

How the Oil Prices War can Impact Kurdistan Region?

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The oil prices war has initiated. Whether this will last for long or just temporary, it will have collateral damage on the Iraq and Kurdistan Region's economy and already is affecting the country.

Currently the Iraqi government oil exports approximately is 3.5 million bpd and Kurdistan region's oil exports is nearly 500k bpd. In this case falling one dollar per barrel of oil Iraq monthly losses 100 million dollars and annually 1.2 billion dollars. And Kurdistan region also monthly losses 15 million dollars and 180 million dollars annually. If oil prices drops as happened on March 9 that in a day 10 dollars dropped and stay in that price then Iraqi government monthly will lose 1 billion dollars and KRG 150 million dollars.

Decline of oil prices will put Iraq at unstable economic condition and will increase its deficits in 2020 budget for more than 60 billion dollars. Iraqi government and central bank do not have many mechanisms to face this new crisis. In the short term central bank only can use foreign exchange reserves to stabilize Iraqi dinars and does not have another option. In the medium term central bank can resume talks to receive loans from the International Monetary Fund (IMF), World Bank and some members of G7. In the long term solving Iraq's economic crisis which is related to its budget depends on oil revenues only can be done through economic reforms and reduce corruption which at this stage is not likely to happen.

Compare with Iraq, risks of oil prices crash is more on Kurdistan region. For KRG despite reduce its oil revenue, another risk is that the new Iraqi government which is not formed yet not, might be is not collaborative as Adil Abdul Mahdi's cabinet. Both KRG and Iraqi government has an agreement on the budget and oil, the KRG officials considered as good deal that can provide fair budget for Kurdistan region. By considering collapse of oil prices KRG can participate in the new Iraqi government on condition that the new cabinet should implementing the deal.

Another challenge for KRG in facing this crisis is that unlike Iraqi government does not have its own currency and central bank, therefore cannot fight this crisis through Monetary policies, but Iraqi government and central bank got that. KRG instead of this can take another steps such support companies and local factories through reduce tax and provide fuel and cheap electricity. KRG also conditionally can make such offer that the companies and factories keep on their own labor force work and recruit more.

KRG to develop economic infrastructure and implement service projects should get support from private companies and for this can implement Public-Private Partnership (PPP) model which is now KRG is busy issuing regulations and laws for these projects.

Activate financial sector and banking system to play their role in managing Kurdistan's economy is another step that KRG should take. According to the world bank report there are many banks in Kurdistan region but have little participation in region's economy as they provide only %2 loans to the private sector.