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IRAQ'S BUDGET SURPLUS

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, SEPTEMBER 16, 2008

Serial No. 110–40

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Highlights

Highlights of GAO-08-1144T, a testimony before the Committee on the Budget, House of Representatives

Why GAO Did This Study

Iraq has an estimated 115 billion barrels of crude oil reserves—the third largest in the world. Oil export revenues are critical to Iraq's economy, accounting for over half of the country's gross domestic product and over 90 percent of revenues.

This testimony discusses (1) Iraq's estimated revenues from 2005 through 2008, (2) Iraq's estimated expenditures from 2005 through 2008, (3) Iraq's financial deposits through 2007 and budget surpluses, and (4) U.S. cumulative expenditures on stabilization and reconstruction activities in Iraq since 2003.

GAO analyzed relevant data and reviewed documents such as Central Bank of Iraq (CBI) export oil receipts data and the International Monetary Fund's (IMF) stand-by arrangement for Iraq. GAO worked with officials from the Department of Treasury and interviewed officials from the Departments of State, Defense, Energy's Energy Information Administration (EIA), and the IMF. GAO also reviewed translated copies of Iraqi documents, including budget and capital spending reports.

Treasury agreed with GAO's findings and stated that Iraq has adequate funds to make and maintain capital investments that deliver service and foster economic growth.

To view the full product, including the scope and methodology, click on GAO-08-1144T. For more information, contact Joseph A. Christoff at 202-512-8979 or christoffj@gao.gov.

September 16, 2008

STABILIZING AND REBUILDING IRAQ

Iraqi Revenues, Expenditures, and Surplus

What GAO Found

From 2005 through 2007, the Iraqi government generated an estimated $96 billion in cumulative revenues, of which crude oil export sales accounted for about $90.2 billion or 94 percent. For 2008, Iraq could generate an estimated $73.5 billion to $86.2 billion in revenues, with oil exports accounting for $66.5 billion to $79.2 billion. Projected 2008 oil revenues could be more than twice the average annual amount Iraq generated from 2005 through 2007.

Iraqi Revenues, Expenditures, and Surpluses, 2005-2007, with Projections for 2008

(Billions of U.S. dollars)						
					2008 Projections	
	2005	2006	2007	Total, 2005-2007	Low	High
Total Revenues	24.1	32.0	39.9	96.0	73.5	86.2
MoF Expenditures	17.6	22.8	26.6	67.0	35.3	35.9
Surplus	6.5	9.2	13.3	29.0	38.2	50.3

Source: GAO analysis of data from the Central Bank of Iraq, International Monetary Fund, and Iraqi Ministry of Finance (MoF) Budget.

From 2005 through 2007, the Iraqi government spent an estimated $67 billion on operating and investment activities. Ninety percent was spent on operating expenses, such as salaries and goods and services, and the remaining 10 percent on investments, such as structures and vehicles. The Iraqi government spent only 1 percent of total expenditures to maintain Iraq- and U.S.-funded investments, such as electricity installations and weapons.

From 2005 through 2007, Iraq had an estimated cumulative budget surplus of about $29 billion. For 2008, we estimate that Iraq will have an additional surplus of between $38.2 billion to $50.3 billion, which could result in a cumulative budget surplus of $67 billion to $79 billion. Iraq's 2008 budget surplus could be reduced by expenditures from its $22.3 billion supplemental budget, which Iraq's Council of Representative passed in August 2008. However, based on Iraq's past expenditure performance, the government may not be able to spend all that it has budgeted for 2008.

Since fiscal year 2003, the United States has appropriated about $48 billion for stabilization and reconstruction efforts in Iraq; it had obligated about $42 billion of that amount, as of June 2008. U.S. agencies spent about $23.2 billion on four critical sectors—security, oil, electricity, and water. As of June 2008, the United States had spent 70 percent of the amount it allocated for these four sectors from fiscal year 2003 through June 2008. Iraq spent 14 percent, or $4.3 billion, of the $30 billion it allocated for similar activities in these sectors from 2005 through June 2008.

Iraq's large oil reserves coupled with higher oil prices offer the government of Iraq the potential to increase its contributions to the country's reconstruction efforts and thereby enhance essential services to the Iraqi people.

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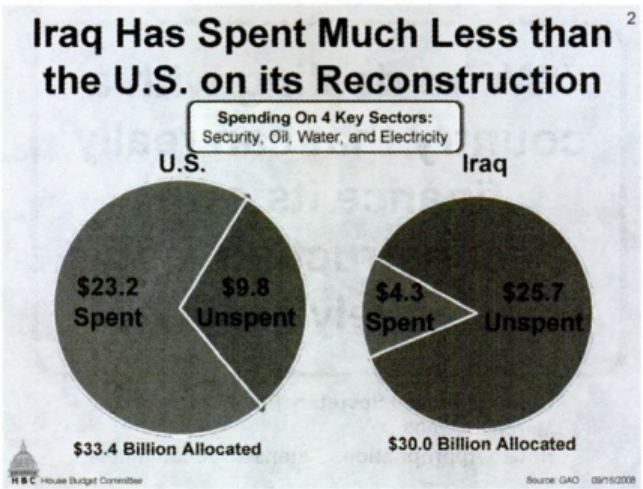

Mr. EDWARDS. I just want to verify, Mr. Christoff, that according to this chart the United States taxpayers that are now facing historic deficits of over $400 billion this coming year, U.S. taxpayers have spent $23.2 billion on Iraq reconstruction. Is that correct, Mr. Christoff?

Mr. CHRISTOFF. That is for four sectors that we look at.

Mr. EDWARDS. Okay.

Mr. CHRISTOFF. Security, oil, electricity, and water.

Mr. EDWARDS. So, reconstruction in those four sectors. And the Iraqi government, which now I think has up to a, what, approximately $79 billion surplus has spent only $4.3 billion. Is that fact——

Mr. CHRISTOFF. That is correct.

Mr. EDWARDS [continuing]. Correct?

Mr. CHRISTOFF. Yes, sir.

Mr. EDWARDS. So the U.S. taxpayers, in addition to giving something you cannot put a dollar value on, we have sacrificed over 4,000 of our young men and women in combat there, we have then also spent five times what the Iraqis have spent on reconstruction. Despite Secretary Wolfowitz' prediction that Iraq would very quickly be able to pay for its own reconstruction.

Let me ask you about this. Am I correct in understanding from your report that the same Iraq for which we have sacrificed over 4,000 American lives has just signed a $3 billion agreement with the communist Chinese National Petroleum Corporation to develop the Ahdab oil field? Is that correct?

Mr. CHRISTOFF. I do not have any firsthand information on it, sir. It is just what I have read in the papers, as perhaps you have as well.

Mr. EDWARDS. Okay. Well I, for the record, I think that is, Mr. Chairman, correct. That the Iraqi government, the same one that is building up a $79 billion surplus while American taxpayers are paying for most of their reconstruction efforts, has just signed a $3 billion agreement with the communist Chinese National Petroleum

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