



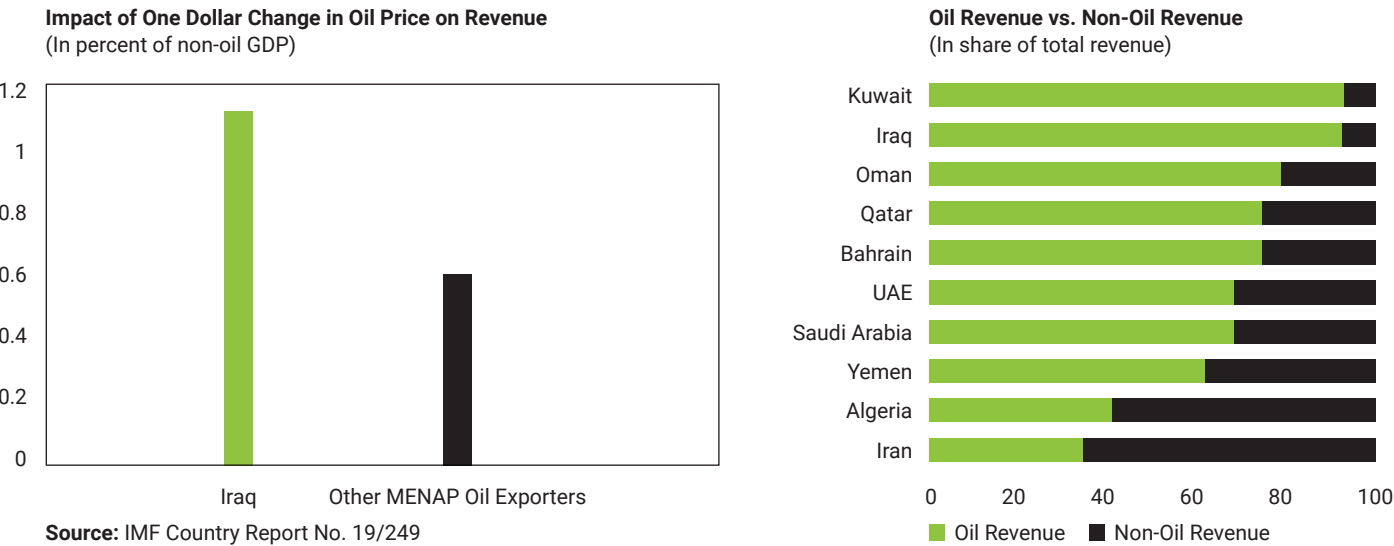
World Food
Programme

IRAQI DINAR DEVALUATION AND THE PRICE OF THE FOOD BASKET

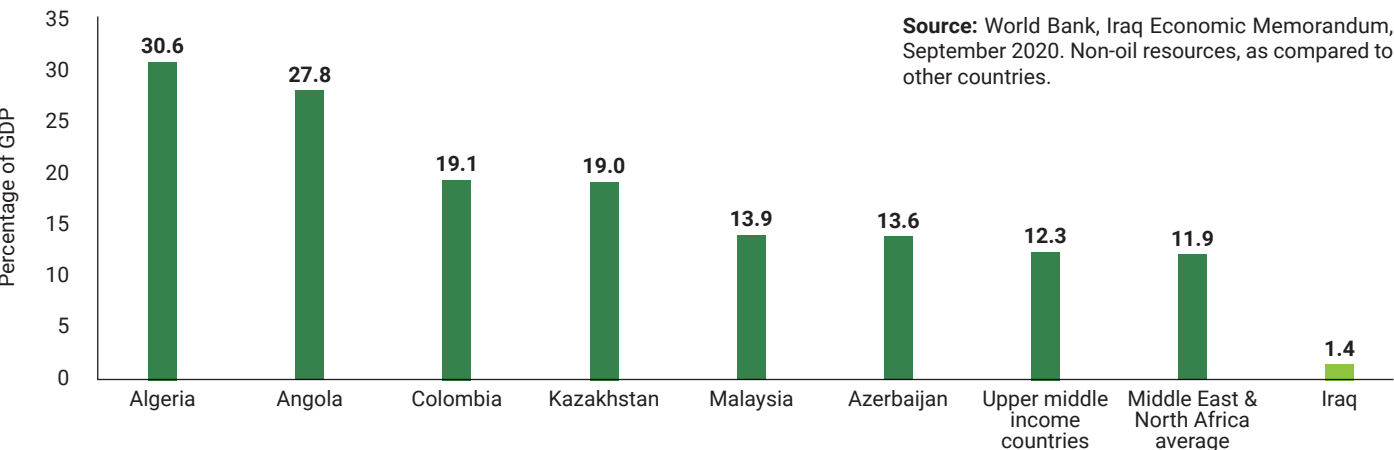
Macro-economic Situation

Significant decline in oil revenues, a history of expansion of the state’s role in the economy and competitive currency exchange rates from neighboring countries pushed the Iraqi Government into a budget deficit by the end of 2020. This led to the Government taking a firm measure for policy reform to mitigate risks and restore the economy.

Throughout, WFP has been monitoring food and market prices. This report presents an analysis and findings of the effects of the recent currency devaluation on food prices, including on the most vulnerable households. Towards the end of 2019, Iraq and other members of the Organization of the Petroleum Exporting Countries (OPEC) witnessed a decrease in oil prices and struggled to reach a speedy consensus on production cuts to boost demand and stem the price decline. The demand for oil was further hampered by the COVID-19 pandemic and resultant world-wide lockdowns in 2020. Iraq, the world’s third biggest oil exporter, remains heavily dependent on oil which contributes to 90 percent of the government’s revenue, a dependency much higher than other oil exporting countries in the MENA region. This twin shock of decreased demand and price of oil has impacted Iraq’s economy and Government budget the most.

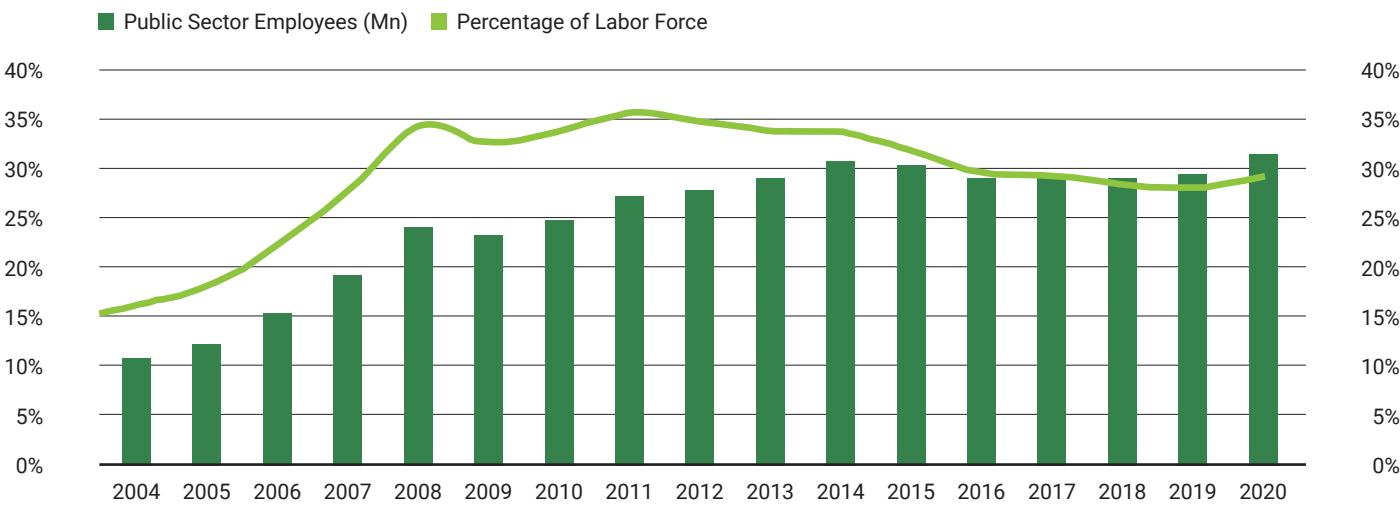


The average price of oil in 2019 was USD 68/barrel, which dropped to USD 21/barrel by mid-2020 before a slight improvement to USD49/barrel at the end of 2020. The average price per barrel in 2020 has decreased by 38.7 percent when compared to its price in 2019. According to the International Monetary Fund’s latest estimates, Iraq’s economy contracted by 11 percent in 2020; leaving Iraq as the worst affected country among other OPEC members in terms of a contracted budget due to a decrease in oil revenues. When compared to other MENA oil exporters, Iraq has the lowest non-oil based revenue as a percentage of GDP, which means that the government is unable to rely on other sources of revenue to compensate for the oil-driven budget deficit.



Oil revenues are critical for Iraq. They largely fund the government’s universal food subsidy program, the Public Distribution System (PDS) that includes four essential commodities (wheat, rice, sugar and vegetable oil) distributed to Iraqi people every month. Also, due to the budget deficit the Iraqi government has faced challenges in paying salaries of civil servants as well as pensions for its citizens.

As a result of decades of expansion, Iraq’s public sector is the largest employer for the country’s workforce. Expanding the public sector’s role in the economy was a two-factor policy, expanding the number of individuals employed in the sector, and increasing the salaries and pensions of these individuals.

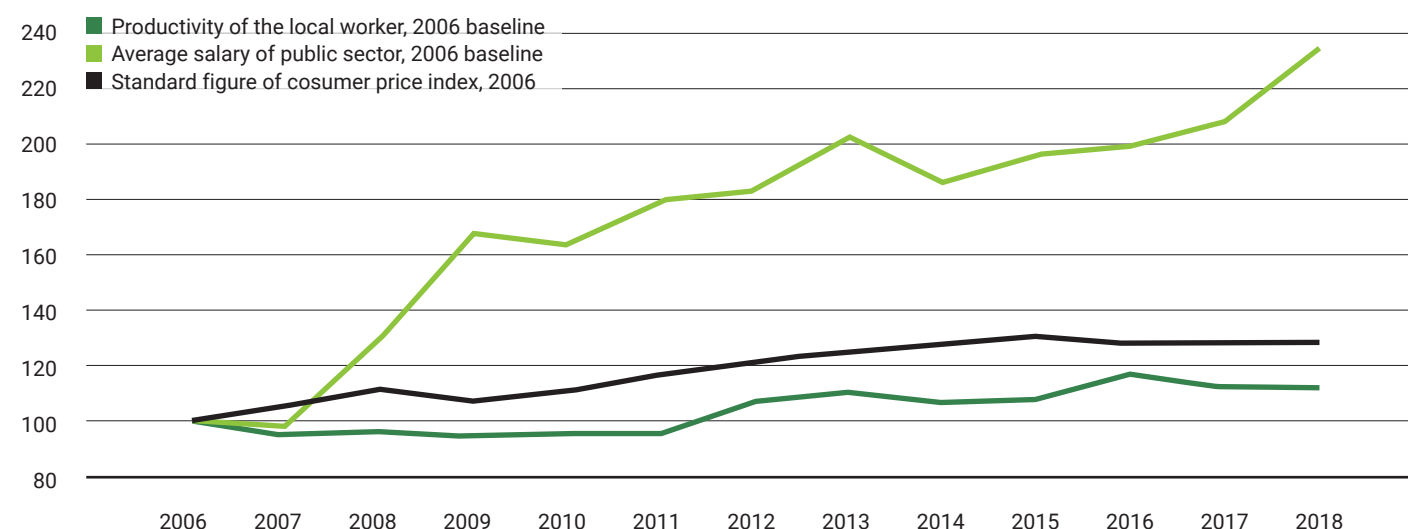


Source: World Bank, 2017. Public Sector Employment: number of employees as compared to their percentage of the labor force.

The increase in salary and pension expenditure has placed a burden on the government resources amidst a shrinking oil driven budget. From 2014 to 2020, payroll expenditure increased by 60%, from IQD 40.2 trillion to IQD 64.2 trillion. It is predicted that the draft 2021 government budget of IQD 164 trillion will not cover payroll expenditures, putting in consideration that the current budget deficit is IQD 80 trillion.

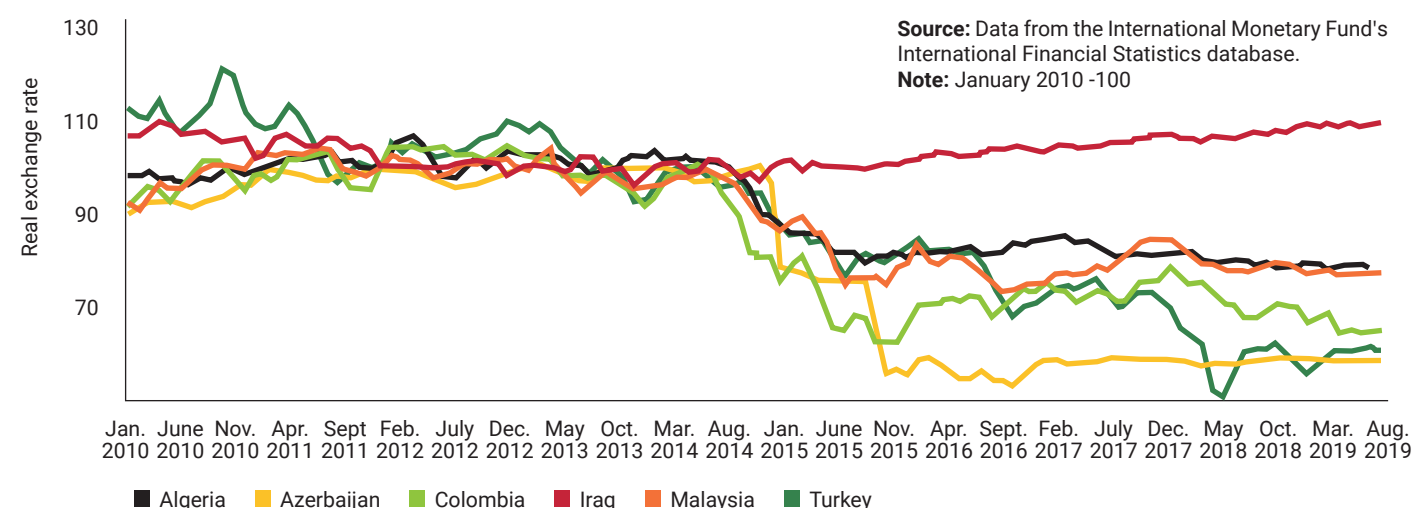
As the percentage of public sector labour force employment increased in the past decade, studies have noted a decline in the productivity of the Iraqi labour force. The decrease in productivity resulted primarily from a lack of competition. This lack of productivity has caused a decrease in the level of public sector service provision along with a stagnation in overall government output.

The graph below shows the gap between the productivity of the local labour force and the increase in salary and pension expenditure by the government, which is one of the root causes of the government budget deficit.



The decrease in government revenue has been compounded by an uncompetitive Iraqi Dinar vis-à-vis currencies of the country's main trading partners, which has led to a decreased demand for Iraqi national products. Market demand for imported products has shifted to countries that have a lower exchange rate; leaving Iraq with a decrease in its non-oil export revenue. The financial crisis of 2020 pushed the government to consider revising the salaries and benefits of the public sector employees.

Real exchange rates of Iraq and selected peers, 2010-19



Measures Implemented By The Government

To reconcile its budget gap of IQD 80 trillion, the government has decided to devalue the Iraqi Dinar by 18 percent against the US Dollar (USD). The devaluation of the currency was policy driven rather than market driven decision, as an essential step to decrease the government's budget deficit, compensate for the decrease in oil revenue and to restore the competitiveness of its products in the trade market.

Although the currency devaluation was an essential part of Iraqi policy reform, it had some negative impacts on the economy in the short run. The new exchange rate drove up import prices for essential commodities and raw materials which immediately boosted inflation across the country. As of January 2021, Iraq's import dependency of cereals reached 40 percent. Out of a 38.4M population, 9.1M suffer from chronic hunger and 2.8M people are with insufficient food consumption.

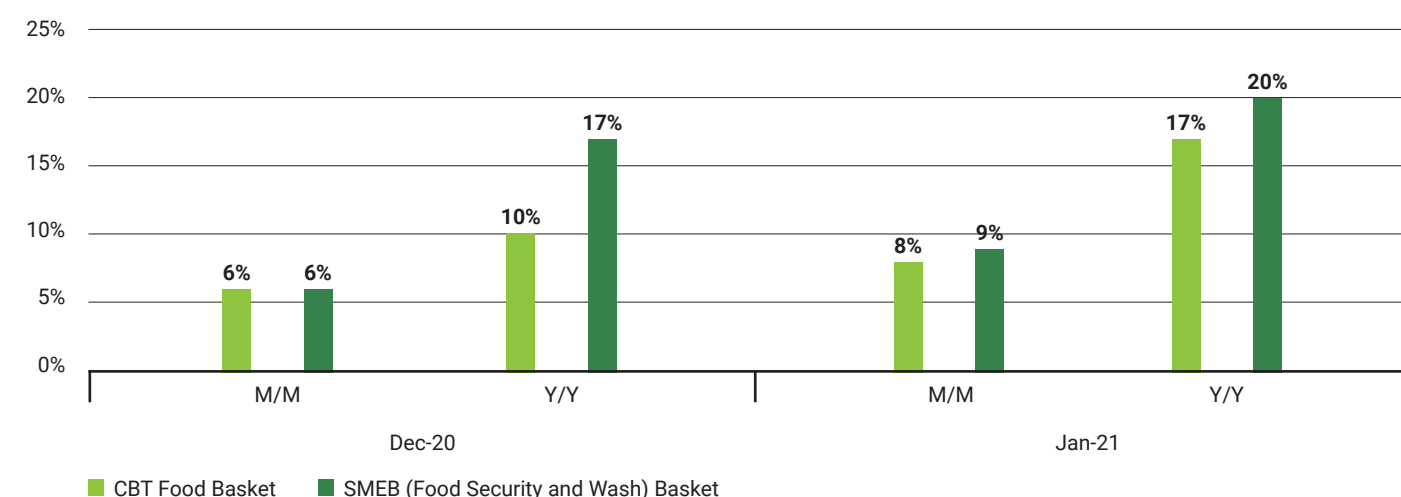
Effects of Devaluation on Food Prices

WFP monitors two baskets, the Survival Minimum Expenditure Basket (SMEB) and the Cash Based Transfer (CBT) Basket of 2100Kcal/person/day. The SMEB has seven components including Food, Non-Food, Rent, Electricity, Water, Transportation and Communication. The prices of Food and Non-Food items are monitored on a weekly basis however other expenditures are monitored annually. The food items of the SMEB includes lentils, oil(vegetable), rice, sugar, bulgur, salt and wheat flour while the non-food items includes laundry detergent, sanitary pads, shampoo, soap, adult toothbrush, child tooth brush, tooth paste and garbage bags.

On the other hand, WFP also monitors a more diversified food basket of 2100Kcal/person/day to determine the assistance value to its beneficiaries. The WFP CBT food basket consists of wheat four, rice, lentils, sugar, salt, pasta, chicken, vegetables/leaves/tubers, milk and vegetable oil. This helps in monitoring if the beneficiaries can buy diversified nutritious food from the assistance money.

In December 2020, the average price of the CBT food basket increased by 6 percent month-on-month and increased by 10 percent year-on-year. As for the SMEB, the average price increased by 6 percent month-on-month in December and by 17 percent year-on-year.

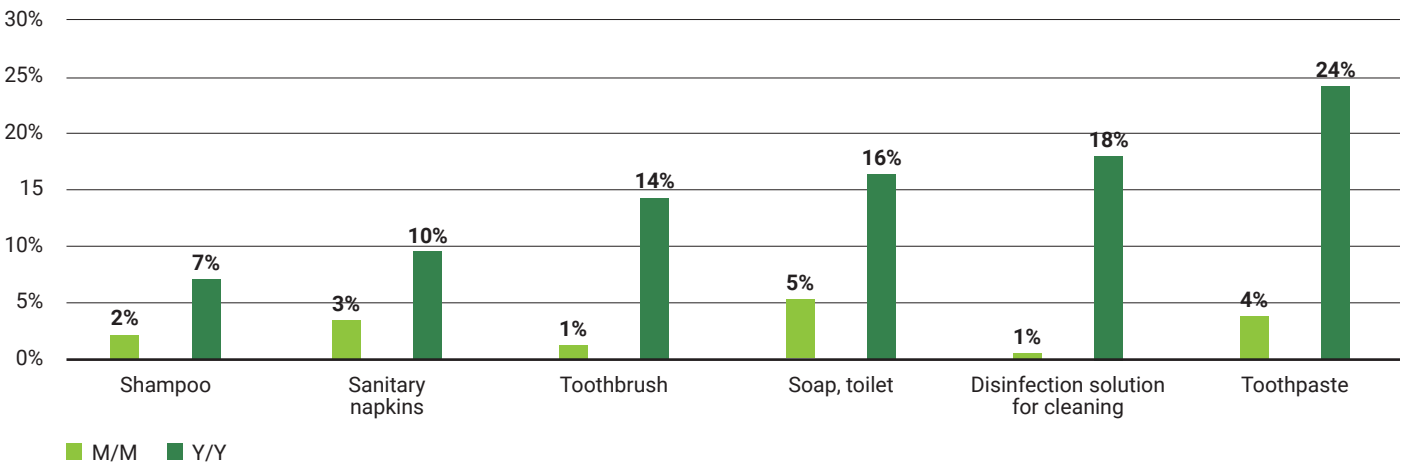
% Change in price of Monitored Baskets M/M and Y/Y comparison for Dec 2020 and Jan 2021





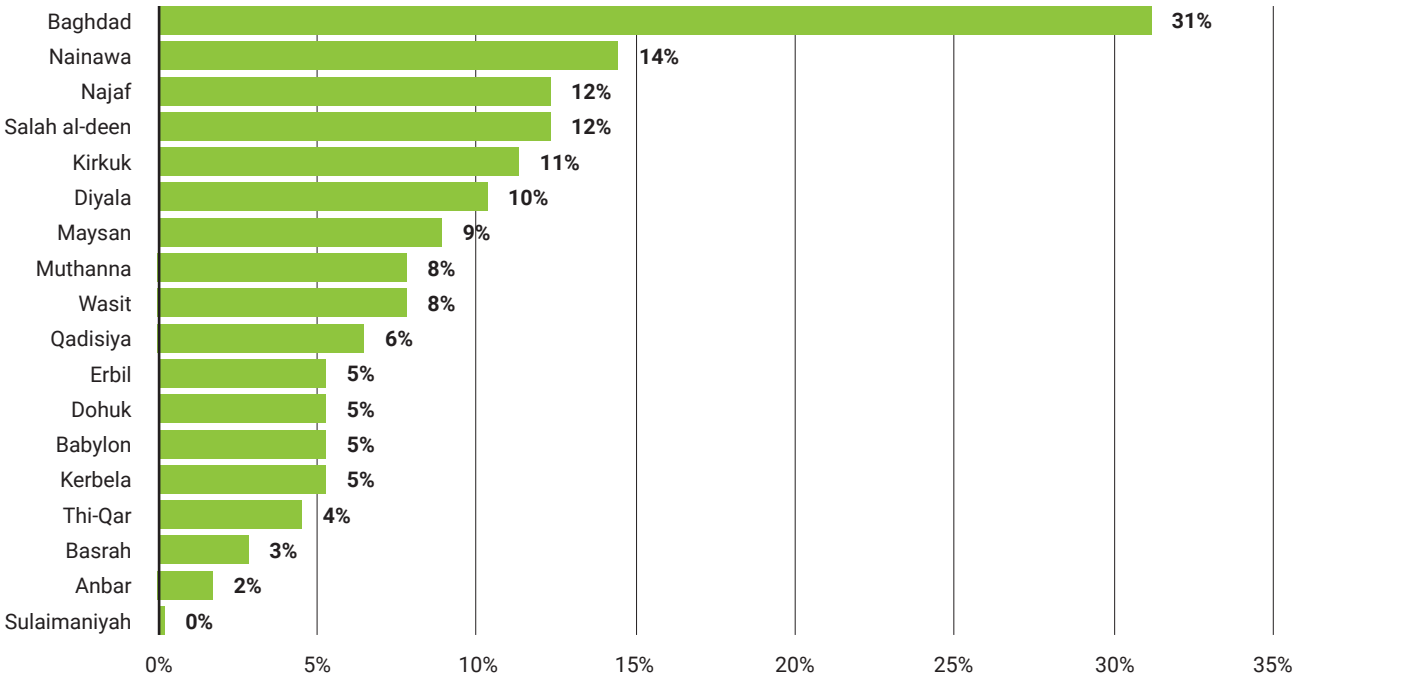
In January 2021, the price of the CBT basket increased by 8 percent month-on-month (from IQD 21,900 to IQD 23,741) and by 17percent year-on-year (from IQD 20,208 to IQD 23,741), while the SMEB (Food Security and WASH) increased by 9 percent month-on-month (from IQD 107,966 to IQD 117,178) and by 20 percent year-on-year (from IQD 97,255 to IQD 117,178).

M/M ad Y/Y Price in Change of the Wash
Component of The SMEB Basket on January 2021

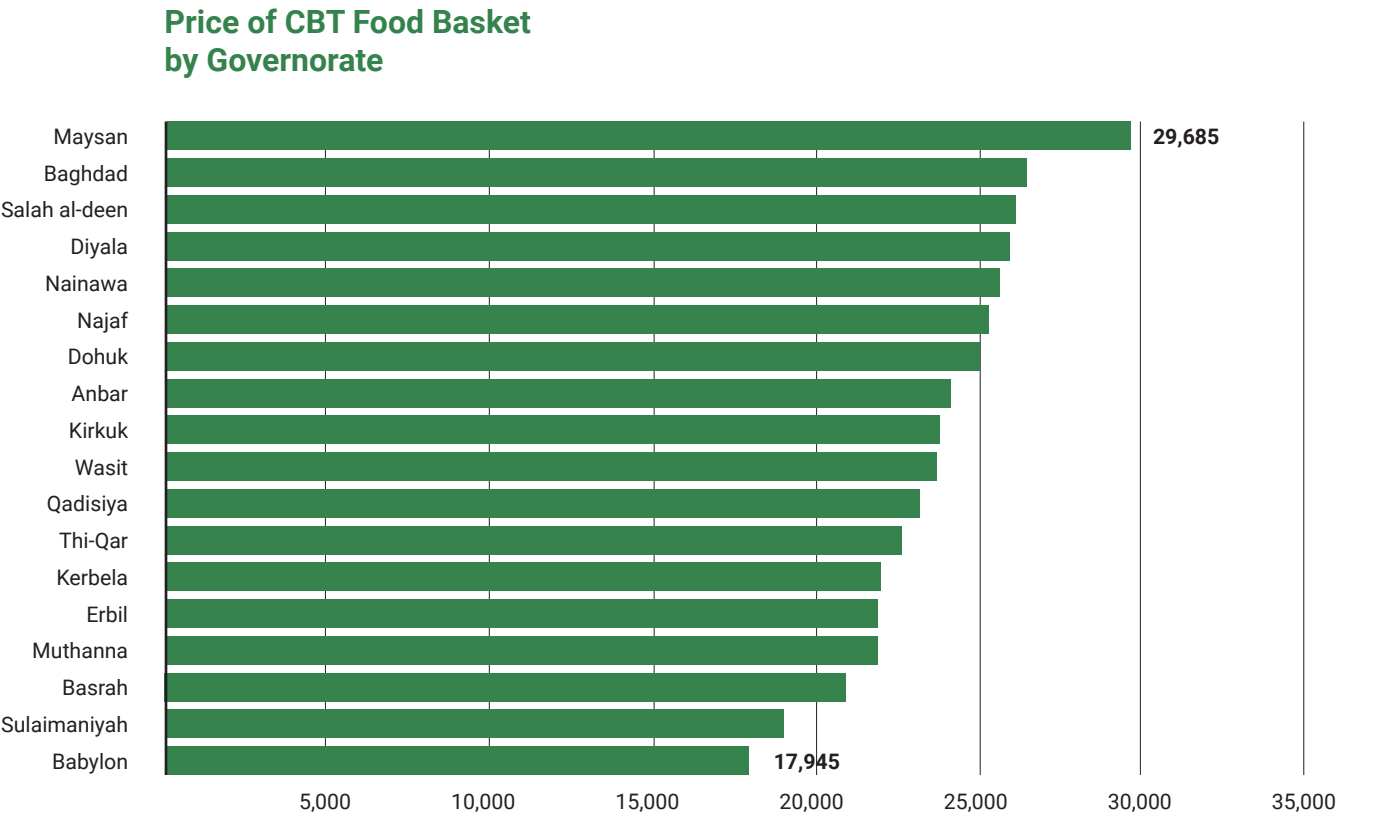


The year-on-year increase in the wash component of the SMEB basket is driven by the 24 percent increase in the price of toothpaste, followed by the 18 percent increase in the price of disinfection solution when compared to January 2020. As for the month-on-month increase of the wash component of the SMEB basket, it was mainly driven by the increase in the price of soap of 5 percent, followed by the increase in toothpaste of 4 percent when compared to December 2020 prices.

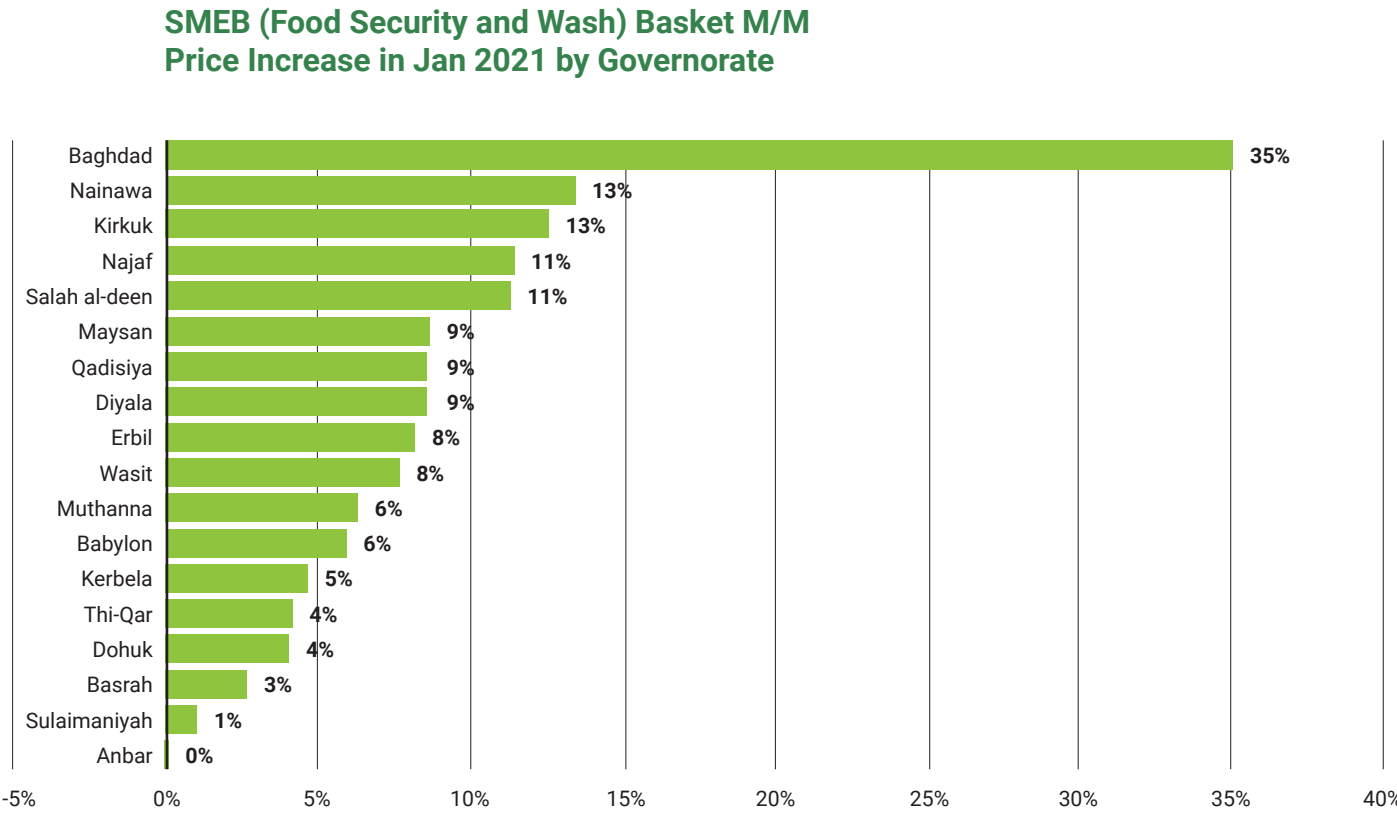
CBT Food Basket m/m Price Increase
in January 2021 by Governorate



Baghdad has reported the highest price increase of CBT basket in January 2021 by 31 percent month-on-month, followed by Nainawa (14 percent) and Najaf and Salah al-deen by 12 percent. Sulaymaniyah has reported a zero percent change month-on-month in price of CBT basket in Jan 2021, while Anbar and Basrah showed the lowest increase of 2 percent and 3 percent month-on-month respectively.



Even though Baghdad witnessed the highest increase in price of CBT food basket; The most expensive food basket was reported in Maysan at IQD 29,685 on the 3rd week of January 2021, followed by Baghdad at IQD 26,468. The least expensive CBT food basket was reported in Babylon at IQD 17,945 on the 3rd week of January 2021.

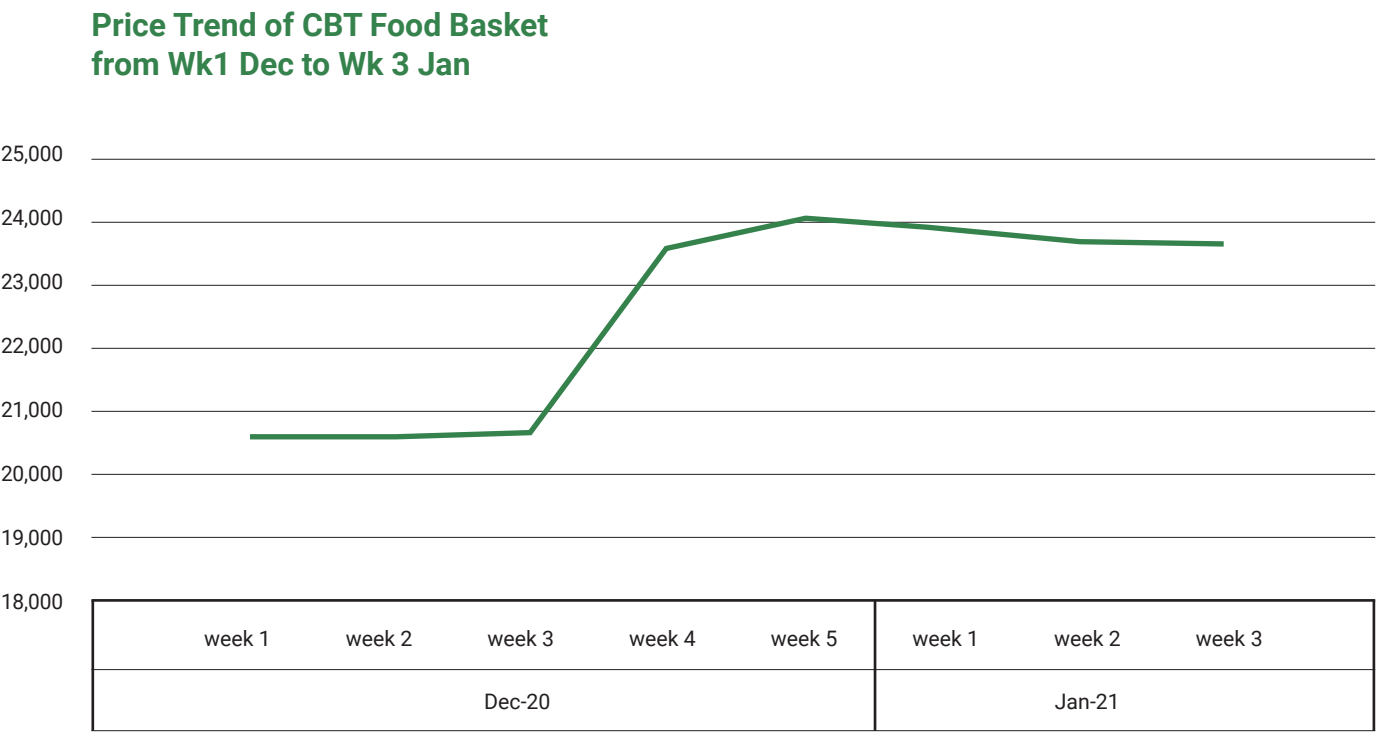
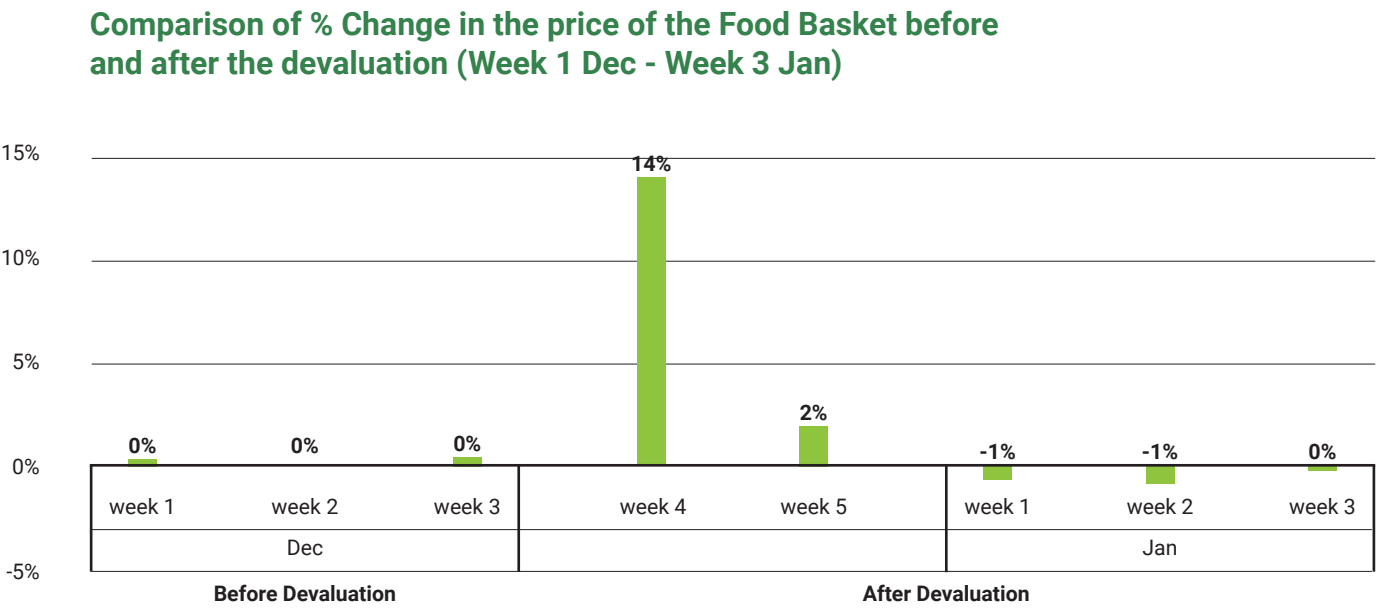


Baghdad also reported the highest increase in the SMEB in January 2021 by 35 percent month-on-month. The surge in price was driven by the increase in the prices of vegetable oil, milk and lentils by 55 percent, 45 percent and 39 percent month-on-month respectively. There is a huge gap in price increase between Baghdad and the other governorates, where the second highest governorates were Nainawa and Kirkuk with 13 percent increases month-on-month. The lowest increase in price of SMEB was in Sulaymaniyah (1 percent) month-on-moth followed by Basrah and Dohuk by 3 percent and 4 percent month-on-month respectively. In Anbar the price in January 2021 did not change.

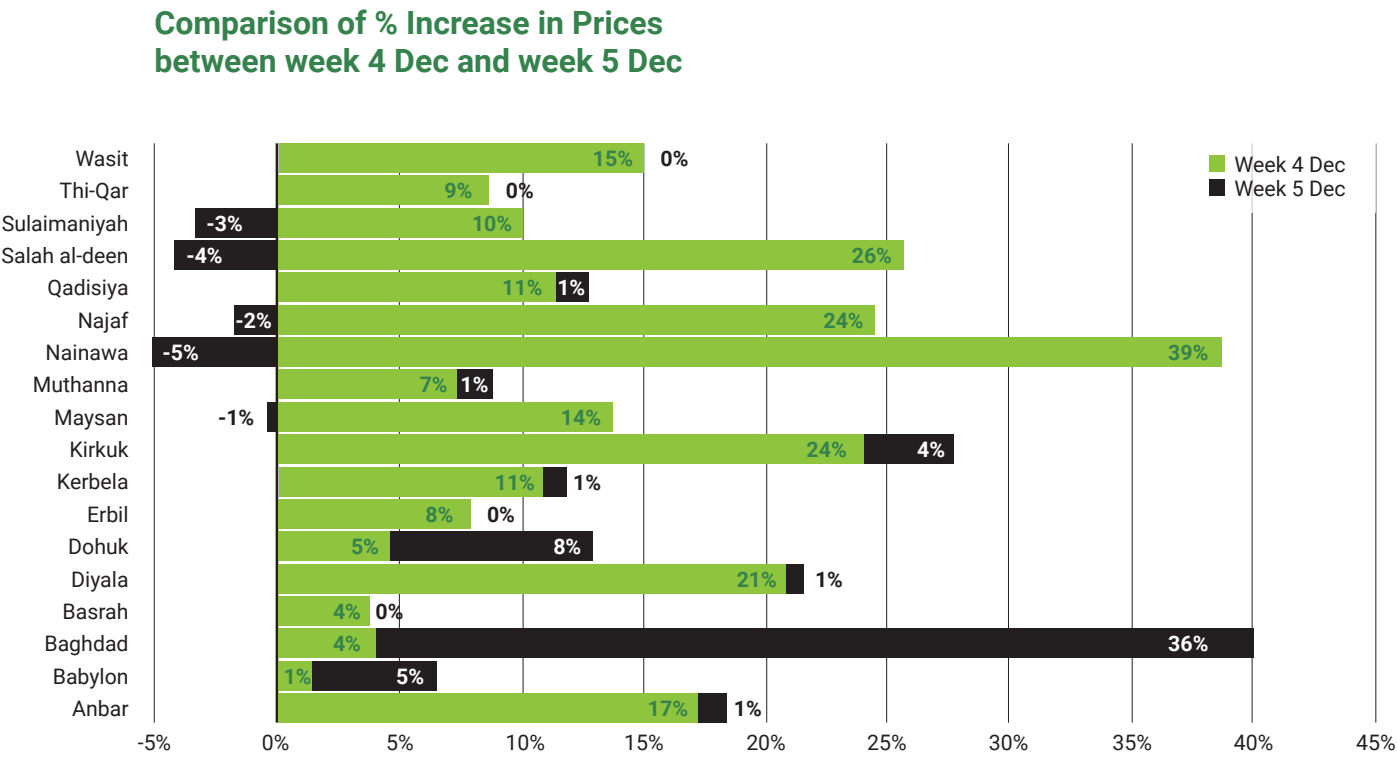
Week by Week Comparisons

The following graphs and analysis reflect the total impact of the devaluation on the price of the CBT basket. The devaluation took place at the end of the third week of December (20 December 2020) and the impact on CBT basket price was immediately witnessed the following week (Fourth week of December) where the average price of CBT basket increased by 14 percent (from IQD 20,684 to IQD 23,587).

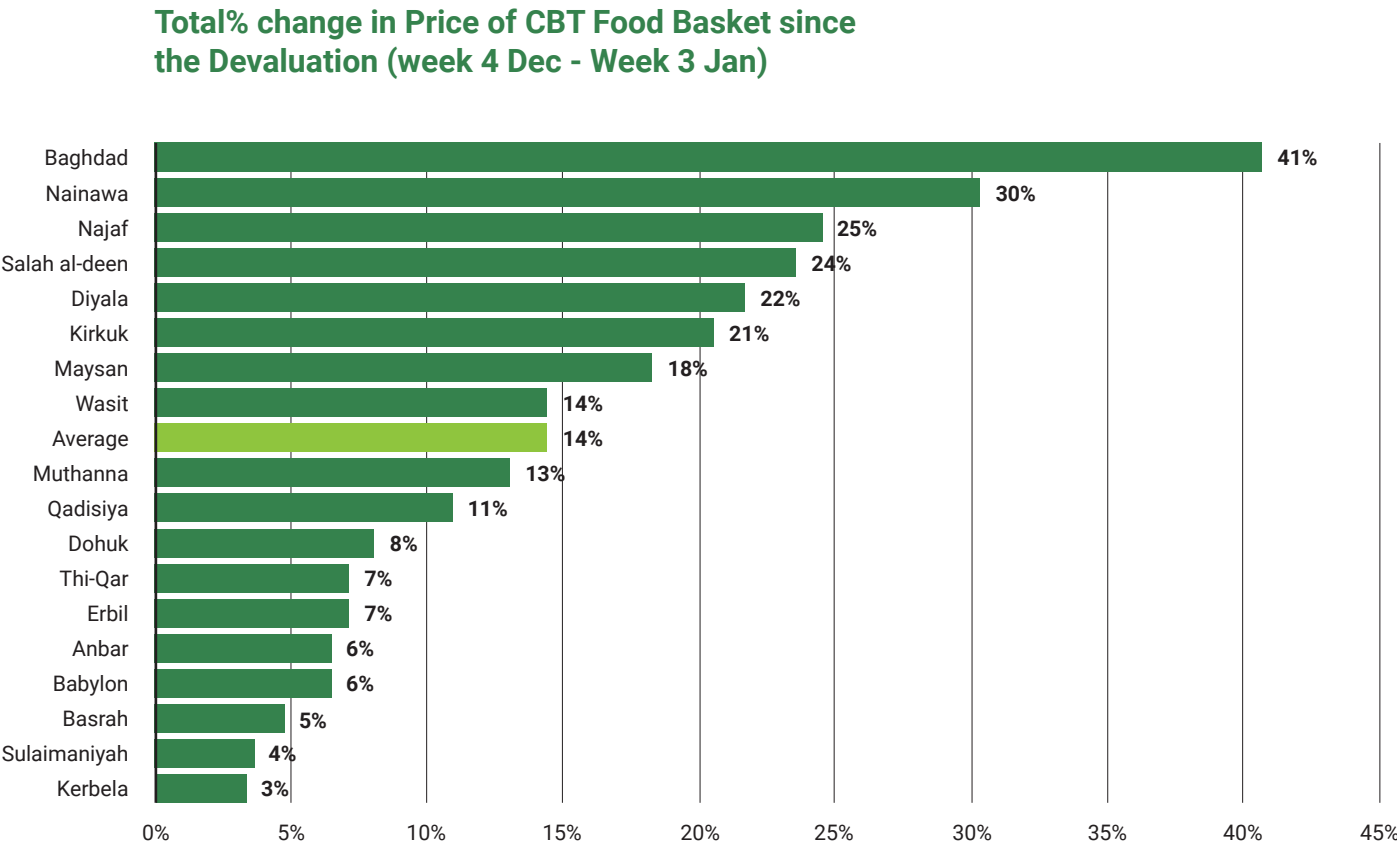
In the fifth week of December (two weeks after the devaluation) the average price of CBT Food Basket has increased further by 2 percent w/w, when compared to the previous week. In the first week of January 2021 (Three weeks post devaluation) prices had started to stabilise and remained stable throughout the second and third week of the month. The price of the CBT Food basket is expected to remain stable.



Baghdad and Dohuk, inflation had a lagged reaction to the devaluation of the currency. In the fourth week of December, immediately after the devaluation, the price of CBT Food Basket increased by only 4 percent week-on-week when compared to the fifth week of December (two weeks after the devaluation) where the price of CBT Food Basket surged by 36 percent week-on-week. Dohuk Governorate had a similar reaction, where on the fourth week of December the price of CBT Food basket increased by 5 percent week-on-week and on the fifth week of December it increased by 8 percent week-on-week.



Baghdad reported the highest total increase in CBT Food Basket by 41 percent since the beginning of the devaluation in the third week of December 2020 until the third week of January 2021. The lowest total increase for the same period of time was reported in Kerbala by 3 percent.





Vulnerable Populations and Coping Strategies

Despite the overall decrease in COVID-19 cases, WFP Hunger Monitoring System data on 31 December estimated around 8 percent of households, representing 3 million people in Iraq of which 731,000 are IDPs, did not have enough food to eat. This was an increase of approximately 0.6 million people compared to the third week of December. Significant increases in the number of internally displaced persons (IDPs) with insufficient food consumption were in Kirkuk: from 15 percent to 20 percent, and in Diyala from 14 percent to 17 percent of the population.

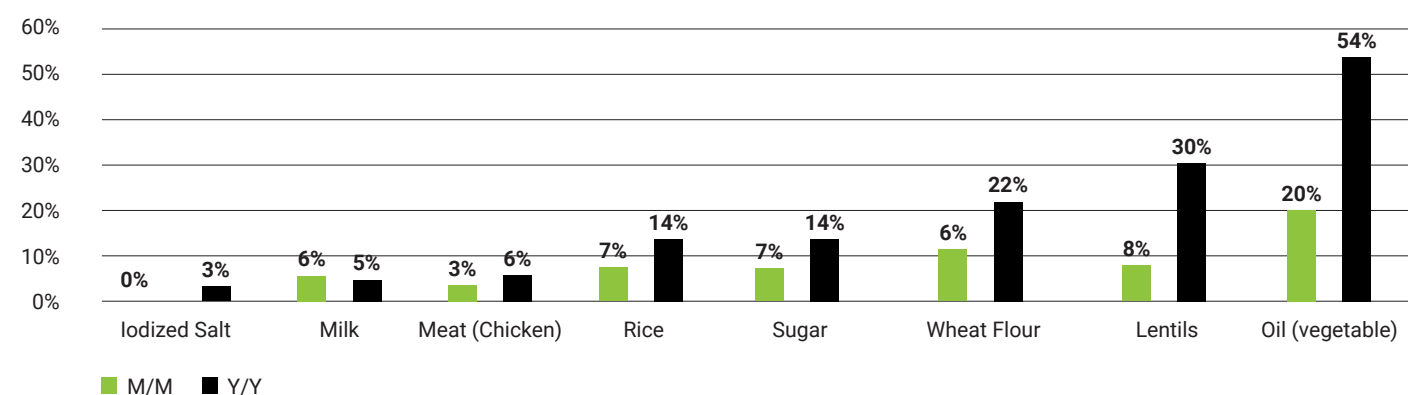
Additionally, overall, 10 percent of households reported adopting negative food-based coping strategies in December. Among those households, the most common strategy adopted was “relying on less expensive food” reported by 35 percent of the households and “borrowing food” reported by 27 percent of households.

The surge in the price of the CBT food basket is driven by the increase in oil (vegetable) and wheat flour, as they witnessed the highest increase in prices following the devaluation.

The commodity most affected by this inflationary pressure is vegetable oil with a 26 percent increase week-on-week in the fourth week of December, (one week following the devaluation), mostly driven by price increases in Babil, Baghdad, Wasit, Kerbala, Qadisiya and Salah Al-din governorates. the second significant price increases is recorded for wheat flour by 22 percent week-on-week for the same time period, followed by Lentils that increased 8 percent week-on-week. These three commodities also drove the year-on-year price increase of the food basket, where oil(vegetable) increased by 54 percent, followed by lentils 30 percent and wheat flour 22 percent year-on-year. The average wage to food basket ratio has decreased by 4 percent month-on-month in December 2020 compared to November and by 4 percent month-on-moth in January 2021 when compared to December. This amounts to a total of 9 percent decrease in the wage to food basket ratio reflecting that wages have not increased due to the devaluation, while the prices of food have inflated.



M/M and Y/Y Perct Increase in Price of CBT Basket Commodities on Jan 2021





On 29 January, the number of households using crisis or above crisis-level food-based coping decreased, by 55,700 week-on-week. In addition, the number of households with below crisis food-based levels or not using coping strategies was 5.45 million. Since 25 January, there are 2.17 million households who rely on less expensive food as a coping strategy, 1.68 million who borrow food, 1.18 million who limit their portion size, 781,000 who restrict their adult food consumption to feed children, and 593,000 households who reduced their number of meals.

In January, 85 percent (5.21 million) of households reported no challenges to accessing markets, but 14.6 percent (0.89 million) reported challenges to accessing markets, of which 3 percent indicated that grocery stores are too far, 1 percent were concerned about going out because of the COVID-19 outbreak, and 1 percent indicated that all adult members are quarantined in their house.

The government has put in place long and short-term initiatives, to curb the effect of inflation. These include the allocation of IQD 648 billion from the 2021 budget to subsidize three main commodities, sugar, vegetable oil and rice. Furthermore, government mulchers in Babil, Najaf and Maysan produced 2,000 mt of rice to be distributed to all governorates.

In Erbil, Kurdistan Region, the investment commission has allocated USD 12 million for 500 new projects, which focus on modernising and improving farming through developing a food industrial zone. In an effort to diversify its export portfolio, the Ministry of Agriculture announced the export of 2,000 mt of tomatoes to neighbouring Saudi Arabia through the Arar crossing port.

While these initiatives will have a long-term impact to improve the Iraqi economy, vulnerable populations will need a more immediate response to help address the increase in prices of essential food commodities.

Conclusion and Recommendations

Since the devaluation of the Iraqi currency, the price of the CBT Food Basket has increased by 14 percent. Though the prices are stabilizing, they are expected to remain at a new high level. This will directly impact the food security of vulnerable populations in Iraq, especially IDPs, returnees, refugees and other vulnerable Iraqis.

Based on the International Organization for Migration's Displacement Tracking Matrix, most IDPs are in the governorates of Ninewa, Duhok, Erbil and Sulaymaniyah while the returnees are concentrated in the governorates of Ninewa, Anbar, Salah al-Din and Diyala. The price increases in the areas hosting vulnerable population are higher.

It will be key to introduce import subsidies on essential food items, to help reduce the impact of the devaluation on the purchasing power of vulnerable Iraqis. It will also be vital to formulate policies to increase the contribution to GDP from sectors other than oil, and reduce economic dependency on oil exports through promoting local food production.

The Public Distribution System (PDS) is an important social safety net in Iraq that aims to provide four essential food items to almost all Iraqis, every month. Following the recommendations of Iraq's national white paper, focusing the PDS on the most vulnerable people will be necessary to increase the efficiency and effectiveness of the system, thereby supporting households most in need with the uninterrupted monthly provision of the required food items. Data-driven decision making and policy planning is also important. National level food security monitoring and early warning systems are required, linking key datasets and identifying triggers. It will allow Iraq to respond proactively to food security crises.

While the government is taking appropriate measures, humanitarian and development actors in the country also need to increase efforts to alleviate the impact of the devaluation on the vulnerable groups.



For more information, please contact:

Abdirahman Meygag
abdirahman.meygag@wfp.org

Fawad Raza
fawad.raza@wfp.org