INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/225

IRAQ

July 2016

FIRST AND SECOND REVIEWS OF THE STAFF-MONITORED PROGRAM AND REQUEST FOR A THREE-YEAR STAND-BY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR IRAQ

In the context of the first and second reviews of the Staff-Monitored Program and request for a three-year Stand-By Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 7, 2016 following discussions that ended on May 19, 2016, with the officials of Iraq on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on June 24, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Iraq.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Iraq*
Memorandum of Economic and Financial Policies by the authorities of Iraq*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

Press Release No. 16/321
FOR IMMEDIATE RELEASE
July 7, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$5.34 billion Stand-By Arrangement for Iraq

The Executive Board of the International Monetary Fund (IMF) today approved a three-year Stand-By Arrangement (SBA) for Iraq for SDR 3.831 billion (about US$5.34 billion, or 230 percent of quota) to support the government's economic reform program. The Board's approval enables the disbursement of SDR 455 million (about US$634 million). In July 2015, Iraq received disbursement under the Rapid Financing Instrument equivalent to SDR 891.3 million (about US$1.24 billion at the time of approval).

Iraq's economic reform program supported by the SBA aims to address the urgent balance of payments need, bring spending in line with lower global oil prices, and ensure debt sustainability. The program also includes measures to protect the poor, strengthen public financial management, enhance financial sector stability, and curb corruption. Iraq will require the support of the international community to implement these policies.

The IMF's Management today also completed the first and second reviews of the Staff-Monitored Program (SMP) with Iraq that was approved by the Managing Director on January 12, 2016. (See Press Release No. 16/04).

Following the Executive Board's decision, Mr. Min Zhu, Deputy Managing Director and Acting Chair of the Board, issued the following statement:

"The Iraqi economy has been hit hard by the double shock arising from the ISIS attacks and the sharp drop in global oil prices.

"The policies put in place by the authorities to deal with this double shock are appropriate. In the fiscal area, the authorities are implementing sizable fiscal adjustment, mostly through inefficient capital expenditure retrenchment while protecting social spending, and financing. In the external area, the authorities are maintaining the peg to the U.S. dollar, which provides a key anchor to the economy.

"The fiscal adjustment envisaged in 2016–19 is appropriate to address the pressure from lower oil revenue and higher humanitarian and security spending. But the composition of the fiscal adjustment should be improved over time, in order to make room for increased but more efficient investment expenditure. Overhaul of the public financial management system is necessary to improve fiscal discipline and the quality of spending. Implementation of the budget-sharing agreement with the Kurdistan Regional Government will put both the federal government and the Kurdistan Regional Government in a better position to address the ISIS attacks and the oil-price shock.

"The accumulation of large external arrears to international oil companies and domestic arrears in 2015 was unfortunate. Existing arrears should be paid down, following a due process of checking their validity, and the implementation of controls to prevent further accumulation of arrears to international oil companies and domestic suppliers. The prevention of future external arrears would ensure that the envisaged oil revenue stream—needed to finance public expenditure and imports—is achieved; the prevention of future domestic arrears would preserve financial sector stability.

"To strengthen growth and financial sector stability, the legal framework of the Central Bank of Iraq needs to be strengthened, state-owned banks need to be restructured, and exchange restrictions need to be gradually removed. Additionally, measures need to be implemented to prevent money-laundering, counter the financing of terrorism, and strengthen the anti-corruption legislation."

ANNEX

Recent Economic Developments

Iraq has been hit hard by the conflict with ISIS and the precipitous fall in oil prices. The ongoing armed conflict with ISIS continues to strain the country's resources and is resulting in new waves of internally displaced people, now reaching over 4 million. Around 10 million people, comprising some 27 percent of the population, are in need of humanitarian assistance. The steep fall in oil prices is causing a large external shock to the balance of payments and budget revenue, which depend predominantly on oil export receipts. Real GDP contracted by 2.4 percent in 2015, in spite of a 13 percent increase in oil production. The non-oil economy experienced broad-based economic contraction (-19 percent) as a result of the conflict with ISIS and the ongoing fiscal consolidation.

The authorities are responding to these challenges with a mix of fiscal adjustment and financing, while maintaining their commitment to the exchange rate peg and protecting social spending such as health, education, food and agricultural subsidies, and transfer to internally displaced people and refugees.

Program Summary

The economic program aims to stabilize the Iraqi economy which has been hit by the double shock of a steep decline in oil prices and ongoing ISIS conflict. The program is centered around four pillars:

Managing external pressures. Key measures include maintaining the exchange rate peg as the key nominal anchor; gradually removing the remaining exchange restrictions; and strengthening the anti-money laundering and combatting of financing of terrorism (AML-CFT) framework to stem illegal and speculative demand on foreign exchange.

Implementing fiscal consolidation while protecting the poor. The government will continue to implement fiscal consolidation, mostly through inefficient capital expenditure retrenchment, while protecting social spending. This will help to bring spending to a sustainable level given the much lower level of oil revenue. The government will also design and implement deeper grounded revenue and expenditure reforms to hold the lid on the non-oil primary balance and achieve debt sustainability. Efforts are underway to implement the budget-sharing agreement with the Kurdistan Regional Government.

Strengthening public financial management and curbing corruption. To improve fiscal discipline and the quality of spending, the Ministry of Finance will strengthen public financial management legislation, report fiscal tables in compliance with international standards, enhance commitment controls and cash management, conduct regular surveys and audits to monitor and curb arrears, reform public investment management, and improve debt management with the help of technical assistance.

Monitor financial risks to preserve financial sector stability. Important steps are being taken to strengthen the legal framework of the Central Bank of Iraq following on the Fund's recent safeguards assessment, as well as to restructure state-owned banks and strengthen prudential standards and bank supervision with the support of external consultants. Additionally, measures will need to be implemented to prevent money-laundering, counter the financing of terrorism, and strengthen the anti-corruption legislation to help improve the integration of Iraq's financial system into the global economy.

Additional Background

Iraq became a member of the IMF on December 27, 1945 and has an IMF quota of SDR 1,663.80 million (about US$2.32 billion).

For additional background on the IMF and Iraq see:

http://www.imf.org/external/country/irq/

Table 1. Iraq: Selected Economic and Financial Indicators, 2013–21

(Quota: SDR 1,663.8 million)

(Population: 34.3 million; 2014)

(Poverty rate: 23 percent, 2014)

(Main export: Crude oil)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
			Est.	Prog.	Prog.	Proj.	Proj.	Proj.	Proj.
Economic growth and prices									
Real GDP (percentage change)	7.6	-0.4	-2.4	10.3	0.5	0.7	2.0	1.9	2.0
Non-oil real GDP (percentage change)	12.4	-5.1	-18.7	-5.0	0.0	2.0	3.0	4.0	4.0
GDP deflator (percentage change)	0.0	-4.7	-27.0	-13.2	7.8	5.3	5.0	5.2	4.7
GDP per capita (US$)	7,021	6,492	4,514	4,161	4,395	4,542	4,745	4,962	5,164
GDP (in ID trillion)	273.6	259.5	185.1	177.1	191.8	203.4	217.9	233.8	249.6
Non-oil GDP (in ID trillion)	148.0	142.6	123.4	122.3	127.5	135.7	145.7	158.0	171.4
GDP (in US$ billion)	234.6	222.5	158.7	150.1	162.6	172.4	184.7	198.1	211.5
Oil production (mbpd) [1/]	3.0	3.1	3.5	4.2	4.2	4.2	4.3	4.3	4.4
Oil exports (mbpd) [2/]	2.4	2.5	3.0	3.6	3.6	3.6	3.6	3.6	3.6
Iraq oil export prices (US$ pb)	102.9	97.0	47.5	34.5	40.3	42.5	44.6	46.4	47.5
Consumer price inflation (percentage change; end of period)	3.1	1.6	2.3	2.0	2.0	2.0	2.0	2.0	2.0
Consumer price inflation (percentage change; average)	1.9	2.2	1.4	2.0	2.0	2.0	2.0	2.0	2.0
				(In percent of GDP)					
National Accounts									
Gross domestic investment	26.9	27.0	27.5	21.9	20.8	20.2	19.7	19.3	18.9
Of which: public	17.4	19.3	18.2	12.4	11.7	11.1	10.6	10.2	9.8
Gross domestic consumption	69.5	72.1	79.0	88.8	85.0	85.0	84.3	83.6	82.3
Of which: public	21.0	19.0	24.9	29.4	26.7	24.9	22.9	21.0	19.4
Gross national savings	28.3	26.2	21.0	10.9	11.5	14.3	15.2	16.0	17.7
Of which: public	11.4	14.0	4.1	-1.9	0.5	5.2	7.2	8.6	9.6
Saving - Investment balance	1.4	-0.8	-6.4	-11.0	-9.2	-5.9	-4.5	-3.3	-1.3
				(In percent of GDP, unless otherwise indicated)					
Public Finance									
Government revenue and grants	42.2	40.2	34.3	36.2	38.7	38.5	38.2	37.3	36.1
Government oil revenue	38.6	38.0	31.2	32.0	34.4	34.2	33.9	32.9	31.5
Government non-oil revenue	3.5	2.3	3.1	4.2	4.3	4.3	4.3	4.4	4.5
Expenditure, *of which:*	48.0	45.8	48.5	50.8	49.8	44.5	41.8	39.1	36.7
Current expenditure	30.6	26.5	30.3	38.4	38.1	33.4	31.2	28.9	26.9
Capital expenditure	17.4	19.3	18.2	12.4	11.7	11.1	10.6	10.2	9.8
Overall fiscal balance (including grants)	-5.8	-5.6	-14.3	-14.7	-11.1	-6.0	-3.6	-1.8	-0.6

Non-oil primary fiscal balance (percent of non-oil GDP)	-67.6	-58.7	-51.6	-53.3	-50.2	-46.4	-42.5	-38.5	-34.8
Adjusted non-oil primary fiscal balance (percent of non-oil GDP) [3/]	-67.6	-67.1	-53.6	-53.3	-50.2	-46.4	-42.5	-38.5	-34.8
Adjusted non-oil primary expenditure (percent of non-oil GDP) [3/]	74.1	71.3	58.3	59.4	56.6	52.8	48.9	45.0	41.3
Adjusted non-oil primary expenditure (annual real growth, percent) [3/]	17.2	-9.4	-30.1	-1.2	-2.6	-2.6	-2.5	-2.2	-2.3
Memorandum items:									
Development Fund of Iraq/MoF US$ account (in US$ billions) [4/]	6.3	0.7	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Total government debt (in percent of GDP) [5/]	31.2	33.5	63.9	79.0	84.0	85.2	83.1	79.3	74.9
Total government debt (in US$ billion) [5/]	73.1	74.6	100.2	118.5	136.5	146.9	153.5	157.1	158.4
External government debt (in percent of GDP)	25.3	25.9	42.3	47.7	49.6	49.1	44.8	39.2	33.1
External government debt (in US$ billion)	59.3	57.6	67.1	71.6	80.7	84.6	82.7	77.6	70.1
	(In percent, unless otherwise indicated)								
Monetary indicators									
Growth in reserve money	12.6	-9.6	-12.6	-3.5	2.8	9.2	7.4	7.6	10.4
Growth in broad money	15.9	3.6	-9.0	8.6	6.8	9.2	7.4	7.6	10.4
Policy interest rate (end of period)	6.0	6.0	6.0	…	…	…	…	…	…
	(In percent of GDP, unless otherwise indicated)								
External sector									
Current account	1.4	-0.8	-6.4	-11.0	-9.2	-5.9	-4.5	-3.3	-1.3
Trade balance	9.6	7.4	-0.1	-3.1	1.1	1.3	2.2	2.8	4.1
Exports of goods	38.3	37.7	31.1	30.4	32.8	32.6	32.1	31.1	30.8
Imports of goods	-28.7	-30.3	-31.2	-33.5	-31.7	-31.3	-30.0	-28.3	-26.6
Overall external balance	-1.3	-10.5	-9.3	-10.3	-7.4	-3.0	-2.4	-1.1	0.9
Gross reserves (in US$ billion) [6/]	77.8	66.7	53.4	42.7	40.1	39.3	35.4	31.5	31.6
In months of imports of goods and services	10.8	12.7	9.9	7.8	7.0	6.7	5.9	5.1	5.0
Exchange rate (dinar per US$; period average)	1,166	1,166	1,167	…	…	…	…	…	…
Real effective exchange rate (percent change, end of period) [7/]	6.5	4.6	7.5	…	…	…	…	…	…

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ Does not reflect KRG production during 2013 and 2014.

2/ Reflects KRG exports through State Organization for Marketing Oil (SOMO).

3/ Adjusted to account for a full year estimate of federal government transfers to the Kurdistan Regional Government in 2014 and 2015, for which actual transfers were made for only 2 and 5 months, respectively.

4/ Reflects the balances of the Development Fund of Iraq which were moved from the Federal Reserve Bank of New York to the CBI as a US$ account (US$ balances from oil revenues) in May 2014.

5/ Includes arrears.

6/ Starting 2014 includes US$ account balances from oil revenues. Starting Q3 2015, SDRs and reserve position in the Fund are excluded from the definition per instruction from the Central Bank of Iraq.

7/ Positive means appreciation.

INTERNATIONAL MONETARY FUND

IRAQ

June 24, 2016

FIRST AND SECOND REVIEWS OF THE STAFF-MONITORED PROGRAM AND REQUEST FOR A THREE-YEAR STAND-BY ARRANGEMENT

KEY ISSUES

Context: Iraq is facing a double shock arising from the ISIS attacks and the sharp drop in global oil prices. The conflict is hurting the non-oil economy through displacement and impoverishment of millions of people, and destruction of infrastructure and assets. The oil price decline has resulted in a massive reduction in budget revenue, pushing the fiscal deficit to an unsustainable level. The authorities are responding to the crisis with a mix of necessary fiscal adjustment and financing, maintaining their commitment to the exchange rate peg. The peg provides a key nominal anchor in a highly uncertain environment with policy capacity weakened by the conflict with ISIS.

Staff-Monitored Program: To help address this double shock, the authorities started a Staff-Monitored Program (SMP) in November 2015 to establish a track record of policy credibility and pave the way to a possible Fund financing arrangement. Their performance under the SMP has been broadly satisfactory.

Outlook and Risks: With the current outlook for moderately higher oil prices, and assuming that the authorities implement the programmed fiscal consolidation, the budget deficit can be reduced from 14 percent of GDP in 2015 to less than 1 percent of GDP by 2021, the public debt can be stabilized by 2018 and the balance of payments brought back into surplus by 2021. But risks remain very high, arising primarily from a further fall in oil prices, worsening of the conflict, political tensions, and weak administrative capacity.

Stand-By Arrangement: To close a financing gap of $18.1 billion during 2016–19, the authorities request a three-year Stand-By Arrangement (SBA) with access to IMF credit amounting to SDR 3.831 billion (about US$5.4 billion, or 230 percent of quota). Financing assurances are in place to fully close the financing gap for the next 18 months.

Key Policy Recommendations:

- Reduce overall spending to a sustainable level by freezing expenditures in nominal terms at the aggregate level executed in 2015 in order to restore fiscal balance over the medium term.
- Protect social spending.
- Overhaul Public Financial Management (PFM) to prevent the accumulation of arrears and improve the quality of spending.
- Initiate the restructuring of the state-owned banks that dominate the banking system.

Approved By
Aasim M. Husain and Vitaliy Kramarenko

Discussions took place in Amman during March 15–30, 2016, in Washington, D.C. during April 14–17, 2016, and in Amman during May 14–19, 2016. Staff representatives comprised Christian Josz (head), Ritu Basu, Amgad Hegazy (all MCD), Csaba Feher (FAD), Christiane Kneer (SPR), and Marwa Alnasaa (Resident Representative for Iraq based in Amman). Maya Choueiri (Senior Advisor, OED) joined the mission. Vanessa J. Panaligan, Cecilia Pineda, and Gregory Basile assisted in the preparation of the report.

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ANNEX

APPENDIX

BACKGROUND: IRAQ IS FACING AN ACUTE FISCAL AND BALANCE OF PAYMENTS CRISIS

1. **The economy has been hit hard by the collapse in oil prices and the ISIS attacks**. The external environment has worsened since the agreement on the SMP,[1] mainly owing to further weakening of global oil prices. The ongoing armed conflict with ISIS continues to strain the country's resources and is resulting in new waves of internally displaced people. Iraq's political situation remains volatile.

A. Background

2. **Iraqi forces are making progress in retaking territories controlled by ISIS.** In January, the Iraqi forces and their allies retook control of Ramadi, west of Baghdad. They have launched a military campaign to recoup the city of Fallujah, 50 km west of Baghdad.

3. **The ISIS attacks have boosted the number of internally displaced persons to 4 million and the number of people in need of humanitarian assistance to 10 million (27 percent of the population) including 250,000 Syrian refugees** (Memorandum of Economic and Financial Policies—MEFP, ¶3). Refugees, 60 percent of whom are women and children, mostly reside in the north, including the Kurdistan Regional Government (KRG) where they have been granted residency status including rights to work. This refugee inflow is adding to the already difficult internal humanitarian situation faced by the Iraqi government. According to a recent survey, 48 percent of Iraqis, equal to 18 million people, wish to emigrate.

4. **In response to escalating protests against the lack of progress to address widespread corruption, inefficiency, and low quality of government services, Prime Minister Abadi has proposed a cabinet reshuffle**. Negotiations have been ongoing since March 2016 among political parties to organize a possible cabinet reshuffle.

5. **Relations between the federal government in Baghdad and the KRG remain tense**. On the one hand, the KRG leadership announced a referendum on Kurdish independence. On the other hand, a high-level KRG delegation recently met with the federal government in Baghdad to discuss the resumption of the budget-sharing agreement between the KRG and the federal government. According to this agreement, the revenue from the oil extracted in the KRG accrues to the federal government and the federal government makes transfers to the KRG equivalent to 17 percent of non-sovereign spending in the federal budget.[2] At the level of oil prices in the 2016 budget, net flows would be in favor of the KRG since the oil revenue budgeted from KRG (ID 11 trillion in the 2016 budget) is lower than the transfers budgeted to the KRG (ID 13 trillion in the 2016 budget, Table 3). In

[1] See IMF Country Report No. 16/11. Iraq: Staff-Monitored Program-Press Release; and Staff Report.

[2] Non sovereign spending is defined as total spending minus expense of the Parliament, the Presidency, the Cabinet, the Ministry of Foreign Affairs, the Ministry of Defense, the Federal Court, several federal government commissions and debt service.

order to facilitate implementation of the budget sharing arrangement, both parties are considering netting out the KRG oil receipts, which the KRG plans to have audited by international audit companies starting on July 1st, 2016, with the budgetary transfers to which the KRG would be eligible under the budget sharing arrangement (MEFP, ¶19).

B. Recent Economic Developments

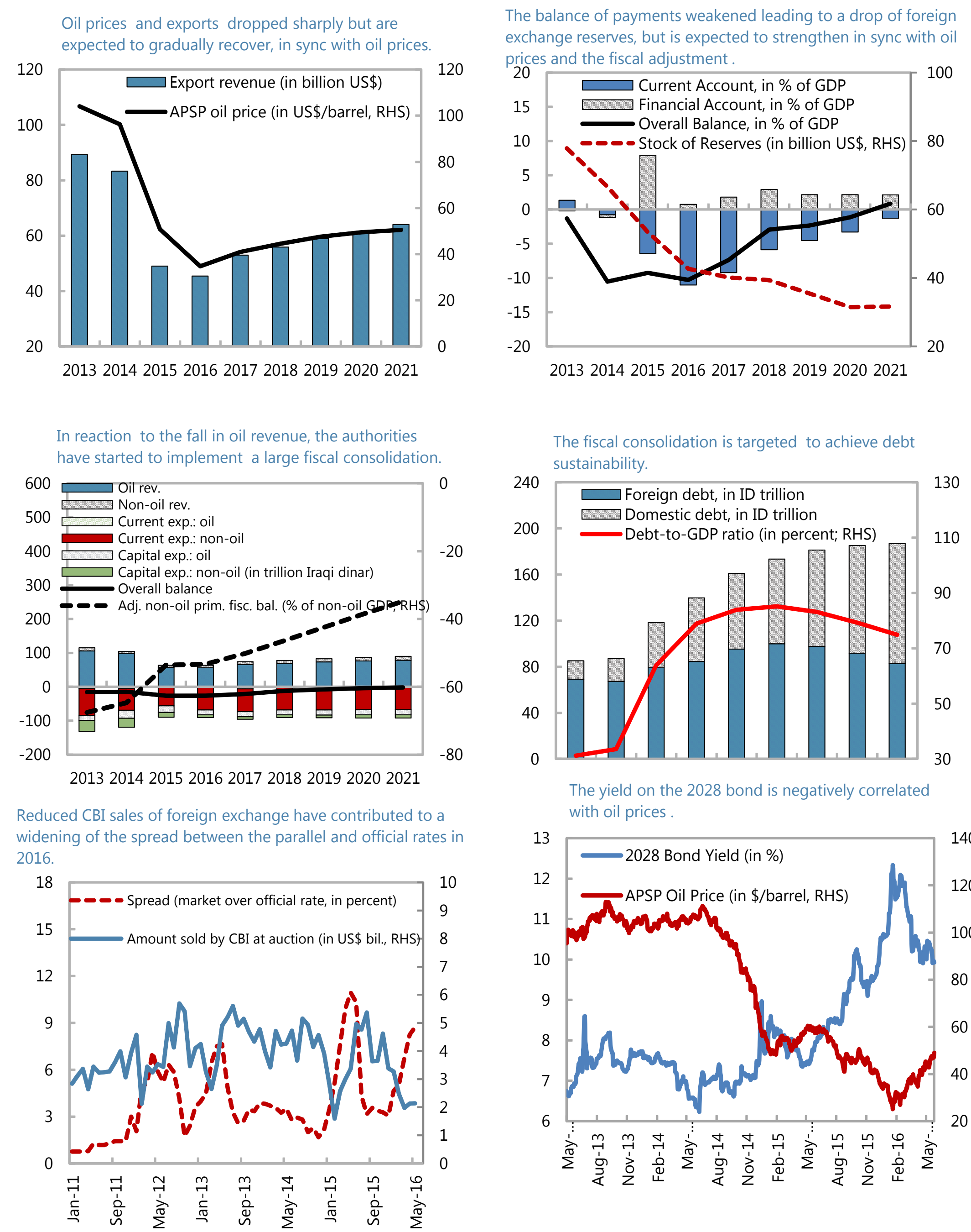
6. **In 2015, real GDP contracted by 2.4 percent, in spite of a 13 percent increase in oil production** (Text Table 1 and Tables 1–2). The non-oil economy experienced broad-based economic contraction (-19 percent) as a result of the war with ISIS and the ongoing fiscal consolidation (¶7). In January–May 2016, Iraq produced 4.4 mbpd, of which KRG and North and Midland Oil Companies were estimated to have produce 0.8 mbpd, and the federal government exported 3.3 mbpd, at an average price of $29 per barrel. In 2015, average consumer price inflation (CPI) was low at 1.4 percent, but was likely underestimated because CPI coverage excludes the areas occupied by ISIS, which were inhabited by about 20 percent of the population before the ISIS occupation. In April, the CPI increased by 1.9 percent year-on-year.

7. **In 2015, the fiscal deficit widened sharply to 14.3 percent of GDP because of the fall in oil prices, in spite of the large fiscal consolidation** (Tables 3–6). Faced with the precipitous fall in oil prices, the authorities cut adjusted[3] non-oil primary expenditure by 30 percent in real terms, mostly investment spending, reducing the adjusted non-oil primary balance (NOPB) by 13 percent of non-oil GDP relative to 2014. The resulting deficit was financed mostly by the issuance of Treasury bills subscribed and loans provided by the state-owned banks Rasheed and Rafidain (in an amount equivalent to 9.8 percent of GDP) of which 44 percent was refinanced at the discount window of the Central Bank of Iraq (CBI). The deficit was also financed by the drawdown of government deposits (2 percent of GDP), the accumulation of domestic and external arrears (respectively 2.8 and 2.2 percent of GDP), and two loans of $1.2 billion each from the IMF[4] and the World Bank. During the first quarter of 2016, the fiscal deficit amounted to 2.4 percent of (annual) GDP and the non-oil primary deficit to 5.6 percent of GDP as oil revenue was significantly less than programmed owing to the lower-than-programmed oil prices (¶6) and the authorities prioritized the payment of wages, pensions, transfers, and interest to the detriment of spending on goods and services and non-oil investment. Oil investment continued to be executed and was mainly financed by the accumulation of arrears to international oil companies (IOCs, ¶12).

[3] To facilitate comparison over time, adjusted to account for a full-year estimate of federal government transfers to the KRG in 2014 and 2015, for which actual transfers were made for only 2 and 5 months, respectively.

[4] See IMF Country Report No. 15/235. Iraq: 2015 Article IV Consultation and Request for Purchase under the Rapid Financing Instrument.

Figure 1. Iraq: Recent Economic Developments and Outlook, 2013–21



Sources: Iraqi authorities; Bloomberg; and IMF staff calculations.

8. **The current account deficit widened to 6.4 percent of GDP in 2015 owing to the fall in oil prices** (Table 7). The deficit was financed mainly by the drawdown of $10 billion of commercial banks' foreign exchange assets and $13 billion of official foreign exchange reserves, which fell to $53 billion (10 months of imports of goods and services) at end-2015 and further to $50 billion at end-March 2016.[5] Iraq's official foreign exchange reserves represented 195 percent of the standard reserve adequacy metric (RA) metric at end-2015, which is above the 100–150 percent adequacy range. At the same time, reserves amounted to 125 percent of the adjusted RA metric for oil exporters, which is within the adequacy range (Table 13). The commodity-related reserve buffer is very important for Iraq's economy, which is highly dependent on oil.

9. **Broad money contracted by 9 percent in 2015,** reflecting the reduction of commercial banks' and official foreign exchange assets and the weakness of non-oil economic activity (Tables 8–9).

10. **The spread between the official and parallel exchange rates increased from 3 percent on average in December to about 9 percent in May** as the CBI decreased the volume of its auctions of foreign exchange on the official market (Figure 1).

11. **The yield on Iraqi dollar bonds maturing in 2028 doubled from 6 percent in June 2014 to 12 percent in December 2015 and then receded to 11 percent in May 2016** in sync with the movement of oil prices (Figure 1).

C. Performance Under the Staff-Monitored Program (SMP)

12. **The authorities' performance under the SMP has been broadly satisfactory, taking into account the rapid fall in oil prices and the difficult security situation** (MEFP, Tables 1–2 and ¶11):

- The authorities met three out of the five indicative targets (IT) both at end-December 2015 and end-March 2016 on the non-oil primary fiscal balance,[6] gross official reserves, and net domestic assets of the CBI, owing to the under execution of expenditure on wages, pensions, goods and services, and transfers. The target on social spending was missed by a small margin in December 2015 (the non-oil fiscal balance targets would have been comfortably met even without this under spending). The target on zero accumulation of external arrears was missed due to the government's cash constraint; the authorities accumulated $3.6 billion of arrears to international oil companies (IOCs) at end-December 2015, rising to $4.7 billion at end-March 2016. The authorities have committed to pay all the outstanding arrears to IOCs by end-September 2016 (performance criterion—PC, MEFP, Table 3) and to not accumulate any new external arrears (continuous PC, MEFP, Table 3) to ensure timely oil investment and oil revenue, which will remain the main source of financing for Iraq's public spending and imports.

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[5] The true current account deficit may have been wider in 2015, in light of the large errors and omissions ($17 billion or 10.8 percent of GDP) in the balance of payments, which may stem from unrecorded imports or capital outflows.

[6] The non-oil primary fiscal balance is defined as the difference between non-oil revenue and non-oil primary expenditure, i.e. excluding interest payment, see Technical Memorandum of Understanding (TMU), ¶8.

- All three structural benchmarks (SB) for the first SMP review were met: the Ministry of Planning completed a survey of domestic arrears on non-oil investment spending: they amounted to ID 7.5 trillion ($6.4 billion or 4 percent of GDP) at the end of February 2016; the Ministry of Finance and the CBI compiled a list of all bank accounts controlled by the Ministry of Finance and all spending and sub-spending units of the central government: the money deposited in these accounts amounted to ID 9.3 trillion (5 percent of GDP) at the end of 2015; and the state-owned banks Rasheed and Rafidain appointed an external auditor to audit their 2014 financial statements according to international standards. The approval of a draft financial management law by the Minister of Finance in line with IMF and World Bank comments, the only SB for the SMP 2nd review, has not yet been met. Preparatory work has been ongoing with the IMF technical assistance and it is a SB for the first review of the SBA (MEFP, Table 5).

D. Outlook

13. **The outlook has been revised significantly—mostly downward—since the SMP approval**. (Text Table 1 and Tables 1–9):

- Nominal GDP was revised downwards in 2015 because of a much deeper contraction of non-oil real GDP (-19 percent rather than -8 percent).
- Iraqi oil prices, which have been $7 lower than the Average Petroleum Spot Price[7] so far in 2016, were revised downwards too in line with the lower global oil price outlook.
- Iraqi oil production (4.2 mbpd) is now forecasted to stay close to the January–May 2016 level over the next five years because increasing oil production as previously envisaged would require a doubling of oil investment, which the authorities recognize is infeasible given the fiscal outlook.

Text Table 1. Iraq: Selected Economic Indicators, 2013–21

	2013	2014	2015		2016		2017	2018	2019	2020	2021
		Est.	Prog. 1/	Est.	Prog. 1/	Rev. Prog.	Prog.	Proj.			
Real GDP Growth (percent)	7.6	-0.4	1.5	-2.4	10.6	10.3	0.5	0.7	2.0	1.9	2.0
Non-oil real GDP (percent)	12.4	-5.1	-8.0	-18.7	0.0	-5.0	0.0	2.0	3.0	4.0	4.0
Inflation (eop, y-o-y)	3.1	1.6	3.0	2.3	3.0	2.0	2.0	2.0	2.0	2.0	2.0
Oil production (mbpd)	3.0	3.1	3.4	3.5	4.1	4.2	4.2	4.2	4.3	4.3	4.4
Oil exports (mbpd)	2.4	2.5	2.9	3.0	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Iraq oil export prices (US$ pb)	102.9	97.0	50.1	47.5	45.0	34.5	40.3	42.5	44.6	46.4	47.5
Fiscal balance (percent of GDP)	-5.8	-5.6	-14.5	-14.3	-10.2	-14.7	-11.1	-6.0	-3.6	-1.8	-0.6
Non-oil primary fiscal balance (percent of non-oil GDP)	-67.6	-58.7	-52.1	-51.6	-56.3	-53.3	-50.2	-46.4	-42.5	-38.5	-34.8
Adjusted non-oil primary fiscal balance (percent of non-oil GDP) 2/	-67.6	-67.1	-56.2	-53.6	-56.3	-53.3	-50.2	-46.4	-42.5	-38.5	-34.8
Adjusted non-oil primary expenditure (annual real growth, percent) 2/	17.2	-9.4	-21.9	-30.1	2.8	-1.2	-2.6	-2.6	-2.5	-2.2	-2.3
Total government debt (percent of GDP)	31.2	33.5	61.7	63.9	66.0	79.0	84.0	85.2	83.1	79.3	74.9
Current account balance (percent of GDP)	1.4	-0.8	-7.0	-6.4	-5.5	-11.0	-9.2	-5.9	-4.5	-3.3	-1.3
Gross international reserves (billion US$)	77.8	66.7	51.1	53.4	42.5	42.7	40.1	39.3	35.4	31.5	31.6
Gross international reserves (months of imports of goods and services)	10.8	12.7	8.4	9.9	6.8	7.8	7.0	6.7	5.9	5.1	5.0
Initial Financing gap (billion US$)	0.0	0.0	0.0	0.0	0.0	4.9	8.4	3.5	1.3	0.0	0.0
Remaining financing gap (billion US$)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.5	0.6	0.0	0.0
Sensitivity of financing gap per $1 of oil price change (in $ billion)	0.0	0.0	0.0	0.0	0.0	0.7 3/	1.3	1.3	1.3	1.3	1.3

Sources: Iraqi authorities; and Fund staff estimates.

1/ IMF Country Report No. 16/11. Iraq: Staff-Monitored Program.

2/ Adjusted to account for a full year estimate of federal government transfers to the Kurdistan Regional Government in 2014 and 2015, for which actual transfers were made for only 2 and 5 months, respectively.

3/ Half year effects.

[7] Simple average of UK Brent, Dubai Fateh, and West Texas Intermediate.

- Assuming that the authorities implement a fiscal consolidation that is tantamount to freezing nominal expenditure at the level executed in 2015 (through measures discussed below), the fiscal deficit can be limited to 14.7 percent of GDP and the current account deficit to 11.0 percent of GDP in 2016. The fiscal deficit will be financed mainly by recourse to domestic financing (¶19) but also external financing catalyzed by the SBA (¶29).

- The proposed fiscal retrenchment in 2016 is projected to result in a further 5 percent contraction of non-oil real GDP in 2016. With past and ongoing oil investment approved in the 2016 budget, oil production should increase by 20 percent, implying overall real GDP growth of 10 percent in 2016.[8]

- In the medium term, the outlook should improve as oil prices recover somewhat, structural reforms are implemented, and progress is made to retake territories controlled by ISIS. The programmed increase in oil price and the fiscal consolidation—which would need to be continued after the program period—would reduce the fiscal deficit to less than 1 percent of GDP and bring the balance of payments back into surplus by 2021. Public debt would peak at 85 percent of GDP in 2018, and gross official foreign exchange reserves would bottom out at $31 billion (5.1 months of imports of goods and services) in 2020.

- While Iraq will have to use its reserve buffers to smooth adjustment to the shock, foreign exchange reserves are expected to remain broadly adequate over the forecast horizon provided the envisaged fiscal adjustment takes place, the external financial support materializes, and oil price and production assumptions hold (Table 13).

14. **The outlook is subject to both downside and upside risks.** On the one hand, an escalation of the conflict with ISIS and/or worsening of the security situation in the south of the country could weaken growth, public finances and the balance of payments. A further decline in oil prices or a shortfall in projected financing or in oil production would necessitate larger indirect monetary financing and faster drawdown of official foreign exchange reserves. On the other hand, any increase in oil prices by $1 would increase annual oil revenue by $1.3 billion (Text Table 1). The program design is such that the additional revenue flowing from higher than programmed oil prices would be saved to reduce reliance on reserve buffers (¶19). This policy response will be revisited in subsequent reviews if oil prices were consistently above the program assumptions.

[8] While ambitious, the 4.2 mbpd average oil production programmed for 2016 is realistic as it was already exceeded in January–May 2016 (¶6).

ECONOMIC POLICIES TO ADDRESS THE CRISIS

The objective of the program is to achieve debt sustainability and preserve external stability while protecting social spending to maintain social cohesion. The authorities are responding to the crisis with a mix of necessary fiscal adjustment and financing, while maintaining their commitment to the exchange rate peg and protecting social spending, i.e. spending on health and education, food and agricultural subsidies, and transfers to internally displaced people and refugees. The program also aims to strengthen public financial management as well as financial sector stability and development.

A. Managing External Pressures

15. **The authorities are committed to maintaining the Iraqi Dinar's peg to the U.S. dollar** (MEFP, ¶13). The peg provides a key nominal anchor in a highly uncertain environment with policy capacity weakened by the conflict with ISIS. In these circumstances, accommodating external shocks through more exchange rate flexibility is not advisable. While devaluation could aid fiscal adjustment—provided the government could resist subsequent pressures to raise wages and other budget allocations—it would risk exacerbating already difficult social tensions as it would trigger a spike in inflation since most food and consumer items are imported. Moreover, devaluation would have little impact on exports, which are almost exclusively oil and oil-related products.

16. **The authorities will gradually remove remaining exchange restrictions and multiple currency practice (MCP)** (MEFP, ¶14). Such a move towards acceptance of the obligations under Article VIII of the IMF's Articles of Agreement will send a positive signal to the investor community that Iraq is committed to maintain an exchange system that is free of restrictions and MCPs for current international transactions and thus facilitate creation of a favorable business climate.[9] As a first step, the Council of Ministers will approve and introduce to parliament an amendment of the Investment Law, or the CBI will issue clarifying implementing regulations, to remove the limitation on transfer of investment proceeds that gives rise to an exchange restriction (SB, Table 5), as recommended by a recent technical assistance mission of the IMF. As a second step, the CBI will increase the sale of foreign exchange for valid current exchange transactions on the official market in order to reduce the spread between the official and parallel exchange rates (¶10). In particular, the CBI will, by the end of 2016, make the weekly limits on the purchase of cash at the weekly foreign currency auctions indicative, in the sense that any bank requiring additional cash for legitimate travel expenses for its clients will be able to obtain the required amount above these limits on the basis of appropriate documentation.

[9] Staff has received communication from the authorities indicating that the exchange restriction arising from the inoperative bilateral payments agreement with Jordan has been removed and is awaiting further documentation confirming this fact.

B. Implementing Fiscal Consolidation to Achieve Debt Sustainability

17. **In order to maintain macroeconomic stability, the government will continue to implement a large fiscal consolidation to bring spending to a sustainable level given the much lower level of oil revenue** (MEFP, ¶¶15–16; Text Table 2 and Tables 3–6). This will require: (i) a sizable further reduction in the adjusted non-oil primary balance (PC, MEFP, Table 3), of about 11 percent of non-oil GDP (ID 4.3 trillion, or $3.6 billion) over 2016–19; and (ii) a large increase in mostly domestic but also external financing over the short run that will remain compatible with debt sustainability in the medium run (¶22). The ongoing fiscal consolidation in reaction to cash constraints is bringing the non-oil primary balance closer to a level aligned with sustainable public spending under the permanent income hypothesis (PIH).[10] In order to minimize the impact of the fiscal consolidation on the population, the government will protect social spending, i.e., spending on health and education, transfers in support of the social safety net and assistance for internally displaced persons and refugees (MEFP, IT, Tables 3 and 4).

Text Table 2. Iraq: Summary of Central Government Fiscal Accounts, 2013–21

(In trillions of Iraqi dinars; unless otherwise indicated)

	2013	2014	2015		2016		Adjustment		2017	2018	2019	2020	2021
			Prog.[1/]	Est.	Prog.[1/]	Rev. Prog.			Prog.		Proj.		
			(a)	(b)	(c)	(d)	(d) - (c)	(d) - (b)					
Revenues and grants	115	104	62	63	82	64	-18	1	74	78	83	87	90
Oil revenue	106	99	55	58	73	57	-16	-1	66	70	74	77	79
Non-oil revenue	10	6	7	6	9	7	-1	2	8	9	9	10	11
Expenditures	131	119	91	90	103	90	-13	0	95	91	91	91	92
Current expenditures	84	69	66	56	77	68	-9	12	73	68	68	68	67
Wages	33	32	34	33	39	36	-3	3	35	35	34	33	33
Pensions	9	8	12	9	12	10	-2	1	10	10	10	10	10
Goods and services	16	9	5	4	8	6	-2	2	6	6	6	6	6
Transfers	20	14	13	9	16	13	-2	5	13	13	13	13	13
Interest payments	1	1	2	1	3	3	0	1	3	4	5	5	6
War reparations (payments to Kuwait)	5	5	0	0	0	0	0	0	5	0	0	0	0
Investment expenditures	48	50	25	34	26	22	-4	-12	22	23	23	24	24
Oil-related	15	24	14	19	15	15	0	-4	15	15	15	15	15
Non-oil related	32	26	11	15	11	7	-4	-7	8	8	8	9	9
Balance (including grants)	-16	-15	-29	-26	-21	-26	-5	0	-21	-12	-8	-4	-2
Financing	17	19	29	26	21	26	5	0	21	12	8	4	2
External financing	13	6	-2	3	2	-1	-3	-5	1	1	-4	-6	-9
Domestic financing	5	13	31	23	20	22	2	-2	11	8	10	10	10
Initial Financing gap	0	0	0	0	0	6	6	6	10	4	2	0	0
Remaining financing gap	0	0	0	0	0	0	0	0	0	6	1	0	0
Memorandum items:								0					
Non-oil primary expenditure [2/]	110	90	75	69	86	73	-13	3	72	72	71	71	71
Transfers to KRG	16	3	3	3	13	10	-3	7	10	10	10	10	10
Adjusted non-oil primary expenditure [3/]	110	102	78	72	86	73	-13	1	72	72	71	71	71
Adjusted non-oil primary expenditure (annual real growth, percent) [3/]	17	-9	-25	-30	7	-1	-8	29	-3	-3	-2	-2	-2
Non-oil primary fiscal balance [4/]	-100	-84	-69	-64	-77	-65	12	-1	-64	-63	-62	-61	-60
Adjusted non-oil primary fiscal balance [3/]	-100	-96	-74	-66	-77	-65	12	1	-64	-63	-62	-61	-60
Adjusted non-oil primary fiscal balance (percent of non-oil GDP) [3/]	-68	-67	-56	-54	-56	-53	3	0	-50	-46	-42	-38	-35
Public Debt (percent of GDP)	31	34	62	64	66	79	13	15	84	85	83	79	75
Gross International Reserves (US$ billion)	78	67	51	53	43	43	0	-11	40	39	35	31	32

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ IMF Country Report No. 16/11. Iraq: Staff-Monitored Program.

2/ Excludes interest payments, oil related spending and war reparations to Kuwait from total expenditure.

3/ Adjusted to account for a full year estimate of federal government transfers to the Kurdistan Regional Government in 2014 and 2015, for which actual transfers were made for only 2 and 5 months, respectively.

4/ Difference between non-oil revenue and non-oil primary expenditure.

[10] Under the PIH, with the present path of oil prices, the "sustainable" level of the non-oil primary deficit—the level that would permit accumulation of sufficient savings over the long term such that the financial yield from the savings could finance a constant level of public expenditure after 35 years—is 31 percent of non-oil GDP, implying total adjustment of 23 percentage points from the 2015 level.

18. **In 2016, the government will implement a fiscal program that is significantly more restrictive than the budget approved by parliament but very close in nominal terms to the budget executed in 2015** (MEFP, ¶20; Text Table 2 and Tables 3–6). The 2016 budget was built in October 2015 with an oil price assumption of $45 per barrel. The significantly lower level of oil prices observed since then (¶6) have led the government to revise its oil price assumption for 2016 to $34.5 and reduce its planned expenditure by ID 13 trillion (13 percent in nominal terms). The Council of Ministers' approval and presentation to parliament of a quarterly budget execution report that presents the projection of revenue and expenditure for the remainder of 2016 reflecting this change, an explanation of variations from the 2016 budget, and the measures to be taken to ensure that the budget execution remains in line with the macroeconomic framework agreed under the SBA is a prior action that was met—PA (MEFP, Table 5). The following measures will be taken:

- To protect non-oil revenue, which have been revised downwards in light of the downwards revision of non-oil GDP growth (¶13), the Council of Ministers broadened the tax base on wages for non-military personnel by approving a decision to include all salaries and wages of non-military government employees above the lower grades including base salary, supplemental pay, bonuses, overtime and any other allocations (excluding allocations for wife and children), in the taxable base (PA, MEFP, Table 5 and ¶¶20 and 23). This decision will make the tax system more progressive and yield additional revenue of ID 300 billion ($250 million) in 2016 and ID 600 billion ($500 million) from 2017 (full year effect).

- The government will reduce the wage bill by ID 3.0 trillion compared to the budget, through natural attrition, delaying hiring of new staff, reduction of discretionary benefits, and revising wages of military and security personnel in light of observed number of staff absent without leave.

- It will reduce pension payments by ID 1.8 trillion compared to the budget, by the enforcement of the existing rules preventing collection of multiple pensions or collecting pensions without minimum contribution period or below legal pensionable age.

- The government will reduce spending on goods and services by ID 2.2 trillion, while making room for the increase in electricity charges from ID 360 billion to ID 675 billion, as a consequence of the progressive tariff increase excluding the first 600 kilowatt monthly consumption tranche to protect the poorest decided by the Council of Ministers (MEFP, ¶24).

- It will reduce transfers by ID 2.4 trillion compared to the budget, including through less spending to replenish the food stocks of the Public Distribution System (PDS) in light of the higher than programmed level of the these stocks at end-2015.

- The government will reduce non-oil investment expenditure by ID 3.6 trillion through prioritizing projects already started and focusing on the most crucial new ones, and delaying other projects to outer years. While the level of non-oil capital spending will be low in comparison with past years, greater selectivity of projects may be beneficial because the quality of such spending is weak owing to severe deficiencies in public financial management, according to the last World Bank Expenditure Review.[11] The government will keep oil investment expenditure at their level in the 2016 budget in order to secure the oil revenue that are essential to finance public expenditure.

- In spite of all these cuts compared to the 2016 budget, the revised fiscal program will leave room for substantial nominal increases in current spending relative to 2015. As in 2015, it is non-oil investment expenditure that will bear the brunt of fiscal consolidation in 2016.

- The wage, pension, and other cuts also assume significant burden sharing by the Kurdistan Regional Government (KRG), which is broadly commensurate with its share in the budget of the federal government.[12]

19. **In spite of the fiscal consolidation, the government will still face a large budget deficit in 2016 that will be financed mainly by indirect monetary financing and the associated drawdown in official foreign exchange reserves, as well as loans by the international community** (MEFP, ¶21)**.** The 2016 deficit (ID 26 trillion) will be mostly financed by domestic bank financing (ID 16.6 trillion), most of which (ID 12.6 trillion) will be refinanced at the discount window of the CBI because banks' liquidity is constrained. The deficit will also be financed by the issuance of bonds aimed at the general public including the Iraqi Diaspora (ID 5 trillion). The external financing of the deficit will come from loans by the IMF, the World Bank, G7 countries and the European Union (Text Table 3), a budget support loan by the Japanese International Cooperation Agency (JICA, $200 million), and a Eurobond issuance in the second half of 2016 ($1billion). The external financing will also be covered by project loans from the U.S. government ($2.7 billion), JICA ($323 million), the World Bank ($120 million), Italy ($66 million), and the Islamic Development Bank ($54 million). The domestic financing, 60 percent of which is indirect monetary financing, will lead to a sharp increase of the public debt and contribute to a large foreign exchange reserves drawdown to finance government imports. If oil revenue is higher than programmed, the government commits to save the excess of oil revenue collected over the amount programmed in order to reduce the indirect monetary financing of the budget deficit by the CBI. Similarly, if external financing is higher than programmed, the government commits to save the excess in order to reduce the indirect monetary financing of the deficit (Technical Memorandum of Understanding—TMU, ¶¶15–16).

20. **The government will stop using arrears to finance spending in 2016 and beyond** (MEFP, ¶¶22 and 25, and Table 3)**.** The program includes a zero ceiling on new external arrears (PC), gradual pay down of outstanding arrears to IOCs by end-2016 (PC, ¶12) and ceilings on the stock of domestic arrears on non-oil investment (IT). This will help support adequate and timely investment in the oil sector to ensure that oil production—which finances the bulk of imports and public spending—remains on the projected path. The scope of the coverage of the conditionality on domestic arrears will be widened to all spending and the conditionality on domestic arrears will

[11] World Bank Group, Republic of Iraq: Public Expenditure Review, Toward More Efficient Spending for Better Service Delivery, 2014.

[12] The KRG share in non-oil primary expenditure is reduced from 15 percent in the 2016 budget to 13 percent in the adjusted fiscal program (Table 3).

be strengthened to a PC at a future program review once the government's ability to reliably monitor and prevent them has been enhanced.

21. **In 2017–19 and beyond, the government will design and implement deeper grounded revenue and expenditure reforms in order to continue to hold a tight lid on the non-oil primary balance and achieve debt sustainability** (MEFP, ¶¶23–24)**.** The government will continue to have the account of the Development Fund for Iraq and Successor Account 300/600 at the CBI audited by an international auditor to check that all oil revenues reach the Treasury and monitor the use of the resources deposited in that account (SB, MEFP, Table 5). The government will conduct diagnostics of the tax and customs codes and tax and customs administrations in order to increase non-oil tax revenue. It will also implement a hiring freeze in sectors other than security, health and education and have the Board of Supreme Audit (BSA) audit the wage and pension recipients' payrolls (SB, MEFP, Table 5) to first identify, and then cancel payments to, ghost workers and ghost pensioners. The government will also reform the public pension system, in discussion and coordination with the World Bank, in order to make it more financially sustainable, equitable and efficient. It will reform the electricity sector by gradually increasing prices above cost, improving electricity sales revenue collections and reducing distribution losses, and making the necessary investment to capture the gas currently flared when oil is extracted to use it for electricity production, thus reducing the need to import natural gas. The government will set up a proxy means testing database with the assistance of the World Bank to improve the targeting of the state transfers to poor households. The government plans to reform the 176 state-owned non-financial enterprises, most of which have limited rationale beyond providing public employment, are structurally loss-making, and present a large burden on public finances. As a first step, the government is setting up a database to monitor the fiscal risks of non-financial SOEs, which will be used to design and implement a strategy to restructure them.

22. **Provided the recommended fiscal adjustment is implemented, public debt is projected to remain sustainable over the medium-run** (Annex I)**.** The projected fiscal consolidation and improving medium-term growth prospects would support a reduction of public debt from 85 percent of GDP in 2018 to 75 percent of GDP by 2021. However, the implementation of fiscal adjustment plans, the high level of external debt and large gross financing needs pose risks for debt sustainability. The risks are partly mitigated by the fact that the gross financing needs are rollover of short-term debt by state-owned banks, which will be getting credit from the central bank, which limits the risk of non-rollover, and two thirds of external debt consists of legacy arrears still to be restructured on Paris Club terms. Indeed, Iraq's external debt stock of $67 billion at end-2015 includes $41 billion of unresolved external arrears to non-Paris Club creditors that were accumulated under the pre-2003 Saddam regime. These arrears can be tolerated under the Fund's policy on Arrears to Official Bilateral Creditors because the aforementioned Paris Club Agreement was found to be adequately representative (i.e., Paris Club creditors provided the majority of the financing contributions required from official bilateral creditors in the context of that agreement) and the authorities have since been making best efforts to conclude agreements with non-Paris Club

creditors on Paris Club comparable terms.[13] Indeed, negotiations to implement debt relief on the same terms as with the PC creditors, i.e. an 80 percent net present value reduction, are ongoing (MEFP, ¶17). However, even with such a markdown, debt sustainability concerns would remain elevated due to Iraq's high gross financing needs (29 percent of GDP in 2016).

C. Strengthening Public Financial Management

23. **In order to strengthen fiscal discipline, the government will implement key measures in the short run on which to build more ambitious reforms later on** (MEFP, ¶¶25–26)**:**

- *The Ministry of Finance will approve a new draft of the Financial Management law in line with World Bank and IMF comments* on the last draft submitted to the Shura Council (Council of State, SB; MEFP, Table 5).

- *The Ministry of Finance will report fiscal tables* in compliance with the IMF Government Finance Statistics Manual 2014 (SB; MEFP, Table 5).

- *The Ministry of Finance will survey, audit and pay domestic arrears.* It will monitor the accumulation of domestic arrears on a regular basis both on current spending (salaries, pensions, goods and services and capital purchases) managed by the Ministry of Finance, and on non-oil investment spending managed by the Ministry of Planning (SB; MEFP, Table 5). On the basis of each of these surveys, the government will prepare plans for the orderly payment of the arrears, including, first, an independent audit of the arrears by the BSA and a repayment schedule in line with the government's financing capacity. The government will observe a ceiling on the stock of outstanding domestic arrears on non-oil investment as surveyed by the Ministry of Planning and will strengthen the conditionality on other domestic arrears over time as the Ministry of Finance will have developed the ability to reliably monitor them (¶17).

- *The Ministry of Finance will take steps to move to a Treasury Single Account (TSA).* It will conduct regular surveys of the bank accounts controlled by the Ministry of Finance and all spending units of the federal government in the banking sector. It will create a Cash Flow Management Unit to develop cash flow forecasts that will identify cash needs over the course of the budget year as one of its core responsibilities. It will set up a Cash Management Committee to oversee the timely and orderly financing of the budget, including monitoring of all outflows and monitor all inflows in the Treasury main accounts, all revenue collection and spending. Finally, it will gradually incorporate all government-related cash operations in the TSA, in light of the results of the audits of the financial statements of Rasheed Bank and Rafidain Bank and in sync with the implementation of their restructuring strategy (¶25) and the liquidity situation of any other bank where the government has accounts.

- *The Ministry of Finance will design and implement a commitment control system for budget execution, in line with IMF technical assistance recommendations*. The immediate focus will

[13] Staff will need to revisit this assessment at each review, to make a judgment about whether the authorities continue to make best efforts to resolve these arrears.

include: preparing a monthly budget execution report based on inputs from spending units, implementing cash rationing for each spending unit, improving the recording of commitments (SB, MEFP, Table 5), and prohibiting any commitment beyond quarterly allocations.

- *The Ministry of Finance will design and implement an Integrated Financial Management Information System (IFMIS) with the technical assistance of the World Bank.* As a first step, it will adopt, by end-June 2016, a road map detailing its core functional requirements.

- *The Ministry of Planning will implement Public Investment Management (PIM) reform with the assistance of the World Bank.* As a first step, it will publish on the Ministry of Planning website a detailed inventory of the portfolio of public investment projects with a minimum cost of US$10 million that have been the subject of a feasibility study.

- *The Ministry of Finance will strengthen debt management with the technical assistance of JICA.* As a first step, the Ministry of Finance will seek assistance to strengthen its debt recording system.

24. **In order to combat corruption, the government will strengthen its legislation** (MEFP, ¶26). The Council of Ministers will approve and forward to parliament by January 2017 draft amendments to the 2011 law establishing the Commission on Integrity in order to: strengthen its governance, accountability and oversight, and independence; provide it with powers in line with the United Nations Convention against Corruption (UNCAC); and include requirements to set-up a comprehensive asset (in Iraq and abroad) declaration regime for senior public officials, their family members, and associates (SB, MEFP, Table 5). In line with the UNCAC requirements, the Council of Ministers will adopt and forward to parliament by December 2016 amendments to the Criminal Code to criminalize all corruption acts including illicit enrichment, bribery in the private sector, and obstruction of justice. In line with the UNCAC requirements, the Council of Ministers will adopt and forward before parliament by February 2017 several pieces of draft legislation that are currently being finalized by the Commission on Integrity to strengthen the legislative anti-corruption framework. The draft laws are related to access to information, conflict of interest, asset recovery, and protection of whistleblowers and witnesses.

D. Monitoring Financial Risks to Preserve Financial Sector Stability

25. **The crisis is increasing the exposure of the state-owned banks, which dominate the banking sector, to sovereign risk**. The largest state-owned banks, Rasheed and Rafidain, which account for 80 percent of banking sector assets, are severely undercapitalized[14] and largely illiquid following years of quasi-fiscal operations. With credit from the CBI (¶¶7 and 19), banks will have sufficient liquidity to finance the budget deficit in 2016 (Tables 8–9) and earn a significant return[15] that will contribute to their profitability. However, their exposure to sovereign risk has been

[14] Rasheed's and Rafidain's capitals are only equal to, respectively, half and one fifth of the minimum required capital of ID 250 billion ($214 million).

[15] Treasury bills earn a real annual interest rate of about 4 percent.

increasing and the quality of their credit to the economy has been deteriorating owing to the contraction in non-oil GDP.

26. **The CBI and the Ministry of Finance will implement reform measures to enhance the stability of the banking sector** (MEFP, ¶¶27–29). Rasheed Bank and Rafidain Bank have appointed international auditors to audit their latest financial statements (¶12). Based on the results of these audits, the Ministry of Finance will prepare a plan to restructure these two banks. The CBI will prepare regulatory changes to strengthen prudential standards and bank supervision, with the support of external consultants and the IMF Middle East Technical Assistance Center.

27. **Building on the safeguards assessment conducted by the IMF in December 2015, the government will strengthen the legal framework of the CBI to provide for independent oversight of the CBI's operations** (MEFP, ¶30). The Governing Council of the CBI will, by end-October 2016, approve a new charter for the Audit Committee prohibiting Central Bank of Iraq executive representation on the committee (SB, MEFP, Table 5). The Council of Ministers will, by end-December 2016, approve and introduce to parliament amendments to the Law on the CBI to strengthen CBI governance and the internal control framework, in line with the IMF safeguards assessment's recommendations (SB, MEFP, Table 5). The external auditor of the CBI will also audit program monetary data at test dates (¶29).

28. **The government will implement reforms to strengthen the anti-money laundering and combating the financing of terrorism (AML/CFT) framework** (MEFP, ¶31). This will contribute to improving governance, disrupting terrorist financing including ISIS funding, and improving the integration of Iraq financial system into the global economy. As a first step, the government will adopt a by-law to set up a mechanism to comply with the relevant United Nations Security Council resolutions related to terrorism and terrorism financing and Recommendation 6 of the Financial Action Task Force on Money Laundering and Terrorism Financing (FATF) (SB, MEFP, Table 5).

PROGRAM MODALITIES AND RISKS

29. **The SBA would provide access to SDR 3.8 billion (about $5.4 billion, or 230 percent of quota) and be subject to quarterly reviews** (MEFP, ¶32 and Tables 3 and 5; Table 10):

- The external financing gap during 2016–19 is estimated at $18.1 billion, for which donors have been identified for $12.0 billion, including the Fund for $5.4 billion (Text Table 3). Hence, based on current projections, the financing gap is closed for 2016–17, and the remaining gap for 2018–19 amounts to about $6.1 billion. The access to Fund resources would be front-loaded (48 percent during the first 12 months) in light of the financing needs[16] and the front-loaded

[16] Net of the rescheduling of the war reparation to Kuwait, the financing gaps would be $4.9 billion in 2016, $3.8 billion in 2017, $3.5 billion in 2018 and $1.3 billion in 2019 (see Text Table 3).

fiscal adjustment,[17] as well as the objectives of catalyzing donor and private sector financing and maintaining the foreign exchange reserves at a level that supports confidence. The authorities may also request additional external financial support from Paris Club creditors, through a net present value-neutral debt service rescheduling during the program period (MEFP, ¶17), or possibly from a further postponement of the war reparation payment to Kuwait.

- The SBA will set: quarterly PCs on the non-oil primary balance, the stock of total public debt,[18] the stock of net domestic assets of the CBI, official foreign exchange reserves, the absence of new external arrears and the stock of outstanding arrears to IOCs (MEFP, Table 3); quarterly IT on social spending (a floor) and the stock of outstanding domestic arrears on non-oil investment (a ceiling); and PA and a few SB (MEFP, Table 5). As in Iraq's previous SBA, the external auditor of the CBI will audit the stocks of net domestic assets and official foreign exchange reserves within two months after the test dates. An external auditor will also audit the stock of public debt within the same deadline. The IMF Statistics Department has been providing technical assistance to ensure that the authorities report fiscal data in compliance with the IMF Government Finance Statistics Manual 2014.

- The PCs on the stock of net domestic assets of the CBI and official foreign exchange reserves will have adjusters allowing more/less indirect monetary financing and use of reserves in case foreign financing is lower/higher than programmed, with an asymmetric cap on the additional monetary financing to protect foreign exchange reserves. The PCs could be revised and the fiscal adjustment path changed on the occasion of each review in case the medium term path of oil revenue and/or external financing differs from the one presented in this report. The PC

Text Table 3. Iraq: Financial Contributions to Fill the Financing Gap, 2016–19

(In US$ billion)

	2016	2017	2018	2019	Total: 2016-19	Mode of delivery
Initial financing gap	4.917	8.363	3.503	1.306	18.089	
Identified financing	4.917	8.363	-1.997	0.706	11.989	
IMF	1.917	1.393	1.393	0.697	5.400	Three-Year Stand-By Arrangement.
World Bank	1.000	1.000	1.000	0.000	3.000	Development Policy Loans or Policy Based Guarantees.
Kuwait	0.000	4.600	-4.600	0.000	0.000	Postponement of war reparation payment by one year.
USA	1.000	0.000	0.000	0.000	1.000	Full guarantee by the U.S. Government of Eurobond issued by the Government of Iraq.
Germany	0.000	0.560	0.000	0.000	0.560	Loan disbursements in an amount of €500 million if possible in 2017, otherwise during 2017–19, to implement electricity sector projects with export credit guarantee of the German government.
Japan	0.000	0.300	0.200	0.000	0.500	Development Policy Loans in sync with the World Bank Development Policy Loans if possible in 2017 and 2018, otherwise during 2017–2019.
France	0.450	0.000	0.000	0.000	0.450	Additional loans made possible by France's $450 million guarantee contribution to the World Bank Guarantee Facility for Middle-East and North Africa (MENA) Countries under preparation.
UK	0.430	0.000	0.000	0.000	0.430	Additional loans made possible by the United Kingdom's £300 million guarantee contribution to the World Bank Guarantee Facility for MENA Countries under preparation.
Italy	0.000	0.400	0.000	0.000	0.400	Project loan disbursement for $400 million if possible in 2017, otherwise during 2017–19, including $100 million for the co-financing of a World Bank project for the Mosul dam.
Canada	0.120	0.010	0.010	0.010	0.149	In 2016, additional loans made possible by Canada's CAD 160 million guarantee to the World Bank Guarantee Facility for MENA Countries under preparation; and, in 2017–19, CAD 38 million in other financial support.
European Union	0.000	0.100	0.000	0.000	0.100	
Remaining financing gap	0.000	0.000	5.500	0.600	6.100	

Sources: Iraqi authorities, IMF staff, World Bank staff, Kuwaiti authorities, G7 country authorities, and European Commission .

[17] Out of the total reduction of the adjusted non-oil primary balance during 2016–19 (ID 4.3 trillion or $3.6 billion), half would be achieved in 2016–17 (ID 2.2 trillion or $1.9 billion).

[18] The non-oil primary balance and public debt targets were calibrated to achieve a decline in the debt ratio by the end of the program.

on the non-oil primary balance will have an adjuster that will tighten the target in case the transfers to the KRG (¶5) are less than programmed.

- Each program review will set a few structural benchmarks in areas that are essential for the success of the program.

- Once the programmed fiscal adjustment is completed, and with oil prices recovering along the projected path, the budgetary position is expected to be sustainable without external financial support.

30. **The SBA is subject to several significant risks, the materialization of which would magnify the policy challenges**. The agreement between the KRG and the Iraqi authorities (¶5) may not resume, possibly causing wider political fragmentation, thereby weakening program implementation prospects. The authorities may face difficulties in reducing the wage bill and stemming the build-up of arrears. The authorities' track record under the last SBA under more favorable economic, political and security conditions and in the context of prior actions for the recent purchase under the RFI was weak, although the authorities have made progress under the SMP (¶12). In light of the very difficult security situation in the territories occupied by ISIS, the tensions with the KRG over independent oil sales, and the social tensions in the rest of the country, the authorities may face difficulties in gathering the necessary political support to implement the fiscal consolidation and reforms envisaged under the SBA. In addition to these risks, frequent changes to reported macroeconomic indicators underscore the strains on statistical and economic policy institutions posed by the ongoing conflict and weaknesses in the provision of reliable data for program monitoring. The program will manage these risks by using technical assistance and external auditors for data provision related to three out of six PC (¶29). In spite of these planned measures, however, the reliability of data provision for program monitoring will remain uncertain, especially in the near term. Program engagement with Iraq will clearly remain exposed to such risk going forward.

31. **Iraq's capacity to repay the Fund should remain adequate.** The total outstanding Fund credit would peak at 16 percent of gross official reserves, 11 percent of exports of goods and services, and 7 percent of external public debt (Table 11).

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32. **Iraq is facing a double shock arising from the ISIS attacks and the sharp drop in global oil prices**. The ongoing armed conflict with ISIS continues to strain the country's resources and results in new waves of internally displaced people. The fall in oil prices has caused an acute balance of payments and fiscal crisis. On account of the double shock, non-oil real GDP contracted by 19 percent and real GDP by only 2.4 percent in 2015 owing to strong oil production, all located in areas under control of the Iraqi government and the KRG. Real GDP is projected to grow by 10.3 percent in 2016 owing to a 20 percent increase in oil production.

33. **The policies put in place by the authorities to deal with the shocks are appropriate.** In the fiscal area, the authorities are addressing the precipitous fall in revenues with a mix of fiscal adjustment, mostly through inefficient capital expenditure retrenchment while protecting social spending, and financing. In the external area, the authorities are appropriately maintaining the peg to the U.S. dollar, which provides a key anchor to the economy. International reserves are at a broadly adequate level and can help cushion the projected decline in oil export revenues if the fiscal adjustment under the SBA takes place, oil prices recover somewhat in the medium term, expected donor support is delivered, and oil production is maintained at the present level.

34. **The size of the fiscal adjustment envisaged in 2016–19 is appropriate to address the pressure from lower oil revenue and higher humanitarian and security spending, but the composition of expenditure needs to be improved over time**. The fiscal adjustment in reaction to the fall in oil prices is necessary to reach a level of spending over the medium term that can be sustained by projected oil revenues. But the composition of the fiscal adjustment is not optimal, as most of the adjustment is coming from capital spending rather than current items. Over time, the authorities need to reduce current expenditure, including the oversized payroll and the unsustainable pension system, and reform the electricity sector, subsidies, and state-owned enterprises, in order to make room for larger but more effective and efficient investment expenditure that is conducive to growth. Oil investment needs to be protected as it is essential to generate the oil revenue to finance most of the public spending.

35. **Some indirect central bank financing of the government is unavoidable at this juncture.** While this form of budget financing is not ideal, the large financing needs make it necessary given that the higher-than-programmed adjustment in government spending that would otherwise be needed could threaten Iraq's delicate social and political balance. Moreover, it would be difficult to raise more foreign financing than assumed in the SBA.

36. **The accumulation of domestic and external arrears to partly finance the 2015 budget was unfortunate and the authorities' commitment to prevent a recurrence of arrears is essential to resume sound fiscal management**. The authorities need to pay international oil companies on time in order to secure oil revenue and be able to finance public spending and imports. They also need to strengthen their PFM system in order to accurately record existing arrears and pay them down after due control of their validity, as well as prevent the accumulation of new domestic arrears.

37. **PFM needs to be overhauled in order to improve the quality of spending and the authorities' control over budget execution.** To that end, it is crucial that the authorities take steps to implement a sound PFM law, comprehensive fiscal and debt reporting, commitment control, a Treasury Single Account, an Integrated Financial Management Information System, and Public Investment Management reforms.

38. **The steps to strengthen anti-corruption legislation are welcome**. A more independent Commission on Integrity, the criminalization of all corruption acts, and the other legislative changes envisaged will strengthen the legislative anti-corruption framework. The implementation

of a comprehensive asset declaration regime for senior public officials, their family members and associates will boost the fight against corruption.

39. **Steps to strengthen the legal framework of the CBI, remove exchange restrictions and implement AML/CFT measures are welcome.** They will improve the integration of the domestic financial system into the global economy.

40. **The state-owned banks that dominate the banking system need to be restructured.** The audits of the financial statements of the two state-owned banks Rasheed and Rafidain according to international standards need to be followed by the design and implementation of plans to restructure these banks.

41. **The budget-sharing agreement with the KRG should be implemented**. The proposal to shift to modalities that would net the oil revenue originated in KRG and the transfers to KRG in the budget of the federal government should be examined without delay. Finding modalities to implement the budget-sharing agreement would put both the federal government and the KRG in a better position to address the ISIS attacks and the oil-price shock.

42. **The balance of risks associated with this SBA is tilted to the downside.** The downside risks are very high. They mainly stem from further downward oil price shocks, the extension of the conflict with ISIS, political tensions, and administrative weaknesses, including in data reporting for program monitoring, designing and implementing measures to reduce the wage bill over the medium term, and preventing the build-up of arrears. To mitigate these risks, the authorities have designed fiscal adjustment measures that eschew the most politically sensitive cuts and structural reforms where partners have been delivering technical assistance. To minimize the risk of misreporting, the authorities will call on external auditors to report data on three out the six PC, and technical assistance to strengthen fiscal reporting. On the upside, higher-than-programmed oil prices could reduce the fiscal and external imbalances.

43. **Staff recommends completion of the first and second reviews of the SMP and approval of this request for a three-year SBA.** Staff believes the policies laid out in the MEFP are adequate to deal with the present and urgent balance of payments and budget needs triggered by the ISIS attacks and the collapse in oil prices and achieve debt sustainability.

Table 1. Iraq: Selected Economic and Financial Indicators, 2013–21

	2013	2014	2015		2016		2017	2018	2019	2020	2021
		Est.	Prog. 1/	Est.	Prog. 1/	Rev. Prog.	Prog.		Proj.		
Economic growth and prices											
Real GDP (percentage change)	7.6	-0.4	1.5	-2.4	10.6	10.3	0.5	0.7	2.0	1.9	2.0
Non-oil real GDP (percentage change)	12.4	-5.1	-8.0	-18.7	0.0	-5.0	0.0	2.0	3.0	4.0	4.0
GDP deflator (percentage change)	0.0	-4.7	-24.1	-27.0	-5.3	-13.2	7.8	5.3	5.0	5.2	4.7
GDP per capita (US$)	7,021	6,492	4,900	4,514	4,942	4,161	4,395	4,542	4,745	4,962	5,164
GDP (in ID trillion)	273.6	259.5	200.9	185.1	210.3	177.1	191.8	203.4	217.9	233.8	249.6
Non-oil GDP (in ID trillion)	148.0	142.6	132.2	123.4	136.1	122.3	127.5	135.7	145.7	158.0	171.4
GDP (in US$ billion)	234.6	222.5	172.3	158.7	178.3	150.1	162.6	172.4	184.7	198.1	211.5
Oil production (mbpd) 2/	3.0	3.1	3.4	3.5	4.1	4.2	4.2	4.2	4.3	4.3	4.4
Oil exports (mbpd) 3/	2.4	2.5	2.9	3.0	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Iraq oil export prices (US$ pb)	102.9	97.0	50.1	47.5	45.0	34.5	40.3	42.5	44.6	46.4	47.5
Consumer price inflation (percentage change; end of period)	3.1	1.6	3.0	2.3	3.0	2.0	2.0	2.0	2.0	2.0	2.0
Consumer price inflation (percentage change; average)	1.9	2.2	1.9	1.4	3.0	2.0	2.0	2.0	2.0	2.0	2.0
					(In percent of GDP)						
National Accounts											
Gross domestic investment	26.9	27.0	21.2	27.5	20.7	21.9	20.8	20.2	19.7	19.3	18.9
Of which: public	17.4	19.3	12.5	18.2	12.2	12.4	11.7	11.1	10.6	10.2	9.8
Gross domestic consumption	69.5	72.1	85.6	79.0	84.6	88.8	85.0	85.0	84.3	83.6	82.3
Of which: public	21.0	19.0	25.6	24.9	28.0	29.4	26.7	24.9	22.9	21.0	19.4
Gross national savings	28.3	26.2	14.2	21.0	15.2	10.9	11.5	14.3	15.2	16.0	17.7
Of which: public	11.4	14.0	-1.9	4.1	2.1	-1.9	0.5	5.2	7.2	8.6	9.6
Saving - Investment balance	1.4	-0.8	-7.0	-6.4	-5.5	-11.0	-9.2	-5.9	-4.5	-3.3	-1.3
					(In percent of GDP, unless otherwise indicated)						
Public Finance											
Government revenue and grants	42.2	40.2	30.7	34.3	38.8	36.2	38.7	38.5	38.2	37.3	36.1
Government oil revenue	38.6	38.0	27.4	31.2	34.6	32.0	34.4	34.2	33.9	32.9	31.5
Government non-oil revenue	3.5	2.3	3.2	3.1	4.2	4.2	4.3	4.3	4.3	4.4	4.5
Expenditure, *of which:*	48.0	45.8	45.1	48.5	49.0	50.8	49.8	44.5	41.8	39.1	36.7
Current expenditure	30.6	26.5	32.7	30.3	36.8	38.4	38.1	33.4	31.2	28.9	26.9
Capital expenditure	17.4	19.3	12.5	18.2	12.2	12.4	11.7	11.1	10.6	10.2	9.8
Overall fiscal balance (including grants)	-5.8	-5.6	-14.5	-14.3	-10.2	-14.7	-11.1	-6.0	-3.6	-1.8	-0.6
Non-oil primary fiscal balance (percent of non-oil GDP)	-67.6	-58.7	-52.1	-51.6	-56.3	-53.3	-50.2	-46.4	-42.5	-38.5	-34.8
Adjusted non-oil primary fiscal balance (percent of non-oil GDP) 4/	-67.6	-67.1	-56.2	-53.6	-56.3	-53.3	-50.2	-46.4	-42.5	-38.5	-34.8
Adjusted non-oil primary expenditure (percent of non-oil GDP) 4/	74.1	71.3	61.1	58.3	62.8	59.4	56.6	52.8	48.9	45.0	41.3
Adjusted non-oil primary expenditure (annual real growth, percent) 4/	17.2	-9.4	-21.9	-30.1	2.8	-1.2	-2.6	-2.6	-2.5	-2.2	-2.3
Memorandum items:											
Development Fund of Iraq/MoF US$ account (in US$ billions) 5/	6.3	0.7	1.0	2.4	1.0	2.4	2.4	2.4	2.4	2.4	2.4
Total government debt (in percent of GDP) 6/	31.2	33.5	61.7	63.9	66.0	79.0	84.0	85.2	83.1	79.3	74.9
Total government debt (in US$ billion) 6/	73.1	74.6	106.3	100.2	117.7	118.5	136.5	146.9	153.5	157.1	158.4
External government debt (in percent of GDP)	25.3	25.9	34.1	42.3	34.3	47.7	49.6	49.1	44.8	39.2	33.1
External government debt (in US$ billion)	59.3	57.6	58.8	67.1	61.1	71.6	80.7	84.6	82.7	77.6	70.1
					(In percent, unless otherwise indicated)						
Monetary indicators											
Growth in reserve money	12.6	-9.6	0.1	-12.6	2.1	-3.5	2.8	9.2	7.4	7.6	10.4
Growth in broad money	15.9	3.6	9.7	-9.0	11.6	8.6	6.8	9.2	7.4	7.6	10.4
Policy interest rate (end of period)	6.0	6.0	6.0	6.0	…	…	…	…	…	…	…
					(In percent of GDP, unless otherwise indicated)						
External sector											
Current account	1.4	-0.8	-7.0	-6.4	-5.5	-11.0	-9.2	-5.9	-4.5	-3.3	-1.3
Trade balance	9.6	7.4	-2.1	-0.1	1.5	-3.1	1.1	1.3	2.2	2.8	4.1
Exports of goods	38.3	37.7	27.0	31.1	33.3	30.4	32.8	32.6	32.1	31.1	30.8
Imports of goods	-28.7	-30.3	-29.0	-31.2	-31.8	-33.5	-31.7	-31.3	-30.0	-28.3	-26.6
Overall external balance	-1.3	-10.5	-8.1	-9.3	-6.2	-10.3	-7.4	-3.0	-2.4	-1.1	0.9
Gross reserves (in US$ billion) 7/	77.8	66.7	51.1	53.4	42.5	42.7	40.1	39.3	35.4	31.5	31.6
In months of imports of goods and services	10.8	12.7	8.4	9.9	6.8	7.8	7.0	6.7	5.9	5.1	5.0
Exchange rate (dinar per US$; period average)	1,166	1,166	1,166	1,167	…	…	…	…	…	…	…
Real effective exchange rate (percent change, end of period) 8/	6.5	4.6	…	7.5	…	…	…	…	…	…	…

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ IMF Country Report No. 16/11. Iraq: Staff-Monitored Program-Press Release; and Staff Report.

2/ Does not reflect KRG production during 2013 and 2014.

3/ Reflects KRG exports through State Organization for Marketing Oil (SOMO).

4/ Adjusted to account for a full year estimate of federal government transfers to the Kurdistan Regional Government in 2014 and 2015, for which actual transfers were made for only 2 and 5 months, respectively.

5/ Reflects the balances of the Development Fund of Iraq which were moved from the Federal Reserve Bank of New York to the CBI as a US$ account (US$ balances from oil revenues) in May 2014.

6/ Includes arrears.

7/ Starting 2014 includes US$ account balances from oil revenues. Starting Q3 2015, SDRs and reserve position in the Fund are excluded from the definition per instruction from the Central Bank of Iraq.

8/ Positive means appreciation.

Table 2. Iraq: National Accounts, 2013–21
(In percent)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
		Est.	Est.	Rev. Prog.	Prog.	Proj.			
	GDP share	Annual growth rates, constant prices							
Agriculture, Hunting, Forestry, and Fishing	4.3	-4.8	-22.3	-20.5	0.0	7.0	7.0	7.0	7.0
Mining. crude oil and Quarrying	49.7	4.2	12.6	20.5	0.7	0.0	1.5	0.8	0.9
Crude Oil	49.4	4.3	12.8	20.6	0.7	0.0	1.5	0.8	0.9
Other mining	0.3	-26.3	-57.6	-15.0	2.0	2.0	2.0	4.0	3.5
Manufacturing	1.5	-21.7	-23.4	-15.0	0.0	7.0	7.0	8.5	8.5
Electricity and Water	1.1	14.0	-8.7	0.0	0.5	7.0	7.0	7.5	6.5
Construction	8.7	-9.1	-62.3	-30.0	0.0	15.0	15.0	16.0	15.0
Transport, Storage and Communications	7.2	5.4	-22.0	0.0	2.0	2.8	3.0	3.3	3.3
Wholesale and Retail Trade, Restaurants and Hotels	8.5	-2.8	-9.0	-4.2	-3.6	-4.4	1.8	3.4	3.6
Finance, Insurance, Real Estate and Business Services	7.2	-7.6	-1.3	2.7	2.9	3.3	3.9	4.3	3.9
Finance and Insurance Services	1.7	-37.8	-35.6	-25.0	-10.0	0.0	10.0	15.0	15.0
Real Estate	5.5	1.9	5.3	6.0	4.0	3.5	3.5	3.5	3.0
Community, Social and Personal Services	12.2	-8.5	-2.0	-0.9	-0.6	0.3	-1.3	-0.2	-0.2
Producers of Government Services	9.9	-11.0	1.1	1.1	0.7	0.7	-1.6	-0.8	-0.8
Personal services	2.3	2.5	-14.0	-10.0	-7.0	-2.0	0.3	3.1	3.0
Gross Domestic Product at constant prices	100.4	-0.5	-2.5	10.3	0.5	0.7	2.0	1.9	2.0
Less: Imputed Bank Service Charge	0.4	-20.9	-34.2	10.3	0.5	0.7	2.0	1.9	2.0
Gross Domestic Product at constant Factor cost	100.0	-0.4	-2.4	10.3	0.5	0.7	2.0	1.9	2.0
Plus: Indirect Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Domestic Product	100.0	-0.4	-2.4	10.3	0.5	0.7	2.0	1.9	2.0
Oil GDP	49.4	4.3	12.8	20.6	0.7	0.0	1.5	0.8	0.9
Non oil GDP	50.6	-5.1	-18.7	-5.0	0.0	2.0	3.0	4.0	4.0

Sources: Iraqi authorities; and IMF staff estimates and projections.

Table 3. Iraq: Central Government Fiscal Accounts, 2013–21
(In trillions of ID; unless otherwise indicated)

	2013	2014	2015		2016		2017	2018	2019	2020	2021
			Prog. 1/	Prel.	Prog. 1/	Rev. Prog.	Prog.	Proj.			
Revenues and grants	115.4	104.4	61.6	63.5	81.7	64.0	74.2	78.3	83.3	87.2	90.0
Revenues	115.4	104.4	61.6	63.5	81.7	64.0	74.2	78.3	83.3	87.2	90.0
Oil	105.7	98.5	55.1	57.7	72.8	56.6	66.1	69.6	73.9	76.9	78.7
Crude oil export revenues	104.1	97.1	53.8	57.2	69.8	53.6	62.5	65.9	69.2	72.0	73.7
Non-oil	9.7	5.9	6.5	5.8	8.8	7.4	8.2	8.7	9.4	10.3	11.3
Grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	131.2	119.0	90.7	89.8	103.1	90.0	95.5	90.6	91.1	91.4	91.6
Current expenditures	83.7	68.9	65.6	56.1	77.4	68.0	73.1	67.9	67.9	67.5	67.2
Salary and pension	41.1	40.3	45.9	42.2	50.9	46.1	45.4	44.7	44.0	43.3	42.6
Salary	32.5	31.8	34.4	33.1	39.1	36.1	35.4	34.7	34.0	33.3	32.6
Pension	8.6	8.4	11.5	9.0	11.8	10.0	10.0	10.0	10.0	10.0	10.0
Goods and services	16.3	9.1	5.4	3.9	8.1	5.9	5.9	5.9	5.9	5.9	5.9
Transfers	20.0	13.9	12.6	8.7	15.6	13.2	13.2	13.2	13.2	13.2	13.2
Social safety net (including PDS)	7.6	7.6	6.6	4.5	7.6	6.3	6.3	6.3	6.3	6.3	6.3
Transfers to SOEs 2/	1.9	1.5	2.4	2.4	2.4	2.5	2.5	2.5	2.5	2.5	2.5
Other transfers	10.5	4.8	3.5	1.9	5.6	4.4	4.4	4.4	4.4	4.4	4.4
Interest payments	1.0	0.7	1.7	1.3	2.9	2.8	3.1	4.2	4.8	5.1	5.5
War reparations 3/	5.2	4.9	0.0	0.0	0.0	0.0	5.4	0.0	0.0	0.0	0.0
Investment expenditures	47.6	50.1	25.1	33.7	25.7	22.0	22.4	22.7	23.2	23.8	24.4
Non-oil investment expenditures	32.3	26.3	11.4	14.7	11.0	7.4	7.6	7.9	8.2	8.7	9.1
Oil investment expenditures	15.3	23.8	13.7	19.1	14.7	14.7	14.8	14.8	15.0	15.1	15.2
Balance (including grants)	-15.8	-14.6	-29.1	-26.4	-21.4	-26.0	-21.2	-12.3	-7.8	-4.2	-1.6
Balance (excluding grants)	-15.9	-14.6	-29.1	-26.4	-21.4	-26.0	-21.2	-12.3	-7.8	-4.2	-1.6
Statistical discrepancy	-1.3	-4.4	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0	0.0
Financing	17.2	18.9	29.1	26.4	21.4	26.0	21.2	12.3	7.8	4.2	1.6
External financing	12.7	5.9	-1.7	3.3	1.8	-1.4	0.8	0.6	-3.7	-6.0	-8.6
Budget Loans	0.0	0.0	2.8	2.8	3.0	4.6	1.2	1.2	0.0	0.0	0.0
International Financial Institutions	0.0	0.0	2.8	2.8	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	0.0	0.0	0.0	0.0	0.0	3.4	0.0	0.0	0.0	0.0	0.0
Eurobond	0.0	0.0	0.0	0.0	2.4	1.2	1.2	1.2	0.0	0.0	0.0
Project Loans	0.0	0.0	0.4	0.3	0.9	0.9	0.8	0.8	0.6	0.5	0.5
Amortization	-1.1	-1.8	-1.7	-1.6	-2.1	-2.1	-1.3	-1.4	-4.3	-6.5	-9.1
Assets held abroad	13.8	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR Holding	0.0	0.0	0.8	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Account payables	0.0	7.9	-4.1	-4.6	0.0	-0.6	0.1	0.0	0.0	0.0	0.0
Arrears				4.1		-4.1	0.0	0.0	0.0	0.0	0.0
Domestic financing	4.5	13.0	30.8	23.0	19.7	21.5	10.5	7.5	10.0	10.2	10.2
Bank financing	4.6	4.7	25.8	18.0	17.1	16.6	10.5	7.5	10.0	10.2	10.2
CBI	4.2	3.5	15.9	10.1	9.4	12.6	6.4	3.6	4.0	2.5	2.5
Loans	0.0	0.0	17.6	6.4	9.4	12.6	6.4	3.6	4.0	2.5	2.5
Deposits	4.2	3.5	-1.7	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.3	1.2	9.9	7.9	7.7	4.0	4.1	3.9	6.0	7.7	7.7
Loans	0.3	1.2	9.9	7.9	3.7	0.0	4.1	3.9	6.0	7.7	7.7
Deposits					4.0	4.0	0.0	0.0	0.0	0.0	0.0
Non-bank financing	0.0	0.0	0.0	0.0	5.0	7.5	2.5	2.5	0.0	0.0	0.0
Account payables				-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Arrears	0.0	2.3	5.0	5.2	-2.4	-2.5	-2.5	-2.5	0.0	0.0	0.0
Initial Financing gap:					0.0	5.8	9.9	4.1	1.5	0.0	0.0
of which Identified financing 4/					0.0	5.8	9.9	-2.4	0.8	0.0	0.0
Remaining financing gap					0.0	0.0	0.0	6.5	0.7	0.0	0.0
Memorandum items:											
Security-related expenditure (military and police equipment and salaries)	16.4	16.6	15.6	15.0	17.9	16.5	16.2	15.9	15.6	15.3	15.0
Oil export revenue from KRG	11.6	2.6	3.4	3.2	10.7	8.2	9.6	10.1	10.6	11.0	11.3
Transfer to KRG	15.9	2.5	2.5	2.5	13.1	9.8	9.8	9.8	9.8	9.8	9.8
Non-oil primary expenditure	109.7	89.6	75.3	69.5	85.5	72.6	72.1	71.7	71.3	71.1	70.8
Adjusted non-oil primary expenditure 5/	109.7	101.6	77.8	72.0	85.5	72.6	72.1	71.7	71.3	71.1	70.8
Adjusted non-oil primary expenditure (annual real growth, percent) 5/	17.2	-9.4	-24.8	-30.1	6.7	-1.2	-2.6	-2.6	-2.5	-2.2	-2.3
Non-oil primary fiscal balance	-100.0	-83.7	-68.8	-63.7	-76.7	-65.2	-64.0	-62.9	-61.9	-60.8	-59.6
Adjusted non-oil primary fiscal balance 5/	-100.0	-95.7	-74.3	-66.2	-76.7	-65.2	-64.0	-62.9	-61.9	-60.8	-59.6
Gross public debt	85.2	87.0	124.0	118.2	138.9	139.8	161.1	173.3	181.2	185.3	186.9
Average Iraq oil export price (US$/bbl)	102.9	97.0	50.1	47.5	45.0	34.5	40.3	42.5	44.6	46.4	47.5
CBI total financing of the budget deficit	4.2	3.5	15.9	10.1	9.4	12.6	6.4	3.6	4.0	2.5	2.5

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ IMF Country Report No. 16/11. Iraq: Staff-Monitored Program-Press Release; and Staff Report.

2/ For 2013-2014, includes off-budget transfers to SOEs financed by Bank Rafidain.

3/ Five percent of oil exports as mandated by U.N. Security Council Resolution 1483 to finance war reparations to Kuwait.

4/ See Text Table 3 for more details.

5/ Adjusted to account for a full year estimate of federal government transfers to the Kurdistan Regional Government in 2014 and 2015, for which actual transfers were made for only 2 and 5 months, respectively.

Table 4. Iraq: Central Government Fiscal Accounts, Quarterly, 2016–17

(In trillions of ID; unless otherwise stated; Cumulative from the beginning of the fiscal year)

	2016								2017			
	Mar.		Jun.		Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
	Prog. 1/	Est.	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Prog.	Prog.	Prog.	Prog.
Revenues and grants	15.5	10.1	34.5	25.6	56.2	43.4	81.7	64.0	18.3	36.9	55.5	74.2
Revenues	15.5	10.1	34.5	25.6	56.2	43.4	81.7	64.0	18.3	36.9	55.5	74.2
Oil	13.7	9.0	30.1	22.2	49.7	38.1	72.8	56.6	16.3	32.8	49.4	66.1
Non-oil	1.8	1.1	4.3	3.4	6.5	5.3	8.8	7.4	2.0	4.1	6.1	8.2
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	27.4	14.3	52.7	44.8	78.5	67.4	103.1	90.0	22.5	45.0	72.9	95.5
Current expenditures	20.3	11.5	39.7	33.8	59.0	50.9	77.4	68.0	16.9	33.8	56.1	73.1
Salary and pension	13.4	9.6	26.1	23.0	38.8	34.6	50.9	46.1	11.3	22.7	34.0	45.4
Salary	10.3	7.4	20.1	18.0	29.8	27.1	39.1	36.1	8.8	17.7	26.5	35.4
Pension	3.1	2.3	6.0	5.0	9.0	7.5	11.8	10.0	2.5	5.0	7.5	10.0
Goods and services	2.1	0.2	4.1	3.0	6.2	4.4	8.1	5.9	1.5	3.0	4.4	5.9
Transfers	4.1	1.0	8.0	6.6	11.9	9.9	15.6	13.2	3.3	6.6	9.9	13.2
Social safety net (including PDS)	2.0	0.3	3.9	3.2	5.8	4.7	7.6	6.3	1.6	3.2	4.7	6.3
Transfers to SOEs 2/	0.6	0.3	1.2	1.3	1.8	1.9	2.4	2.5	0.6	1.3	1.9	2.5
Other transfers	1.5	0.5	2.9	2.2	4.2	3.3	5.6	4.4	1.1	2.2	3.3	4.4
Interest payments	0.8	0.6	1.5	1.2	2.2	2.0	2.9	2.8	0.7	1.5	2.3	3.1
War reparations 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.4	5.4
Investment expenditures	7.0	2.9	13.0	11.0	19.5	16.5	25.7	22.0	5.6	11.2	16.8	22.4
Non-oil investment expenditures	3.2	0.1	5.5	3.7	8.2	5.5	11.0	7.4	1.9	3.8	5.7	7.6
Oil investment expenditures	3.9	2.8	7.5	7.3	11.2	11.0	14.7	14.7	3.7	7.4	11.1	14.8
Balance (including grants)	-11.9	-4.2	-18.3	-19.3	-22.3	-24.0	-21.4	-26.0	-4.1	-8.1	-17.4	-21.2
Balance (excluding grants)	-11.9	-4.2	-18.3	-19.3	-22.3	-24.0	-21.4	-26.0	-4.1	-8.1	-17.4	-21.2
Financing	11.9	4.2	18.3	19.3	22.3	24.0	21.4	26.0	4.1	8.1	17.4	21.2
External financing	-0.5	0.2	-1.1	-1.7	-0.5	-5.7	1.8	-1.4	-0.3	-0.6	-0.5	0.8
Budget Loans	0.0	0.0	0.0	0.0	0.6	0.2	3.0	4.6	0.0	0.0	0.0	1.2
International Financial Institutions	0.0	0.0	0.0	0.0	0.6	0.0	0.6	0.0	0.0	0.0	0.0	0.0
Bilateral	0.0	0.0	0.0	0.0	0.0	0.2	0.0	3.4	0.0	0.0	0.0	0.0
Eurobond	0.0	0.0	0.0	0.0	0.0	0.0	2.4	1.2	0.0	0.0	0.0	1.2
Project Loans	0.0	0.0	0.0	0.0	0.5	0.4	0.9	0.9	0.0	0.0	0.4	0.8
Amortization	-0.5	-0.5	-1.1	-1.1	-1.6	-1.6	-2.1	-2.1	-0.3	-0.6	-0.9	-1.3
Assets held abroad	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR Holding	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Account payables	0.0	-0.6	0.0	-0.6	0.0	-0.6	0.0	-0.6	0.0	0.0	0.0	0.1
Arrears	0.0	1.3	0.0	0.0	0.0	-4.1	0.0	-4.1	0.0	0.0	0.0	0.0
Domestic financing	12.4	4.1	19.3	20.9	22.8	28.1	19.7	21.5	3.7	7.0	9.9	10.5
Bank financing	12.4	4.1	15.5	13.4	19.1	20.7	17.1	16.6	3.7	5.7	8.6	10.5
CBI	4.4	2.9	5.8	8.3	8.0	12.7	9.4	12.6	1.5	2.5	3.8	6.4
Loans	4.4	2.9	5.8	8.3	8.0	12.7	9.4	12.6	1.5	2.5	3.8	6.4
Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	8.0	1.1	9.7	5.1	11.0	8.0	7.7	4.0	2.3	3.2	4.9	4.1
Loans	8.0	1.1	9.7	5.1	11.0	8.0	3.7	0.0	2.3	3.2	4.9	4.1
Deposits	0.0	0.0	0.0	0.0	0.0	0.0	4.0	4.0	0.0	0.0	0.0	0.0
Non-bank financing	0.0	0.0	5.0	7.5	5.0	7.5	5.0	7.5	0.0	2.5	2.5	2.5
Account payables	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0
Arrears	0.0	0.0	-1.2	0.0	-1.2	0.0	-2.4	-2.5	0.0	-1.3	-1.3	-2.5
Initial Financing gap:	0.0	0.0	0.0	0.0	0.0	1.5	0.0	5.8	0.7	1.8	8.0	9.9
of which Identified financing 4/	0.0	0.0	0.0	0.0	0.0	1.5	0.0	5.8	0.7	1.8	8.0	9.9
Remaining financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Security-related expenditure (military and police equipment and salaries)	4.7	3.7	9.2	8.3	13.6	12.4	17.9	16.5	4.1	8.1	12.2	16.2
Social spending	4.4	2.8	8.7	7.4	13.8	12.6	18.9	18.2	2.9	7.4	12.6	18.2
Transfer to KRG	0.0	0.0	4.5	3.9	8.0	6.8	13.1	9.8	2.5	4.9	7.4	9.8
Non-oil primary expenditure	22.8	11.0	43.7	36.3	65.1	54.4	85.5	72.6	18.0	36.1	54.1	72.1
Non-oil primary fiscal balance	-20.9	-9.9	-39.4	-32.9	-58.6	-49.1	-76.7	-65.2	-16.0	-32.0	-48.0	-64.0

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ IMF Country Report No. 16/11. Iraq: Staff-Monitored Program.

2/ Includes off-budget transfers to SOEs.

3/ Five percent of oil exports as mandated by U.N. Security Council Resolution 1483 to finance war reparations to Kuwait.

4/ See Text Table 3 for more details.

Table 5. Iraq: Central Government Fiscal Accounts, 2013–21
(In percent of GDP)

	2013	2014	2015		2016		2017	2018	2019	2020	2021
			Prog. 1/	Prel.	Prog. 1/	Rev. Prog.	Prog.		Proj.		
Revenues and grants	42.2	40.2	30.7	34.3	38.8	36.2	38.7	38.5	38.2	37.3	36.1
Revenues	42.2	40.2	30.7	34.3	38.8	36.2	38.7	38.5	38.2	37.3	36.1
Oil	38.6	38.0	27.4	31.2	34.6	32.0	34.4	34.2	33.9	32.9	31.5
Non-oil	3.5	2.3	3.2	3.1	4.2	4.2	4.3	4.3	4.3	4.4	4.5
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	48.0	45.8	45.1	48.5	49.0	50.8	49.8	44.5	41.8	39.1	36.7
Current expenditures	30.6	26.5	32.7	30.3	36.8	38.4	38.1	33.4	31.2	28.9	26.9
Salary and pension	15.0	15.5	22.9	22.8	24.2	26.0	23.7	22.0	20.2	18.5	17.1
Salary	11.9	12.3	17.1	17.9	18.6	20.4	18.4	17.0	15.6	14.2	13.1
Pension	3.1	3.2	5.7	4.9	5.6	5.6	5.2	4.9	4.6	4.3	4.0
Goods and services	6.0	3.5	2.7	2.1	3.8	3.3	3.1	2.9	2.7	2.5	2.4
Transfers	7.3	5.3	6.2	4.7	7.4	7.5	6.9	6.5	6.1	5.7	5.3
Social safety net	2.8	2.9	3.3	2.4	3.6	3.6	3.3	3.1	2.9	2.7	2.5
Transfers to SOEs 2/	0.7	0.6	1.2	1.3	1.1	1.4	1.3	1.2	1.1	1.1	1.0
Other transfers	3.8	1.8	1.8	1.0	2.6	2.5	2.3	2.2	2.0	1.9	1.8
Interest payments	0.4	0.3	0.8	0.7	1.4	1.6	1.6	2.0	2.2	2.2	2.2
War reparations 3/	1.9	1.9	0.0	0.0	0.0	0.0	2.8	0.0	0.0	0.0	0.0
Investment expenditures	17.4	19.3	12.5	18.2	12.2	12.4	11.7	11.1	10.6	10.2	9.8
Non-oil investment expenditures	11.8	10.1	5.7	7.9	5.2	4.2	4.0	3.9	3.8	3.7	3.7
Oil investment expenditures	5.6	9.2	6.8	10.3	7.0	8.3	7.7	7.3	6.9	6.5	6.1
Balance (including grants)	-5.8	-5.6	-14.5	-14.3	-10.2	-14.7	-11.1	-6.0	-3.6	-1.8	-0.6
Balance (excluding grants)	-5.8	-5.6	-14.5	-14.3	-10.2	-14.7	-11.1	-6.0	-3.6	-1.8	-0.6
Statistical discrepancy	-0.5	-1.7	0.0	0.0	...	...	...	...	...	...	...
Financing gap											
Financing	6.3	7.3	14.5	14.3	10.2	14.7	11.1	6.0	3.6	1.8	0.6
External financing	4.6	2.3	-0.8	1.8	0.8	-0.8	0.4	0.3	-1.7	-2.6	-3.4
Budget Loans	0.0	0.0	1.4	1.5	1.4	2.6	0.6	0.6	0.0	0.0	0.0
International Financial Institutions	0.0	0.0	1.4	1.5	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	0.0	0.0	0.0	0.0	0.0	1.9	0.0	0.0	0.0	0.0	0.0
Eurobond	0.0	0.0	0.0	0.0	1.1	0.7	0.6	0.6	0.0	0.0	0.0
Project Loans	0.0	0.0	0.2	0.2	0.4	0.5	0.4	0.4	0.3	0.2	0.2
Amortization	-0.4	-0.7	-0.8	-0.9	-1.0	-1.2	-0.7	-0.7	-2.0	-2.8	-3.6
Assets held abroad	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR Holding	0.0	0.0	0.4	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Account payables	0.0	3.0	-2.0	-2.5	0.0	-0.3	0.0	0.0	0.0	0.0	0.0
Arrears	0.0	0.0	0.0	2.2	0.0	-2.3	0.0	0.0	0.0	0.0	0.0
Domestic financing	1.7	5.0	15.3	12.4	9.3	12.2	5.5	3.7	4.6	4.4	4.1
Bank financing	1.7	1.8	12.8	9.7	8.1	9.4	5.5	3.7	4.6	4.4	4.1
CBI	1.5	1.4	7.9	5.5	4.5	7.1	3.3	1.8	1.8	1.1	1.0
Loans	0.0	0.0	8.8	3.4	4.5	7.1	3.3	1.8	1.8	1.1	1.0
Deposits	1.5	1.4	-0.8	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.1	0.5	4.9	4.3	3.7	2.3	2.1	1.9	2.7	3.3	3.1
Loans	0.1	0.5	4.9	4.3	1.8	0.0	2.1	1.9	2.7	3.3	3.1
Deposits	0.0	0.0	0.0	0.0	1.9	2.3	0.0	0.0	0.0	0.0	0.0
Non-bank financing	0.0	0.0	0.0	0.0	2.4	4.2	1.3	1.2	0.0	0.0	0.0
Account payables	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	0.0	0.9	2.5	2.8	-1.2	-1.4	-1.3	-1.2	0.0	0.0	0.0
Initial Financing gap:	0.0	0.0	0.0	0.0	0.0	3.3	5.2	2.0	0.7	0.0	0.0
of which Identified financing 4/	0.0	0.0	0.0	0.0	0.0	3.3	5.2	-1.2	0.4	0.0	0.0
Remaining financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.2	0.3	0.0	0.0
Memorandum items:											
Security-related expenditure (military and police equipment and salaries)	6.0	6.4	7.8	8.1	8.5	9.3	8.5	7.8	7.2	6.5	6.0
MOF US$ account at CBI in months of salaries and pensions	...	0.2	0.3	0.8	0.3	0.7	0.7	0.8	0.8	0.8	0.8
Current expenditures (percent of GDP)	30.6	26.5	32.7	30.3	36.8	38.4	38.1	33.4	31.2	28.9	26.9
Non-oil primary expenditure (percent of GDP)	40.1	34.5	37.5	37.5	40.7	41.0	37.6	35.2	32.7	30.4	28.4
Adjusted non-oil primary expenditure (percent of GDP) 5/	40.1	39.1	38.8	38.9	40.7	41.0	37.6	35.2	32.7	30.4	28.4
Non-oil primary fiscal balance (percent of GDP)	-36.5	-32.3	-34.2	-34.4	-36.5	-36.8	-33.3	-30.9	-28.4	-26.0	-23.9
Adjusted non-oil primary fiscal balance (percent of GDP) 5/	-36.5	-36.9	-37.0	-35.8	-36.5	-36.8	-33.3	-30.9	-28.4	-26.0	-23.9
Gross public debt (percent of GDP)	31.2	33.5	61.7	63.9	66.0	79.0	84.0	85.2	83.1	79.3	74.9
CBI total financing of the budget deficit (percent of GDP)	1.5	1.4	7.6	5.5	3.3	7.1	3.3	1.8	1.8	1.1	1.0

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ IMF Country Report No. 16/11. Iraq: Staff-Monitored Program-Press Release; and Staff Report.

2/ For 2013-2014, includes off-budget transfers to SOEs financed by Bank Rafidain.

3/ Calculated as 5 percent of oil exports as per U.N. Security Council Resolution 1483 to finance war reparations to Kuwait.

4/ See Text Table 3 for more details.

5/ Adjusted to account for a full year estimate of federal government transfers to the Kurdistan Regional Government in 2014 and 2015, for which actual transfers were made for only 2 and 5 months, respectively.

Table 6. Iraq: Central Government Fiscal Accounts, 2013–21

(In percent of non-oil GDP)

	2013	2014	2015		2016		2017	2018	2019	2020	2021
			Prog. 1/	Prel.	Prog. 1/	Rev. Prog.	Prog.	Proj.			
Revenues and grants	78.0	73.2	46.6	51.4	60.0	52.4	58.2	57.7	57.2	55.2	52.5
Revenues	77.9	73.2	46.6	51.4	60.0	52.4	58.2	57.7	57.2	55.2	52.5
Oil	71.4	69.1	41.7	46.7	53.5	46.3	51.8	51.3	50.7	48.7	45.9
Non-oil	6.5	4.1	4.9	4.7	6.5	6.1	6.4	6.4	6.5	6.5	6.6
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	88.7	83.4	68.6	72.8	75.8	73.6	74.9	66.8	62.5	57.8	53.4
Current expenditures	56.5	48.3	49.6	45.5	56.9	55.6	57.3	50.1	46.6	42.7	39.2
Salary and pension	27.8	28.2	34.7	34.2	37.4	37.7	35.6	32.9	30.2	27.4	24.9
Salary	22.0	22.3	26.0	26.8	28.8	29.5	27.7	25.6	23.3	21.1	19.0
Pension	5.8	5.9	8.7	7.3	8.6	8.2	7.8	7.4	6.9	6.3	5.8
Goods and services	11.0	6.4	4.1	3.2	5.9	4.8	4.6	4.3	4.0	3.7	3.4
Transfers	13.5	9.7	9.5	7.1	11.4	10.8	10.4	9.7	9.1	8.4	7.7
Social safety net	5.1	5.3	5.0	3.6	5.6	5.2	5.0	4.7	4.3	4.0	3.7
Transfers to SOEs 2/	1.3	1.1	1.8	1.9	1.8	2.0	2.0	1.8	1.7	1.6	1.5
Other transfers	7.1	3.4	2.7	1.5	4.1	3.6	3.5	3.2	3.0	2.8	2.6
Interest payments	0.7	0.5	1.3	1.1	2.1	2.3	2.5	3.1	3.3	3.3	3.2
War reparations 3/	3.5	3.4	0.0	0.0	0.0	0.0	4.3	0.0	0.0	0.0	0.0
Investment expenditures	32.1	35.1	19.0	27.3	18.9	18.0	17.5	16.7	15.9	15.1	14.2
Non-oil investment expenditures	21.8	18.5	8.6	11.9	8.1	6.0	6.0	5.8	5.6	5.5	5.3
Oil investment expenditures	10.3	16.7	10.4	15.4	10.8	12.0	11.6	10.9	10.3	9.6	8.9
Balance (including grants)	-10.7	-10.2	-22.0	-21.4	-15.8	-21.2	-16.7	-9.0	-5.4	-2.6	-0.9
Balance (excluding grants)	-10.7	-10.2	-22.0	-21.4	-15.8	-21.2	-16.7	-9.0	-5.4	-2.6	-0.9
Statistical discrepancy	-0.9	-3.1	...	0.0	...	...	...	...	...	...	...
Financing	11.6	13.3	22.0	21.4	15.8	21.2	16.7	9.0	5.4	2.6	0.9
External financing	8.5	4.1	-1.3	2.7	1.3	-1.1	0.7	0.5	-2.5	-3.8	-5.0
Budget Loans	0.0	0.0	2.2	2.3	2.2	3.8	0.9	0.9	0.0	0.0	0.0
International Financial Institutions	0.0	0.0	2.2	2.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	0.0	0.0	0.0	0.0	0.0	2.8	0.0	0.0	0.0	0.0	0.0
Eurobond	0.0	0.0	0.0	0.0	1.7	1.0	0.9	0.9	0.0	0.0	0.0
Project Loans	0.0	0.0	0.3	0.2	0.7	0.7	0.6	0.6	0.4	0.3	0.3
Amortization	-0.8	-1.3	-1.3	-1.3	-1.5	-1.7	-1.0	-1.0	-3.0	-4.1	-5.3
Assets held abroad	9.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR Holding	0.0	0.0	0.6	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Account payables	0.0	5.5	-3.1	-3.7	0.0	-0.5	0.1	0.0	0.0	0.0	0.0
Arrears	0.0	0.0	0.0	3.4	0.0	-3.4	0.0	0.0	0.0	0.0	0.0
Domestic financing	3.1	9.1	23.3	18.7	14.4	17.6	8.2	5.6	6.9	6.4	5.9
Bank financing	3.1	3.3	19.5	14.6	12.6	13.6	8.2	5.6	6.9	6.4	5.9
CBI	2.9	2.5	12.0	8.2	6.9	10.3	5.0	2.7	2.7	1.6	1.5
Loans	0.0	0.0	13.3	5.2	6.9	10.3	5.0	2.7	2.7	1.6	1.5
Deposits	2.9	2.5	-1.3	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.2	0.8	7.5	6.4	5.7	3.3	3.2	2.9	4.1	4.9	4.5
Loans	0.2	0.8	7.5	6.4	2.7	0.0	3.2	2.9	4.1	4.9	4.5
Deposits	0.0	0.0	0.0	0.0	2.9	3.3	0.0	0.0	0.0	0.0	0.0
Non-bank financing	0.0	0.0	0.0	0.0	3.7	6.1	2.0	1.8	0.0	0.0	0.0
Account payables	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	0.0	1.6	3.8	4.2	-1.8	-2.0	-2.0	-1.8	0.0	0.0	0.0
Initial Financing gap:	0.0	0.0	0.0	0.0	0.0	4.7	7.8	3.0	1.1	0.0	0.0
of which Identified financing 4/	0.0	0.0	0.0	0.0	0.0	4.7	7.8	-1.7	0.6	0.0	0.0
Remaining financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.8	0.5	0.0	0.0
Memorandum items:											
Security-related expenditure (military and police equipment and salaries)	11.0	11.6	11.8	12.2	13.1	13.5	12.7	11.7	10.7	9.7	8.8
MOF US$ account at CBI in months of salaries and pensions	...	0.2	0.3	0.8	0.3	0.7	0.7	0.8	0.8	0.8	0.8
Current expenditures (percent of non-oil GDP)	56.5	48.3	49.6	45.5	56.9	55.6	57.3	50.1	46.6	42.7	39.2
Non-oil primary expenditure (percent of non-oil GDP)	74.1	62.9	57.0	56.3	62.8	59.4	56.6	52.8	48.9	45.0	41.3
Adjusted non-oil primary expenditure (percent of non-oil GDP) 5/	74.1	71.3	58.9	58.3	62.8	59.4	56.6	52.8	48.9	45.0	41.3
Non-oil primary fiscal balance (percent of non-oil GDP)	-67.6	-58.7	-52.1	-51.6	-56.3	-53.3	-50.2	-46.4	-42.5	-38.5	-34.8
Adjusted non-oil primary fiscal balance (percent of non-oil GDP) 5/	-67.6	-67.1	-56.2	-53.6	-56.3	-53.3	-50.2	-46.4	-42.5	-38.5	-34.8
Gross public debt (percent of non-oil GDP)	57.6	61.0	93.8	95.8	102.0	114.3	126.3	127.8	124.3	117.3	109.0
CBI total financing of the budget deficit (percent of non-oil GDP)	2.9	2.5	12.0	8.2	6.9	10.3	5.0	2.7	2.7	1.6	1.5
Non-oil GDP (ID trillion)	148.0	142.6	132.2	123.4	136.1	122.3	127.5	135.7	145.7	158.0	171.4

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ IMF Country Report No. 16/11. Iraq: Staff-Monitored Program-Press Release; and Staff Report.
2/ For 2013-2014, includes off-budget transfers to SOEs financed by Bank Rafidain.
3/ Calculated as 5 percent of oil exports as per U.N. Security Council Resolution 1483 to finance war reparations to Kuwait.
4/ See Text Table 3 for more details.
5/ Adjusted to account for a full year estimate of federal government transfers to the Kurdistan Regional Government in 2014 and 2015, for which actual transfers were made for only 2 and 5 months, respectively.

Table 7. Iraq: Balance of Payments, 2013–21
(In billions of U.S. dollars; unless otherwise indicated)

	2013	2014	2015		2016		2017	2018	2019	2020	2021
			Prog. 1/	Est.	Prog. 1/	Rev. Prog.	Prog.		Proj.		
Trade balance	22.5	16.6	-3.5	-0.2	2.8	-4.7	1.7	2.2	4.0	5.6	8.8
(In percent of GDP)	9.6	7.4	-2.1	-0.1	1.5	-3.1	1.1	1.3	2.2	2.8	4.1
Exports	89.8	84.0	46.4	49.3	59.4	45.6	53.3	56.2	59.3	61.6	65.1
Crude oil 2/	89.4	83.5	46.2	49.0	59.1	45.4	53.0	55.8	58.9	61.0	64.0
Other exports	0.4	0.4	0.3	0.2	0.3	0.2	0.3	0.3	0.4	0.6	1.1
Imports	-67.3	-67.4	-50.0	-49.5	-56.6	-50.3	-51.5	-54.0	-55.3	-56.0	-56.3
Private sector imports	-39.8	-35.2	-28.5	-30.1	-32.9	-31.5	-31.5	-32.5	-33.5	-33.6	-33.8
Government imports	-27.5	-32.2	-21.5	-19.4	-23.7	-18.8	-20.0	-21.5	-21.8	-22.4	-22.5
Services, net	-13.9	-14.6	-8.1	-10.1	-12.2	-11.5	-11.2	-11.2	-11.3	-11.2	-11.3
Receipts	3.3	4.1	3.9	3.6	4.0	2.8	3.3	3.7	4.2	5.2	6.5
Payments	-17.2	-18.7	-12.0	-13.7	-16.1	-14.3	-14.5	-14.9	-15.5	-16.5	-17.8
Income, net	-0.5	-0.6	-0.5	-0.3	-0.4	-0.4	-1.0	-1.1	-1.1	-0.9	-0.2
Transfers, net	-4.9	-3.2	0.1	0.3	0.0	0.0	-4.6	0.0	0.0	0.0	0.0
Private, net	0.2	0.1	0.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Official, net	-5.0	-3.3	0.0	-0.1	0.0	0.0	-4.6	0.0	0.0	0.0	0.0
Current account	3.2	-1.7	-12.0	-10.2	-9.8	-16.5	-15.0	-10.1	-8.4	-6.6	-2.7
(In percent of GDP)	1.4	-0.8	-7.0	-6.4	-5.5	-11.0	-9.2	-5.9	-4.5	-3.3	-1.3
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-0.2	-0.9	-1.9	12.6	-1.3	1.1	3.0	5.0	4.0	4.3	4.5
Direct and portfolio investment (net) 3/	5.7	4.6	1.0	3.0	2.0	-1.2	1.0	3.0	4.0	5.3	5.9
Other capital, net	-5.9	-5.4	-2.9	9.6	-3.3	2.3	2.0	2.0	0.0	-1.0	-1.4
Official, net	-0.4	-1.0	-0.5	-0.4	-0.1	-0.2	-0.4	-0.4	-2.3	-3.4	-5.9
Assets	-2.8	-3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	2.4	2.5	-0.5	-0.4	-0.1	-0.2	-0.4	-0.4	-2.3	-3.4	-5.9
Disbursements 4/	0.4	0.5	0.4	0.4	0.8	0.8	0.7	0.7	0.5	0.4	0.4
Amortization	-0.8	-0.8	-0.8	-0.8	-0.9	-1.0	-1.1	-1.0	-2.8	-3.9	-6.3
Private, net	-5.6	-4.4	-2.4	10.0	-3.2	2.5	2.4	2.4	2.4	2.4	4.5
Errors and omissions	-6.1	-20.9	0.0	-17.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-3.1	-23.4	-13.9	-14.7	-11.0	-15.4	-12.0	-5.1	-4.4	-2.3	1.8
(In percent of GDP)	-1.3	-10.5	-8.1	-9.3	-6.2	-10.3	-7.4	-3.0	-2.4	-1.1	0.9
Financing	3.1	23.4	13.9	14.7	11.0	10.5	3.7	1.6	3.1	2.3	-1.8
Development Fund for Iraq (increase -) 5/	11.8	5.6	-0.3	-1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross International Reserves (increase -)	-8.5	11.9	15.9	15.0	8.6	10.7	2.6	0.8	3.9	4.0	-0.1
Fund credit (net)	-0.2	-0.8	0.7	0.7	-0.1	-0.1	0.0	-0.2	-0.9	-1.7	-1.7
World bank	...	0.0	1.2	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Eurobond	...	0.0	0.0	0.0	2.0	1.0	1.0	1.0	0.0	0.0	0.0
U.S. loan						2.7	0.0	0.0	0.0	0.0	0.0
JICA (Budget support)						0.2	0.0	0.0	0.0	0.0	0.0
Change in arrears (negative = decrease)				3.5		-3.5	0.0	0.0	0.0	0.0	0.0
Change in payables (negative = decrease)	...	6.7	-3.5	-3.9	0.0	-0.5	0.1	0.0	0.0	0.0	0.0
Initial Financing gap:	...	0.0	0.0	0.0	0.0	4.9	8.4	3.5	1.3	0.0	0.0
of which Identified financing 6/					0.0	4.9	8.4	-2.0	0.7	0.0	0.0
Remaining financing gap					0.0	0.0	0.0	5.5	0.6	0.0	0.0
Memorandum items:											
GIR (end of period) 7/	77.8	66.7	51.1	53.4	42.5	42.7	40.1	39.3	35.4	31.5	31.6
(in months of imports of goods and services)	10.8	12.7	8.4	9.9	6.8	7.8	7.0	6.7	5.9	5.1	5.0
GDP	234.6	222.5	172.3	158.7	178.3	150.1	162.6	172.4	184.7	198.1	211.5
Of which: Non-oil GDP	126.9	122.3	113.4	105.9	115.4	103.6	108.1	115.0	123.5	133.9	145.2

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ IMF Country Report No. 16/11. Iraq: Staff-Monitored Program-Press Release; and Staff Report.

2/ Reflects KRG exports through the State Oil Marketing Company of Iraq.

3/ Excludes planned issuances of Eurobonds in 2016-18, which are presented as part of the financing of the balance of payments.

4/ Excludes prospective disbursements from the IMF and the WB in 2016-19, which will contribute to filling the financing gap and are presented in more details in Text Table 3 of the Staff Report.

5/ Reflects the transfer of the Development Fund for Iraq from the Federal Reserve Bank of New York to the CBI in May 2014.

6/ See Text Table 3 for more details.

7/ Starting 2014 includes US$ balances from oil revenues. Starting Q3 2015, SDRs and reserve position in the Fund are excluded from the definition per instruction from the Central Bank of Iraq.

Table 8. Iraq: Monetary Survey, 2013–21

In billions of Iraqi dinars, unless otherwise indicated)

	2013	2014	2015		2016		2017	2018	2019	2020	2021
			Prog. 1/	Est.	Prog. 1/	Rev. Prog.	Prog.		Proj.		
Net foreign assets	109,239	102,457	83,828	77,772	75,291	61,928	55,977	53,453	49,156	44,917	45,072
Of which: CBI	88,544	76,563	57,675	63,332	48,325	50,694	47,645	46,753	42,161	37,497	37,651
Net domestic assets	-19,860	-9,820	17,839	6,500	38,153	29,622	41,794	53,343	65,518	78,433	91,065
Domestic claims	-5,150	-258	30,401	17,313	50,715	41,435	55,806	67,455	79,730	92,745	105,477
Net claims on general government	-27,021	-24,576	3,217	-8,230	21,671	15,893	28,895	38,927	48,915	59,096	69,261
Claims on general government	11,856	15,892	43,873	28,516	58,326	48,639	61,640	71,673	81,661	91,841	102,007
less: Liabilities to general government	-38,876	-40,468	-40,656	-36,746	-36,656	-32,746	-32,746	-32,746	-32,746	-32,746	-32,746
Claims on other sectors	21,871	24,318	27,184	25,543	29,044	25,541	26,912	28,528	30,815	33,650	36,216
Other Item Net (OIN)	-14,710	-9,562	-12,562	-10,813	-12,562	-11,813	-14,013	-14,113	-14,213	-14,313	-14,413
Broad money	89,379	92,638	101,667	84,272	113,444	91,550	97,771	106,796	114,674	123,350	136,137
Currency outside banks	34,995	36,071	40,743	34,855	44,706	33,643	32,278	35,258	35,240	37,906	41,835
Transferable deposits	43,342	41,348	44,534	34,659	50,245	40,614	45,935	50,175	55,713	59,928	66,140
Other deposits	11,041	15,218	16,390	14,757	18,492	17,293	19,558	21,364	23,721	25,516	28,161
Memorandum items											
Broad money (percentage growth)	15.9	3.6	9.7	-9.0	11.6	8.6	6.8	9.2	7.4	7.6	10.4
Broad money (in percent of GDP)	32.7	35.7	50.6	45.5	53.9	51.7	51.0	52.5	52.6	52.8	54.5
M2 velocity (based on non-oil GDP)	1.7	1.5	1.3	1.5	1.2	1.3	1.3	1.3	1.3	1.3	1.3
Credit to the economy (percentage growth)	14.7	11.2	11.8	5.0	6.8	0.0	5.4	6.0	8.0	9.2	7.6
Credit to the economy (in percent of non-oil GDP)	14.8	17.1	20.6	20.7	21.3	20.9	21.1	21.0	21.1	21.3	21.1

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ IMF Country Report No. 16/11. Iraq: Staff-Monitored Program-Press Release; and Staff Report.

Table 9. Iraq: Central Bank Balance Sheet, 2013–21

(In billions of Iraqi dinars, unless otherwise indicated)

	2013	2014	2015		2016		2017	2018	2019	2020	2021
			Prog. [1/]	Est.	Prog. [1/]	Rev. Prog.	Prog.	Proj.			
Net foreign assets	88,544	76,563	57,675	63,332	48,325	50,694	47,645	46,753	42,161	37,497	37,651
Foreign assets	92,314	79,273	61,135	63,343	51,723	50,705	47,656	46,763	42,172	37,507	37,662
Official reserve assets	90,742	77,720	59,583	62,983	50,170	50,345	47,296	46,403	41,812	37,147	37,302
Gold	1,902	4,038	4,361	3,626	4,710	3,916	4,229	4,568	4,933	5,328	5,754
Other	86,723	72,545	54,784	59,357	45,171	46,429	43,067	41,836	36,879	31,820	31,548
SDR holdings and reserve position in the Fund	2,117	1,136	438	0	289	0	0	0	0	0	0
Other foreign assets	1,572	1,553	1,553	360	1,553	360	360	360	360	360	360
Foreign liabilities	-3,771	-2,709	-3,460	-10	-3,398	-10	-10	-10	-10	-10	-10
Net domestic assets	-15,265	-10,311	8,613	-5,445	19,333	5,180	9,777	15,970	25,188	34,949	42,304
Domestic assets	864	600	17,079	3,031	24,198	17,310	23,705	27,332	31,327	33,827	36,327
Net claims on general government	751	513	16,992	2,937	24,111	17,215	23,610	27,237	31,232	33,732	36,232
Loans to central government	2,756	2,456	3,705	2,466	3,592	2,266	2,266	2,266	2,266	2,266	2,266
Holdings of discounted treasury bills	0	31	15,227	6,225	22,227	18,811	25,206	28,833	32,828	35,328	37,828
Other claims	0	0	0	0	0	0	0	0	0	0	0
Domestic currency deposits	-1,895	-1,107	-775	-1,522	-542	-1,066	-1,066	-1,066	-1,066	-1,066	-1,066
Foreign currency deposits	-109	-867	-1,166	-4,232	-1,166	-2,796	-2,796	-2,796	-2,796	-2,796	-2,796
Monetary policy instruments [2/]	-10,797	-6,567	-4,122	-6,455	-521	-10,126	-11,924	-9,358	-4,135	3,125	7,981
Other items net	-5,331	-4,343	-4,343	-2,004	-4,343	-2,004	-2,004	-2,004	-2,004	-2,004	-2,004
Reserve money	73,259	66,231	66,288	57,888	67,658	55,874	57,422	62,723	67,349	72,445	79,955
Currency in circulation	40,630	39,884	43,973	38,585	47,064	35,593	36,004	40,398	43,840	48,034	54,215
Bank reserves	32,629	26,347	22,316	19,302	20,595	20,281	21,418	22,325	23,510	24,411	25,740
Other liquid liabilities	20	22	…	…	…	…	…	…	…	…	…
Memorandum items											
Reserve money (annual growth, in percent)	12.6	-9.6	0.1	-12.6	2.1	-3.5	2.8	9.2	7.4	7.6	10.4
Currency in circulation (annual growth, in percent)	14.4	3.1	10.3	-3.3	7.0	-7.8	1.2	12.2	8.5	9.6	12.9
Gross foreign exchange assets (in millions of U.S. dollars) [3/]	77,823	66,655	51,100	53,375	42,517	42,665	40,081	39,325	35,434	31,481	31,612

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ IMF Country Report No. 16/11. Iraq: Staff-Monitored Program-Press Release; and Staff Report.

2/ This mainly represents the ID standing overnight facilities, US$ deposits of commercial banks, domestic currency deposits, and CBI bills.

3/ Starting 2014 reflects the balances of the Development Fund of Iraq were moved from the Federal Reserve Bank of New York to the CBI as a US$ account (US$ balances from oil revenues) in May 2014. Starting Q3 2015, SDRs and reserve position in the Fund are excluded from the definition per instruction from the Central Bank of Iraq.

Table 10. Iraq: Proposed Schedule of Reviews and Purchases Under the Stand-By Arrangement, 2016–19

Amount of Purchase			Availability Date	Conditions
Millions of SDR	Percent of Quota	Millions of USD		
455	27.3	639	On or after July 7, 2016	Executive Board approval of the SBA arrangement.
455	27.3	639	On or after September 15, 2016	Observance of the continuous and end-June 2016 performance criteria, and completion of the first review under the arrangement.
455	27.3	639	On or after December 15, 2016	Observance of the continuous and end-September, 2016 performance criteria, and completion of the second review under the arrangement.
247	14.8	348	On or after March 15, 2017	Observance of the continuous and end-December 2016 performance criteria, and completion of the third review under the arrangement.
247	14.8	348	On or after June 15, 2017	Observance of the continuous and end-March 2017 performance criteria, and completion of the fourth review under the arrangement.
247	14.8	348	On or after September 15, 2017	Observance of the continuous and end-June 2017 performance criteria, and completion of the fifth review under the arrangement.
247	14.8	348	On or after December 15, 2017	Observance of the continuous and end-September 2017 performance criteria, and completion of the sixth review under the arrangement.
247	14.8	348	On or after March 15, 2018	Observance of the continuous and end-December 2017 performance criteria, and completion of the seventh review under the arrangement.
247	14.8	348	On or after June 15, 2018	Observance of the continuous and end-March 2018 performance criteria, and completion of the eighth review under the arrangement.
247	14.8	348	On or after September 15, 2018	Observance of the continuous and end-June 2018 performance criteria, and completion of the ninth review under the arrangement.
247	14.8	348	On or after December 15, 2018	Observance of the continuous and end-September 2018 performance criteria, and completion of the tenth review under the arrangement.
245	14.7	347	On or after March 15, 2019	Observance of the continuous and end-December 2018 performance criteria, and completion of the eleventh review under the arrangement.
245	14.7	347	On or after June 15, 2019	Observance of the continuous and end-March 2019 performance criteria, and completion of the twelfth review under the arrangement.
3,831	**230.3**	**5,396**	**Total under the SBA arrangement**	

Source: Fund staff estimates.

Table 11. Iraq: Indicators of Fund Credit, 2015–21
(In millions of SDRs; unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021
Disbursements of Fund credit (SBA and RFI)	891	1365	987	986	492	0	0
SBA, 2009	0	0	0	0	0	0	0
In percent of IMF quota (old)	0	0	0	0	0	0	0
RFI, 2015	891	0	0	0	0	0	0
In percent of IMF quota (old)	75	0	0	0	0	0	0
SBA, 2016	0	1365	987	986	492	0	0
In percent of IMF quota (current)	0	82	59	59	30	0	0
Obligations (SBA and RFI)	432	54	32	163	685	1251	1217
SBA, 2009 (total)	427	37	0	0	0	0	0
Repayments of SBA 1/	423	37	0	0	0	0	0
Total charges and interest	3	0	0	0	0	0	0
RFI, 2015 (total)	5	7	10	121	453	337	1
Repayments of RFI 1/	0	0	0	111	446	334	0
Total charges and interest	5	7	10	10	7	2	1
SBA, 2016 (total)	0	9	22	41	232	914	1217
Repayments of SBA 1/	0	0	0	0	171	868	1191
Total charges and interest	0	9	22	41	62	46	26
In percent of IMF quota (current)		1	1	2	14	55	73
Total obligations, in percent of:							
Exports of goods and services	1	0	0	0	2	3	3
External public debt	1	0	0	0	1	2	2
Gross reserves	1	0	0	1	3	6	5
GDP	0	0	0	0	1	1	1
IMF Quota (old)	36	5	3	14	58	105	102
IMF Quota (current)		3	2	10	41	75	73
Outstanding Fund credit (SBA and RFI)	928	2256	3243	4118	3993	2792	1600
SBA, 2009	37	0	0	0	0	0	0
RFI, 2015	891	891	891	780	334	0	0
SBA, 2016		1365	2352	3338	3659	2792	1600
Total outstanding Fund credit, in percent of							
Exports of goods and services	1	3	6	9	11	7	4
External public debt	2	4	6	7	7	5	3
Gross reserves	2	7	11	15	16	13	7
GDP	1	2	3	3	3	2	1
IMF Quota (old)	78	190	273	347	336	235	135
IMF Quota (current)		136	195	248	240	168	96

Sources: IMF staff estimates and projections.

1/ The SBA and RFI repayments are based on scheduled debt service obligations.

Table 12. Iraq: Total Financing Requirements and Sources, 2016–19
(In billions of U.S. dollars)

	2016	2017	2018	2019
1. Total financing requirements	-22.0	-18.0	-10.4	-6.6
2. Total available financing	17.1	9.6	6.9	5.3
Domestic	18.2	8.9	6.4	8.5
T-bills and bonds	17.0	11.0	8.5	8.5
o/w CBI purchases	10.7	5.4	3.1	3.4
Other 1/	1.2	-2.1	-2.1	0.0
External	-1.2	0.7	0.5	-3.1
Project financing	0.8	0.7	0.7	0.5
Eurobond	1.0	1.0	1.0	0.0
JICA	0.2	0.0	0.0	0.0
U.S. loan	2.7	0.0	0.0	0.0
Other 2/	-5.8	-1.0	-1.2	-3.6
3. Initial Financing gap	4.9	8.4	3.5	1.3
of which Identified financing 3/	4.9	8.4	-2.0	0.7
of which SBA	1.9	1.4	1.4	0.7
4. Remaining financing gap	0.0	0.0	5.5	0.6
Memorandum Items:				
Gross International Reserves				
Billions of U.S. Dollars	42.7	40.1	39.3	35.4
Months of imports	7.8	7.0	6.7	5.9
Exchange rate, average	1180.0	1180.0	1180.0	1180.0

Source: IMF staff estimates and projections.

1/ Includes commercial bank loans, drawdown of deposits, amortization, and arrears.

2/ Includes amortization and arrears.

3/ See Text Table 3 for more details.

Table 13. Iraq: Reserve Adequacy Indicators, 2013–19

	2013	2014	2015	2016	2017	2018	2019
Reserves in USD billion 1/	77.8	66.7	53.4	42.7	40.1	39.3	35.4
Reserves in months of imports of goods and services	10.8	12.7	9.9	7.8	7.0	6.7	5.9
Reserves in percent of external debt service coming due	3,615	3,536	673	903	413	515	383
Reserves in percent of reserve money	123.9	117.3	107.5	90.1	82.4	74.0	62.1
Reserves in percent of broad money	101.5	83.9	73.9	55.0	48.4	43.5	36.5
Reserves in percent of the IMF RA metric 2/ 3/	259	224	195	162	138	133	114
Reserves in percent of the adjusted IMF RA metric 4/	…	…	125	128	108	103	88

Sources: Iraq authorities; and Fund staff estimates and projections.

1/ Starting 2014 includes US$ account balances from oil revenues.

2/ Reserves within 100–150 percent of the Reserve Adequacy (RA) metric are considered adequate. The RA metric is a weighted sum of export revenues, broad money, short term debt and the stock of other liabilities.

3/ The stock of other liabilities is held constant at its 2012 level due to the unavailability of international investment posistion data for Iraq in subsequent years. This may introduce inaccuracies especially in outer years.

4/ Reserves within 100–150 percent of the adjusted RA metric are considered adequate. The adjusted RA metric adds a term to account for the possibility of lower than projected oil prices (31 % annual price decline in 2015 and 15 % in 2016-19 assumed).

Annex I. Iraq—Public and External Debt Sustainability Analysis

The decline in international oil prices and the conflict with ISIS are expected to result in a large fiscal deficit in 2016 and beyond, despite ongoing consolidation efforts. New borrowing to finance the deficit will increase the stock of public debt sharply in 2016 and more gradually over the medium run in line with narrowing fiscal deficits. Total debt as a share of GDP is projected to rise to 79 percent in 2016 and to peak at 85 percent in 2018 before embarking on a downward path, reaching 75 percent of GDP in 2021. External debt is project to increase to 48 percent of GDP this year, to peak at 50 percent of GDP in 2017 and to decline to 33 percent of GDP at the end of the forecast period. Provided the recommended fiscal adjustment is implemented, debt is sustainable over the medium run. However, the implementation of fiscal adjustment plans, the high level of external debt, large gross financing needs and sensitivity to macro shocks pose risks for debt sustainability. The risks are partly mitigated by the fact that one third of the gross financing needs are rollover of short-term debt by state-owned banks and 57 percent of the external debt consists of legacy arrears still to be restructured on Paris Club terms.

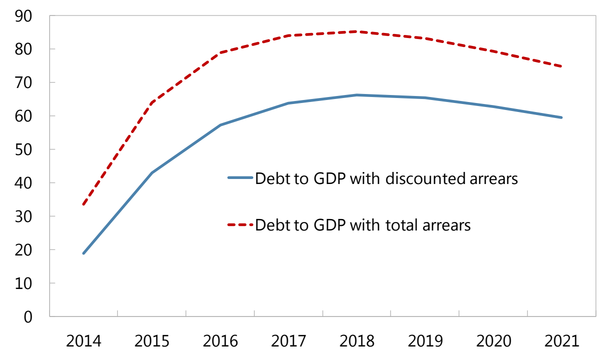
1. **The outlook for debt under the baseline scenario has worsened compared to last year's DSA.** Estimates of the debt to GDP ratio for end 2015 have been revised downwards from 69 to 64 percent of GDP due to a reduction of staff estimates of domestic debt in line with the authorities' records which was partially offset by an upward revision of debt to Paris Club creditors in line with data obtained from the Paris Club. However, the outlook for 2016 and beyond has deteriorated considerably as a result of the further decline in oil prices since late 2015. New borrowing will be necessary to fund large fiscal deficits in 2016, 2017, and 2018. In 2016 gross financing needs are expected to amount to 29 percent of GDP and debt to 79 percent of GDP, thus exceeding the respective low-risk thresholds of 15 percent and 70 percent. Iraq's debt ratio is expected to peak at 85 percent in 2018 and subsequently start to decline in line with an improving fiscal balance. Debt is projected to fall to 75 percent of GDP in 2021 but gross financing needs remain high due to repayment of external debt and the large rollover of T-bills which is also reflected in rising short term debt over time.

2. **The composition of debt is expected to shift towards domestic debt over the medium run.** Domestic debt is projected to rise from 21 percent of GDP in 2015 to 31 percent of GDP in 2016 as financing needs this year would mostly be met using domestic bond issuance, bank loans and indirect monetary financing through lending operations of Rasheed and Rafidain. Additional external financing in 2016, of which most will be provided on concessional terms, would increase external debt from 42 percent of GDP at end 2015 to 48 percent of GDP in 2016. The projected external debt of $72 billion in 2016 also includes a stock of external arrears of $41 billion which were accumulated under the pre-2003 government and are still under negotiation. The DSA conservatively assumes that these arrears will not be settled during the projection period. External debt would peak at 50 percent of GDP in 2017 and gradually decline afterwards, falling below the stock of domestic debt as from 2020 and declining to around 33 percent of GDP by 2021.

3. **Median forecast errors for key macroeconomic variables have been large for Iraq compared to other countries.** This is driven by uncertainties about the outlook for oil prices, the conflict and data weaknesses. Forecasts for real GDP and the primary balance tended to err on the optimistic side. Iraq has also been an outlier in the cross- country distribution of 3-year adjustments of the cyclically adjusted primary balance, underscoring the risk that the planned fiscal adjustment under the program might not be fully implemented which would increase debt levels further.[1]

4. **Risks from Iraq's high debt level and gross financing needs are partly mitigated by the fact that a large share of the gross financing needs are rollover of debt held by state-owned banks and that external debt includes legacy arrears still to be restructured on Paris Club terms.** One third of the financing need is rollover of short-term debt held by state-owned banks which obtain credit from the central bank, limiting the risk of non-rollover. Furthermore, 57 percent of the external debt stock in 2016 consists of external arrears (¶2), if restructured on Paris Club terms, would lower the path of debt and mitigate foreign exchange risks. The external arrears have to be settled at the terms of the 2004 Paris Club meeting where a reduction of 80 percent of the net present value of the debt was agreed. If external arrears were reduced to 20 percent of the original US$41 billion, then the debt-to-GDP ratio would fall from 79 to 57 percent in 2016 and peak at 66 percent in 2018 before declining to 59 percent at the end of the forecast horizon.

Iraq - Comparison for Different Treatment of Arrears
(In percent of GDP)



Source: Staff estimates.

5. **Stress tests indicate that Iraq's debt ratio and financing needs are sensitive to shocks.** Iraq's total debt is particularly vulnerable to a growth shock but an interest rate shock or a worsening of the primary balance would also significantly increase debt and financing needs over the medium run.

- **Growth shock:** If projected real GDP rates are lowered by one standard deviation (implying lower real growth by 5 percentage points in 2017 and 2018), the debt ratio would peak at 105 percent of GDP in 2018 before gradually declining to 93 percent in 2021.

- **Primary balance shock:** This scenario assumes a worsening of the primary balance by 4 percentage points of GDP in 2017 and 2018. The larger deficit would increase the debt ratio to 93 percent in 2018 and 82 percent towards the end of the forecast period.

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[1] Under the SBA, Iraq commits to a reduction of the adjusted non-oil primary balance during 2016–19 of about 11 percent of non-oil GDP (ID 4.3 trillion or $3.6 billion).

- **Real interest rate shock:** Increasing real interest rates by 10 percentage points would raise the debt ratio to 87 percent of GDP in 2019 and to 84 percent in 2021.[2]

- **Real exchange rate shock:** A one-off real depreciation of 10 percent (20 percent nominal depreciation) would alter the debt to GDP path only slightly since GDP would be inflated when the shock hits, raising GDP in line with the debt stock.

- **Combined shock:** A combination of these shocks would increase debt to 117 percent of GDP in 2018 and 2019. Debt would decline to 113 percent of GDP towards the end of the forecast horizon.

6. **Stress tests in the external DSA suggest that Iraq's external debt ratio is also sensitive to shocks.** While the path of Iraq's external debt would rise only marginally in response to an interest rate or a growth shock, a current account shock and a real depreciation would result in a substantial increase in external debt.

- **Non-interest current account shock:** An increase in the current account excluding interest payments by half a standard deviation in each year from 2017 onwards would raise external debt to 56 percent of GDP in 2018 before edging down to 50 percent in 2021.

- **Real depreciation shock:** A one-time real depreciation of 30 percent in 2016 would raise external debt to 80 percent of GDP in 2017 but the debt ratio would decline to 53 percent by 2021.

- **Combined shock:** A one quarter standard deviation shock to the real interest rate, the growth rate and the current account would raise the external debt ratio to 54 percent in 2018 and 43 percent towards the end of the projection period.

[2] The DSA methodology of generating interest rate shocks is based on GDP deflators rather than CPI inflation. Since this standard methodology generates an excessively large shock in the case of Iraq, the shock was adapted to a more moderate 10 percent increase in the real rate.

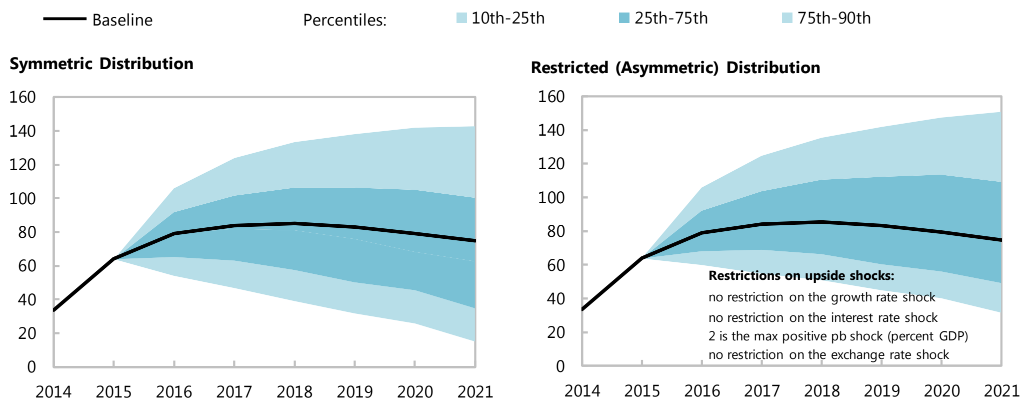
Figure 1. Iraq: Public Sector Debt Sustainability Analysis(DSA)—Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

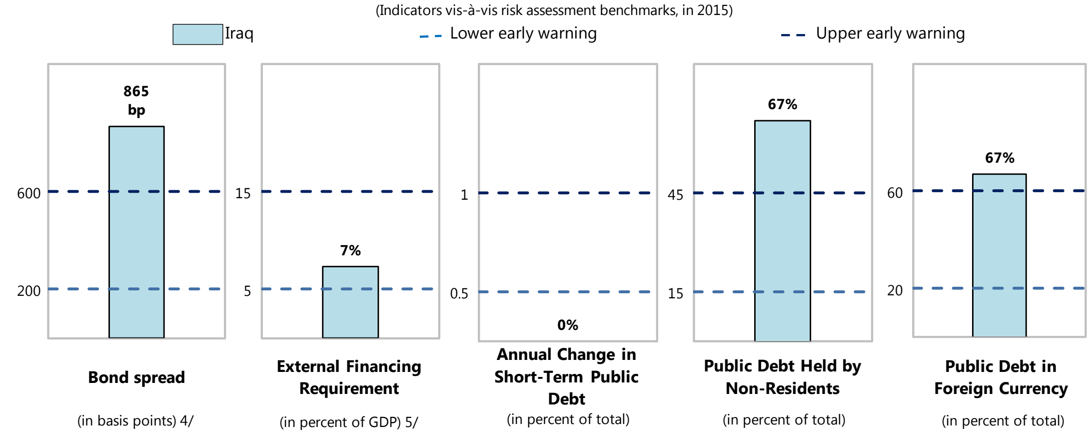
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

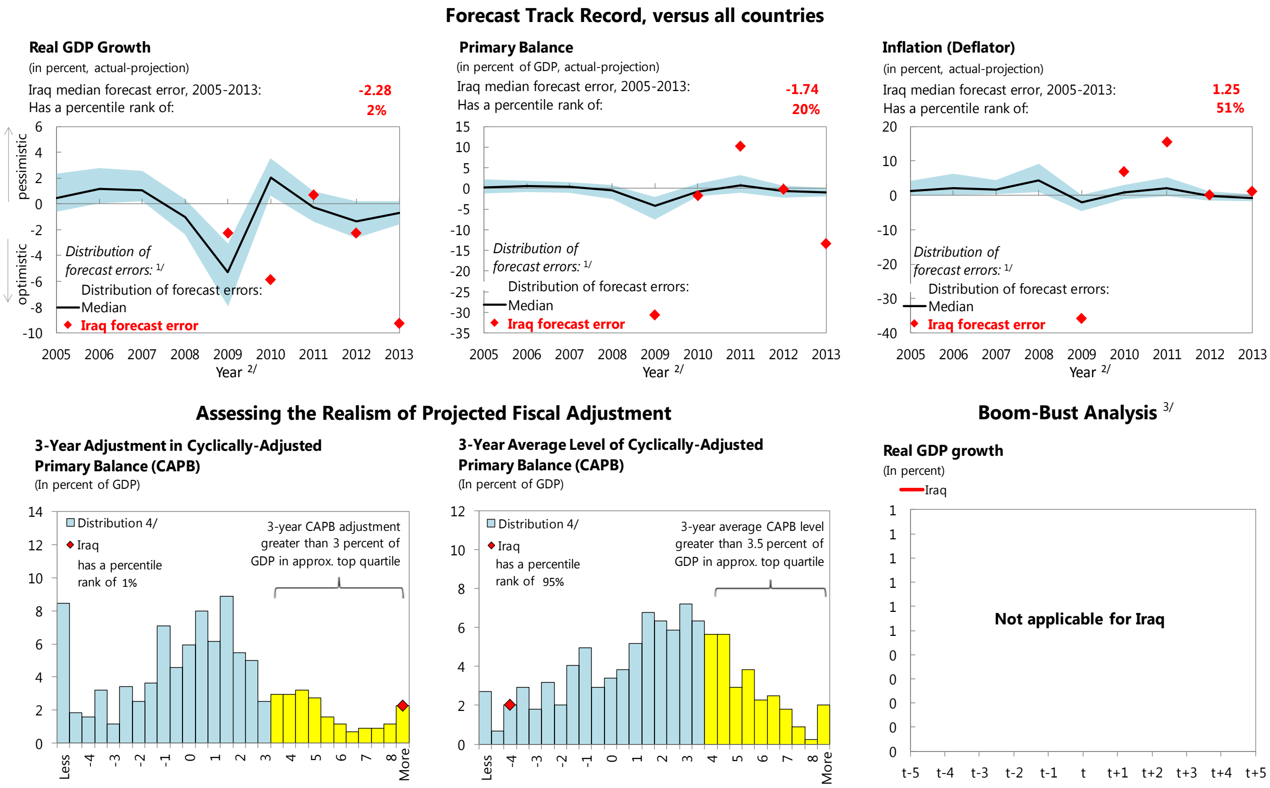
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG (bp), an average over the last 3 months, 27-Feb-16 through 27-May-16.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 2. Iraq: Public Debt Sustainability Analysis—Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Iraq, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Table 1. Iraq: Public Debt Sustainability Analysis—Baseline Scenario

(In percent of GDP unless otherwise indicated)

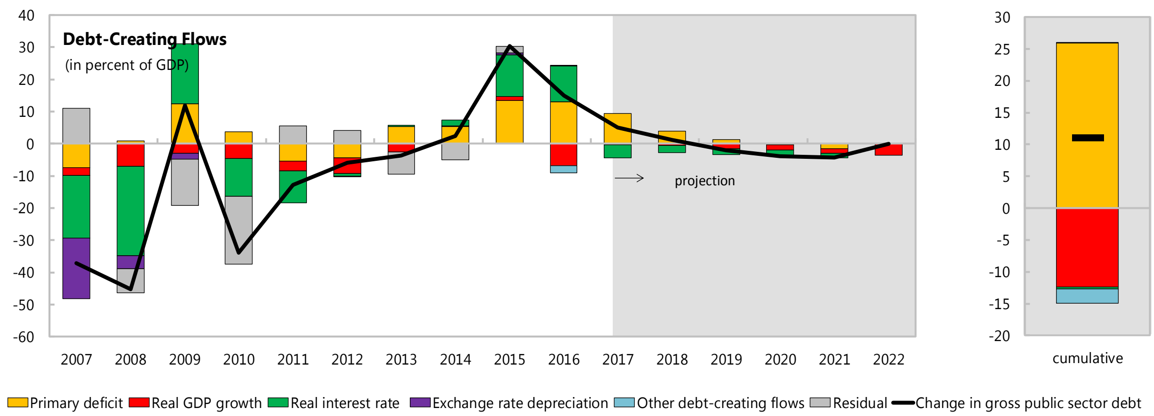
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	92.0	33.5	63.9	79.0	84.0	85.2	83.1	79.3	74.9
Public gross financing needs	0.0	4.9	13.4	28.8	23.4	25.0	23.4	26.1	33.1
Real GDP growth (in percent)	6.3	-0.4	-2.4	10.3	0.5	0.7	2.0	1.9	2.0
Inflation (GDP deflator, in percent)	14.2	-4.7	-27.0	-13.2	7.8	5.3	5.0	5.2	4.7
Nominal GDP growth (in percent)	21.3	-5.2	-28.7	-4.3	8.3	6.0	7.1	7.3	6.8
Effective interest rate (in percent) [4/]	0.8	0.8	1.5	2.0	2.2	2.6	2.8	2.8	3.0

As of May 27, 2016		
Sovereign Spreads		
Bond Spread (bp) 3/		957
5Y CDS (bp)		982
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	B-	B-
Fitch	B-	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-18.1	2.4	30.3	15.1	5.0	1.3	-2.1	-3.9	-4.4	11.0	-2.8
Identified debt-creating flows	-13.9	7.3	28.2	15.1	5.0	1.3	-2.1	-3.9	-4.4	11.0	
Primary deficit	0.8	5.3	13.5	13.1	9.4	4.0	1.4	-0.4	-1.6	25.9	
Primary (noninterest) revenue and grants	48.2	40.2	34.3	36.2	38.7	38.5	38.2	37.3	36.1	224.9	
Primary (noninterest) expenditure	49.0	45.6	47.8	49.3	48.1	42.5	39.6	36.9	34.5	250.8	
Automatic debt dynamics [5/]	-14.7	2.0	14.6	4.2	-4.4	-2.7	-3.5	-3.4	-2.8	-12.6	
Interest rate/growth differential [6/]	-11.1	2.0	14.2	4.2	-4.4	-2.7	-3.5	-3.4	-2.8	-12.6	
Of which: real interest rate	-7.2	1.8	13.1	11.1	-4.1	-2.2	-1.8	-1.9	-1.3	-0.3	
Of which: real GDP growth	-3.9	0.1	1.1	-6.9	-0.3	-0.5	-1.6	-1.5	-1.5	-12.4	
Exchange rate depreciation [7/]	-3.5	0.0	0.4	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	-2.2	0.0	0.0	0.0	0.0	0.0	-2.2	
Other flows (+ reduces financing needs) (negative)	0.0	0.0	0.0	-2.2	0.0	0.0	0.0	0.0	0.0	-2.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., other debt flows) (+ increas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	-4.2	-4.9	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ EMBIG (bp).

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ) times previous period debt ratio, with r = effective nominal interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

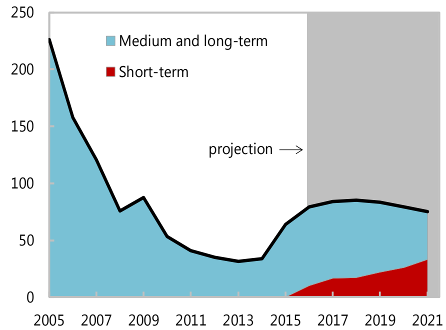
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

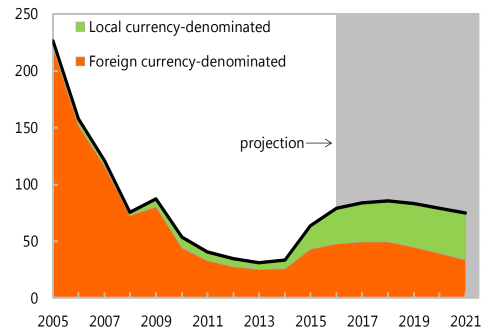
Figure 3. Iraq: Public Debt Sustainability Analysis—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



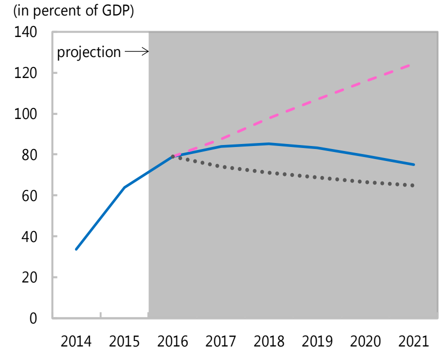
By Currency
(in percent of GDP)



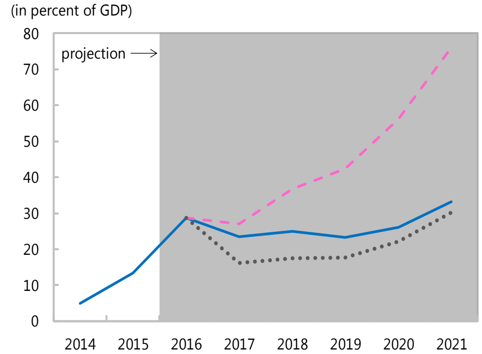
Alternative Scenarios

Baseline .... Historical — — Constant Primary Balance

Gross Nominal Public Debt 1/
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

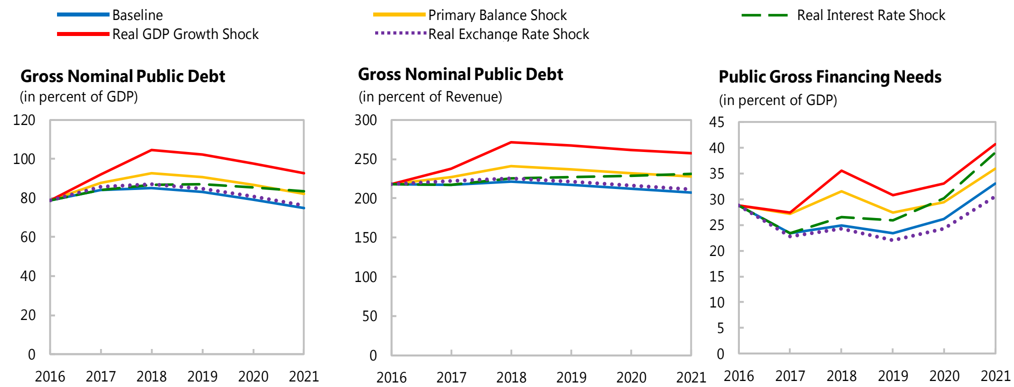
Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	10.3	0.5	0.7	2.0	1.9	2.0
Inflation	-13.2	7.8	5.3	5.0	5.2	4.7
Primary Balance	-13.1	-9.4	-4.0	-1.4	0.4	1.6
Effective interest rate	2.0	2.2	2.6	2.8	2.8	3.0
Constant Primary Balance Scenario						
Real GDP growth	10.3	0.5	0.7	2.0	1.9	2.0
Inflation	-13.2	7.8	5.3	5.0	5.2	4.7
Primary Balance	-13.1	-13.1	-13.1	-13.1	-13.1	-13.1
Effective interest rate	2.0	2.2	2.6	2.8	2.8	2.8

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	10.3	5.1	5.1	5.1	5.1	5.1
Inflation	-13.2	7.8	5.3	5.0	5.2	4.7
Primary Balance	-13.1	-2.7	-2.7	-2.7	-2.7	-2.7
Effective interest rate	2.0	2.2	2.5	2.7	2.7	2.9

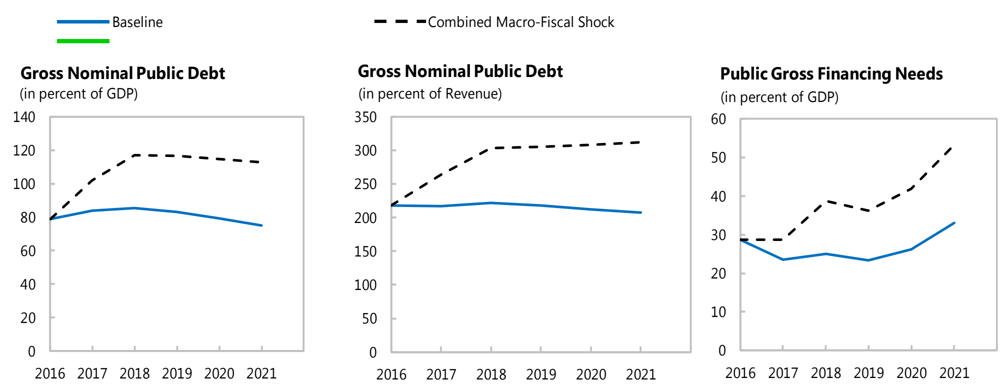
Source: IMF staff.

Figure 4. Iraq: Public Sector Debt Sustainability Analysis (DSA)—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	10.3	0.5	0.7	2.0	1.9	2.0
Inflation	-13.2	7.8	5.3	5.0	5.2	4.7
Primary balance	-13.1	-13.2	-7.7	-1.4	0.4	1.6
Effective interest rate	2.0	2.2	2.8	3.1	3.0	3.1
Real Interest Rate Shock						
Real GDP growth	10.3	0.5	0.7	2.0	1.9	2.0
Inflation	-13.2	7.8	5.3	5.0	5.2	4.7
Primary balance	-13.1	-9.4	-4.0	-1.4	0.4	1.6
Effective interest rate	2.0	2.2	4.6	5.6	6.0	6.3
Combined Shock						
Real GDP growth	10.3	-4.6	-4.3	2.0	1.9	2.0
Inflation	-13.2	6.6	4.0	5.0	5.2	4.7
Primary balance	-13.1	-13.2	-9.7	-1.4	0.4	1.6
Effective interest rate	2.0	2.4	4.5	5.6	6.0	6.3

Real GDP Growth Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	10.3	-4.6	-4.3	2.0	1.9	2.0
Inflation	-13.2	6.6	4.0	5.0	5.2	4.7
Primary balance	-13.1	-12.6	-9.7	-1.4	0.4	1.6
Effective interest rate	2.0	2.2	2.8	3.2	3.0	3.2
Real Exchange Rate Shock						
Real GDP growth	10.3	0.5	0.7	2.0	1.9	2.0
Inflation	-13.2	17.8	5.3	5.0	5.2	4.7
Primary balance	-13.1	-9.4	-4.0	-1.4	0.4	1.6
Effective interest rate	2.0	2.4	2.5	2.7	2.7	2.9

Source: IMF staff.

Table 2. Iraq: External Debt Sustainability Framework, 2011–21
(In percent of GDP; unless otherwise indicated)

	Actual							Projections						
	2011	2012	2013	2014	2015			2016	2017	2018	2019	2020	2021	Debt-stabilizing non-interest current account 6/
Baseline: External debt	32.8	27.7	25.3	25.9	42.3			**47.7**	**49.6**	**49.1**	**44.8**	**39.2**	**33.1**	**-4.5**
Change in external debt	-11.1	-5.1	-2.4	0.6	16.4			5.5	1.9	-0.5	-4.3	-5.6	-6.0	
Identified external debt-creating flows (4+8+9)	-24.2	-12.9	-5.8	0.1	15.0			7.2	8.4	3.8	1.4	-0.2	-2.2	
Current account deficit, excluding interest payments	-12.4	-7.0	-1.6	0.5	6.1			10.6	8.4	5.0	3.7	2.7	0.8	
Deficit in balance of goods and services	-13.3	-8.5	-3.6	-0.9	6.5			10.8	5.8	5.2	3.9	2.9	1.2	
Exports	44.4	44.5	39.7	39.6	33.3			32.2	34.8	34.7	34.4	33.7	33.8	
Imports	31.1	36.0	36.0	38.7	39.8			43.0	40.6	40.0	38.3	36.6	35.0	
Net non-debt creating capital inflows (negative)	-1.0	-1.3	-2.4	-2.1	-1.9			0.8	-0.6	-1.7	-2.2	-2.7	-2.8	
Automatic debt dynamics 1/	-10.8	-4.6	-1.7	1.6	10.7			-4.2	0.6	0.6	-0.1	-0.2	-0.3	
Contribution from nominal interest rate	0.4	0.3	0.3	0.3	0.3			0.4	0.8	0.9	0.8	0.7	0.5	
Contribution from real GDP growth	-2.5	-3.9	-2.0	0.1	0.9			-4.6	-0.2	-0.3	-0.9	-0.8	-0.7	
Contribution from price and exchange rate changes 2/	-8.7	-1.0	0.0	1.3	9.5			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	13.1	7.8	3.3	0.5	1.4			-1.7	-6.5	-4.3	-5.7	-5.4	-3.8	
External debt-to-exports ratio (in percent)	73.9	62.2	63.7	65.3	126.8			148.1	142.5	141.4	130.3	116.2	97.9	
Gross external financing need (in billions of US dollars) 4/	-21.9	-13.7	-2.2	3.3	11.6			23.9	18.4	18.3	14.4	14.5	13.1	
in percent of GDP	-11.8	-6.3	-0.9	1.5	7.3	10-Year	10-Year	15.9	11.3	10.6	7.8	7.3	6.2	
Scenario with key variables at their historical averages 5/								**47.7**	**34.3**	**23.7**	**13.3**	**4.5**	**-2.3**	**-1.1**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	7.5	13.9	7.6	-0.4	-2.4	5.2	4.7	10.3	0.5	0.7	2.0	1.9	2.0	
GDP deflator in US dollars (change in percent)	24.7	3.0	0.0	-4.7	-27.0	8.9	21.7	-14.3	7.8	5.3	5.0	5.2	4.7	
Nominal external interest rate (in percent)	1.1	1.1	1.0	1.0	0.9	0.6	0.4	0.9	1.9	1.9	1.9	1.6	1.3	
Growth of exports (US dollar terms, in percent)	52.0	17.7	-4.1	-5.3	-40.0	13.9	34.8	-8.5	17.0	5.8	6.1	5.2	7.1	
Growth of imports (US dollar terms, in percent)	8.5	35.8	7.8	1.9	-26.7	13.4	19.0	2.3	2.3	4.3	2.8	2.4	2.2	
Current account balance, excluding interest payments	12.4	7.0	1.6	-0.5	-6.1	3.4	7.3	-10.6	-8.4	-5.0	-3.7	-2.7	-0.8	
Net non-debt creating capital inflows	1.0	1.3	2.4	2.1	1.9	1.4	0.7	-0.8	0.6	1.7	2.2	2.7	2.8	

Sources: International Monetary Fund; country desk data; and staff estimates.

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in U.S. dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

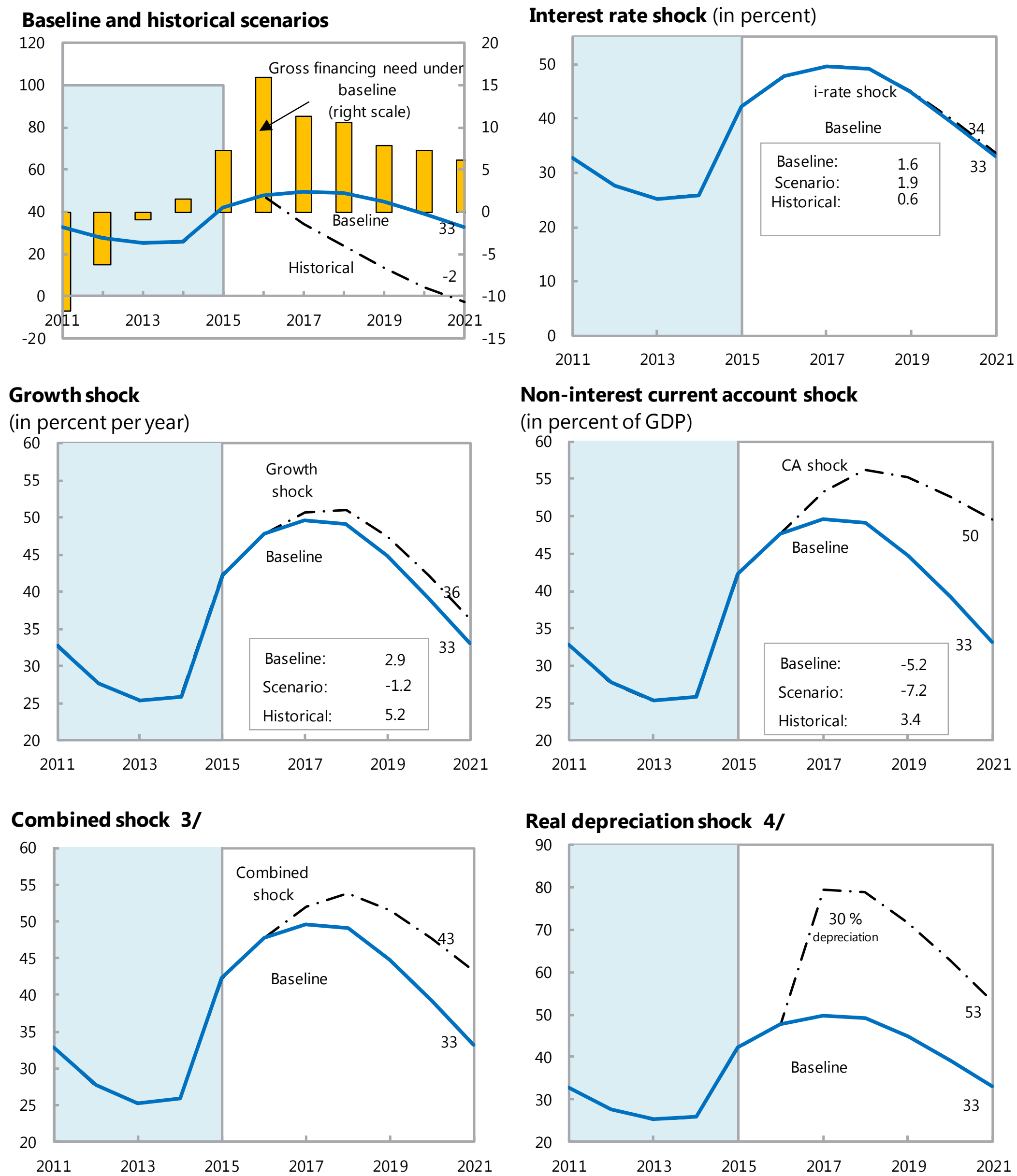
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 5. Iraq: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund; country desk data; and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in th boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2016.

Appendix. Letter of Intent

Baghdad, June 19, 2016

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, DC 20431, USA

Dear Ms. Lagarde:

1. As you know, the Iraqi economy has been hit by a double shock since mid-2014.

2. First, the attacks by the so-called Islamic State in Iraq and Syria (ISIS) have put Iraq in great danger. Iraqi security forces have made notable progress in the fight against ISIS, with the help of our international partners. However, these attacks have resulted in the loss of thousands of lives and caused a dramatic humanitarian crisis. More than 4 million people have been displaced in the northern regions since June 2014, in addition to 250 thousand Syrian refugees that Iraq has been sheltering since the civil war erupted in neighboring Syria. Nearly half of the internally displaced persons are children, forced to live in difficult conditions and to face serious health risks. The refugee crisis is also putting great pressure on Iraq's infrastructure system and public services. Furthermore, the war has destroyed public and private assets and infrastructure, is seriously hampering economic activity in the non-oil sector, and has undermined domestic and external trade.

3. Second, world oil prices have fallen by about 50 percent since mid-2014, causing a huge external shock to our balance of payments and our budget revenue, which depend predominantly on oil export receipts. The shock has caused a strong deterioration of the current account balance, drained our international foreign exchange reserves, and opened a large budget deficit and financing gap.

4. To address these shocks, the government has started to implement a large fiscal adjustment since early 2015, which we consolidated by starting a Staff-Monitored Program (SMP) that you approved in December 2015. The objective of the SMP was to demonstrate good performance in order to move to a possible IMF financing arrangement as soon as possible. As reported in the attached Memorandum on Economic and Financial Policies (MEFP), we have met three of the five indicative targets at end-December 2015 and March 2016 and all three structural benchmarks for the first review of the SMP.

5. Against this background, the government requests a three-year Stand-By Arrangement (SBA) with access of SDR 3,831 million (230 percent of our quota). The government commits to implement the economic and financial policies during 2016–19 described in the attached MEFP in order to gradually bring expenditure down to the new lower level of oil revenues and achieve debt sustainability. The MEFP describes the large fiscal consolidation that the government already implemented in 2015 and plans to continue to implement in 2016. In 2016, the government will only execute 85 percent of the level of non-oil primary expenditure authorized in the 2016 budget approved by parliament because oil prices have been substantially lower than the $45 oil price per barrel on which the 2016 budget was based. Under the public financial management laws of the country, the government has the authority to execute less than the budget approved by parliament when the revenue is less than assumed in the budget. In order to minimize the impact of the fiscal consolidation on the poor, the government will protect social spending and commits to maintain such spending above a floor during the SBA. The MEFP describes also the foreign exchange policy, public financial management, banking supervision, anti-money laundering, countering the financing of terrorism, and anti-corruption measures that the government commits to implement during 2016–19.

6. The government believes that the measures and policies set out in the attached MEFP are appropriate for attaining the objectives of this program and will take any further steps that might be necessary to that end. It will consult with the IMF staff on the adoption of such measures prior to any revision of the policies described in the attached MEFP.

7. The government will provide IMF staff with any relevant information referred to in the attached Technical Memorandum of Understanding (TMU) concerning progress made under the program.

8. The government intends to make public the content of the IMF staff report, including this letter, the attached MEFP, the TMU, and the informational annex of the staff report. It therefore authorizes the IMF staff to publish these documents on its website once the Executive Board has approved this SBA.

Sincerely yours,

/s	/s
Hoshyar Mahmoud Zebari	Ali Mohsen Ismail Al Allaq
Minister of Finance of Iraq	Acting Governor of the Central Bank of Iraq

Attachments:

I. Memorandum of Economic and Financial Policies

II. Technical Memorandum of Understanding

Attachment I. Memorandum on Economic and Financial Policies

1. This Memorandum on Economic and Financial Policies (MEFP) presents recent economic developments in 2015–16, and outlook and economic and financial policies in 2016–19 in regard to Iraq's Stand-By Arrangement (SBA) with the International Monetary Fund (IMF).

Background, Recent Economic Developments, and Performance Under the Staff-Monitored Program

A. Background

2. The attacks by the so-called Islamic State in Iraq and Syria (ISIS) have put Iraq in great danger. The Iraqi security forces have made notable progress in the fight against ISIS, with the help of our international partners. In fact, a significant portion of the territory captured by ISIS after its invasion has already been retaken. However, the war is not likely to end soon and will continue to affect the lives of Iraqis as well as the national economy.

3. The ISIS attacks have boosted the number of internally displaced persons—estimated at 3.7 million people in April 2016. Close to 10 million Iraqis (or almost one third of the population) need humanitarian assistance. With 246,000 Syrian refugees, Iraq is the fourth largest hosting country in the region for people fleeing Syria. Refugees—60 percent of whom are women and children—mostly reside in the north, including in the Kurdistan Region where they have been granted residency status including the right to work. This refugee inflow is adding to the already difficult internal humanitarian situation faced by the Iraqi government.

4. As a continuation of its economic and political reform agenda, the government of Iraq adopted a comprehensive plan, building on the reforms announced by the Prime Minister in August 2015. The plan focuses on six key pillars, namely: security, stabilization and reconstruction; integrity and transparency; executive actions; legislation; selection of senior administration employees and appointment of employees; and activation of lending for housing, manufacturing and agricultural projects. The plan aims at improving the budget and increasing revenues by ID 20–33 trillion annually in the medium and long term. The initial steps, to start before July 2016, include administrative reforms (not requiring changes in laws), amendments to existing transfer regulations and implementation of new taxes. The plan also calls for strengthening the role of the Commission on Integrity.

B. Recent Economic Developments

5. *Real GDP contracted by 2.4 percent in 2015 in spite of the strong growth (12.8 percent) of oil production*, all located in areas under control of the Iraqi government and the Kurdistan Regional

Government (KRG). Non-oil production is estimated to have contracted by 18.7 percent.[1] In January–May 2016, Iraq produced 4.4 mbpd, of which production in the Kurdistan Region and the production of the North and Midland Oil Companies was estimated to be 0.8 mbpd, and the federal government exported 3.3 mbpd, at an average price of $29 per barrel compared to $45 assumed in the 2016 budget. In 2015, average consumer price inflation (CPI) was low at 1.4 percent, but is likely underestimated because CPI coverage excludes areas occupied by ISIS. In April 2016, the CPI was 1.9 percent, year-on-year.

6. *The current account deficit widened to 6.4 percent of GDP in 2015*, financed mainly by the use of $13 billion of official foreign exchange reserves, which fell to $53.4 billion (9.9 months of imports of goods and services) at end-2015.

7. *In 2015, the fiscal deficit increased to 14.3 percent of GDP because of the fall in oil prices in spite of a large fiscal consolidation* that reduced the adjusted non-oil primary balance (NOPB)[2] by 13.5 percent of non-oil GDP and adjusted non-oil primary spending by 30 percent in real terms, mostly via cuts in non-oil investment, goods and services and transfers. The resulting deficit was financed mostly by the issuance of T-bills subscribed and loans provided by the state-owned banks Rasheed, Rafidain and Trade Bank of Iraq (TBI) (in an amount equivalent to 9.8 percent of GDP), of which 44 percent was refinanced at the discount window of the Central Bank of Iraq (CBI). The deficit was also financed by two loans of $1.2 billion each by the IMF[3] and the World Bank, the drawdown of government deposits in the CBI and the state-owned banks (ID 3.7 trillion, 2.0 percent of GDP) and the accumulation of arrears to domestic suppliers (ID 5.2 trillion or 2.8 percent of GDP at end-December 2015 ¶11), and international oil companies (IOCs, ID 4.1 trillion or 2.2 percent of GDP). During the first quarter of 2016, the fiscal deficit amounted to 2.4 percent of GDP and the non-oil primary deficit to 5.6 percent of GDP as oil revenue was significantly less than programmed owing to the lower-than-programmed oil prices (¶5) and the authorities prioritized the payment of wages, pensions, transfers, and interest to the detriment of spending on goods and services and non-oil investment. Oil investment continued to be executed and was financed by the accumulation of arrears to international oil companies (IOCs, ¶11).

8. The *spread between the official and parallel exchange rates* increased from 3 percent on average in December 2016 to about 9 percent in May 2016, while the CBI decreased the volume of its auctions of foreign exchange on the official market.

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[1] This estimate includes the full territory of Iraq, including the territory occupied by ISIS. To make this estimate, an adjustment was made to the production numbers collected by the statistical office COSIT after June 2014 to account for the fact that COSIT numbers do not report most of the production in the ISIS-occupied territories after that date.

[2] To facilitate comparison across years, the NOPB data was adjusted to account for a full year estimate of federal government transfers to the Kurdistan Regional Government (KRG) in 2014 and 2015, for which actual transfers were made for only 2 and 5 months, respectively.

[3] See IMF Country Report No. 15/235. Iraq: 2015 Article IV Consultation and Request for Purchase under the Rapid Financing Instrument.

9. The *yield on Iraqi $ bonds maturing in 2028* increased from 7.5 percentage in May 2015 to 12.5 in January 2016 and then fell to about 11.0 percent in May 2016.

10. In January 2016, the U.S. announced a $2.7 billion loan for sales of military equipment to Iraq and, in February 2016, Germany announced a project loan of €500 million for Iraq.

C. Performance Under the Staff-Monitored Program

11. *Program performance under the Staff-Monitored-Program (SMP)* [4] *was broadly satisfactory*.

- *Three out of the five indicative targets at end-December 2015 under the SMP were met* (Table 1):
    - The *non-oil primary balance* remained above the programmed floor by ID 5.2 trillion ($6.1 billion) owing to the under execution of wage and pension expenditure, goods and services and transfers, in spite of an over execution of investment expenditure and the underperformance of non-oil revenue.
    - The *stock of gross reserves of the CBI* exceeded the programmed floor by $274 million.
    - The *net domestic assets of the CBI* remained below the programmed ceiling by the amount of ID 13 trillion.
    - *Social spending* was slightly under the programmed floor (by ID 1.0 trillion) because of cash constraints at the end of the year.
- *External arrears* exceeded their zero ceiling by $3.556 billion at end-December 2015 and by $4.670 at end-March 2016, which are the amount of valid bills issued by IOCs outstanding for more than three months. The Government has been conducting discussions with IOCs to gradually pay these arrears by September -2016 and not to accumulate any new arrears after June 30, 2016 under the Stand-By Arrangement (performance criterion—PC–on the stock of arrears outstanding to IOCs and continuous PC on zero accumulation of new external arrears, Table 3). Timely payment to IOCs is essential to secure oil investment and oil revenue, which will remain the main source of financing for Iraq's public spending and imports.
- *Preliminary estimates indicate that three indicative targets (IT) at end-March 2016 were met and two were missed* (Table 1):
    - The *stock of gross reserves of the CBI* exceeded the programmed floor by $7 billion.
    - The *net domestic assets of the CBI* remained below the programmed ceiling by the amount of ID 19 trillion.

[4] See IMF Country Report No. 16/11. Iraq: Staff-Monitored Program.

  - The *non-oil primary balance* remained above the programmed floor by the amount of ID 10 trillion ($8.5 billion) owing to the under execution of all non-oil primary spending items (¶7).

  - *Social spending* was under the programmed floor (by ID 1.6 trillion) because of cash constraints. With the assistance of the international aid package, the government commits to catch up on the execution of such spending by year-end.

- *The government has met all the structural benchmarks (SB) for the first review of the SMP* (Table 2):

  - The Ministry of Planning has completed a *survey of domestic arrears* on investment spending accumulated by all ministries of the federal government at end-February 2016.

  - The Ministry of Finance and the Central Bank of Iraq (CBI) compiled *a list of all bank accounts controlled by the Ministry of Finance and all spending and sub-spending units of the central government* in CBI, state-owned and commercial banks at end-December 2015. The total amount of these deposits is ID 9.3 trillion, out of which ID 2.9 trillion was held at the CBI, ID 3.7 trillion at Rasheed Bank, ID 2.5 trillion at Rafidain Bank, ID 0.2 trillion at the Trade Bank of Iraq (TBI), and zero in other banks.

  - The Rasheed Bank and the Rafidain Bank have appointed Ernst and Young to *audit their 2014 financial statements according to international standards*.

  - The SB for the second review of the SMP has not yet been met: progress is being made on the drafting of amendments to the draft Financial Management Law to be approved by the Minister of Finance. It is a SB for the first review of the SBA (¶25).

Economic and Financial Policies for 2016–19

12. *The economic outlook has worsened since the assessment at the time of the SMP discussion (November 2015) owing to further weakening of global oil prices*. The further sharp decline in projected Iraqi oil prices from $45.0 to $34.5 in 2016 (and by a similar magnitude in future years) has opened a large financing gap of $14 billion a year without further measures or financing. With additional fiscal adjustment of about 3 percent of non-oil GDP per year in 2016 and beyond compared to the SMP (through measures discussed below), and additional use of foreign exchange reserves, the financing gap would be reduced to $4.9 billion in 2016 and $13.2 billion during 2017–19, which could be filled by the IMF, the World Bank, and donors. The proposed fiscal retrenchment in 2016 would entail a reduction in the adjusted non-oil primary deficit by 3 percent of non-oil GDP compared to the 2016 budget. The ongoing war against ISIS, along with the sharp fiscal retrenchment, is projected to lead to a 5 percent contraction of non-oil GDP in 2016. But, assuming the level of oil production that has already been achieved in early 2016 due to significant investment in the past as well as ongoing investment in the oil sector, the average level of oil output in 2016 should increase by 21 percent over last year's average. Hence, overall real GDP is expected to grow by 10.3 percent in 2016. The current account deficit would widen to 11 percent of GDP in 2016 owing to the drop in oil prices, but improve over the

medium term as oil prices recover somewhat, structural reforms are implemented, and progress is made to retake territories controlled by ISIS. The increase in oil prices and the fiscal consolidation—which would need to be continued after the program period—would bring the overall fiscal deficit down to less than 1 percent of GDP in 2021 and the balance of payments back into surplus by 2021. The public debt would peak at 85 percent of GDP in 2018, and gross official foreign exchange reserves would bottom out at $31.5 billion (5.1 months of imports of goods and services) in 2020.

A. Foreign Exchange Policy

13. *The government is committed to maintaining the peg with the U.S. dollar.* The peg provides a key nominal anchor in a highly uncertain environment with policy capacity weakened by the conflict with ISIS. The CBI will increase the sale of foreign exchange for valid current exchange transactions on the official market in order to reduce the spread between the official and parallel exchange rates (¶8).

14. *The government will gradually remove remaining exchange restrictions and multiple currency practice (MCP) with a view to eliminating exchange rate distortions*. Such a move towards acceptance of the obligations under Article VIII of the IMF's Articles of Agreement will send a positive signal to the investment community that Iraq is committed to maintain an exchange system that is free of restrictions and MCPs for current international transactions and thus facilitate creation of a favorable business climate. As a first step, the Council of Ministers will approve and introduce to parliament an amendment of the Investment Law, or the CBI will issue clarifying implementing regulations, to remove the limitation on transfer of investment proceeds that gives rise to an exchange restriction (SB Table 5), as recommended by a recent technical assistance mission of the IMF. As a second step, the CBI will, by the end of 2016, make the weekly limits on the purchase of cash at the weekly foreign currency auctions indicative, in the sense that any bank requiring additional cash for their clients' legitimate travel expenses will be able to obtain the required amount above these limits on the basis of appropriate documentation. The CBI will make the public aware of such a policy by explaining it through a press conference and on its external website.

B. Fiscal Policy

15. In order to maintain macroeconomic stability and achieve debt sustainability, the government commits to pursue its fiscal consolidation efforts to bring spending in line with available resources in 2016–19. This will require: (i) a sizable reduction in the adjusted non-oil primary balance[5] (PC, Table 3), of about 11 percent of non-oil GDP (ID 4.3 trillion, or $3.6 billion) over 2016–19; and (ii) a large increase in mostly domestic but also external financing over the short run that will remain compatible with debt sustainability in the medium run.

[5] The non-oil primary fiscal balance is defined as the difference between non-oil revenue and non-oil primary expenditure, i.e. excluding interest payments, see Technical Memorandum of Understanding (TMU), ¶8.

16. In order to minimize the impact of the fiscal consolidation on the population, the government will protect social spending, i.e. spending on health, education, and transfers in support of the social safety net, the internally displaced and the refugees (IT, Table 3).

17. In order to strengthen debt sustainability, the government will renew discussion with Iraq's non-Paris Club (PC) creditors towards which it still has unresolved external arrears in an amount of $41 billion that were accumulated under the pre-2003 Saddam regime. Those arrears make most of the total stock of the external debt stock, which amounted to $67 billion at end-2015. Negotiations with these creditors will continue to seek implementation of debt relief on the same terms as with the PC creditors, i.e. an 80 percent net-present-value reduction. The government will also examine with the PC the possibility of requesting a net-present-value neutral rescheduling of the remaining claims of PC creditors.

18. To ease the cash constraint in 2017, the authorities have agreed with the government of Kuwait on a further postponement of the payment of overdue war reparations to Kuwait amounting to $4.6 billion (ID 5.4 trillion or 4.3 percent of non-oil GDP) beyond 2017.

19. In order to facilitate implementation of the budget sharing arrangement between the Federal Government and the KRG, the Federal Government is looking into improving its modalities. In this regard, both parties are considering netting out the KRG oil receipts, which the KRG plans to have audited by international audit companies starting on July 1st, 2016, with the budgetary transfers to which the KRG would be eligible under the budget sharing arrangement. In the meantime, the performance criterion on the non-oil primary balance (¶32) for the Federal Government will have an adjuster in case the budget sharing agreement with the KRG is not implemented (TMU, ¶14).

Fiscal Program in 2016

20. In 2016, the government commits to contain the non-oil primary deficit to no more than ID 65.2 trillion (53.3 percent of non-oil GDP), compared to ID 76.7 trillion (56.3 percent of non-oil GDP) in the 2016 budget. The Council of Ministers' approval and circulation to parliament of a quarterly budget execution report that presents the projection of revenue and expenditure for the remainder of 2016 reflecting this change, an explanation of variations from the 2016 budget, and the measures to be taken to ensure that the budget execution remains in line with the macroeconomic framework agreed under the SBA is a prior action (PA, Table 5). Approval by the Minister of Finance and dissemination to the spending units of a spending plan for the latter in line with the macroeconomic framework agreed under the SBA is another PA. This fiscal program will be achieved through the implementation of the following measures:

- collect at least ID 7.4 trillion (6.1 percent of non-oil GDP) in *non-oil revenue*, compared to ID 8.8 trillion (6.5 percent of non-oil GDP) in the 2016 budget, in spite of the downwards revision of non-oil growth to -5 percent compared to zero in the budget, due to the following measure:
    - increase in personal income tax revenue through a reduction of exemptions, which will yield ID 0.3 trillion in 2016 (¶23);

- *contain non-oil primary expenditure* to ID 72.6 trillion (59.4 percent of non-oil GDP) compared to ID 85.5 trillion (62.8 percent of non-oil GDP) in the 2016 budget; this reduction will be borne mostly by the following measures:

  - *reduction of the wage bill* by ID 3.0 trillion, through natural attrition, delaying hiring of new staff, reduction of discretionary benefits, and revising wages of military and security personnel in light of observed number of staff absent without leave; this will still leave room for an increase in the wage bill by ID 3 trillion compared to 2015;

  - *reduction of pension payments* by ID 1.8 trillion, by the enforcement of the existing rules preventing collection of multiple pensions or collecting pensions without minimum contribution period or below legal pensionable age; this will still leave room for an increase in pension payments by ID 1 trillion compared to 2015;

  - *reduction in goods and services* by ID 2.2 trillion, while making room for the increase in electricity charges from ID 360 billion to ID 675 billion, as a consequence of the fivefold electricity tariff increase decided by the Council of Ministers (¶24); this will still room for an increase in goods and services by ID 1.9 trillion compared to 2015 excluding electricity charges;

  - *reduction of transfers* by ID 2.4 trillion, including through less spending to replenish the food stocks of the Public Distribution System (PDS) in light of the higher than programmed level of the these stocks at end-2015; this will still leave room for an increase in transfers by ID 4.5 trillion compared to 2015, and an increase of the social safety net transfers by ID 1.8 trillion, including an increase of the PDS by ID 0.2 trillion;

  - *reduction of non-oil investment expenditure* by a further ID 3.6 trillion through prioritizing projects already started and focusing on the most crucial new ones, and delaying other projects to later years; this will imply a cut of non-oil investment expenditure by ID 7.3 trillion compared to 2015;

  - the wage, pension, and other cuts also include *significant burden sharing by the Kurdistan Regional Government (KRG)*, which is broadly commensurate with its share in the budget of the federal government: while the transfers to KRG were to amount to ID 13.1 trillion in the 2016 budget, this figure will be reduced to ID 9.8 trillion in the revised fiscal program for 2016.

21. In order to finance the non-oil primary fiscal deficit (ID 65.2 trillion), the interest payments (ID 2.8 trillion) and the oil investment expenditure (ID 14.7 trillion), the government will have recourse to oil revenue (ID 56.6 trillion), domestic financing (ID 21.5 trillion) and external financing (ID 4.5 trillion):

- The *domestic financing* will be covered by the issuance of Treasury bills (ID 14.9 trillion), out of which most (up to ID 12.6 trillion) will be refinanced by commercial banks at the discount window of the CBI, the issuance of national bonds for the general public (ID 5 trillion), and the drawdown of government deposits in the banking sector (ID 4 trillion). The amount of central bank indirect monetary financing will be revisited on the occasion of the first review in light of the success in raising domestic financing by other means. If oil revenue is higher than programmed, the government commits to save the excess oil revenue collected over the amount programmed in order to reduce the indirect monetary financing of the budget deficit by the CBI.

- The *external financing* will be covered by loans from the IMF under the SBA ($1.9 billion), the World Bank under a Development Policy Loan to be disbursed in December 2016 ($1billion), a bond issued with full guarantee of the United States ($1 billion), loans by the World Bank guaranteed by France ($450 million), the United Kingdom ($430 million) and Canada ($120 million) budget support loans by the Japanese International Cooperation Agency (JICA, $200 million), and a Eurobond issuance in the last quarter of 2016 ($1billion). The external financing will also be covered by project loans from the U.S. government ($2.7 billion, ¶11), Germany (€167 million, i.e. the €500 million disbursed over three years, ¶11), JICA ($323 million), the World Bank ($120 million), Italy ($66 million), and the Islamic Development Bank ($54 million).

22. The government will not resort to the accumulation of arrears to finance the deficit. It commits to a zero ceiling on new external arrears to its external creditors after June 30, 2016 (continuous PC, Table 1), a gradual elimination of the existing stock of outstanding arrears to IOCs by the end of 2016 (¶11), and regular inventories of domestic arrears with a view to ensuring that new arrears do not accumulate and to paying down existing ones after proper audit (¶25, third bullet).

C. Revenue Reforms

23. In order to strengthen revenue, the government will implement the following measures:

- *Broaden the tax base of wages*. The Council of Ministers approved a decision to include all salaries and wages of non-military government employees above grade 2 including base salary, supplemental pay, bonuses, overtime and any other allocations (excluding allocations for wife and children), in the taxable base (PA, Table 5). This decision is expected to yield additional tax revenue of ID 0.3 trillion in 2016 and ID 0.6 trillion in 2017 when it will be implemented for the full year.

- *Audit the financial statements of the Development Fund for Iraq and Successor Account 300/600 at the CBI* to check that all oil revenue reaches the treasury and monitor the use of the resources deposited in that account. The Ministry of Finance will continue to have all the transactions moving the balance of its foreign exchange account 300/600 at the CBI audited by an international audit company every six month and will post the audit reports on its external website within six months after the end of each audited semester (SB, Table 5).

- *Conduct diagnostics of the tax and customs codes* to simplify them and broaden the tax base. The Ministry of Finance will, by end-September 2016, prepare tax policy measures to increase tax and customs revenue, with technical assistance from the IMF and the World Bank. Such measures could include the introduction of a value added tax[6] or sales tax, a personal income tax on pension earners, excise taxes, … . The government will introduce tax policy measures to increase non-oil tax revenue in the 2017 draft budget.

- *Conduct diagnostics of the tax and customs administrations* with a view to modernize them and broaden the tax base, with technical assistance from the IMF, the World Bank, the World Customs Organization, and the United Nations Conference for Trade and Development (UNCTAD). The Ministry of Finance will, by end-December 2016, propose a strategy to strengthen the tax and customs administration, with technical assistance from the IMF and the World Bank. The Customs Administration will, by end-August 2016, propose a strategy to implement the UNCTAD ASYCUDA information system in its administration.

D. Expenditure Reforms

24. In order to decrease expenditure, the government will implement the following measures:

- *Control the evolution of wages and pensions* by a combination of the following measures:
  - o implementing a hiring freeze in sectors other than security, health and education in 2016;
  - o conducting audits by the Board of Supreme Audit (BSA) of the wage and pension recipients by end-August 2016 to first identify, and then cancel payments to, ghost workers and ghost pensioners (two SB, Table 5); and
  - o changing, by end-December 2016, the parameters of the public pension system as proposed by the World Bank.[7]
- *Reform the electricity sector* by a combination of the following measures:
  - o implementing the progressive electricity tariff schedule designed by the Ministry of Electricity in 2015, which could yield nearly ID 2.2 trillion (1.8 percent of non-oil GDP) in additional revenue for the electricity sector; the additional revenues will be used to finance off-budget investment

[6] The introduction of a 5 percent VAT, as decided by the Gulf Cooperation Council states for 2018 could yield annual revenue of 2 percent of GDP in these countries.

[7] According to the World Bank, amending the pension law 9/2014 to introduce the following parametric changes would yield cumulative savings of over ID 1 trillion through 2018 and ID 31 trillion through 2028: (1) decreasing the accrual rate from 2.5 percent to 1.5 percent; (2) increasing the minimum length of service from 15 years to 20 years for pension salary eligibility; (3) changing the base wage for pension calculation from the last three years to the last seven years; and (4) reducing the qualifying conditions for survivorship pensions to only spouses, parents, and children (World Bank, Iraq - Emergency Fiscal Stabilization, Energy Sustainability, and State-Owned Enterprise Transparency Development Policy Financing, December 2015, ¶52, p.24).

and repay bank loans of the electricity companies;[8] the tariff increase will not increase the tariff for the consumption below 600 kilowatts per month in order to shield the poorest; and

- o reducing gas flaring by using it for electricity production, which, according to the World Bank, could yield about ID 1.4 trillion ($1.2 billion, or 1.1 percent of non-oil GDP) in budget savings per year with an upfront cost of $0.5 billion starting in 2017:[9] to that end, the Ministry of Oil paid all its 2015 arrears to the Basra Gas Company (BGC) amounting to $204 million, will pay its outstanding 2016 arrears of $140 million by end-May, will pay its estimated remaining gas purchase from BCG in 2016 amounting to $700 million within the contractual 45 day-period after billing, and will use at least $145 million of its investment budget in 2016 to finance the gas flaring-reducing investment project at the BGC.

- *Reform the Food Public Distribution System (PDS).*[10] The Ministry of Labor and Social Affairs (MOLSA) is setting up a Proxy Means Testing (PMT) data base with the assistance of the World Bank. When that database is completed, the MOLSA will have a database that will be used to determine eligibility for cash transfers based on available budget. This same database could be utilized by other programs (i.e. PDS) to target their assistance (cash or in-kind) to the poor households based on their welfare scores as determined by the PMT.

- *Reform state-owned enterprises (SOEs)*. Non-financial SOEs in Iraq include a large variety of public entities, including ministries' directorates/departments, and bodies. There are 176 SOEs in Iraq, with over 550,000 employees, of whom 30 to 50 percent are estimated to represent excess labor. Many of these SOEs have limited rationale beyond providing public employment. As a result, they are structurally loss-making and present a large burden for public finances. The exact scope and scale of the economic, financial and fiscal cost that SOEs represent in Iraq is, however, unknown due to poor reporting of key financial and economic statistics on the 176 non-financial SOEs. Similarly, the transparency of financial SOEs is limited. With the assistance of the World Bank, the government has started to set up a database to monitor the fiscal risks of non-financial SOEs. Building on this information, the government will elaborate measures to restructure the non-financial SOEs on the occasion of future reviews of this SBA.

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[8] In 2015, total electricity consumption was 42 TWh, revenue amounted to ID 0.8 trillion while the cost of producing electricity, with oil supplied at $5 per barrel, amounted to ID 5 trillion. This tariff increase has the potential to increase the electricity sales to ID 3 trillion and reduce the gap with production cost to ID 2 trillion. In 2015, the central government consumed 4.5 TWh. This tariff increase will increase the cost of its electricity bill from ID 73 billion in 2015 to ID 675 billion in 2016, compared to ID 360 billion in the 2016 budget. Credits for electricity consumption were revised upwards accordingly in the revised fiscal program for 2016 (¶20).

[9] World Bank, December 2015, ¶62, p.28.

[10] Moving to a more targeted PDS could yield annual savings of up to ID 1.8 trillion (1.4 percent of non-oil GDP). See "*Food and Electricity Subsidies*" in IMF Country Report No. 15/236. Iraq: Selected Issues.

E. Public Financial Management Reforms

25. In order to strengthen fiscal discipline, the government will implement the following measures:

- *The Minister of Finance will approve a new draft of the Financial Management law in line with World Bank and IMF comments on the last draft submitted to the Shura Council* (SB, Table 5). This draft will include: prior Ministry of Finance approval of multi-year commitments; two set of budget execution reports: one on a cash basis, and, another one that will gradually include more and more elements measured on an accrual basis; and codification of the current intention not to invest any surplus oil revenues in domestic assets.

- *Improve Government Finance Statistics (GFS) reporting*. Building on the IMF technical assistance recommendations, the Ministry of Finance will send to the IMF staff fiscal reporting tables (including revenue, expenditures and financing) at end-December 2015, end-March 2016 and end-June 2016 in compliance with the IMF Government Finance Statistics Manual 2014 (GFSM 2014, SB for the first review, Table 5). It will publish quarterly fiscal reporting tables in compliance with the IMF GFSM 2014 with a quarter lag on the external website of the Ministry of Finance starting on January 1, 2017.

- *Survey, audit and pay domestic arrears*:

  - The government will monitor with quarterly surveys the accumulation of arrears by systematically recording in detail and monitoring the existing unpaid obligations on a regular basis. It will complete of a survey of all domestic arrears, i.e. payment due for more than 90 days, at end-June 2016, including: (i) current spending (salaries, pensions, goods and services and capital purchases), managed by the Ministry of Finance; and (ii) non-oil investments (projects and any associated penalties), managed by the Ministry of Planning. The Ministry of Finance will elaborate a consolidated report on all these arrears for the included ministries. (SB for the first review, Table 5).

  - On the basis of each of these surveys, the government will prepare plans for the orderly payment of the arrears, following an independent audit of the arrears by the BSA and a repayment schedule in line with the government's financing capacity. In its revised fiscal program for 2016 (¶20), the government has included the issuance of two-year bonds in a provisional amount of $2.5 trillion carrying an interest rate of 5 percent to repay part of the ID 7.5 trillion in domestic arrears on non-oil investment identified by the Ministry of Planning (¶11). The government will set the amount of this issuance in light of the results of the audits of these arrears by the BSA, who will conduct it by end-August 2016, and its financing capacity.

  - The government will observe a ceiling on the accumulation of domestic arrears on non-oil investment as surveyed by the Ministry of Planning (IT, Table 5). The scope of this IT will be widened to include all domestic arrears on the occasion of future reviews in light of the results of the survey of domestic arrears on current expenditures on the occasion of the first review.

This IT will be upgraded to a PC on zero accumulation of domestic arrears as soon as the government has developed the ability to reliably monitor and prevent them.

- *Take steps to move to a Treasury Single Account (TSA).* As a first step, the Ministry of Finance and the CBI compiled a list of all bank accounts controlled by the Ministry of Finance and all spending units and sub spending units of the federal government, in CBI, state-owned and commercial banks at end-December 2015 (¶11). Going forward, the Ministry of Finance will implement the following measures:

    - Constitute a working group comprising representatives of the Ministry of Finance, CBI, Al Rasheed and Rafidain Banks and TBI to take stock on the readiness of the payment and settlement systems in the country, and develop a plan for modernizing systems to enable operation of a TSA by end-December 2016.

    - In light of the existing and planned banking and financial management information technology infrastructure, develop a strategy, design and action plan for the phased development of the TSA by end-March 2017.

    - Create a Cash Flow Management Unit (CMU) and mandate it to develop cash flow forecasts that will identify cash needs over the course of the budget year as one of its core responsibilities (by end-June 2016) with the support of technical assistance by the IMF. These cash flow forecasts should include details of all receipts and payments into and from the central government accounts and should be used to inform the spending units about funding operations. The CMU will develop: 12-month rolling revenue cash forecasts by end-September 2016; and 12-month rolling expenditure cash forecasts based on the larger spending units by end-December 2016. Throughout 2017, the government will build CMU capacity to develop accurate in-year cash plans, including scenario analysis.

    - Set up a Cash Management Committee (CMC) by end-December 2016 to : (i) oversee the timely and orderly financing of the budget including monitoring of all outflows and monitor all inflows in the TSA/Treasury main accounts, all revenue collection and spending; (ii) monitor the macro-fiscal, macro-economic and monetary situation and activate corrective actions in a timely manner; (iii) ensure coordination and sharing of information between the key stakeholders; and (iv) facilitate policy discussions. Chaired by the most senior official of the Ministry of Finance, the CMC will include representatives of the Debt Management Department, the Budget Department, the Treasury, the Ministry of Oil, large spending units, and the CBI.

    - Gradually incorporate all government-related cash operations in the TSA, initially through the use of zero-balance operations during 2017–18, in light of the results of the audits of the financial statements of Rasheed Bank and Rafidain Bank and in sync with the implementation of their restructuring strategy (¶28) and the liquidity situation of any other bank where the government has accounts.

- *The following closing dates will apply for the 2016 budget execution:* for commitments in respect of ordinary operating expenditures and non-oil capital expenditures, November 30, 2016; for commitments in respect of other expenditures, December 20, 2016; for payment orders, December 31, 2016; and for payment order processing by accountants, payment authorization, and regularization of expenditures, January 31, 2017. Thus, the supplementary accounting period will be limited to accounting operations, and an end-of-year circular will be sent by the end of September 2016 specifying the deadlines for expenditure commitments and validation to ensure that all commitments can be closed out by November 30, 2016.

- *Design and implement a commitment control system for budget execution, in line with IMF technical assistance recommendations*. To avoid emergence of new arrears, the immediate focus will include:

  - preparing a monthly budget execution report based on inputs from spending units;

  - implementing cash rationing for each spending unit;

  - improving the recording of commitments: decisions by the Minister of Finance and the Minister of Planning requiring all spending units to record all existing commitments; and production, by the Ministry of Finance, of a report of all recurrent and investment commitments (by project) in coordination with the Ministry of Planning (two SB, Table 5);

  - prohibiting any commitment beyond quarterly allocations;

  - designing the templates required for a manual commitment control system based on the Appendix 3 to the December 2015 FAD technical assistance report (by end-June 2016);[11]

  - conducting training for spending units on the new system, including a clear definition of commitments (by end-August 2016);

  - requiring all spending units to record all existing commitments (by end-September 2016);

  - Ministry of Finance to produce a report of all recurrent and investment commitments (by project) in coordination with the Ministry of Planning as at end-December 2016;

  - ensure that commitment control functionality is designed in the Integrated Financial Management Information System (IFMIS) by end-July 2016; and

  - test the commitment functionality in the IFMIS pilot sites (in line with IFMIS pilot plans) by end-2018.

[11] IMF, Fiscal Affairs Department, Strengthening the Draft PFM Law and Budget Execution, Suzanne Flynn, Jacques Charaoui, Janis Platais, Tawfik Ramtoolah, and Arun Srivastava, December 2015.

- *Design and implement an Integrated Financial Management Information System (IFMIS) with the assistance of the World Bank:*
    - as a first step, the Ministry of Finance will adopt, by end-June 2016, a road map detailing its core functional requirements, such as: the chart of accounts, multi-year expenditure tracking; carry-over of resources from one year to the next; and management of advances and cash management arrangements;
    - as a second step, the Ministry of Finance will take the necessary steps to hire a company to develop the IFMIS: it will publish the final standard bidding documents on its web site by end-July 2016, and sign the contract with the selected IFMIS vendor by end-February 2017;
    - as a third step, the Ministry of Finance will develop, test and accept the IFMIS by end-November 2018; and
    - as a final step, the Ministry of Finance will progressively roll out the IFMIS to pilot sites including the Ministry of Finance, the Ministry of Planning, the Ministry of Interior, the Ministry of Construction, Housing and General Municipalities, and the Baghdad and Babil Governorates by end-June 2020.
- *Implement Public Investment Management (PIM) reform with the assistance of the World Bank in line with Decree 445 of October 18, 2015 on PIM:*
    - design the organizational structure of the PIM Central Unit at the federal Ministry of Planning (by April 2016) and make this structure fully operational (by end-December 2016);
    - make and publish on the Ministry of Planning website a detailed inventory at both ministry and governorate levels of the portfolio of public investment projects (on-going and new projects with a minimum cost of US$10 million), having a feasibility study made through cost–benefit analysis and expenditure efficiency (by end-June 2016);
    - conduct a capacity needs assessment for the PIM Central Unit at the federal Ministry of Planning and in the two IFMIS pilot governorates of Baghdad and Babel (by end-November 2016); and
    - conduct training for the PIM Central Unit in line with the recommendations of the capacity needs assessment with a preliminary focus on the Logical Framework Approach and the Integrated Project Appraisal at a basic level (by end-2017).
- *Audit budget execution*. The BSA will submit its report of the execution of the 2015 budget to parliament before the government submits the draft 2017 budget to parliament.
- *Strengthen Debt Management*. The capacity of the Public Debt Directorate will be strengthened with technical assistance support from the Japanese International Cooperation Agency (JICA), one of the largest bilateral and concessional lenders to Iraq. Starting in October 2015, a workshop was held

with support from a debt management expert from JICA. This will be followed by a package of training programs consisting of a series of seminars and practical trainings for strengthening the capacity of the Public Debt Directorate. Some training courses may be held in cooperation with neighboring countries and international financial institutions. As a first step, the Public Debt Directorate will seek assistance to strengthen its debt recording systems.

F. Anti-Corruption Measures

26. In order to combat corruption, the government will implement the following measures:

- The Council of Ministers will approve—after review by the Shura Council and forward to the parliament by January 2017 draft amendments to the 2011 law establishing the Commission on Integrity in order to strengthen its governance, accountability and oversight, and independence, and provide it with powers in line with the United Nations Convention Against Corruption (SB, Table 5). The draft amendments will include the essential elements of a legal framework including clarity regarding the institution's mandate, which consists of: its objectives and functions and its powers to achieve them; clear governance and oversight and an accountability structure; operational and financial autonomy; eligibility criteria for appointments; and clear and transparent rules and procedures for dismissal, and protection for its management and staff. The draft amendment will also include requirements to set-up a comprehensive asset (in Iraq and abroad) declaration regime for senior public officials, their family members, and associates, and a requirement to publish the asset declaration.

- In line with UNCAC requirements, the Council of Ministers will adopt and forward to the parliament by December 2016 amendments to the Criminal Code to criminalize all corruption acts including illicit enrichment, bribery in the private sector, and obstruction of justice.

- In line with UNCAC requirements, the Council of Ministers will adopt and forward to the parliament by February 2017 several draft legislations that are currently being finalized by the Commission on Integrity to strengthen the legislative anti-corruption framework. The draft laws are related to access to information, conflict of interest, asset recovery, and protection of whistleblowers and witnesses.

G. Banking Supervision

27. As of December 31, 2015, there were 56 banks operating in Iraq including 7state-owned banks (SOB) of which one is an Islamic bank, 32 Iraqi private banks, of which 6 are Islamic banks, and 17 foreign branches, of which 5 are Islamic banks. The SOBs dominate the financial sector and account for the bulk of assets and credits. Three of the SOBs, Rafidain Bank, Rasheed Bank and Trade Bank of Iraq (TBI), account for around 90 percent of the banking system's assets.

28. The financial positions of Rasheed Bank and Rafidain Bank are fragile following years of quasi-fiscal operations. As a first step to restructure these banks, the Ministry of Finance appointed international auditors to audit their latest financial statements according to international standards, in

cooperation with the Executive Committee for the restructuring of these banks and the World Bank. The auditors will submit their audit reports to the Ministry of Finance by end-August 2016. As a second step, the Ministry of Finance will, by end-December 2016, elaborate a restructuring plan for these two banks, in cooperation with the Executive Committee for the restructuring of these banks and the World Bank, in light of the results of the aforementioned audits.

29. The CBI will continue to implement reform measures to enhance the stability of the banking sector in Iraq which includes inter alia:

- working on reviewing and assessing CBI prudential regulations with the assistance of the IMF Middle East Technical Assistance Center (METAC) and the World Bank;
- strengthening banking supervision including for AML/CFT, with IMF and World Bank technical assistance;
- compiling and publishing financial stability indicators, elaborated with IMF technical assistance (by end-December 2016);
- enforcing the minimum capital requirement of banks of ID 250 billion ($214 million), a level to which all private banks except one have increased their capital;
- contracting a consultant to assist the CBI in rating banks, whereby they have already rated 17 banks: three banks were rated "*satisfactory*", eight banks rated "*fair*" and six banks "*marginal*";
- contracting a consultant to assist the CBI in upgrading the prudential regulations on "*Liquidity*" and "*Capital Adequacy Ratio*";
- preparing a Deposit Insurance Scheme which stipulates the establishment of a corporation to be licensed by the CBI, of which banks will have the opportunity to take a share in the capital;
- contracting a private firm to provide the CBI with a credit registry system for sharing information among banks on their common existing and potential borrowers;
- issuing a banking law for financial institutions offering Islamic services;
- penalizing, financially and administratively, banks and non-bank financial institutions for any non-compliance with laws and regulations in force; and
- introducing the international bank account number (IBAN) system in Iraq.

Building on the safeguards assessment conducted by the IMF in December 2015, the government will strengthen the legal framework of the CBI to provide for independent oversight of the CBI's operations. The Governing Council of the CBI will, by end-October 2016, approve a new charter for the Audit Committee prohibiting Central Bank of Iraq executive representation on the committee (SB, Table 5). The Council of Ministers will, by end-December 2016, approve and introduce to parliament amendments to the Law on the Central bank of Iraq to strengthen CBI governance and the internal control framework, in line with the IMF safeguards assessment's recommendations (SB, Table 5). Specifically, the CBI Law should be amended to: (i) specify external auditor selection criteria and timely appointment (i.e. before the end of the fiscal year for which the financial statements need to be audited); (ii) shift the authority to appoint the external auditor from the Ministry of Finance to the CBI; (iii) provide for multi-year appointment terms for the external auditor; (iv) provide for timely publication of audited financial statements; (v) establish an audit committee, including its mandate and composition, and representation on the CBI Board; (vi) change the CBI Board's composition to a non-executive majority; (vii) strengthen the autonomy of the chief internal auditor; and (viii) require market-based rates for lender of last resort operations. The proposed amendments should be developed in consultation with the IMF.

H. Anti-Money Laundering and Countering the Financing of Terrorism Measures

30. *The government will implement reforms to strengthen the anti-money laundering and combating the financing of terrorism (AML/CFT) framework*. This will contribute to improve the integration of the domestic financial system into the global economy, lower transaction costs, improve governance, reduce the size of the informal sector, disrupt ISIS funding, and reduce the terrorist threats it poses.

- As a first step, the government will adopt a by-law to set up a mechanism to comply with the relevant United Nations Security Council resolutions related to terrorism and terrorism financing in line with Recommendation 6 of the Financial Action Task Force on Money Laundering and Terrorism Financing (FATF) by end-August 2016, (SB, Table 5). In addition, the CBI will, by end-August 2016, adopt regulations imposing AML/CFT preventives measures for licensed entities to implement the 2015 law in line with the relevant FATF Recommendations.

- As a second step, the CBI will develop its supervisory capacity to enhance the compliance by these entities with AML/CFT obligations. In this respect, it will adopt risk-based AML/CFT onsite inspection procedures by end-January 2017, and tools for AML/CFT offsite monitoring of licensed entities by end-April 2017. It will allocate 5 experienced supervisors by end-March 2016 to properly cover AML/CFT issues during onsite examinations and ensure effective implementation. The CBI will recruit 5 additional experienced supervisors by end-January 2017.

- The CBI, in coordination with the AML/CFT Council, will provide the Financial Intelligence Unit (AML Bureau) with all the necessary financial, human, and technical resources to ensure a fully operational and effectively functional unit. The CBI will provide an appropriate budget to the AML Bureau by end-December 2016. Furthermore, the AML Bureau will recruit 5 additional experienced financial analysts[12] by end-March 2017 to analyze the suspicious transactions reports and disseminate them on a timely basis to the law enforcement agencies. The AML Bureau will recruit 5 additional experienced financial analysts by end-March 2018.

[12] As per May 2016, the FIU has 7 analysts.

- The government will adopt a comprehensive cash-couriers' regulation to implement the requirement of Article 34–35 of the AML/CFT Law and in line with FATF Recommendation by end-December 2016. The Customs Administration will then take the appropriate measures to effectively implement the regulation in order to detect the physical cross-border transportation of currency and bearer negotiable instruments that are suspected to be related to terrorist financing, money laundering or associated predicate offenses, or that are falsely disclosed.

Program Modalities and Monitoring

31. The program will have quarterly reviews and set quarterly PC on the non-oil primary balance, the stock of total public debt, the stock of net domestic assets of the CBI, official foreign exchange reserves, the absence of new external arrears, the stock of outstanding arrears to IOCs and two IT on social spending and the stock of outstanding domestic arrears on non-oil investment, starting in June 2016 (Table 3). Each program review will set a few SB in areas that are essential for the success of the program (Table 5 contains the list for the first, second and third reviews). The first review should be completed on or after September 15, 2016, the second review on or after December 15, 2016, and the third review on or after March 15, 2017.

Table 1. Iraq: Quantitative Targets Under the Staff-Monitored Program, 2015–16 [1/]

(In billions of Iraqi dinars, unless otherwise indicated)

	Dec-15				Mar-16				Jun-16	Sep-16	Dec-16
	Prog.[2/]	Adj. Target	Est.	Status	Prog.[2/]	Adj. Target	Est.	Status	Prog.[2/]	Prog.[2/]	Prog.[2/]
Stock of gross international reserves of the CBI (floor; eop stock, in millions of U.S. dollars)	51,100	53,433	53,707	Met	43,064	43,640	50,567	Met	38,945	37,849	42,517
Net domestic assets of the CBI (ceiling; eop stock)	12,956	9,487	-3,441	Met	22,029	21,349	2,549	Met	27,186	28,912	23,677
Central government non-oil primary balance (floor) [3/]	(68,801)	(68,969)	(63,674)	Met	(20,949)	(20,949)	(9,927)	Met	(39,365)	(58,621)	(76,705)
Social spending (floor) [3/]	17,456		16,494	Not Met	4,355		2,789	Not Met	8,710	13,829	18,949
New external arrears on existing / rescheduled debt and new borrowing (in millions of U.S. dollars; ceiling) [4/]	0		3,556	Not Met	0		4,670	Not Met	0	0	0
<u>Memorandum item:</u>											
Iraq oil export price (US$ / barrel, average for the quarter)	39.56		40.57		41.5		24.9		43.6	45.8	49.1

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ The Technical Memorandum of Understanding (TMU) of December 22, 2015 in IMF Country Report No. 16/11 provides definitions.

2/ IMF Country Report No. 16 /11.

3/ Cumulative from January 1.

4/ To be monitored on a continuous basis. The December 2015 target is cumulative from November 1.

Table 2. Iraq: Prior Action and Structural Benchmarks Under the Staff-Monitored Program, 2016			
Measures	Scheduled review by which the measure will be completed	Macroeconomic justification	Status
Prior action for Management approval			
Approval by the Council of Ministers and introduction to Parliament of amendments to the draft 2016 budget to bring it into line with the macroeconomic framework agreed under the Staff-Monitored Program.		Preserve macroeconomic stability.	Met.
Structural benchmark			
Completion by the Ministry of Planning of a survey of domestic arrears on investment spending accumulated by all ministries of the federal government at end-September 2015. Details should include the amount of the arrear, the identity of the creditor, the bill, the identification of the goods or the services delivered, and the credit line in the budget authorizing such spending.	1rst review	Strengthen cash management.	Met.
Compilation by the Ministry of Finance and the Central Bank of Iraq (CBI) of a list of all bank accounts controlled by the Ministry of Finance and all spending and sub-spending units of the central government in CBI, state-owned and commercial banks. Details should include balances at end-December 2015, account number, title, location, purpose, authority, signatories.	1rst review	Strengthen cash management.	Met.
Appointment of one or several international auditors to audit the latest financial statements of Rasheed Bank and Rafidain Bank according to international standards.	1rst review	Strengthen financial sector stability.	Met.
Approval by the Minister of Finance of a draft of the Financial Management law in line with World Bank and IMF comments on the last draft submitted to the Shura Council.	2nd review	Strengthen public financial management.	Not Met.

Source: Iraqi authorities.

Table 3. Iraq: Performance Criteria and Indicative Targets Under the Stand-By Arrangement , 2016–17 [1/]

(In billions of Iraqi dinars, unless otherwise indicated)

	2016			2017			
	Jun	Sep	Dec	Mar [2/]	Jun [2/]	Sep [2/]	Dec [2/]
	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.
Performance Criteria							
Gross international reserves of the CBI (floor; eop stock, in millions of U.S. dollars)	39,298	34,910	42,665	41,051	39,881	39,008	40,081
Net domestic assets of the CBI (ceiling; eop stock)	13,122	17,200	7,184	9,303	11,028	12,438	11,781
Central government non-oil primary balance (floor) [3/]	(32,918)	(49,145)	(65,156)	(15,995)	(31,990)	(47,985)	(63,980)
Gross public debt (domestic and foreign) (ceiling; eop stock)	137,483	142,208	143,584	147,708	152,942	162,213	167,278
New external arrears on existing / rescheduled debt and new borrowing (in millions of U.S. dollars; ceiling) [4/]	2,300	0	0	0	0	0	0
Stock of outstanding arrears to international oil companies (ceiling)	3,600	0	0	0	0	0	0
Indicative Target							
Social spending (floor) [3/]	7,434	12,619	18,228	2,876	7,434	12,619	18,228
Stock of outstanding domestic arrears on non-oil investment (ceiling)	7,500	7,500	7,500	7,500	7,500	7,500	7,500
<u>Memorandum item:</u>							
Transfer to the Kurdistan Regional Government [3/]	3,852	6,841	9,828	2,452	4,908	7,367	9,828
External Financing [3/ 5/]	(1,655)	(5,660)	(1,375)	(314)	(628)	(527)	835
International contributions to fill the financing gap [3/ 6/]	-	1,508	5,797	704	1,761	8,011	9,904
Iraq oil export price (US$ / barrel, average for the quarter)	35.7	37.5	39.9	40.3	40.3	40.3	40.3

Source: Iraqi Authorities, and Fund Staff estimates and projections
1/ The attached Technical Memorandum of Understanding (TMU) provides definitions.
2/ Indicative targets. Performance criteria for these dates will be set on the occasion of the first review.
3/ Cumulative from January 1.
4/ Continuous. The June 2016 Target is cumulative from the signature of the Letter of Intent.
5/ See Table 4 of the Staff Report for more details.
6/ See Table 4 and Text Table 3 of the Staff Report for more details.

Table 4. Iraq: Social Spending [1/]

(In billions of Iraqi dinars, cumulative from the beginning of the year)

	Dec-15		Mar-16		Jun-16		Sep-16		Dec-16	
	Prog. [2/]	Est.	Prog. [2/]	Est.	Prog. [2/]	Rev. Prog. [3/]	Prog. [2/]	Rev. Prog. [3/]	Prog. [2/]	Rev. Prog. [3/]
Total Social spending (floor)	17,456	16,494	4,355	2,789	8,710	7,434	13,829	12,619	18,949	18,228
Social Safety Net	1,215	1,104	496	0	991	765	1,487	1,215	1,982	1,800
Public Distribution System (PDS - food subsidies)	2,250	1,503	556	0	1,112	450	1,667	900	2,223	1,485
Wheat and rice subsidy	1,604	1,102	396	0	792	270	1,188	630	1,585	1,080
Assistance and subsidy to Iraqi refugees	192	0	0	0	0	0	95	0	189	0
Assistance and subsidy to internally displaced persons	900	720	0	3	0	33	445	450	889	900
Farmer subsidies	457	405	0	0	0	45	226	180	452	405
Health Ministry and Environment Ministry - wages	2,546	2,591	668	637	1,335	1,260	2,003	1,889	2,671	2,520
Higher Education Ministry - wages	2,035	2,186	564	446	1,128	1,035	1,691	1,553	2,255	2,070
Lower Education Ministry - wages	6,258	6,882	1,676	1,703	3,352	3,149	5,027	4,724	6,703	6,300
Health Ministry and Environment Ministry - goods and services						324		864		1,350
Higher Education Ministry - goods and services						25		65		99
Lower Education Ministry - goods and services						77		149		219

Sources: Iraqi authorities; and Fund Staff estimates and projections.

1/ The Technical Memorandum of Understanding (TMU) of December 22, 2015 in IMF Country Report No. 16/11 and the attached TMU provide definitions.

2/ The TMU of December 22, 2015, in IMF Country Report No. 16 /11 excludes spending on goods and services of the health and education ministries in the definition of the social spending floor.

3/ The attached TMU includes spending on goods and services of the health and education ministries in the definition of the social spending floor.

Table 5. Iraq: Prior Actions and Proposed Structural Benchmarks Under the Stand-By Arrangement, 2016–17

Measures	Scheduled review by which the measure will be completed	Macroeconomic justification	Status
Prior actions			
Council of Ministers' approval and circulation to parliament of a quarterly budget execution report that presents the projection of revenue and expenditure for the remainder of 2016 reflecting the fiscal program agreed under the Stand-By Arrangement (SBA), an explanation of variations from the 2016 budget, and the measures listed in ¶20 of the Memorandum of Economic and Financial Policies (MEFP) to be taken to ensure that the budget execution remains in line with the macroeconomic framework agreed under the SBA.		Preserve macroeconomic stability.	Met.
Approval by the Council of Ministers of a decision to include all salaries and wages of non-military government employees from grade two upwards including base salary, supplemental pay, bonuses, overtime and any other allocations (excluding allocations for wife and children), in taxable base for all employees subject to the income tax.		Increase non-tax revenue.	Met.
Approval by the Minister of Finance and dissemination to the spending units of a spending plan for the latter in line with the macroeconomic framework agreed under the SBA.		Preserve macroeconomic stability.	Met.
Structural benchmarks			
Completion by the Ministry of Finance of fiscal reporting tables at end-December 2015, end-March 2016 and end-June 2016 in compliance with the IMF Government Finance Statistics Manual 2014.	1st review	Improve fiscal transparency.	
Approval by the Minister of Finance of a draft of the Financial Management law in line with World Bank and IMF comments on the last draft submitted to the Shura Council, as specified in ¶25 of the MEFP.	1st review	Strengthen public financial management.	
Completion by the Board of Supreme Audit of an audit of the government wage earner payroll to identify ghost wage earners, i.e. people who perceive wages without legal or regulatory justification.	1st review	Decrease current expenditure.	
Completion by the Board of Supreme Audit of an audit of the government pensioner payroll to identify ghost pensioners, i.e. people who perceive wages without legal or regulatory justification.	1st review	Decrease current expenditure.	
Adoption by the Council of Ministers of a by-law to set up a mechanism to comply with the relevant United Nations Security Council resolutions related to terrorism and terrorism financing in line with Recommendation 6 of the Financial Action Task Force on Money Laundering and Terrorism Financing (FATF) .	1st review	Strengthen link with international financial system.	
Completion of a survey of all domestic arrears, i.e. payment due for more than 90 days, at end-June 2016, including: (i) current spending (salaries, pensions, goods and services and capital purchases), managed by the Ministry of Finance; (ii) non-oil investments (projects and any associated penalties), managed by the Ministry of Planning. The Ministry of Finance will elaborate a consolidated report on all these arrears for the included ministries.	1st review	Improve fiscal transparency.	

Table 5. Iraq: Prior Actions and Proposed Structural Benchmarks Under the Stand-By Arrangement, 2016–17

Measures	Scheduled review by which the measure will be completed	Macroeconomic justification	Status
Structural benchmarks			
Decisions by the Minister of Finance and the Minister of Planning requiring all spending units to record all existing commitments.	2nd review	Improve cash management.	
Posting by the Ministry of Finance on its external website of the financial statements of the Development Fund for Iraq and Successor Account on December 31, 2015 audited according to international standards.	2nd review	Improve fiscal transparency.	
Approval by the Governing Council of the Central Bank of Iraq of a new charter for the Audit Committee prohibiting Central Bank of Iraq executive representation on the committee.	2nd review	Strengthen governance of the central bank.	
Approval by the Council of Ministers and introduction to parliament of draft amendments to the 2011 law establishing the Integrity Commission in order to strengthen its governance, accountability and oversight, and independence, and provide it with powers in line with the United Nations Convention against Corruption, as specified in ¶26 of the MEFP.	3rd review	Combat corruption.	
Ministry of Finance to produce a report of all recurrent and investment commitments (by project) in coordination with the Ministry of Planning.	3rd review	Improve cash management.	
Approval by the Council of Ministers and introduction to Parliament of amendments to the Law on the Central bank of Iraq to strengthen CBI governance and the internal control framework, in line with the IMF safeguards assessment's recommendations, as specified in ¶30 of the MEFP.	3rd review	Strengthen governance of the central bank.	
Approval by the Council of Ministers and introduction to Parliament of an amendment of the Investment Law, or issuance of clarifying implementing regulations by the Ministry of Finance, to remove the limitation on transfer of investment proceeds that gives rise to an exchange restriction.	3rd review	Improve the business environment by eliminating restrictions for current international transactions.	

Source: Iraqi authorities.

Attachment II. Technical Memorandum of Understanding

1. This memorandum defines the quantitative performance criteria (PC) and indicative targets (IT) for the economic program of the Iraqi authorities during the period June 2016–June 2019 under the Stand-By Arrangement (SBA). These PC, presented in Table 3 of the Memorandum of Economic and Financial Policies (MEFP) attached to the Letter of Intent dated June 19, 2016 reflect the understandings reached between the Iraqi authorities and the staff of the IMF. It also specifies the periodicity and deadlines for transmission of data to the staff of the IMF for monitoring purposes.

A. Performance Criteria and Indicative Targets

2. The PCs are the following:

(i) a floor on the stock of gross international reserves of the Central Bank of Iraq (CBI);

(ii) a ceiling on net domestic assets of the CBI;

(iii) a floor on the central government non-oil primary balance;

(iv) a ceiling on the stock of outstanding arrears to international oil companies (IOCs);

(v) a continuous ceiling on new external payments arrears on any existing, rescheduled and new debt of the central government and/or the CBI; and

(vi) a ceiling on the total gross public debt (domestic and foreign).

3. The indicative targets are the following:

(i) a floor on the central government social spending; and

(ii) a ceiling on the stock of outstanding domestic arrears on non-oil investment expenditure.

B. Definitions

4. An exchange rate set at Iraqi dinar (ID) 1,180 per U.S. dollar ($) will be used for monitoring purposes. This exchange rate will be used to convert into Iraqi dinars the U.S. dollar value of all CBI foreign assets and liabilities denominated in U.S. dollars, as required. For CBI assets and liabilities denominated in SDRs and in foreign currencies other than the U.S. dollar, they will be converted to U.S. dollars at their respective SDR-exchange rates prevailing as of May 19, 2016, as published on the IMF's website. The same rules will be used to convert external debt related parameters.

5. For monitoring purposes, unless specified otherwise, central government is defined to include the central administration, the Kurdistan Regional Government (KRG), as well as agencies included under Section 6 of the federal government budget (the local boards, Iraqi media network,

Iraqi national Olympic committee, Bait-Al-Hikma, Ammant Baghdad, Municipality institutions, as well as the General directorates of sewage and water).

6. **Gross international reserves (GIR) of the CBI** are claims of the CBI on nonresidents that are controlled by the CBI, denominated in foreign convertible currencies, and are immediately and unconditionally available to the CBI for meeting balance of payments needs or for intervention in foreign exchange markets, and are not earmarked by the CBI for meeting specific payments. They include CBI holdings of monetary gold, SDR holdings, Iraq's reserve position in the IMF, foreign currency cash, holdings of non-resident equity and debt securities, and deposits in foreign currency abroad, including foreign exchange account of the government (300/600). Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered; claims on residents; precious metals other than monetary gold; assets in nonconvertible currencies; illiquid assets; and claims on foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options). For program monitoring purposes, the stock of foreign assets of the CBI shall be valued at program exchange rates (¶4). The external auditor of the CBI will audit the stocks of official foreign exchange reserves within two months after the test dates.

7. **Net domestic assets (NDA) of the CBI** include: (i) net claims on the general government, comprising of gross claims on the general government minus general government domestic and foreign currency deposits at the CBI; (ii) gross claims on other depository corporations; (iii) monetary policy instruments, including dinar and foreign currency denominated term deposits and CBI bills held by other depository corporations; (iv) net claims on public nonfinancial corporations; and (v) claims on the private sector. For the purpose of this SBA, net domestic assets of the CBI exclude other items net (OIN). OIN is the net value of nonfinancial assets, capital and reserve accounts, IMF account adjustments (differences between national record and IMF record), and provisions. The external auditor of the CBI will audit the stocks of net domestic assets within two months after the test dates. For this paragraph, the general government is defined as the central government as defined in ¶5 and all other government entities on which the CBI holds claims or towards which it holds liabilities.

8. **The central government non-oil primary balance** is defined as the difference between non-oil revenue and non-oil primary expenditure measured on an accrual basis. Non-oil revenue is defined as total revenue and grants excluding oil-related receipts (exports of crude oil and refined products, and transfers from oil-related state-owned enterprises). Non-oil primary expenditure is defined as total expenditure, including off-budget spending approved by government decree, excluding (i) interest payments on domestic and external debt; and (ii) all oil-related spending (including war reparations).

9. **Arrears outstanding to international oil companies (IOCs)** are defined as bills of IOCs validated by the Ministry of Oil and due for more than three months after their invoice.

10. **New external payments arrears on rescheduled debt and new external debt contracted or guaranteed by the central government, excluding the KRG, and/or by the CBI** are defined as follows:

- External payment arrears consist of external debt service obligations (principal and interest) falling due that have not been paid within the grace period specified in the contractual agreements falling due after June 30, 2016.

- As set out in the Guidelines on Public Debt Conditionality in Fund Arrangements, paragraph 8, adopted by Executive Board Decision No. 15688-(14/107) of December 5, 2014, the term "*debt*" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

    - *Loans*, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements).

    - *Suppliers' credits*, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided.

    - *Leases*, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

    - *Arrears*, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation within the contractual grace period are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

- For program purposes, external debt is defined based on the residency of the creditor.

11. The **total public debt contracted or guaranteed by the central government** is defined as follows:

- The term "debt" is defined as in the preceding paragraph (¶10).

- Total public debt is the sum of domestic and external debt, with external and domestic debt defined based on the residency of the creditor.

- Total public debt excludes the debt contracted by the KRG.
- Total public debt includes the claims of the CBI on the central government.
- Total public debt includes the arrears as defined in ¶¶9 and 13 but excludes any repayment of domestic arrears on non-oil investment listed in the MEFP (in ¶25, third bullet point, second sub-bullet point) since the repayment of these arrears need to wait the results of the audit of their validity by the Board of Supreme Audit.
- Total public debt excludes short-term supplier related credit (less than 90 days).
- An external auditor will audit the total public debt contracted or guaranteed by the central government as defined in ¶11 within two months after the test dates.

12. **Social spending** (Table 4 of the MEFP) is defined as the sum of expenditure on the social safety net, the public distribution system, wheat and rice subsidies, assistance subsidies to Syrian refugees and the internally displaced, farmer subsidies, and wage expenditure and goods and services of the health, environment and the higher and lower education ministries. The annual targets will be set at 90 percent of the above expenditure in the budget agreed to under the SBA. Expenditure will be measured at the time the Ministry of Finance transfers the money to the spending units.

13. The **stock of outstanding domestic arrears on non-oil investment expenditure** is the value of unpaid bills related to non-oil investment for more than 90 days after their invoice, as measured by the regular surveys of the Ministry of Planning.

C. Adjustors

14. The floor on the central government non-oil primary balance and the ceiling on total public debt will be adjusted if the actual amount of the transfer of the central government to the KRG is less than the programmed amount. In that case, the floor on the central government non-oil primary balance will be adjusted upwards, and the ceiling on the total public debt will be adjusted downwards, by the absolute amount of the difference.

15. The ceilings on the stock of net domestic assets (NDA) of the CBI will be adjusted upwards in case foreign financing, defined for purposes of this paragraph and the three following paragraphs as the sum of external financing and international contributions to fill the financing gap as indicated in Table 3 of the MEFP, is lower than programmed to a limit of ID 1.18 trillion. The size of the adjustment will be equal to the difference between the observed and programmed value of foreign financing and capped at the values enumerated in the previous sentence.

16. The ceiling on the stock of net domestic assets (NDA) of the CBI will be adjusted downward in case foreign financing is higher than programmed. The size of the adjustment will be equal to the difference between the observed and programmed value of foreign financing.

17. The floor on the stock of gross international reserves of the CBI will be adjusted downwards in case foreign financing is lower than programmed to a limit of $1 billion. The size of the adjustment will be equal to the difference between the observed and programmed value of foreign financing and capped at the values enumerated in the previous sentence.

18. The floor on the stock of gross international reserves of the CBI will be adjusted upward in case foreign financing is higher than programmed. The size of the adjustment will be equal to the difference between the observed and programmed value of foreign financing.

D. Provision of Information to the Fund Staff

19. To monitor developments under the SBA, the authorities agree to provide the Fund, the information specified below after the approval of the SBA. The economic adjustment program of the Iraqi authorities is designed with quarterly PCs and ITs and the actual outcome should be provided within eight weeks following the end of the quarter. However, in order to facilitate regular monitoring, many indicators should be provided with higher frequencies, as indicated below.

Key Financial Indicators

- Weekly preliminary monetary and financial aggregates as in "*Key Financial Indicators*" including exchange rate data (daily), currency in circulation, transferable and other deposits held at commercial banks, balances on government accounts at the CBI, interest rates on loans and on deposits at commercial banks, holdings of government securities, and credit outstanding to the public and private sectors. The data, excluding exchange rates, should be reported no later than three weeks after the end of the reference period.

Real Sector

- Indicators of oil activity on crude oil and gas production and use, production and sales (export and domestic) of refined petroleum products, including heavy residuals, and associated prices (monthly). These data should be reported no later than two months after the end of the reference month.

- Indicators of non-oil real economic activity (quarterly), including production of cement, fertilizers, and electricity, reported no later than two months after the end of the reference month.

- Total GDP, reported no later than twelve weeks after the end of the reference quarter.

- Consumer price index (CPI), including indices for main cities (monthly). These should be reported no later than a month after the end of the relevant month.

Monetary and Financial Sector

- CBI gross foreign exchange reserves (weekly) and balances of the foreign exchange account of the government (300/600). This should be reported no later than 2 weeks after the end of the reference week. The value of the CBI gross foreign exchange reserves at the end of each quarter as defined in ¶6 will be audited by the CBI's external auditor and the audited value will be transmitted to the Fund within two months after each test date.

- The monthly balance sheet of the CBI, with a month lag. The value of the CBI net domestic assets at the end of each quarter as defined in ¶7 will be audited by the CBI's external auditor and the audited value will be transmitted to the Fund within two months after each test date.

- The monthly consolidated balance sheet of the other depository corporations (commercial banks), with an eight-week lag.

- The monthly assets and liabilities of the central government (ministry of finance and line ministries) in the banking sector with an eight-week lag.

- The depository corporations (monetary) survey of all commercial banks and the CBI (monthly), with an eight-week lag.

- The latest balance sheet and income statement (quarterly) of the Trade Bank of Iraq as well as data on issued, implemented and outstanding Letters of Credit, with no more than a six-week lag.

- The latest balance sheet and income statement (quarterly) of the Rasheed and Rafidain Banks.

- Quarterly financial stability indicators of the banking system, distinguishing the state-owned banks and the private banks, with an eight-week lag.

Fiscal Sector

- Detailed revenues, operating and capital expenditure, and financing items of consolidated fiscal and oil operations, and overall fiscal balance. These data should include:

  a) the execution of the Iraqi budget reported on a monthly basis;

  b) transfers to and from the KRG reported on a monthly basis;

  c) social spending as defined in ¶12 and total transfers (including in support of the social safety net—public distribution system—the internally displaced, and on refugees;

  d) domestic payments arrears on non-oil investment expenditures, as documented by the survey of the Ministry of Planning, defined in ¶13.

e) payments and/or arrears in payments to international oil companies as defined in ¶9 on a quarterly basis with an eight-week lag;

f) disbursements of external assistance and loans including issuance of Eurobonds and loans from the Trade Bank of Iraq (TBI);

g) execution of letters of credit financed through the TBI or by other means;

h) all operations of account 300/600 and its sub-accounts;

i) other forms of multilateral and bilateral assistance, exceptional financing resources, and other financing resources (such as issuance of domestic or foreign bonds, loans securitized by futures oil revenue, etc);

j) balances of all government accounts held at the CBI and the commercial banks (including government and/or line ministry deposits, and those of spending and sub-sending units);

k) amounts related to all off-budget and on-budget advances; and

l) outstanding stock of government securities (including treasury bills) held at/by commercial banks, the CBI, and pension funds. These data should be reported on a monthly basis and no later than two months after the end of the reference month.

Balance of Payments

- A preliminary quarterly balance of payments, compiled by the CBI, should be provided three months after the end of the reference quarter.
- Foreign trade statistics (imports, exports, re-exports) (quarterly). This should be reported no later than eight weeks after the end of the reference quarter.
- Amount of total imports of petroleum products financed from the budget and total value of imports of petroleum products on a quarterly basis starting with the first quarter of 2016. These data should be reported no later than eight weeks after the end of the reference quarter.
- Detailed data on disbursement of external assistance (both project and budget financing) from all external creditors and donors and foreign debt amortization and interest payments made. These data should be reported on a monthly basis no more than eight weeks after the end of the reference month.

Public Debt

- Stock of public debt as defined in ¶11 on a quarterly basis with an 8 weeks lag audited by an external auditor.

- List of short, medium, and long-term government or government-guaranteed external loans, contracted during each quarter, identifying for each loan: the creditor, the borrower (ultimate obligor), the amount and currency, the maturity and grace period, repayment terms, and interest rate (monthly).

- Details on new debt rescheduling and debt relief agreements with bilateral, multilateral, and commercial creditors, including new outstanding amount and currency, schedule of payments (principal and interest), terms of agreement, repayment terms, and interest rate arrangements (quarterly).

Structural Reforms

20. Structural benchmarks comprise a critical component of the SBA. In accordance with agreed benchmarks (Table 5 of the MEFP), the authorities will prepare and send to the IMF staff reports, with appropriate documentation, documenting completion.

Other Information

21. Other details on major economic and social measures taken by the government that are expected to have an impact on program sequencing (such as changes in legislation, regulations, or any other pertinent document) will be sent in a timely manner to IMF staff, for consultation or information.

INTERNATIONAL MONETARY FUND

IRAQ

June 24, 2016

FIRST AND SECOND REVIEWS OF THE STAFF-MONITORED PROGRAM AND REQUEST FOR A THREE-YEAR STAND-BY ARRANGEMENT—INFORMATIONAL ANNEX

Prepared By

Middle East and Central Asia Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of May 31, 2016)

Membership Status: Joined December 27, 1945; Article XIV

General Resources Account

	SDR Million	Percent of Quota
Quota	1,663.80	100.00
Fund Holdings of Currency	2,265.16	136.14
Reserve Tranche Position	289.95	17.43

SDR Department

	SDR Million	Percent of Allocation
Net Cumulative Allocation	1,134.50	100.00
Holdings	25.66	2.26

Outstanding Purchases and Loans

	SDR Million	Percent of Quota
Emergency Assistance[1]	891.30	53.57

[1] Emergency Assistance may include Emergency Assistance for Natural Disasters (ENDA), Emergency Post-conflict Assistance (EPCA), and Rapid Financing Instrument (RFI).

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Feb 24, 2010	Feb 23, 2013	2,376.80	1,069.56
Stand-By	Dec 19, 2007	Mar 18, 2009	475.36	0.00
Stand-By	Dec 23, 2005	Dec 18, 2007	475.36	0.00

Overdue Obligations and Projected Payment to the Fund

(SDR Million; based on existing use of resources and present holdings of SDRs)[1]

	Forthcoming				
	2016	**2017**	**2018**	**2019**	**2020**
Principal			111.41	445.65	334.24
Charges/Interest	4.98	9.95	9.95	7.02	2.36
Total	**4.98**	**9.95**	**121.37**	**452.67**	**336.59**

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Safeguards Assessments

The most recent safeguards assessment of the Central Bank of Iraq (CBI) was completed in April 2016. It concluded that the CBI continues to face capacity constraints in its operations, as well as a difficult security situation on the ground. The loss of budget revenue from falling oil prices has made it necessary for the CBI to engage in indirect financing of the government to close the budget gap. Since the 2010 assessment, there has been no concerted effort to strengthen the legal framework, and internal audit remains underdeveloped in spite of extensive assistance from consultants. Priority should be given to addressing the ongoing weaknesses in these areas, along with strengthening the control environment and the internal audit function. A positive development has been the substantial improvement in the quality of financial reporting, which has been accomplished in part with the assistance of the external auditors.

Exchange Arrangement

Iraq's de jure and de facto exchange rate arrangements have been retroactively reclassified to a conventional peg arrangement, effective January 15, 2012. The Central Bank Law provides the Board of the CBI with power to formulate exchange rate policy. The CBI Board undertook a realignment of the peg from 1166 to 1182 dinar per USD on December 1, 2015, unifying the effective rates applicable to cash sales and transfers at 1190 including the central bank commission. The CBI stands ready to provide foreign exchange at the official exchange rate plus commissions for permissible transactions through its daily auctions (allocations), establishing a peg. However, because certain transactions are excluded from the access to the CBI auctions, many transactions take place at parallel market exchange rates. The CBI publishes the daily volume of the auction allocation on its website.

Iraq continues to avail itself of the transitional arrangements under Article XIV, Section 2 but no longer maintains any exchange restrictions or multiple currency practices subject to Article XIV, Section 2, and currently maintains three exchange restrictions and one multiple currency practice (MCP) subject to Fund approval under Article VIII, Sections 2(a) and 3.

The exchange restrictions arise from (i) the requirement to pay all obligations and debts to the government before proceeds of investments of investors, and salaries and other compensation of non-Iraqi employees may be transferred out of Iraq; (ii) an Iraqi balance owed to Jordan under an inoperative bilateral payments agreement; and (iii) weekly limits on purchases of cash by financial institutions from the CBI. These limits are currently $300,000 per week for banks with capital of at least ID 250 billion, $150,000 per week for money transfer companies (MTCs), and $50,000 per week for money exchange bureaus (MEBs).

The MCP arises from the official action to limit the purchase of foreign exchange, with no mechanism to ensure that exchange rates in the official auction and in the market do not deviate from each other by more than two percent. The average spread between the official and market rates was around 3 percent in December 2015 and increased to about 9 percent in May 2016.

In addition, one exchange restriction maintained for security reasons should be notified to the IMF under the framework of Decision 144–(52/51).

Article IV Consultation

Upon the approval of the new 36-month Stand-By Arrangement on July 7, 2016, Iraq was placed on the 24-month consultation cycle. The last Article IV consultation was concluded on July 29, 2015, along with a request for purchase under the Rapid Financing Instrument. The staff report (IMF Country Report No. 15/235) was published on August 18, 2015, and is available on the internet

Technical Assistance, 2005–16

Department	Date	Purpose
FAD	May 2010	Public Financial Management
	March 2012	Public Financial Management (METAC)
	May 2012	Public Financial Management (METAC)
	December 2012	Public Financial Management (METAC)
	May 2013	Budget Functional Classification workshop (METAC)
	March 2014	Budget Classification (METAC)
	June 2015	Status of Public Financial Management Reforms (METAC)
	November 2015	Public Financial Management Law, budget execution and program-based budgeting
	March 2016	Public Financial Management Law
LEG	April 2010	Phase One of the Three-Phase AML/CFT Capacity Enhancement and Sustainability Training Program
	July 2010	Phase Two of the Three-Phase AML/CFT Capacity Enhancement and Sustainability Training Program
	October 2012	Article VIII acceptance and AML/CFT technical assistance
	December 2012	AML/CFT Legislative Drafting
	May 2015	Desk review of the draft AML/CFT Law
	June 2015	Article VIII acceptance
	September 2015	Desk review of the draft AML/CFT Law

Department	Date	Purpose
MCM	April 2010	Islamic banking workshop
	August 2010	Reserve management
	August 2010	Remote assistance on liquidity management and treasury market development
	December 2010	Government Securities/Monetary Operations
	January 2011	Government Securities/Monetary Operations
	January 2011	Training on New Developed Regulations and Call Reports (METAC)
	January 2011	Training on Off-Site Supervision and Report Development (METAC)
	April 2011	Risk management workshop (stress testing)
	May 2011	Bank restructuring
	May 2011	Reserve management
	July 2011	Reserve management
	September 2011	Reserve management workshop
	March 2012	Bank restructuring
	October 2012	Article VIII acceptance
	March 2014	Assessment of Banking Needs (METAC)
	April 2014	Central Bank Reserve Management
	May 2015	Asset Management
	November 2015	Banking Supervision (METAC)
	November 2015	Prudential Regulations: Review and Assessment (METAC)
	March 2016	Seminar on Foreign Exchange Regimes and Controls (Joint LEG/MCM)
STA	April 2010	External Sector Statistics
	July 2010	Monetary and Financial Statistics
	February 2012	External Sector Statistics
	March 2012	National Accounts Statistics
	May 2012	Monetary and Financial Statistics
	April 2013	National Accounts Statistics
	December 2013	Balance of Payments Statistics
	December 2014	Balance of Payments Statistics (METAC)
	March 2015	Government Finance Statistics (ArabStat)
	May 2015	Government Finance Statistics
	November 2015	Consumer Price Index (METAC)
	January 2016	National Accounts Statistics (METAC)
	March 2016	Government Finance Statistics
	March 2016	External Sector Statistics
	April 2016	Financial Stability Indicators
INS	January 2010	Financial Programming and Policies

RELATIONS WITH THE WORLD BANK GROUP

(As of April 2016)

Title	Products	Provisional and Actual Timing of Missions	Expected and Actual Delivery Date
A. Mutual Information on Relevant Work Program			
The World Bank work program in the next 12 months[1]	**Economic Policy Analysis and Advice** **WB:**		
	-Systematic Country Diagnostic (SCD)	February 2016	December 2016
	-Kurdistan Regional Government, Reimbursable Advisory Services: Economic Growth Diagnostic	December 2015/ Feb/April/ June 2016	June 2016
	-Assessment of Decentralization and Service Delivery in Iraq	November 2015	March 2016
	-Road Maps for reforming Customs and Taxation in Iraq	November 2015	January 2016
	Kurdistan Regional Government Economic Reform Road Map	March 2016	May 2016
	-Kurdistan Regional Government Action Plan to Mitigate Power Cuts	September 2016	
	-Iraq Energy Subsidies and Tariff Reforms (both Iraq and Kurdistan Regional Government)	December 2016	
	-Iraq Energy Sector Programmatic Technical Assistance: Deliverable Gas-to-Power Action Plan	December 2016	
	-Iraq Electricity Distribution Reform and Investment Project (jointly financed with the Islamic Development Bank)		
	Technical Assistance **WB:**		
	-Public Investment in Power Infrastructure TA	October 2015/ February 2016	April 2016
	-Public Financial Management (Public Expenditure and Financial Accountability, Capacity Assessment and Integrated Financial Management Information System Request for Proposal)	January 2016	July 2016

[1] Not including infrastructure investments.

	-Public Investment Management in Kurdistan Regional Government -Financial Sector TA and Policy Dialogue -Kurdistan Regional Government Support to Develop a Social Protection Framework -Extractive Industries Transparency Initiative -Pension Reform TA -Doing Business Reforms -Central Bank payment system -Anti Money laundering -Regulatory reform -Water Sector Public Expenditure Review -Poverty TA -(Baghdad RAS) Gas value chain in Iraq -Kurdistan Regional Government, Reimbursable Advisory Services: Procurement reform -Kurdistan Regional Government, Reimbursable Advisory Services: Social safety Nets and pension -Kurdistan Regional Government, Reimbursable Advisory Services: Support to Shura Council **IFC:** **Investments (pipeline and portfolio)** -Power sector -Basic manufacturing and agribusiness -Telecom **Advisory** -United Bank for Investment restructuring -Construction reform project -Dairy sector development -Small and Medium Enterprises training with Business Edge -Corporate governance	March 2016 February/May 2016 January/March 2016 November 2015 January –December 2016 January/May/September 2016 July/September/December 2016 February/September/ December 2016 January/April/September 2016 March 2016 December 2015/ January–December 2016 January–May 2016 January–April 2016 January–April 2016	May 2016 June 2016 April 2016 December 2015 December 2016 June 2017 April 2017 May 2017 December 2016 December 2016 June 2016 October 2017 June 2016 April 2016 June 2016 Ongoing Ongoing Ongoing November 2015 March 2016 June 2016 December 2016 June 2020

	-Financial markets infrastructure -Risk management for banks -Small and Medium Enterprises banking -Investment policy -Suleymaniah Wastewater treatment -Public Private Partnerships prioritization and regulatory framework (Northern Iraq)		Ongoing Ongoing Ongoing TBD TBD TBD
The Fund work program in the next 12 months	**Macroeconomic Policy Analysis and Advice** -First Review of the Staff-Monitored Program and Discussion of a Stand-By Arrangement -First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement -First Review of the Stand-By Arrangement -Second Review of the Stand-By Arrangement -Third Review of the Stand-By Arrangement -Fourth Review of the Stand-By Arrangement	March 2016 May 2016 September 2016 December 2016 March 2017 June 2017	May 2016 July 2016 November 2016 February 2017 May 2017 August 2017
	Technical Assistance -Public financial management -Fiscal accounts reporting -Tax Policy -Public Debt Statistics -Financial Soundness Indicators -Foreign Exchange (Article VIII Issues) -Bank Restructuring -AML/CFT: Law and Institutions	September 2016 September 2016	November 2016 November 2016

B. Requests for Work Program Inputs			
Fund request to Bank	-Macroeconomic and financial data to be shared regularly	Ongoing basis	
Bank request to Fund	-Fiscal data to be shared regularly -Coordination on macroeconomic policy -Macroeconomic and financial data to be shared regularly, including any foreign exchange transaction -Sector-specific data -Consultations outcomes to be shared	Ongoing basis	
C. Agreement on Joint Products and Missions			
Joint products in the next 12 months	n/a		

STATISTICAL ISSUES

(As of May 2016)

I. Assessment of Data Adequacy for Surveillance

General

Data provided to the Fund have serious shortcomings that significantly hamper surveillance. Macroeconomic statistics have suffered from years of neglect and recent turmoil has added to the difficulties. While the Central Statistics Organization (CSO) remained in place, it lacks adequate technical expertise and resources to address the requirements for a modern statistical system. At the Central Bank of Iraq (CBI), statistical capacity is slightly better, but issues of interagency data sharing and data collection responsibilities are hampering progress on external sector statistics—this issue also affects the CSO.

Since 2003, the Statistics Department (STA) has provided considerable technical assistance (TA) in all major datasets, including on dissemination standards.

National Accounts

CSO compiles annual and quarterly national accounts at current and constant (2007) prices, although expenditure estimates in constant prices are on the previous 1988 base.

The national accounts follow the 1968 System of National Accounts (SNA). Ongoing technical assistance from STA and METAC, is helping the CSO to gradually move towards implementing the concepts of the 2008 SNA and to improve methodology. The quality of the national accounts is poor due to the lack of comprehensive source data for some industries and for GDP by expenditure. A Household Budget Survey (HBS) was conducted during 2007 and the results have been incorporated, including moving the base year to 2007. A Household Social and Economic (HSES) Survey was conducted for 2012 and these data are being incorporated into a planned rebasing to 2012. Reduced regional coverage of source data due to the conflicts in four provinces has weakened the GDP measures.

Price Statistics

The CSO compiles and disseminates a monthly CPI for all-Iraq (including Kurdistan) and for each governorate. The index was recently rebased to 2012, based on the HSES. However, the CPI only covers the urban areas in all governorates and resources are insufficient to expand coverage. Starting June 2014 official data on CPI do not include the four conflict-affected governorates. A quarterly PPI for manufacturing is also compiled on a 2012 base. A recent STA/METAC TA mission provided advice on further improvements to the CSO’s price statistics.

Government Finance Statistics

Despite the difficult security situation, which has a direct impact on data compilation and analysis, the provision of fiscal data for program monitoring purposes has been satisfactory. Infrequent submission delays occur, and coverage of Kurdistan remains sketchy. However, the authorities are taking measures to address these shortcomings.

In March 2015, an STA mission—overlapped with the Article IV mission—discussed a work plan aimed at improving the frequency and timeliness of fiscal reporting data and setting a migration plan to improve fiscal statistics based on Government Finance Statistics Manual 2014 (GFSM 2014). In March 2016, a follow-up STA mission assisted in setting up a reporting tool on quarterly statement of government operations for the budgetary central government. Iraq resumed reporting government finance statistics for publication in the Government Finance Statistics Yearbook (GFSY). Currently there are no fiscal statistics published by the government beyond the summary estimates and outturn for the budgetary central government.

Monetary and Financial Statistics

Notable progress has been made in developing the components and structure for compiling a depository corporations' survey, but the quality and timeliness of the data continue to be hampered by the lack of staff capacity, particularly at the commercial bank level and source data quality. While most banks, including state-owned banks are using the new report forms, which were developed based on the IMF's Monetary and Financial Statistics Manual, some banks continue to have data reporting problems (e.g., missing data, reporting errors, and reporting delay). Therefore, the old report forms are still used to compile data for other depository corporations (ODCs). Monetary statistics does not cover the northern region (Kurdistan) due to problems with data collection from that region. As a result, the CBI reports data for publication in the IMF's International Financial Statistics with a lag of more than five months and the latest reported data for ODCs are marked "preliminary," indicating that there are problems with their data collection and compilation. A recent mission on financial soundness indicators in April 2016 found that there are departures from international standards in applying the residence concept, classifying state-owned enterprises, and some other areas that need investigation and improvement.

Financial Sector Surveillance

Following a discussion during the 2015 Spring Meetings in Washington, D.C., the CBI requested technical assistance in compiling financial soundness indicators (FSIs). An STA mission was fielded in April 2016 to develop a framework for compiling FSIs. As a result, the CBI has compiled and reported the 12 core FSIs and 7 of the 13 additional FSIs for the state banks and a similar set of FSIs for private banks for the last three quarters of 2015 in late May 2016. The CBI agreed to report FSIs on a quarterly basis going forward. However, there are some departures from international standards that need to be addressed.

External Sector Statistics

Balance of Payments and IIP Statistics

The Central Bank of Iraq (CBI) compiles and reports annual as well as quarterly balance of payments in the IMF's *Balance of Payments Manual, sixth edition* (*BPM6*) format to the IMF. The CBI also compiles and disseminates an annual international investment position (IIP) statement. However, the latest 2013–2015 balance of payments data submitted to STA have not yet been included in STA's publications due to very large net errors and omissions, which have raised concerns over data coverage and quality. The latest technical assistance mission on external sector statistics (ESS), conducted in March 2016, noted that errors and omissions could be

attributed to: lack of coverage and/or under-coverage of transactions related to production sharing agreements with foreign oil companies and to long-term construction work by foreign companies in Iraq; trade data for the Kurdistan region; and incomplete recording of counterpart entries for the net borrowing in the financial account of the balance of payments in 2013 and 2014, which is not consistent with significant surpluses recorded in the current account. The mission assessed that the current data sources to compile the ESS are not comprehensive. The paucity of data exists particularly in the areas of external trade in goods and services and foreign direct investment. In light of these findings, the mission has made several recommendations, including enhancement of international transactions reporting system, estimation techniques for Kurdistan imports and securing data on payments made by the Ministry of oil to international oil companies. International reserves are compiled consistent with international methodologies and published in the IFS since end-2006. ***External Trade Statistics*** External trade data have serious problems of timeliness and are of poor quality, given the absence of reliable customs data. A new customs form for imports is available but it is not being used at the customs border due to the security situation and the lack of Customs Department resources at the border outlets. Coverage of private sector imports is constrained by data sources. Only goods that are paid for through the Iraqi banking system are captured. Thus goods that are imported under external payments arrangements (for example, imports for direct investment projects by the international oil companies) are not recorded in the balance of payments. The coverage of the external trade statistics excludes the northern region of the country (Kurdistan), and no estimates for smuggling are made. Export data from the oil sector are received from the BOPSD at the CBI. The nonoil export data, which amounts to the equivalent of 3–5 percent of total exports, are compiled based on information from the customs export form. Nonoil export data are provided to the CBI on a monthly basis for crosschecking purposes.	
II. Data Standards and Quality	
The country is an e-GDDS participant. The metadata, some of which have been updated in early 2016, for key macroeconomic indicators are available on the country page on the IMF's Dissemination Standards Bulletin Board.	No data ROSC is available.

Iraq: Table of Common Indicators Required for Surveillance
(As of April 26, 2016)

	Date of latest observation (For all dates in table dd/mm/yy)	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8] Data Quality–Methodological Soundness[9]	Data Quality–Accuracy and Reliability
Exchange Rates	6/2/2016	5/25/2016	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	5/25/2016	5/2016	M	M	M, 4–6 week lag		
Reserve/Base Money	5/25/2016	5/2016	M	M	M, 4–6 week lag		
Broad Money	5/25/2016	5/2016	M	M	M, 4–6 week lag		
Central Bank Balance Sheet	3/31/2016	5/2016	M	M	M, 4–6 week lag		
Consolidated Balance Sheet of the Banking System	1/31/2016	5/2016	M	M	Q 4–6 week lag		
Interest Rates[2]	5/25/2014	5/2016	M	M	M, 4–6 week lag		
Consumer Price Index	3/31/2016	5/2016	M	M	M, 3 week lag		
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	03/2016	5/2016	M	M	N/A		
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	03/2016	5/2016	M	M	N/A		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/2015	3/2016	N/A	N/A	N/A		
External Current Account Balance	12/2015	3/2016	Q	Q	Q 9 month lag		

Iraq: Table of Common Indicators Required for Surveillance (concluded) (As of April 26, 2016)							
	Date of latest observation (For all dates in table dd/mm/yy)	**Date received**	**Frequency of Data**[7]	**Frequency of Reporting**[7]	**Frequency of Publication**[7]	**Memo Items:**[8]	
						Data Quality–Methodological Soundness[9]	**Data Quality–Accuracy and Reliability**
Exports and Imports of Goods and Services	12/2015	3/2016	Q	Q	Q 9 month lag		
GDP/GNP	3/2016	4/2016	Q	Q	Q 3 month lag		
Gross External Debt	12/2015	3/2016	N/A	N/A	N/A		
International Investment Position[6]	12/2014	6/1/2015	Q	Q	Q 9 month lag		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[8] These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.

[9] Iraq has not had the data ROSC or the Substantive Update.

Statement by Mr. Hazem Beblawi, Executive Director for Iraq
and Ms. Maya Choueiri, Senior Advisor to the Executive Director
Executive Board Meeting
July 7, 2016

1. Since mid-2014, the Iraqi economy has been severely hit by two shocks, the attacks by the so-called Islamic State in Iraq and Syria (ISIS) and the sharp decline in global oil prices. The ISIS attacks have created a humanitarian tragedy, resulting in the loss of thousands of lives and causing about four million people to be displaced internally and 27 percent of the country's population—including about 250,000 Syrian refugees—to be in need of humanitarian assistance. The violence has also resulted in a marked deterioration in living conditions across the country and has caused extensive damage to infrastructure and assets. As a result of the two shocks, real GDP contracted in 2015, notwithstanding a large increase in oil production, and wide fiscal and balance of payments deficits emerged.

2. In view of these developments, the authorities have initiated a large fiscal adjustment program since early 2015. Building on wide-ranging reforms announced by the Prime Minister in August 2015, they also adopted a comprehensive plan mainly focused on enhancing security and reconstruction, promoting integrity and transparency, and activating lending for housing, manufacturing and agricultural projects. They engaged in a Staff-Monitored Program (SMP) with the Fund in support of their reforms plan in November 2015, and performed satisfactorily under the SMP despite challenging conditions. In light of the continued conflict with ISIS and drop in oil prices since the start of the SMP, as well as the resulting worsening economic outlook, the authorities are seeking support from the Fund under a three-year Stand-By Arrangement (SBA). The main objective of the program is to maintain macroeconomic stability during a period of high economic and political uncertainty, while protecting social spending to maintain social cohesion. The program will help manage external pressures, implement fiscal consolidation and achieve debt sustainability, strengthen public financial management, and preserve financial sector stability.

Performance under the SMP

3. Despite the rapid fall in oil prices and the challenging security environment, program performance under the SMP was broadly satisfactory, as mentioned above, with three out of the five indicative targets met at both end-December 2015 and end-March 2016. Moreover, the target on social spending was missed by only a small margin in December 2015. While the target on zero accumulation of external arrears was missed due to the government's severe cash constraint, it is now the subject of two performance criteria under the requested SBA.

4. All three structural benchmarks for the SMP's first review were met. The structural benchmark for the second review, consisting in the approval of a draft financial management law by the Minister of Finance, has not been met. It will be a structural benchmark for the

first review under the requested SBA, and work toward achieving it is currently carried out with Fund technical assistance.

Economic and Financial Policies and Reforms in 2016–19

5. The authorities are committed to gradually bringing expenditures down in line with the new lower level of oil revenues and to strengthening revenues in order to achieve debt sustainability. Following the large fiscal consolidation undertaken in 2015, the government will implement in 2016 a fiscal program that is significantly more restrictive than the budget approved by parliament. Lower-than-budgeted execution is authorized under the country's public financial management laws when revenue is less than what is assumed in the budget.

6. In order to reach their fiscal target, the authorities will broaden the tax base on wages for non-military personnel, reduce the wage bill (through natural attrition, delaying hiring of new staff and reducing discretionary benefits, among other measures) and reduce pension payments by enforcing existing rules. The authorities are fully aware that a large portion of the fiscal adjustment will have to be achieved by temporarily reducing non-oil investment. In this regard, they will follow a rigorous prioritization process to ensure that essential projects do not get delayed. In order to minimize the impact of the fiscal consolidation on the poor, the government will protect social spending and commits to maintain such spending above a given floor during the SBA. This includes spending on health and education, food and agricultural subsidies, and transfers to internally displaced people and refugees. Investment in the oil sector will be preserved at the budgeted level in order to secure the oil revenue needed to finance public expenditure.

7. Notwithstanding the envisaged consolidation efforts, a large fiscal deficit would remain in 2016, reflecting continued acute spending pressures that cannot be further compressed in the current difficult environment. This deficit will be financed mainly by recourse to domestic financing and external financing catalyzed by the SBA. The authorities are keen to avoid excessive indirect central bank financing of the government. Accordingly, in case oil revenue or external financing are higher than programmed, they commit to commensurately reduce the indirect monetary financing of the budget deficit by the CBI.

8. Fiscal consolidation is front-loaded and half the fiscal adjustment envisaged over 2016–19 will be achieved in 2016–17. Starting in 2017, the government intends to implement deeper fiscal reforms in order to achieve debt sustainability. These include reviewing the tax and customs codes and administrations with the aim of increasing non-oil revenue, implementing a hiring freeze in sectors other than security, health, and education, and having the Board of Supreme Audit audit the wage and pension recipients' payrolls to eliminate ghost users. The government will also reform the public pension system and enhance the efficiency of state transfers to the poor, in coordination with the World Bank. It will also gradually reform the electricity sector and state-owned non-financial enterprises.

9. Considerable effort is being devoted to advancing fiscal structural reforms. In this regard, the authorities are strengthening their public financial management procedures to support fiscal discipline and efficient use of oil resources. With support from the Fund and the World Bank, they will approve a new draft of the Financial Management law, report fiscal tables in compliance with the IMF Government Finance Statistics, survey, audit and pay domestic arrears, take steps to move to a Treasury Single Account, design and implement a commitment control system for budget execution as well as an Integrated Financial Management Information System, implement Public Investment Management reform, and strengthen Debt Management with technical assistance support from the Japanese International Cooperation Agency. Importantly, the government will also strengthen the legislation aimed at combating corruption.

10. The stability of the exchange rate provides a key nominal anchor to the economy in an uncertain environment. The authorities are therefore committed to maintaining the peg to the U.S. dollar despite the deteriorating external position. The government will gradually remove remaining exchange restrictions and multiple currency practice with a view to eliminating exchange rate distortions. In this connection, the authorities will remove the limitation on transfer of investment proceeds that gives rise to an exchange restriction. Moreover, the CBI will increase the sale of foreign exchange for valid current exchange transactions on the official market in order to reduce the spread between the official and parallel exchange rates.

11. Safeguarding financial sector stability ranks high on the authorities' agenda. International auditors have been appointed to conduct the audits of the two largest state-owned banks, Rafidain and Rasheed, and the results of the audits will inform a restructuring plan for the two banks. At the same time, the government is intent on strengthening the CBI's legal framework, building on the recommendations of the Fund's safeguards assessment of December 2015. The government will also implement reforms to strengthen the anti-money laundering and combating the financing of terrorism framework. This will help improve the integration of the domestic financial system into the global economy, lower transaction costs, strengthen governance, reduce the size of the informal sector, and disrupt ISIS funding.

12. The authorities are committed to improve the timeliness, coverage, and accuracy of macroeconomic statistics, despite serious capacity constraints. To optimize the delivery of data to the Fund, the authorities will call on external auditors to report data on three out of the six performance criteria under the requested program. They will also continue to rely on Fund technical assistance in order to strengthen fiscal reporting.

Conclusion

13. Iraq is facing a particularly difficult time in its history, and its economy is under extreme stress. The authorities have demonstrated their commitment to undertaking macroeconomic policies and implementing economic reforms under the SMP. They are fully

committed to the implementation of the SBA, although stable security conditions remain a prerequisite for the success of their policies. They would like to express their deep appreciation for the Fund's Executive Board, Management, and staff, for their continued support under difficult circumstances. They particularly appreciate the engagement and constructive discussions with the team, and the valuable technical assistance they are receiving in support of their stabilization and reform effort.