead to a civil war drawing in its neighbours. If Iraq’s government continues to lose credibility, “armed groups and tribes, including the armed militias backed by Iran, would try to fill the vacuum and usurp the role of the primary security forces in Iraq.... These same groups would also fight for territory to control. They might try to take control of revenue-generating resources such as oil fields, ports, border crossings, large businesses, agricultural land, and private properties.”

Iraq, which has strong trading and commercial links with Iran, has become a key political battleground in US imperialism’s militaristic confrontation with Tehran. The Trump administration has insisted that Baghdad rein in the Iran-backed Shi’ite militias that have repeatedly fired rockets into the Green Zone, the heavily fortified area that houses the US Embassy, military forces and contractors.

In September, Secretary of State Mike Pompeo threatened to close the embassy in Baghdad as a prelude to US military attacks aimed at “liquidating” Shia militia elements charged with responsibility for attacks on US facilities. Earlier this month, the US withdrew some of its staff from the embassy in the run up to the first anniversary of the January 3 US air strike that killed Iran’s top general, Qassem Soleimani, and Abu Mahdi al-Muhandis, a prominent member of the Iraqi government and deputy commander of Iraq’s Hashd al-Shaabi, an Iran-backed umbrella militia group, in Baghdad.



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