INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/251

IRAQ

August 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE THREE-YEAR STAND-BY ARRANGEMENT, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE AND APPLICABILITY OF PERFORMANCE CRITERIA, AND MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR IRAQ

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2017 Article IV consultation with Iraq, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its August 1, 2017 consideration of the staff report that concluded the Article IV consultation with Iraq.
- 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 August 1, 2017, following discussions that ended on June 4, 2017, with the officials of Iraq on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 25, 2017.
- The Staff Report includes a **Debt Sustainability Analysis** prepared by the staff of the IMF.
- 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 on Economic and Financial Policies by the authorities of Iraq*
Technical Memorandum of Understanding*
*Also included in Staff Report

Selected Issues

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.

Copies of this report are available to the public from
International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

Press Release No. 17/311
FOR IMMEDIATE RELEASE
August 1, 2017

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review of Iraq's Stand-By Arrangement and the 2017 Article IV Consultation

- The authorities are appropriately maintaining the peg of the Iraqi dinar to the U.S. dollar, which provides a key anchor to the economy.
- Measures to prevent money-laundering, counter the financing of terrorism, and strengthen the anti-corruption legislation need to be implemented.
- The authorities are implementing a sizable fiscal adjustment, mostly through retrenchment of inefficient capital expenditure while protecting social spending.

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Iraq's three-year Stand-By Arrangement (SBA), which is designed to support Iraq's economic reform program and restore fiscal balance over the medium term. The completion of the second review allows the authorities to draw the equivalent of SDR 584.2 million (about US$ 824.8 million), bringing total disbursements to SDR 1494.2 million about US$ 2109.7 million. The SDR 3.831 billion arrangement (about US$5.34 billion at the time of approval of the arrangement) was approved in July, 2016 (See Press Release No. 16/321) and the first review was completed on December 5, 2016 (See Press Release No. 16/540).

As part of the completion of the second review, the Board also approved Iraq's request for waivers of non-observance and applicability of performance criteria, and modification of performance criteria. Further fiscal consolidation was achieved in 2016, but at a slower pace than programmed because of weak control of investment expenditure and humanitarian needs. To move the program forward, the authorities are implementing strong corrective measures as prior actions and are committed to further fiscal measures in 2018 to ensure external and debt sustainability.

The Executive Board today also concluded the 2017 Article IV Consultation with Iraq. A respective press release will be issued separately.

Following the Executive Board's decision, Mr David Lipton, First Deputy Managing Director, issued the following statement:

The economic policies implemented by the Iraqi authorities to deal with the shocks facing Iraq—the armed conflict with ISIS and the ensuing humanitarian crisis and the collapse in oil prices—are appropriate. In the fiscal area, the authorities are implementing a sizable fiscal adjustment, mostly through retrenchment of inefficient capital expenditure while protecting social spending. The authorities are appropriately maintaining the peg of the Iraqi dinar to the U.S. dollar, which provides a key anchor to the economy. Performance under the Stand-By Arrangement has been weak in some key areas, but understandings have been reached on sufficient corrective actions to keep the program on track. Resolute implementation of the authorities' program, together with strong international financial support, will be key.

Further fiscal consolidation measures are needed in 2017-18 to keep the program on track. The composition of the fiscal adjustment should be improved over time by increasing non-oil revenue and reducing current expenditure. In addition, reforming the electricity sector and state-owned enterprises will make room for larger and more effective investment expenditure that supports growth and job creation.

Significantly improving public financial management will be important. Arrears need to be assessed and paid following verification, and expenditure commitment and cash management should be strengthened to prevent the accumulation of new arrears.

Measures to bolster financial sector stability include strengthening the legal framework of the Central Bank of Iraq, restructuring state-owned banks, and eliminating an exchange restriction and a multi-currency practice. Measures to prevent money-laundering, counter the financing of terrorism, and strengthen the anti-corruption legislation also need to be implemented.

Implementation of the budget-sharing agreement with the Kurdistan Regional Government would put both the federal government and the Kurdistan Regional Government in a better position to address the shocks to the Iraqi economy.

Table 1. Iraq: Selected Economic and Financial Indicators, 2013–22

(Quota: SDR 1,663.8 million)

(Population: 37.5 million; 2016 est.)

(Poverty rate: 23 percent, 2014)

(Main export: Crude oil)

	2013	2014	2015	2016 Est.	2017 Prog.	2018 Prog.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
Economic growth and prices										
Real GDP (percentage change)	7.6	0.7	4.8	11.0	-0.4	2.9	1.7	2.0	2.1	2.1
Non-oil real GDP (percentage change)	12.4	-3.9	-9.6	-8.1	1.5	2.0	3.0	3.9	4.0	4.1
GDP deflator (percentage change)	0.0	-0.7	-26.9	-12.9	12.9	2.3	2.9	3.8	4.4	4.7
GDP per capita (US$)	7,021	6,517	4,869	4,533	4,958	5,091	5,194	5,362	5,569	5,806
GDP (in US$ billion)	234.6	234.7	179.8	171.7	192.7	202.9	212.3	224.8	239.5	256.2
Oil production (mbpd) 1/	3.0	3.1	3.7	4.6	4.6	4.7	4.8	4.8	4.9	4.9
Oil exports (mbpd) 1/	2.4	2.6	3.4	3.8	3.8	3.9	3.9	4.0	4.0	4.1
Iraq oil export prices (US$ pb)	102.9	96.5	45.9	35.6	45.3	45.4	44.9	45.2	45.9	47.1
Consumer price inflation (percentage change; average)	1.9	2.2	1.4	0.4	2.0	2.0	2.0	2.0	2.0	2.0
					(In percent of GDP)					
National Accounts										
Gross domestic investment	26.9	25.7	24.4	20.6	19.7	19.1	18.6	18.2	18.2	18.0
Of which: public	17.4	18.0	15.1	11.4	11.1	10.5	9.8	9.3	9.1	8.8
Gross domestic consumption	69.5	69.9	81.6	87.8	86.4	85.1	85.3	84.3	83.4	82.2

Of which: public	21.0	18.3	22.3	22.9	23.7	22.2	21.1	19.7	18.3	16.9
Gross national savings	28.1	28.3	18.0	11.9	13.4	12.4	14.5	15.0	16.1	17.4
Of which: public	11.6	13.0	3.0	-2.3	6.6	6.3	8.7	8.9	9.9	11.1
Saving - Investment balance	1.1	2.6	-6.5	-8.7	-6.3	-6.7	-4.1	-3.2	-2.1	-0.6
	(In percent of GDP, unless otherwise indicated)									
Public Finance										
Government revenue and grants	42.2	38.2	30.3	27.4	35.9	36.4	35.6	34.5	33.7	33.0
Government oil revenue	38.6	36.0	27.5	23.2	31.8	31.7	30.6	29.4	28.3	27.5
Government non-oil revenue	3.5	2.1	2.8	4.1	3.9	4.6	4.8	5.0	5.2	5.4
Grants	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Expenditure, of which:	48.0	43.5	42.6	41.5	41.0	41.1	37.2	35.0	33.1	31.1
Current expenditure	30.6	25.5	27.5	30.1	30.0	30.7	27.4	25.8	24.0	22.3
Capital expenditure	17.4	18.0	15.1	11.4	11.1	10.5	9.8	9.3	9.1	8.8
Primary fiscal balance	-5.4	-5.1	-11.7	-13.4	-3.8	-3.7	-0.5	0.7	1.8	3.1
Overall fiscal balance (including grants)	-5.8	-5.4	-12.3	-14.1	-5.1	-4.7	-1.7	-0.5	0.6	2.0
Non-oil primary fiscal balance (percent of non-oil GDP)	-67.6	-56.1	-45.1	-44.6	-47.8	-43.4	-39.6	-35.4	-32.0	-28.7
Memorandum items:										
Tax revenue/non-oil GDP (in percent)	1.9	1.7	1.0	3.9	4.6	5.5	5.6	5.6	5.7	5.9
Total government debt (in percent of GDP)	31.2	32.0	54.5	66.7	63.8	65.3	64.3	61.6	57.5	52.1
Total government debt (in US$ billion)	73.1	75.2	98.0	114.6	122.9	132.6	136.5	138.4	137.7	133.4

External government debt (in percent of GDP)	25.3	24.8	36.8	39.3	38.3	40.9	40.4	36.9	32.8	27.9
External government debt (in US$ billion)	59.3	58.1	66.1	67.5	73.7	83.0	85.7	82.9	78.5	71.4
	(In percent, unless otherwise indicated)									
Monetary indicators										
Growth in reserve money	12.6	-9.6	-12.6	7.1	1.3	3.6	4.0	5.8	5.8	5.9
Growth in broad money	15.9	3.6	-9.0	7.2	4.1	4.9	4.0	6.5	7.1	8.3
Policy interest rate (end of period)	6.0	6.0	6.0	4.0	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)									
External sector										
Current account	1.1	2.6	-6.5	-8.7	-6.3	-6.7	-4.1	-3.2	-2.1	-0.6
Trade balance	9.9	10.9	-0.1	-1.8	0.8	1.8	1.7	2.1	2.5	3.3
Exports of goods	38.3	39.6	31.4	29.1	32.4	32.0	30.7	29.6	28.5	27.8
Imports of goods	-28.4	-28.7	-31.5	-30.9	-31.7	-30.2	-29.0	-27.4	-26.0	-24.4
Overall external balance	-1.3	-10.0	-7.1	-3.6	-0.9	-2.7	-1.1	-0.6	0.2	0.8
Gross reserves (in US$ billion) 2/	77.8	66.7	53.7	45.2	41.4	40.8	39.7	37.1	36.0	36.5
In months of imports of goods and services	10.8	10.9	9.2	6.7	6.2	6.0	5.8	5.4	5.2	5.3
Exchange rate (dinar per US$; period average)	1,166	1,166	1,166	1,180	...	...	...	...	...	...
Real effective exchange rate (percent change, end of period) 3/	6.6	4.7	6.8	5.9	...	...	...	...	...	...

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

1/ Includes Kurdistan Regional Governement (0.55 mbpd) only in projection.

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

3/ Positive means appreciation.

Press Release No. 17/323
FOR IMMEDIATE RELEASE
August 9, 2017

International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431 USA

IMF Executive Board Concludes 2017 Article IV Consultation with Iraq

On August 1, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the 2017 Article IV consultation with Iraq.[1]

Iraq is facing a double shock arising from the conflict with ISIS and the plunge in oil prices. In 2016, real GDP increased by 11 percent owing to a 25 percent increase in oil production, which was little affected by the conflict with ISIS. This year, economic activity is expected to remain muted due to a 1.5 percent contraction in oil production owing to the OPEC + agreement to reduce oil production and only a modest recovery of the non-oil sector.

The decline in oil prices has driven the decline of Iraq's international reserves from $54 billion at end-2015 to $45 billion at end-2016. Fiscal pressures are ongoing, with the government deficit increasing from 12 percent of GDP in 2015 to 14 percent in 2016 despite the ongoing fiscal consolidation, due to weaker oil prices and rising humanitarian and security spending.

The authorities have appropriately maintained the exchange rate peg. The simplification of documentation requirements implemented by the Central Bank of Iraq led to a decline in the parallel market spread to 6 percent in June 2017.

Medium-term growth prospects are positive. Growth will be driven by the projected moderate increase in oil production and the rebound in non-oil growth supported by the expected improvement in security and implementation of structural reform. Risks remain very high, however, arising primarily from volatile security, political tensions, and poor policy implementation.
The Fund is supporting Iraq through a three-year Stand-By Arrangement in the amount of SDR 3.831 million ($5.380 billion), equivalent to 230 percent of quota.[2]

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board approved the Stand-By Arrangement for Iraq on July 7, 2016 (see Press Release No. 16/321) and completed its first review on December 5, 2016 (see Press Release No. 16/540).

Executive Board Assessment [3]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the policies put in place by the authorities to deal with the shocks of the armed conflict with ISIS and the ensuing humanitarian crisis and the plunge in oil prices. While medium-term growth prospects are positive, the medium-term outlook remains exposed to significant risks, arising primarily from oil price volatility, unstable security, political tensions, and weak administrative capacity. Although performance under the Stand-By Arrangement has been weak in some key areas, understandings on sufficient corrective actions have been reached to keep the program on track. Against this background, Directors encouraged resolute implementation of the authorities' program including continued efforts toward fiscal consolidation, strengthening the financial sector, and implementing structural reforms to promote private sector activity and improve the business environment.

Directors noted the fiscal adjustment achieved in 2016, albeit at a slower pace than programmed because of weak control of investment expenditure and spending pressures stemming from the military campaign against ISIS and assistance to internally displaced people and refugees. They welcomed that this adjustment was achieved mostly through retrenchment of inefficient capital expenditure while protecting social spending. Directors welcomed passage of a 2017 supplementary budget and the authorities' commitment to implement further consolidation measures in 2017-18 to keep the program on track and ensure external and debt sustainability. They stressed that fiscal space needs to be found to enhance human capital and rebuild the physical capital of the country. Tackling the low level of non-oil tax revenue and very high level of public consumption would help create the fiscal room to finance growth-enhancing investment.

To strengthen financial sector stability, Directors encouraged the authorities to take measures to bolster supervision, and move forward with plans to restructure the state-owned banks that dominate the banking system. They also encouraged strengthening the legal framework of the Central Bank, eliminating a remaining exchange restriction and a multiple currency practice, and accelerating implementation of AML/CFT and anti-corruption measures. Directors considered that the peg to the U.S. dollar, which provides a key anchor to the economy, remains appropriate.

Directors stressed the importance of implementing structural reforms to improve the investment climate, diversify the economy, and achieve sustainable growth. They urged the authorities to overhaul public financial management, including by completing a regular inventory and paying down any arrears, and strengthening expenditure commitment and cash management to prevent the accumulation of new arrears. Directors also emphasized the importance of addressing

[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

weaknesses in administrative capacity and data provision. In addition, the implementation of the budget-sharing agreement between the Federal and Kurdistan Regional governments would put both governments in a better position to address shocks.

It is expected that the next Article IV Consultation with Iraq will be held in accordance with the Executive Board decision on consultation cycle for members with Fund arrangements.

Iraq: Selected Economic and Financial Indicators, 2013–22

(Quota: SDR 1,663.8 million)

(Population: 37.5 million, 2016 est.)

(Poverty rate: 23 percent, 2014)

(Main export: Crude oil)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
				Est.	Prog.	Prog.	Proj.	Proj.	Proj.	Proj.
Economic growth and prices										
Real GDP (percentage change)	7.6	0.7	4.8	11.0	-0.4	2.9	1.7	2.0	2.1	2.1
Non-oil real GDP (percentage change)	12.4	-3.9	-9.6	-8.1	1.5	2.0	3.0	3.9	4.0	4.1
GDP deflator (percentage change)	0.0	-0.7	-26.9	-12.9	12.9	2.3	2.9	3.8	4.4	4.7
GDP per capita (US$)	7,021	6,517	4,869	4,533	4,958	5,091	5,194	5,362	5,569	5,806
GDP (in US$ billion)	234.6	234.7	179.8	171.7	192.7	202.9	212.3	224.8	239.5	256.2
Oil production (mbpd)	3.0	3.1	3.7	4.6	4.6	4.7	4.8	4.8	4.9	4.9
Oil exports (mbpd)	2.4	2.6	3.4	3.8	3.8	3.9	3.9	4.0	4.0	4.1
Iraq oil export prices (US$ pb)	102.9	96.5	45.9	35.6	45.3	45.4	44.9	45.2	45.9	47.1
Consumer price inflation (percentage change; average)	1.9	2.2	1.4	0.4	2.0	2.0	2.0	2.0	2.0	2.0
					(In percent of GDP)					
National Accounts										
Gross domestic investment	26.9	25.7	24.4	20.6	19.1	18.8	18.3	17.9	17.9	17.8
Of which: public	17.4	18.0	15.1	11.4	10.5	10.1	9.5	8.9	8.8	8.6
Gross domestic consumption	69.5	69.9	81.6	87.8	87.0	85.4	85.6	84.6	83.6	82.4
Of which: public	21.0	18.3	22.3	22.9	23.7	22.2	21.1	19.7	18.3	16.9
Gross national savings	28.1	28.3	18.0	11.9	12.8	12.1	14.2	14.7	15.8	17.2
Of which: public	11.6	13.0	3.0	-2.3	6.0	5.9	8.5	8.7	9.7	10.9
Saving - Investment balance	1.1	2.6	-6.5	-8.7	-6.4	-6.7	-4.1	-3.2	-2.1	-0.6
					(In percent of GDP, unless otherwise indicated)					
Public Finance										
Government revenue and grants	42.2	38.2	30.3	27.4	36.0	36.5	35.6	34.6	33.8	33.1
Government oil revenue	38.6	36.0	27.5	23.2	31.8	31.7	30.6	29.4	28.3	27.5
Government non-oil revenue	3.5	2.1	2.8	4.1	3.9	4.6	4.8	5.0	5.2	5.5
Grants	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Expenditure, of which:	48.0	43.5	42.6	41.5	41.0	41.2	37.3	35.0	33.1	31.1
Current expenditure	30.6	25.5	27.5	30.1	30.5	31.1	27.8	26.1	24.3	22.6
Capital expenditure	17.4	18.0	15.1	11.4	10.5	10.1	9.5	8.9	8.8	8.6
Primary fiscal balance	-5.4	-5.1	-11.7	-13.4	-3.8	-3.6	-0.4	0.8	1.8	3.1
Overall fiscal balance (including grants)	-5.8	-5.4	-12.3	-14.1	-5.0	-4.7	-1.6	-0.5	0.7	2.0
Non-oil primary fiscal balance (percent of non-oil GDP)	-67.6	-56.1	-45.1	-44.6	-47.8	-43.4	-39.6	-35.4	-32.0	-28.9

Iraq: Selected Economic and Financial Indicators, 2013–22 (concluded)

(Quota: SDR 1,663.8 million)

(Population: 37.5 million, 2016 est.)

(Poverty rate: 23 percent, 2014)

(Main export: Crude oil)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
				Est.	Prog.	Prog.	Proj.	Proj.	Proj.	Proj.
Memorandum items:										
Tax revenue/non-oil GDP (in percent)	1.9	1.7	1.0	3.9	4.6	5.5	5.6	5.6	5.7	5.8
Total government debt (in percent of GDP)	31.2	32.0	55.1	66.9	63.8	65.3	64.2	61.4	57.3	51.9
Total government debt (in US$ billion)	73.1	75.2	98.0	114.6	122.9	132.4	136.2	138.0	137.1	132.9
External government debt (in percent of GDP)	25.3	24.8	36.8	39.3	38.1	40.7	40.2	36.7	32.6	27.7
External government debt (in US$ billion)	59.3	58.1	66.1	67.5	73.4	82.6	85.3	82.5	78.1	71.0
	(In percent, unless otherwise indicated)									
Monetary indicators										
Growth in reserve money	12.6	-9.6	-12.6	7.1	2.1	3.5	4.9	5.6	5.6	5.8
Growth in broad money	15.9	3.6	-9.0	7.2	4.9	4.9	4.9	6.3	7.0	8.2
Policy interest rate (end of period)	6.0	6.0	6.0	4.0	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)									
External sector										
Current account	1.1	2.6	-6.5	-8.7	-6.4	-6.7	-4.1	-3.2	-2.1	-0.6
Trade balance	9.9	10.9	-0.1	-1.8	0.7	1.8	1.7	2.1	2.6	3.3
Exports of goods	38.3	39.6	31.4	29.1	32.4	32.0	30.7	29.6	28.5	27.8
Imports of goods	-28.4	-28.7	-31.5	-30.9	-31.7	-30.2	-29.0	-27.4	-26.0	-24.5
Overall external balance	-1.3	-10.0	-7.1	-3.6	-0.9	-2.7	-1.1	-0.6	0.2	0.8
Gross reserves (in US$ billion)	77.8	66.7	53.7	45.2	41.4	40.8	39.7	37.1	36.0	36.5
In months of imports of goods and services	10.8	10.9	9.2	6.7	6.2	6.0	5.9	5.4	5.2	5.3
Exchange rate (dinar per US$; period average)	1,166	1,166	1,167	1,180	...	...	...	...	...	...
Real effective exchange rate (percent change, end of period) 1/	6.6	4.7	6.8	5.9	...	...	...	...	...	...

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

1/ Positive means appreciation.

INTERNATIONAL MONETARY FUND

IRAQ

July 25, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE THREE-YEAR STAND-BY ARRANGEMENT, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE AND APPLICABILITY OF PERFORMANCE CRITERIA, AND MODIFICATION OF PERFORMANCE CRITERIA

KEY ISSUES

Context: Iraq is an oil-dependent and state-dominated fragile economy that has been hit hard by the conflict with ISIS and the fall in oil prices. The conflict has hurt the 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 ambitious but necessary fiscal adjustment while maintaining their commitment to the exchange rate peg, which provides a key nominal anchor in a highly uncertain environment.

Second Review Under the SBA. Program performance under the Stand-By Arrangement (SBA) has been frail. Further fiscal consolidation was achieved in 2016, but at a slower pace than envisaged mainly because of weak investment expenditure control but also due to spending pressure stemming from the military campaign against ISIS and humanitarian needs. To move the program forward, the authorities are implementing strong corrective measures as prior actions and are committed to further fiscal measures in 2018 to ensure external and debt sustainability.

Outlook and Risks. With the current outlook for oil prices, and assuming that the authorities implement the programmed fiscal consolidation, the budget deficit of 14 percent of GDP in 2016 can be eliminated by 2021, the public debt-to-GDP ratio 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, setbacks in security, political tensions ahead of elections in 2018, and weak administrative capacity.

Key Policy Recommendations:

- Implement a supplementary 2017 budget to bring the fiscal program back on track.
- Protect social spending.
- Create fiscal space to enhance the human capital and rebuild the physical capital of the country by increasing the very low level of non-oil tax revenue and decreasing the very high level of public consumption.

Approved By
Aasim M. Husain and Vitaliy Kramarenko

Discussions took place in Amman during March 5–17, in Washington, D.C. during April 21–23 and in Amman during May 31–June 4, 2017. Staff representatives comprised Christian Josz (head), Ritu Basu, Amgad Hegazy (all MCD), Csaba Feher (FAD), Neree Noumon (SPR), and Marwa Alnasaa (Resident Representative for Iraq based in Amman). Maya Choueiri (Senior Advisor, OED) joined the missions. Bianca Perez, Mustafa Farzad, and Gregory Basile assisted in the preparation of the report.

CONTENTS

TABLES

ANNEXES

APPENDICES

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

A. Background

1. **Iraq is an oil-dependent and state-dominated fragile economy**. Iraq is very well endowed with oil resources: it holds the fourth largest oil reserves in the world with among the lowest extraction costs (Figure 1). Despite volatile security conditions, oil production has tripled since 2003, but little progress has been made to diversify the economy as the non-oil sector was adversely affected by the lack of security and a difficult business environment. The growth of oil production financed a large expansion of public expenditure and civil service employment, which tripled between 2003 and 2014 (Figure 2). The composition of public expenditure is heavily tilted towards wages, pensions and transfers. Despite an oversized public sector, even relative to other oil-exporting countries, the quality of public services particularly health, education and electricity, where power outages are frequent, is sub-par. Violence and a very difficult business environment have stifled private sector and financial sector development (Figure 3). The lack of electricity, political instability, corruption, and the lack of access to finance were identified as the most significant constraints by the World Bank's latest Investment Climate Assessment.

2. **Since 2014, Iraq has been hit hard by the conflict with ISIS and the fall in oil prices**. The conflict with ISIS has caused the destruction of infrastructure and assets and boosted the number of internally displaced persons to 3.0 million and the number of people in need of humanitarian assistance to 11 million (29 percent of the population), including over 241,000 Syrian refugees. The oil price decline has resulted in a massive reduction in fiscal and export revenue, pushing the fiscal and balance of payments deficits to unsustainable levels (Figure 4). The authorities are responding to the crisis with large but necessary fiscal adjustment, which is being supported by significant official financing, including a Stand-By Arrangement (SBA) with the Fund,[1] of which the Board completed the first review in December 2016.[2]

3. **The Iraqi security forces, with the help of international partners, have made notable progress in the fight against ISIS**. They have recently liberated Mosul, Iraq's second largest city and ISIS's last stronghold in Iraq.

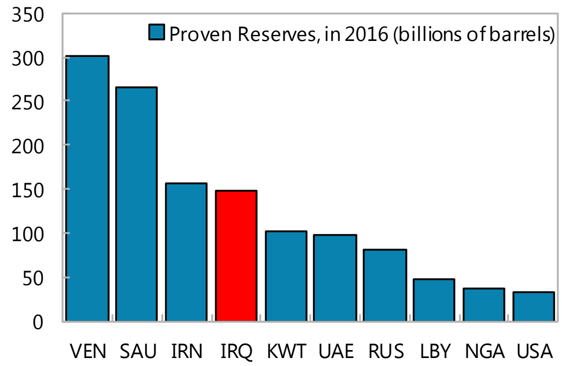
4. **The political situation remains challenging**. Since the SBA approval, the Interior Minister resigned in the aftermath of a terrorist attack that claimed the lives of more than 300 people and Parliament withdrew its confidence in the Defense and Finance Ministers. The Prime Minister is the

[1] See IMF Country Report No. 16/225. Iraq: First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement.

[2] See IMF Country Report No. 16/379: Iraq: First Review of the Stand-By Arrangement.

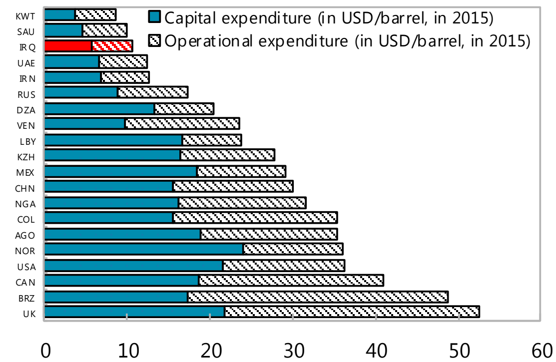
Figure 1. Iraq: An Oil Dependent Economy with Little Progress in Diversification

Iraq is well endowed with oil resources...



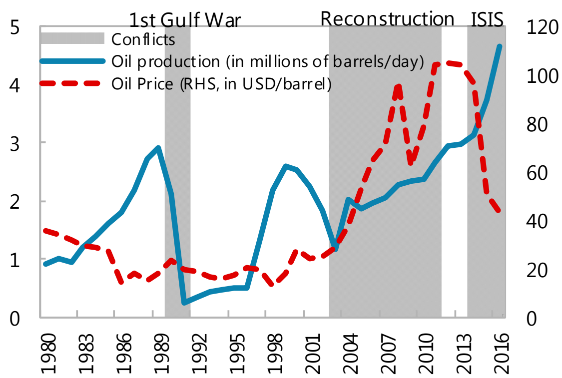
Source: OPEC.

...that are relatively cheap to extract.



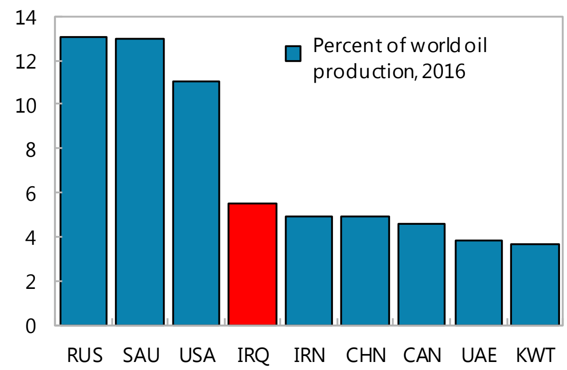
Source: Rystad Energy.

Therefore Iraq has increased its oil production...



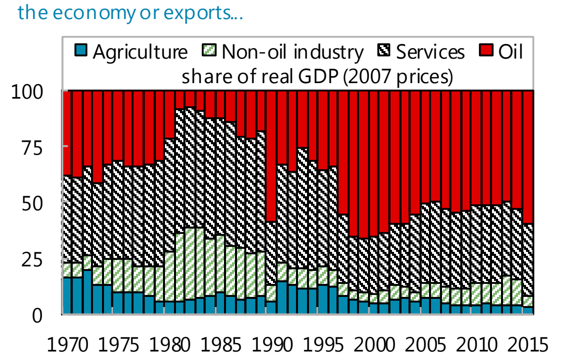
Sources: World Bank and IMF staff calculations.

...and has become one of the major oil producers.



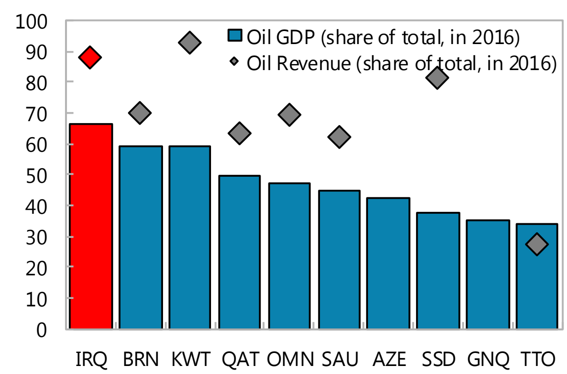
Source: U.S. Energy Information Agency (EIA).

Because of its comparative advantage in oil, and continuous conflicts, there has been little progress in the diversification of the economy or exports...



Source: Iraq Systematic Country Diagnostic, World Bank (2017).

...nor in the share of non-oil fiscal revenue.

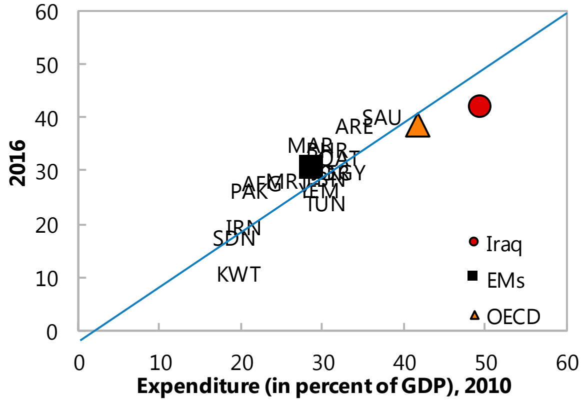


Source: IMF World Economic Outlook.

Note: AGO = Angola, AZE = Azerbaijan, BRN = Brunei Darussalam, BRZ = Brazil, CAN = Canada, CHN = China, COL = Colombia, DZA = Algeria, GNQ = Equatorial Guinea, IRN = Iran, IRQ = Iraq, KWT = Kuwait, KZH = Kazakhstan, LBY = Libya, MEX = Mexico, NGA = Nigeria, NOR = Norway, OMN = Oman, QAT = Qatar, RUS = Russia, SAU = Saudi Arabia, SSD = South Sudan, TTO = Trinidad and Tobago, UAE = United Arab Emirates, UK = United Kingdom, USA = United States of America, and VEN = Venezuela.

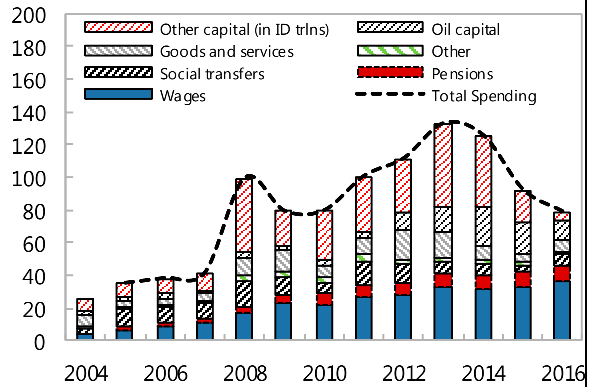
Figure 2. Iraq: A State-Dependent Economy with Sub-Par Public Service Delivery

The size of the public sector is very large, even compared to other oil-exporting countries.



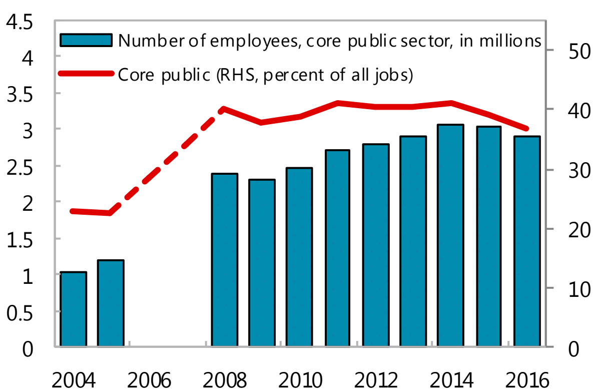
Source: IMF World Economic Outlook.

Public expenditure is biased towards wages and pensions.



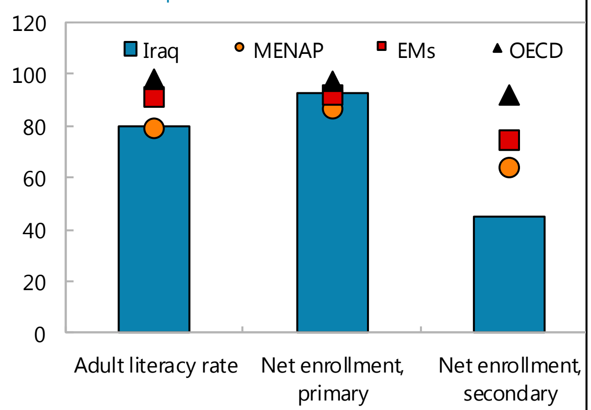
Source: IMF staff calculations.

Public sector jobs have tripled over the last decade...



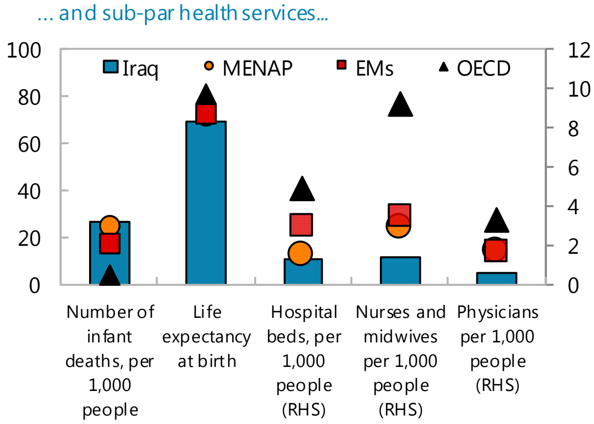
Source: Iraq Systematic Country Diagnostic, World Bank (2017).

... with sub-par education outcomes...



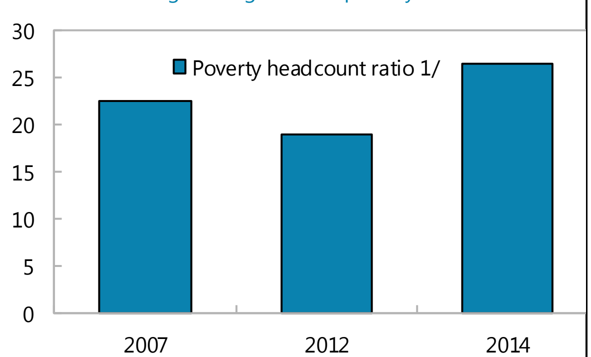
Sources: World Bank and IMF staff calculations, 2015.

... and sub-par health services...



Sources: World Bank and IMF staff calculations, 2015.

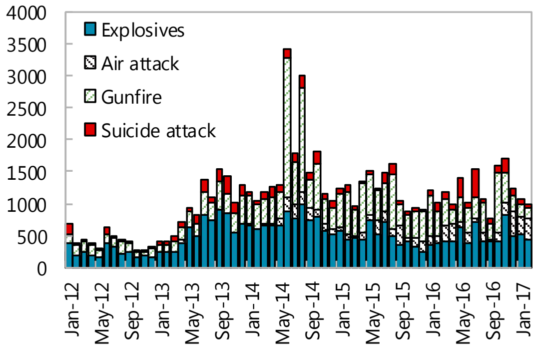
...contributing to a high level of poverty.



Source: Iraq Systemic Country Diagnostic, World Bank (201
1/ Poverty defined as income lower than the expenditure required to maintain subsistence food consumption.

Figure 3. Iraq: Violence and Weak Governance Deter Private Sector Development

Iraq: Monthly Civilian Deaths from Violence, by Type
(In number of people)



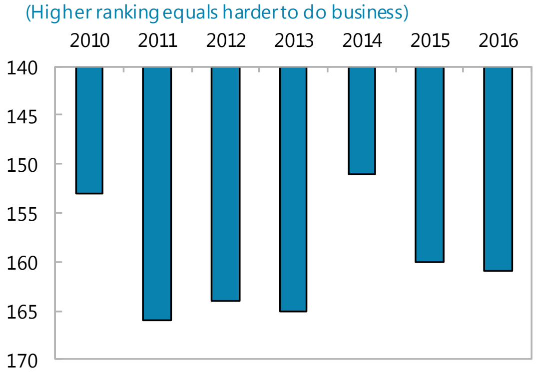
Source: Iraq Body Count.

Significant constraints to private sector development identified by Investment Climate Assessment (ICA):

- Lack of electricity
- Political instability
- Corruption
- Lack of access to finance
- Weak banking sector
- The large role of the state &
- Poor performance of state owned enterprises (SOEs)

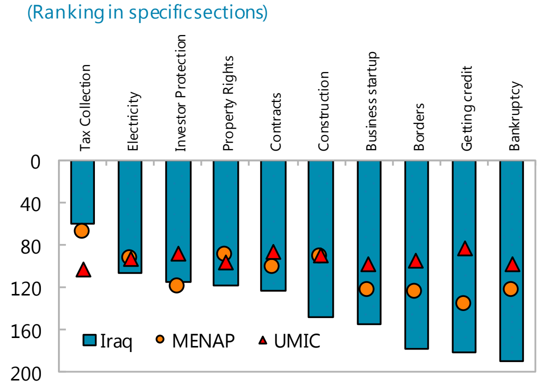
Source: Iraq Systemic Country Diagnostic, World Bank (2017).

World Bank Doing Business Overall Rank
(Higher ranking equals harder to do business)



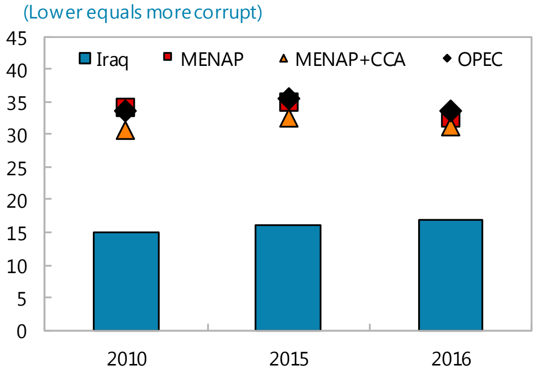
Source: World Bank Doing Business Reports (2010-16).

World Bank Doing Business Indicators
(Ranking in specific sections)



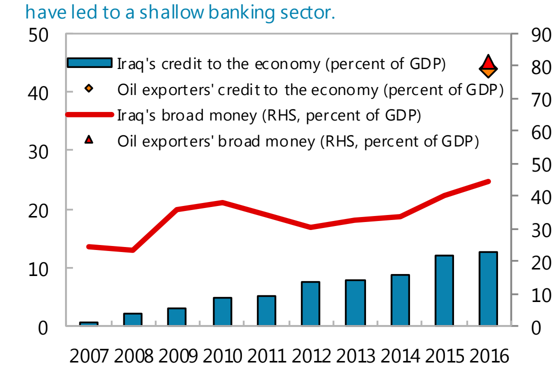
Source: World Bank Doing Business Report (2016).

Corruption Index Score
(Lower equals more corrupt)



Source: Transparency International.

Violence, state dominance. and a difficult business environment have led to a shallow banking sector.



Sources: FINSTAT, IMF WEO, and IMF staff calculations.

Note: MENAP = Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Oman, Saudi Arabia, Syria, Tunisia, United Arab Emirates, West Bank and Gaza, and Yemen.
UMIC = upper middle income countries = Albania, Algeria, Angola, Belarus, Belize, Bosnia, Botswana, Brazil, Bulgaria, China, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, Equatorial Guinea, Fiji, Gabon, Georgia, Grenada, Guyana, Iran, Iraq, Jamaica, Jordan, Kazakhstan, Lebanon, Libya, Macedonia, Malaysia, Maldives, Marshall Islands, Mauritius, Mexico, Montenegro, Namibia, Palau, Panama, Paraguay, Peru, Romania, Russia, Serbia, South Africa, St. Lucia, St. Vincent and the Grenadines, Suriname, Thailand, Turkey, and Venezuela.

acting Minister of Finance. In 2016, the federal government and the Kurdistan Regional Government (KRG) did not implement their budget sharing agreement under which the KRG transfers the revenue from the oil extracted in KRG and the federal government makes transfers to the KRG equivalent to 17 percent of non-sovereign spending in the federal budget,[3] which was implemented for two months in 2014 and five months in 2015. The KRG is planning a referendum on independence in September. Parliamentary elections are scheduled in April 2018.

B. Recent Economic Developments

5. Real GDP increased by 11 percent in 2016 owing to a 25 percent increase in oil production, which was little affected by the conflict with ISIS (Text Table 1 and Tables 1–2). Non-oil real GDP contracted by 8 percent because of the ongoing fiscal consolidation and combat in the ISIS-occupied territories. Average consumer price inflation was only 0.4 percent in 2016 in the areas not occupied by ISIS (where 80 percent of the population lived before the ISIS occupation) and 1.0 percent in April 2017, year-on-year.

6. Further fiscal consolidation was achieved in 2016, but at a slower pace than programmed mainly because of the inability of the Ministry of Finance to reduce investment expenditure by as much as envisaged but also due to spending pressure stemming from the military campaign against ISIS (Tables 3–5). The non-oil primary balance, on an accrual basis,[4] excluding KRG,[5] contracted by 1 percent in nominal terms [6] in 2016, reflecting 2 percent real spending growth (following a 25 percent contraction the previous year) and tripling of non-oil revenue (albeit from a very low base). However, this contraction was less than programmed (ID 8.7 trillion, excluding KRG) because of spending overruns in mostly non-oil investment (ID 6.1 trillion), transfers (ID 2.6 trillion) and wages (ID 0.7 trillion), partly because the campaign against ISIS and partly because of weak control by the Ministry of Finance over investment expenditure by line ministries. In addition, the authorities paid about $2.5 billion less external arrears to international oil companies (IOCs) and other external creditors than programmed because of cash constraints. The overall budget deficit increased to 14 percent of GDP in 2016 mainly because of the 22 percent fall in oil prices. The budget deficit was mostly financed by indirect monetary financing from the Central Bank of Iraq (CBI) and donor support catalyzed by the SBA, but also by the accumulation of arrears, of which the total stock amounted to 5.5 percent of GDP at the end of 2016, out of which 68 percent were domestic (¶15). Indirect monetary financing from the CBI could

[3] Non-sovereign spending is defined as total spending minus expenses 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.

[4] The non-oil primary balance on an accrual basis is the most accurate measure of the fiscal performance in any year because it only includes revenue and expenditure pertaining to that year.

[5] Since the authorities did not implement the budget sharing agreement with KRG in 2016, the fiscal outcomes need to be compared with the programmed levels excluding KRG to assess program performance.

[6] In percent of non-oil GDP, the non-oil primary deficit on an accrual basis excluding KRG increased from 43.3 in 2015 to 44.6 in 2016 (Table 5). However, given the sharp contraction in non-oil GDP in those years due to the double shocks, ratios relative to non-oil GDP are misleading to assess fiscal adjustment.

not be avoided as the liquidity position of the state-dominated banking sector is uncertain in the absence of audited financial statements of the main state-owned banks (¶11).

7. Total public debt increased to 67 percent of GDP in 2016 (Table 1). The sharp fall in oil prices since 2013, when Iraq exported oil for $103 per barrel, has also prompted a sharp increase in the public debt, from 31 percent of GDP in 2013 to 67 percent in 2016. The issuance of debt guarantees, mostly for electricity sector projects, accounted for 2.3 percent of GDP at the end of 2016 (¶15). The yield on Iraqi dollar bonds maturing in 2028 has declined from about 14 percent in February 2016 to 8.5 percent in early July 2017, supported by the implementation of fiscal adjustment under the SBA and the moderate recovery in oil prices. (Figure 4).

8. The fall in oil prices prompted an increase in the balance of payments' deficit (Table 6). Despite the ongoing fiscal consolidation, the current account deficit widened to 8.7 percent of GDP in 2016 because of the 22 percent drop in oil prices. The current account deficit was financed by external official loans and the use of official foreign exchange reserves, which declined from $53.7 billion at end-2015 to $45.2 billion (6.7 months of imports of goods and services) at end-2016. Donor support committed by the G7 in Japan in May 2016 is on track. In December, the World Bank Board approved a $1.44 billion budget support loan, of which $0.37 billion was guaranteed by the U.K. and $0.07 billion by Canada. In January, the authorities issued a $1 billion bond guaranteed by the U.S. government yielding 2.15 percent. Japan disbursed a $0.27 billion budget support loan in March. The authorities are negotiating a $0.45 billion budget support loan with France, project loan disbursements with Germany and Italy, and a grant for humanitarian assistance with the European Union.

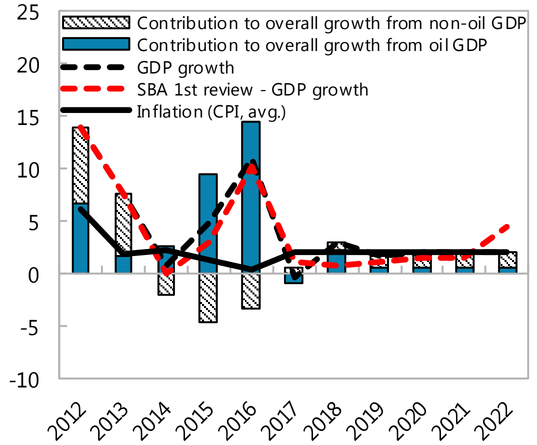
9. Iraq's external position in 2016 was substantially weaker than suggested by fundamentals and desirable medium-term policies (Annex II). The real and nominal effective exchange rates for Iraq appreciated by about 8 percent in 2016. This is a continuation of the real appreciation trend that the Iraqi Dinar has experienced since 2013 and mirrors the appreciation of the U.S. dollar to which the dinar is pegged. The current account deficit was about 8 percent of GDP weaker than warranted by fundamentals and desirable policy settings; the gap is projected to close over the medium term as the programmed fiscal adjustment is implemented (Annex II). The spread between the official and parallel exchange rates for US$ decreased from 11 percent in December to about 6 percent in June 2017 as the Central Bank of Iraq (CBI) simplified the documentation requirements for access to its foreign exchange window (Figure 4).

10. Broad money grew by 7.2 percent during 2016 reflecting the pickup of overall economic activity on the back of increased oil production and continued borrowing by the government, mostly from the central bank, while credit to the economy grew by 1.9 percent (Tables 7–8).

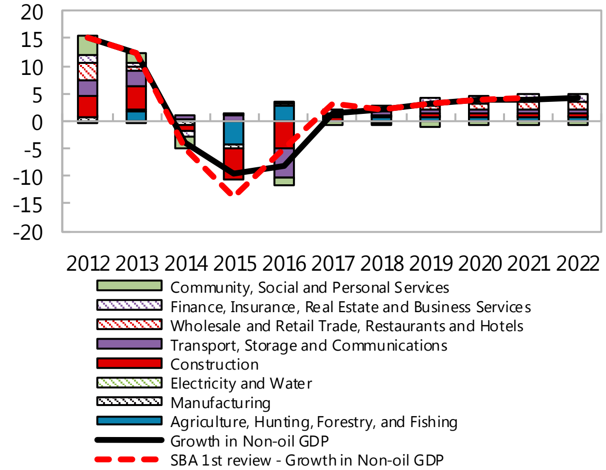
11. The banking sector needs repair. As with the rest of the economy, state dominance and inefficiency of the banking sector is evident as the two largest banks, Rafidain and Rasheed (R&R), which together hold about 71 percent of banks' deposits (86 percent held by the seven state-owned banks) and extend 54 percent of credit (80 percent extended by the seven state-owned banks) and for which recent accounts audited per international standards are lacking, are most likely severely undercapitalized. State-owned banks, which dominate the banking sector, are capital deficient and weaknesses remain in their loan portfolio. Non-performing loans are high across public and private sector banks and on the rise (Table 13). The current fiscal and balance of payment crisis is increasing the exposure of R&R to sovereign risk. Financial depth remains much lower than in other economies (Figure 3). Iraq is still monitored by the Financial Action Task Force (FATF) due to serious shortcomings in its AML/CFT regime, and is at risk of being blacklisted absent sufficient progress, which would affect correspondent banking relationships.

Figure 4. Iraq: Recent Economic Developments and Outlook, 2012–22

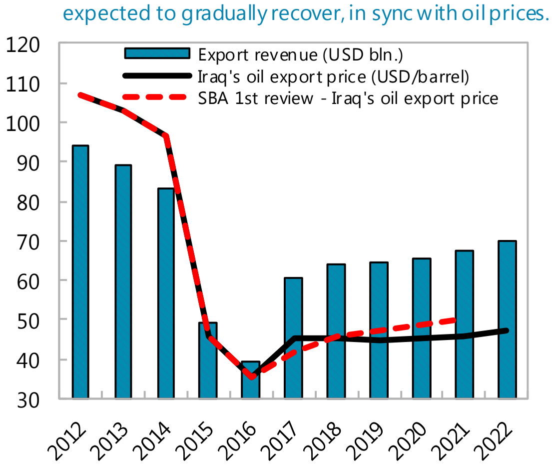
Real GDP growth was strong in 2015-16 owing to the increase in oil production fed by past oil investment. Oil production should contract in 2017 owing to OPEC-agreed production cut.



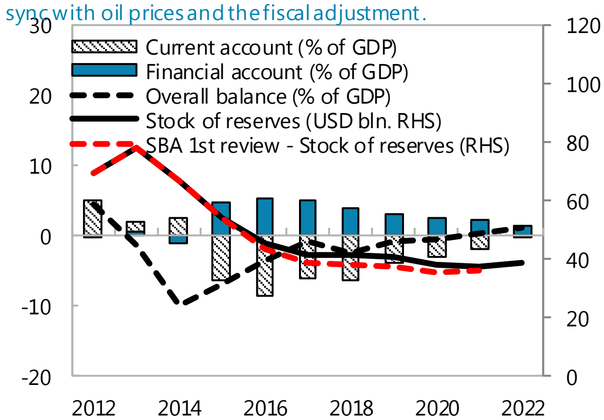
Non-oil GDP contracted over 2014-16, owing to fiscal consolidation and the conflict with ISIS. It should gradually recover as the conflict subsides.



Oil prices and exports dropped sharply but are expected to gradually recover, in sync with oil prices.



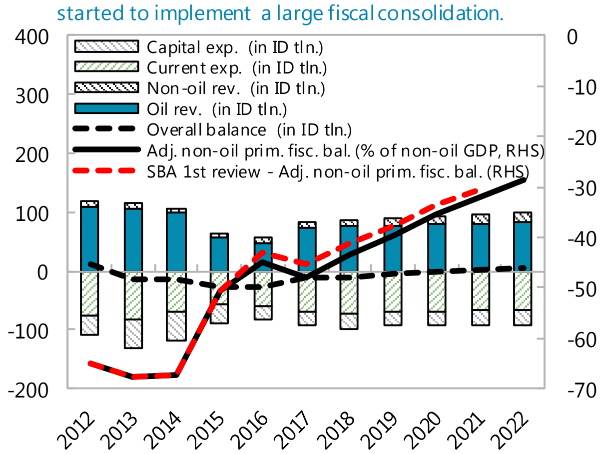
Therefore the balance of payments weakened leading to a drop of foreign exchange reserves, but is expected to strengthen in sync with oil prices and the fiscal adjustment.



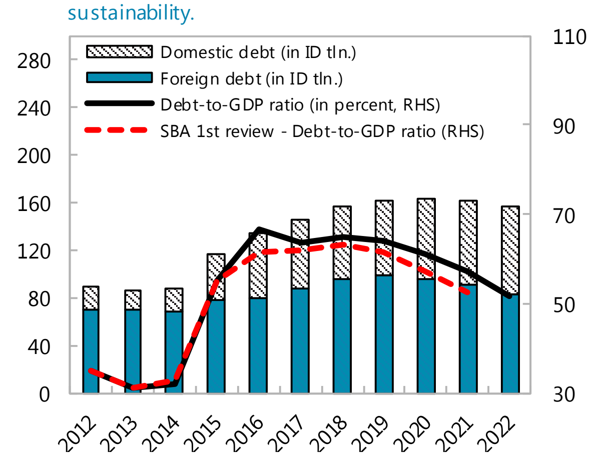
Sources: Iraqi authorities; Bloomberg; and IMF staff calculations.

Figure 4. Iraq: Recent Economic Developments and Outlook, 2012–22 (concluded)

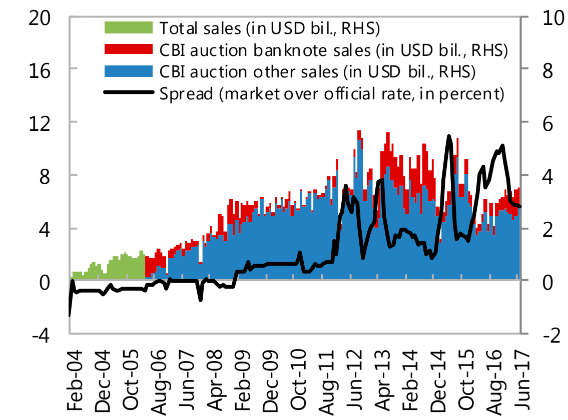
In reaction to the fall in oil revenue, the authorities have started to implement a large fiscal consolidation.



The fiscal consolidation is targeted to achieve debt sustainability.

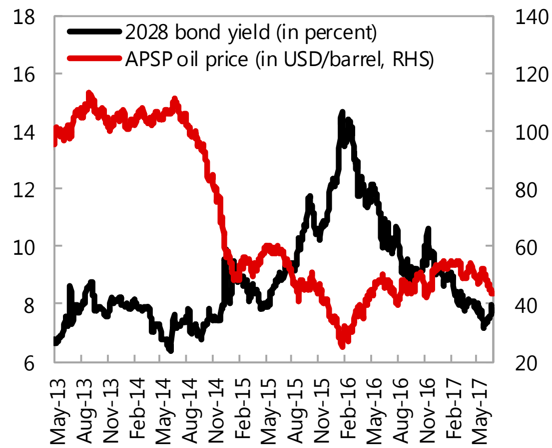


Streamlined procedures for access to the CBI foreign exchange window have contributed to a reduction of the spread between the parallel and official rates since the fall of 2016.



Note: Official Rate = 1182 ID/USD since January 2016.

The yield of the 2028 bond has diminished since early 2016 in reaction to the increase in oil prices and progress in fiscal consolidation.



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

Box 1. Implementation of Key Recommendations from 2015 Article IV Consultation

Recommendation	Status
Maintain the exchange rate peg and step up the liberalization of the foreign exchange market	*Mostly done*. The authorities have removed most exchange rate restrictions subject to Article VIII, Section 2 (a).
Ensure fiscal sustainability, rebuild fiscal buffers to address volatility in oil revenues, and alter the composition of spending by cutting current spending while protecting social spending	*Ongoing*. The authorities have embarked on a fiscal consolidation path under the three-year Stand-by Arrangement (SBA) with the aim of attaining debt sustainability and external stability. However, the brunt of the adjustment has been achieved so far through cuts in non-oil investment while maintaining wages and pensions to preserve social stability.
Accelerate diversification of government revenues through non-oil tax instruments	*Limited progress*. The government expanded the flat tax rate on wages and salaries. A technical assistance mission by the IMF Fiscal Affairs Department conducted a diagnostic to design and implement a strategy to raise non-oil tax revenue in February 2017.
Strengthen public financial management (PFM)	*Ongoing*. The authorities have committed to several measures to strengthen public financial management under the SBA. They have made progress on fiscal reporting per GFSM standards, have conducted surveys of arrears, and have taken steps to strengthen commitment control to prevent accumulation of new arrears.
Press ahead with restructuring of Rasheed and Rafidain banks	*Ongoing*. An external audit of the financial statements of these banks is expected by end-August 2017.
Bring AML/CFT and anti-corruption frameworks in line with international standards	*Ongoing*. Under the SBA the authorities are implementing measures to strengthen the AML/CFT and anti-corruption legislation per international standards.
Accelerate structural reform to promote private sector growth	*Limited progress*. Private sector growth prospects are also hampered by the security situation.

Sources: IMF staff; and Iraqi authorities.

C. Outlook and Risks

12. The fiscal and the external positions will remain sustainable if the authorities implement the fiscal consolidation planned under the SBA (Text Table 1 and Tables 1–8).

Text Table 1. Iraq: Selected Economic Indicators, 2013–22

	2013	2014	2015	2016		2017		2018		2019		2020		2021		2022
				Prog. 1/	Est.	Prog. 1/	Rev. Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj.
Real GDP Growth (percent)	7.6	0.7	4.8	10.2	11.0	1.1	-0.4	0.7	2.9	1.1	1.7	1.4	2.0	1.5	2.1	2.1
Non-oil real GDP (percent)	12.4	-3.9	-9.6	-5.0	-8.1	3.0	1.5	2.0	2.0	3.0	3.0	3.9	3.9	4.0	4.0	4.1
Inflation (eop, y-o-y)	3.1	1.6	2.3	2.0	-1.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Oil production (mbpd)	2.98	3.14	3.72	4.50	4.63	4.50	4.57	4.50	4.72	4.50	4.77	4.50	4.82	4.50	4.87	4.91
Oil exports (mbpd)	2.39	2.62	3.35	3.80	3.79	3.80	3.75	3.80	3.89	3.80	3.93	3.80	3.98	3.80	4.03	4.08
Iraq oil export prices (US$ pb)	102.9	96.5	45.9	35.5	35.6	42.0	45.3	45.7	45.4	47.0	44.9	48.8	45.2	50.2	45.9	47.1
Overall fiscal balance (percent of GDP)	-5.8	-5.4	-12.3	-8.2	-14.1	-7.0	-5.0	-5.3	-4.7	-1.7	-1.6	0.1	-0.5	1.1	0.7	2.0
Non-oil primary fiscal balance (percent of non-oil GDP)	-67.6	-56.1	-45.1	-43.1	-44.6	-45.4	-47.8	-41.2	-43.4	-37.6	-39.6	-33.6	-35.4	-30.4	-32.0	-28.9
Non-oil primary fiscal balance, accrual basis (ID Trillion)	-100.0	-83.8	-63.1	-59.9	-59.8	-67.8	-67.8	-65.5	-65.5	-64.1	-64.1	-62.1	-62.1	-60.9	-60.9	-59.6
Adjusted non-oil primary fiscal balance, accrual basis (excl. KRG, ID Trillion) 2/	-84.1	-81.3	-60.6	-51.9	-59.8	-57.0	-56.6	-54.7	-54.5	-53.3	-53.3	-51.4	-51.6	-50.2	-50.2	-48.7
Adjusted non-oil primary expenditure (excl. KRG, ID Trillion) 3/	93.8	87.1	66.4	59.4	68.0	66.8	64.9	65.0	64.6	64.2	64.4	63.1	63.8	63.0	63.8	63.9
Adjusted non-oil primary expenditure (excl. KRG, annual real growth, percent) 2/	0.2	-9.2	-24.9	-12.2	2.0	10.2	-6.4	-4.7	-2.5	-3.0	-2.2	-3.6	-2.9	-2.2	-2.0	-1.8
Total government debt (percent of GDP) 3/	31.2	32.0	55.1	61.3	66.9	61.9	63.8	63.1	65.3	61.3	64.2	57.3	61.4	52.6	57.3	51.9
Current account balance (percent of GDP)	1.1	2.6	-6.5	-6.8	-8.7	-6.8	-6.4	-6.2	-6.7	-2.9	-4.1	-1.9	-3.2	-1.2	-2.1	-0.6
Gross international reserves (US$ billion)	77.8	66.7	53.7	43.0	45.2	38.5	41.4	38.1	40.8	37.3	39.7	35.5	37.1	35.9	36.0	36.5
Gross international reserves (months of imports of goods and services)	10.8	10.9	9.2	6.7	6.7	5.9	6.2	5.8	6.0	5.6	5.9	5.2	5.4	5.2	5.2	5.3
Financing gap (US$ billion) 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.5	5.0	0.6	2.1	0.0	0.0	0.0	0.0	0.0
Sensitivity of oil revenue per $1 of oil price change (in $ billion)	0.0	0.0	0.0	0.0	0.0	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.5	1.4	1.5	1.5

Sources: Iraqi authorities; and Fund staff estimates.
1/ IMF Country Report No. 16/379. Iraq: Staff Report for the First Review of the Three-Year Stand-By Arrangement.
2/ Adjusted to exclude full year estimate of federal government transfers to the Kurdistan Regional Government. In 2014 and 2015, actual transfers were made for only 2 and 5 months, respectively.
3/ Includes arrears. The debt stock includes legacy arrears to non-Paris Club creditors on which the authorities have requested (but not yet obtained) Paris-Club comparable relief. Implementing comparable terms will substantially reduce debt (e.g. by 17 percent of GDP in 2017).
4/ Only unidentified financing.

- Oil production is expected to contract by 1.5 percent in 2017 owing to the OPEC+ agreement to reduce oil production until the first quarter of 2018, to bounce back by 3.4 percent in 2018, and to increase by 1 percent a year thereafter. Putting oil production and export on a steeper upward trend would require significantly higher oil investment that the authorities cannot finance with the present oil price outlook.

- Iraqi oil export prices[7] are expected to recover to about $45 per barrel in 2017 and then to slightly increase to about $47 per barrel by 2022, in sync with benchmark international oil prices.

- The non-oil primary balance is projected to decline gradually to the level aligned with sustained public spending under the permanent income hypothesis (PIH; -35 percent of non-oil GDP; Box 2) by roughly flat public spending in nominal terms over the next five years and some increase in non-oil revenue. The public debt will peak at 65 percent of GDP in 2018.

- Non-oil growth is projected to gradually return to half of its pre-2014 trend in the medium term, as progress is made in the war against ISIS. Inflation is projected to remain around 2 percent.

[7] Since January 2015, Iraqi oil prices have been about $6 lower on average than the average petroleum spot prices (the average of Brent, West Texas and Dubai), a difference that is projected to stay at the same level over the medium term.

Box 2. Non-Oil Primary Balance Achieving the PIH Level[1]

Iraq's oil dependence has induced a high volatility in public expenditure and the non-oil economy. Making up more than 90 percent of total government revenues and contributing to the bulk of foreign currency reserves, oil exports in Iraq dominate macroeconomic developments. The government's expenditure entirely depends on it, and has moved in line with oil revenue. Between 2004 and 2013, public expenditure almost tripled in nominal terms, as oil revenue grew. Since end-2013, oil prices have fallen 50 percent, reducing government revenue by 42 percent and prompting a reduction in expenditure by 47 percent.

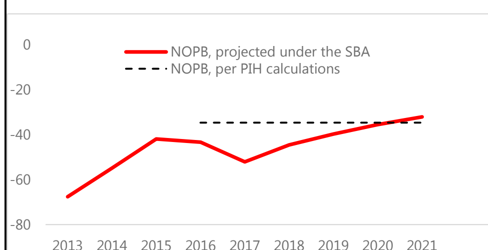
A prudent medium-term fiscal framework anchored on the Permanent Income Hypothesis (PIH), with a focus on the non-oil primary balance, can reduce expenditure volatility, ensure fiscal sustainability and achieve inter-generational equity. Under the PIH, the government runs a fiscal policy with the specific aim of smoothing the consumption of oil revenue between present and future generations and shielding public expenditure from the volatility of oil prices. More specifically, fiscal policy is anchored on keeping the non-oil primary balance (NOPB, the difference between non-oil revenue and non-oil expenditure excluding interest payments) at a level that would permit the accumulation of sufficient savings during the exploitation of oil resources such that the financial yield from the savings could finance a constant level of expenditures after oil resources are exhausted.[2]

Calibration of the PIH for Iraq over the next 35 years yields a NOPB of about -35 percent of non-oil GDP, a level achievable by 2020 if the fiscal consolidation the under the SBA is implemented. Under the baseline scenario, and assuming fiscal consolidation remains on track, the NOPB (-44 percent of non-oil GDP in 2016) is estimated to initially increase in 2017 before embarking on a gradual declining trend over the medium-term to a projected -35 percent of non-oil GDP by 2020 (see figure). Since Iraq's oil resources are not expected to be depleted before another 100 years or more,[3] it can be argued that the NOPB achieving the PIH is much lower than the one calculated over a 35-year horizon. Considering the many uncertainties about the future of the oil industry, the latter is nonetheless a conservative and useful anchor.

Iraq: Assumptions Underlying Calculations of the Sustainable NOPB Under the PIH
(In percent, unless otherwise noted)

Real non-oil GDP growth	5.0
Nominal non-oil GDP growth	7.1
Inflation	2.0
Real interest rate	3.0
Nominal interest rate	5.1
Real GDP growth	4.0
Non-oil revenue, excluding grants (percent of non-resource GDP)	6.3
Length of annuity (years)	35
Oil Price: L-term increase (percent, 2024-50)	2.0
Oil export volume (mbpd, plateau level)	6.5

Iraq: PIH-Sustainable NOPB and Projected NOPB
(In percent of non-oil GDP)



Source: Iraqi authorities and IMF staff calculations.

[1] Prepared by Amgad Hegazy.

[2] Consumption out of oil wealth is maintained constant relative to non-oil GDP. Oil exports are used to calculate the annuity.

[3] Per OPEC's Annual Statistical Bulletin (2016), Iraq's proven crude oil reserves are estimated at 142,503 million barrels, and with average crude oil production levels of 3.7 mbpd, the oil reserve horizon is estimated at 105 years.

- The fiscal consolidation and the pickup in oil revenue are expected to almost eliminate the current account deficit by 2022. The current account deficit will be financed mostly by official loans support catalyzed by the SBA and the use of gross international reserves that will bottom out at $36.0 billion (5.2 months of imports of goods and services) in 2021 (Table 12).

- There is a financing gap of $7.1 billion (same as the 1st Review SR), of which $5 billion is in the last quarter of 2018 and $2.1 billion in 2019. Financing assurances for the 2018 financing gap need to be identified before the completion of the 3rd SBA review, scheduled in December 2017 (Table 9). The authorities have approached the Kuwaiti authorities to request a (third) postponement of the war reparation payment of $4.6 billion due in 2018. They will approach other donors (including China, U.S., other G7, and Iran) in the coming months.

- Broad money should grow at about the same pace as non-oil GDP, as the expansionary impact of budget financing will be compensated by the contractionary impact of the gross international reserves drawdown. The programmed fiscal consolidation should leave room for growth of credit to the economy to increase to 14 percent per year over the medium term.

13. Provided the recommended fiscal adjustment is implemented, public debt is projected to remain sustainable over the medium run (Annex III). Under the oil price outlook, public debt would peak at 65 percent of GDP in 2018 declining to 52 percent of GDP in 2022. The implementation of fiscal adjustment plans and the gross financing needs remain sensitive to macro shocks and oil price prospects. The risks are partly mitigated by the fact that one third of the gross financing needs is rollover of short-term debt by state-owned banks that will be getting credit from the central bank, which limits the risk of non-rollover. Risks are also reduced by the fact that a bit more than one third of the total debt (two thirds of the external debt) consists of legacy arrears still to be restructured on Paris Club terms.[8]

14. This outlook is subject mainly to downside risks (Annex I). Setbacks in security, or pre-electoral weaknesses in spending discipline could weaken growth, public finances and/or the balance of payments. A decline in oil revenue or a shortfall in projected financing would widen the financing gap in 2018–19. Moreover, the projections do not include spending for reconstruction in areas liberated from ISIS, which has not yet been assessed and will require additional donor

---

[8] Indeed, Iraq's external debt stock of $67 billion at end-2016 includes an estimate of $41 billion of unresolved external arrears to non-Paris Club creditors that were accumulated under the pre-2003 regime. These arrears can be tolerated under the Fund's policy on Arrears to Official Bilateral Creditors because the Paris Club Agreement was found to be adequately representative (i.e., Paris Club creditors provided most 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. Negotiations to implement debt relief on the same terms as with the Paris Club creditors, i.e. an 89.75 percent net present value reduction, are ongoing.

support.[9] On the other hand, every sustained increase in oil prices by $1 per barrel would increase annual oil revenue by $1.4–1.5 billion (Text Table 1).

D. Performance Under the Stand-By Arrangement

15. Program performance has been frail but understandings on sufficient corrective actions have been reached to keep the program on track (Memorandum of Economic and Financial Policies—MEFP, Tables 1–2 and ¶¶16–19). As the review is being conducted after the end-June 2017 test date, the end-June 2017 performance criteria (PCs) have become the controlling PCs for the second SBA review. However, since information on end-June 2017 PCs is limited at this stage, end-December 2016 data are the basis for staff's assessment:

- Based on preliminary information, it appears that the PC on obligations outstanding to international oil companies (IOCs) for more than three months at end-June 2017 will not be met because the authorities are facing technical obstacles (explained below) preventing them from reducing these to zero.[10] Therefore the authorities request a waiver for the non-observance of this PC (¶¶35, and MEFP, ¶¶16 and 46).

- There is no clear evidence that the other quantitative end-June PCs will not be met. Since information to fully assess these PCs is not available, the authorities request waivers of applicability for them.

- The continuous ceiling on new external arrears was missed because the authorities accumulated $2.5 million of temporary arrears on external debt for a couple of weeks in early 2017 and $157 million for a several days at the beginning of July 2017 because of recurring organizational problems at the Ministry of Finance. The government will expedite the implementation of the Cash Flow Management Unit and Cash Flow Management Committee at the Ministry of Finance to solve the organizational problems that led to these payment delays (MEFP, ¶¶16 and 38). As this deviation was temporary and the arrears were settled within, respectively, weeks and days, and considering the measures taken to improve cash management, the government requests a waiver for the non-observance of this PC.

[9] World Bank staff are in the process of estimating reconstruction costs, which will likely require additional donor support, as part of their country strategy for 2018-23. Once these are ready (likely by end-2017), the authorities and staff will incorporate them in the fiscal projections.

[10] It is not clear to staff at this time whether all obligations to IOCs due for more than three months constitute arrears to external private creditors for purposes of the program and for Fund policies (e.g., the Lending into Arrears' policy), as staff continues to discuss with the authorities the residency of these creditors. Moreover, considering the uncertainty about understandings between Iraq and the IOCs with respect to these overdue obligations, staff proposes to subject these obligations to an IT rather than a PC (¶35) going forward.

- The application of relevant adjustors (for non-implementation of the budget sharing agreement with KRG and shortfalls in arrears repayments) meant that the related performance criteria (PCs) at end-December 2016 were missed:

  - The non-oil primary deficit on a cash basis,[11] excluding transfers to the KRG, was ID 4.1 trillion (4.5 percent of non-oil GDP) higher than programmed.

  - The floor on gross international reserves and the ceiling on net domestic assets were missed after application of adjustors for payment of external arrears to international oil companies (IOCs) and other external creditors by, respectively, $1.4 billion and ID 2.1 trillion. This mainly reflected higher than programmed imports, including security-related equipment.

  - The ceiling on total public debt was missed by ID 5.0 trillion because the budget deficit was higher than programmed and the authorities issued debt guarantees in an amount of ID 4.8 trillion ($4.0 billion; see below) for investment in the electricity sector, military purchases, direct lending by state-owned banks for private sector infrastructure and agriculture projects, and repair of the Mosul dam.

  - Obligations to IOCs outstanding for more than three months continued to be reduced significantly, but not as rapidly as envisaged because of cash constraints. The program ceiling of zero by end-2016 was missed, but these obligations were further reduced from $2.1 billion in September to $1.2 billion in December 2016 and $0.5 billion in March 2017. Since IOCs are paid in kind, i.e. oil, the minimal size of oil shipments is one million barrels, and the size of the quarterly bills to several IOCs is less than the value of one million barrels at the projected oil prices, it will be difficult to reduce the obligations to IOCs due for more than three months below $500 million. Therefore, the authorities request to increase the level of that ceiling to $500 million starting in September 2017 (MEFP, ¶16).

- One out of two indicative targets (ITs) at end-December 2016 was met. Social spending exceeded its floor by a significant margin (10 percent). However, the stock of outstanding domestic arrears on non-oil investment exceeded its ceiling (by 5 percent) because the survey of arrears (see below) identified additional unpaid bills.

- Three of the ITs at end-March 2017 for which information is available were met.

- Most structural benchmarks (SB) for the second review have been met and others are in progress:

  - The authorities have completed the long-awaited inventory of arrears: at end-December 2016, the Ministry of Finance identified arrears in an amount of ID 11.1 trillion ($9.4 billion,

[11] The non-oil primary balance PC was set on a cash basis owing to the difficulty faced by the authorities to monitor spending financed by the accumulation of arrears.

or 5.5 percent of GDP), out of which ID 7.5 trillion are owed to domestic creditors and ID 3.6 trillion ($3.0 billion) to foreign creditors.[12] Such arrears were accumulated during 2014-16 when oil prices collapsed, oil revenue was much lower than budgeted, and the Ministry of Finance did not have the tools to monitor expenditure commitments by line ministries. The latter is being fixed with one prior action and two SBs requiring spending units to report expenditure commitments enabling the Ministry of Finance to monitor them (MEFP, Table 2).

- The Board of Supreme Audit (BSA) has audited all the arrears on non-oil investment identified so far by the Ministry of Planning and all the arrears on wheat and rice purchases identified by the Ministry of Trade. Out of ID 4.7 trillion of non-oil investment domestic arrears, the BSA has validated claims worth ID 1.4 trillion, and, out of ID 2.5 trillion of arrears on wheat and rice purchases, it has validated ID 2.0 trillion.

- The Debt Directorate of the Ministry of Finance completed a survey of all guarantees issued by the central government. At end-April 2017, the value of the 11 state guarantees on foreign currency-denominated service payments or debt amounted to $36.0 billion (ID 42.6 trillion, or 21 percent of GDP), out of which $32.4 billion are guarantees of service payments to independent power producers (IPPs) in the electricity sector for the full length of the contracts (about 14 years) and $3.6 billion are debt guarantees. In addition, the value of the guarantee of one local currency-denominated debt amounted to ID 0.5 trillion. Council of Minister's approval of procedures for approval of state guarantees is a prior action (MEFP, Table 2 and ¶38).

- The authorities had the CBI's gross international reserves and net domestic assets and the public debt at end-December 2016 audited by an external auditor.

- The Minister of Finance sent a circular elaborated with the Ministry of Planning and the BSA requiring all spending units to record all existing commitments on current and capital expenditures.

- The Ministry of Finance posted the financial statements of the Development Fund for Iraq and Successor Account on December 31, 2015 audited per international standards on its external website.

- Three SBs that concern the CBI should be met soon: the adoption of a new charter for the Audit Committee prohibiting CBI executive representation on the committee; the introduction to Parliament of amendments to the Law on the CBI to strengthen its governance and internal

[12] Those are obligations outstanding for more than 90 days accumulated by line ministries, including obligations to IOCs (MEFP, Tables 5 and 6).

control framework; and the removal of the limitation on transfer of investment proceeds that gives rise to an exchange restriction.

- Two SBs are more time consuming to implement than anticipated and the authorities propose to postpone them to future reviews: the Council of Minister's approval of draft amendments to the 2011 law establishing the Integrity Commission to strengthen its governance, accountability, oversight, and independence (postponed to the third review); and a report of all current and investment commitments (postponed to the fourth review), for which the spending units need training that the IMF Middle East Technical Assistance Center (METAC) will provide.

ECONOMIC POLICIES TO ADDRESS THE CRISIS

A. Managing External Pressures

16. The peg to the U.S. dollar has provided a key nominal anchor in a highly uncertain environment with policy capacity weakened by the conflict with ISIS. Per the latest External Sector Assessment, the current account deficit was about 8 percent of GDP weaker than warranted by fundamentals and desirable policy settings but that gap is projected to close over the medium term as the programmed fiscal adjustment is implemented (¶9). However, the persisting, though narrowing, spread between the official and parallel market exchange rates creates profit opportunities for banks that crowd out credit to the economy.

Staff's advice

17. Maintain the peg with the U.S. dollar. 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 in dinar terms—it would risk exacerbating 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. Therefore, fiscal consolidation is the most appropriate tool to manage external pressure.

18. Simplify procedures to allocate foreign exchange. While, over the past years, authorities have introduced more documentation requirements for access to the CBI foreign exchange window mentioning concerns about anti-money laundering and countering the financing of terrorism (AML/CFT), these measures have generated sizable parallel market premium that has fueled speculative activity among banks and money exchange operators (¶9). Simplifying these procedures, while properly implementing the AML/CFT standards, and gradually eliminating the remaining exchange restriction to move towards acceptance of the obligations under Article VIII of the IMF's Articles of Agreement would help reduce the spread between the official and parallel market exchange rates.

Authorities' views

19. The authorities agreed with staff's advice. They agreed that fiscal consolidation was the preferred way to address the balance of payment crisis. They also pointed to the numerous measures that the CBI has been taking to simplify access to its foreign exchange window over the past year and their positive impact on the spread between the official and parallel market exchange rates (MEFP, ¶25; and SB, MEFP, Table 2). They requested additional technical assistance from the Fund's Legal and Monetary and Capital Markets departments to further reduce the spread.

B. Implementing Fiscal Consolidation to Achieve Debt Sustainability

Staff's advice

20. The government needs to continue to implement fiscal adjustment to bring spending to a sustainable level given the much lower level of oil revenue (than in 2013–14). It will also bring the non-oil primary balance closer to the level aligned with sustainable public spending under the permanent income hypothesis (Box 2).

21. For 2017, Parliament should approve a supplementary budget that will keep the non-oil primary balance on an accrual basis at first review level (prior action, MEFP, Table 2)**, thereby keeping the fiscal consolidation on track.** Grounding the 2017 revised program in a supplementary budget should increase the leverage of the Ministry of Finance with line ministries to keep the non-oil primary balance within the program target. That should help prevent a recurrence of the slippage experienced in 2016, when tighter-than-budgeted allocations were undertaken based on a budget execution report rather than a supplementary budget. To mitigate the risk this time, Parliamentary approval of the supplementary budget is a prior action. The supplementary budget is expected to:

- Implement a new tax on internet services, which should yield ID 0.2 trillion in 2017.

- Reshuffle the composition of spending, with cuts in transfers (ID 0.6 trillion), non-oil investment (ID 1.5 trillion), and goods and services (ID 0.9 trillion) needed to compensate the upwards revision of pensions (ID 0.9 trillion) and wages (ID 0.5 trillion) and the downward revision of non-oil revenue (ID 1.6 trillion) considering the outcome in 2016 (¶6) and the approval of a lower tax rate on wages and pensions (3.8 percent) in the 2017 budget adopted by Parliament than the one proposed by the government (4.8 percent). The guidelines for implementing the supplementary budget will include a list of all projects by ministry that will comprise the total for non-oil investment in 2017. In addition, the Ministry of Planning will be tasked with monthly monitoring of non-oil investment execution.

- Increase credits for the payment of arrears to ID 7.4 trillion, out of which ID 3.2 trillion will be for arrears to IOCs and other foreign suppliers, and ID 4.2 trillion for arrears on mostly non-oil investment and agricultural supply to domestic suppliers validated by the Board of Supreme Audit (¶15).

- Update the level of oil prices ($45.3 rather than $42.0 per barrel) and decrease the amount of indirect monetary financing of the budget by the Central Bank of Iraq from ID 5.5 trillion to ID 4.5 trillion.

- Increase the $500 million ceiling on state guarantees to $688 million, based on the existence of underlying projects in the electricity sector. In the meantime, commit to keep the value of guarantees contracted in 2017 below $500 million until Parliament approves a new ceiling in the supplementary budget. The government will also inform Parliament about the amount of service payment and debt guarantees contracted by the government (¶15).

Text Table 2. Iraq: Proposed List of Fiscal Policy Measures in 2017–18

	2017		2018	
	ID trillion	Percent of non-oil GDP	ID trillion	Percent of non-oil GDP
Revenue measures:	0.2	0.1	1.0	0.6
Raise indirect taxes on internet services (usage); five-months impact	0.2	0.1	0.5	0.3
Raise indirect taxes on few goods or services , e.g. telecom, hotel services, private vehicles, sugar-sweetened drinks, cigarettes and tobacco, alcoholic beverages, etc.			0.5	0.3
Expenditure measures (+ = saving):	1.5	1.1	2.1	1.4
Increase allocations for wages and salaries	-0.5	-0.4		
Increase allocations for pensions	-0.9	-0.7		
Reduce allocations for transfers	0.6	0.4		
Reduce allocations for goods and services	0.9	0.6		
Reduce allocations for non-oil investment	1.5	1.1		
Reduce budgetary transfers to the electricity sector (e.g. through improving tariff revenue collection, raising tariff rates, or other means)			1.0	0.7
Cap non-wage remuneration (allowances and supplements, etc.) at ID 350,000 a month for all civilian civil servants			0.5	0.4
Replace one in five retiring civil servants (natural attrition)			0.6	0.4
Net impact of proposed set of measures	1.7	1.2	3.1	2.1

Source: IMF Staff estimates.

22. Staff considers that the program's unchanged nominal non-oil primary balance anchor for the 2017 budget to be appropriate in striking the balance between consolidation needs and the recent decline in economic activity (Tables 3–5). The sharp contraction in non-oil GDP means that the program nominal anchor for 2017 would corresponds to a 2 percent of non-oil GDP relaxation in the deficit target, which is appropriate considering the weak economic activity and uncertainty surrounding the national accounts (non-oil GDP). Because of this change, the total fiscal adjustment under the program remains ambitious at the top tenth percentile, but less so than originally envisaged (based on earlier projections for non-oil GDP). The combination of lower oil windfall in 2016 and the higher non-oil primary deficits (in percent of non-oil GDP) result in public debt peaking slightly at 67 percent of GDP in 2016.

23. For 2018, the authorities should prepare measures to reduce the non-oil primary deficit on an accrual basis by ID 2.3 trillion and tilt the fiscal consolidation towards non-oil revenue and current expenditure. Mobilizing non-oil revenue and reining in current expenditure will create fiscal pace for growth-enhancing investment expenditure. The authorities should start preparing the following measures, for finalization during the third review, in time for inclusion in the 2018 budget:

- Levy low ad-valorem or specific taxes on a few additional products or services (proposed SB, MEFP, Table 2), as recommended by an FAD technical assistance mission in February 2017 (¶29), with a view to increasing indirect taxes by ID 1 trillion in 2018 (including the full year effect of measures to be taken in mid-2017).

- Reform the corporate income tax by eliminating some tax holidays and introducing a minimum tax on turnover.

- Decrease budgetary transfers to the electricity sector by ID 1 trillion in 2018; this could be achieved by taking specific measures to improve the collection rate or increasing tariffs.

- Cap non-wage remuneration (allowances, supplements, etc.) at ID 350,000 (about $300) a month for all civilian civil servants, which could yield savings of about ID 0.5 trillion, or about 3 percent of the civilian wage bill, and would be shouldered by about the best paid quarter of the civil servants.

- Replace only one in five retiring civil servants, which should yield savings of ID 0.6 trillion in 2018.

- Stop allocating non-contributory pensions, or finance them within the budget allocation for pensions paid by the budget in 2017.

Authorities' views

24. The authorities underscored their commitment to fiscal consolidation but acknowledged that implementation would be challenging considering the current security, political and social situation. The authorities agreed that the oil price outlook left no other choice but to contain spending to maintain fiscal and external sustainability. The adjustment process will need to be designed and implemented in a way that considers the spending pressures flowing from the war against ISIS, the internally displaced population, the vast investment needs of the country, and the parliamentary elections in 2018.

C. Monitoring Financial Risks to Preserve Financial Sector Stability

25. Iraq's banking sector is shallow, a drag on growth and in need of repair. State-owned banks, which dominate the banking sector, are capital deficient and weaknesses remain in their loan portfolio (¶11). Credit provision by private banks is low as making money out of the spread between the official and parallel exchange rates is much more profitable (¶16). Therefore, the banking sector is shallow. Per the FATF, the AML/CFT framework needs strengthening. The CBI has attempted to stimulate credit to the economy by providing lines of credit to state-owned and commercial banks for lending to small-and medium sized enterprises and agriculture and infrastructure projects, with state guarantee, but has allowed only minimal use of these facilities so far (ID 0.6 trillion out of 6 trillion ID, or 3 percent of GDP). The CBI plans to cap its disbursement at ID 1.3 trillion in 2017 and to assess the need for its continuation by year-end, considering the fiscal risks for the government.

26. Efforts to strengthen the CBI's legal framework in line with the 2016 safeguards assessment are underway. Amendments to the Law on the CBI to strengthen CBI governance are to be enacted soon, and the central bank is about to adopt a revised audit committee charter prohibiting CBI executive representation on the committee. Both recommendations are structural benchmarks (see MEFP, Table 2). In addition, the external auditors of the CBI continue to audit program monetary data at test dates. Progress on other recommendations has been slow, but staff will continue to monitor developments and follow up with the authorities.

Staff's advice

27. The authorities should prioritize the restructuring of the two largest state-owned banks, enhance their prudential and AML/CFT framework, and strengthen the governance of the CBI. The authorities should complete the audits of the latest financial statements of R&R per international standards and design and implement a strategy to restructure R&R, based on the results of those audits. To strengthen financial stability, they should compile financial stability indicators, in line with international standards, for which IMF Statistics Department (STA) has been providing technical assistance. They should continue to upgrade their prudential laws and regulations in line with international standards, for which the IMF Middle East Technical Assistance Center (METAC) and the World Bank have been providing technical assistance. They should tighten banking supervision. They should implement the IMF safeguards assessment's recommendations (¶26 and SBs, MEFP, Table 2). They should continue to enhance the AML/CFT regime, with technical assistance of the IMF Legal Department (LEG) and the World Bank. They should ensure that the CBI's direct credit lending facilities remain of manageable size and narrowly targeted to collateral backed housing loans.

Authorities' views

28. The authorities agreed with staff's advice. They announced that external audit of R&R would be completed by end-August and highlighted the commitments under the SBA to advance reforms in all these areas (MEFP; ¶¶40–45).

STRUCTURAL REFORMS FOR DIVERSIFIED AND INCLUSIVE GROWTH

Staff's advice

To promote growth, staff proposed the following strategy. First, maintain macroeconomic stability by implementing the macroeconomic policies under the SBA (¶¶17–18 and 20–22). Second, create additional fiscal space, which should be used to enhance the human capital and rebuild the physical capital of the country. Third, strengthen the business environment, which, together with the reduction of the role of the state in the economy connected with the fiscal consolidation under the SBA, should improve the incentives for private sector development, especially as reconstruction gets underway. Lastly, reform and restructure the financial sector (¶¶25) to enhance its ability to support the private sector over the medium term during reconstruction.

A. Create Fiscal Space for More Inclusive Growth

Increase non-oil revenue

29. Exploit the large room to increase non-oil tax revenue by broadening the tax base and modernizing tax and customs administration (Box 3). A recent technical assistance mission by the Fiscal Affairs Department (FAD) identified dependence on oil revenue, overreliance on direct taxes, widespread tax exemptions, complicated tax and customs codes, and sub-par administrative capacity as key factors behind weak tax collection. It also recommended priority measures that could be implemented immediately while the administrative capacity of the tax and customs administrations is strengthened.

Rein in expenditure

30. Seize the opportunity of the current crisis to reduce the size and improve the quality of public expenditure. This will require the implementation of the following measures:[13]

- *Identify and cancel payments to ghost workers and ghost pensioners*, considering the results of the audit of the Board of Supreme Audit (BSA) of the wage and pension recipients' payrolls (SB, MEFP, Table 2).
- *Implement a staff reduction plan through natural attrition and the elimination of vacated positions*. The government's newly introduced voluntary, paid administrative leave program is unlikely to permanently reduce the payroll. The program, at best, will achieve a temporary

[13] See also forthcoming Selected Issues Paper: Iraq—Reining in Current Expenditure to Create Fiscal Space for Inclusive Growth.

reduction in the wage bill and could even increase the payroll if the positions temporarily vacated are filled.

- *Design a robust merit-based and needs assessment-based centralized human resource management system.*

- *Ensure the financial sustainability of the contributory and non-contributory pension systems, and unify them with the more prudent private sector pension system*, as recommended by the World Bank

- *Improve the targeting of social transfers.* The main shortcoming of the Public Food Distribution System, which covers the entire population and cost 1.8 percent of GDP in 2016, is its lack of targeting, which leads to unnecessary high outlays.

- *Eliminate gradually fuel subsidies by increasing prices above cost and implementing a formula smoothing the evolution of retail oil prices to international prices, while implementing compensation measures to protect low-income households*. Per staff estimates, the explicit (on budget) and implicit (opportunity) costs of low energy prices amounted to 1.7 percent of GDP in 2016.

- *Eliminate gradually electricity subsidies by increasing collection and reducing cost and implementing a formula smoothing the evolution of prices to cost recovery levels.* The deficit of the electricity sector, with all inputs valued at market price, is projected to reach 5.2 percent of GDP in 2017. Tariff collection will cover only about 11 percent of the cost. Substituting imported gas and fuel by captured gas associated with oil production offers the potential to substantially decrease the production cost for power generation.

- *Continue to contain domestically financed non-oil investment expenditure at much lower levels than in the past, until a proper public investment management framework is in place* by 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 2013–14, greater selectivity of projects may be beneficial because the quality of such spending is weak owing to severe deficiencies in public financial management, per the last World Bank Expenditure Review,[14] which will take time to fix.

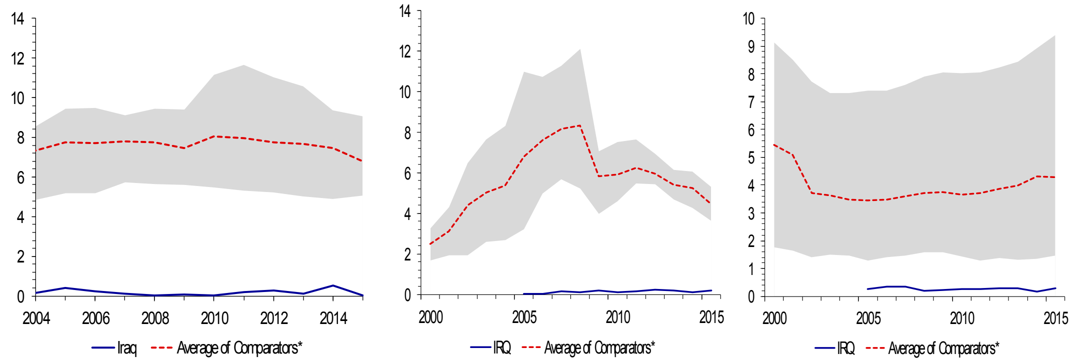
[14] World Bank Group, Republic of Iraq: Public Expenditure Review, Toward More Efficient Spending for Better Service Delivery, 2014.

Box 3. Priority Measures to Increase Non-Oil Tax Revenue

Non-oil tax revenue in Iraq is very low. With a tax revenue-to-GDP ratio of 1.0 percent in 2015, revenue mobilization in the Republic of Iraq is lagging far behind both the regional average (11 percent) and a group of comparator economies (16 percent).[1]

Sales Tax **Personal Income Tax** **Corporate Income Tax**

(Percent of GDP)



Priority measures to increase non-oil tax revenue:

- *Levy low ad-valorem or specific taxes on a few products or services relatively easy to tax* such as telecom and hotel services, private vehicles, sugar-sweetened drinks, cigarettes and other tobacco products, and alcoholic beverages, and enshrine these taxes in a new excise tax law (SB; MEFP, Table 2) rather than ad-hoc measures in annual budget laws.
- *Reduce the number of tariffs in the Customs Code* from currently more than 10 (ranging from 0 to 80 percent) to a maximum of 3 positive rates not exceeding 30 percent (SB, MEFP, Table 2).
- *Discontinue the provision of corporate income tax (CIT) holidays.*
- *Consider the application of a minimum tax of 1 to 2 percent on the turnover of corporations*, creditable against the CIT.
- *Subject retirement income to personal income tax.*
- *Limit the power of ministers to change customs tariffs or provide exemptions* through decrees or other forms of orders.
- *Implement a Large Tax Payers Office*, for large taxpayers (including "high wealth individuals") that will administer all national-level domestic taxes.
- *Revamp (or implement new) IT systems* to support revenue operations.

Source: Republic of Iraq: Tax and Customs Policy and Administration—Reform Priorities, Selected Issues Paper (forthcoming).

[1] Kazakhstan, Malaysia, Peru, and Vietnam, selected based on population and size of the economy (real and nominal).

Strengthen public financial management

31. Continue to improve public expenditure control, cash and public investment management. The fiscal pressures have amplified underlying weaknesses in the public finance management system in Iraq a lack of effective commitment controls, which led to the accumulation of large arrears (¶15), and weaknesses in cash management. Priority measures to improve public financial management are**:**

- *Undertake regular inventories of arrears* and pay them after validation by the BSA, in line with the government's financing capacity.
- *Design and implement an expenditure commitment control system* for budget execution to prevent the accumulation of new arears, in line with IMF technical assistance recommendations (prior action and SBs, MEFP, Table 2).[15]
- *Take steps to move to a Treasury Single Account and improve cash management*.
- *Design and implement an Integrated Financial Management Information System* (IFMIS) with the assistance of the World Bank.
- *Implement Public Investment Management reform* with the assistance of the World Bank to improve the quality of future investment.

B. Strengthen the Business Environment

32. Improving security and political stability, reforming the electricity and banking sectors, and addressing corruption is crucial (Figure 3). Restoring control over the territories liberated from ISIS should improve security. As recommended by the World Bank in its draft country strategy for 2018–23, design and implementation of gradual fiscal decentralization, while beefing up public financial management at the decentralized level should strengthen political stability. The electricity sector should be reformed to make it financially self-sustainable (¶30). The reform of R&R (¶27) should be used to increase the role of the private sector in the economy. Finally, implementation of strong legislation to fight against corruption, including an amended law establishing the Integrity Commission (SB, MEFP, Table 2), is needed to address the high level of perceived corruption.

Authorities' views

33. While agreeing with staff's advice, the authorities underscored the implementation difficulties considering the current fragility of the country. They emphasized the need to proceed in a gradual but sustained manner, highlighting the challenge of reducing the size of the public-sector payroll because of lack of alternatives to public sector employment for the young and fast growing population.

[15] Racheeda Boukezia, Jacques Charaoui, Csaba Feher, Janis Platais, and Mike Williams; Republic of Iraq—Strengthening Commitment Controls and Cash Management; IMF FAD Technical Assistance Report; April 2017

PROGRAM MODALITIES AND RISKS

34. **The program is fully financed through the next twelve months, but there is a financing gap of $7.1 billion in late 2018 and 2019.** The authorities have contacted one donor to fill the 2018–19 financing gap, for which there is good prospect (¶12).

35. **To strengthen performance under the program, the authorities have committed to three prior actions and several additional structural benchmarks, and are requesting modifications to some of the program's modalities** (MEFP, Table 2 and ¶46). The prior actions for the completion of the second review are the approval by Parliament of a supplementary 2017 budget in line with ¶¶29-34 of the MEFP, the update of the Financial and Accounting Manual to require all spending units to report expenditure commitments, and the approval by the Council of Ministers of procedures for approval of state guarantees as described in ¶38 of the MEFP. The authorities propose six additional SBs in areas that are essential for the success of the program, i.e., arrears' monitoring, non-oil tax revenue mobilization, current expenditure control, and monetary and debt reporting. Considering the difficulty to reduce obligations due for more than three months to IOCs to zero because of the minimum size of oil shipments, it is proposed to raise the ceiling on such obligations to $500 million, starting in September 2017(¶15). Considering the uncertainty about whether these obligations constitute arrears (¶15), it is also proposed to make this ceiling an IT rather than a PC[16] Considering the revised macroeconomic framework, the authorities support staff's proposal for a revision of all ITs at end-September 2017 and the PCs at end-December 2017 and to set PCs and ITs in 2018. Since their implementation requires more time than anticipated, the authorities request the postponement of two SBs for the second review (amendments to the law establishing the Integrity Commission, report on expenditure commitments) to, respectively, the third and fourth reviews (¶14) and one SB (audit of the pensioner payroll) from the third to the fourth review.

36. **The risks remain very high**. Setbacks in security or post-ISIS sectarian tensions could weaken growth, public finances and the balance of payments. A decline in oil revenue or a shortfall in projected financing would widen the financing gap in 2018–19. If additional donor financing does not materialize and projections for oil prices remain at their current levels or decline, the program framework may need to be fundamentally reconsidered. Implementation and data reporting risks also remain high. Moreover, the absence of a full-time Finance Minister since September 2016 hinders the authorities' ability to implement the program. On the other hand, higher oil prices would improve the macroeconomic outlook (¶14 and Text Table 1). The program mitigates the risks related to the authorities' commitment and capacity by proposing prior actions in the areas of fiscal policy and public financial management (¶31). The risks on implementation and data reporting will

[16] As discussed above (¶15), considering this uncertainty, as well as uncertainty regarding the residency of the counterparts, staff does not propose to conduct a financing assurances review under the Fund's LIA policy. Nevertheless, the authorities collaborate with the IOCs to ensure prompt contractual payments. The staff and the authorities will review the nature of their obligations to the IOCs for the purpose of program monitoring and agree on strengthened reporting modalities by the time of the third review (MEFP, ¶46).

continue to be mitigated by technical assistance and the use of data audited by external auditors to assess PCs on gross international reserves, net domestic assets and public debt (SBs, MEFP, Table 2).

37. Iraq's capacity to repay the Fund should remain adequate. The total outstanding Fund credit would peak at 14 percent of gross official reserves, 9 percent of exports of goods and services, and 7 percent of external public debt (Table 10).

STAFF APPRAISAL

38. The program should help growth to return in 2018 and gradually increase but risks are very high. This year, economic activity is expected to remain muted owing to Iraq's implementation of the OPEC+ agreement to reduce oil production and a modest recovery in the non-oil sector. Medium-term growth prospects are positive, with moderate increase in oil production and the rebound in non-oil growth supported by the expected improvement in security and implementation of structural reforms. The moderate increase in oil revenue and the ongoing ambitious but necessary fiscal adjustment should suffice to restore fiscal and external balance by 2021. Risks remain very high, however, arising primarily from oil price volatility, unstable security, political tensions, and feeble administrative capacity.

39. The policies put in place by the Iraqi authorities to deal with the severe shocks—ISIS attacks and the plunge in oil prices—are appropriate. In the fiscal area, the authorities are addressing the precipitous fall in revenues with fiscal adjustment, mostly through inefficient capital expenditure retrenchment while protecting social spending, supported by bilateral and multilateral financing to more gradual adjustment than would otherwise be inevitable. In the external area, the authorities are appropriately maintaining the peg to the U.S. dollar, which provides a key anchor to the economy.

40. Performance under the SBA has been frail but understandings on sufficient corrective actions, including three prior actions, have been reached to keep the program on track. Further fiscal consolidation was achieved in 2016, but at a slower pace than programmed because of weak control of investment expenditure and spending pressure stemming from the military campaign against ISIS and humanitarian assistance to IDPs, causing the related PCs at end-December to be missed. Based on information available, they are likely to miss the PC on arrears to IOCs at end-June 2017. They also missed the continuous PC on new external arrears, which they have since paid. Therefore, they request a waiver of nonobservance for the missed PC at end-June 2017 and the continuous PC. The authorities also request waivers of applicability for four end-June 2017 PCs since information to assess them is not yet available. Parliamentary approval of a supplementary budget in 2017, Council of Ministers' adoption of procedures for approval of state guarantees, and Ministry of Finance's update of the Financial and Accounting Manual to require all spending units to report expenditure commitments are prior actions. As staff is satisfied that adequate corrective measures and additional commitments are in place to indicate that the program will be successfully implemented, and based upon the authorities' representation that the data to assess four end-June PCs is not available and as there is no clear evidence that they will not be met, staff supports these requests. Moreover, staff propose changes to the level of the PCs on the gross international reserves of the CBI, the net domestic assets of the CBI, the non-oil primary balance, and the gross public debt at end-December 2017 to take account of the revised macroeconomic framework.

41. A supplementary budget in 2017 and further fiscal consolidation measures in the 2018 budget are needed to keep the program on track. Considering the tax cut introduced by Parliament in the 2017 budget and spending slippages in 2016, the supplementary budget needs to cut total spending by 2 percent and reshuffle the composition of spending to fully account for their spending commitments on wages and pensions. The supplementary budget also needs to increase the allocation for the payment of arrears accumulated in previous years and for debt guarantees for investment projects in the electricity sector. Finally, the supplementary budget needs to inform Parliament about the large amount of state guarantees issued by the government over the past two years for service payments to independent power producers in the electricity sector. The 2018 budget will need to include measures to increase non-oil tax revenue and reduce the wage bill and the transfers to the electricity sector to create fiscal space for growth-enhancing investment expenditure.

42. Indirect central bank financing is unavoidable at this juncture given the limited access to capital markets. While this form of budget financing is not ideal, the large financing needs make it necessary given the lack of alternative financing and the difficulty to implement an even larger fiscal adjustment.

43. The budget-sharing agreement between the federal government and the KRG should be implemented. Agreeing on modalities to implement the agreement would put both the federal government and the KRG in a better position to address the ISIS attacks and the oil-price shock.

44. 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 per international standards should be expedited and followed by the design and implementation of plans to restructure these banks.

45. Steps to strengthen the legal framework of the CBI, remove one remaining exchange restriction and implement AML/CFT measures need to be accelerated. Iraq currently maintains one exchange restriction and one multiple currency practice (see Informational Annex) for which staff is not recommending approval. Removal of these, and implementation of AML/CFT measures, will help to improve the integration of the domestic financial system into the global economy.

46. Fiscal space needs to be found to enhance the human capital and rebuild the physical capital of the country. The very low level of non-oil tax revenue and very high level of public consumption constitute a substantial reservoir of fiscal space that needs to be tapped. This fiscal space then needs to be used to finance much needed high-quality expenditure on human and physical capital.

47. **Electricity, state-owned enterprise and anti-corruption reforms should be stepped up to improve the business environment.** Bringing tariff collection above cost recovery levels is indispensable to create the conditions for a thriving electricity sector. Amending the law establishing the Integrity Commission to strengthen its independence is overdue.

48. **Staff recommends completion of the second review under the SBA and modification of the PCs.** Staff believes that the performance under the SBA and the policies laid out in the MEFP are adequate to deal with the urgent balance of payments and budget needs triggered by the conflict with ISIS and the collapse of oil prices, and to maintain debt sustainability.

49. **The next Article IV consultation with Iraq is expected to take place within 24 months, in accordance with Decision No. 14747-(10/96), as amended, on consultation cycles.**

Table 1. Iraq: Selected Economic and Financial Indicators, 2013–22

(Quota: SDR 1,663.8 million)
(Population: 37.5 million; 2016 est.)
(Poverty rate: 23 percent, 2014)
(Main export: Crude oil)

	2013	2014	2015	2016		2017		2018		2019		2020		2021		2022
				Prog. 1/	Est.	Prog. 1/	Rev. Prog.	Proj. 1/	Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj.
Economic growth and prices																
Real GDP (percentage change)	7.6	0.7	4.8	10.2	11.0	1.1	-0.4	0.7	2.9	1.1	1.7	1.4	2.0	1.5	2.1	2.1
Non-oil real GDP (percentage change)	12.4	-3.9	-9.6	-5.0	-8.1	3.0	1.5	2.0	2.0	3.0	3.0	3.9	3.9	4.0	4.0	4.1
GDP deflator (percentage change)	0.0	-0.7	-26.9	-11.5	-12.9	9.7	12.9	6.4	2.3	4.7	2.9	5.4	3.8	5.0	4.4	4.7
GDP per capita (US$)	7,021	6,517	4,869	4,818	4,533	5,200	4,958	5,434	5,091	5,608	5,194	5,843	5,362	6,073	5,569	5,806
GDP (in ID trillion)	273.6	273.6	209.7	205.1	202.7	227.4	227.7	243.8	239.9	258.0	251.0	275.8	265.8	294.0	283.1	302.8
Non-oil GDP (in ID trillion)	148.0	149.5	139.8	139.0	134.1	149.3	141.8	158.8	150.8	170.6	162.0	184.9	175.5	200.6	190.3	206.6
GDP (in US$ billion)	234.6	234.7	179.8	173.8	171.7	192.4	192.7	206.2	202.9	218.3	212.3	233.3	224.8	248.7	239.5	256.2
Oil production (mbpd)	3.0	3.1	3.7	4.5	4.6	4.5	4.6	4.5	4.7	4.5	4.8	4.5	4.8	4.5	4.9	4.9
Oil exports (mbpd)	2.4	2.6	3.4	3.8	3.8	3.8	3.8	3.8	3.9	3.8	3.9	3.8	4.0	3.8	4.0	4.1
Iraq oil export prices (US$ pb) 2/	102.9	96.5	45.9	35.5	35.6	42.0	45.3	45.7	45.4	47.0	44.9	48.8	45.2	50.2	45.9	47.1
Consumer price inflation (percentage change; end of period)	3.1	1.6	2.3	2.0	-1.0	2.0	2.0	2.0	2.0	2.0	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	0.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
(In percent of GDP)																
National Accounts																
Gross domestic investment	26.9	25.7	24.4	17.4	20.6	20.2	19.1	18.7	18.8	18.2	18.3	17.4	17.9	17.1	17.9	17.8
Of which: public	17.4	18.0	15.1	8.1	11.4	11.2	10.5	9.9	10.1	9.2	9.5	8.4	8.9	8.0	8.8	8.6
Gross domestic consumption	69.5	69.9	81.6	89.3	87.8	86.6	87.0	85.0	85.4	84.5	85.6	84.0	84.6	83.7	83.6	82.4
Of which: public	21.0	18.3	22.3	25.7	22.9	23.5	23.7	21.7	22.2	20.3	21.1	18.8	19.7	17.5	18.3	16.9
Gross national savings	28.1	28.3	18.0	10.6	11.9	13.4	12.8	12.5	12.1	15.3	14.2	15.5	14.7	15.9	15.8	17.2
Of which: public	11.6	13.0	3.0	-0.1	-2.3	4.4	6.0	4.5	5.9	7.7	8.5	8.4	8.7	9.1	9.7	10.9
Saving - Investment balance	1.1	2.6	-6.5	-6.8	-8.7	-6.8	-6.4	-6.2	-6.7	-2.9	-4.1	-1.9	-3.2	-1.2	-2.1	-0.6
(In percent of GDP, unless otherwise indicated)																
Public Finance																
Government revenue and grants	42.2	38.2	30.3	32.2	27.4	34.8	36.0	35.1	36.5	34.3	35.6	33.5	34.6	32.5	33.8	33.1
Government oil revenue	38.6	36.0	27.5	28.3	23.2	30.1	31.8	30.6	31.7	29.7	30.6	28.9	29.4	27.9	28.3	27.5
Government non-oil revenue	3.5	2.1	2.8	3.9	4.1	4.6	3.9	4.5	4.6	4.6	4.8	4.6	5.0	4.6	5.2	5.5
Expenditure, *of which:*	48.0	43.5	42.6	40.4	41.5	41.8	41.0	40.4	41.2	36.0	37.3	33.4	35.0	31.4	33.1	31.1
Current expenditure	30.6	25.5	27.5	32.3	30.1	30.6	30.5	30.6	31.1	26.8	27.8	25.0	26.1	23.4	24.3	22.6
Capital expenditure	17.4	18.0	15.1	8.1	11.4	11.2	10.5	9.9	10.1	9.2	9.5	8.4	8.9	8.0	8.8	8.6
Overall fiscal balance (including grants)	-5.8	-5.4	-12.3	-8.2	-14.1	-7.0	-5.0	-5.3	-4.7	-1.7	-1.6	0.1	-0.5	1.1	0.7	2.0
Non-oil primary fiscal balance, accrual basis (percent of non-oil GDP)	-67.6	-56.1	-45.1	-43.1	-44.6	-45.4	-47.8	-41.2	-43.4	-37.6	-39.6	-33.6	-35.4	-30.4	-32.0	-28.9
Adjusted Non-oil primary fiscal balance, accrual basis (excl. KRG, percent of non-oil GDP) 3/	-56.8	-54.4	-43.3	-37.4	-44.6	-38.2	-39.9	-34.4	-36.1	-31.2	-32.9	-27.8	-29.4	-25.0	-26.4	-23.6
Adjusted non-oil primary expenditure (excl. KRG, percent of non-oil GDP) 4/	63.4	58.3	47.5	42.8	50.7	44.8	45.8	40.9	42.8	37.7	39.8	34.1	36.4	31.4	33.5	30.9
Adjusted non-oil primary expenditure (excl. KRG, annual real growth, percent) 4/	0.2	-9.2	-24.9	-12.2	2.0	10.2	-6.4	-4.7	-2.5	-3.0	-2.2	-3.6	-2.9	-2.2	-2.0	-1.8
Memorandum items:																
Total government debt (in percent of GDP) 5/	31.2	32.0	55.1	61.3	66.9	61.9	63.8	63.1	65.3	61.3	64.2	57.3	61.4	52.6	57.3	51.9
Total government debt (in US$ billion) 5/	73.1	75.2	98.0	106.6	114.6	119.1	122.9	130.1	132.4	133.9	136.2	133.7	138.0	130.9	137.1	132.9
External government debt (in percent of GDP)	25.3	24.8	36.8	37.8	39.3	38.2	38.1	40.3	40.7	38.7	40.2	34.7	36.7	30.7	32.6	27.7
External government debt (in US$ billion)	59.3	58.1	66.1	65.7	67.5	73.5	73.4	83.2	82.6	84.5	85.3	80.9	82.5	76.4	78.1	71.0
(In percent, unless otherwise indicated)																
Monetary indicators																
Growth in reserve money	12.6	-9.6	-12.6	2.2	7.1	-0.2	2.1	7.2	3.5	6.8	4.9	5.5	5.6	5.5	5.6	5.8
Growth in broad money	15.9	3.6	-9.0	5.1	7.2	4.9	4.9	7.2	4.9	7.5	4.9	6.3	6.3	8.2	7.0	8.2
Policy interest rate (end of period)	6.0	6.0	6.0	...	4.0	...	...	...	...	...	...	...	...	...	...	...
(In percent of GDP, unless otherwise indicated)																
External sector																
Current account	1.1	2.6	-6.5	-6.8	-8.7	-6.8	-6.4	-6.2	-6.7	-2.9	-4.1	-1.9	-3.2	-1.2	-2.1	-0.6
Trade balance	9.9	10.9	-0.1	-0.8	-1.8	-0.4	0.7	1.8	1.8	2.4	1.7	3.0	2.1	3.2	2.6	3.3
Exports of goods	38.3	39.6	31.4	28.3	29.1	30.1	32.4	30.5	32.0	29.7	30.7	28.9	29.6	28.0	28.5	27.8
Imports of goods	-28.4	-28.7	-31.5	-29.0	-30.9	-30.5	-31.7	-28.8	-30.2	-27.3	-29.0	-25.9	-27.4	-24.8	-26.0	-24.5
Overall external balance	-1.3	-10.0	-7.1	-3.5	-3.6	-2.3	-0.9	-3.3	-2.7	-0.3	-1.1	-0.1	-0.6	0.9	0.2	0.8
Gross reserves (in US$ billion) 6/	77.8	66.7	53.7	43.0	45.2	38.5	41.4	38.1	40.8	37.3	39.7	35.5	37.1	35.9	36.0	36.5
In months of imports of goods and services	10.8	10.9	9.2	6.7	6.7	5.9	6.2	5.8	6.0	5.6	5.9	5.2	5.4	5.2	5.2	5.3
Exchange rate (dinar per US$; period average)	1,166	1,166	1,167	...	1,180	...	...	...	...	...	...	...	...	...	...	...
Real effective exchange rate (percent change, end of period) 7/	6.6	4.7	6.8	...	5.9	...	...	...	...	...	...	...	...	...	...	...
Financing gap (US$ billion) 8/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.5	5.0	0.6	2.1	0.0	0.0	0.0	0.0	0.0

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

1/ IMF Country Report No. 16/379. Iraq: Staff Report for the First Review of the Three-Year Stand-By Arrangement.

2/ Negative price differential of about $6 per barrel compared to the average petroleum spot price (average of Bent, West Texas and Dubai oil prices) in 2016-22.

3/ Adjusted to exclude (i) full year estimates of federal government transfers to the Kurdistan Regional Government, and (ii) non oil tax revenues from the KRG to the federal government. In 2014 and 2015, actual transfers were made for only 2 and 5 months, respectively.

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

5/ Includes arrears. The debt stock includes legacy arrears to non-Paris Club creditors on which the authorities have requested (but not yet obtained) Paris-Club comparable relief. Implementing comparable terms will substantially reduce debt (e.g. by 17 percent of GDP in 2017).

6/ See Table 8, footnote 3, for coverage.

7/ Positive means appreciation.

8/ Only unidentified financing.

Table 2. Iraq: National Accounts, 2013–22
(In percent)

	2013	2014	2015	2016		2017		2018		2019		2020		2021		2022
				Prog. 1/	Est.	Prog. 1/	Rev. Prog.	Proj. 1/	Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj.
	GDP share	Annual growth rates, constant prices														
Agriculture, Hunting, Forestry, and Fishing	4.3	-2.0	-49.3	-20.5	59.6	0.0	0.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Mining. crude oil and Quarrying	49.7	6.3	17.1	20.4	24.4	0.0	-1.4	0.0	3.4	0.0	1.0	0.0	1.0	0.0	1.0	1.0
Crude Oil	49.4	5.4	18.4	20.4	24.6	0.0	-1.5	0.0	3.4	0.0	1.0	0.0	1.0	0.0	1.0	1.0
Other mining	0.3	-34.6	0.7	-15.0	-54.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Manufacturing	1.5	-22.2	-25.7	-10.0	5.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Electricity and Water	1.1	11.8	1.8	0.0	-2.2	2.5	2.5	3.0	3.0	4.0	4.0	5.0	5.0	5.0	5.0	5.0
Construction	8.7	-4.6	-34.4	-25.0	-40.3	6.0	6.0	6.0	6.0	6.0	6.0	7.0	7.0	7.0	7.0	7.0
Transport, Storage and Communications	7.2	6.1	6.5	1.0	-28.3	4.0	4.0	3.0	4.0	4.0	4.5	5.0	5.0	5.0	5.0	5.0
Wholesale and Retail Trade, Restaurants and Hotels	8.5	-0.5	0.3	-3.0	0.0	0.5	0.5	0.5	-1.0	4.0	4.8	5.0	5.5	5.0	5.5	5.5
Finance, Insurance, Real Estate and Business Services	7.2	-8.4	0.3	2.6	1.6	5.5	5.4	5.0	5.9	5.4	6.4	7.2	7.3	7.2	7.3	7.3
Finance and Insurance Services	1.7	-41.2	-30.5	-25.0	1.8	0.0	0.0	5.0	5.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Real Estate	5.5	1.9	5.9	6.0	1.6	6.0	6.0	5.0	6.0	5.0	6.0	7.0	7.0	7.0	7.0	7.0
Community, Social and Personal Services	12.2	-8.5	1.4	0.0	-5.4	2.48	-2.40	-2.0	-2.4	-2.0	-4.4	-2.0	-3.6	-2.0	-3.6	-4.0
Producers of Government Services	9.9	-11.0	1.1	1.1	-4.0	3.00	-3.00	-2.0	-2.5	-2.0	-5.0	-2.0	-4.0	-2.0	-4.0	-4.5
Personal services	2.3	2.6	2.6	-5.0	-10.8	0.00	0.00	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Gross Domestic Product at constant Factor cost	100.0	0.7	4.8	10.2	11.0	1.1	-0.4	0.7	2.9	1.1	1.7	1.4	2.0	1.5	2.1	2.1
Gross Domestic Product	100.0	0.7	4.8	10.2	11.0	1.1	-0.4	0.7	2.9	1.1	1.7	1.4	2.0	1.5	2.1	2.1
Oil GDP	49.4	5.4	18.4	20.4	24.6	0.0	-1.5	0.0	3.4	0.0	1.0	0.0	1.0	0.0	1.0	1.0
Non oil GDP	50.6	-3.9	-9.6	-5.0	-8.1	3.0	1.5	2.0	2.0	3.0	3.0	3.9	3.9	4.0	4.0	4.1
Memorandum:																
Gross Domestic Product (In ID Trillion)	273.6	273.6	209.7	205.1	202.7	227.4	227.7	243.8	239.9	258.0	251.0	275.8	265.8	294.0	283.1	302.8
Oil GDP	125.6	124.12	69.9	66.1	68.6	78.1	85.9	84.9	89.0	87.4	89.0	90.9	90.3	93.4	92.8	96.1
Non oil GDP	148.0	149.48	139.8	139.0	134.1	149.3	141.8	158.8	150.8	170.6	162.0	184.9	175.5	200.6	190.3	206.6

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

1/ IMF Country Report No. 16/379. Iraq: Staff Report for the First Review of the Three-Year Stand-By Arrangement.

Table 3. Iraq: Central Government Fiscal Accounts, 2013–22
(In trillions of ID; unless otherwise indicated)

	2013	2014	2015	2016		2017		2018		2019		2020		2021		2022
				Prog. 1/	Est.	Prog. 1/	Rev. Prog.	Proj. 1/	Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj.
Revenues and grants	115.4	104.4	63.5	66.0	55.5	79.1	82.0	85.6	87.5	88.5	89.5	92.4	91.9	95.6	95.6	100.3
Revenues	115.4	104.4	63.5	66.0	55.5	79.0	81.9	85.6	87.5	88.5	89.5	92.4	91.9	95.6	95.6	100.3
Oil	105.7	98.5	57.7	58.0	47.2	68.6	72.9	74.5	76.5	76.7	77.4	79.7	78.5	81.9	80.7	83.2
Crude oil export revenues	104.1	97.1	57.2	57.6	46.6	68.0	71.8	73.9	75.4	76.0	76.3	79.0	77.4	81.2	79.6	82.5
o/w KRG	11.6	2.5	3.1	7.8	0.0	10.2	10.1	10.6	10.1	10.9	10.0	11.3	10.1	11.6	10.3	10.8
net of KRG	92.5	94.5	54.1	49.7	46.6	57.8	61.7	63.2	65.2	65.1	66.2	67.7	67.3	69.7	69.3	71.7
Transfers from oil-related public enterprises	1.6	1.4	0.5	0.5	0.4	0.6	0.6	0.7	0.6	0.7	0.6	0.7	0.6	0.7	0.6	0.7
Tax on oil company profits					0.3		0.5		0.5		0.5		0.5		0.5	0.5
Non-oil	9.7	5.9	5.8	8.0	8.3	10.5	8.9	11.1	11.0	11.8	12.1	12.7	13.3	13.7	14.8	16.5
Tax revenues	2.9	2.5	1.4	4.7	5.2	6.9	6.5	7.2	8.3	7.5	9.0	7.9	9.9	8.3	10.9	12.0
Direct taxes	1.3	0.7	1.1	3.4	3.9	4.5	4.6	4.5	4.7	4.5	5.0	4.6	5.3	4.6	5.6	6.1
Indirect taxes	1.6	1.8	0.4	1.3	1.3	2.4	1.9	2.7	3.6	3.0	4.0	3.3	4.6	3.7	5.2	6.0
o/w KRG			0.0	0.5	0.0	0.8	0.7	0.8	0.9	0.8	1.0	0.9	1.1	0.9	1.2	1.3
net of KRG			1.4	4.2	5.2	6.2	5.8	6.4	7.4	6.7	8.0	7.0	8.8	7.4	9.7	10.7
Non-tax revenues	6.8	3.3	4.4	3.3	3.0	3.5	2.4	3.9	2.7	4.3	3.0	4.8	3.5	5.4	3.9	4.5
Grants	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	131.2	119.0	89.3	82.8	84.1	95.0	93.4	98.6	98.8	92.9	93.5	92.2	93.1	92.3	93.7	94.3
o/w KRG			2.5	8.5	0.0	11.6	12.0	11.6	11.9	11.6	11.7	11.6	11.6	11.6	11.9	12.2
net of KRG			86.7	74.3	84.1	83.4	81.4	87.0	86.9	81.3	81.8	80.5	81.5	80.7	81.7	82.1
Current expenditures	83.7	69.9	57.6	66.2	61.1	69.6	69.5	74.6	74.5	69.2	69.8	69.0	69.4	68.8	68.7	68.3
Salary and pension	41.1	40.3	42.2	46.4	41.6	46.1	47.6	45.4	46.4	44.8	45.8	44.2	45.1	43.6	44.5	43.9
Salary	32.5	31.8	33.1	36.1	32.3	35.8	36.3	35.1	35.1	34.5	34.5	33.9	33.9	33.3	33.2	32.6
Salary (Defense/Interior)	8.1	14.2	14.4	15.9	15.2	16.4	17.1	16.2	16.6	15.9	16.3	15.6	16.0	15.3	15.7	15.4
Salary (others)	24.5	17.6	18.7	20.2	17.2	19.3	19.2	19.0	18.6	18.7	18.2	18.3	17.9	18.0	17.6	17.3
o/w KRG			2.0	4.5	0.0	3.8	3.8	3.7	3.7	3.7	3.6	3.6	3.5	3.5	3.5	3.4
net of KRG			31.1	31.6	32.3	32.0	32.5	31.4	31.5	30.9	30.9	30.3	30.3	29.7	29.8	29.2
Pension	8.6	8.4	9.0	10.3	9.3	10.3	11.3	10.3	11.3	10.3	11.3	10.3	11.3	10.3	11.3	11.3
o/w KRG			0.4	1.1	0.0	2.2	1.6	2.2	1.6	2.2	1.6	2.2	1.6	2.2	1.6	1.6
net of KRG			8.6	9.2	9.3	8.1	9.6	8.1	9.6	8.1	9.6	8.1	9.6	8.1	9.6	9.6
Goods and services	16.3	9.7	4.7	6.3	4.8	7.3	6.4	7.5	6.7	7.6	7.3	7.8	7.3	7.9	7.2	7.3
o/w KRG			0.0	0.4	0.0	0.8	0.9	0.8	1.0	0.8	1.0	0.8	1.0	0.8	1.0	1.1
net of KRG			4.7	5.8	4.8	6.6	5.5	6.7	5.8	6.8	6.2	7.0	6.3	7.1	6.2	6.3
Transfers	20.0	14.3	9.5	11.2	13.2	13.3	12.8	13.3	13.3	13.3	13.7	13.3	13.7	13.3	13.7	13.7
o/w KRG			0.0	0.6	0.0	0.8	1.7	0.8	1.7	0.8	1.7	0.8	1.7	0.8	1.7	1.7
net of KRG			9.4	10.6	13.2	12.5	11.1	12.5	11.6	12.5	11.9	12.5	11.9	12.5	11.9	11.9
Social safety net (including PDS)	7.6	7.6	4.5	6.3	6.1	6.8	6.3	6.8	6.8	6.8	7.2	6.8	7.2	6.8	7.2	7.2
o/w KRG			0.0	0.4	0.0	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
net of KRG			4.4	5.9	6.1	6.2	5.8	6.2	6.2	6.2	6.6	6.2	6.6	6.2	6.6	6.6
Transfers to SOEs 2/	1.9	1.5	2.4	2.2	2.7	1.9	2.2	1.9	2.2	1.9	2.2	1.9	2.2	1.9	2.2	2.2
o/w KRG			0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
net of KRG			2.4	2.1	2.7	1.8	2.1	1.8	2.1	1.8	2.1	1.8	2.1	1.8	2.1	2.1
Other transfers	10.5	5.2	2.6	2.7	4.4	4.7	4.3	4.7	4.3	4.7	4.3	4.7	4.3	4.7	4.3	4.3
o/w KRG			0.0	0.1	0.0	0.2	1.0	0.2	1.0	0.2	1.0	0.2	1.0	0.2	1.0	1.0
net of KRG			2.6	2.6	4.4	4.5	3.3	4.5	3.3	4.5	3.3	4.5	3.3	4.5	3.3	3.3
Interest payments	1.0	0.7	1.3	2.3	1.4	2.9	2.8	2.9	2.7	3.4	3.1	3.7	3.3	4.0	3.3	3.4
War reparations 3/	5.2	4.9	0.0	0.0	0.0	0.0	0.0	5.4	5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment expenditures	47.6	49.2	31.6	16.6	23.1	25.4	23.9	24.0	24.3	23.8	23.7	23.2	23.8	23.5	25.0	26.0
Non-oil investment expenditures	32.3	25.4	12.6	4.0	8.4	11.7	10.2	10.3	10.1	10.1	9.4	9.5	9.3	9.8	10.4	11.3
o/w KRG			0.0	1.7	0.0	4.0	4.0	4.1	4.0	4.1	3.7	4.2	3.6	4.2	4.0	4.4
net of KRG			12.5	2.3	8.4	7.7	6.2	6.2	6.2	5.9	5.7	5.3	5.7	5.5	6.3	6.9
Financed by project loans	0.0	0.0	0.3	2.4	2.3	4.3	4.5	2.8	4.8	2.5	2.7	1.3	1.2	1.1	1.1	1.0
Other	32.3	25.4	12.3	1.6	6.0	7.4	5.7	7.5	5.3	7.6	6.8	8.2	8.1	8.6	9.3	10.3
o/w KRG						4.0	4.0		4.0		3.7		3.6		4.0	4.4
net of KRG						3.4	1.7		1.4		3.1		4.5		5.3	5.9
Oil investment expenditures	15.3	23.8	19.1	12.6	14.7	13.7	13.7	13.7	14.2	13.7	14.3	13.7	14.5	13.7	14.6	14.7
IOCs				11.5	11.2	11.6	11.6	11.6	12.0	11.6	12.1	11.6	12.2	11.6	12.4	12.5
Fiscal balance	-15.8	-14.6	-25.8	-16.7	-28.6	-15.9	-11.4	-13.0	-11.3	-4.5	-4.1	0.2	-1.3	3.3	1.9	6.0
Statistical discrepancy	-1.3	-4.4	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table 3. Iraq: Central Government Fiscal Accounts, 2013–22 (concluded)

(In trillions of ID; unless otherwise indicated)

	2013	2014	2015	2016		2017		2018		2019		2020		2021		202
				Prog. 1/	Est.	Prog. 1/	Rev. Prog.	Proj. 1/	Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Pro
Financing	17.2	19.0	25.8	16.7	28.6	15.9	11.4	13.0	11.3	4.5	4.1	-0.2	1.3	-3.3	-1.9	-6.
External financing	12.7	6.5	4.2	-1.7	2.1	9.1	7.2	3.4	4.9	0.8	0.5	-4.2	-3.2	-7.8	-5.2	-8.
Budget Loans	0.0	0.0	2.8	3.5	3.5	6.3	6.3	2.3	2.2	1.0	0.9	0.0	0.0	0.0	0.0	0.
International Financial Institutions	0.0	0.0	2.8	3.2	3.2	3.1	3.1	2.0	1.9	1.0	0.9	0.0	0.0	0.0	0.0	0.
Bilateral	0.0	0.0	0.0	0.3	0.3	0.8	0.8	0.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.
Eurobond	0.0	0.0	0.0	0.0	0.0	2.4	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.
Project Loans	0.0	0.0	0.3	2.4	2.3	4.3	4.5	2.8	4.8	2.5	2.7	1.3	1.2	1.1	1.1	1.
Amortization	-1.1	-1.8	-1.6	-2.1	-1.1	-1.4	-1.2	-1.6	-1.9	-2.7	-2.9	-5.5	-4.5	-8.9	-6.3	-9.
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	0.0	0.0	0.0	0.0	0.
SDR Holding	0.0	0.0	2.2	0.0	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	7.9	-4.8	-0.2	-0.3	0.0	0.2	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.
Arrears		0.6	5.3	-5.3	-2.3	0.0	-2.6	0.0	-0.2	0.0	-0.2	0.0	0.0	0.0	0.0	0.
Domestic financing	4.5	12.5	21.6	18.4	26.5	6.8	4.2	2.0	0.5	2.9	1.1	4.0	4.5	4.4	3.3	2.
Bank financing	4.6	4.7	18.0	19.0	21.3	6.8	5.8	2.0	0.5	2.9	1.1	4.0	4.5	4.4	3.3	2.
CBI	4.2	3.5	10.1	12.6	16.7	5.5	4.5	1.9	0.4	1.9	1.1	1.9	2.4	1.9	0.8	0.
Loans	0.0	0.0	6.4	12.6	14.3	5.5	4.5	1.9	0.4	1.9	1.1	1.9	2.4	1.9	0.8	0.
Deposits	4.2	3.5	3.7	0.0	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.
Commercial banks	0.3	1.2	7.9	6.4	4.6	1.3	1.3	0.1	0.1	1.1	0.0	2.1	2.1	2.5	2.5	2.
Loans	0.3	1.2	7.9	0.0	0.0	0.9	0.9	0.1	0.1	1.1	0.0	2.1	2.1	2.5	2.5	2.
Deposits				6.4	4.6	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.
Non-bank financing	0.0	0.0	0.0	0.6	2.0	1.3	4.4	1.6	1.4	1.6	0.0	0.0	0.0	0.0	0.0	0.
Account payables			-0.1	-0.1	1.8	0.0	-1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.
Arrears	0.0	1.8	3.7	-1.2	1.5	-1.3	-4.2	-1.6	-1.4	-1.6	0.0	0.0	0.0	0.0	0.0	0.
Financing gap: 4/				0.0	0.0	0.0	0.0	7.7	5.9	0.7	2.5	0.0	0.0	0.0	0.0	0.
Memorandum items:																
Security-related expenditure (military and police equipment and salaries)	16.4	16.6	15.0	16.6	15.7	17.3	17.6	17.0	17.1	16.7	16.8	16.4	16.5	16.2	16.2	15.
Revenue from KRG				8.3	0.0	10.9	10.9	11.4	11.1	11.7	11.0	12.1	11.2	12.5	11.5	12.
Oil export revenue from KRG	11.6	2.5	3.1	7.8	0.0	10.2	10.1	10.6	10.1	10.9	10.0	11.3	10.1	11.6	10.3	10.
Non-oil tax revenue from KRG				0.5	0.0	0.8	0.7	0.8	0.9	0.8	1.0	0.9	1.1	0.9	1.2	1.
Transfer to KRG	15.9	2.5	2.5	8.5	0.0	11.6	12.0	11.6	11.9	11.6	11.7	11.6	11.6	11.6	11.9	12.
Non-oil primary expenditure, accrual basis	109.7	89.7	68.9	67.9	68.0	78.4	76.9	76.6	76.5	75.8	76.1	74.8	75.4	74.6	75.7	76.
Adjusted non-oil primary expenditure, accrual basis (excluding KRG) 5/	93.8	87.1	66.4	59.4	68.0	66.8	64.9	65.0	64.6	64.2	64.4	63.1	63.8	63.0	63.8	63.
Adjusted non-oil primary expenditure, accrual (annual real growth, percent) 5/	0.2	-9.2	-24.9	-12.2	2.0	10.2	-6.4	-4.7	-2.5	-3.0	-2.2	-3.6	-2.9	-2.2	-2.0	-1.
Non-oil primary fiscal balance, accrual basis	-100.0	-83.8	-63.1	-59.9	-59.8	-67.8	-67.8	-65.5	-65.5	-64.1	-64.1	-62.1	-62.1	-60.9	-60.9	-59.
Adjusted non-oil primary fiscal balance, accrual basis (excluding KRG) 6/	-84.1	-81.3	-60.6	-51.9	-59.8	-57.0	-56.6	-54.7	-54.5	-53.3	-53.3	-51.4	-51.6	-50.2	-50.2	-48.
Non-oil primary fiscal balance, cash basis 7/	-100.0	-82.0	-58.5	-61.9	-58.1	-69.1	-73.8	-67.1	-67.2	-65.7	-64.3	-62.1	-62.1	-60.9	-60.9	-59.
Adjusted Non-oil primary fiscal balance, cash basis (excluding KRG) 6,7/	-84.1	-79.5	-56.0	-54.0	-58.1	-58.3	-62.5	-56.3	-56.1	-54.9	-53.5	-51.4	-51.6	-50.2	-50.2	-48.
Gross public debt	85.2	87.6	115.6	125.9	135.5	140.8	145.2	153.8	156.5	158.3	161.0	158.0	163.1	154.7	162.1	157.
Average Iraq oil export price (US$/bbl)	102.9	96.5	45.9	35.5	35.6	42.0	45.3	45.7	45.4	47.0	44.9	48.8	45.2	50.2	45.9	47.
Volume of oil exports	2.4	2.6	3.4	3.8	3.8	3.8	3.8	3.8	3.9	3.8	3.9	3.8	4.0	3.8	4.0	4.
CBI total financing of the budget deficit	4.2	3.5	10.1	12.6	16.7	5.5	4.5	1.9	0.4	1.9	1.1	1.9	2.4	1.9	0.8	0.

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

1/ IMF Country Report No. 16/379. Iraq: Staff Report for the First Review of the Three-Year Stand-By Arrangement.

2/ For 2013–14, 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/ Includes unidentified financing only.

5/ Adjusted to exclude full year estimates of federal government transfers to the Kurdistan Regional Government. In 2014 and 2015, actual transfers were made for only 2 and 5 months, respectively.

6/ Adjusted to exclude (i) full year estimates of federal government transfers to the Kurdistan Regional Government, and (ii) non oil tax revenues from the KRG to the federal government.

7/ The non-oil primary fiscal balance on cash basis adjusts the non-oil primary balance measured on accrual basis by subtracting the spending financed by arrears' accumulation during that period, and adding the repayment of arrears from previous years.

Table 4. Iraq: Central Government Fiscal Accounts, 2013–22

(In percent of GDP)

	2013	2014	2015	2016		2017		2018		2019		2020		2021		2022
				Prog. 1/	Est.	Prog. 1/	Rev. Prog.	Proj. 1/	Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj.
Revenues and grants	42.2	38.2	30.3	32.2	27.4	34.8	36.0	35.1	36.5	34.3	35.6	33.5	34.6	32.5	33.8	33.1
Revenues	42.2	38.2	30.3	32.2	27.4	34.7	36.0	35.1	36.5	34.3	35.6	33.5	34.6	32.5	33.8	33.1
Oil	38.6	36.0	27.5	28.3	23.3	30.1	32.0	30.6	31.9	29.7	30.8	28.9	29.6	27.9	28.5	27.7
Crude oil export revenues	38.0	35.5	27.3	28.1	23.0	29.9	31.5	30.3	31.4	29.5	30.4	28.7	29.1	27.6	28.1	27.3
Transfers from oil-related public enterprises	0.6	0.5	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.2
Tax on oil company profits					0.1		0.2		0.2		0.2		0.2		0.2	0.2
Non-oil	3.5	2.1	2.8	3.9	4.1	4.6	3.9	4.5	4.6	4.6	4.8	4.6	5.0	4.6	5.2	5.5
Tax revenues	1.1	0.9	0.7	2.3	2.6	3.0	2.9	2.9	3.5	2.9	3.6	2.9	3.7	2.8	3.8	4.0
Non-tax revenues	2.5	1.2	2.1	1.6	1.5	1.6	1.1	1.6	1.1	1.7	1.2	1.7	1.3	1.8	1.4	1.5
Grants	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	48.0	43.5	42.6	40.4	41.5	41.8	41.0	40.4	41.2	36.0	37.3	33.4	35.0	31.4	33.1	31.1
o/w KRG			1.2	4.1	0.0	5.1	5.3	4.8	5.0	4.5	4.7	4.2	4.4	3.9	4.2	4.0
net of KRG			41.4	36.2	41.5	36.7	35.7	35.7	36.2	31.5	32.6	29.2	30.7	27.4	28.9	27.1
Current expenditures	30.6	25.5	27.5	32.3	30.1	30.6	30.5	30.6	31.1	26.8	27.8	25.0	26.1	23.4	24.3	22.6
Salary and pension	15.0	14.7	20.1	22.6	20.5	20.3	20.9	18.6	19.3	17.4	18.2	16.0	17.0	14.8	15.7	14.5
Salary	11.9	11.6	15.8	17.6	16.0	15.7	15.9	14.4	14.6	13.4	13.7	12.3	12.7	11.3	11.7	10.8
Pension	3.1	3.1	4.3	5.0	4.6	4.5	4.9	4.2	4.7	4.0	4.5	3.7	4.2	3.5	4.0	3.7
Goods and services	6.0	3.6	2.2	3.1	2.4	3.2	2.8	3.1	2.8	2.9	2.9	2.8	2.8	2.7	2.6	2.4
Transfers	7.3	5.2	4.5	5.5	6.5	5.9	5.6	5.5	5.5	5.2	5.4	4.8	5.1	4.5	4.8	4.5
Social safety net	2.8	2.8	2.1	3.1	3.0	3.0	2.8	2.8	2.8	2.6	2.9	2.5	2.7	2.3	2.5	2.4
Transfers to SOEs 2/	0.7	0.6	1.1	1.1	1.3	0.8	1.0	0.8	0.9	0.7	0.9	0.7	0.8	0.6	0.8	0.7
Other transfers	3.8	1.9	1.2	1.3	2.2	2.1	1.9	1.9	1.8	1.8	1.7	1.7	1.6	1.6	1.5	1.4
Interest payments	0.4	0.3	0.6	1.1	0.7	1.3	1.2	1.2	1.1	1.3	1.2	1.3	1.2	1.4	1.2	1.1
War reparations 3/	1.9	1.8	0.0	0.0	0.0	0.0	0.0	2.2	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment expenditures	17.4	18.0	15.1	8.1	11.4	11.2	10.5	9.9	10.1	9.2	9.5	8.4	8.9	8.0	8.8	8.6
Non-oil investment expenditures	11.8	9.3	6.0	1.9	4.1	5.1	4.5	4.2	4.2	3.9	3.8	3.4	3.5	3.3	3.7	3.7
Oil investment expenditures	5.6	8.7	9.1	6.1	7.3	6.0	6.0	5.6	5.9	5.3	5.7	5.0	5.4	4.7	5.2	4.9
IOCs				5.6	5.5	5.1	5.1	4.8	5.0	4.5	4.8	4.2	4.6	3.9	4.4	4.1
National oil companies				0.5	1.7	0.9	0.9	0.9	0.9	0.8	0.9	0.8	0.8	0.7	0.8	0.7
Fiscal balance	-5.8	-5.4	-12.3	-8.2	-14.1	-7.0	-5.0	-5.3	-4.7	-1.7	-1.6	0.1	-0.5	1.1	0.7	2.0
Statistical discrepancy	-0.5	-1.6	0.0	...	...	...	...	...	...	...	...	...	...	...	...	...
Financing	6.3	7.0	12.3	8.2	14.1	7.0	5.0	5.3	4.7	1.7	1.6	-0.1	0.5	-1.1	-0.7	-2.0
External financing	4.6	2.4	2.0	-0.8	1.0	4.0	3.2	1.4	2.1	0.3	0.2	-1.5	-1.2	-2.6	-1.8	-2.7
Budget Loans	0.0	0.0	1.4	1.7	1.7	2.8	2.8	0.9	0.9	0.4	0.4	0.0	0.0	0.0	0.0	0.0
International Financial Institutions	0.0	0.0	1.4	1.6	1.6	1.4	1.3	0.8	0.8	0.4	0.4	0.0	0.0	0.0	0.0	0.0
Bilateral	0.0	0.0	0.0	0.1	0.1	0.3	0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Eurobond	0.0	0.0	0.0	0.0	0.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Loans	0.0	0.0	0.1	1.2	1.2	1.9	2.0	1.2	2.0	1.0	1.1	0.5	0.5	0.4	0.4	0.3
Amortization	-0.4	-0.7	-0.8	-1.0	-0.5	-0.6	-0.5	-0.7	-0.8	-1.0	-1.2	-2.0	-1.7	-3.0	-2.2	-3.1
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	0.0	0.0	0.0	0.0	0.0
SDR Holding	0.0	0.0	1.0	0.0	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	2.9	-2.3	-0.1	-0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	0.0	0.2	2.5	-2.6	-1.1	0.0	-1.1	0.0	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Domestic financing	1.7	4.6	10.3	9.0	13.1	3.0	1.8	0.8	0.2	1.1	0.4	1.4	1.7	1.5	1.2	0.8
Bank financing	1.7	1.7	8.6	9.3	10.5	3.0	2.5	0.8	0.2	1.1	0.4	1.4	1.7	1.5	1.2	0.8
CBI	1.5	1.3	4.8	6.1	8.2	2.4	2.0	0.8	0.1	0.7	0.4	0.7	0.9	0.6	0.3	0.1
Loans	0.0	0.0	3.0	6.2	7.0	2.4	2.0	0.8	0.1	0.7	0.4	0.7	0.9	0.6	0.3	0.1
Deposits	1.5	1.3	1.8	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.1	0.4	3.8	3.1	2.3	0.6	0.6	0.0	0.0	0.4	0.0	0.7	0.8	0.9	0.9	0.7
Loans	0.1	0.4	3.8	0.0	0.0	0.4	0.4	0.0	0.0	0.4	0.0	0.7	0.8	0.9	0.9	0.7
Deposits	0.0	0.0	0.0	3.1	2.3	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-bank financing	0.0	0.0	0.0	0.3	1.0	0.6	1.9	0.7	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Account payables	0.0	0.0	-0.1	0.0	0.9	0.0	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	0.0	0.7	1.8	-0.6	0.7	-0.6	-1.9	-0.7	-0.6	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap: 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.1	2.5	0.3	1.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:																
Security-related expenditure (military and police equipment and salaries)	6.0	6.1	7.2	8.1	7.8	7.6	7.7	7.0	7.1	6.5	6.7	6.0	6.2	5.5	5.7	5.3
Revenue from KRG				4.1	0.0	4.8	4.8	4.7	4.6	4.5	4.4	4.4	4.2	4.2	4.0	4.0
Oil export revenue from KRG	4.2	0.9	1.5	3.8	0.0	4.5	4.5	4.4	4.2	4.2	4.0	4.1	3.8	3.9	3.6	3.6
Non-oil tax revenue from KRG				0.3	0.0	0.3	0.3	0.3	0.4	0.3	0.4	0.3	0.4	0.3	0.4	0.4
Transfer to KRG	5.8	0.9	1.2	4.1	0.0	5.1	5.3	4.8	5.0	4.5	4.7	4.2	4.4	3.9	4.2	4.0
Current expenditures (percent of GDP)	30.6	25.5	27.5	32.3	30.1	30.6	30.5	30.6	31.1	26.8	27.8	25.0	26.1	23.4	24.3	22.6
Non-oil primary expenditure, accrual basis (percent of GDP)	40.1	32.8	32.9	33.1	33.6	34.5	33.8	31.4	31.9	29.4	30.3	27.1	28.4	25.4	26.8	25.2
Adjusted non-oil primary expenditure, accrual basis (excl. KRG, percent of GDP) 5/	34.3	31.8	31.7	29.0	33.6	29.4	28.5	26.6	26.9	24.9	25.7	22.9	24.0	21.4	22.5	21.1
Non-oil primary fiscal balance, accrual basis (percent of GDP)	-36.5	-30.6	-30.1	-29.2	-29.5	-29.8	-29.8	-26.9	-27.3	-24.8	-25.5	-22.5	-23.4	-20.7	-21.5	-19.7
Adjusted non-oil primary fiscal balance, accrual basis (excl. KRG, percent of GDP) 6/	-30.7	-29.7	-28.9	-25.3	-29.5	-25.1	-24.8	-22.4	-22.7	-20.7	-21.3	-18.6	-19.4	-17.1	-17.7	-16.1
Non-oil primary fiscal balance, cash basis (percent of GDP) 7/	-36.5	-30.0	-27.9	-30.2	-28.7	-30.4	-32.4	-27.5	-28.0	-25.5	-25.6	-22.5	-23.4	-20.7	-21.5	-19.7
Adjusted Non-oil primary fiscal balance, cash basis (excluding KRG, percent of GDP) 6,7/	-30.7	-29.0	-26.7	-26.3	-28.7	-25.6	-27.4	-23.1	-23.4	-21.3	-21.3	-18.6	-19.4	-17.1	-17.7	-16.1
Gross public debt (percent of GDP)	31.2	32.0	55.1	61.4	66.9	61.9	63.8	63.1	65.3	61.3	64.2	57.3	61.4	52.6	57.3	51.9
CBI total financing of the budget deficit (percent of GDP)	1.5	1.3	4.8	6.1	8.2	2.4	2.0	0.8	0.1	0.7	0.4	0.7	0.9	0.6	0.3	0.1

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

1/ IMF Country Report No. 16/379. Iraq: Staff Report for the First Review of the Three-Year Stand-By Arrangement.

2/ For 2013–14, 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/ Includes unidentified financing only.

5/ Adjusted to exclude full year estimates of federal government transfers to the Kurdistan Regional Government. In 2014 and 2015, actual transfers were made for only 2 and 5 months, respectively.

6/ Adjusted to exclude (i) full year estimates of federal government transfers to the Kurdistan Regional Government, and (ii) non oil tax revenues from the KRG to the federal government.

7/ The non-oil primary fiscal balance on cash basis adjusts the non-oil primary balance measured on accrual basis by subtracting the spending financed by arrears' accumulation during that period, and adding the repayment of arrears from previous years.

Table 5. Iraq: Central Government Fiscal Accounts, 2013–22

(In percent of Non-Oil GDP)

	2013	2014	2015	2016		2017		2018		2019		2020		2021		2022
				Prog. 1/	Est.	Prog. 1/	Rev. Prog.	Proj. 1/	Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj.
Revenues and grants	78.0	69.8	45.4	47.5	41.4	53.0	57.8	53.9	58.0	51.9	55.2	50.0	52.4	47.7	50.2	48.5
Revenues	77.9	69.8	45.4	47.5	41.4	52.9	57.7	53.9	58.0	51.9	55.2	50.0	52.4	47.7	50.2	48.5
Oil	71.4	65.9	41.2	41.8	35.2	45.9	51.4	46.9	50.7	45.0	47.8	43.1	44.8	40.8	42.4	40.5
Crude oil export revenues	70.3	64.9	40.9	41.4	34.8	45.5	50.6	46.5	50.0	44.6	47.1	42.7	44.1	40.5	41.8	39.9
Transfers from oil-related public enterprises	1.1	1.0	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3
Tax on oil company profits	0.0	0.0	0.0		0.2		0.3		0.3		0.3		0.3		0.3	0.3
Non-oil	6.5	3.9	4.1	5.8	6.2	7.0	6.3	7.0	7.3	6.9	7.4	6.8	7.6	6.8	7.8	8.0
Tax revenues	1.9	1.7	1.0	3.4	3.9	4.6	4.6	4.5	5.5	4.4	5.6	4.3	5.6	4.1	5.7	5.8
Non-tax revenues	4.6	2.2	3.1	2.4	2.3	2.4	1.7	2.4	1.8	2.5	1.9	2.6	2.0	2.7	2.1	2.2
Expenditures	88.7	79.6	63.8	59.6	62.8	63.7	65.8	62.1	65.5	54.5	57.7	49.8	53.1	46.0	49.2	45.6
Current expenditures	56.5	46.7	41.2	47.6	45.6	46.6	49.0	47.0	49.4	40.5	43.1	37.3	39.5	34.3	36.1	33.0
Salary and pension	27.8	26.9	30.2	33.4	31.1	30.9	33.5	28.6	30.8	26.3	28.2	23.9	25.7	21.7	23.4	21.2
Salary	22.0	21.3	23.7	26.0	24.1	24.0	25.6	22.1	23.3	20.2	21.3	18.3	19.3	16.6	17.5	15.8
Pension	5.8	5.6	6.5	7.4	6.9	6.9	7.9	6.5	7.5	6.0	6.9	5.6	6.4	5.1	5.9	5.4
Goods and services	11.0	6.5	3.3	4.5	3.6	4.9	4.5	4.7	4.5	4.5	4.5	4.2	4.2	3.9	3.8	3.6
Transfers	13.5	9.6	6.8	8.1	9.9	8.9	9.0	8.4	8.8	7.8	8.4	7.2	7.8	6.6	7.2	6.6
Social safety net	5.1	5.1	3.2	4.5	4.6	4.5	4.4	4.3	4.5	4.0	4.4	3.7	4.1	3.4	3.8	3.5
Transfers to SOEs 2/	1.3	1.0	1.7	1.6	2.0	1.3	1.6	1.2	1.5	1.1	1.4	1.0	1.3	0.9	1.2	1.1
Other transfers	7.1	3.5	1.9	2.0	3.3	3.1	3.0	2.9	2.8	2.7	2.6	2.5	2.4	2.3	2.2	2.1
Interest payments	0.7	0.5	0.9	1.6	1.0	1.9	1.9	1.8	1.8	2.0	1.9	2.0	1.9	2.0	1.8	1.6
War reparations 3/	3.5	3.3	0.0	0.0	0.0	0.0	0.0	3.4	3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment expenditures	32.1	32.9	22.6	11.9	17.2	17.0	16.8	15.1	16.1	13.9	14.7	12.5	13.5	11.7	13.1	12.6
Non-oil investment expenditures	21.8	17.0	9.0	2.9	6.2	7.8	7.2	6.5	6.7	5.9	5.8	5.1	5.3	4.9	5.4	5.5
Oil investment expenditures	10.3	15.9	13.6	9.1	11.0	9.2	9.7	8.6	9.4	8.0	8.8	7.4	8.2	6.8	7.7	7.1
IOCs				8.3	8.3	7.8	8.2	7.3	8.0	6.8	7.5	6.3	7.0	5.8	6.5	6.0
National oil companies				0.8	2.6	1.4	1.5	1.3	1.4	1.2	1.4	1.1	1.3	1.0	1.2	1.1
Fiscal balance	-10.7	-9.8	-18.5	-12.0	-21.4	-10.6	-8.0	-8.2	-7.5	-2.6	-2.5	0.1	-0.7	1.7	1.0	2.9
Statistical discrepancy	-0.9	-2.9	0.0	...	...	...	...	...	...	...	...	...	...	...	...	...
Financing	11.6	12.7	18.4	12.0	21.4	10.6	8.0	8.2	7.5	2.6	2.5	-0.1	0.7	-1.7	-1.0	-2.9
External financing	8.5	4.3	3.0	-1.2	1.6	6.1	5.1	2.1	3.3	0.5	0.3	-2.3	-1.8	-3.9	-2.7	-4.0
Budget Loans	0.0	0.0	2.0	2.5	2.6	4.2	4.4	1.5	1.4	0.6	0.6	0.0	0.0	0.0	0.0	0.0
International Financial Institutions	0.0	0.0	2.0	2.3	2.4	2.1	2.2	1.2	1.2	0.6	0.6	0.0	0.0	0.0	0.0	0.0
Bilateral	0.0	0.0	0.0	0.2	0.2	0.5	0.6	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Eurobond	0.0	0.0	0.0	0.0	0.0	1.6	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Loans	0.0	0.0	0.2	1.7	1.7	2.8	3.2	1.8	3.2	1.5	1.6	0.7	0.7	0.6	0.6	0.5
Amortization	-0.8	-1.2	-1.1	-1.5	-0.8	-0.9	-0.8	-1.0	-1.3	-1.6	-1.8	-3.0	-2.5	-4.4	-3.3	-4.5
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	0.0	0.0	0.0	0.0	0.0
SDR Holding	0.0	0.0	1.5	0.0	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	5.3	-3.4	-0.1	-0.2	0.0	0.1	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	0.0	0.4	3.8	-3.8	-1.7	0.0	-1.8	0.0	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Domestic financing	3.1	8.4	15.4	13.2	19.8	4.5	3.0	1.3	0.3	1.7	0.7	2.1	2.6	2.2	1.7	1.1
Bank financing	3.1	3.1	12.9	13.7	15.9	4.5	4.1	1.3	0.3	1.7	0.7	2.1	2.6	2.2	1.7	1.1
CBI	2.9	2.3	7.2	9.1	12.4	3.7	3.2	1.2	0.2	1.1	0.7	1.0	1.4	0.9	0.4	0.1
Loans	0.0	0.0	4.6	9.1	10.6	3.7	3.2	1.2	0.2	1.1	0.7	1.0	1.4	0.9	0.4	0.1
Deposits	2.9	2.3	2.7	0.0	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.2	0.8	5.6	4.6	3.4	0.9	0.9	0.1	0.1	0.6	0.0	1.1	1.2	1.3	1.3	1.1
Loans	0.2	0.8	5.6	0.0	0.0	0.6	0.6	0.1	0.1	0.6	0.0	1.1	1.2	1.3	1.3	1.1
Deposits	0.0	0.0	0.0	4.6	3.4	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-bank financing	0.0	0.0	0.0	0.5	1.5	0.9	3.1	1.0	1.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Account payables	0.0	0.0	-0.1	0.0	1.3	0.0	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	0.0	1.2	2.6	-0.9	1.1	-0.9	-3.0	-1.0	-1.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap: 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.8	3.9	0.4	1.5	0.0	0.0	0.0	0.0	0.0
Memorandum items:																
Security-related expenditure (military and police equipment and salaries)	11.0	11.1	10.7	11.9	11.7	11.6	12.4	10.7	11.3	9.8	10.4	8.9	9.4	8.1	8.5	7.7
Revenue from KRG				6.0	0.0	7.3	7.7	7.2	7.3	6.9	6.8	6.6	6.4	6.2	6.0	5.9
Oil export revenue from KRG	7.8	1.7	2.2	5.6	0.0	6.8	7.2	6.7	6.7	6.4	6.2	6.1	5.7	5.8	5.4	5.2
Non-oil tax revenue from KRG				0.4	0.0	0.5	0.5	0.5	0.6	0.5	0.6	0.5	0.6	0.5	0.6	0.6
Transfer to KRG	10.7	1.7	1.8	6.1	0.0	7.8	8.5	7.3	7.9	6.8	7.2	6.3	6.6	5.8	6.3	5.9
Current expenditures (percent of non-oil GDP)	56.5	46.7	41.2	47.6	45.6	46.6	49.0	47.0	49.4	40.5	43.1	37.3	39.5	34.3	36.1	33.0
Non-oil primary expenditure, accrual basis (percent of non-oil GDP)	74.1	60.0	49.3	48.9	50.7	52.5	54.2	48.2	50.7	44.5	47.0	40.4	43.0	37.2	39.8	36.9
Adjusted non-oil primary expenditure, accrual basis (excl. KRG, percent of non-oil GDP) 5/	63.4	58.3	47.5	42.8	50.7	44.8	45.8	40.9	42.8	37.7	39.8	34.1	36.4	31.4	33.5	30.9
Non-oil primary fiscal balance, accrual basis (percent of non-oil GDP)	-67.6	-56.1	-45.1	-43.1	-44.6	-45.4	-47.8	-41.2	-43.4	-37.6	-39.6	-33.6	-35.4	-30.4	-32.0	-28.9
Adjusted non-oil primary fiscal balance, accrual basis (excl. KRG, percent of non-oil GDP) 6/	-56.8	-54.4	-43.3	-37.4	-44.6	-38.2	-39.9	-34.4	-36.1	-31.2	-32.9	-27.8	-29.4	-25.0	-26.4	-23.6
Non-oil primary fiscal balance, cash basis (percent of non-oil GDP) 7/	-67.6	-54.8	-41.9	-44.6	-43.3	-46.3	-52.0	-42.2	-44.5	-38.5	-39.7	-33.6	-35.4	-30.4	-32.0	-28.9
Adjusted Non-oil primary fiscal balance, cash basis (excl. KRG, percent of non-oil GDP) 6,7/	-56.8	-53.2	-40.1	-38.8	-43.3	-39.0	-44.1	-35.4	-37.2	-32.2	-33.1	-27.8	-29.4	-25.0	-26.4	-23.6
Gross public debt (percent of non-oil GDP)	57.6	58.6	82.7	90.6	101.1	94.3	102.4	96.8	103.8	92.8	99.4	85.5	93.0	77.1	85.2	76.0
CBI total financing of the budget deficit (percent of non-oil GDP)	2.9	2.3	7.2	9.1	12.4	3.7	3.2	1.2	0.2	1.1	0.7	1.0	1.4	0.9	0.4	0.1
Non-oil GDP (ID trillion)	148.0	149.5	139.8	139.0	134.1	149.3	141.8	158.8	150.8	170.6	162.0	184.9	175.5	200.6	190.3	206.6

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

1/ IMF Country Report No. 16/379. Iraq: Staff Report for the First Review of the Three-Year Stand-By Arrangement.
2/ For 2013–14, 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/ Includes unindentified financing only.
5/ Adjusted to exclude full year estimate of federal government transfers to the Kurdistan Regional Government. In 2014 and 2015, actual transfers were made for only 2 and 5 months, respectively.
6/ Adjusted to exclude (i) full year estimates of federal government transfers to the Kurdistan Regional Government, and (ii) non oil tax revenues from the KRG to the federal government.
7/ The non-oil primary fiscal balance on cash basis adjusts the non-oil primary balance measured on accrual basis by subtracting the spending financed by arrears' accumulation during that period, and adding the repayment of arrears from previous years.

Table 6. Iraq: Balance of Payments, 2013–22
(In billions of U.S. dollars; unless otherwise indicated)

	2013	2014	2015	2016		2017		2018		2019		2020		2021		2022
				Prog. 1/	Est.	Prog. 1/	Rev. Prog.	Proj. 1/	Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj.
Trade balance	23.2	25.6	-0.2	-1.3	-3.1	-0.8	1.4	3.7	3.7	5.3	3.6	7.0	4.8	8.0	6.1	8.5
(In percent of GDP)	9.9	10.9	-0.1	-0.8	-1.8	-0.4	0.7	1.8	1.8	2.4	1.7	3.0	2.1	3.2	2.6	3.3
Exports	89.8	92.9	56.5	49.2	50.0	57.9	62.4	63.0	64.9	64.9	65.1	67.5	66.5	69.7	68.3	71.2
Crude oil	89.4	92.5	56.1	48.8	49.7	57.5	62.0	62.5	64.4	64.3	64.5	66.9	65.6	68.7	67.6	70.2
Other exports	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.6	0.7	0.8	1.0	0.8	1.0
Imports	-66.5	-67.3	-56.7	-50.5	-53.1	-58.7	-61.0	-59.3	-61.3	-59.6	-61.5	-60.5	-61.7	-61.7	-62.2	-62.7
Private sector imports	-45.2	-47.2	-41.6	-37.7	-38.7	-41.0	-42.5	-41.2	-42.6	-41.5	-42.8	-42.1	-43.0	-43.3	-43.4	-43.7
Government imports	-21.3	-20.0	-15.1	-12.8	-14.4	-17.7	-18.5	-18.1	-18.7	-18.1	-18.7	-18.3	-18.7	-18.4	-18.8	-18.9
Services, net	-14.7	-15.3	-10.7	-10.4	-11.3	-12.3	-13.1	-11.4	-12.3	-11.1	-11.9	-10.3	-10.6	-10.0	-9.8	-9.1
Receipts	3.3	4.1	6.3	6.3	5.9	6.5	6.5	7.1	7.2	7.7	7.8	8.8	9.1	9.7	10.0	10.7
Payments	-18.0	-19.4	-16.9	-16.8	-17.2	-18.8	-19.6	-18.6	-19.5	-18.8	-19.7	-19.1	-19.7	-19.7	-19.8	-19.8
Income, net	-1.0	-1.1	-1.3	-0.9	-1.1	-1.2	-1.8	-1.4	-2.1	-1.4	-2.0	-1.4	-1.9	-1.1	-1.8	-1.5
Transfers, net	-4.9	-3.2	0.5	0.8	0.6	1.2	1.2	-3.7	-3.0	0.9	1.6	0.2	0.5	0.2	0.5	0.5
Private, net	0.2	0.1	0.4	0.5	0.4	0.4	0.4	0.3	0.5	0.3	0.5	0.2	0.5	0.2	0.5	0.5
Official, net	-5.0	-3.3	0.1	0.3	0.2	0.8	0.8	-4.0	-3.5	0.6	1.1	0.0	0.0	0.0	0.0	0.0
Current account	2.7	6.1	-11.6	-11.9	-14.9	-13.1	-12.3	-12.9	-13.6	-6.3	-8.7	-4.4	-7.2	-2.9	-5.0	-1.5
(In percent of GDP)	1.1	2.6	-6.5	-6.8	-8.7	-6.8	-6.4	-6.2	-6.7	-2.9	-4.1	-1.9	-3.2	-1.2	-2.1	-0.6
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	1.6	-2.5	8.4	5.9	8.9	8.6	10.5	6.1	8.2	5.6	6.4	4.1	5.8	5.1	5.3	3.7
Direct and portfolio investment (net) 2/	5.7	4.1	2.8	-1.2	1.8	0.5	1.8	2.0	2.2	3.0	3.1	5.0	5.3	5.9	6.0	6.5
Other capital, net	-4.1	-6.5	5.6	7.1	7.1	8.1	8.7	4.1	6.0	2.6	3.3	-0.9	0.5	-0.8	-0.7	-2.9
Official, net	1.4	-2.1	-4.4	4.0	4.1	7.6	8.1	2.6	4.4	1.0	1.3	-2.6	-1.6	-3.2	-2.9	-5.4
Assets	-2.8	-3.5	-6.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	4.2	1.4	1.7	4.0	4.1	7.6	8.1	2.6	4.4	1.0	1.3	-2.6	-1.6	-3.2	-2.9	-5.4
Disbursements 3/	2.3	0.1	2.8	5.0	4.9	8.9	9.1	4.2	5.9	3.0	3.0	1.1	1.0	1.0	0.9	0.8
Amortization	-1.0	-1.5	-1.1	-1.0	-0.9	-1.3	-1.0	-1.6	-1.5	-2.0	-1.8	-3.7	-2.6	-4.2	-3.8	-6.2
Private, net	-5.6	-4.4	10.0	3.0	3.0	0.4	0.6	1.5	1.6	1.6	2.0	1.7	2.1	2.4	2.2	2.5
Errors and omissions	-7.4	-27.1	-9.4	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-3.1	-23.4	-12.7	-6.0	-6.2	-4.5	-1.8	-6.8	-5.4	-0.7	-2.3	-0.3	-1.4	2.2	0.4	2.1
(In percent of GDP)	-1.3	-10.0	-7.1	-3.5	-3.6	-2.3	-0.9	-3.3	-2.7	-0.3	-1.1	-0.1	-0.6	0.9	0.2	0.8
Financing	3.1	23.4	12.7	6.0	6.2	4.5	1.8	0.3	0.4	0.1	0.2	0.3	1.4	-2.2	-0.4	-2.1
Development Fund for Iraq (increase -) 4/	11.8	5.6	-1.7	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross International Reserves (increase -)	-8.5	11.9	14.6	10.7	7.9	4.5	3.8	0.4	0.6	0.8	1.1	1.8	2.6	-0.4	1.1	-0.5
Fund credit (repayment)	-0.2	-0.8	-0.6	-0.1	-0.1	0.0	0.0	-0.2	-0.2	-0.7	-0.7	-1.5	-1.2	-1.8	-1.5	-1.7
Change in arrears (negative = decrease)			4.5	-4.5	-1.9	0.0	-2.2	0.0	-0.2	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Change in payables (negative = decrease)	…	6.7	-4.1	-0.2	-0.3	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap (increase -) 5/	…	0.0	0.0	0.0	0.0	0.0	0.0	6.5	5.0	0.6	2.1	0.0	0.0	0.0	0.0	0.0
Memorandum items:																
GIR (end of period) 6/	77.8	66.7	53.7	43.0	45.2	38.5	41.4	38.1	40.8	37.3	39.7	35.5	37.1	35.9	36.0	36.5
(in months of imports of goods and services)	10.8	10.9	9.2	6.7	6.7	5.9	6.2	5.8	6.0	5.6	5.9	5.2	5.4	5.2	5.2	5.3
GDP	234.6	234.7	179.8	173.8	171.7	192.4	192.7	206.2	202.9	218.3	212.3	233.3	224.8	248.7	239.5	256.2
Of which: Non-oil GDP	126.9	128.2	119.9	117.8	113.6	126.3	120.0	134.4	127.6	144.3	137.0	156.4	148.4	169.7	161.0	174.8

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

1/ IMF Country Report No. 16/379. Iraq: Staff Report for the First Review of the Three-Year Stand-By Arrangement.
2/ Includes planned issuances of Eurobonds in 2016–18.
3/ Includes prospective disbursements from the IMF, WB and other donors in 2016–19.
4/ Reflects the transfer of the Development Fund for Iraq from the Federal Reserve Bank of New York to the CBI in May 2014.
5/ Includes unidentified financing only.
6/ See Table 8, footnote 3, for coverage.

Table 7. Iraq: Monetary Survey, 2013–22
In billions of Iraqi dinars, unless otherwise indicated)

	2013	2014	2015	2016		Mar-17		2017		2018		2019		2020		2021		2022
				Prog. 1/	Est.	Prog. 1/	Est.	Prog. 1/	Rev. Prog.	Proj. 1/	Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj.
Net foreign assets	109,239	100,541	74,790	57,650	60,473	56,091	61,741	52,973	55,156	53,130	54,480	52,870	53,132	51,458	50,179	51,968	48,773	49,453
Of which: CBI	88,544	74,647	60,350	46,416	49,233	43,863	51,229	41,101	44,608	40,588	43,967	39,625	42,610	37,474	39,649	37,984	38,234	38,905
Net domestic assets	-19,860	-9,820	9,482	30,884	29,861	32,909	28,429	39,917	39,594	46,421	44,881	54,184	51,067	62,290	60,584	71,081	69,771	78,857
Domestic claims	-5,150	-258	17,202	38,884	36,450	42,617	36,514	49,117	47,679	55,721	52,966	63,584	59,152	71,790	68,669	80,681	77,856	86,942
Net claims on general government	-27,021	-24,576	-8,340	11,322	10,427	14,330	10,273	19,381	20,453	22,980	22,264	27,530	23,349	31,494	27,837	35,937	31,162	33,529
Claims on general government	11,856	15,892	28,405	41,698	40,788	44,706	40,782	49,341	50,398	52,940	52,209	57,490	53,293	61,454	57,782	65,897	61,107	63,473
less: Liabilities to general government	-38,876	-40,468	-36,746	-30,376	-30,361	-30,376	-30,509	-29,960	-29,945	-29960	-29,945	-29,960	-29,945	-29,960	-29,945	-29,960	-29,945	-29,945
Claims on other sectors	21,871	24,318	25,543	27,563	26,023	28,287	26,241	29,736	27,226	32,741	30,702	36,054	35,803	40,295	40,832	44,744	46,693	53,413
Other Item Net (OIN)	-14,710	-9,562	-7,720	-8,000	-6,589	-9,708	-8,085	-9,200	-8,085	-9,300	-8,085	-9,400	-8,085	-9,500	-8,085	-9,600	-8,085	-8,085
Broad money	89,379	92,638	84,272	88,534	90,334	89,000	90,170	92,890	94,750	99,551	99,361	107,054	104,199	113,748	110,764	123,050	118,544	128,310
Currency outside banks	34,995	36,071	34,855	35,633	42,065	34,121	40,225	33,201	41,835	35,581	43,292	35,388	45,401	37,327	47,945	39,376	50,649	53,608
Transferable deposits	43,342	41,348	34,659	37,103	33,469	38,490	35,253	41,864	36,690	44,866	38,877	50,265	40,770	53,599	43,557	58,686	47,077	51,796
Other deposits	11,041	15,218	14,757	15,798	14,801	16,389	14,691	17,825	16,225	19,103	17,192	21,402	18,029	22,822	19,262	24,987	20,818	22,905
Memorandum items																		
Broad money (percentage growth)	15.9	3.6	-9.0	5.1	7.2		2.7	4.9	4.9	7.2	4.9	7.5	4.9	6.3	6.3	8.2	7.0	8.2
Broad money (in percent of GDP)	32.7	33.9	40.2	43.2	44.6		39.6	40.8	41.6	40.8	41.4	41.5	41.5	41.2	41.7	41.9	41.9	42.4
M2 velocity (based on non-oil GDP)	1.7	1.6	1.7	1.6	1.5		1.6	1.6	1.5	1.6	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Credit to the economy (percentage growth)	14.7	11.2	5.0	7.9	1.9		3.2	7.9	4.6	10.1	12.8	10.1	16.6	11.8	14.0	11.0	14.4	14.4
Credit to the economy (in percent of non-oil GDP)	14.8	16.3	18.3	19.8	19.4		18.5	19.9	19.2	20.6	20.4	21.1	22.1	21.8	23.3	22.3	24.5	25.8

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

1/ IMF Country Report No. 16/379. Iraq: Staff Report for the First Review of the Three-Year Stand-By Arrangement.

Table 8. Iraq: Central Bank Balance Sheet, 2013–22
(In billions of Iraqi dinars, unless otherwise indicated)

	2013	2014	2015	2016		Mar-17		2017		2018		2019		2020		2021		2022
			Est.	Prog. 1/	Est.	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Proj. 1/	Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj.
Net foreign assets	88,544	74,647	60,350	46,416	49,233	43,863	51,229	41,101	44,608	40,588	43,967	39,625	42,610	37,474	39,649	37,984	38,234	38,905
Foreign assets	92,314	79,273	63,733	51,243	53,811	48,689	55,961	45,928	49,283	45,414	48,545	44,451	47,286	42,301	44,227	42,810	42,909	43,483
Official reserve assets	90,742	77,720	63,374	50,876	53,457	48,323	55,600	45,562	48,930	45,048	48,191	44,085	46,932	41,934	43,873	42,444	42,555	43,129
Gold	1,902	4,038	3,626	3,916	3,957	3,994	4,242	4,229	4,273	4,568	4,615	4,933	4,984	5,328	5,383	5,754	5,813	6,278
Other	86,723	72,545	59,357	45,701	48,837	43,069	50,880	40,073	44,174	39,221	43,094	37,892	41,466	35,347	38,008	35,431	36,259	36,368
SDR holdings and reserve position in the Fund	2,117	1,136	391	1,260	482	1,260	479	1,260	482	1,260	482	1,260	482	1,260	482	1,260	482	482
Other foreign assets	1,572	1,553	360	366	354	366	361	366	354	366	354	366	354	366	354	366	354	354
Foreign liabilities	-3,771	-4,626	-3,384	-4,826	-4,578	-4,826	-4,732	-4,826	-4,675	-4,826	-4,578	-4,826	-4,675	-4,826	-4,578	-4,826	-4,675	-4,578
Net domestic assets	-15,265	-10,311	-2,438	12,763	12,782	14,752	9,297	17,962	18,699	22,710	21,546	28,008	26,093	33,864	32,904	37,271	38,412	42,219
Domestic assets	864	600	2,921	17,810	15,691	19,530	13,333	23,305	21,588	25,203	21,853	27,100	22,938	28,997	25,326	30,894	26,106	26,298
Net claims on general government	751	513	2,826	17,715	15,583	19,435	13,228	23,210	21,480	25,108	21,745	27,005	22,830	28,902	25,218	30,800	25,998	26,190
Loans to central government	2,756	2,456	2,356	2,729	2,356	2,729	2,356	2,729	2,356	2,729	2,356	2,729	2,356	2,729	2,356	2,729	2,356	2,356
Holdings of discounted treasury bills	0	31	6,225	18,847	17,179	20,572	17,179	24,347	21,710	26,245	21,975	28,142	23,060	30,039	25,448	31,937	26,228	26,420
Domestic currency deposits	-1,895	-1,107	-1,522	-1,066	-451	-1,066	-1,629	-1,066	-451	-1,066	-451	-1,066	-451	-1,066	-451	-1,066	-451	-451
Foreign currency deposits	-109	-867	-4,232	-2,796	-3,501	-2,800	-4,676	-2,800	-2,135	-2,800	-2,135	-2,800	-2,135	-2,800	-2,135	-2,800	-2,135	-2,135
Monetary policy instruments 2/	-10,797	-6,567	-6,455	-6,759	-6,704	-6,490	-7,203	-7,055	-6,683	-4,204	-4,102	-804	-640	3,155	3,783	4,664	8,511	12,126
Other items net	-5,331	-4,343	1,096	1,712	3,795	1,712	3,168	1,712	3,795	1,712	3,795	1,712	3,795	1,712	3,795	1,712	3,795	3,795
Reserve money	73,259	66,231	57,888	59,179	62,015	58,615	60,497	59,063	63,307	63,298	65,513	67,633	68,703	71,338	72,553	75,255	76,645	81,124
Currency in circulation	40,630	39,884	38,585	42,548	45,232	41,687	44,118	41,414	46,297	45,007	48,029	48,187	50,810	51,179	54,057	54,008	57,387	60,845
Bank reserves	32,629	26,347	19,302	16,631	16,783	16,928	16,379	17,649	17,011	18,291	17,484	19,446	17,893	20,159	18,496	21,247	19,258	20,279
Other liquid liabilities	20	22	24	…	0	0	30	…	…	…	…	…	…	…	…	…	…	…
Memorandum items																		
Reserve money (annual growth, in percent)	12.6	-9.6	-12.6	2.2	7.1		2.6	-0.2	2.1	7.2	3.5	6.8	4.9	5.5	5.6	5.5	5.6	5.8
Currency in circulation (annual growth, in percent)	14.4	3.1	-3.3	10.3	17.2		8.5	-2.7	2.4	8.7	3.7	7.1	5.8	6.2	6.4	5.5	6.2	6.0
Gross foreign exchange assets (in millions of U.S. dollars) 3/	77,823	66,655	53,707	43,043	45,226	40,882	47,039	38,546	41,396	38,112	40,771	37,297	39,705	35,478	37,117	35,909	36,003	36,488

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

1/ IMF Country Report No. 16/379. Iraq: Staff Report for the First Review of the Three-Year Stand-By Arrangement.

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 $ account ($ 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. SDR and reserve position and all transactions with the Fund were reported on balance sheet in June 2016 temporarily and the issue is under review.

Table 9. Iraq: 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		
455.0	27.3	636.2	On or after June 29, 2016	Executive Board approval of the SBA arrangement.
455.0	27.3	636.2	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.[1/]
584.2	35.1	790.5	On or after April 15, 2017	Observance of the continuous and end-December 2016 performance criteria, and completion of the second review under the arrangement.[2/]
584.2	35.1	790.5	On or after October 15, 2017	Observance of the continuous and end-June 2017 performance criteria, and completion of the third review under the arrangement.
584.2	35.1	789.5	On or after April 15, 2018	Observance of the continuous and end-December 2017 performance criteria, and completion of the fourth review under the arrangement.
584.2	35.1	789.5	On or after October 15, 2018	Observance of the continuous and end-June 2018 performance criteria, and completion of the fifth review under the arrangement.
584.2	35.1	789.6	On or after April 15, 2019	Observance of the continuous and end-December 2018 performance criteria, and completion of the sixth review under the arrangement.
3,831.0	**230.3**	**5,221.9**	**Total under the SBA arrangement**	

Source: Fund staff estimates.

1/ Because of delay, first review was completed based on end-September 2016 performance criteria.

2/ Because of delay, it is proposed to complete the second review based on end-June 2017 performance criteria.

Table 10. Iraq: Indicators of Fund Credit, 2015–22
(In millions of SDRs; unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022
Disbursements of Fund credit (SBA and RFI)	891	910	1168	1168	584	0	0	0
SBA, 2009	0	0	0	0	0	0	0	0
In percent of IMF quota (old)	0	0	0	0	0	0	0	0
RFI, 2015	891	0	0	0	0	0	0	0
In percent of IMF quota (old)	75	0	0	0	0	0	0	0
SBA, 2016	0	910	1168	1168	584	0	0	0
In percent of IMF quota (current)	0	55	70	70	35	0	0	0
Obligations (SBA and RFI)	432	47	25	176	593	936	1175	1271
SBA, 2009 (total)	427	37	0	0	0	0	0	0
Repayments of SBA [1/]	423	37	0	0	0	0	0	0
Total charges and interest	3	0	0	0	0	0	0	0
RFI, 2015 (total)	5	7	10	121	453	337	1	1
Repayments of RFI [1/]	0	0	0	111	446	334	0	0
Total charges and interest	5	7	10	10	7	2	1	1
SBA, 2016 (total)	0	2	15	55	140	599	1175	1270
Repayments of SBA [1/]	0	0	0	0	57	528	1128	1241
Total charges and interest	0	2	15	55	83	71	46	29
In percent of IMF quota (current)		0	1	3	8	36	71	76
Total obligations, in percent of:								
Exports of goods and services	1	0	0	0	1	2	2	2
External public debt	1	0	0	0	1	2	2	2
Gross reserves	1	0	0	1	2	3	4	5
GDP	0	0	0	0	0	1	1	1
IMF Quota (old)	36	4	2	15	50	79	99	107
IMF Quota (current)		3	1	11	36	56	71	76
Outstanding Fund credit (SBA and RFI)	928	1801	2970	4027	4108	3246	2118	876
SBA, 2009	37	0	0	0	0	0	0	0
RFI, 2015	891	891	891	780	334	0	0	0
SBA, 2016		910	2078	3247	3774	3246	2118	876
Total outstanding Fund credit, in percent of								
Exports of goods and services	1	3	5	8	9	7	4	2
External public debt	2	4	5	7	7	5	4	2
Gross reserves	2	6	10	13	14	12	8	3
GDP	1	1	2	3	3	2	1	0
IMF Quota (old)	78	152	250	339	346	273	178	74
IMF Quota (current)		108	178	242	247	195	127	53

Sources: IMF staff estimates and projections.

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

Table 11. Iraq: Total Financing Requirements and Sources, 2016–19
(In billions of U.S. dollars)

	2016	2017	2018	2019
1. Total financing requirements	-24.3	-9.6	-9.6	-3.4
2. Total available financing	24.3	9.6	4.6	1.4
Domestic	22.5	3.5	0.4	0.9
T-bills and bonds	12.6	8.1	1.6	0.9
o/w CBI purchases	12.1	3.8	0.3	0.9
Other 1/	9.9	-4.6	-1.2	0.0
External	1.8	6.1	4.2	0.5
Budget loans	2.9	5.3	1.8	0.8
International Financial Institutions	2.7	2.6	1.6	0.8
International Monetary Fund (SBA)	1.3	1.6	1.6	0.8
World Bank	1.0	1.0	0.0	0.0
Canada, UK	0.4	0.0	0.0	0.0
Bilateral	0.2	0.7	0.2	0.0
Japan	0.2	0.3	0.2	0.0
France	0.0	0.5	0.0	0.0
Eurobond (with and without U.S. Guarantee)	0.0	2.0	0.0	0.0
Project loans 2/	2.0	3.8	4.1	2.3
U.S.	1.3	0.9	0.0	0.0
Other	0.6	2.9	4.1	2.3
Other 3/	-3.1	-3.0	-1.7	-2.6
3. Financing gap	0.0	0.0	5.0	2.1
Memorandum Items:				
Gross International Reserves				
Billions of U.S. dollars	45.2	41.4	40.8	39.7
Months of imports	6.7	6.2	6.0	5.9
Exchange rate, average	1180	1182	1182	1182

Source: IMF staff estimates and projections.

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

2/ Includes Italian, German, and other project loans.

3/ Includes amortization, accounts payable and arrears.

Table 12. Iraq: Reserve Adequacy Indicators, 2014–22

	2014	2015	2016		2017		2018		2019		2020		2021	2022
			Prog. 1/	Est.	Prog. 1/	Rev. Prog.	Proj. 1/	Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj.	Proj.
Reserves in USD billion 2/	66.7	53.7	43.0	45.2	38.5	41.4	38.1	40.8	37.3	39.7	35.5	37.1	36.0	36.5
Reserves in months of imports of goods and services	10.9	9.2	6.7	6.7	5.9	6.2	5.8	6.0	5.6	5.9	5.2	5.4	5.2	5.3
Reserves in percent of external debt service coming due	3,533	3,606	934	2,454	696	1,409	587	1,047	419	767	376	566	400	405
Reserves in percent of reserve money	117.3	108.2	85.8	86.1	77.1	77.3	71.2	73.6	65.2	68.3	58.8	60.5	55.5	53.2
Reserves in percent of broad money	83.9	74.3	57.4	59.1	49.0	51.6	45.3	48.5	41.2	45.0	36.9	39.6	35.9	33.6
Reserves in percent of the IMF RA metric 3/ 4/	217	203	160	173	137	148	129	141	119	133	109	119	112	110
Reserves in percent of the augmented IMF RA metric 5/	…	…	142	173	119	120	112	110	104	113	95	103	97	96

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

1/ IMF Country Report No. 16/379. Iraq: Staff Report for the First Review of the Three-Year Stand-By Arrangement.

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

3/ 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.

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

5/ Reserves within 100–150 percent of the augmented RA metric are considered adequate. The augmented RA metric adds a term to account for the possibility of lower than projected oil prices.

Table 13. Iraq: Financial Soundness Indicators, 2015–16[1/]

(In percent)

	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4
State-owned Commercial Banks [2/]						
Regulatory Tier 1 capital to risk-weighted assets [3/]	6.3	6.2	7.9	8.0	6.4	19.6
Regulatory Tier 1 capital to (non-risk weighted) assets	1.9	1.9	1.9	2.0	2.0	2.0
Nonperforming loans net of provisions to capital	14.1	18.0	23.2	26.5	25.6	17.3
Nonperforming loans to total gross loans	7.4	8.1	10.1	10.1	9.9	10.0
Return on assets	0.3	0.4	0.3	0.3	0.3	0.4
Liquid assets to short-term liabilities	76.7	76.5	75.5	76.5	76.0	75.8
Net open foreign exchange position to capital	-76.2	-70.8	-73.6	-65.2	-58.8	-51.5
Private Commercial Banks [4/]						
Regulatory Tier 1 capital to risk-weighted assets	65.5	58.4	66.1	72.1	74.8	93.5
Regulatory Tier 1 capital to (non-risk weighted) assets	42.1	42.2	43.7	44.2	45.8	48.5
Nonperforming loans net of provisions to capital	0.7	2.8	7.9	8.4	9.9	9.1
Nonperforming loans to total gross loans	7.5	11.2	19.5	20.6	24.4	23.7
Return on assets	3.6	2.4	1.3	1.7	1.3	1.6
Liquid assets to short-term liabilities	74.4	79.3	91.9	90.3	93.0	101.5
Net open foreign exchange position to capital	10.2	10.2	7.4	9.9	8.3	11.4

Source: Central Bank of Iraq.

1/ FSIs are compiled following an STA technical assistance mission in March 2017. Work is underway to check and improve data quality.

2/ Six state banks are included.

3/ The increase in the ratio in Q4 2016 is explained by a significant drop of risk-weighted asset.

4/ Thirty-three private banks are included.

Annex I. Iraq: Risk Assessment Matrix[1]
Potential Deviations from Baseline

Source of Risks	Relative Likelihood	Economic Impact and Time Horizon	Policies to Minimize Impact
• **Retreat from cross-border integration.** A fraying consensus about the benefits of globalization could lead to protectionism and economic isolationism, leading to reduced global and regional policy collaboration with negative consequences for trade, capital and labor flows, sentiment, and growth.	High	Medium **Short to Medium-Term** Lower oil prices	Implement fiscal consolidation to create fiscal space for spending increasing human and physical capital and boosting trend growth.
Policy and geopolitical uncertainties: • **Heightened risk of fragmentation/security dislocation in part of the Middle East, Africa, and Europe,** leading to a sharp rise in migrant flows, with negative global spillovers.	High	High **Short to Medium-Term** Increased security risk	Increase non-oil revenue, seek further financial support from international community, and protect social spending.
Financial conditions: **Significant further strengthening of the U.S. dollar and/or higher rates.** As investors reassess policy fundamentals, as term premia decompress, or if there is a more rapid Fed normalization, leveraged firms, lower-rated sovereigns and those with un-hedged dollar exposures could come under stress. Could also result in capital account pressures for some economies.	High	Medium **Short-Term** Limited exposure to global markets	Implement fiscal consolidation and economic reforms supported by the IMF and the World Bank.
Reduced financial services by global/regional banks ("de-risking"): Further loss of correspondent banking services (CBS) significantly curtails cross-border payments, trade finance, and remittances in emerging and developing economies.	High	Medium **Short to Medium-Term** Shallow banking sector	Implement AML/CFT measures supported by the IMF and the World Bank to avoid blacklisting and negative impact on CBS.
Lower energy prices, Production cuts by OPEC and other major producers may not materialize as agreed while other sources of supply could increase production. May also be triggered by supply factors demand factors, i.e., weaker-than-expected global growth.	Low/Medium	High **Short to Medium-Term** Very high oil dependency	Implement fiscal consolidation and reforms to facilitate more inclusive and diversified growth.
Protracted Conflict, the baseline assumes the resolution of the conflict with ISIS in the near term, but the stalemate could continue or morph into another form of sectarian conflict.	High	High **Short to Medium-Term**	Implement fiscal consolidation to create fiscal space for security spending.
Political fragmentation, the current relative political unity may be undermined by a spike in internal tensions, including on the relationship with the Kurdistan Regional Government (KRG).	High	High **Short to Medium-Term**	Implement budget sharing agreement with KRG and fiscal decentralization.
Poor policy implementation and corruption	High	High **Short to Medium-Term**	Implement Public Financial Management Reforms, including at the decentralized level to pave the way for fiscal decentralization.

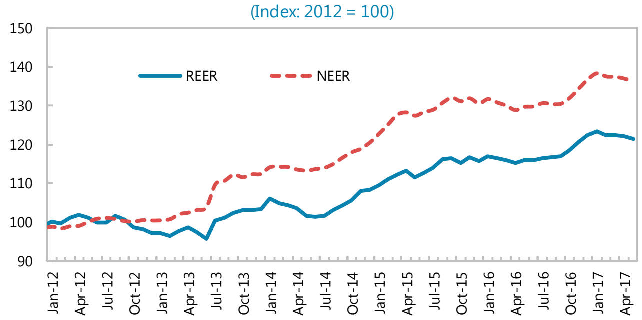
[1] Based on **Global Risk Assessment Matrix (February 2017).** The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short-term" and "medium-term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex II. External Sector Assessment[1]

Staff's assessment is that the external position in 2016 was substantially weaker than suggested by fundamentals and desirable medium-term policy settings. The substantial fiscal adjustment programmed under the Stand-By Arrangement over the medium-term will bring the current account back in line with fundamentals and support the exchange rate peg. As long as credible fiscal adjustment is in place, the exchange rate peg remains the best option for Iraq.

1. Iraq's current account deficit is expected to gradually fall due to tight fiscal policy in the background of slow oil price recovery. Due to the decline in oil prices, Iraq's current account deficit increased to 8.7 percent of GDP in 2016 from 6.5 percent in 2015 despite significant fiscal consolidation. In 2017, the deficit is expected to slight ly fall to 6.3 percent of GDP, helped by oil prices recovery and a moderate increase in oil production.[2] In the medium term, the current account deficit is expected to improve slowly, reaching 2.2 percent of GDP in 2021, under the combined effect of a small increase in oil exports volume, a gradual oil price recovery, and fiscal policy tightening. The real and nominal effective exchange rates for Iraq appreciated by about 8 percent in 2016. This is a continuation of the real appreciation trend that the Iraqi dinar has experienced since 2013 (Text Figure 1) and mirrors the appreciation of the U.S. dollar to which the Iraqi dinar is pegged.

Text Figure 1. Iraq: Real and Nominal Effective Exchange Rate
(Index: 2012 = 100)



Source: IMF's Information Notice System (INS).

2. Iraq's ample reserve buffers will decline in the medium term, given weak oil price prospects and growing external debt amortization, but remain adequate. The large contraction in the 2016 stock of reserves (by 15 percent y-o-y), owing the protracted oil-price slump, will moderate in 2017, with a -8.5 percent decline to a still adequate level of $41.4 billion. Over 2017–22, oil exports are expected to contribute little to reserves accumulation, as oil prices are projected to increase by less than $2. The projected further decline in reserves during 2019–21 is expected to be mainly driven by increased external

Text Table 1. Iraq: Reserve Adequacy Indicators, 2016—22

	2016	2017 Proj	2018 Proj	2019 Proj	2020 Proj	2021 Proj	2022 Proj
Reserves in USD billion 1/	45.2	41.4	40.8	39.7	37.1	36.0	36.5
Reserves in months of imports of goods and services	6.7	6.2	6.0	5.9	5.4	5.2	5.3
Reserves in percent of external debt service coming due	2,454	1,409	1,047	767	566	400	405
Reserves in percent of reserve money	86.1	77.3	73.6	68.3	60.5	55.5	53.2
Reserves in percent of broad money	59.1	51.6	48.5	45.0	39.6	35.9	33.6
Reserves in percent of the IMF RA metric 2/	173	148	141	133	119	112	110
Reserves in percent of the augmented IMF RA metric 2/ 3/	173	120	110	113	103	97	96

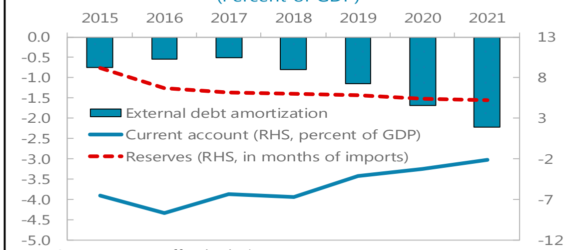
Sources: Iraq authorities; and Fund staff estimates and projections.
1/ Starting 2014 includes US$ account balances from oil revenues.
2/ Reserves within 100–150 percent of the Reserve Adequacy (RA) metric are considered adequate.
3/ The augmented RA metric adds a term to account for the possibility of lower than projected oil prices.

[1] Prepared by Neree Noumon.

[2] In 2017, oil production is projected to fall by 1.5 percent to 4.566 million barrel per day (mbpd) from 4.633 mbpd in 2016, in line with the November 30, 2016 OPEC agreement to cut oil production.

debt amortization, from less than 1 percent of GDP in 2016 to 3 percent of GDP in 2022.[3] Nevertheless, reserves are projected to exhibit a small recovery starting from 2022, in line with oil prices. Given the overall sluggish oil price recovery prospects, the stock of foreign reserves is expected to fall substantially but remain close to the 100 percent threshold of the IMF RA and adjusted RA metrics, if the fiscal consolidation strategy agreed under the SBA is implemented (Text Figure 2 and Table 1).

Text Figure 2. Current Account, Reserves and Debt Amortization, 2015—22
(Percent of GDP)



Source: IMF staff calculations.

3. With data quality caveats, the External Balance Assessment (EBA)-Lite methodology suggests that Iraq's current account is substantially weaker than warranted by fundamentals and desirable policies. Based on the current account approach of the EBA-lite methodology, the current account (CA) was substantially weaker than warranted by fundamentals and desirable policies, with a CA gap estimated at -7.6 percent of GDP (Table 2). This external balance assessment comes with a wide confidence interval, due to three factors: (i) weaknesses in Iraq's external sector statistics, implying uncertainty around fitted values of Iraq's current account; (ii) the fact that the EBA-lite methodology[4] does not fully account for oil-exporting countries characteristics; and (iii) the inherent difficulties in estimating the cyclically adjusted variable in oil-exporting countries, given the volatility of oil prices. Considering these uncertainties, staff judges the ranges for the CA gap to be between -5.6 and -9.6 percent of GDP and the ranges for the REER overvaluation to be between 15–25 percent. These gap and overvaluation are expected to be gradually eliminated over the medium-term by the fiscal consolidation programmed under the SBA.

Text Table 2. Iraq: EBA-Lite Results, 2016
(In percent of GDP)

		CA Approach
Current account (CA) results		
Current account balance	(1)	-8.7
Fitted CA	(2)	-2.1
Policy Gap	(3)	-1.1
Current account norm	(4) = (2 - 3)	-1.1
Current account gap	(5) = (1 - 4)	-7.6

Source: IMF staff estimates

4. The Iraqi dinar peg with the U.S. dollar remains appropriate as a nominal anchor for macroeconomic policies. The misalignment of the REER is expected to be corrected by the ongoing fiscal consolidation that will continue to lower the current account deficit over the medium-term. The relatively high initial stock of reserves is also a key aspect on which external sustainability hinges. Going forward, structural policies to improve competitiveness and achieve export diversification are needed to support Iraq's external position.

[3] Large items coming due include the IMF's SBA, the U.S.-guaranteed bond, and the U.S. Foreign Military Financing loan.

[4] The sample of countries from which Iraq's current account norm is estimated is composed of advanced and emerging market countries, most of which have very different characteristics from an oil-exporting country like Iraq.

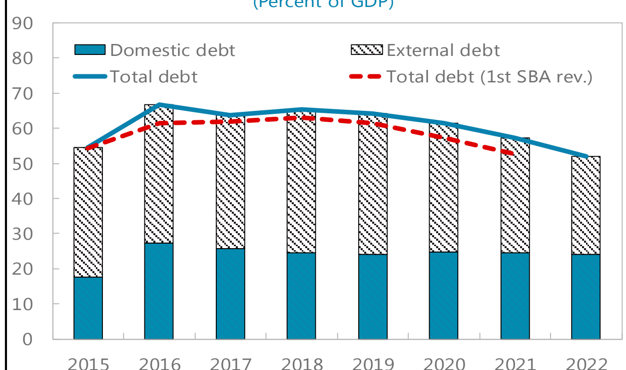
Annex III. Iraq—Public and External Debt Sustainability Analysis[1]

The debt outlook under the baseline scenario has worsened slightly since the first review of the Stand-By Arrangement (SBA), mostly owing to lower-than-expected oil prices and recently contracted debt guarantees.[2] Compared with the first SBA review, lower fiscal revenues from weaker oil price prospects and broadly unchanged fiscal consolidation stance over 2017–21 are expected to increase Iraq's financing needs and reliance on the Central Bank of Iraq *(CBI)'s indirect monetary financing. Thus, the total public debt path will rise by an average of 3 percent of GDP over 2017–21, equally driven by the expected increase in nominal debt—from widening fiscal deficit and newly issued debt guarantees—and lower-than-programmed nominal GDP growth. Staff assesses that Iraq's debt is sustainable and would remain so over the medium run if the recommended fiscal adjustment is implemented. Public debt is expected to peak at 65 percent of GDP in 2018, before embarking on a downward path and reaching 52 percent of GDP in 2022.[3] The implementation of fiscal adjustment plans and the gross financing needs remain sensitive to macro shocks and oil price prospects. These risks are partly mitigated since about one-third of domestic debt consists of short-term debt held by the central bank and about 60 percent of external debt consists of legacy arrears still to be restructured on Paris Club terms.*

A. Public Debt Sustainability Analysis

1. **The medium-term debt path under the baseline scenario is projected to increase by 3 percent of GDP compared with the first review of the SBA,[4] due lower-than-expected oil revenue 2018–21 the recently contracted debt guarantees.**[5] In 2016, the $7.3 billion upward revision to nominal domestic debt led to an increase of the debt ratio to 67 percent of GDP from 61 percent previously estimates. The fiscal consolidation stance envisaged under the SBA would broadly be maintained over 2017–21, with an average budget deficit projected to be only $0.5 billion larger than the first SBA review level. Therefore, the shortfall in the government's oil revenue is expected to translate in a somewhat higher reliance on domestic borrowing that will

Text Figure 1. Iraq: Total Public Debt Public Debt, 2015—22
(Percent of GDP)



Source: IMF staff calculations.

[1] Prepared by Neree Noumon.

[2] The main assumptions underpinning the DSA are presented in the lower panel of Figure 1 and are based on the medium-term macroeconomic framework under the SBA.

[3] The public debt stock includes legacy arrears to non-Paris Club creditors, still under negotiation ($41 billion). Applying similar Paris club debt relief (89.75 NPV cut) would reduce the debt stock by 17 percent of GDP in 2017.

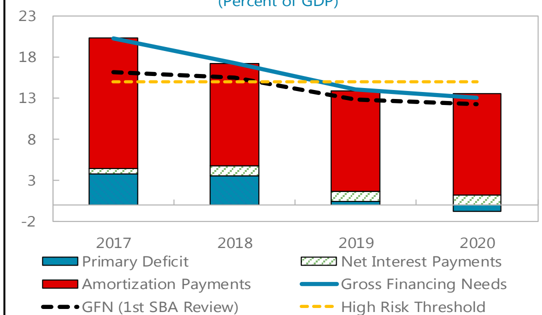
[4] IMF Country Report No. 16/379. Iraq: First Review of the Three-Year Stand-By Arrangement, Annex I.

[5] Per the latest World Economic Outlook (WEO) assumptions, Iraqi oil prices are expected to be lower than programmed by a gap which will increase from $0.3 per barrel in 2018 to $4.3 per barrel over 2021.

increase the domestic nominal debt path by about $3 billion over 2017–21.[6] The nominal debt path will further shift upward by a $3.6 billion worth of debt guarantees starting from end-2016. Thus, and considering recent revisions to the stock of external debt,[7] the nominal debt path is expected to be worse by an average of $4.1 billion over 2017–21, relative to its level during the first SBA review. Nominal GDP was revised downward, mostly owing to a downward revision of the non-oil GDP deflator in 2016, which is expected to reduce non-oil GDP over the projected period. Because of the nominal debt and GDP trends, total public debt-to-GDP is expected to peak at 65 percent of GDP in 2018—1.9 percent of GDP larger than in the previous DSA—and to decline to 52 percent of GDP in 2022. The worsening in the debt profile is explained by the increase of the nominal debt path—expected to increase the debt ratio by an average 1.8 percent of GDP—coupled with a fall in the nominal GDP path—which would deteriorate the debt-to-GDP path by about 1.4 percent of GDP.

2. **Gross financing needs have increased since the first SBA review and remain above the high-risk threshold in the near term.** The need to finance the government deficit through domestic borrowing will continue to remain high, in line with deteriorating oil prospects. However, government short-term debt mostly consists of T-bills purchased by state-owned banks and discounted at the Central Bank of Iraq, which mitigates rollover risk. On average, the expected gross financing needs (GFS) over 2017–18 are estimated at 19 percent of GDP, higher than previously projected (16 percent of GDP) and substantially above the high-risk threshold of 15 percent of GDP (Text Figure 2).

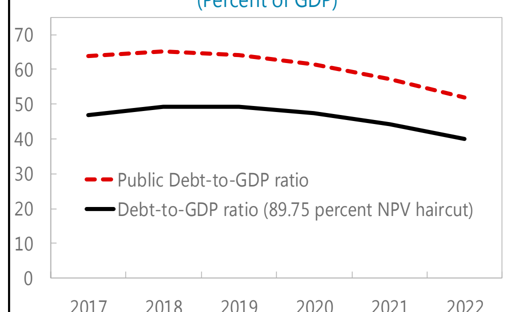
Text Figure 2. Iraq: Gross Financing Needs (GFN), 2017—20
(Percent of GDP)



Source: IMF staff calculations.

3. **Iraq debt composition features a high and increasing share of domestic debt over the medium term.** Compared to the first SBA review, the domestic debt financed by the CBI's indirect monetary financing is expected to high. The share of domestic debt will slightly rise from 40 percent of total debt in 2017 to 43 percent of total debt in 2021, as the country gets lower oil revenue to finance an unchanged level of spending and external debt is amortized (Text Figure 1). The $41 billion external arrears accumulated before 2003 and under negotiation remain included in the stock of external

Text Figure 3. Iraq: Total Public Debt after Arrears Restructuring, 2017–22
(Percent of GDP)



Source: IMF staff calculations.

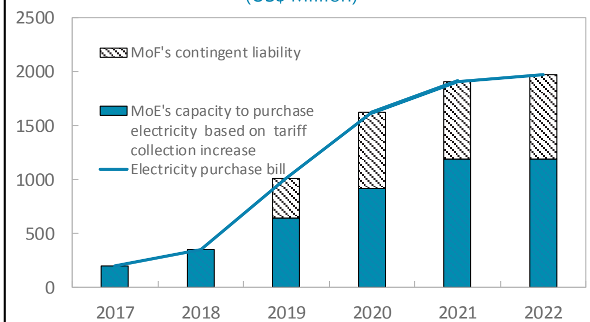
[6] The factors behind lower oil revenue include lower oil prices, the non-implementation of the budget sharing agreement with KRG, and lower transfer from oil related SOEs.

[7] Arrears to international oil companies (IOCs) operating in Iraq are treated as part of external debt. The Iraqi authorities are in the process of improving data quality with respect to international transactions related to IOCs in the balance of payments (BoP) with technical assistance of the IMF Middle East Technical Assistance Center (METAC), when which this treatment will be reviewed.

debt, and have yet to be settled in line with the 2004 Paris Club meeting agreement terms.[8] In addition, the DSA maintains the conservative assumption that these arrears will not be settled during the projection period. If external arrears were reduced in line with Paris Club creditors' debt, the debt-to-GDP ratio would fall from 64 to 47 percent in 2017, peak at 49 percent in 2018, and decline to about 40 percent in 2022 (Text Figure 3).

4. **Iraq debt sustainability is substantially exposed to contingent liabilities arising from government guarantees.** Starting in 2016, the Ministry of Finance (MoF) has issued $36 billion worth of guarantees covering the next 14 years. Over 2017–22, these guarantees consist of $3.6 billion of debt guarantees (see ¶1 and Text Figure 2) and $7 billion of service payments guarantees of the Ministry of Electricity's (MoE) purchase of electricity from independent power producers (IPPs).[9] The signed service payments guarantees expose the government to contingent liabilities to the extent that MoE is unable to pay its electricity purchase bill. Accordingly, we assume the central government contingent liability to be captured by the gap between projected electricity purchases and tariff collections, which is equivalent to $2.6 billion over 2018–22. Hence, service payments guarantees appear to pose relatively limited risk to Iraq's overall debt sustainability. Indeed, the contingent liabilities' cumulative contribution to public debt amounts to 1.1 percent of GDP over the medium term (Table 1). In the worst-case scenario, the full electricity purchase bill is paid by the Ministry of Finance (MoF) over 2018–22 and contingent liabilities' contribution to total public debt increases to 3 percent of GDP.

Text Figure 4. Iraq: Contigent Liabilities and Service Payments to IPPs, 2017—22
(US$ Million)



Source: Iraqi Authorities and IMF staff computations

5. **Risks to debt sustainability hinges on the implementation of the fiscal consolidation agreed under the SBA**. Any deviation from the agreed fiscal consolidation under the SBA would increase the debt path and compromise public debt sustainability. Iraq's ability to achieve this debt path is mostly driven by its budget constraint—which relies heavily on oil revenue—and its commitment to contain spending and raise additional non-oil revenue. In 2016, Iraq's ratio of external debt-to-total public debt was 59 percent, above the 45 percent high-risk threshold (heat map, Figure 4). However, this risk is moderate because of the legacy arrears to non-Paris Club creditors (see ¶3). Also, Iraq's spread over the EMBIG index, which averaged 565 basis points (bps) over the last 3 months, has fallen to 550 bps as of June 2017, below the high-risk threshold (600bps), partly driven by increased investors' confidence stemming from the successful completion of the first SBA review and the issuance of a $1 billion U.S.-guaranteed bond.

[8] 89.75 percent reduction of the net present value (NPV) of the debt.

[9] Following the TMU definition of the public debt, debt guarantees were added to the stock of debt.

6. Stress tests confirm that Iraq's total debt is particularly vulnerable to growth and real exchange rate shocks.

- **Growth shock:** If projected real GDP rates are lowered by one standard deviation (implying lower real growth by 4 percentage points) in 2018 and 2019, the debt ratio would peak at 76 percent of GDP in 2019 before gradually declining to 63 percent in 2022.

- **Primary balance shock:** This scenario assumes a worsening of the primary balance by 3 percentage points of GDP in 2018 and 2019. The larger deficit would make the debt ratio peak at 71 percent in 2019 and fall to 58 percent in 2022.

- **Real interest rate shock:** A one-time real interest rates increase by 10 percentage points in 2018 would make the debt ratio peak at 65 percent of GDP in 2019 and fall to 57 percent in 2022.[10]

- **Real exchange rate shock:** A one-time real depreciation of 30 percent in 2018 would make total public debt peak at 75 percent of GDP in 2018 and fall to 61 percent in 2022.

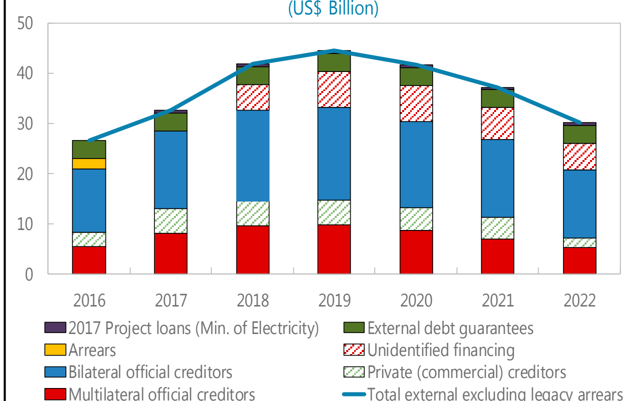
- **Combined shock:** A combination of these shocks would make debt peak at 91 percent of GDP in 2019. Thereafter, public debt would decline to 82 percent of GDP at the end of the forecast horizon.

B. External Debt Sustainability Analysis

7. Excluding legacy arrears, Iraq external debt is highy concessional and mostly consists of official loans. Official loans accounted for 70 percent of total debt in 2016, mostly on a concessional basis (Text Figure 5). Thus, the effective interest rate of external debt is low (3 percent in 2017).[11] In 2016, the average time to maturity (8.5 years) and the effective maturity of external debt (30 years) were relatively high, also reflecting a high concessionality and low refinancing risk. In the baseline scenario, external debt excluding legacy arrears is expected to reach its peak in 2019 and decline afterward, mostly driven by multilateral and bilateral debt amortization. Finally, Iraq's stock of unidentified financing, which finances the financing gap, is expected to peak at $7.1 billion in 2019 and be amortized starting from 2021.

Text Figure 5. Iraq: External Debt Composition, 2016—22

(US$ Billion)



Source: IMF staff calculations.

[10] The DSA methodology for 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 because oil prices have a large weight in the GDP deflator, we consider a moderate 10 percent real rate shock.

[11] Medium Term Debt Management Strategy, 2016, Iraq Ministry of Finance.

8. Stress tests confirm that external debt sustainability is particularly sensitive to current account and real depreciation shocks (Figure 5).

- **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 make external debt peak at 50 percent of GDP in 2019 and 2020 before edging down to 47 percent of GDP in 2022.
- **Real exchange rate shock:** A one-time real depreciation of 30 percent in 2017 would make external debt peak at 50 percent of GDP in 2018 and decline to 34 percent of GDP by 2022.
- **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 46 percent in 2019 and 39 percent at the end of the projection period.

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

(In percent of GDP, unless otherwise indicated)

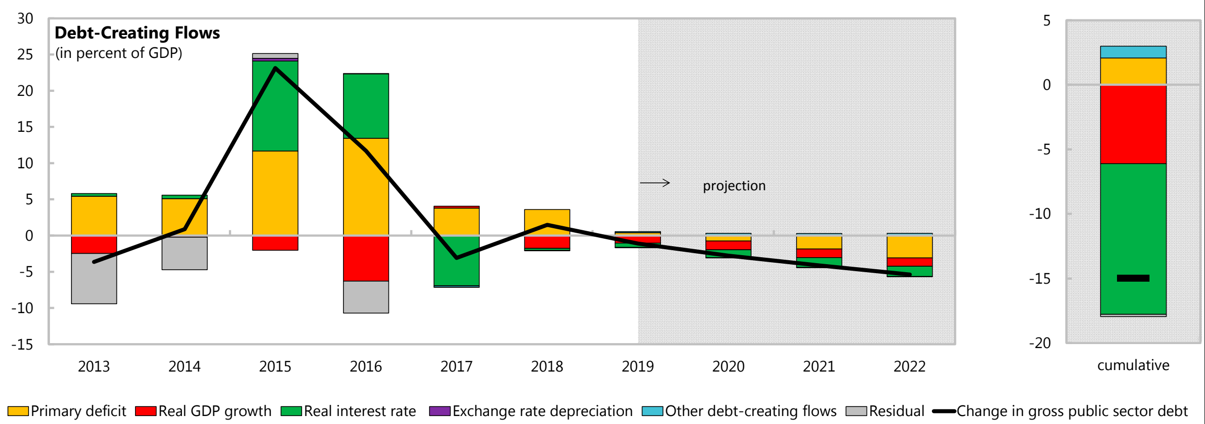
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2006-2014 [2/]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	70.4	55.1	66.9	63.8	65.3	64.2	61.4	57.3	51.9
Public gross financing needs	1.6	11.6	13.6	20.3	17.3	14.0	13.1	12.4	13.4
Real GDP growth (in percent)	6.2	4.8	11.0	-0.4	2.9	1.7	2.0	2.1	2.1
Inflation (GDP deflator, in percent)	10.2	-26.9	-12.9	12.9	2.3	2.9	3.8	4.4	4.7
Nominal GDP growth (in percent)	17.0	-23.4	-3.4	12.4	5.3	4.6	5.9	6.5	6.9
Effective interest rate (in percent) [4/]	0.8	1.5	1.2	1.1	1.9	2.0	2.1	2.1	2.2

As of June 09, 2017		
Sovereign Spreads 3/		550
5Y CDS (bp)		490
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							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [10/]
Change in gross public sector debt	-12.7	23.1	11.7	-3.1	1.5	-1.1	-2.8	-4.1	-5.4	-15.0	
Identified debt-creating flows	-6.3	22.5	16.1	-3.1	1.5	-1.1	-2.7	-4.1	-5.3	-14.8	
Primary deficit	2.5	11.7	13.4	3.8	3.6	0.4	-0.8	-1.8	-3.1	2.1	-2.3
Primary (noninterest) revenue and grants	46.1	30.3	27.4	36.0	36.5	35.6	34.6	33.8	33.1	209.6	
Primary (noninterest) expenditure	48.7	41.9	40.8	39.8	40.1	36.0	33.8	31.9	30.0	211.7	
Automatic debt dynamics [5/]	-8.8	10.8	2.7	-6.7	-2.1	-1.6	-2.3	-2.5	-2.6	-17.8	
Interest rate/growth differential [6/]	-8.0	10.4	2.6	-6.7	-2.1	-1.6	-2.3	-2.5	-2.6	-17.8	
Of which: real interest rate	-4.4	12.4	8.9	-6.9	-0.3	-0.6	-1.1	-1.4	-1.4	-11.7	
Of which: real GDP growth	-3.6	-2.0	-6.3	0.3	-1.8	-1.0	-1.2	-1.2	-1.1	-6.1	
Exchange rate depreciation [7/]	-0.8	0.4	0.1	…	…	…	…	…	…	…	
Other identified debt-creating flows [8/]	0.0	0.0	0.0	-0.2	0.0	0.2	0.3	0.3	0.3	0.9	
Other flows (+ reduces financing needs) (negative)	0.0	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	-0.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.2	0.3	0.3	0.3	1.1	
Residual, including asset changes [9/]	-6.4	0.7	-4.4	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	



Source: IMF staff.

1/ Public sector is defined as general government and includes public guarantees, defined as Public debt guarantee.

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/ Other flows consist of drawdown of government deposits in the banking system.

9/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

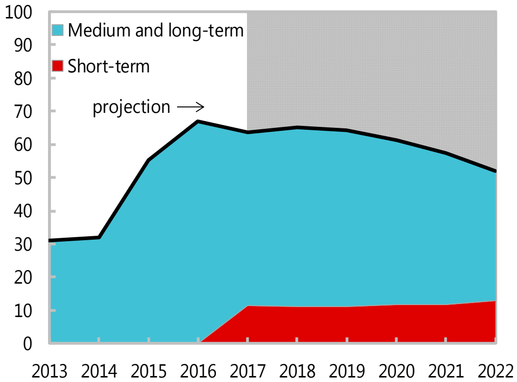
10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 1. Iraq: Public Debt Sustainability Analysis—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

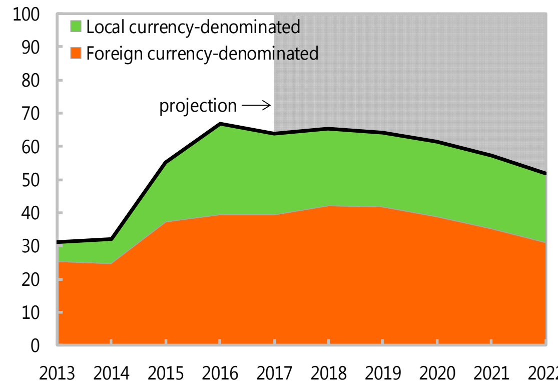
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

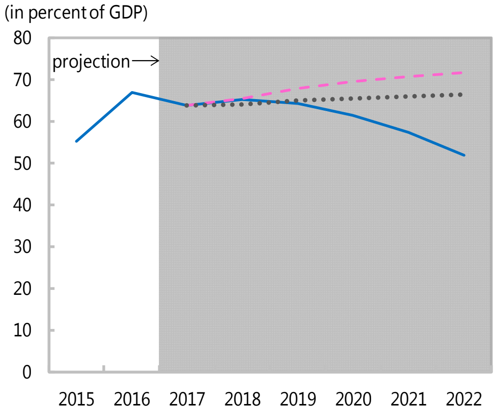


Alternative Scenarios

Baseline Historical Constant Primary Balance

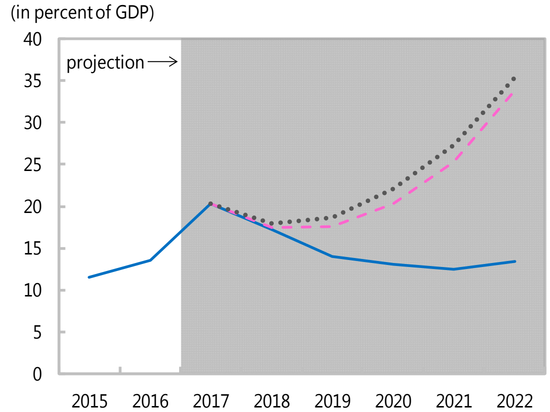
Gross Nominal Public Debt [1/]

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

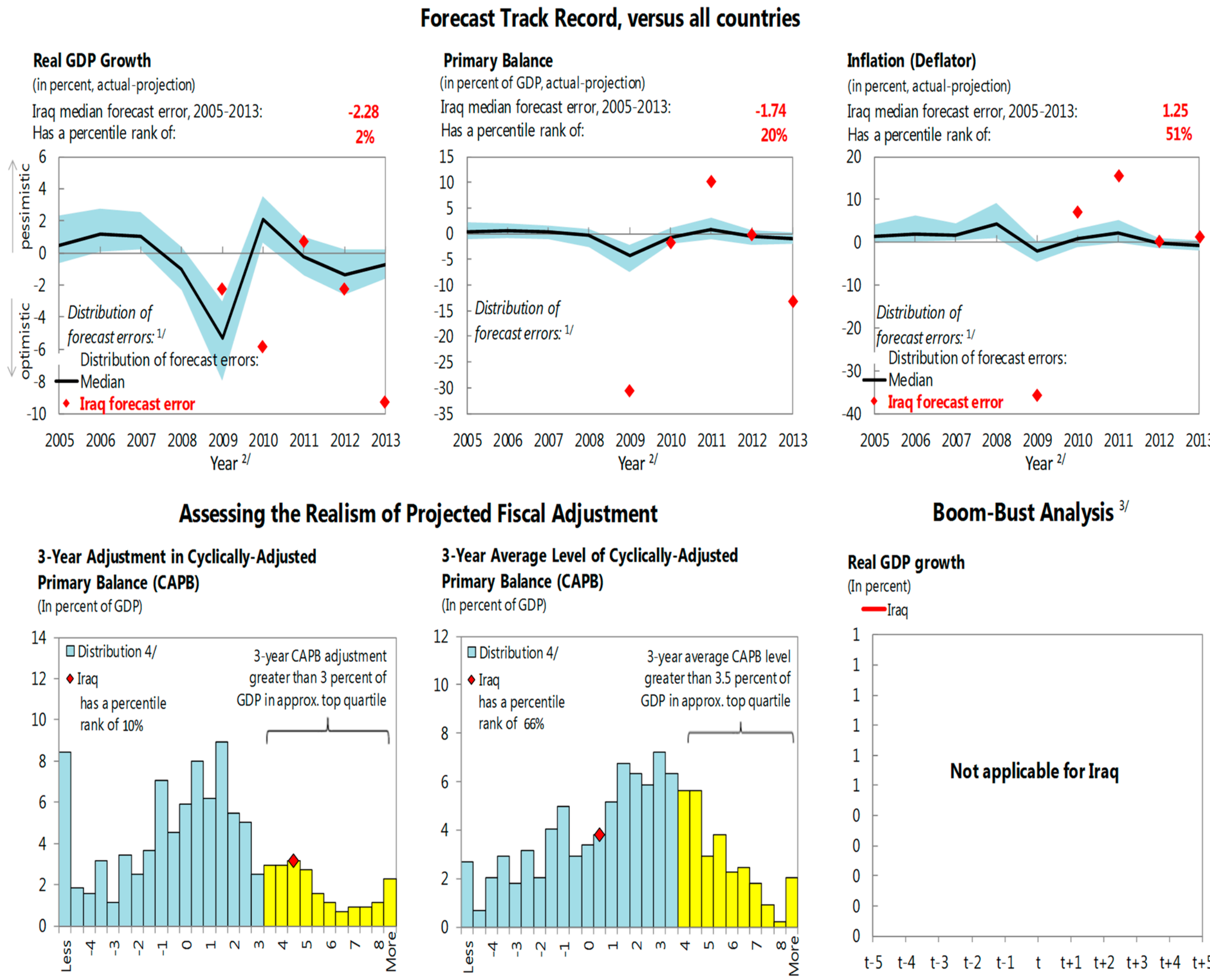
(in percent)

Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	-0.4	2.9	1.7	2.0	2.1	2.1
Inflation	12.9	2.3	2.9	3.8	4.4	4.7
Primary Balance	-3.8	-3.6	-0.4	0.8	1.8	3.1
Effective interest rate	1.1	1.9	2.0	2.1	2.1	2.2
Constant Primary Balance Scenario						
Real GDP growth	-0.4	2.9	1.7	2.0	2.1	2.1
Inflation	12.9	2.3	2.9	3.8	4.4	4.7
Primary Balance	-3.8	-3.8	-3.8	-3.8	-3.8	-3.8
Effective interest rate	1.1	1.9	2.0	2.1	2.1	2.2

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	-0.4	7.1	7.1	7.1	7.1	7.1
Inflation	12.9	2.3	2.9	3.8	4.4	4.7
Primary Balance	-3.8	-4.8	-4.8	-4.8	-4.8	-4.8
Effective interest rate	1.1	1.9	3.2	3.7	4.0	4.3

Source: IMF staff.

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

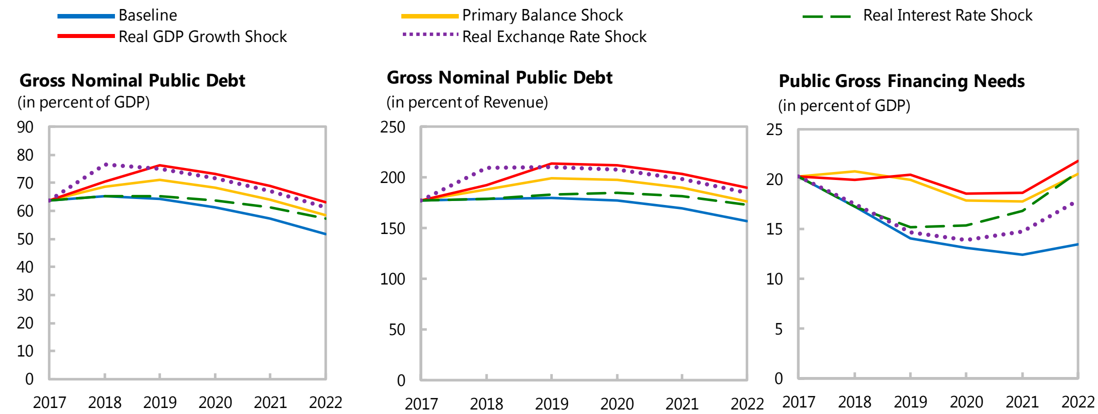


Source : IMF Staff.

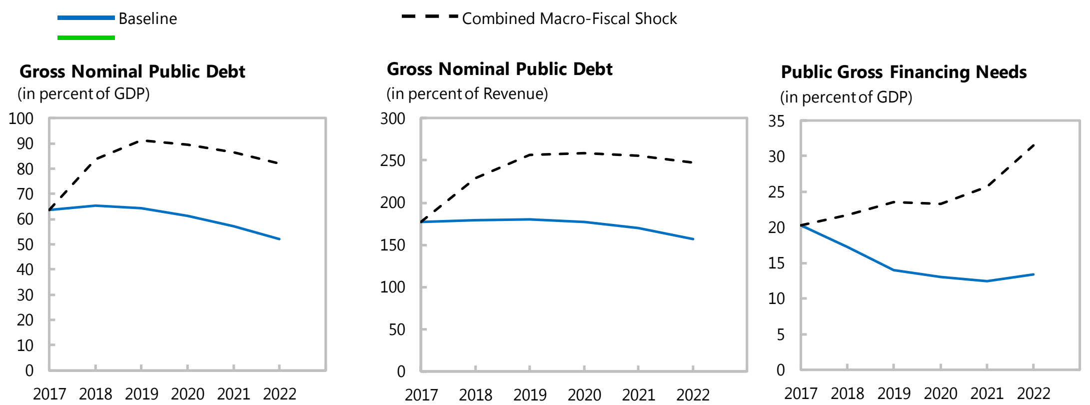
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Iraq, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual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

Figure 3. Iraq: Public Sector Debt Sustainability Analysis (DSA)—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	-0.4	2.9	1.7	2.0	2.1	2.1
Inflation	12.9	2.3	2.9	3.8	4.4	4.7
Primary balance	-3.8	-7.1	-3.9	0.8	1.8	3.1
Effective interest rate	1.1	1.9	2.2	2.4	2.3	2.3
Real Interest Rate Shock						
Real GDP growth	-0.4	2.9	1.7	2.0	2.1	2.1
Inflation	12.9	2.3	2.9	3.8	4.4	4.7
Primary balance	-3.8	-3.6	-0.4	0.8	1.8	3.1
Effective interest rate	1.1	1.9	3.9	4.4	4.7	5.0
Combined Shock						
Real GDP growth	-0.4	-1.0	-2.2	2.0	2.1	2.1
Inflation	12.9	1.3	1.9	3.8	4.4	4.7
Primary balance	-3.8	-7.1	-4.1	0.8	1.8	3.1
Effective interest rate	1.1	2.1	3.7	4.4	4.7	5.0

Real GDP Growth Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	-0.4	-1.0	-2.2	2.0	2.1	2.1
Inflation	12.9	1.3	1.9	3.8	4.4	4.7
Primary balance	-3.8	-5.6	-4.1	0.8	1.8	3.1
Effective interest rate	1.1	1.9	2.1	2.3	2.2	2.3
Real Exchange Rate Shock						
Real GDP growth	-0.4	2.9	1.7	2.0	2.1	2.1
Inflation	12.9	2.3	2.9	3.8	4.4	4.7
Primary balance	-3.8	-3.6	-0.4	0.8	1.8	3.1
Effective interest rate	1.1	2.1	1.9	1.9	2.0	2.0

Source: IMF staff.

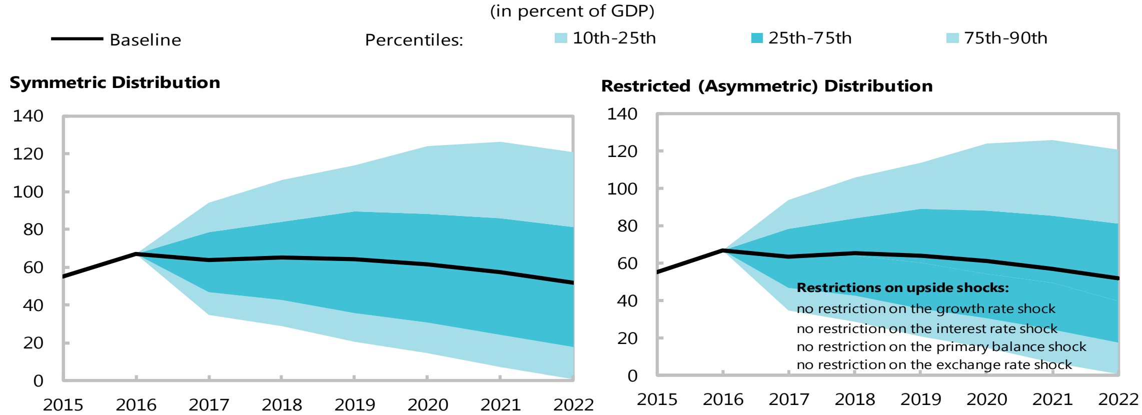
Figure 4. Iraq: Public Sector Debt Sustainability Analysis (DSA)—Risk Assessment

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

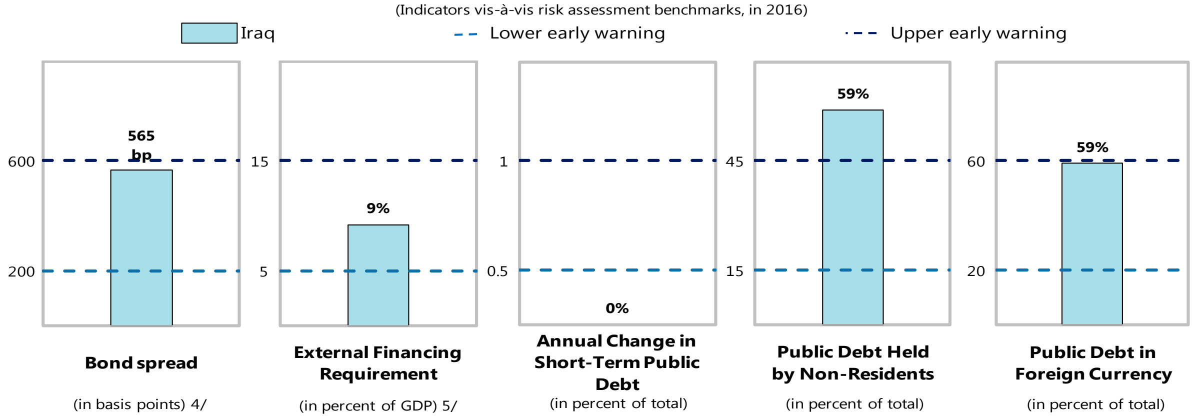
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2016)



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, 11-Mar-17 through 09-Jun-17.

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.

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/
1 **Baseline: External debt**	32.8	27.7	25.3	24.8	36.8			**39.3**	**38.1**	**40.7**	**40.2**	**36.7**	**32.6**	**-4.1**
2 Change in external debt	-11.1	-5.1	-2.4	-0.5	12.0			2.6	-1.2	2.6	-0.6	-3.5	-4.1	
3 Identified external debt-creating flows (4+8+9)	-23.1	-11.3	-5.6	-4.3	12.5			3.4	5.6	4.6	2.0	0.1	-1.2	
4 Current account deficit, excluding interest payments	-11.2	-5.4	-1.4	-2.9	6.2			8.3	5.9	6.1	3.4	2.6	1.6	
5 Deficit in balance of goods and services	-12.2	-6.9	-3.6	-4.4	6.0			8.4	6.1	4.2	3.9	2.6	1.5	
6 Exports	44.4	44.5	39.7	41.3	34.9			32.6	35.8	35.5	34.3	33.6	32.7	
7 Imports	32.2	37.6	36.0	36.9	40.9			41.0	41.8	39.8	38.2	36.2	34.2	
8 Net non-debt creating capital inflows (negative)	-1.0	-1.3	-2.4	-1.7	-1.6			-1.1	-0.9	-1.1	-1.5	-2.3	-2.5	
9 Automatic debt dynamics 1/	-10.8	-4.6	-1.7	0.2	7.8			-3.9	0.6	-0.4	0.0	-0.1	-0.2	
10 Contribution from nominal interest rate	0.4	0.3	0.3	0.3	0.3			0.3	0.4	0.6	0.7	0.6	0.5	
11 Contribution from real GDP growth	-2.5	-3.9	-2.0	-0.2	-1.6			-4.2	0.2	-1.1	-0.7	-0.8	-0.7	
12 Contribution from price and exchange rate changes 2/	-8.7	-1.0	0.0	0.2	9.1			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	12.0	6.2	3.1	3.8	-0.5			-0.8	-6.8	-2.0	-2.5	-3.6	-2.9	
External debt-to-exports ratio (in percent)	73.9	62.2	63.7	59.9	105.4			120.7	106.6	114.6	117.0	109.2	99.7	
Gross external financing need (in billions of US dollars) 4/	-19.8	-10.2	-1.7	-4.5	13.0			15.8	13.3	15.3	11.1	11.0	10.3	
in percent of GDP	-10.6	-4.7	-0.7	-1.9	7.2	10-Year	10-Year	9.2	6.9	7.5	5.3	4.9	4.3	
Scenario with key variables at their historical averages 5/								**39.3**	**28.7**	**20.8**	**13.9**	**7.4**	**2.4**	**-1.6**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	7.5	13.9	7.6	0.7	4.8	6.0	3.7	11.0	-0.4	2.9	1.7	2.0	2.1	
GDP deflator in US dollars (change in percent)	24.7	3.0	0.0	-0.7	-26.9	9.3	21.4	-14.0	12.7	2.3	2.9	3.8	4.4	
Nominal external interest rate (in percent)	1.1	1.1	1.0	1.0	0.9	0.6	0.4	0.9	1.3	1.8	1.8	1.6	1.5	
Growth of exports (US dollar terms, in percent)	52.0	17.7	-4.1	4.3	-35.3	15.3	33.5	-10.8	23.1	4.7	1.0	3.7	3.6	
Growth of imports (US dollar terms, in percent)	8.7	36.9	3.2	2.5	-15.1	13.9	17.5	-4.5	14.6	0.1	0.6	0.2	0.8	
Current account balance, excluding interest payments	11.2	5.4	1.4	2.9	-6.2	1.8	7.4	-8.3	-5.9	-6.1	-3.4	-2.6	-1.6	
Net non-debt creating capital inflows	1.0	1.3	2.4	1.7	1.6	1.3	0.6	1.1	0.9	1.1	1.5	2.3	2.5	

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).

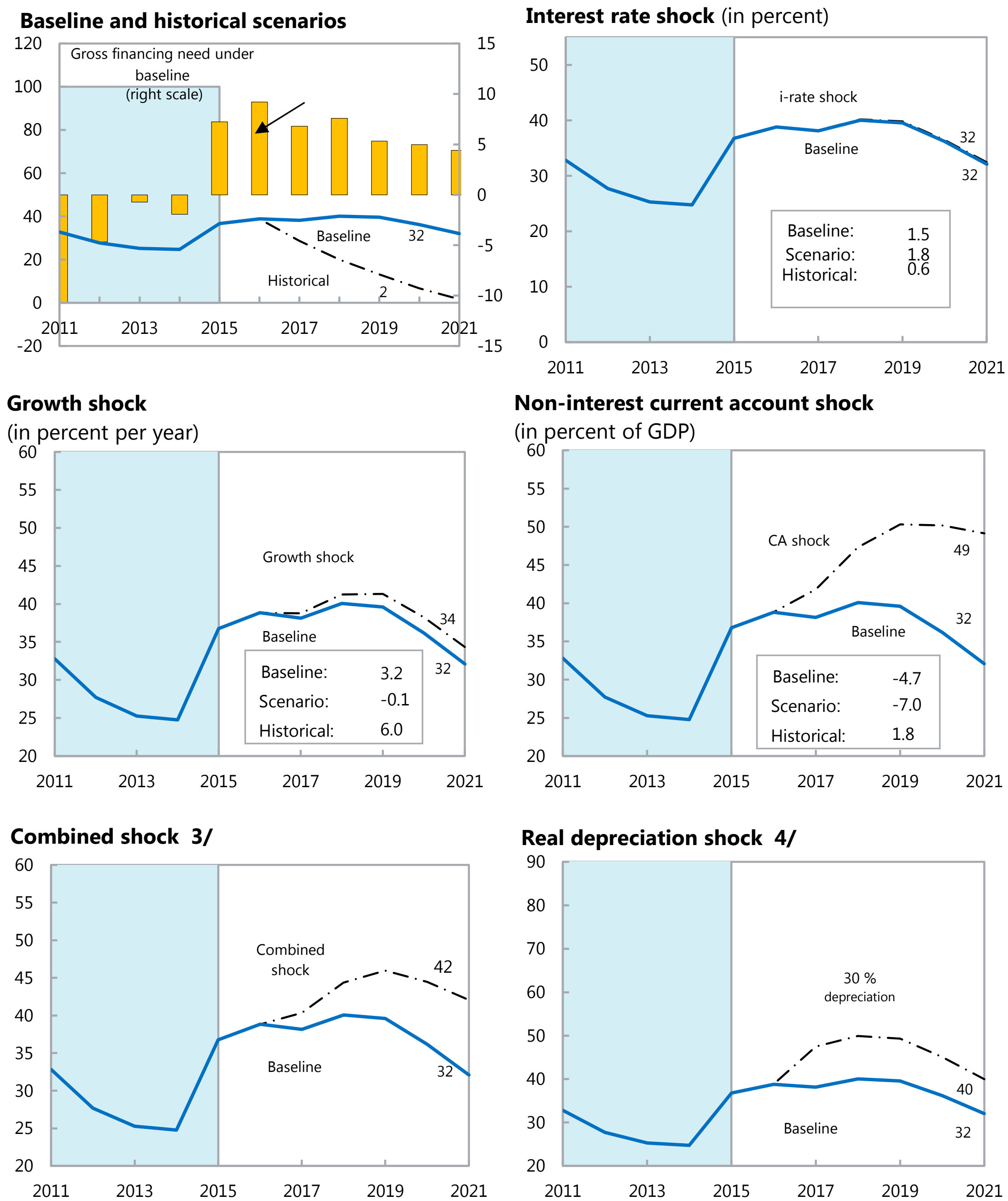
3/ For projection, line includes the impact of price and exchange rate changes.

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 the 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 2017.

Appendix I. Letter from the Prime Minister

Baghdad, 23 July 2017

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

Dear Ms. Lagarde,

As you may be aware, after recapturing the city of Mosul, our brave forces have entered into the last chapter of our fight again the terrorist gangs of Daesh. However these achievements on the military front have come at a very costly price to our economy, which has only been worsened by the drastic fall in oil prices since the 2nd half of 2014. In response to this double shock, the government has taken bold but necessary steps to put its public finances on a sustainable footing and welcomed support of the international community including your $5.3 billion Stand-By Arrangement (SBA) for three years with the IMF as well as a sizable support from donors.

We are committed to the economic reforms outlined in the SBA and are striving to ensure lasting economic sustainability beyond the war against terrorism and for a better future for all Iraqi citizens. This is further shown in the letter of intent signed by the Governor of the Central Bank of Iraq and the Deputy Minister of Finance, as well as the memorandum on economic and financial policies and the technical memorandum of understanding.

We thank you for the continued support you have shown to Iraq and look forward to continue working with you.

Yours sincerely,

/s/

Dr. Haider Al-Abadi
Prime Minister of the Republic of Iraq
Acting Minister of Finance

Appendix II. Letter of Intent

Baghdad, July 23, 2017

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 continues to suffer under the ISIS attack and oil price shock that hit the economy in mid-2014. In response to this double shock, the government has taken bold but necessary steps to put its public finances on a sustainable footing and welcomed support of the international community including our SDR 3.831 billion (about $5.3 billion) Stand-By Arrangement (SBA) for three years with the IMF as well as sizable support from donors.

2. As explained in the attached Memorandum of Economic and Financial Policies (MEFP, ¶¶15-17), all performance criteria (PCs) at end-December 2016 and one continuous PC were missed, and one PC at end-June 2017 was likely missed. The government missed these PCs because of the spending pressure flowing from the war against ISIS and the ensuing humanitarian crisis at a time when oil prices fell precipitously. This forced us to spend more in 2016 and pay less external arrears than programmed. The breach of the continuous PC related to the accumulation of external arrears in amounts of $2.5 million for almost two months at the beginning of 2017 and $157 million for several days at the beginning of July 2017, all of which were paid. Considering the temporary nature of these arrears, and the steps described in the MEFP to put the program back on track and improve cash management, the government requests waivers for the non-observance of the continuous PC and one PC at end-June 2017. We also request waivers of applicability for the four PCs at end-June 2017 for which complete information is not available yet.

3. The government has made good progress in meeting the structural benchmarks (SBs) for the second review of the SBA (MEFP, ¶20). In particular, we have completed the following SBs: the survey of arrears of the central government; the audit of arrears on non-oil investment and on wheat purchases by the Board of Supreme Audit; the survey of guarantees issued by the central government; the external audit of the gross international reserves and the net domestic assets of the Central Bank of Iraq (CBI); the external audit of the total public debt; the circular sent by the Ministry of Finance requiring all spending units to record all existing commitments on current and capital expenditures;

the posting on the Ministry of Finance's external website of the financial statements of the Development Fund for Iraq and Successor Account according to international standards; the adoption by the Governing Council of the CBI of a new charter for the Audit Committee prohibiting CBI executive representation on the committee; the introduction to Parliament of amendments to the Law on the CBI to strengthen CBI governance and the internal control framework; and the issuance by the CBI of clarifying implementing regulations to remove the limitation on transfer of investment proceeds that gave rise to an exchange restriction. We have also made progress in the two other SBs—amendments to the 2011 law establishing the Integrity Commission, and report of all current and investment commitments by the Ministry of Finance—but need more time to complete them. We therefore propose to postpone them to, respectively, the third and fourth reviews.

4. In view of the difficulty in reducing the obligations outstanding for more than three months to IOCs to zero because of the lumpy size of oil shipments, the government proposes to raise the floor on these obligations to $500 million, starting in September 2017. The government also supports staff's proposal to set the stock of these obligations as an indicative target rather than a PC starting in September 2017. The government also supports staff's proposal of changing end-December 2017 PCs for the fourth review in line with the revised macroeconomic framework, and setting PCs for end-June and end-December 2018. The program would continue to have indicative targets on all the variables serving as PCs at the end of the first and third quarters of the year, which should ensure continued monitoring of program performance on a quarterly frequency and help ensure program performance remains on track.

5. Against this background, the government requests completion of the second review under the SBA and requests purchase of the third tranche of SDR 584.2 million (35.1 percent of our quota). The government commits to implement the economic and financial policies during 2017–19 described in the attached MEFP to gradually bring expenditure down to a level consistent with the lower level of oil revenues to achieve debt sustainability while maintaining the exchange rate peg, strengthening public financial management and banking supervision, and fighting money laundering, the financing of terrorism, and corruption. The government will protect social spending and commits to maintain such spending above a floor during the SBA.

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 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 authorizes the IMF staff to publish these documents on its website once the Executive Board has approved this review.

Sincerely yours,

/s/

Dr. Maher H. Johan
Acting Deputy Minister of Finance
Ministry of Finance

/s/

Ali Mohsen Ismail Al Allaq
Acting Governor of the Central
Bank of Iraq

Attachments:
I. Memorandum on 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 economic developments in 2016 and early 2017, outlook and economic and financial policies in 2017–19 regarding Iraq's Stand-By Arrangement (SBA) with the International Monetary Fund (IMF).[1]

Background, Recent Economic Developments, and Performance Under the Stand-By Arrangement

A. Background

2. We have achieved great progress in the fight against the so-called Islamic State in Iraq and Syria (ISIS). The Iraqi security forces have liberated Mosul, ISIS's stronghold in Iraq, with the help of our international partners.

3. The conflict with ISIS has caused the destruction of infrastructure and assets and boosted the number of internally displaced persons to 3 million and the number of people in need of humanitarian assistance to 11 million (29 percent of the population). With over 241,000 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, started 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 increased by 11 percent in 2016 owing to a 25 percent increase in oil production, which was little affected by the conflict with ISIS. While overall real GDP growth in 2016 was in line with the previous projection, the composition of growth was tilted towards higher

[1] IMF Country Report No. 16/379. Iraq: First Review of the Three-Year Stand-By Arrangement.

oil output growth (25 percent rather than 20 percent in the SBA First Review Staff Report) and a larger contraction of non-oil GDP (-8 percent versus -5 percent). Average consumer price inflation was only 0.4 percent in 2016 in the areas not occupied by ISIS (where 80 percent of the population lived before the ISIS occupation). In April, CPI inflation was 1.0 percent year-on-year.

6. Further fiscal consolidation was achieved in 2016, but at a slower pace than programmed mainly because of the inability of the government to control investment expenditure by as much as envisaged but also due to spending pressure stemming from the military campaign against ISIS and humanitarian assistance to IDPs. The non-oil primary balance, on an accrual basis[2], excluding KRG[3], contracted by 1 percent in nominal terms in 2016, reflecting 2 percent real spending growth (following a 25 percent contraction the previous year) and tripling of non-oil revenue (albeit from a very low base). However, this contraction was less than programmed (ID 7.9 trillion, excluding KRG) because of spending overruns in mostly non-oil investment (ID 6.1 trillion), transfers (ID 2.6 trillion) and wages (ID 0.7 trillion), partly because the campaign against ISIS and humanitarian assistance to IDPs and partly because of weak control of investment expenditure by line ministries. In addition, the authorities paid about $2.5 billion less external arrears to international oil companies (IOCs) and other external creditors than programmed because of cash constraints.

7. Preliminary estimates indicate that the fiscal consolidation was on track during the first quarter of 2017. Non-oil primary expenditure, excluding KRG, was less than programmed by ID 2.9 trillion (or 17 percent) while non-oil revenue, excluding KRG, was lower than programmed by a smaller magnitude of ID 0.6 trillion. Therefore, the non-oil primary balance exceeded its programmed floor excluding KRG by 16 percent.

8. In 2016, the current account deficit widened to 8.7 percent of GDP mostly because of the 22 percent fall in oil prices. The deficit was financed by external official loans and the use of official foreign exchange reserves, which fell from $53.7 billion at end-2015 to $45.2 billion (6.7 months of imports of goods and services) at end-2016.

9. In 2016, broad money grew by 7.2 percent as the government continued to borrow from banks while credit to the economy grew by 1.9 percent.

10. State-owned banks, which dominate the banking sector, have weaknesses in their capital and loan portfolio, and private banks' non-performing loans seem to be on the rise, per the CBI's financial soundness indicators (FSIs).

[2] 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. The non-oil primary balance on an accrual basis is the most accurate measure of the fiscal performance in any year because it only includes revenue and expenditure pertaining to that year.

[3] Since the authorities did not implement the budget sharing agreement with KRG in 2016, the fiscal outcomes need to be compared with the programmed levels excluding KRG to assess program performance.

11. The spread between the official and parallel exchange rates vis-à-vis the U.S. dollar decreased from 9 percent on average at the end of 2016 to below 6 percent in June 2017 as the Central Bank of Iraq (CBI) streamlined the documentation requirements for access to its foreign exchange window.

12. The yield on Iraqi dollar bonds maturing in 2028 has declined from about 14 percent in February 2016 to 8.5 percent in early July 2017, in sync with the increase in oil prices and the SBA implementation.

13. Donor disbursements to fill the financing gap identified in the SBA have been coming slightly later than programmed but remain broadly on track. The external financing gap of $12 billion for 2016–17 identified at the outset of the SBA has been closed with $3 billion from the Fund; $2 billion from the World Bank; an additional $2.5 billion from the G7 and the European Union; and deferral of $4.6 billion war reparation payment from Kuwait until 2018. U.K. and Canada have guaranteed $0.444 billion of the $1.444 budget support loan of the World Bank in December 2016. The $1 billion U.S.-guaranteed bond, previously envisaged for late 2016, was issued in January 2017. France is preparing a $0.45 billion budget loan to be disbursed during the third quarter of 2017.

14. On 5 January 2017, the Council of Ministers decreased the electricity tariffs for corporations by 18 percent on average, to help non-oil entrepreneurs.

C. Performance Under the Stand-By Arrangement

15. While not currently implemented, the budget sharing agreement between the federal government in Baghdad and the Kurdistan Regional Government (KRG) is still valid.[4] In the meantime, the performance criterion on the non-oil primary balance (¶16) for the Federal Government will continue to have an adjustor in case the budget sharing agreement with the KRG is not implemented (Technical Memorandum of Understanding—TMU, ¶14). In addition, in August 2016, the federal government and the KRG agreed to resume oil exports by the North Oil Company in Kirkuk through the pipeline linking the KRG to Turkey in an amount of 0.15 million barrels per day (mbpd) and to equally split the export revenue.

[4] Per 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 (i.e., 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). In the revised program for 2017 presented in this MEFP, the oil revenue projected for KRG is ID 10.1 trillion and the transfer to KRG is ID 12.0 trillion.

16. The application of relevant adjustors (for non-implementation of the budget sharing agreement with KRG and shortfalls in arrears repayments) **meant that the related performance criteria (PCs) at end-December 2016 were missed** (Table 1):

- The **stock of gross reserves of the CBI** dipped below the adjusted programmed floor by $1.4 billion because the authorities paid significantly less external arrears than programmed and therefore the program floor was raised accordingly.[5]

- The **net domestic assets of the CBI** exceeded the adjusted programmed ceiling by the amount of ID 2.1 trillion for the same reason.[6]

- The **non-oil primary balance** missed the adjusted programmed floor by ID 4.2 trillion (3.1 percent of non-oil GDP) because of spending overages mostly in non-oil investment (¶6). The program floor was adjusted because of the non-implementation of the budget sharing agreement with KRG (¶15).[7]

- The **gross public debt** missed the adjusted programmed ceiling by ID 5.0 trillion, because the overall deficit was higher than programmed (¶6), and because the government paid less arrears than programmed and signed debt guarantees for spending with deferred payment in the military and electricity sectors.

- The **government** missed all these PCs because of the spending pressure flowing from the war against ISIS and the ensuing humanitarian crisis at a time when oil prices fell precipitously. This forced the government to spend more in 2016 and pay less external arrears than programmed.

- The **continuous PC on no new external arrears** on existing rescheduled debt and new borrowing was missed temporarily because of payment delays on a debt service payment of JPY 294 million ($2.5 million) from January 7 until February 28, 2017 and several debt service payments for a total value of $157 million during a few days at the beginning of July 2017 because of organizational problems at the Ministry of Finance. As these deviations were temporary and the arrears were settled within, respectively, several weeks and days, the government requests a waiver for the non-observance of this PC. The government will also expedite the implementation of the Cash Flow Management Unit and Cash Flow Management Committee at the Ministry of Finance (¶38) to solve the organizational problems that led to these payment delays.

- The **stock of outstanding obligations to International Oil Companies for more than three months** (IOCs) was higher ($1,227 million) than programmed (zero). The government could not reduce the stock of obligations outstanding to IOCs for more than three months as fast as programmed as it faced high spending pressures from the fight against ISIS and the resulting

[5] See ¶19 of TMU, in IMF Country Report No. 16/379, p. 85.

[6] See ¶17 of TMU, in IMF Country Report No. 16/379, p. 84.

[7] See ¶14 of TMU, in IMF Country Report No. 16/379, p. 84.

increase in IDPs (¶3). The government also wants to note that it is difficult to bring these obligations below $500 million for technical reasons. Indeed, payments to IOCs are made through shipments of crude oil of at least 1 million barrels each. About 37 percent of the obligations outstanding to IOCs for more than three months at end-2016 and 85 percent at end-March 2017 are due to smaller claims by IOCs that need to be aggregated to meet the minimum size of the shipment. Thus, the government proposes to raise this ceiling to $500 million starting in September 2017 (Table 1 and ¶46).

17. The floor on social spending (indicative target—IT) **at end-December 2016 was met** (Table 1). However, a second IT was missed:

- **Social spending** (ID 20.0 trillion) exceeded its floor (ID 18.2 trillion).
- The inventory of arrears (¶18) reveals that the **stock of outstanding domestic arrears on non-oil investment** (ID 4.723 trillion) exceeded its ceiling (ID 4.491 trillion) because the inventory of arrears uncovered additional ones.

18. Three of the ITs at end-March 2017 for which information is available were met (Table 1):

- The **stock of gross reserves of the CBI** exceeded the adjusted programmed floor by about $7.0 billion.
- The **net domestic assets of the CBI** were ID 6.8 trillion below the adjusted programmed ceiling.
- The **non-oil primary balance** remained above its adjusted programmed floor (¶7).
- The **gross public debt** exceeded its adjusted programmed ceiling despite the lower budget deficit than programmed because of the overrun of the stock at the end of 2016 (¶16).
- The **stock of outstanding arrears to IOCs** was higher ($447 million) than programmed (zero) for technical reasons (¶16, last bullet).
- The **stock of outstanding domestic arrears on non-oil investment** breached the programmed ceiling by about ID 230 billion because of an upward revision of the stock at end-2016**.**

19. Based on the information available at this time, it is likely that the PC on the stock of outstanding obligations for more than three months to IOCs at end-June 2017 was not met. For reasons explained above (¶16), we expect about $500 million of obligations outstanding to IOCs for more than three months at that date. Considering the progress made since June 2016 when overdue obligations to IOCs amounted to $3,679 million and the commitment to reduce them to no more than $500 million from September 2017 on, the government requests a waiver for the non-observance of this PC.

20. Most structural benchmarks (SB) for the second review have been met and others are in progress (Table 2):

- The Ministry of Finance completed a **survey of all arrears of the central government**. At end-December 2016, the Ministry of Finance identified arrears in an amount of ID 11.1 trillion ($9.4 billion, or 5.5 percent of GDP), out of which ID 4.3 trillion on current expenditure and ID 6.8 trillion on investment expenditure (Tables 5 and 6).

- The Board of Supreme Audit (BSA) has **audited** all the **arrears on non-oil investment** identified so far by the Ministry of Planning **and** all the **arrears on food purchases** identified by the Ministry of Trade as listed in ¶21 of the MEFP for the first SBA review. Out of the 7,023 claims amounting to of ID 4.7 trillion of non-oil investment domestic arrears, the BSA validated 1,855 claims worth ID 1.363 trillion. The Ministry of Planning has reached out to line ministries to provide comments or feedback or missing information for non-compliant claims. The value of legitimate arrears could therefore rise once documentation is completed and clarifications received. Out of the stock of outstanding arrears of ID 2.5 trillion of the Ministry of Trade for purchases of wheat and rice, the BSA verified ID 2.0 trillion.

- The Debt Directorate of the Ministry of Finance completed a **survey of all guarantees issued by the central government**. At end-May 2017, the value of the 11 state guarantees on foreign currency-denominated service payment or debt amounted to $36.0 billion (ID 42.6 trillion, or 21 percent of GDP), out of which $32.4 billion are guarantees of service payments to independent power producers (IPPs) in the electricity sector for the full length of the contracts (about 14 years) and $3.6 billion are debt guarantees. In addition, the value of the guarantee of one local currency-denominated debt amounted to ID 0.5 trillion. The government will inform parliament of these guarantees (¶31).

- The **external** auditor provided its **audit of the gross international reserves and the net domestic assets of the CBI** at end-December 2016 as defined in ¶¶6–7 of the TMU.

- The **external** auditor provided its **audit of the total public debt** at end-December 2016 as defined in ¶11 of the TMU.

- On March 6, 2017, the Minister of Finance sent a **circular** elaborated with the Ministry of Planning and the BSA **requiring all spending units to record all existing commitments** on current and capital expenditures.

- The Ministry of Finance **posted** the **financial statements of the Development Fund for Iraq and Successor Account on December 31, 2015 audited per international standards** on its external website.[8]

[8] The link to the report is: تقرير مدققي الحسابات المستقلين الى الحكومة العراقية2015.

- The Governing Council of the CBI adopted a **new charter for the Audit Committee** prohibiting CBI executive representation on the committee.

- The Council of Ministers has not yet approved draft **amendments to the 2011 law establishing the Integrity Commission** 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 of June 19, 2016. The government needs more time to consult with all stakeholders and proposes to postpone this SB to the third SBA review.

- The Ministry of Finance could not produce a **report on all current and investment commitments** in coordination with the Ministry of Planning, since it issued the circular to the spending units only on March 6. The 663 spending units need training to implement the circular, with the assistance of 24 auditors that the BSA trained in March 2017. Therefore, the government proposes to postpone this SB to the third SBA review.

- The Council of Ministers approved and sent to Parliament **amendments to the Law on the CBI to strengthen its governance and the internal control framework**, in line with the IMF safeguards assessment's recommendations, as specified in ¶29 of the MEFP of June 19, 2016.

- The Central Bank of Iraq issued **clarifying implementing regulations to remove** the limitation on transfer of investment proceeds that gives rise to **an exchange restriction**.

Economic and Financial Policies for 2017–19

21. Hit by the fall in oil prices and the ISIS attack, the government has started to implement a program of fiscal consolidation to maintain debt and external sustainability. The sharp decline in Iraqi oil prices from $103 per barrel in 2013 to $36 in 2016 has caused a sharp increase of the budget deficit from 6 percent of GDP in 2013 to 14 percent of GDP in 2016 and of the public debt from 31 percent of GDP in 2013 to 67 percent of GDP in 2016. It has also caused a deterioration of the current account of the balance of payments from a surplus of 1.1 percent of GDP in 2013 to a deficit of 8.7 percent of GDP in 2016, which was partly financed by a decrease of official gross foreign exchange reserves from $77.8 billion (10.8 months of imports of goods and services) in 2013 to $45.2 billion (6.7 months of imports of goods and services) in 2016. In 2017, a recovery in oil prices is expected, with Iraqi oil prices expected to average $45.3 per barrel.[9] This drop in oil prices seems of a permanent nature as prices on future oil markets currently indicate a flattening of Iraqi oil prices to about $46 per barrel at the 2021 horizon. Therefore, the government has started to implement a program of fiscal consolidation to contain and eventually reverse the increase in total public debt and the decline of gross foreign exchange reserves. Under this program, for the implementation of which the government has received commitment of financial support of

[9] Since January 2015, Iraqi oil prices from the Basra oil fields were about $6.2 per barrel lower than the average petroleum spot price (APSP, the average of the Brent, West Texas and Dubai oil prices) and KRG oil prices about $9.2 lower. These price differentials are assumed to continue through 2022 in the macroeconomic framework presented in this MEFP.

about $12.0 billion, out of which $5.3 billion under the SBA with the IMF, the total public debt would decrease to 65 percent of GDP in 2018 and 57 percent of GDP in 2021; and the official gross foreign exchange reserves would bottom out at $36 billion, 5.2 months of imports of goods and services in 2021.

22. With the current oil price projections and the implementation of the fiscal consolidation under the SBA, the fiscal and current account deficits should be eliminated or substantially reduced by 2022. In 2017, no growth is expected in real GDP because the 1.5 percent contraction in real oil GDP, as a consequence of the production cut agreed by Iraq at the meeting of the Organization of Petroleum Exporting Countries (OPEC) on November 30, 2016, should compensate the 1.5 percent growth of non-oil real GDP expected as the conflict with ISIS subsides (¶2). Over the whole year of 2017, Iraq, including KRG, is expected to produce 4.566 million barrels per day (mbpd) on average in this MEFP, or 0.21 mbpd less than its production level in October 2016 based on Iraqi sources. In April 2018, oil production is projected to revert to 4.776 mbpd until year-end and increase by 1 percent per year over the projection period from 2019, as the level of oil revenue currently projected would not provide sufficient financing for investment necessary to put the level of oil production on a sharper increasing trajectory. Non-oil real GDP growth should gradually recover to half of its pre-2014 trend as the economy recovers from the conflict with ISIS. The projected level of oil revenue and the ongoing fiscal consolidation should gradually reduce the fiscal deficit from 14 percent of GDP in 2016 to zero in 2021 and the current account deficit of the balance of payments from 8.7 percent of GDP in 2016 to less than 1 percent of GDP in 2022. There remains a financing gap of $7.1 billion in 2018–19 ($5.0 billion in the last quarter of 2018, and $2.1 billion in 2019), starting during the last quarter of 2018. This financing gap does not include Iraq's post-ISIS reconstruction needs, which have not yet been assessed and are therefore not included in the SBA projections.

23. To close the financing gap for 2018–19, the government has started to contact potential donors. The authorities have also contacted the Kuwaiti Development Fund and the World Bank to assist them in assessing the post-ISIS reconstruction needs.

D. Foreign Exchange Policy

24. 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. To address concerns that foreign exchange sales by the CBI would finance terrorism or money laundering of illegal activities, the CBI has been strengthening its procedures to allocate foreign exchange with the technical assistance of the U.S. Treasury and the Federal Reserve Board and with recourse to external auditors. The CBI has also requested the technical assistance of the IMF Legal and Monetary and Capital Markets Department to analyze the reasons behind the rise of the exchange rate spread between the official rate of the CBI foreign exchange sales and the parallel market rate since the end of 2015, and to make recommendations to reduce the spread. In the meantime, the CBI has simplified the procedures for access to its foreign exchange window, which has narrowed the spread.

25. The government will gradually remove remaining exchange restrictions and a 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 investor community that Iraq is committed to maintain an exchange system that is free of MCPs and restrictions for current international transactions and thus facilitate creation of a favorable business climate. As a first step, on October 16, 2016, the CBI made the weekly limits on the purchase of banknotes at the foreign currency auctions indicative, in the sense that any bank requiring additional cash for their clients' legitimate travel expenses can obtain the required amount above these limits based on appropriate documentation. As a second step, the CBI issued clarifying implementing regulations, to remove the limitation on transfer of investment proceeds that gives rise to an exchange restriction (SB, Table 2).

E. Fiscal Policy

26. 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 2017–19. This will require: (i) a sizable reduction in the adjusted non-oil primary balance (PC, Table 1), of about 12 percent of non-oil GDP 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. The financing will permit fiscal adjustment to proceed at a more gradual pace than would otherwise be necessitated by the drop in oil revenues.

27. To minimize the impact of the fiscal consolidation on the population, the government will continue to protect social spending, i.e., spending on health, education, reconstruction and transfers in support of the social safety net, the internally displaced and the refugees (IT, Table 1).

28. To strengthen debt sustainability, the government will continue discussions with Iraq's non-Paris Club creditors towards which it still has unresolved external arrears in an amount of $41 billion that were accumulated under the pre-2003 regime. Those arrears make up almost two-thirds of the $67.5 billion of total external debt stock at end-2016. Negotiations with these creditors will continue to seek implementation of debt relief on the same terms as with the Paris Club creditors, i.e., an 89.75 percent net-present-value reduction.

Fiscal Program in 2017

29. The government will adopt a supplementary budget in 2017, of which parliamentary approval will be a prior action (Table 1). The supplementary budget will slightly reduce total spending (by 2 percent), aimed at offsetting the budgetary impact of revenue measures that had been proposed by the Council of Ministers in the draft 2017 budget but subsequently removed during Parliamentary deliberations. In addition, the supplementary budget will introduce a credit allocation for repaying arrears incurred during previous years. The revised budget will also value oil revenue at $45.3 rather than $42.0 per barrel and remain based on oil export of 3.75 mbpd.

30. In 2017, the government commits to contain the non-oil primary deficit to no more than ID 67.8 trillion on an accrual basis, **the same level as at the first SBA review**. This fiscal program will be achieved through the implementation of the following measures:

- collect at least ID 8.9 trillion (6.3 percent of non-oil GDP) in **non-oil revenue**, compared to ID 10.5 trillion (7.0 percent of non-oil GDP) in the 2017 fiscal program at the first SBA review based on the draft 2017 budget sent to parliament; the downward revision of the non-oil revenue is due to Parliament's decision to impose a lower 3.8 percent levy on salary and pensions to finance the war effort and humanitarian assistance to the internally displaced population than the 4.8 percent proposed by the government, and the downward revision of non-tax revenue by Parliament from ID 3.5 to 2.3 trillion. To counter the fall in non-oil revenue compared to the objective at the first review, the government will implement a new tax on internet services, which should yield ID 0.2 trillion in 2017.

- reduce **non-oil primary expenditure** to ID 76.9 trillion (54.2 percent of non-oil GDP) compared to ID 78.4 trillion (52.5 percent of non-oil GDP) in the 2017 fiscal program at the first SBA review based on the draft 2017 budget sent to parliament; this reduction will be achieved mostly by the following measures:

    - increase the **wage bill** to ID 36.3 trillion, slightly higher than ID 35.8 trillion in the 2017 budget in light of the higher-than-budgeted outcome in 2016; to reduce the pressure on the wage bill, the government will implement natural attrition: it will only replace one in five staff retiring, thereby setting the total number of civil servants and military personnel (approximately 2.9 million of whom about 900,000 are military and security personnel at end-2016) on an annual reduction path by 50,000 staff or close to 2 percent.

    - increase **pension payments** paid by the Ministry of Finance to ID 11.3 trillion (ID 10.3 trillion in the 2017 budget) considering the higher-than-budgeted outcome in 2016; in the medium term, the government will cap them at that level by natural attrition[10] and the enforcement of the existing rules preventing collection of multiple pensions or collecting pensions without minimum contribution period or below legal pensionable age.

    - reduce **goods and services** to ID 6.4 trillion (ID 7.3 trillion in the 2017 budget); this envelope will include a credit of ID 1.0 trillion for the purchase of gas from the Basra Gas Company (BGC, ¶37); this still leaves a sizeable increase for goods and services compared to the level executed in 2016, adjusted for KRG (ID 5.5 trillion).

    - reduce **transfers** to ID 12.8 trillion (ID 13.3 trillion in the 2017 budget); this will require a decrease compared to the level executed in 2016 (ID 13.2 trillion) but will still allow an

[10] The pension payments paid by the Ministry of Finance include only the pensions paid to civil servants and state-owned enterprise employees who retired before 2006 and non-contributory pensions decided by Parliament.

increase in transfers to IDPs, the food distribution system and the social safety net compared to 2016.

- reduce **non-oil investment expenditure** to ID 10.2 trillion (ID 11.7 trillion in the 2017 budget), out of which ID 4.5 trillion financed by project loans. This amount will include ID 0.2 trillion to finance investment by the BGC (¶37) and ID 1.5 trillion for the Ministry of Electricity, out of which ID 1.0 trillion will be financed by project loans. Since this amount is significantly lower than the country's needs, it will need to be allocated in priority to projects already started. The instructions to implement the supplementary budget will include the list of all investment projects corresponding to the total number and amount proposed in the supplementary budget; they will be sent to spending units soon after parliamentary approval of the supplementary budget.

31. The 2017 supplementary draft budget will also:

- slightly increase the **transfer to KRG** from ID 11.6 to 12.0 trillion, in line with the revised non-sovereign expenditure in the supplementary budget;
- keep **oil investment expenditure** at ID 13.7 trillion, out of which ID 11.6 trillion ($9.8 billion) is for the IOCs;
- include an allocation of ID 7.4 trillion for the **repayment of arrears**, out of which ID 3.2 trillion is for external arrears, and ID 4.2 trillion for domestic arrears (Tables 5 and 6, ¶20).
- increase the ceiling on all **state guarantees** by $0.188 million (0.2 trillion). The government will inform parliament of the ID 42.6 trillion debt and (mostly) service-payment guarantees that it issued in previous years (¶20) and will request authorization for an additional ceiling of $0.188 million for debt guarantees, in addition to the $0.5 billion already authorized in the 2017 budget. In the meantime, the government will keep the total value of guarantees contracted since February 23, 2017 below $0.5 billion, until Parliament approves the 2017 supplementary budget.

32. **To finance** the non-oil primary fiscal deficit (ID 67.8 trillion), interest payments (ID 2.8 trillion) and oil investment expenditure (ID 13.7 trillion), the government will have recourse to **oil revenue** (ID 72.9 trillion), external financing (ID 7.2 trillion), and domestic financing (ID 4.2 trillion):

- The **external financing** will be covered by loans from the IMF under the SBA ($1.6 billion), the World Bank under a Development Policy Loan to be disbursed in December 2017 ($1.0 billion), a U.S. guaranteed bond ($1.0 billion, issued in January 2017, ¶13), a Eurobond issuance ($1 billion), a budget support loan by Japanese International Cooperation Agency (JICA, $267 million), a budget loan from France ($450 million) and a budget support grant by the European Commission ($100 million). The external financing will also be covered by project loans from the United States ($883 million), China ($833 million), Export Credit Agencies ($755 million), JICA ($380 million), the World Bank ($205 million), Germany ($190 million), Italy ($134 million), United Kingdom Exim Bank ($100 million), the Islamic Development Bank ($50 million), and Japan Bank for International Cooperation (JBIC, $50 million).

- The **domestic financing** will be covered mainly by the issuance of Treasury bills that will be refinanced by commercial banks at the discount window of the CBI (ID 4.5 trillion).

33. While the supplementary budget is being prepared, the Prime Minister, as Acting Finance Minister, has issued a budget circular to preemptively limit all spending units' budgetary envelope in line with the draft supplementary budget to be introduced to Parliament and reduce the monthly release of funds by the Ministry of Finance to spending units accordingly. The Economic Reform Unit in the Prime Minister's Office together with the BSA will monitor budget execution monthly and report to the Council of Ministers about it with the same frequency.

34. 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 and a gradual reduction of the existing stock of outstanding arrears to IOCs to $500 million starting in September 2017 (¶16). It will conduct regular inventories of domestic arrears to ensure that new domestic arrears do not accumulate. It will steadily pay down existing domestic arrears after proper audit and at a pace compatible with the country's financing capacity (¶38, second bullet).

Fiscal Program in 2018

35. In the 2018 budget, the government will prepare measures to reduce the non-oil primary deficit on an accrual basis by ID 2.3 trillion (4.4 percent of non-oil GDP) compared to the draft supplementary budget for 2017. The government will prepare measures, which will be for finalization during the third review. Such measures could include:

- Levy low ad-valorem or specific taxes on a few additional products or services beyond those already taken in the 2017 supplementary budget, as recommended by an FAD technical assistance mission in February 2017, with a view to increasing indirect taxes by ID 1 trillion in 2018 (¶36).

- Reform the corporate income tax by eliminating some tax holidays and introducing a minimum tax on turnover.

- Decrease budgetary transfers to the electricity sector by ID 1 trillion in 2018; this could be achieved by taking specific measures to improve the collection rate or increasing tariffs.

- Cap non-wage remuneration (allowances, supplements, etc.) at ID 350,000 ($296) a month for all civilian civil servants, which could yield savings of about ID 0.5 trillion, or about 3 percent of the civilian wage bill, and would be shouldered by the highest paid quarter of the civil servants.

- Continue to replace only one in five retiring civil servants, which should yield savings of ID 0.6 trillion in 2018.

- Stop allocating new non-contributory pensions, or finance them within the budget allocation for pensions paid by the budget in 2017.

F. Revenue Reforms

36. To strengthen revenue, the government will implement the following measures:

- **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 months and post the audit reports on its external website within six months after the end of each audited semester (SB, Table 2).

- **Implement measures to increase non-oil tax revenue** in line with the recommendations of the diagnostics of the tax and customs codes provided by a technical assistance mission of the IMF Fiscal Affairs Department in February 2017. The mission highlighted that the most promising avenue to raise non-oil tax revenue in Iraq in the short run would be to levy low ad-valorem or specific taxes on a few products or services relatively easy to tax, such as telecom and hotel services, private vehicles, sugar-sweetened drinks, cigarettes and other tobacco products, and alcoholic beverages. The government commits to prepare a sales and excise tax law in line with these recommendations and to send them for approval to parliament (proposed SB for the third SBA review). Another low-hanging fruit would be to reduce the number of tariffs in the Customs Code from currently more than 10 (ranging from 0 to 80 percent) to a maximum of three positive rates not exceeding 30 percent. The government commits to introduce changes in the Customs Code in line with these recommendations (proposed SB for the third SBA review).

- **Implement measures to improve 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 on Trade and Development (UNCTAD). The Tax Administration will expand the existing Large Tax Payers Unit to implement a Large Taxpayers' Office (for large taxpayers including "high wealth individuals") that will administer all national-level domestic taxes with the technical assistance of the IMF Middle East Technical Assistance Center (METAC) by end-August 2017. The Customs Administration has contacted several specialized companies to implement pre-shipment inspections. It will, by end-August 2017, propose a strategy to implement a computerized information system in its administration (for example the ASYCUDA information system developed by UNCTAD).

G. Expenditure Reforms

37. To streamline expenditure to ensure spending priorities are met, the government will implement the following measures:

- **Control the evolution of wages and pensions** by a combination of the following measures, in addition to those implemented in the 2017 budget (¶30–34):

  - completing the **audits of the wage earner and pensioner payrolls of the civil service** by the Board of Supreme Audit (BSA) to first identify, and then cancel payments to, illegitimate wage and pension recipients (SBs for the third and fourth SBA reviews);

  - implementing **legislative changes** to contain the evolution of government and SOE employees' wages and non-contributory pensions paid by the Treasury. As a first step, the government will compile an inventory of all the laws and regulations governing these wages and pensions. As a second step, the Ministry of Finance will carry out technical work for potential legislative changes to reduce spending on wages, non-contributory pensions and transfers, considering the selected issues paper on creating fiscal space for more inclusive growth discussed with IMF staff on the 2017 Article IV consultation. Legislative changes to that end will be discussed during the fourth SBA review (proposed SB for the fourth SBA review, Table 2);

  - adopting, by end-December 2017, **revised parameters of the public pension system** proposed by the World Bank.[11]

- **Reform the electricity sector** by a combination of the following measures:

  - **Include sufficient transfers to the Ministry of Electricity in the budget to reach production targets without accumulating arrears**. In 2017, after the tariff reduction decided by the government in January (¶14), the deficit of the electricity sector with all inputs valued at market price is estimated at ID 11.7 trillion (5.2 percent of GDP). The cash deficit is estimated to be ID 3.8 trillion (1.7 percent of GDP), because the Ministry of Electricity will get fuel from the Ministry of Oil for free, an effective subsidy of 3.5 percent of GDP. This cash deficit will be more than fully covered by the allocations for the Ministry of Electricity included in the 2017 budget (Table 4). The need for additional budgetary transfer in 2017 will be reviewed, and the need for budgetary transfer in 2018, will be assessed, in the

[11] 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).

context of the third SBA review. The Ministry of Electricity will prepare proposals to reduce its cash deficit by ID 1 trillion compared to the level programmed for 2017.

- **Progressively reduce budgetary transfers by increasing the collection rates and reducing the production costs**. In 2017, the Ministry of Electricity expects to collect ID 16 per KW produced while the production cost, with the fuel provided by the Ministry of Oil valued at zero, will be ID 39 per KW (Table 4).[12] The Ministry of Electricity plans to progressively close this difference by 2020 by increasing the collection rate, and reducing the production cost, while at the same time increasing electricity production by about 15 percent a year. The expansion plans of the electricity sector in 2018 will be reviewed during the third review, considering Iraq's financing capacity.

- **Capture flared gas and use it for electricity production**, which, according to the World Bank, could yield about ID 1.4 trillion ($1.2 billion, or 1.0 percent of non-oil GDP) in budget savings per year (through reduction of production costs and freeing more crude oil for exports) with an upfront investment of $0.5 billion starting in 2017.[13] To that end, the Ministry of Oil will: pay all its outstanding arrears from 2017 ($137 million); pay its estimated remaining gas purchase from BGC in 2017 amounting to $0.9 billion within the contractual period (30 days after billing); and pay $200 million for capital expenditure in the 2017 budget. To improve the payment performance of the Ministry of Oil to BGC, it is proposed to align the definition of arrears to BGC in the SBA to the contractual payment terms starting in September 2017 (TMU, ¶9).

- **Reform the social transfers to ensure they reach the needy**.[14] The Ministry of Labor and Social Affairs (MOLSA) is setting up a Proxy Means Testing (PMT) database 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 the available budget. This same database could be utilized by other programs (i.e., PDS) to target their assistance (cash or in-kind) to 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. Thus, they are structurally loss-making and 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 on key financial and economic statistics of the SOEs. With the assistance of the World Bank, the government has started to set up a database to monitor the fiscal risks of

---

[12] With that fuel valued at market prices, the production cost will be ID 122 per KW (Table 4).

[13] World Bank, December 2015, ¶62, p.28. BGC gas is the cheapest source of energy to produce electricity in Iraq: it is about twice cheaper than gas imported from Iran and four times cheaper than fuel oil.

[14] Moving to a more targeted Public Distribution System 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.

non-financial SOEs. Out of 136 SOEs for which some information is available, only 15 seemed to have made profit in 2015. Building on this information, the government will elaborate measures to restructure the non-financial SOEs during future reviews of the SBA.

H. Public Financial Management Reforms

38. To strengthen fiscal discipline, the government will implement the following measures:

- **Improve Government Finance Statistics (GFS) reporting**. Building on the IMF technical assistance recommendations, the Ministry of Finance has sent to the IMF staff fiscal reporting tables (including revenue, expenditures and financing) at end-December 2015, end-March 2016, end-June 2016 and end-September 2016 in compliance with the IMF Government Finance Statistics Manual 2014 (GFSM 2014). It will publish quarterly fiscal reporting tables in compliance with the IMF GFSM 2014 with a six-month lag on the external website of the Ministry of Finance starting on September 30, 2017.

- **Survey, audit and pay domestic arrears**:

  - The government will carry out **quarterly surveys of arrears** by systematically recording in detail and monitoring the existing unpaid obligations on a regular basis. It will, by end-August 2017, complete a survey of all arrears of the central government, i.e., payment due for more than 90 days, until at least end-June 2017, including: (i) current spending (salaries, pensions, goods and services and transfers), managed by the Ministry of Finance; (ii) non-oil investments managed by the Ministry of Planning; and (iii) spending managed by the Ministry of Oil. The Ministry of Finance will elaborate a consolidated table on all these arrears for the included ministries (proposed SB for the third SBA review). At end-December 2016, the government identified arrears in an amount of ID 11.1 trillion (¶19), out of which ID 7.5 trillion were domestic arrears and ID 3.6 trillion ($3.0 billion) were external arrears.

  - Based on each of these surveys, the government will prepare plans for the **orderly payment of the arrears, following an independent audit of domestic arrears by the BSA** and a repayment schedule in line with the government's financing capacity. The domestic arrears, of which the documentation is weaker than foreign arrears, will be paid after their validation by the BSA. So far, the BSA has validated ID 2.0 trillion of arrears to farmers and ID 1.363 trillion of arrears to domestic contractors. The government plans to pay ID 6.0 trillion of domestic arrears in 2017, out of which ID 3.2 trillion to contractors and ID 2.7 trillion to other creditors, mostly farmers (Tables 5-6). In 2018, it plans to pay the balance of domestic arrears, i.e. ID 1.5 trillion to contractors. The external arrears will be paid in kind (oil) to IOCs (except BGC) and in cash to others per the following timetable: ID 3.2 trillion ($2.7 billion) in 2017, ID 0.2 trillion ($0.2 billion) in 2018, and ID 0.2 trillion ($0.2 billion) in 2019.

  - The government will observe a **ceiling on the stock of domestic arrears** as surveyed by the Ministry of Finance (IT, Table 1). This will include both the domestic arrears on investment surveyed by the Ministry of Planning and the domestic arrears on current spending monitored by the Ministry of Finance. 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.

- **Design and implement a commitment control system for budget execution**, in line with IMF technical assistance recommendations.[15] To avoid emergence of new arrears, the immediate focus will include:

  - Ministry of Finance to update the Financial and Accounting Manual to require all spending units to: (i) capture all invoices into an accounting ledger ("journal"), after adequate verification by the internal audit unit; and (ii) to report monthly on the payables to the Accounting Department as part of the trial balance report (prior action, Table 2);

  - updating the trial balance report to add data on accounts payable as per the model provided in Appendix 1 of the recent IMF Fiscal Affairs Technical Assistance report;

  - introducing a simple form to be used by spending units to report to the Ministry of Finance (Accounting) on budget execution, including budget encumbrance;

  - Ministry of Finance to produce a report on all recurrent and investment commitments (by project) in coordination with the Ministry of Planning as at end-August 2017 (SB postponed to the fourth review, Table 2); and

  - ensuring that commitment control functionality is designed in the Integrated Financial Management Information System (IFMIS).

- **Develop cash management** by implementing the following measures:

  - Ministry of Finance to establish a Cash Flow Management Unit (CMU) in the Accounting Department, with responsibility for developing cash flow forecasts extending at least three months ahead (by end-August 2017); and

  - Ministry of Finance to establish a Cash Flow Management Committee (CMC), chaired by the Deputy Minister, with responsibility to review recent developments, to review the latest cash flow forecasts prepared by the CMU, and to decide on anticipatory action (by end-August 2017).

[15] IMF, Fiscal Affairs Department; Republic of Iraq—Strengthening commitment controls and cash management; Racheeda Boukezia, Jacques Charaoui, Csaba Feher, Janis Platais, and Mike Williams; February 2017, forthcoming.

- **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;
  - the Ministry of Finance constituted a working group comprising representatives of the Ministry of Finance, CBI, Rasheed and Rafidain Banks and TBI to take stock of the readiness of the payment and settlement systems in the country, and develop a plan for modernizing systems to enable operation of a TSA;
  - the Ministry of Finance, with the CBI and state-owned banks, will explore the feasibility of reducing the time lag between cash transfers to spending unit bank accounts and payments; more frequent sweeping of spending units and revenue agencies bank account balances; and centralizing some large payments; and
  - the Ministry of Finance will identify options for further developing the TSA by making use of core banking systems and subsequently the IFMIS (initial review of options by end December 2017).
- **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 adopted, in July 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 published the final standard bidding documents on its website, and will sign the contract with the selected IFMIS vendor by end-August 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 (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 (ongoing and new projects with a minimum cost of US$10 million), having a feasibility study made through cost-benefit analysis and expenditure efficiency;[16]

- 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 Babil (by end-October 2017); 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).

- **Strengthen Debt Management.** The capacity of the Public Debt Directorate will be strengthened with technical assistance support from the Japan International Cooperation Agency (JICA), one of the largest bilateral and concessional lenders to Iraq. The Debt Directorate conducted a survey of all guarantees issued by the government (SB, Table 2; ¶20). Going forward, the Ministry of Finance will start the regular publication of a quarterly public debt bulletin, including guarantees.

- **Strengthen State Guarantees' Approval**. The Council of Ministers adopted the following procedures for approval of state guarantees (prior action, Table 2):

  - A committee will be established by a cabinet decree that is composed of two representatives of the Prime Minister's office, the head of the legal department of the Secretariat of the Council of Ministers, a representative of the Ministry of Finance, and a representative of the Ministry of Planning.

  - By July 30 of each year, each of the ministries and spending units will submit a list of guarantee requests to finance projects for the following year to the committee for its approval. These projects will need to have been included first in Iraq's Development Management System (IDMS) of the Ministry of Planning.

  - The Committee will, after consultation with each ministry, propose its priority list of guarantees, and a ceiling on all guarantees compatible with debt sustainability, for approval, first by the Prime Minister and then by the Council of Ministers. The IMF will provide the Ministry of Finance and the Central Bank of Iraq with the debt sustainability model that it uses.

  - Once the cabinet approves it, the final priority list will be submitted to parliament in the annual draft budget with a note on each guarantee, including the underlying project, the

[16] Available at the following link.

amount of the guarantee, and the financing parties. The draft budget law will also contain a ceiling on all guarantees.

- In accordance with Iraq's Financial Management Law, the Ministry of Finance will only sign guarantees within the ceiling in the budget law approved by Parliament.

I. Anti-Corruption Measures

39. To combat corruption, the government will implement the following measures:

- The Council of Ministers—after review by the Shura Council— will approve and forward to parliament by end-September 2017 draft **amendments to the 2011 law establishing the Commission on Integrity to strengthen its governance, accountability, oversight, and independence, and providing it with powers in line with the United Nations Convention Against Corruption** (UNCAC, SB, Table 2). 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; 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[17] declaration regime for senior public officials, their family members and associates, and a requirement to publish their asset declaration. The parliament will adopt the draft law by October 2017.

- In line with UNCAC requirements, the Council of Ministers will adopt and forward to the parliament by September 2017 **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 September 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.

- On August 11, 2016, the Iraqi government signed a memorandum of understanding with the United Nations Development Program (UNDP), pursuant to which the UNDP will be providing assistance to the Iraqi government in the following areas. First, the UNDP is providing staff to support the Iraqi government in the investigation of significant cases of corruption, in particular relating to financial transactions involving the transfer of money out of Iraq. The assistance also involves providing advice on how to trace and return such financial assets once found. Second, the UNDP is providing assistance on legislation to the various bodies involved in investigating

[17] Assets held in Iraq and abroad, legally and beneficially owned.

corruption, such as the Bureau of Supreme Audit, the Inspector Generals and the National Integrity Commission. In particular, the goal of this assistance is to make the various bodies more independent and robust. Third, the UNDP is providing staff to assist in capacity building and assistance on public relations in relation to corruption matters. Finally, the UNDP is assisting Iraq in its attempts at improving its international rankings and international perceptions on corruption in Iraq.

J. Banking Supervision

40. As of January 2017, there were 65 banks operating in Iraq: including 7 state-owned banks (SOB), of which one is an Islamic bank; 39 Iraqi private banks, of which 15 are Islamic banks; and 19 foreign banks, of which four 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.

41. 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 financial statements for the year ended December 31, 2014 per international standards, in cooperation with the Executive Committee for the restructuring of these banks and the World Bank. The audits should be completed by end-August 2017. As a second step, the Ministry of Finance will, by end-February 2018, elaborate a restructuring plan for these two banks, in cooperation with the Executive Committee for the restructuring of these banks and the World Bank, considering the results of the audits.

42. The CBI will continue to implement reform measures to enhance the stability of the banking sector in Iraq which include 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;
- 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: at end-December 2016, 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
- implementing the international bank account number (IBAN) system in Iraq in 2017.

43. Building on the safeguards assessment conducted by the IMF in December 2015, the government will continue to strengthen the legal framework of the CBI to provide for independent oversight of the CBI's operations. The Governing Council of the CBI approved a new charter for the Audit Committee prohibiting Central Bank of Iraq executive representation on the committee (SB, Table 2). The Council of Ministers approved and introduced 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 2). Specifically, the CBI Law was 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 have been developed in consultation with the IMF.

44. On November 25, 2015, the prime minister approved CBI credit lines to banks in an amount of ID 6 trillion for on-lending to small and medium-sized enterprises (SME, ID 1 trillion) and agriculture or infrastructure projects (ID 5 trillion), the latter with state guarantee. So far the CBI has disbursed ID 21.2 billion for the former and 0.5 trillion for the latter. The CBI plans to cap its disbursements at ID 1.3 trillion in 2017 and to assess the need for its continuation by year-end considering the fiscal risks for the government.

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

45. 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, and disrupt terrorist funding, thereby reducing the threat of terrorism.

- As a first step, on October 9, 2016, the government adopted 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) (SB, Table 2). In March 2017, the CBI Governor issued AML/CFT instructions for financial institutions (SB, Table 2). In May 2017, the Iraq Securities Commission (ISC) issued AML/CFT instructions for brokerage companies.

- As a second step, the CBI and Iraqi Insurance Diwan (IID) will issue, by end-September 2017, AML/CFT instructions for exchange and insurance companies, respectively, with customer due diligence and suspicious transactions' reporting requirements in line with the FATF standard. By end-December 2017, the CBI and the Financial Intelligence Unit (AML Bureau) will issue guidance to all reporting entities covered by the AML/CFT Law regarding the implementation of preventive measures including enhanced due diligence.

- As a third step, the CBI will develop its supervisory capacity to enhance the compliance by these entities with AML/CFT obligations. In this respect, it will develop ML/TF risk profiles for banks by end-March 2018, review its allocation of resources for AML/CFT supervision of banks accordingly by end-June 2018, and start implementing the AML/CFT onsite inspection procedures for banks on a risk sensitive basis by end-October 2018. By end-December 2017, the CBI, the IID, and the ISC will develop and implement on-site examination procedures for exchange, insurance and brokerage companies respectively. By end-June 2018, the CBI, IID and ISC will develop ML/TF risk profiles for exchange, insurance and brokerage companies respectively.

- The AML Bureau will develop, by end-October 2017, a draft regulation clarifying its governance and operations for strengthened operational autonomy and effective implementation of its mandate as per the AML/CFT Law. By end-December 2017, the AML Bureau will submit this draft regulation to the Council of Ministers, through the AML/CFT Council, for approval. The Council of Ministers will approve the FIU regulation by March 2018.

- The AML/CFT Council issued, in August 2016, controls on the declaration of cross border cash transportation, including declaration forms. By end-November 2017, the Customs Administration will report to the AML/CFT Council and start publishing on the AML Bureau website, on a quarterly basis, statistical information reflecting the implementation of these controls, including the number of currency and bearer negotiable instruments suspicious reports received and analyzed by the AML Bureau, value of falsely-declared and non-declared cross-border currency and bearer negotiable instruments seized and confiscated.

Program Modalities and Monitoring

46. The semi-annual reviews would continue to have PCs on the non-oil primary balance, the stock of total public debt, the stock of net domestic assets of the CBI, gross official foreign exchange reserves, the non-accumulation of new external arrears, and three ITs on social spending, the stock of outstanding domestic arrears, and the stock of outstanding obligations to IOCs (Table 1). The program would also have indicative targets on all these variables at the end of the first and third quarters of the year. Considering the revised fiscal program in 2017 (¶¶30–34), the government also supports staff's proposal to modify the level of the PCs on the gross international reserves of the CBI, the net domestic assets of the CBI, the non-oil primary balance and the gross public debt at end-December 2017. Considering the difficulty to reduce to zero the obligations to IOCs due for more than three months because of the minimum size of oil shipments, the government proposes to raise the ceiling on arrears to IOCs to $500 million, starting in September 2017 (¶16). The government also supports staff's proposal to monitor these obligations as an IT rather than a PC starting in September 2017 and commits to clarify the nature of these obligations by the time of the third review for program monitoring purposes. The government also proposes to set PCs at end-June and end-December 2018. Each program review will set a few SBs in areas that are essential for the success of the program (Table 2 contains the list until the fourth review). Since their implementation requires more time than anticipated, the government requests the postponement of two SBs for the second review (amendments to the law establishing the Integrity Commission, report on expenditure commitments) to, respectively, the third and fourth reviews and one SB (audit of the pensioner payroll) from the third to the fourth review.

47. The third review will take place on or after October 15, 2017, and the fourth review on or after April 15, 2018.

Table 1. Iraq: Performance Criteria and Indicative Targets Under the Stand-By Arrangement , 2016–18 [1/]

(In billions of Iraqi dinars, unless otherwise indicated)

	2016								2017												2018			
	Sep				Dec				Mar				Jun			Sep		Dec			Mar	Jun	Sep	Dec
	Prog. [2/]	Adj. Target	Prel. Est.	Status	Prog. [3/]	Adj. Target	Est.	Status	Prog. [3/]	Adj. Target	Est.	Status	Prog. [3/]	Est.	Status	Prog. [3/]	Rev. Prog.	Prog. [3/]	Rev. Prog.		Prog.	Prog.	Prog.	Prog.
Performance Criteria [4/]																								
Gross international reserves of the CBI (floor; eop stock, in millions of U.S. dollars)	34,910	38,636	47,805	Met	43,043	46,590	45,226	Not Met	40,882	39,882	47,039	Met	38,532			36,560	39,829	38,546	41,396		38,628	37,160	36,026	40,771
Net domestic assets of the CBI (ceiling; eop stock)	17,200	12,803	6,238	Met	11,051	6,865	8,987	Not Met	13,040	14,220	7,444	Met	15,961			18,534	17,671	16,250	16,897		20,617	23,043	24,961	19,743
Central government non-oil primary balance (floor) [5/]	(49,145)	(42,345)	(35,617)	Met	(61,944)	(53,918)	(58,077)	Not Met	(17,095)	(12,719)	(12,091)	Met	(34,716)			(51,602)	(51,343)	(69,131)	(73,778)		(16,538)	(33,076)	(49,393)	(67,157)
Gross public debt (domestic and foreign) (in billions of ID; ceiling; eop stock)	142,208	135,408	127,940	Met	130,639	130,483	135,475	Not Met	135,571	135,229	135,931	Not Met	140,364			143,891	145,182	147,809	149,887		151,130	154,544	156,633	159,788
New external arrears on existing / rescheduled debt and new borrowing (in millions of U.S. dollars; ceiling) [5/ 6/]	0		0.5	Not Met	0		0	Met	0		2.5	Not Met	0	157.0	Not Met	0	0	0	0		0	0	0	0
Stock of outstanding arrears to international oil companies (in millions of U.S. dollars; ceiling)	0		2,138	Not Met	0		1,227	Not Met	0		447	Not Met	0	500	Not Met	0		0						
Indicative Target																								
Social spending (floor) [5/ 7/]	12,619		10,954	Not Met	18,228		20,093	Met	4,493				8,986			13,480	15,635	17,973	20,846		5,212	10,423	15,635	20,846
Stock of outstanding domestic arrears (ceiling) [8/]	7,500				4,491		4,723	Not Met	4,491		4,723	Not Met	4,491			4,491	3,557	4,491	1,446		1,446	1,446	1,446	(0)
Stock of outstanding obligations to international oil companies (in millions of U.S. dollars; ceiling)																	500		500		500	500	500	500
Memorandum item:																								
Transfer of the central government to the Kurdistan Regional Government [5/]	6,841		0		8,480		0		2,898		0		5,798			8,702	8,569	11,606	11,993		2,984	5,971	8,959	11,945
Total revenue from KRG					8,324		0		2,555		0		2,818			3,061	7,984	3,285	10,855		2,744	5,508	8,288	11,056
oil export revenue through SOMO					7,808		0		2,366		0		2,440			2,494	7,450	2,529	10,143		2,516	5,052	7,603	10,143
non-oil revenue transfers to Federal government					516		0		189		0		378			567	534	756	712		228	456	685	913
Total foreign financing and international contributions to fill the financing gap	(4,152)		246		(1,653)		2,533		1,924		220		2,776			3,677	3,809	9,123	7,181		(50)	1,111	2,553	10,847
External Financing [5/]	(5,660)		(504)		(4,875)		(673)		1,392		(962)		1,039			1,940	844	4,043	2,090		(50)	(100)	1,342	2,783
International contributions to fill the financing gap [5/]	1,508		749		3,222		3,206		532		1,182		1,737			1,738	2,965	5,080	5,091		...	1,211	1,211	8,064
Iraq oil export price (US$ / barrel, average for the quarter)	37.5		33.6		45.3		43.1		40.4		46.3		41.7			42.6	45.1	43.2	45.5		45.7	45.5	45.3	45.1
Oil export revenue [5/]	36,041		32,961		57,557		44,671		16,130		15,357		32,949			50,325	52,761	67,950	71,833		18,698	37,543	56,502	75,380
Expenditure financed by project loans [5/]	443		312		2,398		2,336		1,746		267		1,746			3,000	2,689	4,254	4,504		457	914	2,863	4,811

Source: Iraqi Authorities, and Fund Staff estimates and projections

1/ The attached Technical Memorandum of Understanding (TMU) provides definitions.

2/ IMF Country Report number 16/225: Iraq Staff Report for the Three-year Stand-by Arrangement Request.

3/ IMF Country Report number 16/379: Iraq Staff Report for the First Review of the Stand-by Arrangement.

4/ The test dates for performance criteria are end-June and end-December 2017 and end-June and December 2018; all variables for other test dates are indicative targets.

5/ Cumulative from January 1.

6/ Continuous.

7/ See Table 3 for more details.

8/ The scope of this indicative target is limited to domestic arrears on non-oil investment monitored by the Ministry of Planning until June 2017. Starting in July 2017, it includes all domestic arrears.

Table 2. Iraq: Prior Actions and Structural Benchmarks Under the Stand-By Arrangement, 2017

Measures	Scheduled review by which the measure will be completed	Macroeconomic justification	Status
Prior action			
Approval by Parliament of a supplementary 2017 budget in line with ¶¶29-32 of the MEFP for the SBA 2nd review.		Maintain macroeconomic stability	Met
Ministry of Finance to update the Financial and Accounting Manual to require all spending units to: i) capture all invoices into an accounting ledger ("journal"), after adequate verification by the internal audit unit; and ii) to report monthly on the payables to the Accounting Department as part of the trial balance report.		Strengthen expenditure control.	Met
Approval by the Council of Ministers of procedures for approval of state guarantees in line with ¶38 of the MEFP for the 2nd SBA review.		Strengthen fiscal discipline.	Met
Structural benchmarks			
Completion of a survey of all arrears of the central government, i.e. payment due for more than 90 days, until at least end-September 2016, including: (i) current spending (salaries, pensions, goods and services and capital purchases), managed by the Ministry of Finance; (ii) non-oil investments managed by the Ministry of Planning; and (iii) spending managed by the Ministry of Oil. The Ministry of Finance will elaborate a consolidated table on all these arrears for the included ministries.	2nd review	Improve fiscal transparency.	Met
Audit by the Board of Supreme Audit of all the arrears on non-oil investment identified so far by the Ministry of Planning and on wheat purchases identified by the Ministry of Trade as listed in ¶21 of the MEFP for the 1st SBA review.	2nd review	Strengthen governance.	Met
Survey by the Debt Directorate of the Minister of Finance of all guarantees issued by the central government, comprising the amount of the guarantee, its maturity, the identity of the signatory of the guarantee, and the identity of the beneficiary of the guarantee.	2nd review	Strengthen debt management.	Met
External audit of the gross international reserves and the net domestic assets of the Central Bank of Iraq at end-December 2016 as defined in ¶¶6-7 of the TMU.	2nd review	Strengthen safeguards assessment.	Met
External audit of the total public debt at end-December 2016 as defined in ¶11 of the TMU, excluding arrears and external debt from the pre-2003 regime for which only partial documentation is available.	2nd review	Strengthen debt management.	Met
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.	Met
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.	Met
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.	Met

Table 2. Iraq: Prior Actions and Structural Benchmarks Under the Stand-By Arrangement, 2017 (concluded)

Measures	Scheduled review by which the measure will be completed	Macroeconomic justification	Status
Structural benchmarks			
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 of June 19, 2016.	2nd review	Combat corruption.	Not met. Postponed to the 3rd review.
Ministry of Finance to produce a report of all recurrent and investment commitments (by project) in coordination with the Ministry of Planning.	2nd review	Improve cash management.	Not met. Postponed to the 4th review.
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 ¶29 of the MEFP of June 19, 2016.	2nd review	Strengthen governance of the central bank.	Met
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 Central Bank of Iraq, to remove the limitation on transfer of investment proceeds that gives rise to an exchange restriction.	2nd review	Improve the business environment by eliminating restrictions for current international transactions.	Met
Completion by the Board of Supreme Audit of an audit of the central government wage earner payroll to identify ghost wage earners, i.e. people who perceive wages without legal or regulatory justification.	3rd 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 pensions without legal or regulatory justification.	3rd review	Decrease current expenditure.	Postponed to 4th review
Proposed additional structural benchmarks			
Completion of a survey of all arrears of the central government, i.e. payment due for more than 90 days, until at least end-June 2017, 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; and (iii) spending managed by the Ministry of Oil. The Ministry of Finance will elaborate a consolidated report on all these arrears for the included ministries.	3rd review	Improve fiscal transparency.	
External audit of the gross international reserves and the net domestic assets of the Central Bank of Iraq at end-July 2017 as defined in ¶¶6-7 of the TMU.	3rd review	Strengthen safeguards assessment.	
External audit of the total public debt at end-July 2017 as defined in ¶11 of the TMU, excluding arrears and external debt from the pre-2003 regime for which only partial documentation is available.	3rd review	Strengthen debt management.	
Approval by the Council of Ministers and introduction to parliament of a sales and excise tax law in line with ¶36. second bullet of the MEFP.	3rd review	Increase non-oil revenue.	
Approval by the Council of Ministers of amendments to the Customs Code in line with ¶36. second bullet of the MEFP.	3rd review	Increase non-oil revenue.	
Study by the Ministry of Finance of potential legislative changes to reduce spending on wages, non-contributory pensions and transfers.	4th review	Decrease current expenditure.	

Source: Iraqi authorities.

Table 3. Iraq: Social Spending[1/]

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

	2016		2017						2018			
	Dec-16		Mar-17	Jun-17	Sep-17		Dec-17		Mar-18	Jun-18	Sep-18	Dec-18
	Prog. [2/]	Est.	Prog. [2/]	Prog. [2/]	Prog. [2/]	Rev. Prog.	Prog. [2/]	Rev. Prog.	Prog.	Prog.	Prog.	Prog.
Total Social spending (floor)	18,228	20,093	4,493	8,986	13,480	15,635	17,973	20,846	5,212	10,423	15,635	20,846
Social Safety Net	1,800	1,069	494	988	1,482	1,645	1,976	2,194	548	1,097	1,645	2,194
Public Distribution System (PDS - food subsidies)	1,485	1,204	381	762	1,143	1,270	1,524	1,693	423	847	1,270	1,693
Wheat and rice subsidy	1,080	2,803	342	684	1,027	1,141	1,369	1,521	380	761	1,141	1,521
Assistance and subsidy to Iraqi refugees	0	0	-	-	-	278	-	370	93	185	278	370
Assistance and subsidy to internally displaced persons	900	608	308	617	925	590	1,234	787	197	394	590	787
Farmer subsidies	405	462	110	221	331	367	441	489	122	245	367	489
Reconstruction cost				-	-	152	-	202	51	101	152	202
Health Ministry and Environment Ministry- wages	2,520	2,846	615	1,230	1,845	2,049	2,460	2,732	683	1,366	2,049	2,732
Higher Education Ministry - wages	2,070	2,148	492	984	1,476	1,640	1,968	2,187	547	1,094	1,640	2,187
Lower Education Ministry - wages	6,300	7,304	1,456	2,912	4,369	4,853	5,825	6,471	1,618	3,236	4,853	6,471
Health Ministry and Environment Ministry- goods and services	1,350	1,402	222	445	667	688	889	917	229	459	688	917
Higher Education Ministry - goods and services	99	67	17	34	52	186	69	247	62	124	186	247
Lower Education Ministry - goods and services	219	180	56	109	164	777	219	1,036	259	518	777	1,036

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

1/ The attached Technical Memorandum of Understanding (TMU) provides definitions.

2/ IMF Country Report number 16/379: Iraq Staff Report for the First Review of the Stand-by Arrangement.

Table 4. Iraq: Revenue and Expenditure of the Ministry of Electricity (MoE)
(In billions of Iraqi dinars)

	2017		
	MoE budget	Transfer from Ministry of Finance (MoF)	
		Initial Budget	Supplementary Budget (additional allocation)
Electricity tariff collection	1,506	750	
Expenditure	13,249	2,370	
Wages	1,015	403	
Goods and services	10,358	980	
Cost of fuel and other (cash)	2,410	980	
Basra Gas Company (BGC) - Gas	1,030	980	
Gas from Iran	339	-	
Imported fuel	250	-	
Imported electricity	614	-	
Independent Power Producers fees	177	-	
Fuel from Ministry of Oil (MoO, non-cash: value of in-kind subsidy)	7,948	-	
Maintenance	361	144	
Other goods and services	1	-	
Investment expenditure	1,514	843	671
o/w financed by project loans	951	402	550
o/w financed by other means	563	441	122
Total transfer from MoF to MoE		3,120	671
Balance (accrual)	-11,743		
Balance (cash)	-3,795		
Financing	11,743		
Contribution from MoF	5,503		
Fuel subsidy	7,948		
Arrears	-1,712	1,020	692
Financing gap (+)/surplus (-)	4		
Memorandum items			
Production (MWh)	96,360,000		
Tariff (ID/KW; a)	72		
Tariff collected (ID/KW; b) [1/]	16		
Tariff collection rate (a/b)	22%		
Operational cost with fuel from MoO at market price (ID/KW)	122		
Operational cost with fuel from MoO for free (ID/KW)	39		

Source: Iraqi authorities.

1/ Tariff collection divided by production.

Table 5. Arrears on Current Spending [1/]
(In Iraqi dinar, unless otherwise indicated)

Spending Unit	2016	2017
	Stock	Payment
Ministry of Trade	2,509,814,327,354	2,509,814,327,354
Ministry of Electricity (external arrear)	1,535,000,000,000	1,535,000,000,000
Ministry of Education	132,319,000,000	132,319,000,000
Ministry of Agriculture	106,103,734,314	106,103,734,314
Council of Representatives	588,000,000	588,000,000
Ministry of Water resources	452,000,000	452,000,000
Ownership Claims Office	327,000,000	327,000,000
National Security	69,000,000	69,000,000
Ministry of Labor	2,932,000	2,932,000
Total	4,284,675,993,668	4,284,675,993,668
Domestic arrears	2,749,675,993,668	2,749,675,993,668
External arrears	1,535,000,000,000	1,535,000,000,000

Source: Iraqi authorities.
[1/] Domestic arrears, unless otherwise indicated.

Table 6. Iraq: Arrears on Investment Expenditure 1/

(In Iraqi dinar, unless otherwise indicated)

Spending Unit	2016	2017	2018	2019
	Stock	Payment 2/		
Ministry of Oil	2,534,398,241,613			
domestic arrears	1,084,101,289,173			
external arrears (IOCs and BCG)	1,450,296,952,440	1,450,296,952,440		
Regional Development Program	1,605,713,034,739			
Ministry of Electricity	829,099,150,396			
domestic arrears	229,825,150,396			
external arrears (Shanghai)	599,274,000,000	177,300,000,000	210,987,000,000	210,987,000,000
National Investment Committee	468,580,003,543			
Ministry of Housing	340,089,877,917			
Ministry of Public Works	188,046,742,732			
Ministry of Water Resources	175,277,423,750			
Shiite Waqf	135,820,611,925			
Ministry of Health	130,034,335,840			
Ministry of Youth	85,425,304,343			
Ministry of Higher Eduction	81,609,105,949			
Ministry of Industry	80,089,327,545			
Ministry of Transport	26,161,495,530			
Ministry of Justice	19,987,540,327			
Ministry of Communication	17,377,854,249			
Ministry of Trade	9,987,581,294			
Ministry of Agriculture	7,043,916,467			
Christian Waqf	6,183,970,434			
Martyrs Corporation	5,375,966,263			
Ministry of Education	3,900,316,627			
Ministry of Planning	3,529,238,008			
Ministry of Interior	3,249,694,000			
National Security Council	2,578,000,000			
Ministry of Science and Tech	2,094,360,000			
Iraqi News Network	1,909,225,408			
Ministry of Immigrants	1,824,613,325			
Other	1,528,357,000			
Ministry of Culture	1,506,197,708			
Higher Judicial Council	1,289,962,084			
Ministry of Human Rights	1,088,368,488			
Ministry of Labor	708,168,869			
Ministry of Finance	344,902,000			
COM SEC	328,243,000			
Prisoners Corporation	288,888,955			
Securities Commission	240,771,000			
Committee	238,197,945			
Elections Higher Council	66,200,000			
Science Council	44,388,000			
Ministry of Defense	-			
Sunni Waqf	-			
Total	6,773,059,577,273	4,904,961,952,440	1,657,110,624,833	210,987,000,000
Domestic arrears	4,723,488,624,833	3,277,365,000,000	1,446,123,624,833	
External arrears	2,049,570,952,440	1,627,596,952,440	210,987,000,000	210,987,000,000

Source: Iraqi authorities.

1/ Domestic arrears, unless otherwise indicated.

2/ All arrears at end 2016 are expected to be paid over three years, even though this table only shows the repayment schedule for external arrears.

Table 7. Iraq: Cenral Government Fiscal Accounts, 2017–18

(In trillions of Iraqi dinars, unless otherwise indicated. Cumulative from the beginning of the fiscal year.)

	2017							2018			
	March		June	Sep.		Dec.		March	June	Sep.	Dec.
	Prog. 1/	Est.	Prog. 1/	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Prog.	Prog.	Prog.	Prog.
Revenues and grants	18.8	17.2	38.4	58.6	59.7	79.1	82.0	21.6	43.4	65.5	87.5
Revenues	18.8	17.2	38.3	58.5	59.6	79.0	81.9	21.6	43.4	65.5	87.5
Oil	16.3	15.4	33.2	50.8	53.4	68.6	72.9	19.0	38.1	57.3	76.5
Non-oil	2.5	1.74	5.0	7.7	6.2	10.5	8.9	2.6	5.3	8.2	11.0
Grants	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Expenditures	23.7	17.6	47.5	71.3	66.7	95.0	93.4	24.7	49.4	74.1	98.8
Current expenditures	17.4	14.1	34.8	52.2	48.8	69.6	69.5	18.6	37.3	55.9	74.5
Salary and pension	11.5	10.6	23.0	34.6	34.4	46.1	47.6	11.6	23.2	34.8	46.4
Salary	8.9	7.8	17.9	26.8	26.0	35.8	36.3	8.8	17.6	26.3	35.1
Pension	2.6	2.8	5.2	7.7	8.4	10.3	11.3	2.8	5.6	8.4	11.3
Goods and services	1.8	1.3	3.7	5.5	4.5	7.3	6.4	1.7	3.4	5.1	6.7
Transfers	3.3	1.3	6.7	10.0	7.7	13.3	12.8	3.3	6.6	9.9	13.3
Social safety net (including PDS)	1.7	0.5	3.4	5.1	3.6	6.8	6.3	1.7	3.4	5.1	6.8
Transfers to SOEs 2/	0.5	0.4	0.9	1.4	1.5	1.9	2.2	0.6	1.1	1.7	2.2
Other transfers	1.2	0.5	2.3	3.5	2.6	4.7	4.3	1.1	2.1	3.2	4.3
Interest payments	0.7	0.9	1.4	2.2	2.2	2.9	2.8	0.7	1.3	2.0	2.7
War reparations 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.4	2.7	4.1	5.4
Investment expenditures	6.4	3.6	12.7	19.1	17.9	25.4	23.9	6.1	12.2	18.2	24.3
Non-oil investment expenditures	2.9	0.6	5.9	8.8	8.1	11.7	10.2	2.5	5.1	7.6	10.1
Oil investment expenditures	3.4	2.9	6.8	10.3	9.8	13.7	13.7	3.5	7.1	10.6	14.2
Balance (including grants)	-4.9	-0.5	-9.1	-12.6	-7.0	-15.9	-11.4	-3.1	-6.0	-8.6	-11.3
Balance (excluding grants)	-4.9	-0.5	-9.2	-12.7	-7.1	-16.0	-11.5	-3.1	-6.0	-8.6	-11.3
Financing	4.9	0.6	9.1	12.6	7.1	15.9	11.4	3.1	6.0	8.6	11.3
External financing	1.9	0.2	2.8	3.7	3.8	9.1	7.2	0.0	1.1	2.6	4.9
Budget Loans	0.5	1.2	1.7	1.7	4.1	6.3	6.3	0.0	1.2	1.2	2.2
International Financial Institutions	0.0	0.0	1.0	1.0	0.9	3.1	3.1	0.0	0.9	0.9	1.9
Bilateral	0.5	0.0	0.8	0.8	0.8	0.8	0.8	0.0	0.3	0.3	0.3
Eurobond	0.0	1.2	0.0	0.0	2.4	2.4	2.4	0.0	0.0	0.0	0.0
Project Loans	1.7	0.3	1.7	3.0	2.7	4.3	4.5	0.5	0.9	2.9	4.8
Amortization	-0.4	-0.4	-0.7	-1.1	-1.0	-1.4	-1.2	-0.5	-1.0	-1.4	-1.9
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
SDR Holding	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	0.1	0.0	0.0	0.2	0.0	0.2	0.0	0.1	0.1	0.1
Arrears	0.0	-0.9	0.0	0.0	-2.2	0.0	-2.6	-0.1	-0.1	-0.2	-0.2
Domestic financing	3.0	0.3	6.3	8.9	3.3	6.8	4.2	3.1	4.9	6.1	0.5
Bank financing	3.0	0.3	5.7	8.3	3.0	6.8	6.0	3.1	3.4	4.6	0.5
CBI	1.7	0.1	3.4	5.0	2.4	5.5	4.5	0.1	0.2	0.3	0.4
Loans	1.7	0.1	3.4	5.0	2.4	5.5	4.5	0.1	0.2	0.3	0.4
Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	1.3	0.2	2.3	3.3	0.6	1.3	1.5	3.0	3.2	4.3	0.1
Loans	1.3	0.2	2.3	3.3	0.6	0.9	1.1	3.0	3.2	4.3	0.1
Deposits	0.0	0.0	0.0	0.0	0.0	0.4	0.4	0.0	0.0	0.0	0.0
Non-bank financing	0.0	0.0	1.3	1.3	4.2	1.3	4.2	0.0	1.4	1.4	1.4
Account payables	0.0	0.0	0.0	0.0	-1.8	0.0	-1.8	0.0	0.0	0.0	0.0
Arrears	0.0	0.0	-0.6	-0.6	-2.1	-1.3	-4.2	0.0	0.0	0.0	-1.4
Financing gap:	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.9
Memorandum items:											
Security-related expenditure (military and police equipment and salaries)	4.3	3.9	8.6	13.0	12.7	17.3	17.6	4.3	8.5	12.8	17.1
Social spending	5.0	5.2	10.0	15.0	15.6	20.0	20.8	5.2	10.4	15.6	20.8
Transfer to KRG	2.9	2.3	5.8	8.7	8.6	11.6	12.0	3.0	6.0	9.0	11.9
Non-oil primary expenditure	19.6	13.8	39.2	58.8	54.7	78.4	76.9	19.1	38.3	57.4	76.5
Non-oil primary fiscal balance, accrual basis	-17.1	-12.1	-34.1	-51.0	-48.4	-67.8	-67.8	-16.5	-33.0	-49.2	-65.5
Non-oil primary fiscal balance, cash basis 4/	-17.1	-12.1	-34.7	-51.6	-51.3	-69.1	-73.8	-16.5	-33.1	-49.4	-67.2

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

1/ IMF Country Report number 16/379: Iraq Staff Report for the First Review of the Stand-by Arrangement.

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/ The non-oil primary fiscal balance on cash basis adjusts the non-oil primary balance measured on accrual basis by subtracting the spending financed by arrears' accumulation during that period, and adding the payment of arrears from previous years.

Table 8. Iraq: Balance of Payments, 2017–18
(In billions of U.S. dollars, unless otherwise indicated. Cumulative from the beginning of the fiscal year.)

	2017							2018			
	March		June	Sep.		Dec.		March	June	Sep.	Dec.
	Prog. 1/	Est.	Prog. 1/	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Prog.	Prog.	Prog.	Prog.
Trade balance	-0.9	3.8	-1.3	-1.1	0.0	-0.8	1.4	0.8	1.7	2.7	3.7
(In percent of GDP)											
Exports	13.8	15.7	28.1	42.9	46.6	57.9	62.4	16.1	32.3	48.7	64.9
Crude oil 1/	13.6	15.6	27.9	42.6	46.3	57.5	62.0	16.0	32.1	48.3	64.4
Other exports	0.1	0.1	0.2	0.3	0.3	0.4	0.4	0.1	0.2	0.4	0.5
Imports	-14.7	-12.0	-29.3	-44.0	-46.6	-58.7	-61.0	-15.3	-30.6	-45.9	-61.3
Private sector imports	-10.2	-8.3	-20.5	-30.7	-32.5	-41.0	-42.5	-10.6	-21.3	-31.9	-42.6
Government imports	-4.4	-3.6	-8.9	-13.3	-14.1	-17.7	-18.5	-4.7	-9.3	-14.0	-18.7
Services, net	-3.1	-2.6	-6.1	-9.2	-10.0	-12.3	-13.1	-3.1	-6.1	-9.2	-12.3
Receipts	1.6	1.3	3.3	4.9	4.9	6.5	6.5	1.8	3.6	5.4	7.2
Payments	-4.7	-3.8	-9.4	-14.1	-15.0	-18.8	-19.6	-4.9	-9.7	-14.6	-19.5
Income, net	-0.3	-0.4	-0.6	-0.9	-1.3	-1.2	-1.8	-0.5	-1.0	-1.6	-2.1
Transfers, net	0.3	0.3	0.7	1.0	1.0	1.2	1.2	-0.7	-1.5	-2.2	-3.0
Private, net	0.1	0.1	0.2	0.3	0.3	0.4	0.4	0.1	0.3	0.4	0.5
Official, net	0.2	0.2	0.5	0.7	0.7	0.8	0.8	-0.9	-1.7	-2.6	-3.5
Current account	-4.0	1.0	-7.3	-10.3	-10.4	-13.1	-12.3	-3.5	-6.9	-10.2	-13.6
(In percent of GDP)											
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	1.9	1.5	2.8	3.8	6.7	8.6	10.5	0.9	2.9	5.1	8.2
Direct and portfolio investment (net) 2/	0.1	0.4	0.3	0.4	1.3	0.5	1.8	0.5	1.1	1.6	2.2
Other capital, net	1.7	1.0	2.6	3.4	5.4	8.1	8.7	0.4	1.8	3.5	6.0
Official, net	1.6	0.9	2.3	3.1	4.9	7.6	8.1	0.0	1.0	2.2	4.4
Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	1.6	0.9	2.3	3.1	4.9	7.6	8.1	0.0	1.0	2.2	4.4
Disbursements 3/	1.9	1.2	2.9	4.0	5.8	8.9	9.1	0.4	1.8	3.4	5.9
Amortization	-0.3	-0.4	-0.6	-0.9	-0.9	-1.3	-1.0	-0.4	-0.8	-1.2	-1.5
Private, net	0.1	0.1	0.2	0.3	0.4	0.4	0.6	0.4	0.8	1.2	1.6
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-2.2	2.5	-4.5	-6.5	-3.7	-4.5	-1.8	-2.6	-4.0	-5.2	-5.4
(In percent of GDP)											
Financing	2.2	-2.5	4.5	6.5	3.7	4.5	1.8	2.6	4.0	5.2	5.4
Development Fund for Iraq (increase -)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross International Reserves (increase -)	2.2	-1.8	4.5	6.5	5.4	4.5	3.8	2.8	4.2	5.4	0.6
Fund credit (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.2	-0.2	-0.2
Change in arrears (negative = decrease)	0.0	-0.8	0.0	0.0	-1.9	0.0	-2.2	0.0	-0.1	-0.1	-0.2
Change in accounts payables (negative = decrease)	0.0	0.1	0.0	0.0	0.2	0.0	0.1	0.0	0.0	0.1	0.1
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0
Memorandum items:											
Gross International Reserves (end of period)	40.9	47.0	38.5	36.6	39.8	38.5	41.4	38.6	37.2	36.0	40.8

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

1/ IMF Country Report number 16/379: Iraq Staff Report for the First Review of the Stand-by Arrangement.

2/ Includes planned issuances of Eurobonds in 2017.

3/ Includes prospective disbursements from the IMF, WB and other donors.

Table 9. Iraq: Monetary Survey, 2017–18

(In trillions of Iraqi dinars, unless otherwise indicated)

	2017							2018			
	Mar.		Jun.	Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
	Prog. 1/	Est.	Prog. 1/	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Prog.	Prog.	Prog.	Prog.
Net foreign assets	56,091	61,741	55,052	54,359	58,083	52,973	55,156	54,930	54,780	54,680	54,480
Of which: CBI	43,863	51,229	41,084	38,754	42,706	41,101	44,608	41,336	39,601	38,261	43,967
Net domestic assets	32,909	28,429	34,448	37,141	35,075	39,917	39,594	40,739	42,152	43,440	44,881
Domestic claims	42,617	36,514	47,041	49,989	43,810	49,117	47,679	51,956	54,506	56,194	52,966
Net claims on general government	14,330	10,273	18,271	20,897	17,022	19,381	20,453	23,571	25,349	26,522	22,264
Claims on general government	44,706	40,782	48,647	51,273	47,531	49,341	50,398	53,516	55,293	56,466	52,209
less: Liabilities to general government	-30,376	-30,509	-30,376	-30,376	-30,509	-29,960	-29,945	-29,945	-29,945	-29,945	-29,945
Claims on other sectors	28,287	26,241	28,770	29,092	26,788	29,736	27,226	28,385	29,157	29,672	30,702
Other Item Net (OIN)	-9,708	-8,085	-12,593	-12,848	-8,735	-9,200	-8,085	-11,217	-12,354	-12,754	-8,085
Broad money	89,000	90,170	89,500	91,500	93,158	92,890	94,750	95,669	96,932	98,120	99,361
Currency outside banks	34,121	40,225	33,616	33,460	41,104	33,201	41,835	42,132	42,588	42,969	43,292
Transferable deposits	38,490	35,253	39,195	40,707	36,093	41,864	36,690	37,122	37,681	38,240	38,877
Other deposits	16,389	14,691	16,689	17,333	15,961	17,825	16,225	16,416	16,663	16,910	17,192

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

1/ IMF Country Report number 16/379: Iraq Staff Report for the First Review of the Stand-by Arrangement.

Table 10. Iraq: Central Bank Balance Sheet, 2017–18
(In trillions of Iraqi dinars, unless otherwise indicated)

	2017							2018			
	March		June	Sep.		Dec.		March	June	Sep.	Dec.
	Prog. 1/	Est.	Prog. 1/	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Prog.	Prog.	Prog.	Prog.
Net foreign assets	43,863	51,229	41,084	38,754	42,706	41,101	44,608	41,336	39,601	38,261	43,967
Foreign assets	48,689	55,961	45,910	43,580	47,438	45,928	49,283	46,012	44,277	42,936	48,545
Official reserve assets	48,323	55,600	45,544	43,214	47,077	45,562	48,930	45,658	43,923	42,582	48,191
Gold	3,994	4,242	4,073	4,151	4,194	4,229	4,273	4,358	4,444	4,529	4,615
Other	43,069	50,880	40,212	37,803	42,401	40,073	44,174	40,817	38,997	37,571	43,094
SDR holdings and reserve position in the Fund	1,260	479	1,260	1,260	482	1,260	482	482	482	482	482
Other foreign assets	366	361	366	366	361	366	354	354	354	354	354
Foreign liabilities	-4,826	-4,732	-4,826	-4,826	-4,732	-4,826	-4,675	-4,675	-4,675	-4,675	-4,578
Net domestic assets	14,752	9,267	17,673	20,246	19,495	17,962	18,699	22,420	24,846	26,763	21,546
Domestic assets	19,530	13,333	21,167	22,797	18,638	23,305	21,588	21,715	21,807	21,909	21,853
Net claims on general government	19,435	13,228	21,072	22,702	18,529	23,210	21,480	21,607	21,698	21,801	21,745
Loans to central government	2,729	2,356	2,729	2,729	2,356	2,729	2,356	2,356	2,356	2,356	2,356
Holdings of discounted treasury bills	20,572	17,179	22,209	23,839	19,422	24,347	21,710	21,837	21,928	22,030	21,975
Other claims	0	0	0	0	0	0	0	0	0	0	0
Domestic currency deposits	-1,066	-1,629	-1,066	-1,066	-1,114	-1,066	-451	-451	-451	-451	-451
Foreign currency deposits	-2,800	-4,676	-2,800	-2,800	-2,135	-2,800	-2,135	-2,135	-2,135	-2,135	-2,135
Monetary policy instruments 2/	-6,490	-7,233	-5,206	-4,263	-2,937	-7,055	-6,683	-3,090	-755	1,060	-4,102
Other items net	1,712	3,168	1,712	1,712	3,795	1,712	3,795	3,795	3,795	3,795	3,795
Reserve money	58,615	60,497	58,757	59,000	62,201	59,063	63,307	63,756	64,447	65,024	65,513
Currency in circulation	41,687	44,118	41,678	41,598	45,225	41,414	46,297	46,652	47,222	47,678	48,029
Bank reserves	16,928	16,379	17,079	17,402	16,977	17,649	17,011	17,104	17,225	17,346	17,484
Memorandum items											
Gross foreign exchange assets (in millions of U.S. dollars) 3/	40,882	47,039	38,532	36,560	39,829	38,546	41,396	38,628	37,160	36,026	40,771

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

1/ IMF Country Report number 16/379: Iraq Staff Report for the First Review of the Stand-by Arrangement.

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

3/ See Table 8 of the Staff Report, footnote 3, for coverage.

Attachment II. Technical Memorandum of Understanding

1. This memorandum defines the quantitative performance criteria (PCs) and indicative targets (ITs) for the economic program of the Iraqi authorities during the period September 2017–December 2018 under the Stand-By Arrangement (SBA). These PCs, presented in Table 1 of the Memorandum of Economic and Financial Policies (MEFP) attached to the Letter of Intent dated July 23, 2017, 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 continuous ceiling on new external payments arrears on any existing, rescheduled and new debt of the central government and/or the CBI; and

(v) 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.

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

B. Definitions

4. An exchange rate set at Iraqi dinar (ID) 1,182 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 November 20, 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).

7. Net domestic assets (NDA) of the CBI is defined as the difference between reserve money and net foreign assets calculated at the program exchange rates. Reserve money includes currency in circulation, and the CBI liabilities to (i) commercial banks (i.e. other depository corporations), (ii) other private sector, and (iii) state and local government. For this SBA, net foreign assets of the CBI are defined as the difference between the difference between*:* (i) the sum of gross international reserves as defined ¶6 and other foreign assets, and (ii) foreign liabilities. Foreign liabilities are the sum of the use of Fund credit (net), and other foreign liabilities of the CBI held by non-residents and for purposes of this SBA, foreign liabilities exclude SDR allocation.

8. The central government non-oil primary balance is defined as the difference between non-oil revenue and non-oil primary expenditure measured on a cash basis. Non-oil revenue is defined as total revenue and grants excluding oil-related receipts (exports of crude oil and refined products, transfers from oil-related state-owned enterprises, and tax revenue on oil companies). 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). Non-oil primary expenditure measured on a cash basis excludes spending financed by the accumulation of arrears and includes the payment of arrears on such spending accumulated in previous years.

9. Obligations 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. IOCs include the Basra Gas Company. Obligations outstanding to the Basra Gas Company are defined as bills validated by the Ministry of Oil and due for more than 30 days 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 several 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 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.

- For purposes of this performance criterion, external payment arrears do not include obligations outstanding to IOCs as defined in paragraph 9 of this TMU.[1]

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.

[1] This reflects understandings reached with the authorities at the start of the arrangement, which are now being made explicit in the definition.

- 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.
- Total public debt excludes short-term supplier related credit (less than 90 days).

12. **Social spending** (Table 3 of the MEFP) is defined as the sum of expenditure on the social safety net, the public distribution system, wheat and rice subsidies, assistance to the internally displaced, farmer subsidies, reconstruction, and wage expenditure and goods and services of the health, environment and the higher and lower education ministries. 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** is the value of unpaid bills to domestic creditors for more than 90 days after their invoice, as measured by the regular surveys of the Ministry of Finance.

C. Adjustors

14. The floor on the central government non-oil primary balance will be adjusted if the actual amount of the transfer of the central government to the KRG net of the non-oil revenue from KRG is less than the programmed amount. In that case, the floor on the central government non-oil primary balance will be adjusted upwards by the absolute amount of the difference.

15. The ceiling on the total public debt will be adjusted if the fiscal balance of all the KRG- related flows is lower than programmed. In that case, the ceiling on total public debt will be adjusted downwards by the absolute amount of the difference. The fiscal balance of the KRG-related flows is defined as the oil revenue from KRG, plus the non-oil revenue from KRG, less the transfer of the central government to the KRG.

16. The floor on the central government non-oil primary balance will be adjusted upwards (downwards) if the actual amount of the expenditure financed by project loans is less (more) than the programmed amount. In that case, the floor on the central government non-oil primary balance will be adjusted upwards (downwards) by the absolute amount of the difference.

17. 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 1 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.

18. The ceiling on the stock of net domestic assets (NDA) of the CBI will be adjusted downward in case: (i) foreign financing and/or (ii) oil export revenue is higher than programmed. The size of the adjustment will be equal to the difference between the observed and programmed value of foreign financing and/or oil export revenue.

19. 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.

20. The floor on the stock of gross international reserves of the CBI will be adjusted upward in case: (i) foreign financing and/or (ii) oil export revenue is higher than programmed. The size of the adjustment will be equal to the difference between the observed and programmed value of foreign financing and/or oil export revenue.

21. The floor on social spending will be adjusted downward if the actual amount of the transfer of the central government to the KRG for social spending is less than the programmed amount. In that case, the floor will be adjusted downwards, by the absolute amount of the difference.

D. Provision of Information to the Fund Staff

22. 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, 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 as defined in ¶6 at the end of July 2017 and at the end of each semester thereafter will be audited by the CBI's external auditor and transmitted to the Fund within three months.

- The monthly balance sheet of the CBI, with a month lag. The value of the CBI net domestic assets as defined in ¶7 at the end of July 2017 and at the end of each semester thereafter will be audited by the CBI's external auditor and transmitted to the Fund within three months.

- 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

- Monthly fiscal reporting tables presented in line with the 2014 IMF Government Financial Statistics Manual, with an eight-week lag.

- 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 monthly;

    b) transfers to and from the KRG reported monthly;

    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, as documented by the survey of the Ministry of Finance, defined in ¶13;

e) payments and/or arrears in payments to international oil companies as defined in ¶9 on quarterly 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 monthly 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 quarterly 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 monthly no more than eight weeks after the end of the reference month.

Public Debt

- Stock of public debt as defined in ¶11 quarterly with the audited value at end-July 2017, end-December 2017, end-June 2018, and end-December 2018 transmitted to the Fund within three months.

- 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

23. Structural benchmarks comprise a critical component of the SBA. In accordance with agreed benchmarks (Table 2 of the MEFP), the authorities will prepare and send to the IMF staff reports, with appropriate documentation, documenting completion.

Other Information

24. 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

July 25, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE THREE YEAR STAND-BY ARRANGEMENT, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE AND APPLICABILITY OF PERFORMANCE CRITERIA, AND MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

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

CONTENTS

RELATIONS WITH THE FUND

(As of May 31, 2017)

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	3,175.16	190.84
Reserve Tranche Position	289.95	17.43

SDR Department

	SDR Million	Percent of Allocation
Net Cumulative Allocation	1,134.50	100.00
Holdings	0.94	0.08

Outstanding Purchases and Loans

	SDR Million	Percent of Quota
Stand-By Arrangements	910.00	54.69
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	Jul 07, 2016	Jul 06, 2019	3,831.00	910.00
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

Overdue Obligations and Projected Payment to the Fund

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

	Forthcoming				
	2017	**2018**	**2019**	**2020**	**2021**
Principal		111.41	502.53	789.24	398.13
Charges/Interest	17.15	34.24	29.85	19.51	9.96
Total	**17.15**	**145.65**	**532.38**	**808.75**	**408.09**

[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. Priority should be given to addressing the ongoing weaknesses in the current legal framework and the internal audit function. The authorities are about to amend the Law on the CBI and adopt a new charter for the audit committee (structural benchmarks). Progress on implementing other recommendations has been slow. A positive development was the substantial improvement in the quality of financial reporting, which was accomplished in part with the assistance of the external auditors.

Exchange Arrangement

Iraq's de jure and de facto exchange rate arrangements are classified as a conventional peg arrangement. 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 allocations, establishing a peg. However, because certain transactions are excluded from access to the CBI auctions, many transactions take place at parallel market exchange rates. Until March 2016, the CBI published 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 one exchange restriction and one multiple currency practice (MCP) subject to Fund approval under Article VIII, Sections 2(a) and 3.

The exchange restriction arises from an Iraqi balance owed to Jordan under an inoperative bilateral payments agreement.

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 and parallel markets do not deviate from each other by more than 2 percent. The average spread between the official and market rates was around 6 percent in June 2017.

In addition, to the extent the authorities maintain exchange restrictions imposed for security reasons, these 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, 2012–17

Department	Date	Purpose
FAD	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
	February 2017	Revenue administration: tax policy
	February 2017	PFM-commitment control, cash management, treasury single account (METAC)
LEG	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
	January 2016	Anti-money laundering activities
	March 2016	Cross-border financial flows

Department	Date	Purpose
MCM	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)
	September 2016	Reserve management workshop
	November 2016	Regulations on capital adequacy and liquidity (METAC)
	March 2017	Regulations on credit risk (METAC)
	March 2017	Banking supervision: upgrade CBI prudential regulations (METAC)
	April 2017	Banking supervision (METAC)
STA	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
	January 2017	National accounts (METAC)
	January 2017	External sector statistics (METAC)
	February 2017	Price statistics (METAC)

RELATIONS WITH THE WORLD BANK GROUP

(As of May 31, 2017)

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, World Bank**		
	Iraq energy subsidies and tariff reforms (both Iraq and Kurdistan Regional Government—KRG)	July/October/December 2016	June 2017
	Iraq energy sector programmatic technical assistance- Iraq	October/December 2016	October 2017
	Country Partnership Framework (CPF)	December 2016	October 2017
	Technical Assistance, World Bank		
	Modernization of public financial management system project with 3 main components: 1) Federal MOF: public financial management; 2) public investment management and public procurement at the federal level; and 3) public investment management and public procurement at the KRG level	December 2016–December 2021	Ongoing
	Social protection support program TA: phase I and phase II	November 2015–April 30, 2017 (Phase I); May 1, 2017–June 2018 (Phase II)	June 2017/June 2018

[1] Not including infrastructure investments.

	Iraq flaring reduction: deliverable gas-to-power action plan/gas processing contract/regulations on: 1) gas pricing; 2) gas transport; and 3) gas marketing	October/December 2016	October 2017
	Programmatic poverty work (rapid monitoring survey, technical assistance to CSO and KRG CSO on poverty measurement, analytical support to operations)	September 2016–18	Ongoing
	Gas value chain in Iraq	June 2016/May 2017	June 2017/June 2018
	KRG: procurement reform	June 2016–May 2017	June 2017
	KRG: social safety nets and pension	June 2016–May 2017	June 2017
	KRG: social protection	July 2016–June 2018	Ongoing
	KRG: support to Shura Council	June 2016–May 2017	Ongoing
	Central Bank payment system	January/March 2017	May 2017
	Anti-money laundering	April 2017	December 2017
	Banking supervision	October 2016	December 2017
	Advice, International Finance Corporation		
	• Bank restructuring • Construction reform project • Dairy sector development • Small and medium enterprises training • Corporate governance • Financial markets infrastructure		

	• Risk management for banks • Small and medium enterprises banking • Public private partnerships: prioritization and regulatory framework		
The Fund work program in the next 12 months	**Macroeconomic Policy Analysis and Advice** Third review of the Stand-By Arrangement Fourth review of the Stand-By Arrangement	 September 2017 March 2018	 December 2017 June 2018

STATISTICAL ISSUES

(As of July 5, 2017)

I. Assessment of Data Adequacy for Surveillance
General Data provision to the Fund has serious shortcomings that significantly hamper surveillance. Macroeconomic statistics suffer 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.
National Accounts The CSO compiles annual and quarterly GDP at current and constant (2007) prices from the production approach, and in current prices from the expenditure approach. The national accounts mainly follow the 1968 System of National Accounts (SNA). Poor and lack of regular comprehensive source data for some industries and for GDP by expenditure have a negative impact on the quality of the national accounts. Volume estimates of GDP suffer from some shortcomings and delays in source data that affect the timelines of the annual estimates. Reduced regional coverage of source data due to the conflicts in four provinces has further weakened the GDP measures. Ongoing TA from METAC is helping the CSO to gradually move to the concepts of the 2008 SNA and to improve the compilation methodology and coverage of GDP. Access to administrative data could be a very significant data input for national accounts estimates, but it would require strong ministerial support and proactive collaboration with other government institutions.
Price Statistics The CSO compiles and disseminates a monthly CPI for all-Iraq (including Kurdistan) and for each governorate. The index was rebased in 2016, based on the 2012 Household Social and Economic Survey. 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—overlapping 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, August 2016, and January 2017, follow-up STA missions 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 The CBI reports monetary statistics for the central bank and other depository corporations (ODCs) for publication in the IMF's *International Financial Statistics (IFS)*, using the standardized report forms (SRFs). However, 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. There are major inconsistencies between financial soundness indicators for deposit takers (state-owned and private banks combined) and SRF 2SR for ODCs, which are an indication of data quality problems. Per the CBI officials, all foreign-owned companies operating in Iraq are classified as nonresidents—a deviation from international standards regarding the application of the residence concept. In addition, monetary statistics do not cover the northern region (Kurdistan) due to problems with data collection. The publication of SRF data in *IFS* has been delayed, while the reporting of Fund accounts in the relevant statistics is still pending the authorities' confirmation. A monetary and financial statistics mission is planned for FY17 to improve the compilation practice with focus on the account classification and the reporting of Fund accounts.
Financial Sector Surveillance Following a mission on financial soundness indicators (FSIs) in April 2016, the CBI has compiled and reported the 12 core FSIs and 7 of the 13 additional FSIs for state banks and a similar set of FSIs for private banks beginning with the first quarter of 2015 on a quarterly basis. However, there are data issues that need to be addressed before FSIs can be used for publication and surveillance. In this connection, a follow-up FSI mission was conducted in March 2017 to focus on improving data quality.
External Sector Statistics ***Balance of Payments and IIP Statistics*** The CBI compiles and reports annual as well as quarterly balance of payments data in the format of the IMF's *Balance of Payments Manual, sixth edition* (*BPM6*) to the IMF. The CBI also compiles and disseminates an annual international investment position (IIP) statement. The latest TA mission on external sector statistics (ESS) was conducted in January 2017 and was informed that following incorporation of some of the 2016 mission's recommendations, the preliminary balance of payments now show a substantial decline of the net errors and omissions. The mission noted that, (i) data related to the oil sector are now included in the balance of payments, (ii) import data should improve especially imports from Kurdistan should be

estimated, and (iii) the CBI should accelerate the process of introducing the enhanced international transactions reporting system. 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. Considering these findings, the mission has made several recommendations to improve the ESS. 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. The compilation of external trade statics has been hampered by lack of interinstitutional coordination among key data providers. Coverage of private sector imports is constrained by lack of 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 Balance of Payments Statistics Division at the CBI. The data on non-oil exports, which amount to the equivalent of 3–5 percent of total exports, are derived from information on the customs export form. Non-oil export data are provided to the CBI monthly for crosschecking purposes. Transactions related to oil exploration, extraction, and development payments to international oil companies has recently been included in the balance of payments.

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 June 30, 2017)

	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	12/2016	03/20/2017	D	D	D		
International reserve assets and reserve liabilities of the monetary authorities[1]	12/2016	03/20/2017	M	M	M, 4–6-week lag		
Reserve/Base money	05/2016	07/06/2016	M	M	M, 4–6-week lag		
Broad money	06/2016	10/31/2016	M	M	M, 4–6-week lag		
Central bank balance sheet	05/2016	06/30/2016	M	M	M, 4–6-week lag		
Consolidated balance sheet of the banking system	04/2016	10/06/2016	M	M	Q, 4–6-week lag		
Interest rates[2]	01/2017	02/03/2017	M	M	M, 4–6-week lag		
Consumer price index	03/31/2016	05/2016	M	M	M, 3-week lag		
Revenue, expenditure, balance and composition of financing[3]—general government[4]	06/2016	09/2016	M	M	N/A		
Revenue, expenditure, balance and composition of financing[3]—central government	06/2016	09/2016	M	M	N/A		
Stocks of central government and central government-guaranteed debt[5]	12/2015	03/2016	N/A	N/A	N/A		
External current account balance	Q4/2016	04/2017	Q	Q	Q, 9-month lag		

Iraq: Table of Common Indicators Required for Surveillance (concluded)
(As of June 30, 2017)

	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	2015	03/2017	Q	Q	Q, 9-month lag		
GDP/GNP	03/2016	04/2016	Q	Q	Q, 3-month lag		
Gross external debt	12/2015	03/2016	N/A	N/A	N/A		
International investment position[6]	12/2014	12/6/2016	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 non-bank 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
August 1, 2017

1. Since mid-2014, Iraq has been facing a double shock resulting from the so-called Islamic State of Iraq and Syria (ISIS) conflict and the sharp drop in global oil prices. The double shock compounds very challenging security and political conditions that have been prevailing for several years. The armed conflict has also created a humanitarian tragedy, causing over three million people to be displaced internally, and about 11 million to be in need of humanitarian assistance. Living conditions across the country have markedly deteriorated since the onset of the armed conflict, and the government's ability to provide basic public goods and services is severely hampered. The violence has also caused extensive damage to infrastructure and productive assets, disrupted internal and external trade, and deteriorated investor confidence.

2. Against this background, in order to restore fiscal and external sustainability, the authorities have taken bold steps to put their public finances on a sustainable footing, while maintaining their commitment to the exchange rate peg, which continues to provide a key nominal anchor in an uncertain environment. They reiterate their appreciation to the international community for supporting their efforts, including through the IMF Stand-By Arrangement (SBA) and generous donor support. Despite very difficult circumstances, the authorities have successfully implemented many of the 2015 Article IV recommendations. Moreover, they have strengthened their performance under the SBA. The performance criteria (PC) at end-December 2016 and one continuous PC were missed because of the spending pressure flowing from the war against ISIS and the ensuing humanitarian crisis. Nonetheless, the authorities have implemented strong corrective measures as prior actions, including adoption by parliament of a supplementary 2017 budget. Moreover, the government has made considerable progress in meeting the structural benchmarks (SBs) under the second review, with ten out of twelve SBs met, while the remaining two are in progress.

3. Despite these persistent efforts and encouraging developments, the Iraqi economy continues to face daunting challenges and risks, notably a further decline in oil prices, political and security instability, and considerable constraints in administrative capacity.

Recent Economic Developments

4. Real GDP growth remained strong in 2016, increasing by 11 percent, due to the increase in oil production resulting from past oil investment. Nonetheless, oil production is expected to contract in 2017 in line with the OPEC-agreed production cut. Non-oil GDP continued to contract in 2016 as a result of continued fiscal consolidation and the conflict with ISIS. Oil prices and exports dropped sharply in 2016, resulting in a widening of the

balance of payments to 8.7 percent of GDP and a further decline in foreign exchange reserves.

5. In response to the fall in oil revenue, the authorities have implemented a large fiscal effort consolidation in 2014, with the aim to achieve debt sustainability. Further fiscal consolidation was achieved in 2016, but at a slower pace than programmed to allow for some essential non-oil investment expenditure—following drastic cuts in non-oil investment under the SBA—and due to spending pressures stemming from the military campaign against ISIS. Streamlined procedures for access to the Central Bank of Iraq (CBI) foreign exchange window have contributed to a reduction of the spread between the parallel and official rates since the fall of 2016. Moreover, the yield of the 2028 bond has diminished since early 2016 in reaction to the increase in oil prices and progress in fiscal consolidation.

Fiscal Policies and Reforms

6. The authorities will pursue their fiscal consolidation effort to bring spending in line with available resources. They believe that further consolidation must be mindful of the country's fragile security, political and social situation. The brunt of the adjustment has been achieved so far through cuts in non-oil investment—notwithstanding the country's vast investment needs—while maintaining wages and pensions in an effort to preserve social stability. The authorities are also keen on continuing to protect social spending, which includes health and education, transfers in support of the social safety net, and assistance for internally displaced persons and refugees.

7. Earlier this week, parliament approved a supplementary 2017 budget reducing total spending by 2 percent and introducing a credit allocation for repaying arrears incurred during previous years. In the 2018 budget, the government will prepare measures (to be finalized during the third review) to reduce the non-oil primary deficit on an accrual basis by ID 2.3 trillion (4.4 percent of non-oil GDP) compared to the draft supplementary budget for 2017. The authorities intend to strengthen revenue by (i) auditing the Development Fund for Iraq and Successor Account 300/600 at the CBI to check that all oil revenue reaches the treasury; (ii) preparing and sending to parliament a sales and excise tax law in line with Fund technical assistance (TA) recommendations (proposed SB for the third SBA review); and (iii) introducing changes in the Customs Code in line with Fund TA recommendations (also proposed SB for the third SBA review). The government will also continue ongoing work on reforming state-owned non-financial enterprises and the electricity sector, notably by increasing collection and reducing production costs and capturing flared gas to use it for electricity production.

8. Public financial management reforms continue to rank high on the authorities' agenda. They have adopted tight procedures for the approval of state guarantees (prior action). They will improve Government Finance Statistics reporting in line with Fund TA recommendations. They will also carry out quarterly surveys of arrears and prepare plans for

their orderly payment, following an independent audit of domestic arrears by the Board of Supreme Audit. The government will also design and implement a commitment control system for budget execution, in line with IMF TA recommendations to avoid the emergence of new arrears. Future reforms will include gradually moving to a Treasury Single Account, designing and implementing an Integrated Financial Management Information System, implementing Public Investment Management reform, and strengthening Debt Management with TA support from the Japanese International Cooperation Agency.

Monetary, Exchange Rate and Financial Sector Policies and Reforms

9. The authorities remain committed to maintaining the peg to the U.S. dollar as the stability of the exchange rate continues to provide a key nominal anchor to the economy in an uncertain environment. They are working actively on removing remaining exchange restrictions and a multiple currency practice, in close cooperation with Fund staff.

10. The authorities are taking measures to enhance the stability of the banking sector. The audit of the financial statements of the two largest state-owned banks Rasheed and Rafidain will be completed by end-August 2017. Based on these audits, the Ministry of Finance will prepare a plan to restructure the two banks, in cooperation with the World Bank. At the same time, the government is strengthening the legal framework of the CBI to provide for independent oversight, building on the December 2015 IMF safeguards assessment. The authorities will continue to implement reforms to strengthen the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework. Following the adoption of an AML/CFT compliance mechanism in October 2016, the CBI and Iraqi Insurance Diwan will issue AML/CFT instructions for exchange and insurance companies, followed by guidance to all reporting entities covered by the AML/CFT Law regarding the implementation of preventive measures.

Performance Under the SBA

11. The government remains fully committed to the objectives of the program, notably gradually bringing expenditure down to a level consistent with the lower level of oil revenues to achieve debt sustainability while maintaining the exchange rate peg, strengthening public financial management and banking supervision, and fighting money laundering, the financing of terrorism, and corruption. The government will also ensure that social spending is protected.

12. As noted above, the PCs at end-December 2016 and one continuous PC under the SBA were missed because of the spending pressure flowing from the war against ISIS and the ensuing humanitarian crisis. These factors resulted in larger spending and lower external arrears payments than programmed for 2016. Considering the temporary nature of these arrears, and the steps to put the program back on track and improve cash management, the authorities request waivers for the non-observance of the continuous PC and one PC at end-

June 2017. They also request waivers of applicability for the four PCs at end-June 2017 for which complete information is not available yet. Notwithstanding a difficult environment and severe constraints, the authorities were able to preserve social spending above program floors by a significant margin.

13. Considerable progress was also made in meeting the structural benchmarks for the second review of the SBA, with ten out of twelve SBs met, while the remaining two are in progress. In particular, the authorities have completed essential SBs aimed at improving fiscal transparency, strengthening governance, enhancing debt management, improving cash management and fiscal transparency, strengthening safeguards assessments and the governance of the CBI, and improving the business environment, as detailed in the Memorandum of Economic and Financial Policies. In view of the difficulty to reduce to zero the obligations outstanding for more than three months to international oil companies (because of the lumpy size of oil shipments), the government proposes to raise the floor on these obligations to $500 million, starting in September 2017.

14. In order to facilitate program implementation, the authorities have set up a unit in the Prime Minister's Office to strengthen the monitoring of commitments under the SBA and coordinate among various government agencies.

Conclusion

15. Iraq continues to face particularly difficult times, and its economy remains under severe stress. In light of the performance under the SBA and the policies laid out in the MEFP, the authorities request the completion of the second review under the SBA and the purchase of the third tranche. The SBA continues to provide them with needed financial support and a valuable anchor during a period of considerable uncertainty. They are fully committed to implementing 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. They particularly appreciate staff's hard work and constructive engagement, as well as the valuable TA they are receiving in support of their stabilization and reform efforts.