

**Iraq: Third and Fourth Reviews Under the Stand-By Arrangement, Financing Assurances Review, and Requests for Extension of the Arrangement and for Waiver of Nonobservance of a Performance Criterion—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Iraq**

In the context of the third and fourth reviews under the Stand-By Arrangement, financing assurances review, and requests for an extension of the arrangement and for a waiver of nonobservance of a performance criterion, the following documents have been released and are included in this package:

- the staff report for the Third and Fourth Reviews Under the Stand-By Arrangement, Financing Assurances Review, and Requests for Extension of the Arrangement and for Waiver of Nonobservance of a Performance Criterion, prepared by a staff team of the IMF, following discussions that ended on February 2, 2007, 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 February 23, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;
- a supplement to the staff report of March 9, 2007, updating information on recent developments;
- a press release summarizing the views of the Executive Board as expressed during its March 12, 2007 discussion of the staff report that completed the reviews and requests; and
- a statement by the Executive Director for Iraq.

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

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

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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IRAQ

**Third and Fourth Reviews Under the Stand-By Arrangement,  
Financing Assurances Review, and Requests for Extension of the Arrangement  
and for Waiver of Nonobservance of a Performance Criterion**

Prepared by the Middle East and Central Asia Department

(In consultation with other departments)

Approved by Mohsin S. Khan and Adrienne Cheasty

February 23, 2007

- A 15-month Stand-By Arrangement (SBA) for Iraq in an amount equivalent to SDR 475.36 million (40 percent of quota) was approved on December 23, 2005. The first and second reviews under the arrangement were completed on August 2, 2006.
- The third review, due after August 14, 2006 was delayed because of prolonged discussions on corrective measures. Accordingly, the third and the fourth review, due after November 14, 2006, are being conducted together.
- To allow more time to reach the objectives and complete the reforms under the SBA, the Iraqi authorities have requested an extension of the arrangement by six months to September 28, 2007. They continue to treat the arrangement as precautionary.
- This report is based on discussions held during October 31–November 5 and December 12–15, 2006 in Amman, and February 1–2, 2007 in Paris. Staff met with Minister of Finance Jabr Al-Zubaydi, Minister of Oil Al-Shahristani, Governor of the Central Bank of Iraq (CBI) Al-Shabibi, and other senior Iraqi officials.

Contents	Page
Executive Summary .....	4
I. Introduction .....	5
II. Recent Economic Developments .....	5
III. Policy Discussions .....	6
A. Macroeconomic Outlook and Risks .....	6
B. Fiscal Policy and Related Measures .....	7
C. Monetary and Exchange Rate Policy .....	9
D. Financial Sector Reform .....	9
E. Other Structural Issues .....	10
IV. Program Monitoring and Financing Assurances .....	10
V. Staff Appraisal .....	11
 Tables	
1. Selected Economic and Financial Indicators, 2004–07 .....	13
2. Fiscal and Oil Sector Accounts, 2005–07 .....	14
3. Fiscal and Oil Sector Accounts, 2005–07 (In percent of GDP) .....	15
4. Central Bank Survey, 2003–07 .....	16
5. Depository Corporations (Monetary) Survey 2004–06 .....	17
6. Balance of Payments, 2004–07 .....	18
7. Indicative Quantitative Benchmarks Under the Stand-By Arrangement .....	19
8. Quantitative Performance Criteria and Indicative Targets Under the the Stand-By Arrangement, 2005–07 .....	20
9. Prior Actions, Structural Performance Criteria, and Structural Benchmarks Under the Stand-By Arrangement .....	21
10. Proposed Availability of Purchases Under the Stand-By Arrangement, 2005–07 .....	22
11. Indicators of Fund Credit, 2004–12 .....	23
Appendix – Medium-Term Prospects and External Debt Outlook .....	24
 Appendix Tables	
1. Selected Economic and Financial Indicators, 2004–12 .....	25
2. Fiscal and Oil Sector Accounts, 2005–12 .....	26
3. Fiscal and Oil Sector Accounts, 2005–12 (In percent of GDP) .....	27
4. Balance of Payments, 2004–12 .....	28
5. Estimated External Debt Stock, 2004–12 .....	29
6. External Debt Sustainability Framework, 2004–12 .....	30

Attachments	
I. Letter of Intent .....	31
II. Second Supplementary Memorandum of Economic and Financial Policies for 2007 .....	33
III. Addendum to the Technical Memorandum of Understanding .....	43

## EXECUTIVE SUMMARY

**The third and the fourth reviews of the Stand-By Arrangement (SBA) are being combined.** The third review was delayed due to lengthy discussions on corrective measures. To allow more time to complete the reforms and reach the program's objectives, the authorities have requested a six-month extension of the arrangement.

**Economic growth in 2006 was below target because oil production did not increase as projected.** This reflected lower than planned investment and the lack of security. **Inflation increased to 65 percent in the year to December 2006.** This was mainly due to shortages of key commodities (particularly fuel), caused in part by the ongoing insurgency. The underlying rate of inflation has also remained high.

Key elements of the authorities' program for 2007 include the following:

- **The 2007 budget provides for an ambitious investment program, while allowing for a moderate increase in current spending (including on wages and pensions).** If oil revenues turn out to be substantially lower than budgeted, the authorities will adopt a supplementary budget to keep the fiscal deficit on target.
- **Domestic fuel prices will be increased again as a prior action for completion of the reviews.** The government will continue to import premium gasoline and other fuel products, but the subsidy for these imports will be largely eliminated. Private sector imports of fuel products (liberalized in 2006) will be encouraged.
- **To contain inflation and counter dollarization the CBI has tightened monetary policy and allowed the dinar to appreciate.** The CBI is committed to tighten monetary policy further in 2007 if needed to help contain inflation
- **The CBI has adopted a work program to improve its internal controls and accounting procedures.** This work program was based on the findings of the Ernst & Young audit report and reflected in the IMF's interim safeguards assessment report.

## I. INTRODUCTION

1. **The SBA for Iraq was approved in December 2005 in support of an economic program covering the period through March 22, 2007.** The program aimed at maintaining macroeconomic stability, paving the way for sustainable growth, and achieving external debt sustainability. The last stage of the 2004 Paris Club debt reduction agreement, increasing the debt cancellation rate to 80 percent in net present value (NPV) terms, depends upon the conclusion of the final review of the third year of one or more successive upper credit tranche arrangements, expected by end-December 2008.<sup>1</sup>
2. **The government has remained broadly stable since its formation in May 2006, but the security situation has deteriorated.** The security problems continued to seriously hamper economic recovery, but program implementation has been broadly on track. The government and its Coalition partners have begun implementing a new security plan aimed at reducing the widespread violence, especially in and around Baghdad.
3. **The Iraqi government, with the help of the United Nations, has initiated an International Compact for Iraq (ICI).** The objective of the ICI is to develop, with support of the international community, a medium-term framework for comprehensive political, security and economic reform. The Fund's main contribution to the ICI will be the macroeconomic framework of the program supported by the SBA.

## II. RECENT ECONOMIC DEVELOPMENTS

4. **Economic growth was lower than foreseen and inflation increased in 2006.** Economic activity and investment continued to suffer from the prevailing violence. Outmigration of skilled labor continued. Real GDP growth is estimated at about 3 percent in 2006, lower than projected mainly because oil production remained unchanged from 2005 at 2 million barrels per day (mbpd). Annual consumer price inflation was almost 65 percent in December. The high rate of inflation owes much to shortages of key commodities (especially fuel with effects on transportation) and increasing security costs. The underlying rate of inflation (excluding fuel and transportation) has also remained high, in the range of 30–35 percent.
5. **The fiscal outturn for 2006 is expected to show a substantial surplus compared to a budgeted deficit.** While current expenditures were broadly in line with the budget, investment spending was much lower due to: (i) the ongoing violence; (ii) implementation capacity constraints; and (iii) problems of procuring oil-related investment goods in a tight world market. As a result of the surplus, the resources in the Development Fund for Iraq

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<sup>1</sup> The first and second stages of the agreement involved 30 percent debt reduction in NPV terms each, and became effective in November 2004 and December 2005, respectively.

(DFI) and government deposits at the CBI increased considerably. The authorities are still working on providing information on the execution of Letters of Credit issued by the Trade Bank of Iraq in previous years, in order to determine the amount of spending in 2006 related to previous budgets.

6. **The central bank has tightened monetary policy and allowed the dinar to appreciate, in order to contain inflation and counter dollarization.** The growth of currency in circulation and reserve money over the first 11 months of 2006 was well below the inflation rate, reflecting the ongoing dollarization. Since late August, the CBI has started issuing its own securities, which currently yield a return of 21 percent per annum. It also raised its policy interest rate in two steps from 12 percent in early November to 20 percent as of early January. The exchange rate appreciated by some 12½ percent from mid-November, reaching ID 1,290 per U.S. dollar at end-January 2007. At the same time, gross international reserves increased to \$15.7 billion at end-November.

7. **Structural reforms have continued, although there have been delays in some areas.** While important reforms (such as fuel price increases, fuel import liberalization and payment system modernization) were implemented, other measures, including the adoption of a new budget classification, amendment of the pension law, completion of a census of public service employees, and recapitalization of the CBI, are still underway.

### III. POLICY DISCUSSIONS

8. **Discussions on the third and fourth reviews focused on measures needed to keep the program on track.** The authorities and staff agreed that the most urgent task was to bring inflation down by a combination of: (i) a tightened monetary policy stance and appropriate management of the exchange rate, including to counter dollarization; (ii) strict control of government current spending; and (iii) measures to alleviate commodity shortages (in particular by allowing private imports of petroleum products). The discussions also focused on the 2007 budget, on structural reform (especially regarding the domestic market for fuel products), and on progress in addressing concerns raised in the context of the audits of the CBI financial statements and in the IMF interim safeguards assessment report (ISAR).

9. **The authorities remain strongly committed to the program supported by the SBA.** In the attached second Supplementary Memorandum of Economic and Financial Policies (SMEFP-2), they outline their plans for the remainder of the program period.

#### A. Macroeconomic Outlook and Risks

10. **Iraq's economic prospects in 2007 and over the medium term are critically dependent on an improvement in the security situation.** If the level of violence can be reduced, the government investment program, including in the oil sector, could be implemented and private sector activity begin to recover. On this basis, real GDP growth in 2007 is projected at about 10½ percent with oil production picking up to 2.3 mbpd. The non-

oil economy is expected to continue to grow by 7½ percent. Strong policy actions on the inflation front could bring annual consumer price inflation down to about 30 percent by end-2007. A medium-term scenario is presented in the Appendix. If the security situation does not improve, however, government investment would likely be lower and commodity shortages would persist, with adverse effects on growth and inflation.

11. **The economic outlook is subject to considerable risk.** Persistent insecurity and the possibly resulting political instability would hamper economic growth, worsen commodity shortages and keep inflation high, and undermine implementation of the structural reform agenda. A further drop in international oil prices also represents a major risk for public finances and the balance of payments.

Iraq: Near-Term Outlook

	2006		2007		
	Program	Outturn	Budget	Baseline 1/	Program
GDP growth	10.4	3.0	10.4	3.0	10.4
Inflation	15.0	64.8	30.0	50.0	30.0
Budget balance (In percent of GDP)	-9.0	11.2	-11.9	-15.5	-13.1

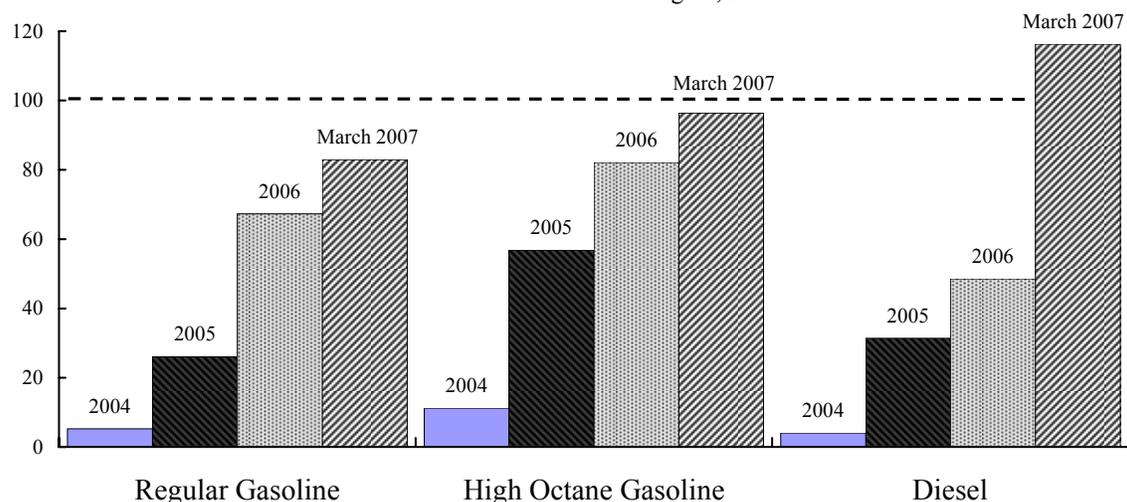
1/ Baseline assumes no improvement in security, and no increase in oil production and government investment compared to the 2006 outturn.

## B. Fiscal Policy and Related Measures

12. **The 2007 budget aims to make adequate allowance for an ambitious investment program, while preserving a sustainable fiscal stance overall** (SMEFP-2, ¶8–10). Because the appreciation of the exchange rate lowers the dinar value of oil revenues, this requires strict spending control. The nonoil budget deficit projected for 2007 remains broadly unchanged compared to that in 2006. In view of its high import content, the increase in government investment should have only a limited impact on inflation. Current spending, including on wages and pensions, will increase moderately to provide room for significantly higher public investment and outlays on security and the social safety net. Progress is being made in streamlining the social safety net (SMEFP-2, ¶16). The amendments to the new pension law have been submitted to the Council of Representatives (CoR; SMEFP-2, ¶15). The amendments include a gradual reduction of replacement rates to fiscally sustainable levels and zero indexation in 2007 to ensure affordability in the short-term. Unfortunately, the amendments have not yet been enacted but the authorities are committed to push this through as soon as possible. The government aims to complete a census of public service employees by end-June 2007 (performance criterion). In the event that oil export revenues are substantially lower than budgeted, the government has indicated its readiness to prepare a supplementary budget to reduce government spending and keep the fiscal deficit on target.

13. **The government is committed to further increasing domestic prices of fuel products** (SMEFP-2, ¶12). Although the authorities expressed concern about the possible adverse political fallout during the implementation of the security plan, they nevertheless intend to pursue their policies in this area. The government will no longer provide an explicit budget subsidy for fuel products (except for kerosene), although there will remain an implicit

Fuel prices in Iraq as a percentage of average fuel prices in other oil exporting countries in the Middle East and North Africa region, 2004–07 1/



1/ Assumes no price increase in benchmark countries in 2007.

budget subsidy on domestically produced fuel products (mainly regular gasoline and diesel). Government fuel imports, which will remain sizeable in 2007, will be financed from domestic sales of fuel products. Continuing government imports was not envisaged under the original program but is considered necessary to avoid fuel shortages (thereby helping to reduce inflationary pressures).

Revenue and Expenditure of Oil-Related State-Owned Enterprises, 2004–07  
(In billion ID)

	2004	2005	2006 Est.	2007 Budget 1/
Revenue	799	1,456	3,375	3,179
Operating expenditure	790	1,085	2,313	2,559
Oil derivative imports	4,823	4,128	4,286	378
Balance	-4,814	-3,757	-3,224	242

1/ Excluding government imports of oil derivative products for which a budget subsidy will no longer be provided in 2007.

14. **The government is also preparing to facilitate private importation of petroleum products.** The law permitting private imports and resale at market prices of petroleum products was enacted by the CoR in September 2006, and implementing regulations were issued in October. The government has exited the domestic market for premium gasoline and will make storage facilities and pump stations available to the private sector.

15. **The government will make the recently adopted chart of accounts and the budget classification fully consistent with the Fund's *Government Finance Statistics Manual (GSFM) 2001* by end-June 2007** (this was a missed performance criterion for end-

December 2006; see SMEFP-2, ¶14). The ministry of finance has started using the Financial Management Information System in January 2007.

### C. Monetary and Exchange Rate Policy

16. **Monetary policy will be tightened further in 2007, if needed to help contain inflationary pressures, and the CBI will continue to manage the exchange rate with a view of reducing inflation and reversing dollarization.** The central bank is committed to letting the exchange rate appreciate further in the coming months in line with its November 2006 monetary policy statement, while keeping a close watch on the effectiveness of these policies.

17. **The Ernst and Young (E&Y) audit of the CBI 2005 financial accounts highlighted serious weaknesses in internal controls and accounting procedures.**<sup>2</sup> These weaknesses have been underscored in the IMF's ISAR, the final version of which was sent to the CBI in December 2006. The authorities have begun addressing these issues so that the improvements will be reflected in the audit of 2006 financial accounts. The CBI has retained E&Y to conduct the 2006 financial audit, and is committed to have an interim audit completed by end-May 2007 (performance criterion). The government has decided to recapitalize the CBI early in 2007.

### D. Financial Sector Reform

18. **Memoranda of Understanding (MoUs) between the CBI and the ministry of finance for the restructuring of the two main state-owned banks were signed in December.** The MoUs call for an operational restructuring of Rasheed and Rafidain banks, and a financial restructuring of Rasheed bank. The financial restructuring of Rafidain bank will await the settlement of claims against its London branch. The authorities will appoint the auditor by end-April 2007 and aim for completion of the audits in 2007. Staff has encouraged the authorities to restructure the remaining four state-owned banks using a similar approach.

19. **Great strides were made in modernizing the payment system.** The real time gross settlement system and the automated clearing house started their operations ahead of the target dates (structural benchmarks for August and November 2006, respectively), and the CBI is in the process of expanding coverage to all commercial banks (from 12 currently).

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<sup>2</sup> At the time of the first and second reviews on August 2, 2006, staff informed the Board that the audit had been finalized. There was, however, a misunderstanding between staff and the CBI on what exactly constituted a finalized audit. While the information necessary for staff to proceed with the safeguards assessment was provided to staff by August 2, it subsequently learned that the audit was not formally finalized until October 1, 2006. The misunderstanding does not affect the accuracy of information provided by the authorities in this regard, as they correctly reported that the "CBI approved the Ernst & Young audit of the CBI's 2005 financial statements on July 13, 2006."

### E. Other Structural Issues

20. **The authorities continue their efforts to establish a competitive legal framework for the hydrocarbon sector.** Negotiations on a new hydrocarbon law are ongoing within the government. The authorities intend to reach agreement shortly on the major contentious issues, including the management of the sector, the right to issue contracts, and the regional sharing of revenues.

21. **The authorities have committed to joining the Extractive Industries Transparency Initiative (EITI).** To combat corruption, the government has cancelled some suspicious contracts related to the transportation of fuel products and rendered procurement procedures more transparent. Progress is being made with oil-metering.

22. **The International Advisory and Monitoring Board (IAMB) mandate was extended through December 2007.**<sup>3</sup> The authorities plan to involve the newly established Iraqi Oversight Board (IOB) in the IAMB's work to provide the IOB with adequate training prior to the eventual expiration of the IAMB mandate.

23. **Iraq continues to work toward resolving outstanding external claims.** Most Paris Club (PC) official creditors have signed bilateral agreements. Progress is slow, however, in resolving non-PC official claims, especially of the Gulf countries. The authorities continue the reconciliation process of unresolved private claims (about 4 percent of original claims; see SMEFP-2, ¶25).

### IV. PROGRAM MONITORING AND FINANCING ASSURANCES

24. **All quantitative performance criteria set for end-September were met but one structural performance criterion was missed.** The chart of accounts and budget classification were not adopted in line with the IMF's *GFSM 2001* on December 31, 2006. In light of the corrective actions being undertaken as specified in the SMEFP-2, the authorities are requesting a waiver for the missed structural performance criterion. Staff will inform the IMF Executive Board on the outcome for the end-December quantitative performance criteria before Board consideration of the third and fourth reviews under the SBA; preliminary information received thus far suggests that these are likely to be met.

25. **The program will continue to be monitored through quarterly reviews.** In light of the authorities' request to extend the SBA by six months to September 2007, they also requested that the final (fifth) review, due originally by mid-February 2007, be rephased to mid-May 2007, and that the last purchase will be available upon observance of the end-June 2007 performance criteria, while leaving total access unchanged. In case there remain arrears

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<sup>3</sup> UN Security Council Resolution 1723 (November 28, 2006).

to private creditors by the end of the program period, a financing assurances review will be undertaken.

26. **Staff has recently finalized the ISAR of the CBI.** The ISAR includes an action plan to assist the CBI in responding to the concerns and recommendations raised in the ISAR and the E&Y 2005 financial audit. The CBI has agreed on a timetable for corrective actions based on the ISAR and has requested Fund technical assistance in this area (SMEFP-2, ¶19).

## V. STAFF APPRAISAL

27. **Iraq is entering a crucial period in its economic stabilization and recovery.** Progress was made in strengthening economic policies in 2006, but the deterioration in the security situation is exacting a heavy toll on the economy. Improved security conditions will be essential for the successful implementation of the economic program supported by the SBA.

28. **The authorities are committed to maintaining fiscal sustainability.** Staff welcomes the containment of current spending, especially on wages and pensions, and the significant reduction in explicit fuel subsidies envisaged in the 2007 budget. It is crucial that the pension law be amended to make the pension system fiscally sustainable and that the census of public service employees be completed as planned. The increase in and ongoing rationalization of poverty-reducing spending are encouraging.

29. **The authorities' decision to continue raising domestic fuel prices in the current volatile political environment is a strong signal of their commitment to the program.** Increased efforts by the government to facilitate private sector imports of petroleum products will be key to reducing supply bottlenecks and limiting destabilizing price hikes in the black market.

30. **Staff welcomes the strengthening of the dinar and the recent increases in the CBI policy interest rate.** Inflation has reached a worrisome level, and the CBI may need to tighten monetary conditions further if inflation remains high and dollarization does not come down. Fiscal policy can help by keeping current spending in line with the absorptive capacity of Iraq's small non-oil economy.

31. **The structural reform momentum should be stepped up in 2007.** The hydrocarbon law should be enacted as soon as possible in view of Iraq's large investment needs in this sector to increase oil production over the medium-term. Building on the progress made in improving the payment system, it is also important to move ahead with the restructuring of the banking system. Staff welcomes the authorities' commitment to address delays in the modernization of the chart of accounts and the budget classification.

32. **Corruption, especially in the hydrocarbon sector, is hurting the economy and damaging the credibility of the government's economic program.** The decision to join the EITI is an important step towards greater transparency and good governance.

33. **Staff urges the CBI to follow through on its commitment to address all recommendations of the ISAR and the E&Y audit report.** Satisfactory progress in this area will be a key consideration for a future arrangement.

34. **Staff recommends that the third and fourth reviews under the SBA be completed.** In view of the government's commitment to the program, and the policies and measures described in the second SMEFP, staff supports the authorities' requests for: (i) a waiver for the nonobservance of the end-December structural performance criterion; (ii) an extension of the SBA through September 28, 2007; and (iii) the establishment of quantitative performance criteria for end-March and end-June 2007. Staff believes that Iraq is making best efforts to reach bilateral agreements on its arrears to official non-Paris Club creditors and that the authorities have been negotiating in good faith to resolve the remaining arrears to private creditors, consistent with the Fund's policy on lending into arrears, and supports the completion of the financing assurances review.

Table 1. Iraq: Selected Economic and Financial Indicators, 2004–07

	2004	2005		2006		2007
		SBA	Est.	SBA	Proj.	Projections
<b>Economic growth and prices</b>						
Real GDP (percentage change)	46.5	2.6	3.7	10.4	3.0	10.4
Non-oil GDP (percentage change)	14.9	8.0	12.0	8.0	7.5	7.5
GDP per capita (US\$)	951	1,189	1,205	1,452	1,771	2,097
GDP (US\$ million)	25,763	33,182	33,624	41,741	50,926	62,038
Oil production (In mbpd)	2.0	2.0	2.0	2.3	2.0	2.3
Oil exports (In mbpd)	1.4	1.4	1.4	1.65	1.5	1.7
Iraq oil export prices (US\$ pb)	31.6	43.0	43.9	46.6	55.5	45.1
Population growth (in percent)	3.0	3.0	3.0	3.0	3.0	2.9
Consumer price inflation (percentage change; end of period)	31.7	20.0	31.6	15.0	64.8	30.0
Exchange rate (dinar per US\$; period average) 1/	1,453	1,500	1,469	1,500	1,432	1,290
Total government debt (in billions of US\$)	96.9	51.2	68.2	52.2	54.5	56.4
(In percent of GDP)						
<b>National Accounts</b>						
Gross domestic investment	27.7	29.1	29.5	29.0	18.0	23.7
<i>Of which: public</i>	22.2	25.6	18.1	26.6	13.5	17.9
Gross domestic consumption	97.5	95.4	80.9	87.1	81.9	91.0
<i>Of which: public</i>	56.5	59.6	55.7	57.2	45.6	39.7
Gross national savings	-9.8	14.7	33.4	26.1	30.9	14.6
<i>Of which: public</i>	-39.2	14.6	28.5	17.6	24.8	4.8
(In percent of GDP, unless otherwise indicated)						
<b>Public Finance</b>						
Government revenue and grants	79.6	93.6	100.2	96.3	84.5	60.7
Government oil revenue	69.2	67.8	71.6	72.9	64.2	49.2
Government non oil revenue	1.3	2.6	2.6	3.0	2.9	3.0
Grants	9.1	23.2	26.0	20.4	17.0	8.5
Expenditure	120.8	104.5	90.1	105.3	73.3	73.8
Current expenditure	98.6	78.9	72.0	80.0	59.9	55.9
Capital expenditure	22.2	25.6	18.1	25.3	13.5	17.9
Overall fiscal balance (including grants)	-41.2	-10.9	10.1	-9.0	11.2	-13.1
Primary fiscal balance	-40.2	-10.8	10.3	-8.2	11.7	-12.4
Gross borrowing/use of external assets	43.0	11.9	6.0	9.3	-1.9	12.0
Amortization	1.8	0.6	0.5	0.3	2.3	0.2
Financing gap/surplus	1.4	0.0	0.1	0.0	-2.5	0.0
<b>Memorandum items:</b>						
Tax revenue/non oil GDP (In percent)	1.3	2.4	2.8	4.2	2.0	2.0
External assets held abroad (In US\$ million)	4,577	3,992	6,203	285	8,337	2,467
(In percent)						
<b>Monetary Indicators</b>						
Growth in reserve money	116.9	12.9	12.0	20.6	20.9	20.1
Gross CBI foreign exchange assets/Reserve money	94.4	98.8	129.4	99.2	143.0	133.3
Gross reserves (In US\$ million)	7,902	9,311	12,024	11,013	17,900	21,050
In months of imports of goods and services	3.2	3.1	4.9	3.6	5.6	6.1
Policy interest rate (end of period) 2/	6.0	7.0	7.0	7.0	16.0	20.0
(In percent of GDP)						
<b>Balance of payments</b>						
Current account	-37.6	-14.4	3.9	-2.7	12.9	-9.1
Trade balance	-8.4	-4.9	8.0	1.1	12.5	-6.0
Exports of goods	69.0	68.7	65.5	68.9	57.6	46.5
Imports of goods	-77.5	-73.6	-57.5	-67.7	-45.1	-52.5
Income and services	-36.8	-30.8	-28.4	-22.4	-15.0	-10.7
Transfers	7.7	21.4	24.3	18.5	15.4	7.6
Financial account	42.8	18.6	6.4	6.8	2.7	14.3
Direct investment	0.8	0.9	1.2	0.7	0.8	0.9
Gross borrowing/use of external assets	42.0	23.2	17.2	14.3	2.3	15.7
Amortization	0.0	-0.6	-0.5	-0.3	-2.3	-0.2
Overall external balance	6.6	4.2	10.4	4.0	13.1	5.2
Central bank reserves (increase -)	-26.3	-4.2	-12.3	-4.0	-11.5	-5.1
Change in arrears	-134.8	-84.3	-96.3	-2.9	-30.3	-1.3
Financing gap/Surplus	1.4	0.0	0.1	0.0	-2.5	0.0

Sources: Iraqi authorities and Fund staff estimates and projections.

1/ For 2007, as of January 31.

2/ For 2007, as of January 7.

Table 2. Iraq: Fiscal and Oil Sector Accounts, 2005–07  
(In billions of Iraqi dinars; unless otherwise indicated)

	2005		2006			2007		
	Est.	Budget	Est. March	Est. June	Est. Sep.	Proj. Dec.	Budget	Proj. Dec.
Revenues and Grants	49,505	59,717	13,312	28,124	45,673	61,659	51,314	47,464
Revenues	36,655	46,901	8,902	21,832	37,776	49,265	44,631	40,781
Crude oil export revenues 1/	33,896	42,106	8,031	19,545	33,398	43,741	39,092	35,242
Revenues of oil-related state owned enterprises 2/	1,456	3,375	509	1,454	2,784	3,375	3,179	3,179
Of which, revenues from reduction in price subsidy on petroleum	0	1,375	47	350	614	1,062	620	620
Tax revenues	495	822	99	251	469	614	858	858
Direct taxes	207	222	43	109	273	350	489	489
Indirect taxes	288	600	57	142	196	264	369	369
Non-tax revenues	614	525	198	429	837	1,105	1,079	1,079
Interest on assets held abroad	195	73	66	153	288	430	423	423
Grants	12,850	12,816	4,410	6,292	7,896	12,394	6,683	6,683
Expenditures	44,497	65,880	12,755	23,404	33,495	53,489	61,483	57,688
Current expenditures	35,560	45,923	10,467	19,434	28,035	42,659	43,499	43,304
Salaries and pensions	9,282	12,871	2,818	5,422	8,184	11,909	15,172	15,172
Salaries	6,542	8,375	2,124	4,071	6,175	8,375	10,708	10,708
Defense/Interior	2,213	3,574	766	1,524	2,309	3,274	5,249	5,249
Others	4,329	4,801	1,357	2,546	3,867	5,101	5,459	5,459
Pensions	2,740	4,496	694	1,352	2,008	3,533	4,464	4,464
Goods and Services (non-oil sector)	13,019	15,662	3,839	6,013	7,880	13,785	12,559	12,559
Budgeted goods and services	3,135	6,904	722	1,577	2,310	5,500	8,052	8,052
OFFP financed (other than social safety net)	760	295	37	73	165	206	0	0
Overhead costs for donor financed projects 3/	3,512	3,539	1,258	1,775	2,242	3,378	1,890	1,890
Security costs for project implementation 4/	5,612	4,925	1,821	2,589	3,164	4,701	2,618	2,618
Goods and Services (oil sector)	5,212	6,090	1,323	2,585	4,202	6,599	2,937	2,937
Oil derivative imports	4,128	4,090	1,045	1,884	3,120	4,286	378	378
Operating expenditures of oil-related state-owned enterprises (including	1,085	2,000	278	702	1,082	2,313	2,559	2,559
Transfers	6,232	8,708	2,054	4,389	5,897	7,825	10,325	10,325
Social safety net	3,751	5,000	1,570	3,322	4,224	5,117	5,733	5,733
Transfers to SOEs	900	1,428	290	536	899	1,428	1,726	1,726
Other transfers 5/	1,581	2,280	194	530	774	1,280	2,866	2,866
Interest payments	86	486	25	33	176	354	551	548
War reparations 6/	1,730	2,105	408	992	1,696	2,187	1,955	1,762
Investment expenditures	8,936	18,968	2,038	3,447	4,878	9,839	17,630	14,030
Non-oil investment expenditures	6,587	13,632	1,881	3,121	4,417	7,935	14,493	10,893
Domestically financed reconstruction expenditure	2,189	9,266	448	1,130	1,885	3,966	11,809	8,209
US utilization of DFI	472	0	191	192	194	314	0	0
OFFP financed reconstruction expenditure	478	34	36	80	126	158	0	0
Grant financed reconstruction expenditure	3,448	3,919	1,206	1,718	2,211	3,497	2,105	2,105
Loan financed reconstruction expenditure	0	413	0	0	0	0	578	578
Oil investment expenditures	2,349	5,336	157	326	462	1,904	3,138	3,138
Contingency	...	990	2	5	5	990	354	354
Unclassified expenditures (to be classified in the final 2006 accounts)			250	522	582			
Balance (including grants)	5,008	-6,163	557	4,720	12,177	8,170	-10,169	-10,224
Balance (excluding grants)	-7,842	-18,980	-3,853	-1,572	4,281	-4,224	-16,852	-16,907
Change in outstanding Letters of Credit [+ increase] 7/	2,947	...	748	1,327	1,536	1,674	...	...
Unexplained residual or financing gap [+]/surplus [-]	42	0	-1,512	-1,984	-3,981	-1,854	0	0
Total financing	-2,103	6,163	1,703	-1,409	-6,660	-4,642	10,169	10,224
External financing	2,713	6,163	1,787	-3,187	-7,366	-3,105	9,169	9,224
Assets held abroad	1,462	5,887	2,366	-2,343	-6,256	-1,847	8,776	8,830
Project financing	0	413	0	0	0	0	578	578
Other financing (OFFP)	1,486	334	78	177	344	430	0	0
Amortization	235	470	657	1,022	1,454	1,688	185	185
Domestic financing	-4,816	0	-83	1,779	706	-1,537	1,000	1,000
Direct bank lending	-5,124	0	-233	2,629	1,306	-587	1,000	1,000
T-bills	308	0	150	-850	-600	-950	0	0
<b>Memorandum items:</b>								
Assets held in the Development Fund for Iraq 8/	9,111	3,224	7,081	11,970	16,342	11,938	3,163	3,108
Government primary fiscal deficit/surplus	5,094	-5,677	583	4,752	12,353	8,524	-9,618	-9,675
Average Iraqi oil export price	43.9	...	49.8	53.9	56.6	55.5	50.0	45.1
Salaries and pensions (excluding Defense/Interior)	7,069	9,297	2,051	3,898	5,875	8,634	9,923	9,923
Nominal GDP	49,386	62,611	...	...	...	72,927	85,607	78,167
Exchange rate (ID/US dollar)	1,469	1,432	1,476	1,477	1,475	1,468	1,260	1,260
Government primary fiscal deficit (in US dollars)	3,468	-3,965	395	3,218	8,375	5,809	-7,633	-7,679
Security spending	2,405	...	...	...	...	6,064	9,753	9,753
Crude oil export volume (in mbpd)	1.3	...	...	...	...	1.4	1.7	1.7

1/ 2007 projections assume WEO crude oil price less the quality differential of \$8.9/barrel.

2/ 2007 number excludes revenues from sales of imported oil derivatives.

3/ Overhead costs associated with donor-financed reconstruction.

4/ Other goods and services financed by donors include security spending associated with the implementation of reconstruction projects.

5/ 2006 data includes ID270 billion allocated toward government's share of capital in new regional commercial banks. ID 1,500 formerly recorded under this item were re-classified as non-oil investment expenditures in 2006 budget presentation. Finally, ID265 billion were re-classified as debt repayment.

6/ Calculated as 5 percent of oil exports as per UN Security Council Resolution 1483 to finance war reparations to Kuwait.

7/ LCs in the Trade Bank of Iraq, for which 100 percent down-payment is customarily required.

8/ Includes balances on the DFI sub-account (PCO).

Table 3. Iraq: Fiscal and Oil Sector Accounts, 2005–07  
(In percent of GDP)

	2005		2006			2007		
	Est.	Budget	Est. Mar.	Est. Jun.	Est. Sep.	Proj. Dec.	Budget	Proj. Dec.
Revenues and Grants	100.2	95.4	18.3	38.6	62.6	84.5	59.9	60.7
Revenues	74.2	74.9	12.2	29.9	51.8	67.6	52.1	52.2
Crude oil export revenues 1/	68.6	67.3	11.0	26.8	45.8	60.0	45.7	45.1
Revenues of oil-related state owned enterprises 2/	2.9	5.4	0.7	2.0	3.8	4.6	3.7	4.1
Of which, revenues from reduction in price subsidy on petroleum products	0.0	2.2	0.1	0.5	0.8	1.5	0.7	0.8
Tax revenues	1.0	1.3	0.1	0.3	0.6	0.8	1.0	1.1
Direct taxes	0.4	0.4	0.1	0.1	0.4	0.5	0.6	0.6
Indirect taxes	0.6	1.0	0.1	0.2	0.3	0.4	0.4	0.5
Non-tax revenues	1.2	0.8	0.3	0.6	1.1	1.5	1.3	1.4
Interest on assets held abroad	0.4	0.1	0.1	0.2	0.4	0.6	0.5	0.5
Grants	26.0	20.5	6.0	8.6	10.8	17.0	7.8	8.5
Expenditures	90.1	105.2	17.5	32.1	45.9	73.3	71.8	73.8
Current expenditures	72.0	73.3	14.4	26.6	38.4	58.5	50.8	55.4
Salaries and pensions	18.8	20.6	3.9	7.4	11.2	16.3	17.7	19.4
Salaries	13.2	13.4	2.9	5.6	8.5	11.5	12.5	13.7
Defense/Interior	4.5	5.7	1.1	2.1	3.2	4.5	6.1	6.7
Others	8.8	7.7	1.9	3.5	5.3	7.0	6.4	7.0
Pensions	5.5	7.2	1.0	1.9	2.8	4.8	5.2	5.7
Goods and Services (non-oil sector)	26.4	25.0	5.3	8.2	10.8	18.9	14.7	16.1
Budgeted goods and services	6.3	11.0	1.0	2.2	3.2	7.5	9.4	10.3
OFFP financed (other than social safety net)	1.5	0.5	0.1	0.1	0.2	0.3	0.0	0.0
Overhead costs for donor financed projects 3/	7.1	5.7	1.7	2.4	3.1	4.6	2.2	2.4
Security costs for project implementation 4/	11.4	7.9	2.5	3.5	4.3	6.4	3.1	3.3
Goods and Services (oil sector)	10.6	9.7	1.8	3.5	5.8	9.0	3.4	3.8
Oil derivative imports	8.4	6.5	1.4	2.6	4.3	5.9	0.4	0.5
Operating expenditures of oil-related state-owned enterprises (including refineries)	2.2	3.2	0.4	1.0	1.5	3.2	3.0	3.3
Transfers	12.6	13.9	2.8	6.0	8.1	10.7	12.1	13.2
Social safety net	7.6	8.0	2.2	4.6	5.8	7.0	6.7	7.3
Transfers to SOEs	1.8	2.3	0.4	0.7	1.2	2.0	2.0	2.2
Other transfers 5/	3.2	3.6	0.3	0.7	1.1	1.8	3.3	3.7
Interest payments	0.2	0.8	0.0	0.0	0.2	0.5	0.6	0.7
War reparations 6/	3.5	3.4	0.6	1.4	2.3	3.0	2.3	2.3
Investment expenditures	18.1	30.3	2.8	4.7	6.7	13.5	20.6	17.9
Non-oil investment expenditures	13.3	21.8	2.6	4.3	6.1	10.9	16.9	13.9
Domestically financed reconstruction expenditure	4.4	14.8	0.6	1.6	2.6	5.4	13.8	10.5
US utilization of DFI	1.0	0.0	0.3	0.3	0.3	0.4	0.0	0.0
OFFP financed reconstruction expenditure	1.0	0.1	0.0	0.1	0.2	0.2	0.0	0.0
Grant financed reconstruction expenditure	7.0	6.3	1.7	2.4	3.0	4.8	2.5	2.7
Loan financed reconstruction expenditure	0.0	0.7	0.0	0.0	0.0	0.0	0.7	0.7
Oil investment expenditures	4.8	8.5	0.2	0.4	0.6	2.6	3.7	4.0
Contingency	...	1.6	0.0	0.0	0.0	1.4	0.4	0.5
Unclassified expenditures (to be classified in the final 2006 accounts)			0.3	0.7	0.8			
Balance (including grants)	10.1	-9.8	0.8	6.5	16.7	11.2	-11.9	-13.1
Balance (excluding grants)	-15.9	-30.3	-5.3	-2.2	5.9	-5.8	-19.7	-21.6
Change in outstanding Letters of Credit [+ increase] 7/	6.0	...	1.0	1.8	2.1	2.3	...	...
Unexplained residual or financing gap [+]/surplus [-]	0.1	0.0	-2.1	-2.7	-5.5	-2.5	0.0	0.0
Total financing	-4.3	9.8	2.3	-1.9	-9.1	-6.4	11.9	13.1
External financing	5.5	9.8	2.4	-4.4	-10.1	-4.3	10.7	11.8
Assets held abroad	3.0	9.4	3.2	-3.2	-8.6	-2.5	10.3	11.3
Project financing	0.0	0.7	0.0	0.0	0.0	0.0	0.7	0.7
Other financing (OFFP)	3.0	0.5	0.1	0.2	0.5	0.6	0.0	0.0
Amortization	0.5	0.8	0.9	1.4	2.0	2.3	0.2	0.2
Domestic financing	-9.8	0.0	-0.1	2.4	1.0	-2.1	1.2	1.3
Direct bank lending	-10.4	0.0	-0.3	3.6	1.8	-0.8	1.2	1.3
T-bills	0.6	0.0	0.2	-1.2	-0.8	-1.3	0.0	0.0
<b>Memorandum items:</b>								
Government primary fiscal deficit/surplus	10.3	-9.1	0.8	6.5	16.9	11.7	-11.2	-12.4
Salaries and pensions (excluding Defense/Interior)	14.3	14.8	2.8	5.3	8.1	11.8	11.6	12.7

1/ 2007 projections assume WEO crude oil price less the quality differential of \$8.9/barrel.

2/ 2007 number excludes revenues from sales of imported oil derivatives.

3/ Overhead costs associated with donor-financed reconstruction.

4/ Other goods and services financed by donors include security spending associated with the implementation of reconstruction projects.

5/ 2006 data includes ID270 billion allocated toward government's share of capital in new regional commercial banks. ID 1,500 formerly recorded under this item were re-classified as non-oil investment expenditures in 2006 budget presentation. Finally, ID265 billion were re-classified as debt repayment.

6/ Calculated as 5 percent of oil exports as per UN Security Council Resolution 1483 to finance war reparations to Kuwait.

7/ LCs in the Trade Bank of Iraq, for which 100 percent down-payment is customarily required.

Table 4. Iraq: Central Bank Survey, 2003–07  
(In billions of Iraqi dinars, unless otherwise indicated)

	2003		2004		2005		2006				2007	
	Actual		Actual		Actual		Actual				Proj.	
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	SBA	Proj.	Proj.
Net foreign exchange assets 1/	1,600	10,743	17,078	12,993	17,951	17,869	20,285	15,869	20,285	26,080	31,809	
Foreign exchange assets	1,916	11,538	17,724	13,639	18,581	18,499	20,914	16,515	20,914	26,710	32,438	
Gold 2/	114	115	143	119	162	171	167	119	167	175	175	
Other	1,803	11,422	17,581	13,520	18,419	18,328	20,748	16,397	20,748	26,535	31,260	
Foreign exchange liabilities	-316	-795	-646	-646	-630	-630	-630	-646	-630	-630	-630	
Of which : IMF liabilities	...	-637	-637	-637	-637	-637	-637	-637	-637	-637	-637	
Net domestic assets	4,038	1,485	-3,380	811	-3,429	-2,541	-4,454	777	-4,454	-9,519	-11,918	
Domestic assets	3,698	4,345	138	3,161	1,565	3,127	2,123	3,161	2,123	-108	172	
Net claims on general government	3,698	4,336	128	3,152	1,555	3,116	2,112	3,152	2,112	-120	161	
Holdings of treasury bills	2,874	2,589	2,569	2,528	2,866	5,214	5,034	2,528	5,034	4,707	3,988	
Holdings of discounted treasury bills	206	709	707	707	707	180	360	707	360	719	0	
Overdrafts	909	1,637	1,821	1,821	-3,267	-1,624	-2,531	-596	-2,531	-4,972	-3,972	
Domestic currency deposits	-15	-596	-3,577	-596	-573	-653	-751	-1,307	-751	-575	-575	
Foreign currency deposits	-276	-3	-1,382	-1,307	-573	11.0	11.5	8.7	11.5	11.8	11.3	
Claims on commercial banks	0	8.7	9.4	8.7	10.5	11.0	11.5	8.7	11.5	11.8	11.3	
Monetary policy instruments 3/	0	0	-3,731	-3,316	-3,753	-4,146	-5,671	-3,350	-5,671	-7,496	-10,176	
Other items net	339	-2,859	214	966	-1,241	-1,523	-906	966	-906	-1,915	-1,915	
Reserve money	5,638	12,228	13,698	13,804	14,522	15,328	15,830	16,646	15,830	16,561	19,890	
Currency outside banks	2,606	7,163	9,110	8,815	9,633	9,369	9,294	10,949	9,294	9,648	11,587	
Currency issued	4,586	8,021	10,257	9,679	10,881	10,751	10,641	12,022	10,641	10,862	13,045	
Cash in vaults of commercial banks	1,980	858	1,146	864	1,249	1,382	1,347	1,073	1,347	1,214	1,458	
Banks reserves	1,052	4,208	3,442	4,124	3,640	4,578	5,190	4,624	5,190	5,700	6,845	
Required	717	2,287	2,596	3,329	2,838	3,418	3,530	3,829	3,530	4,078	4,898	
Excess	335	1,921	845	795	803	1,159	1,660	795	1,660	1,622	1,948	
<b>Memorandum items:</b>												
Reserve money (annual growth, in percent)	...	116.9	12.0	12.9	6.0	11.9	15.6	20.6	15.6	20.9	20.1	
Currency issued (annual growth, in percent)	...	74.9	27.9	20.7	6.1	4.8	3.7	24.2	3.7	5.9	20.1	
Gross foreign exchange assets (in millions of U.S. dollars)	1,134	7,902	12,024	9,311	12,589	12,525	14,179	11,012	14,179	17,900	21,050	
Gold	67	79	97	82	110	116	113	81	113	120	139	
CBI vault + DFI sub-account	1,067	7,097	11,262	8,547	11,809	11,723	13,383	10,235	13,383	17,021	20,171	
SDR Account	0	727	666	682	670	686	683	696	683	758	796	
Foreign exchange liabilities (in millions of U.S. dollars)	-187	-547	-440	-441	-427	-426	-427	-431	-427	-476	-500	
Net foreign exchange assets (in millions of U.S. dollars)	947	7,355	11,584	8,870	12,162	12,098	13,752	10,581	13,752	17,424	20,550	
Exchange rate (program) 4/	1,690	1,453	1,469	1,465	1,476	1,477	1,475	1,500	1,475	1,500	1,500	
Gross foreign exchange assets/reserve money (in percent)	34.0	94.4	129.4	98.8	128.0	120.7	132.1	99.2	132.1	143.0	133.3	
Claims on banks/reserve money (in percent)	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Reserve money coverage (in percent)	28.4	87.8	124.7	94.1	123.6	116.6	128.1	95.4	128.1	139.2	130.2	
Currency in circulation /reserve money (in percent)	46.2	58.6	66.5	63.9	66.3	66.3	68.3	65.8	68.3	68.3	58.3	
Ratio of Currency outside banks to GDP	10.6	19.1	18.4	13.2	13.2	12.8	12.7	16.5	12.7	10.4	16.7	
Ratio of Reserve money to GDP	15.2	32.7	27.7	28.0	19.9	21.0	21.7	33.7	21.7	15.8	25.4	

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

1/ Valued at market exchange rates.

2/ For 2005, valued at market prices.

3/ This mainly represents the ID and US\$ overnight standing deposit facilities.

4/ The balance sheet is valued using the program exchange rate; memorandum items are valued using the end-of-period exchange rate.

Table 5. Iraq: Depository Corporations (Monetary) Survey, 2004–06  
(In billions of Iraqi dinars)

	2004	2005	2006			
	Dec.	Dec.	Mar.	Jun.	Sep.	Oct. 1/
Nonresident claims	4,043	9,957	11,409	12,760	22,670	27,507
Net foreign assets	-5,944	15	2,340	1,868	5,648	6,441
Government claims on nonresidents on balance sheet of CBI	9,987	9,942	9,069	10,892	17,021	21,066
Domestic claims	2,711	-1,204	-2,386	-429	-2,414	-1,750
Net claims on central government	1,917	-2,936	-4,320	-2,447	-4,550	-4,193
Claims on central government	6,379	6,719	6,851	5,879	6,849	7,160
Less: Liabilities to central government	-4,462	-9,655	-11,171	-8,327	-11,400	-11,353
Corresponding CBI liabilities to government (DFI/MOU)	-294	-9,932	-9,317	-13,595	-14,734	-18,799
Claims on other sectors	794	1,732	1,934	2,019	2,136	2,443
Public nonfinancial corporations	120	570	684	630	622	845
Other nonfinancial corporations	62	301	389	468	470	484
Other resident sectors	612	861	860	920	1,044	1,113
Broad money liabilities	14,356	14,888	15,991	16,621	17,431	17,858
Currency outside depository corporations	6,734	9,113	9,604	9,493	9,282	9,456
Transferable deposits	6,287	3,871	4,344	4,726	5,648	5,878
Other deposits	1,334	1,904	2,043	2,401	2,501	2,525
Deposits excluded from broad money	754	1,432	2,617	3,118	3,446	3,610
Loans	150	151	151	148	148	148
Shares and other equity	-9,871	-19,480	-20,400	-22,769	-17,569	-17,497
Other items (net)	1,071	1,830	1,347	1,619	2,065	2,838

Source: Central Bank of Iraq

1/ October 2006 data is preliminary

Table 6. Iraq: Balance of Payments, 2004–07 1/  
(In millions of U.S. dollars, unless otherwise indicated)

	2004		2005		2006		2007
	Est.	EPCA	SBA	Est.	SBA	Proj.	
Trade balance	-2,173	-7,878	-1,636	2,696	476	6,380	-3,725
(In percent of GDP)	-8.4	-32.4	-4.9	8.0	1.1	12.5	-6.0
Exports	17,782	17,597	22,781	22,039	28,745	29,343	28,861
Crude oil	17,329	17,113	22,176	21,450	28,073	28,617	27,969
Other exports	452	484	605	589	672	725	892
Imports 2/	-19,955	-25,475	-24,416	-19,343	-28,269	-22,963	-32,586
Government imports	-13,966	-17,197	-14,596	-11,125	-14,456	-12,911	-17,027
UN Oil for Food Program (OFFP)	-3,492	-2,166	-1,929	-880	0	-261	0
Other consumption imports (non-OFFP)	-3,861	-5,301	-3,528	-2,923	-5,089	-4,598	-6,598
Other non-oil related capital imports (non-OFFP)	-2,362	-4,480	-3,450	-2,625	-4,882	-3,596	-5,690
Oil-related capital imports	-1,429	-2,850	-2,261	-2,252	-2,113	-1,852	-2,414
Refined oil products	-2,822	-2,400	-3,428	-2,445	-2,372	-2,604	-2,325
Private sector imports	-5,988	-8,277	-9,820	-8,218	-13,813	-10,052	-15,560
Of which: refined oil products	0	...	0	0	-2,429	0	-2,419
Income, net 3/	-5,159	-6,220	-3,741	-3,348	-2,237	-1,327	-1,240
Services, net 2/	-4,325	-744	-6,477	-6,208	-7,093	-6,302	-5,383
Transfers, net	1,980	4,197	7,090	8,176	7,721	7,818	4,706
Private, net (incl. NGOs)	500	800	500	500	600	600	800
Official	1,480	3,397	6,590	7,676	7,121	7,218	3,906
Receipts	2,346	4,253	7,699	8,749	8,525	8,649	5,304
Payments	-866	-856	-1,109	-1,073	-1,404	-1,431	-1,398
Current account	-9,677	-10,645	-4,763	1,316	-1,133	6,569	-5,642
(In percent of GDP)	-37.6	-43.8	-14.4	3.9	-2.7	12.9	-9.1
Capital account	0	0	0	0	0	0	0
Financial account	11,017	7,026	6,172	2,163	2,821	1,391	8,857
Direct investment	200	300	300	400	300	400	550
Other capital, net	10,817	6,726	5,872	1,763	2,521	991	8,307
Official, net	10,839	6,726	7,504	5,674	5,839	801	9,643
Assets 4/	10,839	6,372	3,943	2,007	3,607	-989	7,008
Liabilities	0	354	3,561	3,667	2,232	1,790	2,635
Loan disbursements	0	354	0	0	275	0	459
Amortization 5/ 6/	0	0	-200	-121	-136	-361	-82
Capitalized interest payment 6/	0	0	3,761	3,788	2,093	2,151	2,258
Financial corporations, net 7/	0 ...	0	0	-2,007	-1,247	-1,169	0
Private, net	-21	0	-1,632	-1,904	-2,071	1,359	-1,336
Errors and omissions	361	0	0	29	0	-1,295	0
Overall balance	1,701	-3,619	1,409	3,508	1,688	6,665	3,215
(In percent of GDP)	6.6	-14.9	4.2	10.4	4.0	13.1	5.2
Financing	-1,701	3,619	-1,409	-3,508	-1,688	-6,665	-3,215
Central bank (increase -)	-6,768	-2,598	-1,409	-4,122	-1,688	-5,876	-3,150
Reserves (net; increase -)	-6,332	-2,598	-1,409	-4,122	-1,688	-5,876	-3,150
Liabilities (increase +)	436	0	0	0	0	0	0
Fund credit (net)	436	0	0	0	0	0	0
Disbursement	436	0	0	0	0	0	0
Repayments	0	0	0	0	0	0	0
Deferred accrued interest 8/	5,252	6,217	0	0	0	0	0
Change in arrears (net, decrease -) 9/	-34,721	0	-27,987	-32,387	-1,195	-15,445	-783
Debt forgiveness 10/	34,536	...	27,987	33,001	1,195	14,656	718
Memorandum items:							
Central bank reserves	7,902	8,289	9,311	12,024	11,013	17,900	21,050
Central bank reserves (in months of imports of goods and services)	3.2	3.7	3.1	4.9	3.6	5.6	6.1
GDP	25,763	24,295	33,182	33,624	41,741	50,926	62,038
Non-oil GDP	8,317	5,661	10,716	11,856	12,999	21,545	34,221

Sources: Iraqi authorities and Fund staff estimates and projections.

1/ Excludes U.S. military spending in Iraq.

2/ EPCA figures for imports of do not fully account for the cost of freight and insurance, which have been added under services for other estimates and projections.

3/ Includes interest accrued, deferred, and capitalized.

4/ Includes the use/accumulation of the DFI resources and the UN Oil for Food letters of credit.

5/ Includes the estimates of cash payments to settle the debt owed to small private creditors through cash exchange offer.

6/ Based on Paris Club agreement, the payments of principal and most interest during 2005–10 are deferred and capitalized.

7/ Reflects advance transfers for the execution of letter of credit (L/C).

8/ Estimates of accrued interest on existing stock of debt prior to Paris Club agreement.

9/ Includes debt forgiveness and clearance of arrears on multilateral debt and arrears related to fuel imports from Turkey.

10/ The notional debt forgiveness reflects: (i) the first stage of debt reduction (30 percent) at end 2004; (ii) the second stage reduction (30 percent) at end-2005; and (iii) the settlement of debt owed to private creditors through cash and debt exchanges. Assumes debt reduction comparable to the Paris Club agreement on other debt to official creditors.

Table 7. Iraq: Indicative Quantitative Benchmarks Under the Stand-By Arrangement  
(In Iraqi dinars per liter, unless otherwise indicated)

	Sep. 2005	Prior Action		03/31/06		06/30/06		09/30/06		12/31/06		Prior action 3rd & 4th reviews		06/30/07 Program	
		Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual
Official domestic price of petroleum products (equal to or above, by specified dates)															
LPG (per 12 kg cylinder)	250	600	700	600	800	1,000	900	1,000	1,000	1,000	1,000	3,000	3,000	3,000	3,000
Regular gasoline	20	100	130	100	155	175	175	175	175	200	250	300	300	300	350
Premium gasoline 1/	50	250	300	250	350	350	400	350	350	450	350	...	...	...	...
Blended gasoline	...	...	...	...	...	...	...	...	...	...	350	400	400	450	450
Kerosene	5	25	50	25	75	75	90	75	75	115	75	150	150	200	200
Diesel	10	90	110	90	125	125	155	155	150	175	150	350	350	350	350

1/ Starting 2007, premium gasoline is to be sold only by the private sector at unregulated prices.

Table 8. Iraq: Quantitative Performance Criteria and Indicative Targets  
Under the Stand-By Arrangement, 2005–07 1/  
(In billions of Iraqi dinars, unless otherwise indicated)

	2005	Performance Criteria						
	9/30/05	12/31/05	3/31/06	6/30/06	9/30/06	12/31/06	3/31/07	6/30/07
<i>Cumulative change from September 2005</i>								
Net international reserves of the CBI (floor; in millions of U.S. dollars) (Actual)	8,500 2/	-1,000 +3,041	-1,000 +3,635	-1,000 +3,554	-1,000 +5,252	-1,000	0	0
Lending to the government and the private sector by the CBI (ceiling) 3/ (Actual)	5,100 2/	0 0	0 0	0 0	0 0	0	0	0
<i>Cumulative flow from beginning of calendar year</i>								
Government primary fiscal deficit (ceiling; deficit [+]/surplus[-]) 4/ 5/ (Actual)	...	5,400 -5,102	1,950 -819	3,600 -5,339	4,850 -11,266	5,300	...	...
Central government total financing (ceiling) 4/ 5/ (Actual)	...	...	...	...	...	...	3,000	5,350
Government wage and pension bill (ceiling) 4/ 6/ (Actual)	...	6,650 7,069	2,400 2,051	4,750 3,898	7,100 5,875	9,500	2,525	5,050
Revenue of oil related enterprises, including those remitted to the budget (floor) 4/ (Actual)	...	900 1,456	700 509	1,500 1,454	2,100 2,784	2,800	750	1,500
New medium-and long-term nonconcessional external debt (with original maturities of one year or more) contracted or guaranteed by the government (in millions of U.S. dollars; ceiling) 4/ 7/ (Actual)	...	500 0	500 0	500 0	500 0	500	500	500
External arrears on new borrowing (in millions of U.S. dollars; ceiling) 8/ (Actual)	...	0 653	0 0	0 0	0 0	0	0	0
<i>Indicative targets</i>								
Government imports of petroleum products (ceiling) 4/ 9/ (Actual)	...	6,000 4,128	1,700 1,152	3,400 2,312	4,000 3,120	4,200	100	200
Revolving government credit to the State Oil Marketing Organization (ceiling) (Actual)	...	...	...	...	...	...	300	300

1/ See Technical Memorandum of Understanding for precise definitions of all performance variables.

2/ Estimated.

3/ Rolling over t-bills does not constitute new lending.

4/ Flows for 12/31/05 are cumulative for 2005. Flows for 2006 and 2007 are cumulative starting 1/1/2006 and 1/1/2007, respectively.

5/ Starting in 2007, the budget deficit will be monitored from below the line (i.e., from the financing side).

6/ Excluding salaries paid by ministries of defense and interior (see Technical Memorandum of Understanding for precise definition).

7/ This ceiling excludes loans with a grant element of 35 percent or more of up to Yen 350 billion for reconstruction projects to be contracted with the government of Japan in 2007.

8/ This will be monitored on a continuous basis.

9/ Starting in 2007, this no longer comprises all imports of petroleum products made directly by the government of Iraq but instead comprise of imports of petroleum products financed from the budget.

Table 9. Iraq: Prior Actions, Structural Performance Criteria, and Structural Benchmarks Under the Stand-By Arrangement

	Date	Status
I. Prior Actions for Completion of the Third and Fourth Reviews		
Re-appoint Ernst & Young to conduct (a) an audit of the net international reserves data reported to the IMF as at December 31, 2006, including a full count by Ernst & Young of gold and foreign exchange holdings at the CBI, and (b) the audit report of the 2006 CBI financial statements in accordance with International Standards on Auditing.		
Adjust domestic fuel prices to levels at least equal to or above those required for the prior action as specified in Table 7		
II. Structural Performance Criteria		
Avoid administrative measures limiting participation or bids in the CBI's regular auction of foreign exchange other than screening related to anti-money laundering or counter-terrorism.	Continuous	Met
Final audit of CBI 2005 Financial operations and statements.	May 15, 2006	Waived; Completed on October 1, 2006
Adoption of fully detailed budget classification and chart of accounts in line with the IMF's Government Financial Statistics Manual (GFSM) 2001, within a cash accounting framework. <sup>1/</sup>	December 31, 2006	Not met; rescheduled to end-June 2007. Work is underway
Completion by Ernst & Young of (a) a final audit of the net international reserves data reported to the IMF as at December 31, 2006, including a full count by Ernst & Young of gold and foreign exchange holdings at the CBI, and (b) an interim audit report of CBI 2006 financial statements in accordance with International Standards on Auditing.	May 31, 2007	
Completion of census of all public service employees (central government and military).	June 30, 2007	Was a missed benchmark for end-December 2006.
III. Structural Benchmarks		
Implementation of payment system regulations.	June 30, 2006	Met
Establishment of an audit oversight committee, to become effective on or before December 31, 2006, including the participation of independent international audit experts, to continue the work of the International Advisory and Monitoring Board (upon its dissolution) in overseeing and making public audits of the Development Fund for Iraq and oil export sales.	September 30, 2006	Met in November 2006; IAMB mandate has been extended to December 31, 2007
Reform of pension law in line with sustainable pension system	September 30, 2006	Expected in March
Approval by Council of Representatives of law liberalizing private gasoline imports	September 30, 2006	Met
Commencement of operation of Real Time Gross Settlement system (RTGS) linking headquarters of commercial banks to the CBI.	August 31, 2006	Met
Commencement of payments clearing system between the headquarters of commercial banks and the CBI through the Automatic Clearing House (ACH).	November 30, 2006	Met
Full capitalization of CBI to the stipulated ID 100 billion, based on the 2005 audited financial statements and taking into account the restructuring of outstanding claims on the central government that are on the December 31, 2005 balance sheet of the CBI.	December 31, 2006	Underway; included in the 2007 budget
Adopt a CBI Board-approved timetable for the full implementation of IFRS as the bank's financial reporting framework	March 31, 2007	
Appoint an internationally reputable audit firm to conduct an operational and financial audit of Rasheed and Rafidain banks based on their 2006 financial accounts.	April 30, 2007	
Address the lack of proper accounting records being maintained by the CBI, one of the major issues giving rise to E&Y's disclaimed audit opinion for 2005. <sup>2/</sup>	June 30, 2007	
Establish adequate control procedures for reserves management, including developing reserves management policy and investment guidelines.	June 30, 2007	

<sup>1/</sup> The budget classification and chart of accounts will be deemed in line with the IMF GFSM 2001 if it is consistent with the methodology and high level classification defined in the technical assistance report of the IMF's Fiscal Affairs Department entitled "Iraq Budget Classification Reform" (July 2005).

<sup>2/</sup> The following issues should be addressed: (i) the lack of reconciliations of local bank's current accounts; (ii) unreconciled suspension accounts and interbranch accounts; (iii) unreconciled differences on accounts managed on behalf of the Ministry of Finance, including the DFI; and (iv) insufficient information to support amounts, and to ensure the completeness and valuation of off-balance sheet commitments.

Table10. Iraq: Proposed Availability of Purchases Under the Stand-by Arrangement, 2005–07  
(In millions of SDRs, unless otherwise indicated)

Availability date	Amount of Purchase		Condition
	SDR	% quota	
Current Schedule			
December 23, 2005	79,226,667	6.67	Program approval
February 15, 2006	79,226,667	6.67	Completion of first review and observance of end-December 2005 performance criteria
May 15, 2006	79,226,667	6.67	Completion of second review and observance of end-March 2006 performance criteria
August 15, 2006	79,226,667	6.67	Completion of third review and observance of end-June 2006 performance criteria
November 15, 2006	79,226,667	6.67	Completion of fourth review and observance of end-September 2006 performance criteria
February 15, 2007	79,226,665	6.67	Completion of fifth review and observance of end-December 2006 performance criteria
Total access	475,360,000	40.00	
Proposed new schedule			
February 15, 2007	316,906,668	26.67	Completion of third and fourth reviews and observance of end-December 2006 performance criteria
May 15, 2007	79,226,667	6.67	Completion of fifth review and observance of end-March 2007 performance criteria
August 15, 2007	79,226,665	6.67	Observance of end-June 2007 performance criteria
Total access	475,360,000	40.00	

Source: Fund staff projections.

Table 11. Iraq: Indicators of Fund Credit, 2004–12 <sup>1/</sup>  
(In millions of SDRs, unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Disbursements of Fund credit									
EPCA	297.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SBA	0.0	0.0	0.0	475.4	0.0	0.0	0.0	0.0	0.0
In percent of IMF quota	0.0	0.0	0.0	40.0	0.0	0.0	0.0	0.0	0.0
Obligations									
Clearance of arrears	55.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Repayments of EPCA	0.0	0.0	0.0	0.0	148.6	148.6	0.0	0.0	0.0
Repayments of SBA <sup>2/</sup>	0.0	0.0	0.0	0.0	0.0	148.6	237.7	89.1	0.0
Total charges and interest	0.7	10.5	14.4	28.3	38.3	29.0	14.1	2.4	112.0
Total obligations	56.0	10.5	14.4	28.3	186.9	326.1	251.8	91.5	113.0
Total obligations, in percent of:									
Exports of goods and services	0.5	0.1	0.1	0.1	0.8	1.1	0.8	0.2	0.3
External public debt	0.1	0.0	0.0	0.1	0.5	0.8	0.6	0.2	0.3
Gross reserves	1.0	0.1	0.1	0.2	1.2	1.9	1.4	0.5	0.6
GDP	0.3	0.0	0.0	0.1	0.4	0.6	0.4	0.1	0.1
IMF Quota	4.7	0.9	1.2	2.4	15.7	27.4	21.2	7.7	9.5
Outstanding Fund credit									
EPCA	297.1	297.1	297.1	297.1	148.6	0.0	0.0	0.0	0.0
SBA	0.0	0.0	0.0	475.4	475.4	326.8	89.1	0.0	0.0
Total outstanding Fund credit	297.1	297.1	297.1	772.5	623.9	326.8	89.1	0.0	0.0
Total outstanding Fund credit, in percent of									
Exports of goods and services	2.7	1.9	1.6	3.6	2.5	1.1	0.3	0.0	0.0
External public debt	0.5	0.6	0.8	2.0	1.6	0.8	0.2	0.0	0.0
Gross reserves	5.6	3.7	2.4	5.4	3.9	1.9	0.5	0.0	0.0
GDP	1.7	1.3	0.9	1.8	1.2	0.6	0.1	0.0	0.0
IMF Quota	25.0	25.0	25.0	65.0	52.5	27.5	7.5	0.0	0.0

Sources: Fund staff estimates and projections.

<sup>1/</sup> Including the hypothetical purchases under the precautionary SBA, not shown in the balance of payments projections.

<sup>2/</sup> The prospective SBA repayments are on an expectation basis.

**APPENDIX: IRAQ: MEDIUM-TERM PROSPECTS AND EXTERNAL DEBT OUTLOOK**

1. Since the Stand-By Arrangement (SBA) was approved in December 2005, Iraq's medium term prospects remain favorable mainly on account of higher oil prices (see Appendix, Table 1–4). Staff projections suggest that, based on current WEO forecasts for oil prices, Iraq should be able to meet its first major amortization payment (in 2011) on its rescheduled debt without difficulty. Nevertheless, the simulations below show that Iraq remains vulnerable to further downward shocks to oil prices and/or to a continued stalling of oil production. This suggests that Iraq has little room for fiscal expansion beyond what is projected in these scenarios, and that the government would be wise to retain positive precautionary balances in the Development Fund for Iraq (or its successor). Staff projections for key security-related expenditures in the medium term are on the cautious side reflecting the current situation and future security needs of Iraq, as well as gradual shifts in these expenditures from Coalition forces to the Iraqi budget.
2. Iraq has resolved most of the claims of Paris Club and private creditors. All bilateral agreements with the Paris Club members except Russia have been signed. By end-July 2006, Iraq had settled about \$19 billion (or 96 percent) of private claims through debt and cash exchange offers, including the arbitration process. The reconciliation process of the remaining outstanding claims is ongoing.
3. Despite the substantial debt reduction received from Paris Club and private creditors, the amount of external debt remains large. By assuming that debt reduction comparable to the Paris Club agreement is applied to non-Paris Club official creditors' claims, the latest estimates of external debt indicate that the stock of debt was \$68 billion (203 percent of GDP) at end-2005 and \$55 billion (108 percent of GDP) at end-2006. Without the third stage of debt reduction, external debt would increase to about \$62 billion (about 51 percent of GDP) by 2012. The third stage reduction (expected in 2008) would further reduce Iraq's external debt to about \$36 billion (30 percent of GDP) by 2012 (see Appendix, Table 5).<sup>4</sup>
4. Iraq's external debt also remains vulnerable to a negative oil shock, particularly in 2011 when Iraq will start repaying the debt to official creditors. Based on the Paris Club agreement in 2004, the repayment of the remaining debt stock would start in 2011, while the interest payments accrued during 2005–10 are mostly capitalized. The debt service would be relatively small before it increases to about 11 percent of exports in 2011. Simulations for two oil shocks (a production shock that keeps oil production constant at 2.6 mbpd over 2008–12, and a price shock that lowers the oil export price by \$4.5 per barrel (equivalent to one standard deviation) during 2008–12) show that Iraq would require significant borrowing from the international markets to close the financing gaps (see Appendix, Table 6).

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<sup>1</sup> The third stage of debt reduction would be contingent on Iraq completing the final review of the third year of upper credit tranche arrangements.

Table 1. Iraq: Selected Economic and Financial Indicators, 2004–12

	2004	2005	2006	2007	2008	2009	2010	2011	2012
		Est.	Proj.			Projections			
<b>Economic growth and prices</b>									
Real GDP (percentage change)	46.5	3.7	3.0	10.4	12.3	12.4	11.2	6.3	6.1
Non-oil GDP (percentage change)	14.9	12.0	7.5	7.5	7.5	7.5	7.5	7.0	7.0
GDP per capita (US\$)	951	1,205	1,771	2,097	2,488	2,785	3,111	3,341	3,579
GDP (US\$ million)	25,763	33,624	50,926	62,038	75,678	86,980	99,681	109,743	120,380
Oil production (In mbpd)	2.0	2.0	2.0	2.3	2.6	3.0	3.4	3.6	3.8
Oil exports (In mbpd)	1.4	1.4	1.5	1.7	2.0	2.4	2.7	2.9	3.2
Iraq oil export prices (US\$ pb)	31.6	43.9	55.5	45.1	48.5	49.5	50.3	51.0	51.8
Population growth (in percent)	3.0	3.0	3.0	2.9	2.8	2.7	2.6	2.5	2.4
Consumer price inflation (percentage change; end of period)	31.7	31.6	64.8	30.0	12.0	7.0	5.0	4.0	4.0
Exchange rate (dinar per US\$; period average) 1/	1,453	1,469	1,432	1,290	...	...	...	...	...
Total government debt (in billions of US\$)	96.9	68.2	54.5	56.4	59.5	62.6	65.4	63.8	61.8
<b>National Accounts</b>									
				(In percent of GDP)					
Gross domestic investment	27.7	29.5	18.0	23.7	23.6	23.1	23.2	25.3	24.2
<i>Of which: public</i>	22.2	18.1	13.5	17.9	17.6	16.4	16.4	16.4	15.7
Gross domestic consumption	97.5	80.9	81.9	91.0	82.4	76.6	74.1	72.0	71.3
<i>Of which: public</i>	56.5	55.7	45.6	39.7	34.8	31.9	31.1	30.9	30.5
Gross national savings	-9.8	33.4	30.9	14.6	18.8	20.5	22.8	24.9	25.8
<i>Of which: public</i>	-39.2	28.5	24.8	4.8	12.1	13.9	16.6	16.6	19.1
(In percent of GDP, unless otherwise indicated)									
<b>Public Finance</b>									
Government revenue and grants	79.6	100.2	84.5	60.7	61.1	59.2	60.6	60.7	60.6
Government oil revenue	69.2	71.6	64.2	49.2	53.3	55.7	57.4	57.5	57.4
Government non oil revenue	1.3	2.6	2.9	3.0	3.7	3.3	3.2	3.2	3.2
Grants	9.1	26.0	17.0	8.5	4.1	0.1	0.0	0.0	0.0
Expenditure	120.8	90.1	73.3	73.8	66.5	61.7	60.3	60.5	58.5
Current expenditure	98.6	72.0	59.9	55.9	49.0	45.3	44.0	44.1	42.8
Capital expenditure	22.2	18.1	13.5	17.9	17.6	16.4	16.4	16.4	15.7
Overall fiscal balance (including grants)	-41.2	10.1	11.2	-13.1	-5.5	-2.5	0.3	0.2	2.1
Primary fiscal balance	-40.2	10.3	11.7	-12.4	-4.6	-1.2	2.1	3.0	4.6
Gross borrowing/use of external assets	43.0	6.0	-1.9	12.0	4.5	1.7	-0.3	2.6	0.5
Amortization	1.8	0.5	2.3	0.2	0.0	0.0	0.0	2.8	2.6
Financing gap/surplus	1.4	0.1	-2.5	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>									
Tax revenue/non oil GDP (In percent)	1.3	2.8	2.0	2.0	3.4	3.3	3.3	3.2	3.2
External assets held abroad (In US\$ million)	4,577	6,203	8,337	2,467	23	28	1,890	530	1,038
(In percent)									
<b>Monetary Indicators</b>									
Growth in reserve money	116.9	12.0	20.9	20.1	...	...	...	...	...
Gross CBI foreign exchange assets/Reserve money	94.4	129.4	143.0	133.3	...	...	...	...	...
Gross reserves (In US\$ million)	7,902	12,024	17,900	21,050	23,669	25,682	27,676	28,687	29,984
In months of imports of goods and services	3.2	4.9	5.6	6.1	6.5	6.3	6.3	6.3	6.3
Policy interest rate (end of period) 2/	6.0	7.0	16.0	20.0	...	...	...	...	...
(In percent of GDP)									
<b>Balance of payments</b>									
Current account	-37.6	3.9	12.9	-9.1	-4.8	-2.6	-0.5	-0.4	1.6
Trade balance	-8.4	8.0	12.5	-6.0	0.4	5.2	7.4	7.3	6.6
Exports of goods	69.0	65.5	57.6	46.5	48.1	50.3	51.4	50.4	50.0
Imports of goods	-77.5	-57.5	-45.1	-52.5	-47.6	-45.1	-43.9	-43.1	-43.4
Income and services	-36.8	-28.4	-15.0	-10.7	-8.5	-6.9	-6.9	-6.6	-3.8
Transfers	7.7	24.3	15.4	7.6	3.3	-0.9	-1.0	-1.1	-1.2
Financial account	42.8	6.4	2.7	14.3	8.3	4.9	2.5	1.3	-0.5
Direct investment	0.8	1.2	0.8	0.9	1.0	1.1	1.5	1.5	1.6
Gross borrowing/use of external assets	42.0	17.2	2.3	15.7	7.3	3.8	0.9	2.6	0.5
Amortization	0.0	-0.5	-2.3	-0.2	0.0	0.0	0.0	-2.8	-2.6
Overall external balance	6.6	10.4	13.1	5.2	3.5	2.3	2.0	0.9	1.1
Central bank reserves (increase -)	-26.3	-12.3	-11.5	-5.1	-3.5	-2.3	-2.0	-0.9	-1.1
Change in arrears	-134.8	-96.3	-30.3	-1.3	0.0	0.0	0.0	0.0	0.0
Financing gap/Surplus	1.4	0.1	-2.5	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Iraqi authorities and Fund staff estimates and projections.

1/ For 2007, as of January 31.

2/ For 2007, as of January 7.

Table 2. Iraq: Fiscal and Oil Sector Accounts, 2005–12  
(In billions of ID; unless otherwise indicated)

	2005	2006	2007	2008	2009	2010	2011	2012
	Est.	Est.			Projections			
<b>Revenues and Grants</b>	49,505	61,650	47,464	63,880	74,524	90,011	101,114	112,822
<b>Revenues</b>	36,655	49,265	40,781	59,547	74,433	89,955	101,081	112,807
Crude oil export revenues	33,896	43,741	35,242	48,936	61,984	74,723	82,273	91,583
Revenues of oil-related state owned enterprises	1,456	3,375	3,179	6,782	8,232	10,472	13,472	15,295
<i>Of which</i> revenues from reduction in price subsidy on petroleum products	0	1,062	620	3,780	4,634	6,397	8,966	10,606
Tax revenues	495	614	858	1,787	1,943	2,199	2,419	2,683
Direct taxes	207	350	489	607	740	885	1,044	1,231
Indirect taxes <sup>1/</sup>	288	264	369	1,181	1,204	1,314	1,375	1,452
Non-tax revenues	809	1,535	1,502	2,042	2,274	2,562	2,917	3,246
<b>Grants</b>	12,850	12,385	6,683	4,334	90	55	32	15
<b>Expenditures</b>	44,497	53,480	57,688	69,610	77,681	89,613	100,758	108,863
<b>Current expenditures</b>	35,560	42,659	43,304	50,688	56,261	64,341	72,312	78,235
Salary and pension	9,282	11,909	15,172	18,812	21,436	24,123	26,693	29,273
<b>Goods and Services (non-oil sector) <sup>2/</sup></b>	13,019	13,785	12,559	14,021	14,465	17,048	19,118	21,361
Budgeted goods and services	3,135	5,500	8,052	11,026	14,465	17,048	19,118	21,361
Financed by oil-for-food program (OFFP) (other than social safety net)	760	206	0	0	0	0	0	0
Overhead costs for donors' financed projects <sup>3/</sup>	3,512	3,378	1,890	1,152	0	0	0	0
Other goods and services financed by donors <sup>4/</sup>	5,612	4,701	2,618	1,842	0	0	0	0
<b>Goods and Services (oil sector)</b>	5,212	6,599	2,937	3,002	3,598	4,075	4,506	4,689
Oil derivative imports	4,128	4,286	378	0	0	0	0	0
Operating expenditures of oil-related state-owned enterprises (including refineries)	1,085	2,313	2,559	3,002	3,598	4,075	4,506	4,689
<b>Transfers</b>	6,232	7,825	10,325	11,491	12,079	12,671	13,181	13,772
Social safety net (excluding OFFP)	3,751	5,117	5,733	6,601	7,253	7,814	8,330	8,871
Transfers to SOEs	900	1,428	1,726	1,680	1,391	1,250	1,100	1,000
Other transfers <sup>5/</sup>	1,581	1,280	2,866	3,210	3,435	3,606	3,751	3,901
Interest payments	86	354	548	916	1,584	2,688	4,700	4,562
Domestic interest payments	86	234	334	298	262	226	190	154
External interest payments	0	119	214	618	1,322	2,462	4,510	4,408
War reparations <sup>6/</sup>	1,730	2,187	1,762	2,447	3,099	3,736	4,114	4,579
<b>Investment expenditures</b>	8,936	9,830	14,030	18,369	20,666	24,319	27,293	29,274
<b>Non-oil investment expenditures</b>	6,587	7,926	10,893	13,613	14,118	16,940	18,651	20,650
Domestic financed reconstruction expenditure	2,189	3,966	8,209	10,711	11,862	14,508	16,289	18,977
OFFP financed reconstruction expenditure	478	0	0	0	0	0	0	0
Grant financed reconstruction expenditure	3,448	3,488	2,105	1,248	90	55	32	15
Loan financed reconstruction expenditure	0	0	578	1,653	2,166	2,376	2,329	1,657
<b>Oil investment expenditures (including on refineries)</b>	2,349	1,904	3,003	4,665	6,548	7,379	8,642	8,624
Contingency	0	990	354	554	754	954	1,154	1,354
<b>Balance (including grants)</b>	5,008	8,170	-10,224	-5,730	-3,157	398	356	3,960
<b>Balance (excluding grants)</b>	-7,842	-4,215	-16,907	-10,063	-3,247	343	323	3,944
<b>Change in outstanding Letters of Credit [+ increase] <sup>7/</sup></b>	2,947	1,674	...	...	...	...	...	...
<b>Financing, <i>Of which:</i></b>	-2,103	-4,642	10,224	5,730	3,157	-398	-356	-3,960
<b>External financing</b>	2,713	-3,105	9,224	4,730	2,157	-398	-356	-3,960
Assets held abroad	1,462	-1,847	8,830	3,076	-9	-2,774	2,011	-800
Project financing	0	0	578	1,653	2,166	2,376	2,329	1,657
Other financing <sup>8/</sup>	1,486	430	0	0	0	0	0	0
Amortization	235	1,688	185	0	0	0	4,696	4,817
<b>Domestic financing</b>	-4,816	-1,537	1,000	1,000	1,000	0	0	0
Bank financing	-5,124	-587	1,000	1,000	1,000	0	0	0
Non bank financing	308	-950	0	0	0	0	0	0
<b>Residual or Financing gap[+]/surplus [-]</b>	42	-1,854	0	0	0	0	0	0
<b>Memorandum items:</b>								
Security-related expenditure	2,405	6,064	9,753	13,129	15,912	18,826	21,197	23,781
Primary fiscal balance	5,094	8,524	-9,675	-4,814	-1,573	3,086	5,056	8,522
Non-oil primary fiscal balance	-22,696	-30,088	-42,021	-52,773	-61,643	-70,655	-77,542	-85,043
External assets held abroad	9,111	11,938	3,108	32	41	2,815	804	1,604

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

1/ Projections for 2007-2012 assume that the private sector will start importing petroleum products, thereby increasing substantially the base for import duties.

2/ Include goods and services financed by donors, including overhead costs for reconstruction projects.

3/ Overhead costs associated with donor-financed reconstruction.

4/ Other goods and services financed by donors include security spending associated with the implementation of reconstruction projects.

5/ 2006 data includes ID270 billion allocated toward government's share of capital in new regional commercial banks. ID 1,500 formerly recorded under this item were re-classified as non-oil investment expenditures in 2006 budget presentation. Finally, ID265 billion were re-classified as debt repayment.

6/ Calculated as 5 percent of oil exports as per UN Security Council Resolution 1483 to finance war reparations to Kuwait.

7/ LCs in the Trade Bank of Iraq, for which 100 percent down-payment is customarily required.

8/ Includes financing from LCs previously issued under the UN oil-for-food program.

Table 3. Iraq: Fiscal and Oil Sector Accounts, 2005–12  
(In percent of GDP)

	2005	2006	2007	2008	2009	2010	2011	2012
	Est.			Projections				
Revenues and Grants	100.2	84.5	60.7	61.1	59.2	60.6	60.7	60.6
Revenues	74.2	67.6	52.2	56.9	59.1	60.6	60.7	60.6
Crude oil export revenues	68.6	60.0	45.1	46.8	49.2	50.3	49.4	49.2
Revenues of oil-related state owned enterprises	2.9	4.6	4.1	6.5	6.5	7.1	8.1	8.2
Of which revenues from reduction in price subsidy on petroleum products	0.0	1.5	0.8	3.6	3.7	4.3	5.4	5.7
Tax revenues	1.0	0.8	1.1	1.7	1.5	1.5	1.5	1.4
Direct taxes	0.4	0.5	0.6	0.6	0.6	0.6	0.6	0.7
Indirect taxes 1/	0.6	0.4	0.5	1.1	1.0	0.9	0.8	0.8
Non-tax revenues	1.6	2.1	1.9	2.0	1.8	1.7	1.8	1.7
Grants	26.0	17.0	8.5	4.1	0.1	0.0	0.0	0.0
Expenditures	90.1	73.3	73.8	66.5	61.7	60.3	60.5	58.5
Current expenditures	72.0	58.5	55.4	48.5	44.7	43.3	43.4	42.0
Salary and pension	18.8	16.3	19.4	18.0	17.0	16.2	16.0	15.7
Goods and services (non-oil sector) 2/	26.4	18.9	16.1	13.4	11.5	11.5	11.5	11.5
Budgeted goods and services	6.3	7.5	10.3	10.5	11.5	11.5	11.5	11.5
Financed by oil-for-food program (OFFP) (other than social safety net)	1.5	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Overhead costs for donors' financed projects 3/	7.1	4.6	2.4	1.1	0.0	0.0	0.0	0.0
Other goods and services financed by donors 4/	11.4	6.4	3.3	1.8	0.0	0.0	0.0	0.0
Goods and services (oil sector)	10.6	9.0	3.8	2.9	2.9	2.7	2.7	2.5
Oil derivative imports	8.4	5.9	0.5	0.0	0.0	0.0	0.0	0.0
Operating expenditures of oil-related state-owned enterprises (including refineries)	2.2	3.2	3.3	2.9	2.9	2.7	2.7	2.5
Transfers	12.6	10.7	13.2	11.0	9.6	8.5	7.9	7.4
Social safety net (excl. OFFP)	7.6	7.0	7.3	6.3	5.8	5.3	5.0	4.8
Transfers to SOEs	1.8	2.0	2.2	1.6	1.1	0.8	0.7	0.5
Other transfers 5/	3.2	1.8	3.7	3.1	2.7	2.4	2.3	2.1
Interest payments	0.2	0.5	0.7	0.9	1.3	1.8	2.8	2.5
Domestic interest payments	0.2	0.3	0.4	0.3	0.2	0.2	0.1	0.1
External interest payments	0.0	0.2	0.3	0.6	1.0	1.7	2.7	2.4
War reparations 6/	3.5	3.0	2.3	2.3	2.5	2.5	2.5	2.5
Investment expenditures	18.1	13.5	17.9	17.6	16.4	16.4	16.4	15.7
Non-oil investment expenditures	13.3	10.9	13.9	13.0	11.2	11.4	11.2	11.1
Domestic financed reconstruction expenditure	4.4	5.4	10.5	10.2	9.4	9.8	9.8	10.2
OFFP financed reconstruction expenditure	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant financed reconstruction expenditure	7.0	4.8	2.7	1.2	0.1	0.0	0.0	0.0
Loan financed reconstruction expenditure	0.0	0.0	0.7	1.6	1.7	1.6	1.4	0.9
Oil investment expenditures (including on refineries)	4.8	2.6	3.8	4.5	5.2	5.0	5.2	4.6
Contingency	0.0	1.4	0.5	0.5	0.6	0.6	0.7	0.7
Balance (including grants)	10.1	11.2	-13.1	-5.5	-2.5	0.3	0.2	2.1
Balance (excluding grants)	-15.9	-5.8	-21.6	-9.6	-2.6	0.2	0.2	2.1
Change in outstanding Letters of Credit [+ increase] 7/	6.0	2.3	...	...	...	...	...	...
External financing	5.5	-4.3	11.8	4.5	1.7	-0.3	-0.2	-2.1
Assets held abroad	3.0	-2.5	11.3	2.9	0.0	-1.9	1.2	-0.4
Project financing	0.0	0.0	0.7	1.6	1.7	1.6	1.4	0.9
Other financing 8/	3.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	0.5	2.3	0.2	0.0	0.0	0.0	2.8	2.6
Domestic financing	-9.8	-2.1	1.3	1.0	0.8	0.0	0.0	0.0
Bank financing	-10.4	-0.8	1.3	1.0	0.8	0.0	0.0	0.0
Non bank financing	0.6	-1.3	0.0	0.0	0.0	0.0	0.0	0.0
Residual or financing gap[+]/surplus [-]	0.1	-2.5	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Security-related expenditure	4.9	8.3	12.5	12.6	12.6	12.7	12.7	12.8
Primary fiscal balance	10.3	11.7	-12.4	-4.6	-1.2	2.1	3.0	4.6
Non-oil primary fiscal balance	-46.0	-41.3	-53.8	-50.5	-48.9	-47.6	-46.6	-45.7

Sources: Iraqi authorities and staff estimates and projections.

1/ Projections for 2007-2012 assume that the private sector will start importing petroleum products, thereby increasing substantially the base for

2/ Include goods and services financed by donors, including overhead costs for reconstruction projects.

3/ Overhead costs associated with donor-financed reconstruction.

4/ Other goods and services financed by donors include security spending associated with the implementation of reconstruction projects.

5/ 2006 data includes ID270 billion allocated toward government's share of capital in new regional commercial banks. ID 1,500 formerly recorded under this item were re-classified as non-oil investment expenditures in 2006 budget presentation. Finally, ID265 billion were re-classified as debt repayment.

6/ Calculated as 5 percent of oil exports as per UN Security Council Resolution 1483 to finance war reparations to Kuwait.

7/ LCs in the Trade Bank of Iraq, for which 100 percent down-payment is customarily required.

8/ Includes financing from LCs previously issued under the UN oil-for-food program.

Table 4. Iraq: Balance of Payments, 2004–12 1/  
(In millions of U.S. dollars, unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
	Est.	Est.	Proj.			Projections			
Trade balance	-2,173	2,696	6,380	-3,725	330	4,491	7,394	8,041	7,935
(In percent of GDP)	-8.4	8.0	12.5	-6.0	0.4	5.2	7.4	7.3	6.6
Exports	17,782	22,039	29,343	28,861	36,377	43,713	51,189	55,314	60,204
Crude oil	17,329	21,450	28,617	27,969	35,405	42,791	50,161	54,221	59,254
Other exports	452	589	725	892	972	921	1,027	1,093	950
Imports 2/	-19,955	-19,343	-22,963	-32,586	-36,047	-39,222	-43,795	-47,273	-52,269
Government imports	-13,966	-11,125	-12,911	-17,027	-16,490	-18,260	-20,481	-22,409	-23,636
UN Oil for Food Program (OFFP)	-3,492	-880	-261	0	0	0	0	0	0
Other consumption imports (non-OFFP)	-3,861	-2,923	-4,598	-6,598	-7,364	-8,349	-9,170	-9,893	-11,053
Other non-oil related capital imports (non-OFFP)	-2,362	-2,625	-3,596	-5,690	-6,392	-6,250	-7,299	-7,903	-8,342
Oil-related capital imports	-1,429	-2,252	-1,852	-2,414	-2,734	-3,661	-4,012	-4,613	-4,241
Refined oil products	-2,822	-2,445	-2,604	-2,325	0	0	0	0	0
Private sector imports	-5,988	-8,218	-10,052	-15,560	-19,557	-20,962	-23,314	-24,864	-28,634
Of which: refined oil products	0	0	0	-2,419	-4,709	-4,112	-4,130	-3,874	-3,885
Income, net 3/	-5,159	-3,348	-1,327	-1,240	-1,509	-1,802	-2,198	-2,214	-2,004
Services, net 2/	-4,325	-6,208	-6,302	-5,383	-4,943	-4,188	-4,687	-5,065	-2,554
Transfers, net	1,980	8,176	7,818	4,706	2,465	-777	-971	-1,189	-1,439
Private, net (incl. NGOs)	500	500	600	800	1,100	1,300	1,500	1,501	1,502
Official	1,480	7,676	7,218	3,906	1,365	-2,077	-2,471	-2,690	-2,941
Receipts	2,346	8,749	8,649	5,304	3,135	62	37	21	21
Payments	-866	-1,073	-1,431	-1,398	-1,770	-2,140	-2,508	-2,711	-2,963
Current account	-9,677	1,316	6,569	-5,642	-3,657	-2,276	-462	-427	1,937
(In percent of GDP)	-37.6	3.9	12.9	-9.1	-4.8	-2.6	-0.5	-0.4	1.6
Capital account	0	0	0	0	0	0	0	0	0
Financial account	11,017	2,163	1,391	8,857	6,276	4,289	2,456	1,438	-640
Direct investment	200	400	400	550	729	992	1,517	1,672	1,922
Other capital, net	10,817	1,763	991	8,307	5,547	3,297	939	-234	-2,562
Official, net	10,839	5,674	801	9,643	5,547	3,297	939	-234	-2,562
Assets 4/	10,839	2,007	-989	7,008	2,226	-6	-1,862	1,325	-518
Liabilities	0	3,667	1,790	2,635	3,321	3,303	2,801	-1,560	-2,044
Loan disbursements	0	0	0	459	1,196	1,496	1,595	1,535	1,072
Amortization 5/ 6/	0	-121	-361	-82	0	0	0	-3,095	-3,116
Capitalized interest payment 6/	0	3,788	2,151	2,258	2,125	1,808	1,206	0	0
Financial corporations, net 7/	0	-2,007	-1,169	0	0	0	0	0	0
Private, net	-21	-1,904	1,359	-1,336	0	0	0	0	0
Errors and omissions	361	29	-1,295	0	0	0	0	0	0
Overall balance	1,701	3,508	6,665	3,215	2,619	2,013	1,994	1,011	1,297
(In percent of GDP)	6.6	10.4	13.1	5.2	3.5	2.3	2.0	0.9	1.1
Financing	-1,701	-3,508	-6,665	-3,215	-2,619	-2,013	-1,994	-1,011	-1,297
Central bank (increase -)	-6,768	-4,122	-5,876	-3,150	-2,619	-2,013	-1,994	-1,011	-1,297
Reserves (net; increase -)	-6,332	-4,122	-5,876	-3,150	-2,840	-2,235	-1,994	-1,011	-1,297
Liabilities (increase +)	436	0	0	0	-221	-222	0	0	0
Fund credit (net)	436	0	0	0	-221	-222	0	0	0
Disbursement	436	0	0	0	0	0	0	0	0
Repayments	0	0	0	0	-221	-222	0	0	0
Deferred accrued interest 8/	5,252	0	0	0	0	0	0	0	0
Change in arrears (net, decrease -) 9/	-34,721	-32,387	-15,445	-783	0	0	0	0	0
Debt forgiveness 10/	34,536	33,001	14,656	718	0	0	0	0	0
Memorandum items:									
Central bank reserves	7,902	12,024	17,900	21,050	23,669	25,682	27,676	28,687	29,984
Central bank reserves (in months of imports of goods and serv GDP)	3.2	4.9	5.6	6.1	6.5	6.3	6.3	6.3	6.3
Non-oil GDP	25,763	33,624	50,926	62,038	75,678	86,980	99,681	109,743	120,380
	8,317	11,856	21,545	34,221	37,560	41,225	45,247	49,431	54,007

Sources: Iraqi authorities and Fund staff estimates and projections.

1/ Excludes U.S. military spending in Iraq.

2/ EPCA figures for imports of do not fully account for the cost of freight and insurance, which have been added under services for other estimates and projections.

3/ Includes interest accrued, deferred, and capitalized.

4/ Includes the use/accumulation of the DFI resources and the UN Oil for Food letters of credit.

5/ Includes the estimates of cash payments to settle the debt owed to small private creditors through cash exchange offer.

6/ Based on Paris Club agreement, the payments of principal and most interest during 2005–10 are deferred and capitalized.

7/ Reflects advance transfers for the execution of letter of credit (L/C).

8/ Estimates of accrued interest on existing stock of debt prior to Paris Club agreement.

9/ Includes debt forgiveness and clearance of arrears on multilateral debt and arrears related to fuel imports from Turkey.

10/ The notional debt forgiveness reflects: (i) the first stage of debt reduction (30 percent) at end 2004; (ii) the second stage reduction (30 percent) at end-2005; and (iii) the settlement of debt owed to private creditors through cash and debt exchanges. Assumes debt reduction comparable to the Paris Club agreement on other debt to official creditors.

Table 5. Iraq: Estimated External Debt Stock, 2004–12 1/  
(In billions of US\$)

	2004 before debt reduction	2004 after debt reduction	2005	2006	2007	2008	2009	2010	2011	2012
Without the third stage of debt reduction in 2008 (baseline) 4/										
Paris Club official creditors	42.6	28.4	19.2	19.9	20.7	21.4	22.0	22.4	21.3	20.3
Non-Paris Club official creditors 2/	67.7	47.4	28.4	29.8	31.3	32.7	33.9	34.7	32.7	30.6
Private creditors 3/	20.0	20.0	18.8	3.8	3.0	3.0	3.0	3.0	3.0	3.0
Multilateral creditors and others 4/	0.9	1.2	1.8	1.0	1.4	2.4	3.6	5.2	6.8	7.8
Total debt	131.2	96.9	68.2	54.5	56.4	59.5	62.6	65.4	63.8	61.8
In percent of GDP	509.2	376.1	202.8	107.1	90.9	78.6	72.0	65.6	58.2	51.3
Total debt service 5/	...	0.2	0.2	1.3	0.3	0.7	1.1	1.7	6.1	6.0
With the third stage of debt reduction in 2008 6/										
Total debt	131.2	96.9	68.2	54.6	56.4	32.3	34.5	36.7	36.7	36.2
In percent of GDP	509.2	376.1	202.8	107.1	90.9	42.7	39.7	36.8	33.4	30.1
Total debt service 5/	...	0.2	0.2	1.3	0.3	0.7	0.8	1.0	3.2	3.2

Sources: The Paris Club and Fund staff estimates.

1/ The assumptions made in this table are for purposes of illustration and discussion only. While the process of Iraq's debt reconciliation is ongoing, the IMF has had to base its analysis on information that may include as yet unreconciled data. Such use of data by the IMF does not amount to a recognition or denial of any particular claims. The estimates of the debt stock are different from those in IMF Country Report No. 06/301 to incorporate the latest results of debt reconciliation and settlement.

2/ Assumes debt reduction comparable to the Paris Club agreement in 2004.

3/ Assumes that by end 2007 all debt to private creditors would be settled by debt and/or cash exchanges.

4/ Includes new debt and arrears related to fuel imports from Turkey in 2006. The projections assume that new debt disbursement is mostly from multilateral creditors and Japan.

5/ Debt service is actual amount paid, including repayment of arrears to Turkey.

6/ Assumes precautionary SBA during 2005–08.

Table 6. Iraq: External Debt Sustainability Framework, 2004–12  
(In percent of GDP, unless otherwise indicated)

	Est.			Projections					
	2004	2005	2006	2007	2008	2009	2010	2011	2012
External debt	376.1	202.8	107.1	90.9	78.6	72.0	65.6	58.2	51.3
Change in external debt (1)	-653.7	-173.3	-95.7	-16.2	-12.3	-6.7	-6.4	-7.4	-6.8
Identified external debt-creating flows (2)	-527.2	-87.5	-78.5	-20.1	-15.5	-8.7	-8.4	-8.4	-7.9
Current account deficit, excluding interest payments	17.2	-15.2	-17.3	5.1	1.4	-0.5	-2.4	-2.3	-4.0
Deficit in balance of goods and services	25.2	10.4	-0.2	14.7	6.1	-0.3	-2.7	-2.7	-4.5
Exports	69.0	66.0	57.9	46.8	48.3	50.5	51.5	50.6	50.2
Imports	94.2	76.4	57.8	61.5	54.4	50.1	48.8	47.9	45.7
Net non-debt creating capital inflows (negative) 1/	-44.2	4.4	3.3	-10.0	-3.9	-1.1	0.3	-2.7	-1.2
Automatic debt dynamics 2/	-500.2	-76.6	-64.5	-15.2	-13.0	-7.1	-6.3	-3.3	-2.8
Contribution from nominal interest rate	20.4	11.3	4.4	3.9	3.4	3.1	2.9	2.7	2.4
Contribution from real GDP growth	-236.9	-10.7	-4.0	-9.2	-9.2	-8.5	-7.0	-3.7	-3.2
Contribution from price and exchange rate changes 3/	-283.7	-77.3	-64.9	-10.0	-7.2	-1.8	-2.1	-2.3	-1.9
Residual, incl. change in gross foreign assets (1-2)	-126.5	-85.9	-17.2	3.9	3.2	2.1	2.0	0.9	1.1
Of which: change in official reserves (increase = positive)	26.3	12.3	11.5	5.1	3.5	2.3	2.0	0.9	1.1
External debt-to-exports ratio (in percent)	545.0	307.4	185.0	194.4	162.9	142.6	127.3	115.0	102.3
Gross external financing need (in billions of US dollars) 4/ in percent of GDP	10.0 39.0	-1.2 -3.5	-7.5 -14.7	5.7 9.2	3.7 4.8	2.3 2.6	0.5 0.5	3.5 3.2	1.2 1.0
External debt service in percent of exports 5/	29.5	17.7	8.9	8.7	7.1	6.2	5.6	10.9	9.9
Debt-stabilizing non-interest current account (positive = surplus) 6/	-670.8	-158.1	-78.4	-21.3	-13.7	-6.2	-4.0	-5.1	-2.9
Key Macroeconomic Assumptions									
Real GDP growth (in percent)	46.5	3.7	3.0	10.4	12.3	12.4	11.2	6.3	6.1
GDP deflator in U.S. dollars (change in percent)	38.0	25.8	47.1	10.3	8.6	2.3	3.1	3.6	3.4
Nominal external interest rate (in percent)	4.0	3.9	3.3	4.5	4.6	4.6	4.6	4.5	4.5
Growth of exports (U.S. dollar terms, in percent)	91.7	24.7	33.0	-1.6	25.9	20.1	17.1	8.0	8.8
Growth of imports (U.S. dollar terms, in percent)	203.7	5.8	14.5	29.6	7.9	5.9	11.7	7.9	4.7
Stress Tests for External Debt Ratio									
Limited oil production 7/		202.8	107.1	90.9	78.6	83.3	89.2	94.6	98.3
Lower oil price in 2007–11 8/		202.8	107.1	90.9	85.5	81.3	75.1	70.8	64.7
Stress Tests for External Debt Service-to-Exports Ratio 5/									
Limited oil production 7/		17.9	11.6	8.9	7.1	7.4	10.7	24.8	33.8
Lower oil price in 2007–11 8/		17.9	11.6	8.9	7.8	8.3	9.0	15.6	16.8
Memorandum items:									
Real GDP growth under stress scenarios (in percent)									
Limited oil production 7/		3.7	3.0	10.4	12.3	2.9	3.0	2.9	3.1
Lower oil price in 2007–11 8/		3.7	3.0	10.4	12.3	12.4	11.2	6.3	6.1
Non-interest current account deficit under stress scenarios (in percent of GDP)									
Limited oil production 7/		-15.2	-17.3	5.0	1.2	4.3	6.7	9.0	10.7
Lower oil price in 2007–11 8/		-15.2	-17.3	5.1	4.3	2.4	0.5	0.5	-1.3

1/ Includes net FDI, other net private sector inflows (all assumed to be equity), and use of official assets held abroad.

2/ 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 US 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.

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

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

5/ Debt service is total accrued amount.

6/ Balance that stabilizes the debt ratio at its previous year's level, given assumptions on real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP.

7/ Assumes that oil production reaches its peak by 2008 at 2.6 mbpd.

8/ Assumes that oil price in 2008–12 is US\$4.5 lower than in the baseline, equivalent to one standard-deviation shock.

## ATTACHMENT I

Baghdad, February 23, 2007

Mr. Rodrigo de Rato  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431  
U.S.A.

Dear Mr. de Rato:

1. The Executive Board of the IMF approved a request for a Stand-By Arrangement (SBA) for Iraq on December 23, 2005, in support of our economic program for 2006. The first and second reviews under the SBA were completed on August 2, 2006. Notwithstanding the very difficult security and political situation, we have continued to make progress in implementing this program. Inflation, however, has persisted at a very high rate and achieving macroeconomic stability remains a challenge. We have already taken a number of corrective measures as described in the attached second Supplementary Memorandum of Economic and Financial Policies (SMEFP). To allow more time to reach the objectives and complete the reforms under the SBA, we request an extension of the current SBA by six months to September 28, 2007. We intend to continue to treat the SBA as precautionary (i.e., we do not intend to make the purchases under the SBA that will become available after observance of its performance criteria and completion of its reviews).

2. Iraq has met all quantitative performance criteria set for end-September 2006. The structural performance criterion for December 31, 2006 on adopting a budget classification and chart of accounts in line with the IMF's *Government Finance Statistics Manual 2001* was, however, not met.

3. On the basis of corrective actions being undertaken as specified in the second SMEFP, we would like to request a waiver for the nonobservance of the performance criterion noted in paragraph 2, and completion of the third and fourth reviews under the SBA. We also request establishment of the quantitative performance criteria proposed in the second SMEFP for end-March and end-June 2007, as well as of the structural performance criteria for end-May and end-June 2007.

4. In the period ahead, we shall strive to lower inflation, maintain a prudent fiscal stance, and undertake reforms that will enable Iraq to move toward a path of high and sustainable growth. A key element of our economic program continues to be the elimination of explicit subsidies on fuel products. We will raise the domestic prices of fuel products in early March as specified in the second SMEFP, as a prior action for completion of the third and fourth reviews, and will continue our policy of gradual price adjustments during the

remainder of the program period. We will make every effort to have the amendments to the pension law, as agreed with Fund staff, passed by the Council of Representatives as soon as possible.

5. We believe that the policies and measures set forth in the attached memorandum will allow to achieve the objectives under the SBA. However, we stand ready to take any additional measures that may be needed to ensure that the program remains on track. We will consult with the Fund staff on adoption of such measures in advance of revisions to the policies contained in the second SMEFP, in accordance with the Fund's policies on such consultation. We will provide the Fund with such information as it requests on policy implementation and achievement of program objectives.

6. We consent to the publication of this letter, the second SMEFP, the attached Addendum to the Technical Memorandum of Understanding, and the staff report on the third and fourth reviews under the SBA.

Sincerely yours,

/s/

/s/

Dr. Sinan Al-Shabibi

Mr. Baqir S. Jabr Al-Zubaydi

Governor of the Central Bank of Iraq

Minister of Finance of Iraq

**ATTACHMENT II: IRAQ: SECOND SUPPLEMENTARY MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2007**

**FEBRUARY 23, 2007**

**I. INTRODUCTION**

1. This memorandum supplements the Memorandum of Economic and Financial Policies for 2005–06 (MEFP) and the first supplement thereto, annexed to our letters dated December 6, 2005, and July 15, 2006, respectively. It describes additional economic objectives and policies agreed in the context of the third and fourth reviews under the Stand-By Arrangement (SBA). Policies and unfulfilled commitments specified in the original MEFP and the first supplement continue to be part of the program.

**II. RECENT DEVELOPMENTS UNDER THE STAND-BY ARRANGEMENT**

2. Achieving macroeconomic stability remained a challenge in 2006, in particular in view of the very difficult security situation. The Government of Iraq (GoI) has been able to resist unwarranted spending pressures and the Central Bank of Iraq (CBI) has maintained stable monetary conditions. Inflation, however, has risen to an unacceptable level. Annual consumer price inflation peaked at a rate of almost 77 percent in August, fell back to around 52 percent in September–November, and increased again to almost 65 percent in December. The underlying rate of inflation (excluding fuel and transportation) has been stable, in the range of 30–35 percent.

3. Real GDP growth is estimated at about 3 percent in 2006. This is lower than the 10½ percent projected at the outset of the program, because oil production has not increased as expected. Oil exports have been hampered by technical problems, as well as security and other difficulties in undertaking the necessary investments. Real non-oil GDP growth also lagged expectations and, on the basis of available output indicators, is estimated at 7½ percent compared to 8 percent originally projected.

4. Fiscal policy was restrained in 2006. The GoI has run a surplus through September, mainly because of underspending in investment. Current expenditure was broadly in line with the budget. Oil revenue was slightly above target, with lower-than-expected production volumes more than compensated by higher-than-expected prices. Non-oil revenue was higher than foreseen on account of overperformance in nontax revenue and interest earnings.

5. We have tightened our exchange rate and monetary policies to fight inflation. The exchange rate of the Iraqi dinar was pegged to the U.S. dollar through most of the year at a rate close to ID 1,477 per U.S. dollar. From mid-November this policy has been adjusted to permit a gradual appreciation of the dinar; the daily auction-rate declined to ID 1,325 per U.S. dollar at end-December and reached ID 1,290 per U.S. dollar by end-January. Net

international reserves continued to grow and reached a level of \$15.3 billion at end-November 2006. The CBI also raised its policy interest rate to 16 percent on November 12, 2006, and further to 20 percent as of January 7, 2007.

6. All quantitative performance criteria set for end-September were met (Table 1). The structural performance criterion for end-December 2006 on adopting a budget classification and chart of accounts in line with the IMF's *Government Finance Statistics Manual 2001* (*GFSM 2001*) was, however, not met (Table 2).

### III. ECONOMIC AND FINANCIAL POLICIES IN 2007

7. For 2007, the GoI's main macroeconomic policy objectives will be to maintain fiscal sustainability, significantly reduce inflation and continue reforms that help unlock Iraq's potential oil wealth and put the economy on a path to sustainable growth.

8. The 2007 budget is designed to accommodate the exchange rate appreciation, while preserving a solid investment program. Oil revenues are projected on the basis of increasing oil exports to 1.7 million barrels per day (mbpd) from 1.44 mbpd in 2006. The envisaged increase in the reconstruction (import) levy from 5 to 10 percent will be postponed until 2008.

9. The GoI intends to keep spending under control in 2007. The budget makes provision for the (amended) pension system, and allows for a large increase in the allocation for the social protection program, as well as for security. Other current expenditures, including on wages, will rise moderately while the daily hardship allowance for military personnel will be revised to limit the costs. We will freeze hiring in 2007 and resist unbudgeted bonuses. Budgetary support for imports of fuel products will be restricted to \$300 million (for kerosene) and all other imports of fuel products by the Ministry of Oil (MoO) will be financed from the revenues of the MoO. There will remain an implicit subsidy on domestically produced fuel products (mainly regular gasoline and diesel). Budget allocations for oil- and non-oil investment spending are more than double the expected 2006 outturn, which was much lower than foreseen largely due to the prevailing insecurity. The GoI has set up a committee under the supervision of the office of the prime minister to oversee the implementation of large investment projects with the aim to increase the rate of implementation. To improve transparency and program monitoring, the GoI is also investigating the composition of the stock of outstanding letters of credit at the Trade Bank of Iraq and will provide more frequent and better quality data to IMF staff.

10. These policies, and taking account of an envisaged further appreciation of the exchange rate (see below), should contain the consolidated government budget deficit to ID 10.2 trillion. In the event that oil revenues are substantially lower than foreseen, we intend to submit a supplementary budget to the Council of Representatives (CoR), in order to adjust government spending and keep the overall deficit in line with the level targeted in the 2007

budget. By the end of 2007, we aim to hold the equivalent of at least ID 3 trillion in assets in the Development Fund for Iraq (DFI). To keep the option of domestic financing of the deficit open and maintain a benchmark for market interest rates, we will step up the bi-weekly issuance of treasury bills to ID 150–200 billion.

11. To help curb inflation the CBI will continue its tight monetary policy stance and allow the exchange rate to appreciate gradually, assuming the inflationary situation warrants a continuation of this policy. The CBI also stands ready to further increase its policy interest rate, if needed and effective to bring inflation down.

12. We have raised the domestic prices of fuel products and will continue to gradually increase these prices in the period ahead (Table 3; indicative quantitative benchmarks). The government has exited the domestic market for premium gasoline. Regular gasoline (all of which is produced domestically) will be priced at ID 300 per liter by March 5, 2007, and at ID 350 per liter by end-June 2007. Government imports of premium gasoline will be blended with regular gasoline at a ratio not exceeding 50 percent. We will increase the price of blended gasoline to ID 400 per liter by March 5, 2007, and to ID 450 per liter by end-June. The price of diesel was increased to ID 300 per liter as of January 13, 2007, and will be further raised to ID 350 per liter by March 5, 2007. The price of LPG was increased to ID 2,000 per canister as of January 13, 2007, and will be set at ID 3,000 per canister by March 5, 2007. Kerosene will be priced at ID 150 per liter by March 5, 2007, and at ID 200 per liter by end-June 2007. We will review the price increases planned for end-June in light of the then prevailing security situation. To help the State Oil Marketing Organization (SOMO) import some of the petroleum products without having recourse to the proceeds generated from the sales of these products, the GoI has provided SOMO with a revolving credit, not to exceed a ceiling of ID 300 billion at any point in time (indicative target).

13. The GoI is committed to facilitate private sector imports of petroleum products, which is now permitted under the law liberalizing private gasoline imports (structural benchmark for September 30, 2006). We will make available to the private sector storage facilities and pump stations. We also plan to organize a conference to promote the import of petroleum products by local and international companies.

14. The GoI has adopted a new transitional chart of accounts (CoA) and started using the automated Financial Management Information System (FMIS). The newly adopted CoA is not fully consistent with the Fund's *GFSM 2001*, but we are committed to correct any shortcomings in this regard and identify which accounts in the CoA form part of the budget classification by end-June 2007 (structural performance criterion). An assessment of the FreeBalance software (which was supposed to be completed by end-December) is also behind schedule. The Ministry of Finance (MoF) has started using the FMIS from January 2007. The aggregated monthly reports generated by the FMIS will be reviewed and compared with the corresponding consolidated reports generated by the existing legacy system for the budget as a whole. We will also increase our efforts to make sure that all

spending units, including small independent accounting units, submit their transaction data to the relevant ministry, which should submit consolidated data to the MoF. For spending units where this is not possible in the near future, the MoF will enter their trial balances in the FMIS.

15. We will make every effort to have the amendments to the new pension law passed by the CoR as soon as possible. The main elements of the reform include a gradual reduction of replacement rates to fiscally sustainable levels, and zero indexation in 2007 to ensure affordability in the short-term. The reforms also involve the creation of an extrabudgetary fund, which will receive all pension contributions but would only pay out to new pensioners. The budget will continue to be responsible for paying existing pensioners, resulting in a direct budgetary cost of about ID 1.2 trillion in 2007, which will decline over time. We are committed to managing the extrabudgetary pension fund in a transparent manner, in line with international best practices, and seek technical assistance from the IMF and the World Bank in this area.

16. The GoI is proceeding with its new social protection program. In 2006, we have identified about one million poor families who each received up to \$80 per month from this program. This year, we intend to further expand coverage. At the same time, we are committed to rationalizing the Public Distribution System (PDS). As a start, we have cancelled eligibility for support under the PDS of some of the most well-off individuals (ministers, members of the CoR, and others). Eligibility for the PDS will be limited further in the course of 2007.

17. We intend to complete the census for public service employees (structural performance criterion for end-June 2007). The census, which was a structural benchmark for end-December 2006, could not yet be finalized due to the prevailing security situation. Preparatory work, involving several concerned ministries, has already started. We will invest all our efforts to have it completed by end-June.

18. The CBI has re-appointed Ernst and Young (E&Y) to conduct (i) an audit of the net international reserves data reported to the Fund as of December 31, 2006 (including a full count by the auditor of gold and foreign exchange holdings at the CBI) and (ii) the audit of the 2006 CBI financial statements in accordance with International Standards on Auditing. The former audit is expected to be finalized by May 31, 2007 (structural performance criterion), while an interim report of the latter is expected to be completed by May 31, 2007 (structural performance criterion).

19. We have received the finalized interim safeguard assessment report (ISAR) that was recently completed by IMF staff. We welcome the inclusion in the ISAR of an action plan to assist the CBI in addressing the concerns and recommendations raised in the ISAR and the E&Y 2005 audit. The CBI is committed to implementing corrective actions based on the recommendation of the ISAR and the E&Y report, including (i) adopting by the CBI Board

of a timetable for the full implementation of the IFRS as the CBI's financial reporting framework (structural benchmark for March 31, 2007); (ii) addressing the lack of proper accounting records maintained by the CBI, one of the major issues giving rise to E&Y's disclaimed audit opinion for 2005 (structural benchmark for June 30, 2007)<sup>1</sup>; and (iii) establishing adequate control procedures for reserves management, including developing a reserves management policy and investment guidelines (structural benchmark for June 30, 2007). In order to help us in implementing this action plan, we have requested technical assistance from the Fund.

20. Due to delays in completing the 2005 CBI audit, the GoI was not able to recapitalize the central bank to the stipulated ID 100 billion (structural benchmark for end-December 2006). We are committed to doing so in 2007 and the MoF has already sent a letter to the CBI reflecting our commitment.

21. We have made significant progress in modernizing the payment system. The real time gross settlement (RTGS) payment system and the automated clearing house (ACH) started their operations ahead of time (structural benchmarks for August and November 2006, respectively). Currently eight commercial bank headquarters are connected to the CBI and we are in the process to expand the coverage to the remaining commercial banks.

22. The CBI and MoF have signed a memorandum of understanding for an operational restructuring of the state-owned Rafidain and Rasheed banks, and a financial restructuring of Rasheed bank.<sup>2</sup> The GoI is committed to implement in full all measures included in the memorandum of understanding. We will appoint an internationally reputable audit firm to conduct an operational and financial audit of these two banks based on their 2006 financial accounts (structural benchmark for April 30, 2007). During the second half of 2007, the MOF will also initiate the restructuring of the other four smaller state-owned banks in line with the approach adopted with regard to Rasheed and Rafidain banks, in consultation with the IMF and the World Bank.

23. The GoI remains committed to developing a competitive and transparent hydrocarbon sector. We will continue our efforts to reach agreement within the government on a new hydrocarbon law. The MoO is working with international oil companies to implement an integrated system of oil metering for upstream and downstream activities. Clamp-on meters

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<sup>1</sup> The following issues will be addressed: (i) the lack of reconciliations of local bank's current accounts; (ii) unreconciled suspense accounts and interbranch accounts; (iii) unreconciled differences on accounts managed on behalf of the Ministry of Finance including the DFI; and (iv) insufficient information to support amounts, and to ensure the completeness and valuation of off-balance sheet commitments.

<sup>2</sup> Financial restructuring (involving a recapitalization) of Rafidain bank will await the settlement of claims lodged against its London branch.

at the Basra export terminal have been installed. We are committed to joining the Extractive Industries Transparency Initiative. As part of this process the MoO will start publishing on its website all available information on production, export, and processing of crude oil.

24. We are taking concerted actions to implement an anti-corruption strategy, especially in the oil sector. The MoO has already cancelled many suspicious contracts related to the import of fuel products and is reviewing its procurement practices to bring them in line with international best practice with World Bank technical assistance.

25. We will continue to work toward resolving outstanding external claims. Negotiations with China are underway, and contacts have been made with key creditor countries from the Gulf region. A number of non-Paris Club bilateral creditors have indicated a desire to securitize their claims. We will facilitate the development of a Special Purpose Vehicle (SPV), in order to encourage the conclusion of bilateral agreements with non-Paris Club creditors, according to the terms and conditions of the Paris Club agreement, and to avoid the emergence of a multiplicity of different securitizations. In this regard, we will keep the Paris Club fully informed. Most of the remaining unresolved private claims (which are only 4 percent of the original claims) are in the process of reconciliation with claims that are being settled as part of the liquidation of the London branch of Rafidain bank.

26. The GOI has established an Iraqi Oversight Board (IOB; structural benchmark for end-September 2006), which was expected to continue the work of the International Advisory and Monitoring Board (IAMB) upon its dissolution at end-2006. Given that a UN Security Council Resolution extended on November 28, 2006 the IAMB mandate for an additional year, we look forward for closely involving the newly-established IOB in the IAMB's work. This would provide the IOB with relevant training prior to the eventual expiration of the IAMB mandate at the end of 2007.

27. The GoI, with the help of the United States, has launched a new initiative toward an International Compact for Iraq (ICI). The objective of the ICI is to allow us to develop, with the support of the international community, a medium-term framework for comprehensive political, security and economic reform. We are committed to ensure that the economic component of the ICI is fully in line with the program under the SBA.

#### **IV. PROGRAM MONITORING**

28. In light of our request to extend the current SBA by six months, we would also like the final (fifth) review, due originally by mid-February 2007, to be rephased to mid-May 2007, and that the last purchase will be available upon observance of the end-June 2007 performance criteria.

29. Macroeconomic policy performance will continue to be monitored through quarterly quantitative performance criteria and indicative targets. The quantitative performance criteria under the original program will remain unchanged, and additional quantitative performance criteria have been set for end-March and end-June 2007, as specified in Table 1. To improve the timeliness and accuracy of program monitoring, the budget deficit in 2007 will be monitored from below the line (performance criterion; see attached addendum to the TMU). Prior actions for completing the third and fourth reviews have also been set (Table 2). Progress in structural reform will be monitored through structural performance criteria and benchmarks. For this matter, a new structural performance criterion has been set and another one has been rescheduled, while four new structural benchmarks have been set, as specified in Table 2.

30. The Technical Memorandum of Understanding is modified in the manner described in the attached addendum.

Table 1. Iraq: Quantitative Performance Criteria and Indicative Targets  
Under the Stand-By Arrangement, 2005–07 1/  
(In billions of Iraqi dinars, unless otherwise indicated)

	2005	Performance Criteria						
	9/30/05	12/31/05	3/31/06	6/30/06	9/30/06	12/31/06	3/31/07	6/30/07
<i>Cumulative change from September 2005</i>								
Net international reserves of the CBI (floor; in millions of U.S. dollars) (Actual)	8,500 2/	-1,000 +3,041	-1,000 +3,635	-1,000 +3,554	-1,000 +5,252	-1,000	0	0
Lending to the government and the private sector by the CBI (ceiling) 3/ (Actual)	5,100 2/	0 0	0 0	0 0	0 0	0	0	0
<i>Cumulative flow from beginning of calendar year</i>								
Government primary fiscal deficit (ceiling; deficit [+]/surplus[-]) 4/ 5/ (Actual)	...	5,400 -5,102	1,950 -819	3,600 -5,339	4,850 -11,266	5,300	...	...
Central government total financing (ceiling) 4/ 5/ (Actual)	...	...	...	...	...	...	3,000	5,350
Government wage and pension bill (ceiling) 4/ 6/ (Actual)	...	6,650 7,069	2,400 2,051	4,750 3,898	7,100 5,875	9,500	2,525	5,050
Revenue of oil related enterprises, including those remitted to the budget (floor) 4/ (Actual)	...	900 1,456	700 509	1,500 1,454	2,100 2,784	2,800	750	1,500
New medium-and long-term nonconcessional external debt (with original maturities of one year or more) contracted or guaranteed by the government (in millions of U.S. dollars; ceiling) 4/ 7/ (Actual)	...	500 0	500 0	500 0	500 0	500	500	500
External arrears on new borrowing (in millions of U.S. dollars; ceiling) 8/ (Actual)	...	0 653	0 0	0 0	0 0	0	0	0
<i>Indicative targets</i>								
Government imports of petroleum products (ceiling) 4/ 9/ (Actual)	...	6,000 4,128	1,700 1,152	3,400 2,312	4,000 3,120	4,200	100	200
Revolving government credit to the State Oil Marketing Organization (ceiling) (Actual)	...	...	...	...	...	...	300	300

1/ See Technical Memorandum of Understanding for precise definitions of all performance variables.

2/ Estimated.

3/ Rolling over t-bills does not constitute new lending.

4/ Flows for 12/31/05 are cumulative for 2005. Flows for 2006 and 2007 are cumulative starting 1/1/2006 and 1/1/2007, respectively.

5/ Starting in 2007, the budget deficit will be monitored from below the line (i.e., from the financing side).

6/ Excluding salaries paid by ministries of defense and interior (see Technical Memorandum of Understanding for precise definition).

7/ This ceiling excludes loans with a grant element of 35 percent or more of up to Yen 350 billion for reconstruction projects to be contracted with the government of Japan in 2007.

8/ This will be monitored on a continuous basis.

9/ Starting 2007 this no longer comprises all imports of petroleum products made directly by the government of Iraq but instead comprise of imports of petroleum products financed from the budget.

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

	Date	Status
<b>I. Prior Actions for Completion of the Third and Fourth Reviews</b>		
Re-appoint Ernst & Young to conduct (a) an audit of the net international reserves data reported to the IMF as at December 31, 2006, including a full count by Ernst & Young of gold and foreign exchange holdings at the CBI, and (b) the audit report of the 2006 CBI financial statements in accordance with International Standards on Auditing.		
Adjust domestic fuel prices to levels at least equal to or above those required for the prior action as specified in Table 3		
<b>II. Structural Performance Criteria</b>		
Avoid administrative measures limiting participation or bids in the CBI's regular auction of foreign exchange other than screening related to anti-money laundering or counter-terrorism.	Continuous	Met
Final audit of CBI 2005 Financial operations and statements.	May 15, 2006	Waived; Completed on October 1, 2006
Adoption of fully detailed budget classification and chart of accounts in line with the IMF's Government Financial Statistics Manual (GFSM) 2001, within a cash accounting framework. <sup>1/</sup>	December 31, 2006	Not met; rescheduled to end-June 2007. Work is underway
Completion by Ernst & Young of (a) a final audit of the net international reserves data reported to the IMF as at December 31, 2006, including a full count by Ernst & Young of gold and foreign exchange holdings at the CBI, and (b) an interim audit report of CBI 2006 financial statements in accordance with International Standards on Auditing.	May 31, 2007	
Completion of census of all public service employees (central government and military).	June 30, 2007	Was a missed benchmark for end-December 2006.
<b>III. Structural Benchmarks</b>		
Implementation of payment system regulations.	June 30, 2006	Met
Establishment of an audit oversight committee, to become effective on or before December 31, 2006, including the participation of independent international audit experts, to continue the work of the International Advisory and Monitoring Board (upon its dissolution) in overseeing and making public audits of the Development Fund for Iraq and oil export sales.	September 30, 2006	Met in November 2006; IAMB mandate has been extended to December 31, 2007
Reform of pension law in line with sustainable pension system	September 30, 2006	Expected in March
Approval by Council of Representatives of law liberalizing private gasoline imports	September 30, 2006	Met
Commencement of operation of Real Time Gross Settlement system (RTGS) linking headquarters of commercial banks to the CBI.	August 31, 2006	Met
Commencement of payments clearing system between the headquarters of commercial banks and the CBI through the Automatic Clearing House (ACH).	November 30, 2006	Met
Full capitalization of CBI to the stipulated ID 100 billion, based on the 2005 audited financial statements and taking into account the restructuring of outstanding claims on the central government that are on the December 31, 2005 balance sheet of the CBI.	December 31, 2006	Underway; included in the 2007 budget
Adopt a CBI Board-approved timetable for the full implementation of IFRS as the bank's financial reporting framework	March 31, 2007	
Appoint an internationally reputable audit firm to conduct an operational and financial audit of Rasheed and Rafidain banks based on their 2006 financial accounts.	April 30, 2007	
Address the lack of proper accounting records being maintained by the CBI, one of the major issues giving rise to E&Y's disclaimed audit opinion for 2005. <sup>2/</sup>	June 30, 2007	
Establish adequate control procedures for reserves management, including developing reserves management policy and investment guidelines.	June 30, 2007	

<sup>1/</sup> The budget classification and chart of accounts will be deemed in line with the IMF GFSM 2001 if it is consistent with the methodology and high level classification defined in the technical assistance report of the IMF's Fiscal Affairs Department entitled "Iraq Budget Classification Reform" (July 2005).

<sup>2/</sup> The following issues should be addressed: (i) the lack of reconciliations of local bank's current accounts; (ii) unreconciled suspense accounts and interbranch accounts; (iii) unreconciled differences on accounts managed on behalf of the Ministry of Finance, including the DFI; and (iv) insufficient information to support amounts, and to ensure the completeness and valuation of off-balance sheet commitments.

Table 3. Iraq: Indicative Quantitative Benchmarks Under the Stand-By Arrangement  
(In Iraqi dinars per liter, unless otherwise indicated)

Sep. 2005	Prior Action	03/31/06		06/30/06		09/30/06		12/31/06		Prior action 3rd & 4th reviews		06/30/07
		Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program
Official domestic price of petroleum products (equal to or above, by specified dates)												
LPG (per 12 kg cylinder)	250	600	700	600	800	1,000	900	1,000	1,000	1,000	3,000	3,000
Regular gasoline	20	100	130	100	155	175	175	175	200	250	300	350
Premium gasoline 1/	50	250	300	250	350	350	400	350	450	350	...	...
Blended gasoline	...	...	...	...	...	...	...	...	...	350	400	450
Kerosene	5	25	50	25	75	75	90	75	115	75	150	200
Diesel	10	90	110	90	125	125	155	150	175	150	350	350

1/ Starting 2007, premium gasoline is to be sold only by the private sector at unregulated prices.

**ATTACHMENT III: IRAQ: ADDENDUM TO THE TECHNICAL MEMORANDUM OF  
UNDERSTANDING**

February 23, 2007

1. All aspects of the Technical Memorandum of Understanding (TMU) of December 6, 2005 and the addendum thereto of July 15, 2006 remain in effect, except for the changes described below.
2. The quantitative performance criteria will be extended for end-March and end-June 2007.
3. To improve the timeliness and accuracy of program monitoring, the budget deficit in 2007 will be monitored from below the line. Hence, for end-March and end-June 2007 the performance criterion on the primary fiscal deficit will be replaced by a new performance criterion on the central government total financing calculated as the sum of external financing and domestic financing of the central government balance. Domestic financing includes any form of resident financing of the consolidated budget from (i) the central bank; (ii) commercial banks; (iii) non-bank financial institutions; (iv) non-financial enterprises; (v) privatization proceeds; (vi) changes in arrears; (vii) households; and (viii) all other domestic financing not elsewhere classified.
4. The new performance criterion on the central government total financing will be monitored using end-month data on the accounts of the Development Fund of Iraq and the consolidated balance sheet of depository corporations, which will be provided to Fund staff with a time lag not to exceed four weeks.
5. The performance criterion on revenues from oil-related state owned enterprises will be changed to reflect that fuel imports are no longer financed from the budget. Revenues of oil-related state owned enterprises now comprise all revenues of the companies listed in paragraph 10 of the original TMU minus the total imports of petroleum products (including LPG, gasoline, kerosene, and diesel) made directly by the government of Iraq or by oil enterprises on its behalf. To monitor this performance criterion the GoI will provide the Fund with the amount of total imports of petroleum products on a quarterly basis starting with the first quarter of 2007. These data should be reported no later than eight weeks after the end of the reference quarter.
6. The indicative target on government imports of petroleum products shall no longer comprise all imports of these products made directly by the government of Iraq but instead comprise imports of petroleum products financed from the budget.
7. The quarterly ceilings for 2007 for central government total financing; the government wage and pension bill; and new medium- and long-term nonconcessional external debt (with original maturities of one year or more) contracted or guaranteed by the

government will be measured on a cumulative basis from January 1, 2007. The quarterly floor for 2007 for revenue of oil-related enterprises, including those remitted to the budget, will be also measured on a cumulative basis from January 1, 2007.

8. A new indicative target for the “revolving government credit to the State Oil Marketing Organization (SOMO)” is added. The revolving government credit to SOMO shall comprise all credits provided by the Ministry of Finance to the Ministry of Oil and/or directly to SOMO for the purpose of importing fuel derivatives. The indicative ceiling shall apply for end-March and end-June 2007, and will be measured on a cumulative basis from January 1, 2007.

INTERNATIONAL MONETARY FUND

IRAQ

**Third and Fourth Reviews Under the Stand-By Arrangement, Financing Assurances Review, and Requests for Extension of the Arrangement, and for Waiver of Nonobservance of a Performance Criterion—Supplementary Information**

Prepared by the Middle East and Central Asia Department

Approved by Mohsin S. Khan and G. Russell Kincaid

March 8, 2007

1. This supplement provides an update on developments since the issuance of the staff report. The thrust of the staff appraisal remains unchanged.
2. **All quantitative performance criteria set for end-December 2006 were met (Table 1) and the prior actions were taken.** In the case of prior actions, first, the government has increased domestic fuel prices to the levels specified in Table 7 of the staff report (effective March 5, 2007). Second, the authorities have re-appointed Ernst & Young to conduct (a) an audit of the net international reserves data reported to the IMF as at December 31, 2006, including a full count by Ernst & Young of gold and foreign exchange holdings at the CBI, and (b) the audit of the 2006 CBI financial statements in accordance with the International Standards on Auditing.
3. **Inflation in January 2007 remained high.** The consumer price index increased by 6.8 percent in January and the annual consumer price inflation rate was 66.4 percent. Annual core inflation stood at 30.7 percent in January, slightly lower than at end-2006.
4. **Reserve money growth accelerated to 29 percent in the year to December 2006, compared to 20 percent in the year to November.** Currency in circulation increased by 18 percent in the year to December 2006 compared to 13 percent in November. Net international reserves increased by \$6.7 billion in 2006, reaching \$18.2 billion at year-end, slightly higher than was projected in the staff report. Since early November, the exchange rate has appreciated by 13 percent. The appreciation of the dinar appears to have increased the demand for dinars and help to de-dollarize the economy, while allowing the CBI to continue to build up its international reserves. Staff is watching these developments closely and with new information in the coming months will be better able to assess whether monetary conditions need further tightening to achieve the program's inflation objective.
5. **The CBI has started to implement the recommendations of the interim safeguards assessment report.** Ernst & Young are assisting the CBI in adopting the International Financial Reporting Standards (IFRS), while the CBI Board has recently established a committee to address internal audit-related issues.

6. **Of Letters of Credit (LCs) outstanding at end-2005, LCs amounting to \$1.2 billion (2⅓ percent of GDP) were executed in 2006.** The expenditures that these LCs financed represent a carry-over from the budgets of 2003–05. The LCs were themselves fully covered by government deposits placed at the Trade Bank of Iraq at the time the respective LC was issued during 2003–05 under the budgets of those years. The net accumulation of unexecuted LCs issued in 2006 has been revised to \$1.6 billion.

7. **The 2007 budget was approved by the Council of Representatives on February 11, 2007.** The budget is in line with program understandings.

8. **The Government of Iraq has finalized negotiations on a new oil and gas law.** The draft law arranges for the re-establishment of the Iraqi National Oil Company (INOC) which would have control over currently producing oil fields. The development of currently non-producing fields will be subject to an open bidding process. Contract negotiations for these fields will be the responsibility of the regional authorities, and will be based on production and development plans, bidding rules, and model contracts set by a new Federal Oil and Gas Council, which will also be responsible for final approval of contracts. The draft oil and gas law will be submitted to the Council of Representatives as part of a package of four laws, which also includes a law to re-establish the INOC, a law to reorganize the Ministry of Oil, and a hydrocarbon financial management law to set the parameters for revenue distribution. The Cabinet has agreed that all oil revenues will be collected in a central account and shared between provinces on the basis of population levels, with some details of the hydrocarbon financial management law still to be worked out.

Table 1. Iraq: Quantitative Performance Criteria and Indicative Targets  
Under the Stand-By Arrangement, 2005–07 1/  
(In billions of Iraqi dinars, unless otherwise indicated)

	2005	Performance Criteria						
	9/30/05	12/31/05	3/31/06	6/30/06	9/30/06	12/31/06	3/31/07	6/30/07
<i>Cumulative change from September 2005</i>								
Net international reserves of the CBI (floor; in millions of U.S. dollars) (Actual)	8,500 2/	-1,000 +3,041	-1,000 +3,635	-1,000 +3,554	-1,000 +5,252	-1,000 +9,744	0	0
Lending to the government and the private sector by the CBI (ceiling) 3/ (Actual)	5,100 2/	0 0	0 0	0 0	0 0	0 0	0	0
<i>Cumulative flow from beginning of calendar year</i>								
Government primary fiscal deficit (ceiling; deficit [+]/surplus[-]) 4/ 5/ (Actual)	...	5,400 -5,102	1,950 -819	3,600 -5,339	4,850 -11,266	5,300 -9,100	...	...
Central government total financing (ceiling) 4/ 5/ (Actual)	...	...	...	...	...	...	3,000	5,350
Government wage and pension bill (ceiling) 4/ 6/ (Actual)	...	6,650 7,069	2,400 2,051	4,750 3,898	7,100 5,875	9,500 7,757	2,525	5,050
Revenue of oil related enterprises, including those remitted to the budget (floor) 4/ (Actual)	...	900 1,456	700 509	1,500 1,454	2,100 2,784	2,800 3,611	750	1,500
New medium- and long-term nonconcessional external debt (with original maturities of one year or more) contracted or guaranteed by the government (in millions of U.S. dollars; ceiling) 4/ 7/ (Actual)	...	500 0	500 0	500 0	500 0	500 0	500	500
External arrears on new borrowing (in millions of U.S. dollars; ceiling) 8/ (Actual)	...	0 653	0 0	0 0	0 0	0 0	0	0
<i>Indicative targets</i>								
Government imports of petroleum products (ceiling) 4/ 9/ (Actual)	...	6,000 4,128	1,700 1,152	3,400 2,312	4,000 3,120	4,200 4,082	100	200
Revolving government credit to the State Oil Marketing Organization (ceiling) (Actual)	...	...	...	...	...	...	300	300

1/ See Technical Memorandum of Understanding for precise definitions of all performance variables.

2/ Estimated.

3/ Rolling over treasury bills does not constitute new lending.

4/ Flows for 12/31/05 are cumulative for 2005. Flows for 2006 and 2007 are cumulative starting 1/1/2006 and 1/1/2007, respectively.

5/ Starting in 2007, the budget deficit will be monitored from below the line (i.e., from the financing side).

6/ Excluding salaries paid by ministries of defense and interior (see Technical Memorandum of Understanding for precise definition).

7/ This ceiling excludes loans with a grant element of 35 percent or more of up to Yen 350 billion for reconstruction projects to be contracted with the government of Japan in 2007.

8/ This will be monitored on a continuous basis.

9/ Starting 2007, this no longer comprises all imports of petroleum products made directly by the government of Iraq but instead comprise of imports of petroleum products financed from the budget.



Press Release No. 07/48  
FOR IMMEDIATE RELEASE  
March 13, 2007

International Monetary Fund  
Washington, D.C. 20431 USA

**IMF Executive Board Completes Third and Fourth Reviews under Iraq's Stand-By Arrangement, Approves Six-Month Extension of Arrangement to September 2007**

The Executive Board of the International Monetary Fund (IMF) has completed the third and fourth reviews of Iraq's performance under its economic program supported by a Stand-By Arrangement. The IMF arrangement is being treated as precautionary by the Iraqi authorities, and no purchase is planned.

The Stand-By Arrangement in an amount equivalent to SDR 475.36 million (about US\$714.7 million) was approved on December 23, 2005 (see [Press Release No. 05/307](#)). In completing the latest reviews, the Executive Board also approved the authorities' request for a six-month extension of the arrangement through September 28, 2007. Additionally, the Board also approved the authorities request for a waiver of the non-observance of a structural performance criterion.

Following the Executive Board's discussion of Iraq, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

"Iraq is entering a crucial period in its economic recovery. Despite very difficult political and security circumstances, the Iraqi authorities have taken important measures to keep their economic program on track. The maintenance of fiscal discipline, as well as the tightening of monetary policy and the appreciation of the dinar, are commendable. The increase of official domestic fuel prices and the enactment by the Council of Representatives (CoR) of a law liberalizing the import of fuel products are important steps. The amendments to the pension law were submitted to the CoR; we look forward to their early passage into law. The government's approval of a new oil and gas law augurs well for the future of the oil sector. Progress is also being made in financial sector reform.

"Inflation, however, remains high. While this is to an important extent due to the prevailing difficult security situation and supply disruptions, the Central Bank of Iraq (CBI) may need to take further steps in order to prevent high inflation from becoming entrenched and to de-dollarize the economy. Fiscal policy should be supportive by keeping current spending, including the wage and pension bill, in check. At the same time, it is important to increase government investment, especially in the oil sector. The government also needs to reduce supply bottlenecks, especially of fuel products. To that end, actions are needed to facilitate

the importing of fuel products by the private sector. The pace of structural reforms needs to be increased. Efforts to modernize the chart of accounts and the budget classification need to be stepped up, and the Financial Management Information System should be implemented rapidly. It is important to complete the census of public sector employees by mid-year. While the restructuring effort on the two largest banks is commendable, efforts should be made to restructure the four other state-owned banks. The modernization of the payments system needs to be expanded to cover all banks.

“The CBI’s efforts to implement the recommendations of the Interim Safeguards assessment report and the Ernst & Young 2005 audit report are encouraging. The Ministry of Finance is strongly encouraged to recapitalize the CBI as soon as possible.

“Corruption and violence need to be brought under control to unlock Iraq’s oil wealth. More forceful actions are needed, especially in the area of smuggling. In this respect, the implementation of oil metering projects should be finalized as soon as possible. The authorities’ intention to join the Extractive Industries Transparency Initiative is welcome.

“Progress in settling arrears with private creditors is commendable. However, further progress is needed towards resolving non-Paris Club official claims,” Mr. Kato said.

**Statement by A. Shakour Shaalan, Executive Director for Iraq**  
**March 12, 2007**

1. The Iraqi authorities would like to convey, once again, their deep appreciation for the steady support they have received from the Fund's Executive Board, Management, and in particular Staff, over the last few years, under very difficult circumstances. The excellent advice and technical assistance delivered under the framework of the Stand-By Arrangement (SBA), and of the Emergency Post-Conflict Assistance (EPCA) before it, have enabled the Iraqi authorities to establish a new institutional structure for economic governance. Such a structure is a prerequisite to the enactment of sound macroeconomic policies and reforms in general, and to the implementation of the objectives of the SBA in particular, to which the Iraqi government remains strongly committed.

2. Another prerequisite for the successful achievement of the economic objectives remains unfortunately elusive, and relates to the overall security situation. Indeed, Iraq's economic performance continues to depend critically on a most unsatisfactory security situation that undermines both the implementation of policies and the ability of the private sector to take advantage of the great opportunities that the economy could offer. In this respect, as well, the government is fully committed to engage all its available resources to try to bring the situation under control. Against this background, it is no surprise that two fundamental indicators of macroeconomic stability--growth and inflation--have been somewhat disappointing, notwithstanding the best efforts of the authorities. Indeed, the violent conflict is the major reason behind both the inability of the government to expand the oil sector capacity, thus limiting the economy's growth potential, and the shortages of key commodities underlying the rise in inflation. It is, nonetheless, well to note that despite the unabating violence, the non-oil sector grew at a robust rate of around 7.5 percent, attesting to the potential dynamism of the Iraqi economy. The resolve to keep pressing with the reform process, despite the overall political situation, is strong, and the authorities are ready to take any additional measures that will help achieve their inflation and economic growth targets.

3. The recent approval by Iraq's cabinet of the draft Hydrocarbon law represents an economic and political breakthrough, in view of the vital importance of the sector and the complex political considerations taken into account in a balanced compromise. After months of arduous discussions, an agreement was reached on the pooling and redistribution of oil resources across regions. Furthermore, the agreement specifies the process that will allow regional authorities to award contracts for exploration and exploitation of hydrocarbon resources. The contracts will be subjected to a review by the high energy commission to ensure that the terms are in line with an agreed-upon set of commercial criteria. The draft law will need to be ratified by Parliament, and the authorities are committed to enact it in a timely manner. The law should open the way for much needed foreign investment, and will be an important foundation for the enhancement of the governance of the oil sector. Several

complementary initiatives will contribute to that effect: The government is committed to join the Extractive Industries Transparency Initiative to further enhance the transparency of the sector. It has launched an anti-corruption strategy, including action taken by the Ministry of Oil (MoO) against suspicious fuel import contracts and its review of procurement practices with technical assistance from the World Bank. The MoO is also working with international companies for the implementation of the metering system in upstream and downstream activities and has installed a metering system in Basrah. Finally, the extension of the International Advisory and Monitoring Board<sup>1</sup> (IAMB) mandate by an additional year to end-2007 will allow the newly established Iraqi oversight Board to get the adequate interaction and exposure through its close collaboration with the IAMB in the year ahead.

4. The progress on realigning domestic fuel prices with regional levels has been remarkable given the magnitude of the price adjustments since 2004, and the sensitivity of the issue. However, the government is determined to further increase domestic prices of fuel products in line with the level specified in the supplementary Memorandum of Economic and Financial Policies (MEFP), notwithstanding its concerns regarding possible political backlash in a period of ongoing new security initiatives. While an implicit subsidy will remain on domestic fuel products, direct and explicit budget subsidies will be terminated for all fuel products except Kerosene. Even though the law authorizing the private import of petroleum products was enacted in September 2006, and regulation issued the following month, the government will still need to continue direct imports to avoid shortages, as security concerns have prevented private sector imports. These imports will be financed from the domestic sales of fuel products. The authorities are planning to further encourage the private sector in this activity and will make storage facilities and pump stations available to assist private firms. They will also convene a conference to promote the import of petroleum products.

5. While oil production and export volumes have been lower than anticipated under the program--due to the inability to expand capacity—higher oil prices in 2006 more than compensated for the lower output, resulting in oil revenues slightly above the budgeted levels. Non-oil revenues were also above target resulting in overall revenue overperformance. Expenditures, on the other hand, have been substantially lower than planned, essentially due to much lower than anticipated investment spending. While some capacity and technical constraints have contributed, security has remained the main barrier to the execution of infrastructural and capacity expansion projects. The fiscal outturn in 2006 was therefore very strong and contributed to a sharp increase in the accumulation of resources in the Development Fund for Iraq. The authorities are expecting a better security situation in 2007, and therefore hope that they will be able to undertake their ambitious investment program. The development of both oil and non-oil productive capacity is critical for the sustainability of the fiscal stance. In this regard, a committee in the office of the prime

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<sup>1</sup> The IAMB has oversight over external audits of Iraq's oil revenues deposited in the Development Fund for Iraq.

minister will be set up to help improve the implementation of large infrastructural projects, and the investment allocation for 2007 is set at twice the 2006 outturn. However, with the dinar value of oil revenues shrinking due to the appreciation of the currency, the authorities are well aware that they need to further control current expenditures going forward, to be able to fund the needed public investments as well as to follow through on their commitments relating to security and the social sector.

6. The amendments to the pension law, which include a zero indexation in 2007 and the gradual reduction of replacement rates that ensure the fiscal sustainability of the pension system, have been submitted to Parliament. The government will do its utmost to have the amendments enacted as soon as possible. An extra-budgetary fund will be created to pay all new pensioners and collect all contributions, whereas existing pensioners will be paid from the budget directly. The budgetary cost will decline over time. The extrabudgetary pension fund will be managed transparently in line with best practices, and the authorities will seek technical assistance from the Fund and the World Bank in this respect. Furthermore, the government is pushing ahead with the reform of the social safety net. About one million poor families have received monthly cash support and the coverage is expected to increase further, while efforts to rationalize the Public Distribution System are ongoing, starting with a narrowing of the eligibility criteria.

7. While a strong fiscal stance has accompanied an increasingly tight monetary policy, inflation still reached disturbingly high levels (about 66 percent yoy in January 2007). The Central Bank of Iraq (CBI) stands ready to steadily tighten its policy stance, using all the instruments at its disposal, as long as the situation warrants it. In an effort to counter the inflationary pressures the CBI raised its policy rates four percentage points to 16 percent in November 2006 and similarly to 20 percent in early January. To complement this effort, the CBI undertook a bold measure, initiating a gradual and steady appreciation of the dinar since mid-November, in order to both combat inflation and help reverse dollarization. By early March, the nominal exchange rate had appreciated by more than 13 percent. However, it is clear that inflation, as discussed many times before, is intrinsically linked to the security situation and to the resulting shortage of key commodities, and is therefore essentially supply-driven. Without a clear improvement on this front, it would be difficult to see significant progress in disinflation. Nevertheless, to contain the pressures as much as possible and to signal its resolve, the CBI is determined to sustain such a tightening stance until the underlying conditions change.

8. The effectiveness of monetary policy in Iraq is hampered by the weakness of the monetary transmission channels due to an ineffectual banking sector. A restructuring of the sector is a major objective of the authorities and should play an important role in the development of the Iraqi economy. An important step towards the restructuring of the sector was the signature of a Memorandum of Understanding between the CBI and the Ministry of Finance for the operational restructuring of the two largest and state-owned banks Rafidain

and Rasheed, and the financial restructuring of the latter. An international firm will be appointed to conduct an audit of the banks in April 2007. The authorities agree with staff's advice to restructure the four remaining state-owned banks and intend to initiate the restructuring in the second half of the year in consultation with the Fund and the World Bank. As staff notes, great strides in modernizing the payment system were accomplished, with operations starting ahead of the target dates, and the CBI currently expanding the coverage to all commercial banks.

9. The CBI will be recapitalized in 2007 and the authorities are committed to follow through on the recommendations of the Interim Safeguard Assessment Report recently completed by the Fund, as well as those of the Ernst and Young (E&Y) 2005 audit. E&Y has been retained for the 2006 audit, and by end-May 2007 the audit of net international reserves reporting to the Fund and an interim report on the 2006 audit are expected to be completed.

10. The authorities are making best efforts in trying to reach agreements with remaining official creditors, including Gulf countries. Negotiations are moving at a slow pace in some instances given the complexity of the circumstances surrounding the claims. The authorities are also trying to settle in good faith some of the remaining arrears with private creditors, which represent about 4 percent of the original private sector debt.

11. Despite the adverse circumstances, Iraq continues to make clear progress in implementing the SBA, which remains broadly on track. Combining the two reviews has allowed the government to implement corrective measures, meet all end-September and end-December quantitative performance criteria, and fulfill both prior actions required for completion of the reviews. Moreover, four out of the six structural benchmarks were met, with progress being made on the remaining two. Corrective actions are also being undertaken to make the budget classification and chart of accounts consistent with the Fund's GFSM 2001. The authorities request, therefore, a waiver for the non-observance of the related structural performance criterion. They also request the Board's approval for an extension of the SBA by six months (to September 28, 2007), and a rescheduling of the fifth and final review to May 2007, so as to allow for the necessary time to achieve the objectives of the program. For this purpose, they have agreed on additional quantitative and structural PCs and structural benchmarks for end-March 2007 and end-June 2007, and intend to continue treating the SBA as precautionary. The Iraqi authorities remain fully committed to the implementation of the arrangement, which has served Iraq well, providing cohesion to the policy framework while anchoring and furthering progress towards macroeconomic stability. The SBA will, moreover, provide the macroeconomic framework for the International Compact for Iraq initiated with the help of the United Nations to develop a comprehensive political, security and economic medium-term reform agenda.