



IRAQ OIL REPORT

IRAQ OIL AND FINANCIAL DATASET ANALYSIS: FEBRUARY 2017

INTRODUCTION

This edition of the IOFD monthly analysis covers the following topics:

- The finalization of 2016 federal financial data, allowing for an end-of-year look at actual spending as compared to budgetary allocation
- A look at KRG pipeline throughputs, disaggregated by KRG and NOC contributions

NEW IN THE IOFD IN FEBRUARY

We added no new rows to the IOFD spreadsheet in February. Notably, Iraq's Ministry of Finance has now released data for all of 2016, so we have completed filling in the federal financial data for that year. Please be sure to download both your updated 2017 and 2016 IOFD spreadsheets.

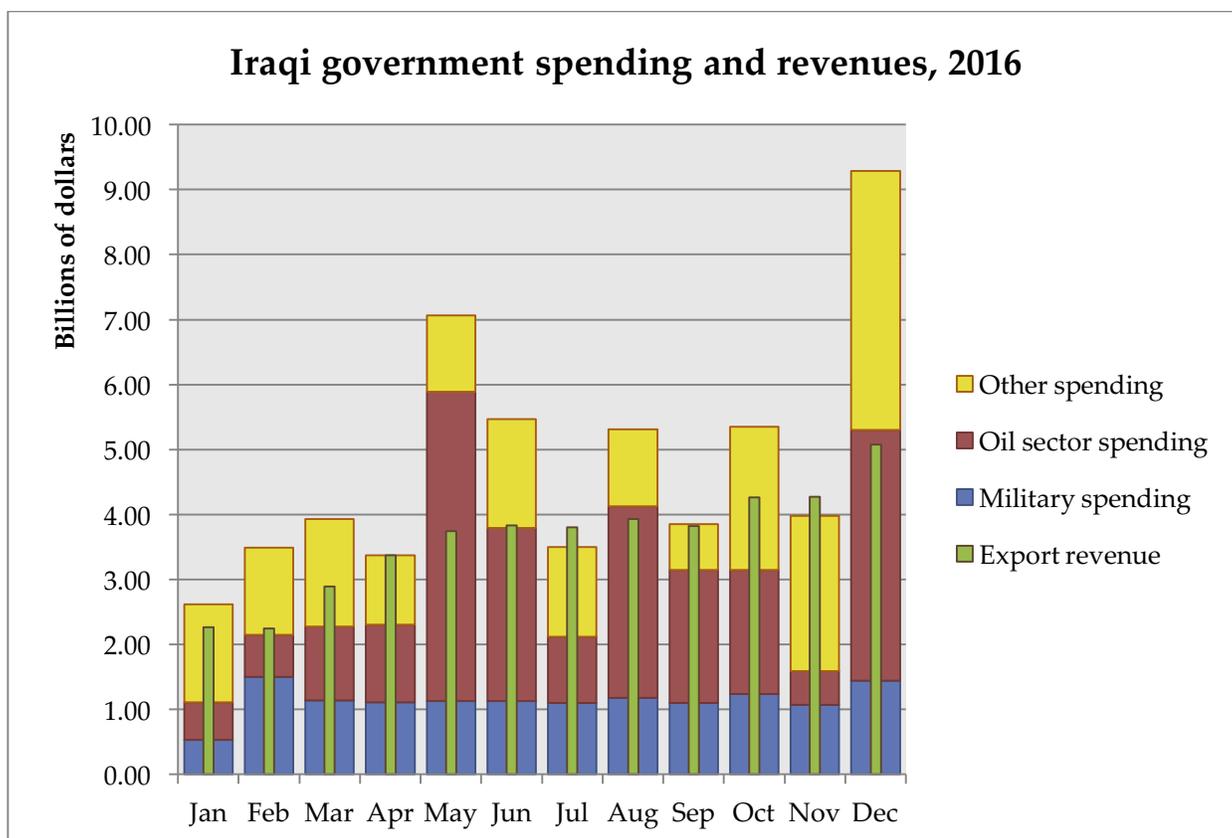
Federal finance data: Now that the Iraqi Finance Ministry has compiled its December spending data, we have a relatively full picture of the country's 2016 finances (rows 28 to 50 in your 2016 IOFD spreadsheet). Among other things, this allows us to compare some key numbers in Iraq's 2016 budget with the government's actual spending, providing some unique insight into Iraq's fiscal health.

	Budgeted	Actual	Actual performance compared to budget
Total value of oil exports	\$59.13 billion	\$43.50 billion	73%
Oil revenue to federal treasury (after TSC liftings)	\$59.63 billion	\$38.11 billion	64%
Non-oil revenue	\$10.19 billion	\$8.25 billion	81%
Gross revenue	\$69.83 billion	\$46.37 billion	75%
Current expenses	\$68.50 billion	\$43.68 billion	64%
Investment spending	\$22.00 billion	\$13.55 billion	62%
Total spending	\$90.51 billion	\$57.23 billion	63%
Deficit financing (estimated)	\$20.68 billion	\$21.46 billion	104%
Percentage of revenue from oil	86%	84%	
Percentage of spending on investment	24%	24%	
Deficit financing as percentage of total spending (estimated)	23%	37%	

Some key observations and explanations:

- As we have noted in previous editions of the IOFD analysis, Iraq's budget execution is lacking. The government finished the year executing just 63% of its projected spending, according to the Ministry of Finance's own data. One positive, however, is that actual spending at least seems to be broadly proportional to the budget. Given the atmosphere of financial crisis and war, one might have expected the government to skimp on investment spending. But spending on investment composed the same percentage of total expenditures as the budget dictated – that is, about 24 percent.
- There are some major discrepancies between the value of the Oil Ministry's reported exports and the Finance Ministry's reported revenue from oil. In many months, we can chalk this up to "TSC liftings": the State Oil Marketing Organization (SOMO) designates several cargos to be loaded onto oil tankers as in-kind payments to international oil companies working under technical service contracts (TSCs). This practice allows IOCs to receive payments while avoiding most of Baghdad's bureaucracy; it also has the effect of keeping billions of dollars' worth of oil payments off the Finance Ministry's books. Given this dynamic, one would expect the Oil Ministry's "value of exports" to be higher than the Finance Ministry's "oil revenue" on a monthly basis.

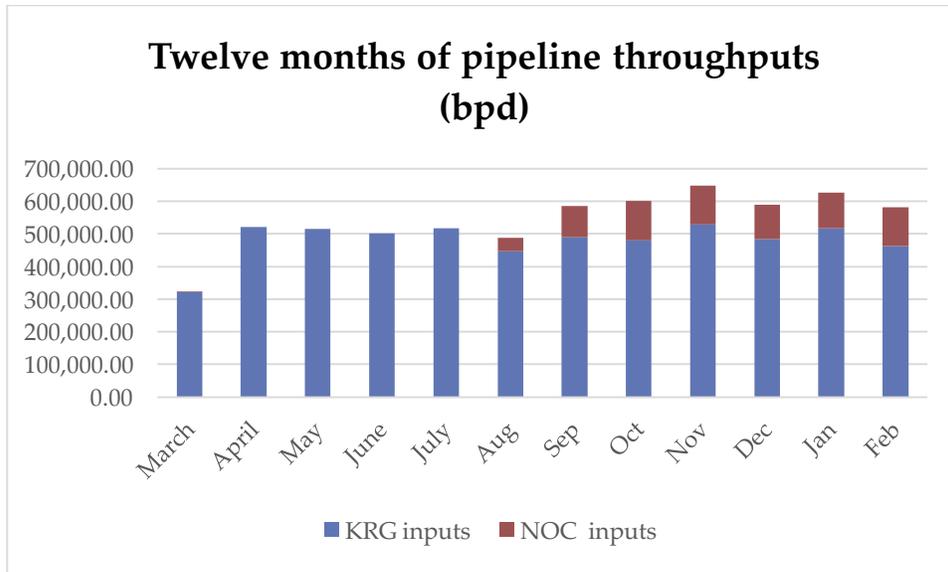
In two months, however – May and December – the Finance Ministry reported much higher oil revenues than the Oil Ministry did. Iraq Oil Report has interviewed several Iraqi and western government officials in an attempt to clear up this confusion, but nobody has offered an authoritative explanation. In the meantime, absent clarification from the Iraqi side, our prevailing theory is that the government has been borrowing money, possibly from the foreign currency reserves of the Central Bank of Iraq. This theory gains support from the fact that the months in which MOF "oil revenues" are artificially high, the Oil Ministry also shows surges in investment spending. It seems plausible that the government, under pressure from the IMF to settle debts with oil companies, has been using financing to pay back IOCs in cash as well as oil, categorizing those cash payments as "investment spending." This theory does not explain why loan proceeds would be categorized as "oil revenue."



- Government spending surged in December. (See chart above.) Unlike previous months, where the major fluctuations came mostly from investment spending, the biggest anomaly in December was current spending. So far we have not been able to figure out what accounts for this surge.
- The MOF did not produce an official tally of the amount of money Iraq borrowed in 2016. Our calculation – \$21.46 billion – is a rough extrapolation based on our assumption (explained above) that a significant portion of the MOF's reported "oil revenue" included both oil proceeds and loans.

KRG PIPELINE THROUGHPUTS

The Ministry of Natural Resources ceased in December 2016 providing monthly updates on pipeline throughputs and sales. Field research for a much vaunted third party audit is ongoing, according to several KRG officials, though the inaugural report is yet to be released. As a proxy, we are relying on data obtained from federal government sources to understand pipeline throughputs.



NOC pipeline inputs recommenced in Q3 2016 with a "handshake agreement" between the KRG and GoI over utilization and marketing of crude from NOC-operated Kirkuk-area fields. In brief, NOC commenced diverting crude from Avana, Jambur and Khabbaz back into the KRG's export pipeline in exchange for the KRG turning over volumes commensurate to half that crude to SOMO at Ceyhan.

Per data obtained from federal government sources, NOC began sending approximately 40,000 bpd to KAR Group's so-called "Ninewa Refinery" in Kalak. We assume this 40,000 bpd is deducted from crude allocated to SOMO at Ceyhan. As evidenced in the chart above, despite this reallocation of crude for refining at Kalak, NOC pipeline input volumes remain in line with six month averages. This can be attributed to higher-than-average pipeline inputs in the first half of February, due in part to a reduction in the trucking of crude (historically fluctuating between roughly 5,000-20,000 bpd) to a power plant in Baghdad. We anticipate that in March the amount of NOC production flowing to Ceyhan is likely to decrease.

Iraq Oil and Financial Dataset (IOFD)

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