Iraq's Budget Shortfall Crisis: Can Oil Revenues Save the Second Half of 2025?

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Authors

Mahmood Baban

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Overview

In recent days, Iraq's Ministry of Finance published the May report on total expenditures and revenues. However, what is noteworthy is that in the reports and on the ministry's official website, the oil revenue figures for that month doubled compared to the previous month.

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According to forecasts by JP Morgan, the International Energy Agency, and OPEC, oil prices this year will be between $60-70. This comes at a time when the International Monetary Fund, in its economic outlook report for Middle East and North Africa countries, indicates that for a country like Iraq, oil prices need to be $80 for it to be able to spend its budget. Therefore, this year is expected to have greater shortfalls than last year, with a larger gap between revenues and expenditures.

It was decided that Iraq's government revenues and expenditures would follow the three-year budget 2023-2025, and annually a new revenue and expenditure table would be prepared by the Ministry of Finance and approved by Parliament. However, until now, the 2025 budget table has not been sent to Parliament. The reality is that even if there is a table, the table figures and actual revenue and expenditure tables are different things, as seen in the past two years.

Last year and previously, there was a large discrepancy between the Ministry of Oil and Ministry of Finance regarding oil revenue figures. Therefore, it was decided that the Ministry of Oil would only publish the amount of oil exported and not publish revenues. However, since March this year, the Ministry of Oil has again disclosed revenues in its statements, which once again brings up the issue of different revenue data files, especially for oil.

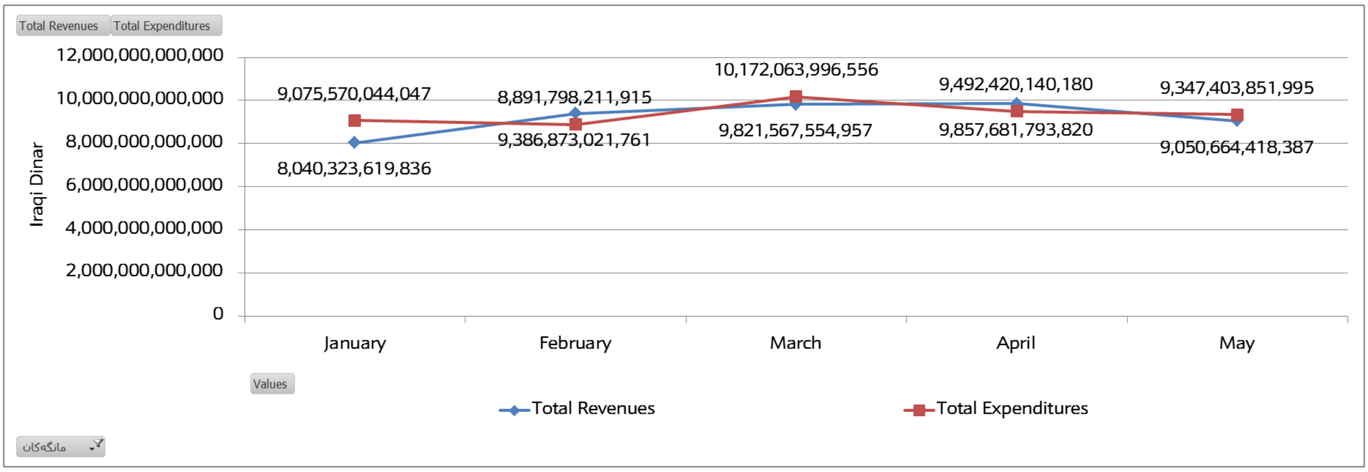
Now the main question is: Can oil revenues cover Iraq and Kurdistan Region's expenditures in the second half of this year? What is Iraq's monthly non-oil revenue while demanding that Kurdistan Region have 240 billion in monthly non-oil revenues?

Differences in Iraq's Revenues and Expenditures Between First and Second Halves of the Year

Generally, first-half expenditures are more operational and less, but in the second half, investment expenditures, projects, and increased new operational costs are added. Therefore, what happened in Iraq's first half this year where revenues and expenditures were equal was not due to expenditure adjustment because of reduced revenues and falling oil prices. For example, if we compare January and December of the same year, this issue becomes clearer. According to Iraq's Ministry of Finance data, total expenditures in January 2024 were 8.7 trillion dinars, but in December of the same year, total expenditures reached 14 trillion dinars, meaning a 40% increase.

During the first five months of this year, according to the Ministry of Finance, total expenditures including Kurdistan Region salaries in Iraq were 46.9 trillion dinars, while total revenues were 46.1 trillion dinars, meaning during this period there was nearly 800 billion dinars in shortfall, as clarified below:

Chart 01: Total Revenues and Expenditures in the First Five Months of 2025



Source: [Iraq Ministry of Finance](), data obtained July 28, 2025

Oil Revenue and Monthly Distribution in Iraq

Another aspect of Iraq's revenues and expenditures is the low non-oil revenues and investment spending in Iraq. Non-oil revenues during the first five months of 2025 reached 4.2 trillion dinars while oil revenues were 41.9 trillion dinars. Also, during the past five months, total investment expenditures in Iraq excluding Kurdistan Region were 3 trillion dinars, meaning of the 46.9 trillion dinars spent, 6.4% went to investment and infrastructure projects while 93.6% was for operational expenses.

This difference clearly appears in the chart below: non-oil revenues and investment expenditures are close to zero while oil revenues and operational expenditures are close to tens of trillions of dinars. This is despite the fact that Iraq's economy is not just a rentier economy but a dependent economy based on monthly distribution of oil wealth among government employees with very large disparities. For example, the total number of Iraqi Parliament employees is 2,216 people, yet 229 billion dinars were spent on salaries. In contrast, the total employees of the Ministry of Agriculture are 19,992 employees - ten times that of Parliament - but only 72 billion dinars were spent on them!

The Ministry of Oil, which is the backbone of Iraq's economy and provides 91% of state revenues, has 2,025 total employees and spent 11 billion dinars on salaries during five months. However, the Iraqi Presidency has half the Ministry of Oil's employees at 1,117 employees, yet 17.5 billion dinars were spent - 6.5 billion dinars more than the Ministry of Oil and 4 billion dinars more than the Ministry of Industry, as the data shows.

Chart 02: Operational and Investment Expenditures with Oil and Non-Oil Revenues in the First Five Months of This Year

Source: [Iraq Ministry of Finance](), data obtained July 28, 2025

Non-Oil Revenues in Iraq and Kurdistan Region's 120 Billion

During the past five months, Iraq's total non-oil revenues were 4.22 trillion dinars, while last year for the same period it was 6.24 trillion dinars, meaning this year decreased by 33% during those five months, with the largest reduction being from customs. In the five months of 2024, import duty revenues were 1.27 trillion dinars, but in 2025 it was only 574 billion dinars.

Another point: if we take total non-oil revenues including customs and taxes, Iraq's monthly average was nearly 840 billion this year, while according to the latest Erbil-Baghdad agreement, Kurdistan Region's monthly non-oil revenues should be over 240 billion, which means nearly one-third of Iraq's total non-oil revenues would fall to Kurdistan Region.

It's true that in the Erbil-Baghdad agreement, Kurdistan Region's government was committed to giving 120 billion dinars monthly to Iraq, which according to the constitution was half the revenues. But does Kurdistan Region actually have 240 billion in monthly non-oil revenues? Although data is not available, if we look closely, the fixed commitment in the agreement is wrong because revenues change month by month. For example, at Sulaymaniyah area in June it was 62 billion dinars, this month it was 128 billion dinars, and in one year it was 900 billion dinars.

Conclusion

If Iraq's expenditures in the second half of this year are like last year at 150 trillion dinars, certainly the expenditure-revenue gap this year will be double last year's, and it's unclear how it will be filled, since oil revenues will be 10-15 trillion dinars less at the set price to be dealt with this year.

This year, oil prices are expected to be around $60, meaning Iraq's total oil revenues will decrease to less than $90 billion or 117 trillion dinars, thus being 10-15 trillion dinars less than last year. However, there's potential for very large changes that emerge daily from all aspects, representing economic instability and volatility.

The decrease in Iraq's non-oil revenues this year comes at a time when digital and technological systems have been implemented, but revenues decreased by 2 trillion instead of increasing. Kurdistan Region's commitment to deliver 120 billion with Iraq having monthly 240 billion dinars is incorrect, because if people don't have income and salaries are delayed for three months, people's purchasing power decreases and state revenues from taxes and imported goods also decrease.

Finally, if we look at the expenditure-revenue difference annually for Iraq, in the first six months of 2024, total expenditures were 58.2 trillion dinars, but by year-end reached 150 trillion dinars.

The question is: Can Iraq continue this way this year or will it resort to using the country's reserves? The second option is suspending investment projects, which has happened several times. The last and best option is restructuring demands and expenditures and diversifying revenues, but we must wait to see which one happens!