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Iraq: Second Review Under the Stand-By Arrangement, Requests for Waiver of Applicability, Extension of the Arrangement, and Rephasing of Access—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Iraq.

In the context of the second review under the stand-by arrangement, requests for waiver of applicability, extension of the arrangement, and rephasing of access, the following documents have been released and are included in this package:

- The staff report for the Second Review Under the Stand-By Arrangement, Requests for Waiver of Applicability, Extension of the Arrangement, and Rephasing of Access, prepared by a staff team of the IMF, following discussions that ended on January 21, 2011, 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 March 4, 2011. 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.

- An informational annex.

- A Press Release summarizing the views of the Executive Board as expressed during its March 18, 2011 discussion of the staff report that completed the review.

- A statement by the Executive Director for Iraq.

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

Letter of Intent sent to the IMF by the authorities of Iraq*
Memorandum of Economic and Financial Policies by the authorities of Iraq*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

IRAQ

Second Review Under the Stand-By Arrangement, Requests for Waiver of Applicability, Extension of the Arrangement, and Rephasing of Access

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

Approved by Alfred Kammer and David Marston

March 4, 2011

EXECUTIVE SUMMARY

- **Stand-By Arrangement**: A two-year SBA in the amount of SDR 2,376.8 million ($3.7 billion), equivalent to 200 percent of Iraq's quota, was approved by the Executive Board on February 24, 2010. A first purchase of SDR 297.1 million (25 percent of quota) was made following Board approval and a second purchase of SDR 475.36 million (40 percent of quota) following completion of the first program review.
- **Program objectives**: In addition to providing temporary budget support, the program aims to ensure macroeconomic stability during a period of political transition and ongoing reconstruction of the country, and to provide a framework for advancing structural reforms. The Iraqi economy was severely affected in 2009 by the decline in oil prices, which caused the external current account and the fiscal balance to shift into large deficits. Both are estimated to have remained in deficit in 2010 and are projected to remain in deficit in 2011 and 2012.
- **Program status**: The second review was delayed to allow for discussions with the new government and until a 2011 government budget had been adopted by parliament that was consistent with medium-term fiscal sustainability and available financing. Macroeconomic performance under the program has been satisfactory. Full-year fiscal data are not yet available, and the authorities are requesting waivers of applicability of the end-2010 fiscal performance criteria, but all other end-2010 performance criteria were met. Progress in advancing structural reforms has been uneven, however, reflecting to a large extent the severe capacity constraints. The authorities remain committed to continue to move forward with the implementation of the reforms and therefore also request an extension of the SBA to mid-2012 to allow for more time for their completion, as well as to underscore their commitment to maintain sound economic policies while ramping up investment in public services and infrastructure. They furthermore request a rephasing of remaining disbursements as financing needs have shifted from 2010 to 2011. Against this background, staff supports the authorities' request for completion of the second review and the release of a disbursement of SDR 297.1 million (25 percent of quota).
- This report is based on discussions held during November 15–20, 2010 and January 20–21, 2011 in Amman. Staff met with Deputy Prime Minister for Energy Al-Shahristani, Ministers of Finance Al-Zubaidy and Al-Essawi, Minister of Oil Luaibi, Governor of the Central Bank of Iraq (CBI) Al-Shabibi, other senior government officials, and staff of Rafidain and Rasheed banks. The staff team comprised Mr. van Rooden (head); Ms. George, Ms. Oliva (all MCD), Mr. Bakhache (SPR), and Mr. Shbaikat (Resident Representative).

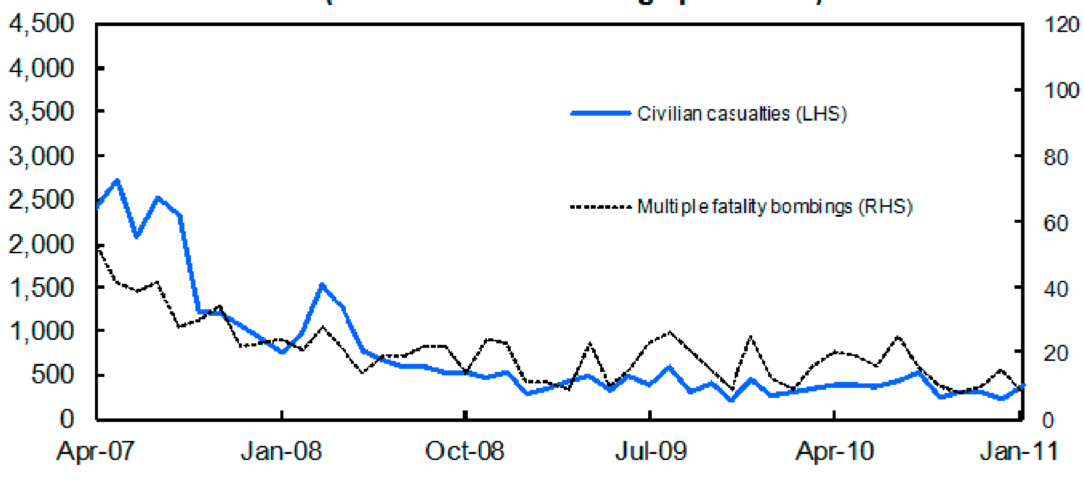
Contents Page

I. Political and Security Situation

1. **A new government was formed in late December 2010, more than nine months after the general elections**. The March elections had not resulted in a clear majority for any of the main political blocs, and only after a long process of negotiations was incumbent Prime Minister Nouri Al-Maliki able to put together a new coalition government. The parties also agreed on the establishment of a new supreme council that will focus on strategic issues, but discussions on its precise composition and functions have yet to be finalized.

2. **The general trend of a gradually improving security situation continues to be interrupted by episodes of sectarian violence**. The recent events across the Middle East also sparked demonstrations in Iraq, with people mainly protesting the still prevailing weaknesses in the delivery of key public services, including electricity, water, health, and education, and the high rate of unemployment. Although reliable data are lacking, unemployment was estimated at about 12 percent in 2008. Actual unemployment, particularly among the younger generation, is likely to be higher, however, as a large part of the adult population has not entered the labor force.

Figure 1. Violence Indicators; April 2007–January 2011
(casualties and bombings per month)



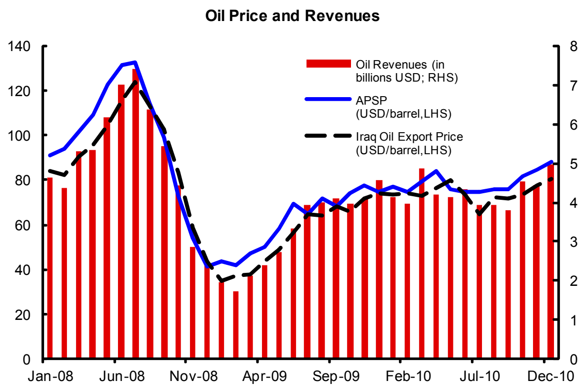
Sources: Iraq Body Count, and Brookings Institution.

II. Recent Economic Developments

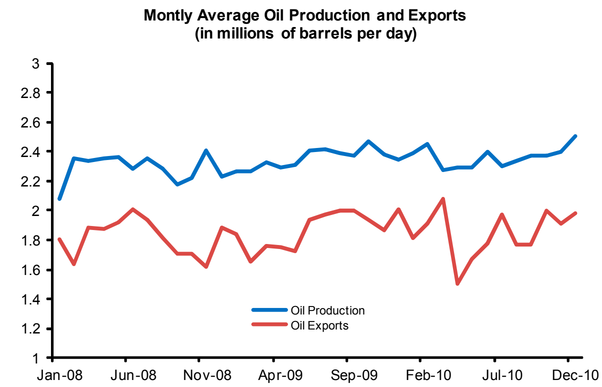
3. **Macroeconomic stability was maintained in 2010, despite a highly uncertain domestic and external environment**. Inflation has continued to be in the low single digits and the exchange rate has remained stable. The Central Bank of Iraq (CBI) kept its policy interest rate unchanged at 6 percent, after having lowered it from 7 percent in early 2010, and the volume of foreign exchange sold by the CBI in the foreign exchange auctions remained broadly stable at about $3 billion on average per month during the year. With some increase in export revenues, the CBI's international reserves rose to just over $50 billion by end-2010, up from $44 billion at end-2009 and exceeding the target under the SBA.

Figure 2. Iraq: Macroeconomic Indicators

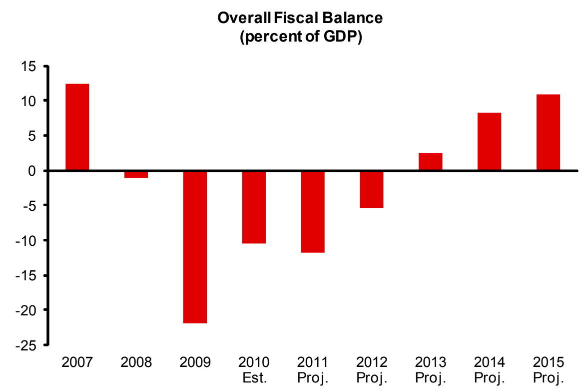
Oil revenues have recovered ...



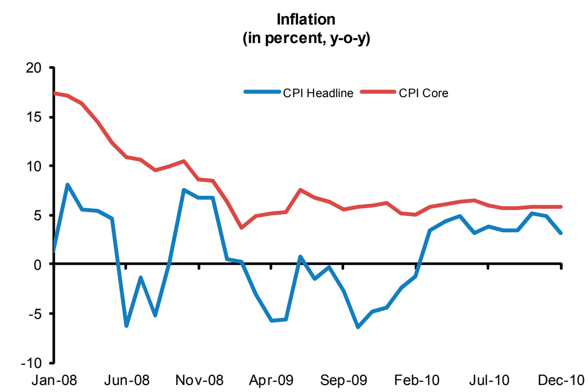
... although volumes have not increased as targeted.



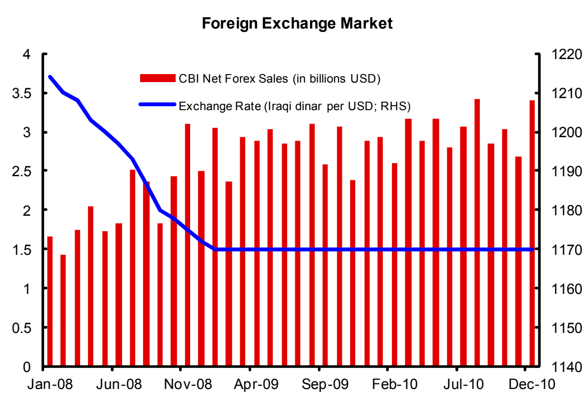
Underspending led to a smalller deficit in 2010 but financing needs shift to 2011.



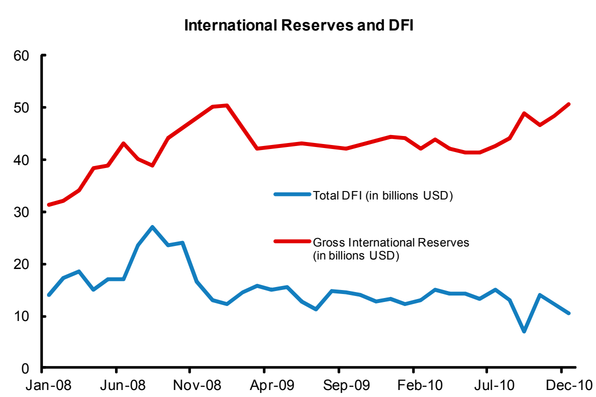
Inflation has remained in low single digits ...



... the exchange rate has stabilized ...



... and overall reserves have increased slightly.



Sources: Iraqi Authorities, and Fund Staff estimates and projections.

4. **Oil export revenues exceeded projections in 2010, with higher prices offsetting lower export volumes**. Exports averaged 1.85 million barrels per day (mbpd), well below the authorities' target of 2.10 mbpd. The shortfall reflected periods of bad weather and attacks on pipelines, as well as the lack of an agreement with the Kurdish region to secure additional exports. Export prices were substantially higher, however, averaging just over $74 per barrel during the year, compared to a budgeted price of $62.50 per barrel. Thus, oil export revenues reached $50 billion in 2010, compared to a budget forecast of $48 billion, and up from $39 billion in 2009, but still well below the peak level of $63 billion in 2008.

5. **Although full-year data are not yet available, the 2010 government budget deficit is estimated to have remained well below the original forecast**. Notwithstanding the somewhat higher oil revenues, this is believed to mainly reflect a large under-execution of the capital budget. Preliminary estimates suggest a 2010 deficit of about ID 10 trillion (equivalent to 10 percent of GDP), instead of the ID 18 trillion that had been projected in the 2010 budget (19 percent of GDP). While some under-execution of the capital budget had been expected given the prevailing constraints in administrative capacity, the long delay in the formation of a new government appears to have contributed to a much larger degree of under-execution. In line with this, the balance in the Development Fund for Iraq (DFI) at end-2010 exceeded the (adjusted) target under the SBA by almost $4 billion.

6. **The end-December 2010 performance criteria for which data are available were met**. The authorities are requesting waivers of applicability of the end-December 2010 performance criteria for the central government budget deficit and the central government current spending bill, for which data is still pending, but for which there is no evidence that these were not observed. All but one of the end-June performance criteria were observed.

III. POLICY DISCUSSIONS

7. **The discussions for the second review focused on speeding up Iraq's reconstruction, including the rebuilding of key economic institutions, while maintaining macroeconomic stability**. The authorities stressed that the new government will maintain the same direction of economic policies as its predecessor and that they will continue to press ahead with the policies agreed under the SBA. To underline their commitment to sound fiscal and monetary policies, and recognizing that the implementation of many of the structural reform measures will require more time given the still large capacity constraints, the authorities request an extension of the SBA through mid-2012.

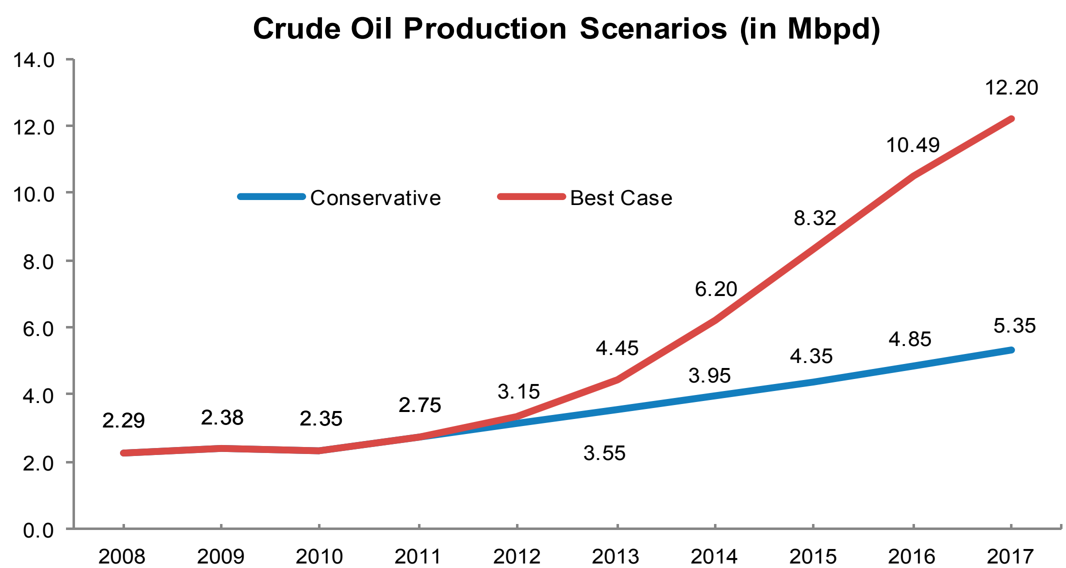
8. **Policy discussions were framed by Iraq's medium-term prospects, especially with regard to the development of its vast hydrocarbon resources**. Oil production is set to increase substantially over the coming years, as the international oil companies that were awarded development contracts have started their operations. Even so, in the near term, the increase in exports will be constrained by existing oil infrastructure bottlenecks, including aging pipelines and export terminals, and limited storage capacity. Several projects are already underway or planned to increase Iraq's export capacity in the coming years, and Iraq's medium- to long-term prospects therefore continue to look strong.

Box 1. Medium-Term Outlook in Iraq's Oil Sector

In late 2010, the government announced an increase in Iraq's proven oil reserves from 115 billion barrels to 143 billion barrels, based on new geological studies. This brings Iraq to second place behind Saudi Arabia in terms of size of proven reserves.

Oil production is projected to increase considerably over the medium- to long-term, following the successful bid rounds in June and December of 2009 that resulted in eleven development contracts with international oil companies. Based on the production plans presented by the companies, oil production could increase from 2½ mbpd to close to 13 mbpd in the next seven years.

While these production goals could be feasible in the longer term, the main risks in the coming years will be bottlenecks in the export infrastructure that will need to be addressed. The authorities are working to upgrade and expand the country's oil infrastructure. Additional single point moorings are planned at the Basra oil terminal, as well as additional pipelines to the terminal, which is Iraq's largest point of export. Plans also include the construction of new domestic pipelines to connect the southern fields to the northern pipeline to Turkey, and a new pipeline to Syria. In addition, large investments in supporting activities are also underway and planned, including the construction of desalination plants to produce water for injection in the fields, and storage facilities. These investments will require time to implement, and suggest a more gradual increase in Iraq's oil production. Based on more conservative assumptions for the time it will take to expand Iraq's export capacity, oil production could still increase to over 5 mbpd by 2017.



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

A. Fiscal Policy

9. **The 2011 budget aims to accelerate investment in public services and in oil infrastructure, as well as to accommodate additional social safety net and security outlays, while remaining consistent with medium-term fiscal sustainability and available financing**. Iraq's rehabilitation needs remain large, particularly to improve public service delivery and rebuild essential infrastructure, which are critical also to help create a private sector that can provide sufficient employment opportunities to the country's large labor force. The authorities therefore aim to accelerate the pace of investment in 2011 to make up for the delays in 2010, while recognizing the constraints posed by the limited implementation capacity. Large investment outlays are also envisaged for the oil sector, including payments to the international oil companies for recovery of their costs and investments.[1]

10. **Besides a sharp increase in investment, the 2011 budget also envisages an increase in current spending**. While current spending has been nearly constant in nominal terms over the last three years, the increase in 2011 is largely stemming from higher security outlays, as Iraq becomes increasingly responsible for its own internal security as U.S. forces continue to be withdrawn, plus the higher costs of the in-kind Public Distribution System (PDS)—which is still the main social safety net—as a result of the higher world food prices.[2] The authorities also needed to implement an increase in teachers' salaries that had been previously approved, but the implementation of which had been postponed due to the difficult fiscal situation.

11. **As in previous years, the 2011 budget is based on a conservative assumption for oil revenues**. While the budget is based on an oil export volume assumption of 2.2 mbpd that is ambitious in light of Iraq's current export capacity, the risk of export volumes falling below this level, as well as the risks posed by the large volatility in world oil prices, are balanced by a conservative export price assumption of $76.50 per barrel for Iraq oil.[3] Based on these two assumptions, the 2011 budget projects an increase in oil export revenues to about $61 billion.

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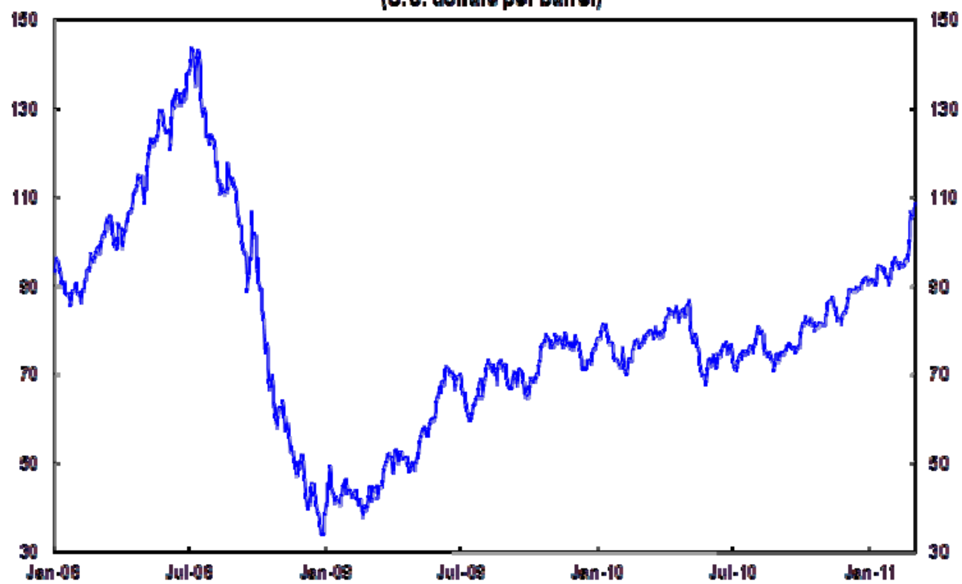
[1] In line with international best practices and to ensure transparency, the authorities decided to present the budget on a gross basis, with oil paid in-kind to the international oil companies for cost recovery and remuneration added to both revenues and expenditures.

[2] Under the PDS every Iraqi household receives in-kind support (including rice, flour, sugar, milk, and cooking oil). The World Bank is assisting the authorities in reforming the PDS and strengthening the cash-transfer-based Social Safety Net administered by the Ministry of Labor and Social Affairs.

[3] The budget price of $76.50 per barrel was derived from the early-2011 WEO oil price forecast of $89.50 per barrel, discounted by a 10 percent uncertainty margin and the quality differential between Iraqi oil and the oil basket underlying the WEO price.

Figure 3. Average Petroleum Spot Price, January 1, 2008–March 2, 2011
(U.S. dollars per barrel)



Sources: Bloomberg

Iraq: Government Finances 2008–14 1/

	2008	2009	2010			2011		2012	2013	2014
	Est.	Est.	EBS/10/28	EBS/10/182	Proj.	EBS/10/182	Proj.	Proj.	Proj.	Proj.
					(In trillions of Iraqi dinars)					
Total revenues and grants	82.0	54.7	65.3	69.4	66.4	76.0	81.3	93.7	109.1	122.6
Crude oil export revenues	73.9	45.6	56.1	60.0	58.6	65.3	71.9	84.9	100.8	112.7
Other revenues	8.0	9.1	9.3	9.4	7.8	10.7	9.4	8.9	8.3	9.9
Total expenditures 2/	83.7	68.9	83.2	83.4	76.6	84.9	97.0	101.4	104.6	107.6
Current expenditures	55.9	57.5	57.4	57.6	57.2	58.4	64.0	65.5	68.2	70.6
Capital expenditures	27.3	16.7	25.8	25.8	19.5	26.5	33.1	36.0	36.4	37.0
Statistical discrepancy/returned LCs	0.5	-5.3	…	…	0.0		…	…	…	…
Balance	-1.7	-14.2	-17.9	-14.0	-10.2	-8.9	-15.7	-7.7	4.5	15.0
In percent of GDP	*-1.6*	*-18.7*	*-19.1*	*-14.2*	*-10.6*	*-8.2*	*-13.7*	*-5.8*	*2.9*	*8.7*
Financing	…	14.3	14.0	14.0	10.2	8.9	15.7	7.7	-4.5	-15.0
Use of DFI	…	0.4	8.7	6.7	3.0	2.0	5.3	0.5	-2.9	-6.3
Net external (incl. SDR allocation) 3/	…	0.0	3.0	3.6	1.7	2.9	5.4	1.0	…	…
MoF deposits with CBI	…	12.3	0.0	1.2	-0.7	0.0	1.3	0.0	…	…
Other domestic bank financing	…	-2.4	-1.2	2.0	5.9	1.9	0.0	2.3	…	…
Treasury bills	…	4.0	3.5	0.4	0.4	2.1	3.7	3.9	…	…
Financing gap	…	0.0	3.9	0.0	0.0	0.0	0.0	0.0	…	…
Memorandum items:										
Balance in DFI (excl. FMS)	12.3	11.7	3.0	5.0	8.7	3.0	3.4	2.9	5.8	12.1
MoF deposits with CBI (end of period)	13.5	1.2	1.0	0.0	1.9	0.0	0.6	0.6	…	…
Iraqi oil export price ($pb)	91.5	55.6	62.5	73.1	74.2	68.0	76.5	78.0	80.0	80.0
Crude oil exports (mbpd)	1.82	1.88	2.10	1.92	1.85	2.25	2.20	2.55	2.95	3.30
Nominal GDP	103.2	76.3	93.9	98.4	96.1	108.6	114.7	133.8	155.7	172.9

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

1/ Oil-related public enterprises included on net basis.
2/ Includes statistical discrepancy.
3/ 2010-12 projections include IMF SBA and World Bank DPL disbursements.

12. **The projected 2011 budget deficit can be financed**. Financial resources, including from the Fund, that the authorities had expected to use in 2010 are still available and can be used to finance the larger 2011 deficit. In this context, as financing needs shifted from 2010 to 2011, the authorities request a rephasing of remaining disbursements under the SBA, with the bulk of the financing to become available in late 2011, if and when needed. As in the first year of the SBA, in the event that actual oil revenues significantly exceed projections, or if the capital budget is expected to be considerably under-executed—both to be assessed at the time of the fourth program review—the authorities would at that time treat the SBA as precautionary.[4]

Disbursement Profile (in millions of SDRs)

	2010				2011				2012		Total
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Original program	297.10	475.36		1,069.56		297.10		237.68			2,376.80
Revised	297.10			475.36	297.10	297.10		891.30		118.84	2,376.80

13. **The budget deficit is projected to narrow substantially in 2012 and to move back into surplus in the following years**. Over the medium-term, and even with more cautious assumptions regarding the increase in oil production than those presented in the oil companies' production plans, Iraq's government finances would reach a sustainable position. Fund staff will provide assistance to the authorities to help model the implications of the agreements with the international oil companies on government finances, as a key input for developing a medium-term fiscal framework. The authorities plan to meet with line ministries in the spring of 2011 and, with the assistance of the Bank and the Fund, build a medium-term budget strategy aligning policy priorities and expenditure envelopes. This would translate into budget ceilings for line ministries that will be included in the budget circular for the preparation of the 2012 budget.

B. Monetary and Exchange Rate Policy

14. **The authorities remain committed to ensuring the independence of the CBI**. A ruling by Iraq's Federal Supreme Court also noted that while the CBI is part of the country's executive apparatus, it is by law independent in its decisions and operations.

[4] Compared to the oil revenue trigger in the 2010 program, the 2011 trigger does not include a floor under the export volume below which the trigger would not apply. The authorities intend to treat the SBA as precautionary if oil revenues, irrespective of the combination of volumes and prices, in the first three quarters of 2011 exceed the projection of $46 billion by more than $3 billion, or if at the time of the fourth review, the rate of execution of the capital budget is expected to remain below 90 percent.

15. **The CBI will continue to aim at keeping inflation low, predominantly by maintaining a stable exchange rate**. The low level and the relative stability of inflation do not suggest any significant over- or undervaluation of the Iraqi dinar. Also, a stable exchange rate continues to provide a solid anchor for the public's expectations in an otherwise highly uncertain environment and in an economy with a very low level of financial intermediation. Meanwhile, the CBI will continue to keep its policy interest rate positive in real terms. To enhance mobilization of domestic financing, limitations on state-owned banks' use of government deposits for investing in Treasury bills have been reduced, while the pension fund has also been allowed to invest in Treasury bills and to participate in auctions directly.

C. Structural Reforms

16. **Structural reforms under the program aim at improving public financial management, strengthening governance in the oil sector, and developing the financial sector**. Improving public financial management remains critical to ensure the effectiveness of government spending, including the delivery of social services. Priority areas include improving budget preparation, the accounting and reporting framework, and cash management. Enhancing oil sector governance is key to maximizing resources devoted to reconstruction and social areas, and aims at maintaining a transparent single oil revenue account once the DFI ends, completing oil sector metering, and reconciling physical oil flows with financial flows. Financial sector reforms are important to provide basic financial services to Iraqi citizens, including private sector lending, and aim at developing a revitalized and competitive banking sector, including by restructuring the two main state-owned banks.

17. **Progress in the last six months in implementing structural reforms has been uneven**. This largely reflects the still severe capacity and security constraints, which also hamper the effective delivery of technical assistance, but also insufficient coordination and cooperation between government entities that was aggravated by the political transition process. Progress has been strongest in those areas that only involve a single institution and where external assistance has been provided. Progress has been much weaker in areas that require several institutions to work together or where external assistance has been lacking.

18. **Progress is strongest in the area of strengthening program safeguards**:

- In January 2011, an external auditor completed special audits of the CBI's net international reserves (NIR) and net domestic assets (NDA) for end-June 2010, which included a review of the operations of the Memorandum of Understanding between the CBI and the Ministry of Finance with regard to IMF disbursements and debt service obligations and the operational controls over government accounts held at the CBI (a benchmark for end-October 2010). These audits found only marginal variances in the numbers, but also that the Ministry of Finance did not have documented procedures for its accounts with the CBI. The Ministry of Finance and the CBI are now working to establish protocols for accessing government accounts at the CBI.

- The CBI has appointed an international audit firm to conduct the audit of its 2010 financial statements. The CBI will provide staff with the draft 2010 audited CBI financial statements and draft management letter (a new benchmark for end-May 2011). The auditor will also conduct special audits of the CBI's NIR and NDA as of December 31, 2010 (also a new benchmark for end-May 2011).

- To address remaining safeguards risks that were identified in the safeguards assessment update the CBI's internal audit committee now has a majority non-executive membership and operates with a terms of reference in line with Fund recommendations (a benchmark for end-October 2010). In addition, the CBI is currently in the process of selecting a reputable accounting firm to review and assist with strengthening its internal audit function (a benchmark for end-December 2010).

- The CBI and the Ministry of Finance amended the Memorandum of Understanding governing financial relations with the Fund to delegate to the CBI the authority to appoint its external auditors and to include a provision that requires the Ministry of Finance to issue promissory notes payable on demand to the Fund promptly following each disbursement under the program.

19. **Strengthening public financial management is proceeding, albeit slowly**:

- The review of all bank accounts in the banking system that were classified as central government accounts is nearly completed (a benchmark for end-March 2010). The ownership of almost 90 percent of these accounts (which totaled almost ID 30 trillion at end-June 2010) has been clarified. Accounts totaling close to ID 11 trillion belonging to the central government have been largely reconciled with Ministry of Finance records. Of the accounts identified as belonging to public entities outside the immediate central government sector, only a handful were sizable, belonging to the pension fund and a number of state-owned enterprises and trading companies. The remainder includes a very large number of relatively small accounts belonging to agencies and institutions that are (partially) self-funded and work at arm's length from the government. Similarly, the accounts yet to be clarified also appear to comprise a large number of small accounts, of which many are held at regional branches of the two state-owned banks with whom

Commercial Bank Deposits
of the Central Government and Public Institutions
(June 30, 2010; in trillions of Iraqi dinars)

Total government and public sector deposits	29.2
Central government deposits	11.0
Public sector deposits	16.1
State-owned enterprises	6.7
Pension fund	3.4
Other agencies and local governments	6.1
To be clarified	2.1

Sources: Iraqi Ministry of Finance and Central Bank of Iraq.

communication has proven difficult. The authorities are continuing to evaluate these accounts to determine whether any funds can be returned to the main treasury account.

- The Ministry of Finance has been gathering information on the outstanding stock of advances (a benchmark for end-September 2010). While some progress has been made, a number of line ministries have yet to report. The authorities aim to complete the inventory by end-May 2011. In the meantime, the Ministry of Finance will request the Board of Supreme Audit (BSA) to review the outstanding advances to determine whether these should be closed with the funds returned to the budget.

- The reviews of government bank accounts and the stock of advances clearly show the need to move toward introducing a single treasury account (STA). The authorities share this view. As a first step of moving ahead with what will be a lengthy process, staff of the Fund and the Bank will assist the authorities with advancing the process for establishing a Financial Management and Information System (FMIS), an important step in the process of moving toward a STA, by helping to determine a set of core functionality requirements (a new benchmark for end-May 2011). As a transition to a STA, the authorities also plan, with the assistance of Fund technical assistance, to streamline cash management in the short run already by granting a larger role to the CBI in the Treasury's banking arrangements and thus to reduce outstanding cash balances (a new benchmark for end-June 2011).

- The Ministry of Finance has completed the new accounting manual, but its distribution to all spending units (a benchmark for end-December 2010) is pending the completion of a review of the manual by the BSA. The authorities will distribute the manual as soon as it has been approved by the BSA.

- A review of a number of large 2008 investment projects has yet to be started (a benchmark for end-September 2010). The authorities noted that the review, which would aim to distill lessons on how to enhance the quality of future investment projects, will need to be carried out by the BSA. The review will be conducted during 2011, with the World Bank providing assistance to the BSA to enhance its capacity, aiming for completion by end-October 2011.

- The final fiscal accounts for 2009 are expected to be submitted shortly to the BSA, after errors in some ministries' data submissions have been corrected (a benchmark for end-September 2010). The publication of the 2005–07 audited fiscal accounts (a benchmark for end-March 2010) is awaiting approval by parliament.

- The census of civil servants is still not completed, suffering from a lack of cooperation from a number of line ministries (a benchmark for end-September 2010). The authorities are considering options to ensure full cooperation from line ministries.

20. **Progress continues to be made in improving transparency in the oil sector**:

- The authorities continue to move ahead with the installation and calibration of oil metering systems, both at the export terminals and at key transfer points in the domestic network. All exports via the Basra oil terminal and the Ceyhan pipeline are metered, accounting for over 95 percent of Iraq's oil exports. Completing the installation of domestic metering systems (a benchmark for end-December 2010) will require more time, given the large number of transfer points. The process is nearly half-way completed and is expected to be fully completed by end-2011.

- The DFI and associated immunities were extended by the UN Security Council to end-June 2011. The authorities remain committed to establishing a successor mechanism that includes a single oil revenue account that would be subject to the same principles of accountability and transparency as currently apply to the DFI. In the meantime, the authorities continue to make progress in addressing remaining claims and liabilities from the Saddam-era and will ensure that they maintain appropriate legal counsel to handle any further claims that may emerge (a new continuous structural benchmark).

- As noted above, the authorities are working with staff to model the implications of the agreements with the international oil companies on government finances.

21. **Efforts are also underway to clean up the balance sheets of the two largest state-owned banks**:

- The Bank Reconciliation Unit (BRU), with assistance from an external audit firm and Fund staff, is moving ahead with removing Saddam-era external liabilities from the balance sheets of Rafidain and Rasheed that were recognized by the government as external debt in the context of Iraq's external debt restructuring. The BRU will also propose a course of action for the remaining external liabilities and non-performing loans to defunct state-owned enterprises.

22. **Data weaknesses remain**. While the authorities continue with their efforts to improve data standards, data become available only with long lags, due to capacity constraints and security issues. This complicates effective monitoring and analysis.

IV. Staff Appraisal

23. **The authorities have been successful at maintaining macroeconomic stability under very difficulties circumstances**. Although fiscal end-year performance criteria cannot yet be assessed due to the long data lags, macroeconomic policies appear to have been on track. Macroeconomic stability is one of the key conditions for the development of a vibrant economy that can provide sufficient employment opportunities for Iraq's large labor force.

Thus, the authorities' continued commitment to maintaining sound fiscal and monetary policies is to be welcomed

24. **Staff supports the CBI's policy of managing the exchange rate of the Iraqi dinar to keep inflation low**. A stable exchange rate continues to provide a solid anchor for the public's expectations in an otherwise highly uncertain environment. Over time, rising oil revenues could put upward pressure on the real exchange rate, which would warrant allowing greater exchange rate flexibility. Staff also welcomes the authorities' continued commitment to safeguard the independence of the CBI, which is critical for maintaining confidence in the Iraqi dinar.

25. **The 2011 budget appropriately balances the need to accelerate Iraq's reconstruction with the need to return to a sustainable fiscal position in the coming years**. Much remains to be done to improve public service delivery and rebuild and expand essential infrastructure, including in the oil sector. The authorities, however, will also need to ensure the quality of the capital spending, and the investment review would help in this regard. The 2011 budget deficit can be financed and, with the projected increase in oil production, the budget is projected to gradually shift back to a surplus position—especially if oil prices remain around current levels—in the coming years. This will allow the authorities to rebuild financial buffers. In this regard, the authorities will need to start work on creating a sound institutional framework for managing Iraq's sovereign wealth in the longer run.

26. **Efforts to rebuild key economic institutions, including those needed for private sector development, and to improve governance will need to be accelerated, however**. Progress is hampered by the severe capacity constraints, and complicated further by the fragile, albeit gradually improving, security situation, which also hampers the effective delivery of technical assistance. Concerted strong efforts by the authorities and the international community are needed to speed up the reform process, including improved coordination and cooperation between the various government entities. Efforts are also needed to improve the quality and timeliness of economic data, as weaknesses hamper analysis and policy formulation.

27. **While Iraq's prospects are positive, risks remain large**. Risks and uncertainties continue to cover a broad range, from political instability and a deteriorating security situation, to delays in the development of Iraq's oil fields and volatility in oil prices.

28. **Staff recommends that the second review under the SBA and the financing assurances review be completed**. Staff believes that the program remains on track, particularly given the strong macroeconomic performance and despite the uneven progress in the implementation of structural reforms. The authorities remain strongly committed to the program, as demonstrated by the policies and measures described in the attached Letter of Intent. In this regard, staff recommends the approval of the requested waivers of applicability. Staff also supports the authorities' request for an extension of the arrangement, as the longer

time frame would allow for the implementation of the large structural reform agenda, as well as their request for a rephasing of the remaining disbursements as they would be better attuned to Iraq's financing needs and contribute to an improved capacity to repay. Staff furthermore believes that Iraq continues to make best efforts to reach bilateral agreements on its arrears to 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.

Table 1. Iraq: Selected Economic and Financial Indicators, 2008–12

	2008	2009	2010		2011		2012
		Est.	EBS/10/182	Proj.	EBS/10/182	Proj.	Proj.
Economic growth and prices							
Real GDP (percentage change)	9.5	4.2	2.6	0.8	11.5	12.2	11.1
Non-oil real GDP (percentage change)	5.4	4.0	4.5	4.5	5.0	5.0	5.5
GDP per capita (US$)	2,845	2,087	2,626	2,564	2,827	2,983	3,400
GDP (in US$ billion)	86.5	65.2	84.1	82.2	92.9	98.0	114.4
Oil production (In mbpd)	2.29	2.38	2.40	2.35	2.80	2.75	3.15
Oil exports (In mbpd)	1.82	1.88	1.90	1.85	2.25	2.20	2.55
Iraq oil export prices (US$ pb)	91.5	55.6	73.1	74.2	68.0	76.5	78.0
Consumer price inflation (percentage change; end of period) 1/	6.8	-4.4	6.0	3.3	5.0	5.0	5.0
Core price inflation (percentage change; end of period) 1/	11.7	6.1	6.0	3.3	5.0	5.0	5.0
			(In percent of GDP)				
National Accounts							
Gross domestic investment	28.4	25.7	30.2	24.4	29.6	33.5	32.4
Of which: public	26.4	21.9	26.2	20.3	24.4	28.7	27.3
Gross domestic consumption	54.4	95.3	79.5	77.3	79.7	76.3	71.4
Of which: public	34.6	55.3	47.8	42.8	44.5	38.6	34.7
Gross national savings	41.1	-1.0	15.8	18.2	21.0	22.5	26.8
Of which: public	25.2	-4.3	13.4	8.8	15.2	15.2	20.4
Saving - Investment balance	12.8	-26.6	-14.4	-6.1	-8.6	-10.9	-5.6
			(In percent of GDP, unless otherwise indicated)				
Public Finance							
Government revenue and grants	79.4	71.7	70.6	69.1	69.7	70.9	70.0
Government oil revenue	72.8	61.5	62.4	62.4	61.5	64.3	64.8
Government non-oil revenue	3.9	7.2	6.5	4.9	6.9	5.5	4.0
Grants	2.7	3.1	1.7	1.7	1.3	1.2	1.3
Expenditure, *Of which:* 2/	80.6	93.6	84.7	79.7	77.9	84.6	75.8
Current expenditure	54.2	75.3	58.5	59.6	53.6	55.8	48.9
Capital expenditure	26.4	21.9	26.2	20.3	24.4	28.8	26.9
Primary fiscal balance	-0.7	-21.3	-13.1	-9.5	-6.8	-12.5	-4.1
Overall fiscal balance (including grants)	-1.2	-21.8	-14.2	-10.6	-8.2	-13.7	-5.8
Memorandum items:							
Tax revenue/non-oil GDP (In percent)	4.2	5.2	3.0	3.4	3.9	5.4	5.6
External assets held abroad (Ex. FMS, in US$ billions)	10.3	10.0	4.3	7.4	2.6	2.9	2.5
Total government debt (in US$ billions) 3/	95.6	93.3	38.9	92.3	41.9	43.6	45.2
			(In percent, unless otherwise indicated)				
Monetary Indicators							
Growth in reserve money 4/	54.5	0.1	6.9	15.2	...	10.7	...
Growth in broad money	35.4	26.7	15.0	18.2	...	22.1	...
Policy interest rate (end of period)	15.0	7.0	...	6.0	...	...	...
			(In percent of GDP)				
External Sector							
Current account	12.8	-26.6	-14.4	-6.1	-8.6	-10.9	-5.6
Trade balance	24.5	-11.2	2.0	6.7	2.4	1.3	6.3
Exports of goods	71.7	59.0	61.7	61.8	61.0	63.6	64.5
Imports of goods	-47.2	-70.2	-59.8	-55.0	-58.6	-62.3	-58.2
Overall external balance	21.4	-9.8	-7.8	2.8	-4.4	-7.1	-0.7
Gross reserves (In US$ billion)	50.2	44.3	46.6	50.6	45.0	50.5	50.3
In months of imports of goods and services	11.1	9.7	8.3	8.2	7.4	7.5	6.9
Exchange rate (dinar per US$; period average)	1,193	1,170	...	1,170	...	...	...

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

1/ A new CPI and core price index was introduced in 2010, based on the 2006/07 household survey. The new core price excludes fruits and vegetables, and fuels.
2/ 2008 includes expenditures of 11.4 percent of GDP (ID 12.4 trillion) that are outstanding as advances and letters of credit and that have been reclassified mostly as investment spending.
3/ Assumes a debt reduction in 2011 by non-Paris Club official creditors, comparable to the Paris Club agreement.
4/ Required reserve ratios were reduced to 25 percent in 2009 (from 75 pecent), and further reduced to 20 percent in April 2010.

Table 2. Iraq: Fiscal Accounts, 2008–12
(In trillions of ID; unless otherwise indicated)

	2008	2009	2010 1/			2011 1/		2012
	Est.	Est.	EBS/10/28	EBS/10/182	Proj.	EBS/10/182	Proj.	Proj.
Revenues and Grants	82.0	54.7	65.3	69.5	66.4	76.0	81.3	93.7
Revenues	79.1	52.4	63.6	67.8	64.7	74.6	79.9	92.0
Crude oil export revenues	73.9	45.6	56.1	60.0	58.6	65.3	71.9	84.9
Transfers from oil-related public enterprises	1.2	1.3	1.4	1.4	1.4	1.8	1.8	1.8
Tax revenues	1.3	1.8	1.2	1.2	1.3	1.7	2.3	2.6
Non-tax revenues 2/	2.7	3.6	5.0	5.2	3.5	5.8	4.0	2.7
Grants	2.8	2.3	1.7	1.6	1.6	1.4	1.4	1.7
Expenditures	83.2	71.4	83.2	83.4	76.6	84.9	97.0	101.4
Current expenditures	55.9	57.5	57.4	57.6	57.2	58.4	64.0	65.5
Salary and pension	21.1	27.8	28.4	28.5	30.0	30.1	32.2	33.9
Goods and Services 3/	13.9	14.3	12.8	11.0	11.1	11.6	12.3	12.2
Transfers	16.0	12.7	11.9	13.4	12.1	11.2	14.2	12.5
Social safety net	8.4	5.6	4.3	5.7	5.6	4.1	7.3	6.1
Transfers to SOEs	3.0	3.4	3.0	3.0	2.9	2.6	1.8	1.5
Other transfers	4.6	3.6	4.5	4.8	3.5	4.5	5.1	4.9
Interest payments	0.5	0.4	1.1	1.1	1.1	1.5	1.4	2.3
War reparations 4/	3.7	2.3	2.8	3.0	2.9	3.3	3.6	4.2
Contingency	0.7	0.0	0.5	0.6	0.0	0.6	0.3	0.4
Investment expenditures	27.3	16.7	25.8	25.8	19.5	26.5	33.1	36.0
Non-oil investment expenditures	23.4	14.1	21.8	21.9	15.7	21.8	25.7	26.3
Oil investment expenditures (including on refineries)	3.8	2.7	4.0	4.0	3.8	4.6	7.1	10.2
Change in outstanding Letters of Credit [+ increase] 5/	…	…	…	…	…	…	…	…
Returned LCs	…	-2.8	…	…	-0.2	…	…	…
Balance (including grants)	-1.2	-16.7	-17.9	-14.0	-10.2	-8.9	-15.7	-7.7
Balance (excluding grants)	-4.0	-19.0	-19.6	-15.6	-11.8	-10.3	-17.1	-9.4
Statistical discrepancy	0.5	2.5	…	…	0.0	…	0.0	0.0
Financing, *of which:*	-1.7	14.2	14.0	14.0	10.2	8.9	15.7	7.7
External financing	-0.5	0.4	11.7	10.3	4.7	4.9	10.7	1.5
Assets held abroad	0.3	0.4	8.7	6.7	3.0	2.0	5.3	0.5
Project financing	0.1	1.1	1.2	0.6	0.9	1.1	1.1	2.0
Other financing 6/	0.0	0.0	3.4	4.5	2.2	2.7	5.0	0.2
Amortization	0.8	1.1	1.6	1.5	1.5	0.9	0.7	1.2
Domestic financing	-1.2	13.8	2.3	3.7	5.5	4.0	5.0	6.2
Bank financing	-1.2	9.1	0.0	5.0	-0.7	1.9	1.3	0.0
Other domestic bank financing	…	0.7	-1.2	-1.7	5.9	0.0	0.0	2.3
T-bills	0.0	4.0	3.5	0.4	0.4	2.1	3.7	3.9
Financing gap	…	…	3.9	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Security-related expenditure	11.5	9.5	14.4	12.7	10.2	13.9	10.5	14.5
Primary fiscal balance	-0.7	-16.3	-16.9	-12.9	-9.1	-7.4	-14.3	-5.5
Non-oil primary fiscal balance	-69.3	-59.0	-69.7	-69.4	-64.6	-69.4	-80.1	-82.3
External assets held abroad (Ex. FMS)	12.1	11.7	3.0	5.0	8.7	3.0	3.4	2.9
Average Iraq oil export price (US$/bbl)	91.5	55.6	62.5	73.1	74.2	68.0	76.5	78.0
Crude oil exports	1.82	1.88	2.10	1.92	1.85	2.25	2.20	2.55
GDP Nominal	103.2	76.3	93.9	98.4	96.1	108.6	114.7	133.8

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

1/ For the program columns (EBS/10/28 and EBS/10/182), revenues and expenditures of the oil-related enterprises have been subtracted from the total reveneue and expenditure, leaving only the net transfer to the budget. This ensures comparability to the new presentation going forward.
2/ For 2010, includes $850m in oil bonuses and $200m in 2011.
3/ Include goods and services financed by donors, including overhead costs for reconstruction projects.
4/ Calculated as 5 percent of oil exports as per U.N. Security Council Resolution 1483 to finance war reparations to Kuwait.
5/ LCs in the Trade Bank of Iraq, full down-payment is customarily required. 2008 LCs and advances to suppliers were re-classified.
6/ Includes the $500m in soft loans from oil companies obtaining licenses for 2010, the IMF 2010-11 SBA disbursements and a $500m WB loan under the DPL.

Table 3. Iraq: Fiscal Accounts, 2008–12
(In percent of GDP)

	2008	2009	2010 1/			2011 1/		2012
	Est.	Est.	EBS/10/28	EBS/10/182	Proj.	EBS/10/182	Proj.	Proj.
Revenues and Grants	79.4	71.7	69.6	70.6	69.1	69.7	70.9	70.0
Revenues	76.7	68.7	67.8	68.9	67.3	68.5	69.7	68.8
Crude oil export revenues	71.6	59.8	59.7	60.9	61.0	60.1	62.7	63.5
Revenues of oil-related public enterprises	1.2	1.7	1.5	1.5	1.5	1.4	1.6	1.3
Tax revenues	1.3	2.4	1.2	1.2	1.3	1.5	2.0	1.9
Non-tax revenues 2/	2.6	4.8	5.3	5.3	3.6	5.4	3.5	2.0
Grants	2.7	3.1	1.8	1.7	1.7	1.3	1.2	1.3
Expenditures	80.6	93.6	88.7	84.7	79.7	77.9	84.6	75.8
Current expenditures	54.2	75.3	61.2	58.5	59.6	53.6	55.8	48.9
Salary and pension	20.5	36.5	30.2	28.9	31.3	27.7	28.1	25.3
Goods and services (non-oil sector) 3/	13.5	18.8	13.6	11.1	11.6	10.7	10.2	9.1
Transfers	15.5	16.6	12.6	13.7	12.6	10.3	11.9	9.3
Social safety net	8.2	7.3	4.6	5.8	5.9	3.8	6.3	4.6
Transfers to SOEs	2.9	4.5	3.2	3.1	3.0	2.3	1.1	1.1
Other transfers	4.4	4.8	4.8	4.8	3.7	4.1	4.5	3.7
Interest payments	0.5	0.5	1.1	1.1	1.1	1.4	1.2	1.7
War reparations 4/	3.6	3.0	3.0	3.0	3.0	3.0	3.1	3.2
Investment expenditures	26.4	21.9	27.5	26.2	20.3	24.4	28.8	26.9
Non-oil investment expenditures	22.7	18.4	23.2	22.2	16.4	20.1	22.4	19.6
Oil investment expenditures (including on refineries)	3.7	3.5	4.2	4.0	3.9	4.0	6.2	7.6
Contingency	0.7	0.0	0.0	0.6	0.0	0.5	0.2	0.3
Change in outstanding Letters of Credit [+ increase] 5/	0.0	…	…	…	…	…	…	…
Returned LCs	…	-3.7	…	…	-0.2	…	…	…
Balance (including grants)	-1.2	-21.8	-19.1	-14.2	-10.6	-8.2	-13.7	-5.8
Balance (excluding grants)	-3.9	-24.9	-20.9	-15.9	-12.3	-9.5	-14.9	-7.0
Statistical discrepancy	0.4	3.2	…	…	0.0	…	0.0	0.0
Financing, Of *which:*	-1.6	18.6	14.9	14.2	10.6	8.2	13.7	5.8
External financing	-0.4	0.5	12.4	10.5	4.9	4.5	9.4	1.1
Assets held abroad	0.3	0.5	9.2	6.8	3.1	1.8	4.6	0.4
Project financing	0.1	1.5	1.3	0.6	0.9	1.0	1.0	1.5
Other financing 6/	0.0	0.0	3.6	4.6	2.3	2.5	4.4	0.2
Amortization	0.8	1.5	1.7	1.5	1.5	0.8	0.6	0.9
Domestic financing	-1.2	18.1	2.5	3.7	5.8	3.7	4.4	4.7
Bank financing	-1.2	12.0	0.0	5.0	-0.7	1.8	1.1	0.0
Other domestic bank financing	…	0.9	-1.2	-1.7	6.1	0.0	0.0	1.7
T-bills	0.0	5.2	3.7	0.4	0.4	1.9	3.2	2.9
Financing gap	…	…	4.2	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Security-related expenditure	11.1	12.5	15.3	12.9	10.6	12.8	9.2	10.9
Primary fiscal balance	-0.7	-21.3	-18.0	-13.1	-9.5	-6.8	-12.5	-4.1
Current expenditures (percent of non-oil GDP)	174.7	162.7	160.8	160.8	150.1	149.1	152.2	140.6

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

1/ For the program columns (EBS/10/28 and EBS/10/182), revenues and expenditures of the oil-related enterprises have been subtracted from the total reveneue and expenditure, leaving only the net transfer to the budget. This ensures comparability to the new presentation going forward.

2/ For 2010, includes $850m in oil bonuses and $200m in 2011.

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

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

5/ LCs in the Trade Bank of Iraq, full down-payment is customarily required. 2008 LCs and advances to suppliers were re-classified.

6/ Includes the $500m in soft loans from oil companies obtaining licenses for 2010, the IMF 2010-11 SBA disbursements and a $500m WB loan under the DPL.

Table 4. Summary of Oil Company Operational Accounts
(In trillions of Iraqi dinars)

	2008		2009		2010 2/	
	Proj.	Act.	Proj.	Act.	Proj.	Act.
Revenue	8.7	8.6	10.7	10.5	9.3	9.8
Expenditure	6.4	6.1	8.4	7.2	7.6	6.1
Net operating surplus	2.3	2.5	2.3	3.3	1.7	3.7
Of which: Net transfer to the budget	...	1.2	...	1.3	1.4	...

Source: Iraqi authorities

1/ There are 16 oil sector companies: Northern Oil Company, Maysan Oil Company, Southern Oil Company, Oil Exploration Company, Iraq Oil Tanker Company, Iraq Excavation Company, Oil Products Distribution Company, Oil Pipelines Company, Gas Bottling Company, Al Wasit Refineries Company, Northern Refineries Company, Southern Refineries Company, Southern Gas Company, Northern Gas Company, Oil Projects Company, Oil Marketing Company. Maysan Oil Company was a new company set up in 2009.

2/ Actual data is through October.

Table 5. Iraq: Central Bank Balance Sheet 2008–11

(In billions of Iraqi dinars, unless otherwise indicated)

	2008	2009	2010					2011
	Dec.	Dec.	Mar.	Jun.	Sep	Dec.	Dec.	Dec.
			Prel.	Prel.	Prel.	Prel.	Prog.	Proj.
Net foreign exchange assets 1/	58,841	49,794	49,341	46,459	54,408	57,191	51,502	59,119
Foreign exchange assets	58,841	51,875	51,357	48,424	56,477	59,239	51,502	59,119
Gold	191	244	246	275	288	311	244	311
Other	58,650	51,631	51,111	48,150	56,188	58,928	51,259	58,808
Foreign exchange liabilities	0	-2,081	-2,016	-1,965	-2,069	-2,048	0	0
Net domestic assets	-11,372	-2,283	-6,420	198	-6,555	-2,451	2,430	1,493
Domestic assets	-9,532	2,744	2	344	1,953	2,049	2,744	2,630
Net claims on general government	-9,536	2,740	-5	344	1,949	2,045	2,740	2,626
Holdings of treasury bills	3,236	3,236	3,236	3,236	3,236	3,236	3,236	2,517
Holdings of discounted treasury bills	719	719	719	721	719	733	719	733
Overdrafts	0	0	0	0	0	0	0	0
Domestic currency deposits	-8,577	-1,090	-3,217	-1,472	-1,120	-1,384	-1,090	-384
Foreign currency deposits	-4,915	-126	-744	-2,142	-887	-540	-126	-240
Claims on nonbank public institutions	0	0	0	0	0	0	0	0
Claims on commercial banks	4	4	7	0	4	4	4	4
Monetary policy instruments 2/	-4,995	-3,988	-4,119	-1,426	-2,241	-1,467	-1,424	-103
Of which: CBI bills	-2,224	-1,184	-1,275	-457	-393	-396	…	…
Other items net	3,155	-1,040	-2,303	1,283	-6,267	-3,033	1,110	-1,033
Reserve money	47,469	47,510	42,921	46,658	47,853	54,740	53,932	60,613
Currency issued	21,304	24,169	25,500	26,573	26,710	27,507	27,843	31,328
Banks reserves	26,165	23,341	17,421	20,084	21,143	27,232	26,089	29,284
Memorandum items								
Reserve money (annual growth, in percent)	54.5	0.1	-2.6	5.8	9.7	15.2	13.5	10.7
Currency issued (annual growth, in percent)	36.3	13.4	10.4	15.1	10.5	13.8	15.2	13.9
Gross foreign exchange assets (in millions of U.S. dollars)	50,206	44,337	43,895	41,388	48,271	50,632	44,019	50,529
Foreign exchange liabilities (in millions of U.S. dollars)	0	-1,779	-1,723	-1,680	-1,768	-1,751	0	0
Net foreign exchange assets (in millions of U.S. dollars)	50,206	42,559	42,172	39,709	46,503	48,881	44,019	50,529
Gross foreign exchange assets/reserve money (in percent)	124.0	109.2	119.7	103.8	118.0	108.2	95.5	97.5
Exchange rate (end of period)	1172.0	1170.0	1170.0	1170.0	1170.0	1170.0	…	…
Policy interest rate	15.0	7.0	7.0	6.0	6.0	6.0	…	…

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

1/ Valued at market exchange rates.

2/ This mainly represents the ID and US$ overnight standing deposit facilities and CBI bills.

Table 6. Iraq: Monetary Survey, 2008–11
(In billions of Iraqi dinars, unless otherwise indicated)

	2008	2009	2010					2011
	Dec.	Dec.	Mar.	Jun.	Sept.	Dec.		Dec.
						Prog.	Proj.	Proj.
Net foreign assets	59,113	55,173	54,004	46,459	59,787	51,773	62,570	64,499
Of which: CBI	58,841	49,794	49,341	46,459	54,408	51,502	57,191	59,119
Net domestic assets	-22,238	-8,439	-3,465	4,222	-8,043	411	-7,331	2,943
Domestic claims	-26,391	-13,230	-6,367	-9,577	-4,413	-2,699	-5,424	3,040
Net claims on general government	-30,791	-18,367	-13,834	-17,189	-11,880	-11,140	-12,825	-7,822
Claims on general government	6,807	7,367	13,298	10,149	13,298	...	...	...
less: Liabilities to general government	-37,598	-25,734	-27,132	-27,338	-25,178	...	...	...
Claims on other sectors	4,400	5,136	7,467	7,612	7,467	8,441	7,402	10,862
Other Item Net (OIN)	4,153	4,791	2,902	13,799	-3,629	3,111	-1,907	-97
Broad money	36,875	46,734	50,539	50,679	51,745	52,185	55,239	67,442
Currency outside banks	18,492	21,776	22,681	23,895	23,891	24,782	22,993	27,884
Transferable deposits	13,264	18,615	21,395	20,379	21,391	20,552	24,185	29,668
Other deposits	5,119	6,343	6,463	6,405	6,463	6,851	8,062	9,889
Memorandum items								
Broad money (percentage growth)	35.4	26.7	32.2	32.3	19.1	21.9	18.2	22.1
M2 velocity (ratio)	2.8	1.6	...	...	...	1.8	1.7	1.7
Credit to the economy (percentage growth)	54.8	16.7	53.5	51.3	52.4	34.6	44.1	46.8
Credit to the economy (as a percentage of non-oil GDP)	13.7	14.5	...	...	...	21.6	19.4	25.8

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

Table 7. Iraq: Balance of Payments, 2008–15 1/
(In millions of U.S. dollars, unless otherwise indicated)

	2008	2009	2010		2011		2012	2013	2014	2015
	Est.	Est.	EBS/10/182	Proj.	EBS/10/182	Proj.				
Trade balance	21,200	-7,329	1,654	5,532	2,275	1,280	7,200	16,563	25,434	30,592
(In percent of GDP)	24.5	-11.2	2.0	6.7	2.4	1.3	6.3	12.6	17.4	18.9
Exports	62,013	38,439	51,934	50,753	56,680	62,295	73,804	88,130	99,650	110,779
Crude oil	61,164	38,243	51,257	50,077	55,809	61,430	72,599	86,221	97,099	108,003
Other exports	849	196	677	677	871	866	1,205	1,909	2,551	2,776
Imports	-40,813	-45,768	-50,280	-45,222	-54,405	-61,015	-66,604	-71,567	-74,217	-80,187
Government imports 2/	-24,971	-28,377	-28,138	-24,203	-28,636	-34,012	-33,202	-33,021	-33,443	-35,505
Consumption imports	-4,367	-2,902	-8,275	-8,326	-9,132	-10,246	-9,059	-9,265	-10,229	-11,385
Non-oil related capital imports	-14,109	-19,169	-14,503	-10,454	-14,486	-18,096	-18,736	-18,312	-18,316	-19,566
Oil-related capital imports	-3,393	-4,300	-3,522	-3,541	-3,919	-4,364	-4,753	-4,615	-4,218	-3,940
Refined oil products	-3,148	-2,009	-1,838	-1,883	-1,100	-1,306	-653	-828	-679	-614
Private sector imports	-15,843	-17,390	-22,141	-21,018	-25,768	-27,003	-33,402	-38,546	-40,774	-44,682
Of which: refined oil products	-3,148	-3,278	-4,289	-4,394	-4,398	-5,225	-5,878	-7,456	-6,113	-5,525
Income, net 3/	-3,223	-3,896	-4,555	-4,311	-822	-1,702	-2,499	-2,808	-2,914	-3,084
Services, net	-6,298	-6,385	-9,769	-6,922	-10,861	-10,875	-11,578	-12,418	-12,696	-14,387
Transfers, net	-631	237	592	651	1,457	589	430	-109	-453	-789
Private, net (incl. NGOs)	67	141	1,750	1,750	3,063	2,475	3,218	4,183	4,392	4,611
Official	-698	96	-1,158	-1,099	-1,605	-1,886	-2,787	-4,292	-4,845	-5,400
Receipts	2,360	2,008	1,405	1,405	1,185	1,185	843	19	10	0
Payments	-3,058	-1,912	-2,563	-2,504	-2,790	-3,071	-3,630	-4,311	-4,855	-5,400
Current account	11,048	-17,373	-12,078	-5,050	-7,951	-10,709	-6,447	1,227	9,370	12,332
(In percent of GDP)	12.8	-26.6	-14.4	-6.1	-8.6	-10.9	-5.6	0.9	6.4	7.6
Capital account	0	0	0	0	0	0	0	0	0	0
Financial account	7,429	10,994	5,496	7,350	3,872	3,790	5,619	5,881	6,131	7,001
Direct investment	1,822	1,526	1,991	1,948	3,964	3,917	5,108	5,882	6,799	7,806
Other capital, net	5,606	9,468	3,505	5,402	-92	-127	510	0	-668	-805
Official, net	4,097	5,172	4,053	3,393	149	261	938	458	-398	-574
Assets	-54	-4	0	0	0	0	470	0	0	0
Liabilities	4,151	5,177	4,053	3,393	149	261	468	458	-398	-574
Loan disbursements 4/	64	1,859	1,301	1,065	899	851	1,536	1,562	1,142	618
Amortization 5/ 9/	-662	-972	-1,268	-1,268	-750	-591	-1,068	-1,104	-1,540	-1,191
Capitalized interest payment 5/	4,750	4,290	4,020	3,596	0	0	0	0	0	0
Private, net , and errors and omissions 6/	1,510	4,295	-548	2,008	-242	-387	-428	-458	-270	-231
Overall balance	18,476	-6,379	-6,583	2,300	-4,079	-6,919	-828	7,109	15,501	19,333
(In percent of GDP)	21.4	-9.8	-7.8	2.8	-4.4	-7.1	-0.7	5.4	10.6	12.0
Financing	-18,476	6,379	6,583	-2,300	4,079	6,919	828	-7,109	-15,501	-19,333
Central bank (increase -)	-18,751	5,869	-2,249	-6,295	1,539	102	218	-4,374	-9,338	-11,941
Reserves (net; increase -)	-18,751	5,869	-2,249	-6,295	1,539	102	218	-4,374	-9,338	-11,941
Liabilities (increase +)	0	0	0	0	0	0	0	0	0	0
Fund credit (net)	0	0	2,867	1,179	831	2,287	182	-171	-877	-1,605
Disbursement	0	0	2,867	1,179	831	2,287	182	0	0	0
Repayments	0	0	0	0	0	0	0	-171	-877	-1,605
Deferred accrued interest 7/	814	686	239	239	0	0	0	0	0	0
Change in arrears (net, decrease -) 8/	-12,063	-10,167	-64,594	-7,182	…	…	…	…	…	…
Debt forgiveness 9/	12,063	10,027	64,594	7,182	…	…	…	…	…	…
Development Fund for Iraq (increase -)	-539	-35	5,726	2,577	1,709	4,530	427	-2,564	-5,286	-5,786
Financing gap	...	0	0	0	0	0	0	0	0	0
Memorandum items:										
Central bank reserves	50,206	44,337	46,586	50,632	45,047	50,529	50,311	54,685	64,023	75,964
Central bank reserves (in months of imports of goods and services)	11.1	9.7	8.3	8.2	7.4	7.5	6.9	7.2	7.8	7.7
External assets held abroad (Excl. FMS, in US$ million)	10,303	9,986	4,278	7,427	2,568	2,897	2,470	5,034	10,320	16,107
GDP	86,531	65,193	84,136	82,150	92,858	97,992	114,362	131,905	146,520	161,493
Non-oil GDP	26,825	30,186	33,437	32,589	36,864	35,929	39,801	44,089	48,375	53,328

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

1/ Excludes U.S. military spending in Iraq.
2/ UN Oil for Food Program is excluded from the table because transactions ceased in 2009.
3/ Includes interest accrued, deferred, and capitalized.
4/ Reflects the increase in liabilities associated with the SDR allocation of $1.7 billion in 2009.
5/ Based on Paris Club agreement, the payments of principal and most interest during 2006–10 are deferred and capitalized.
6/ Includes errors and omissions for historical data.
7/ Estimates of accrued interest on existing stock of debt prior to the implementation of the Paris Club agreement.
8/ Includes debt forgiveness and clearance of arrears on multilateral debt and arrears related to fuel imports from Turkey.
9/ The notional debt forgiveness and amortization reflect: (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 8. Iraq: Reviews and Disbursements under the Proposed Arrangement

Date	Amount of Purchase			Condition
	In percent of quota	In millions of SDRs	In millions of US$	
February 2010	25	297.10	468.03	Approval of SBA arrangement
On or after May 31, 2010	40	475.36	748.85	Completion of first review and observance of end-March 2010 performance criteria
On or after October 30, 2010	25	297.10	468.03	Completion of second review and observance of (end-June 2010 and) end-December 2010 performance criteria
On or after May 31, 2011	25	297.10	468.03	Completion of third review and observance of end-December 2010 performance criteria
On or after October 30, 2011	75	891.30	1404.09	Completion of fourth review and observance of end-June 2011 performance criteria
On or after May 31, 2012	10	118.84	187.21	Completion of fifth review and observance of end-December 2011 performance criteria
Total	200	2376.80	3744.24	

Source: IMF staff projections.

Table 9. Iraq: Indicators of Fund Credit, 2009–16

(In millions of SDRs, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016
Disbursements of Fund credit								
SBA	0.0	772.5	1485.5	118.8	0.0	0.0	0.0	0.0
In percent of IMF quota	0.0	65.0	125.0	10.0	0.0	0.0	0.0	0.0
Obligations								
Repayments of SBA 1/	0.0	0.0	0.0	0.0	111.4	571.9	1047.3	616.5
Total charges and interest	0.0	3.0	20.3	33.6	33.7	29.9	18.8	5.8
Total obligations	0.0	3.0	20.3	33.6	145.1	601.9	1066.1	622.3
Total obligations, in percent of:								
Exports of goods and services	0.0	0.0	0.1	0.1	0.3	1.4	2.1	1.0
External public debt	0.0	0.0	0.1	0.1	0.6	2.5	4.7	2.8
Gross reserves	0.0	0.0	0.1	0.1	0.4	1.4	2.2	1.3
GDP	0.0	0.0	0.0	0.0	0.2	0.6	1.0	0.5
IMF Quota	0.0	0.2	1.7	2.8	12.2	50.6	89.7	52.4
Outstanding Fund credit								
SBA	0.0	772.5	2258.0	2376.8	2265.4	1693.5	646.2	29.7
Total outstanding Fund credit	0.0	772.5	2258.0	2376.8	2265.4	1693.5	646.2	29.7
Total outstanding Fund credit, in percent of								
Exports of goods and services	0.0	2.2	6.6	5.6	4.5	4.0	1.3	0.1
External public debt	0.0	1.3	9.5	9.7	10.0	6.9	2.9	0.1
Gross reserves	0.0	2.3	6.9	7.3	6.3	4.1	1.3	0.1
GDP	0.0	1.4	3.5	3.2	2.6	1.8	0.6	0.0
IMF Quota	0.0	65.0	190.0	200.0	190.6	142.5	54.4	2.5

Sources: IMF staff estimates and projections.

1/ The SBA repayments are on an obligations basis.

Table 10. Iraq: External Debt Sustainability Framework, 2006–15

(In percent of GDP, unless otherwise indicated)

	Estimates					Projections				
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
External debt	219.6	181.0	110.5	137.9	106.7	37.1	32.6	26.0	22.9	21.2
Change in external debt (1)	-131.9	-38.7	-70.5	27.4	-31.2	-69.6	-4.6	-6.5	-3.1	-1.7
Identified external debt-creating flows (2)	-125.9	-60.1	-75.2	60.5	-25.6	-10.7	-4.2	-9.7	-13.5	-14.5
Current account deficit, excluding interest payments	-19.1	-12.8	-13.1	25.8	5.0	8.9	3.7	-2.6	-7.8	-8.9
Deficit in balance of goods and services	-15.7	-16.3	-17.2	21.0	2.0	9.4	3.8	-3.1	-8.6	-9.9
Exports	67.1	67.9	73.5	62.3	64.3	65.6	66.7	69.1	70.2	70.5
Imports	51.4	51.7	56.2	83.4	66.3	75.0	70.5	66.0	61.6	60.6
Net non-debt creating capital inflows (negative) 1/	-0.2	-1.7	-0.6	-2.3	-2.4	-4.0	-4.5	-4.5	-4.7	-4.8
Automatic debt dynamics 2/	-106.6	-45.6	-61.5	37.0	-28.2	-15.5	-3.4	-2.7	-1.0	-0.7
Contribution from nominal interest rate	0.2	0.3	0.3	0.8	1.4	1.7	1.9	1.7	1.6	1.4
Contribution from real GDP growth	-15.2	-2.6	-11.3	-6.2	-0.9	-10.9	-3.5	-2.9	-2.2	-1.8
Contribution from price and exchange rate changes 3/	-91.6	-43.3	-50.4	42.3	-28.7	-6.3	-1.8	-1.5	-0.4	-0.3
Residual, incl. change in gross foreign assets (1–2)	-6.0	21.4	4.7	-33.1	-5.6	-58.9	-0.3	3.2	10.4	12.8
External debt-to-exports ratio (in percent)	327.6	266.5	150.4	221.2	165.8	56.6	48.8	37.7	32.7	30.1
Gross external financing need (in billions of U.S. dollars) 4/	-7.0	-6.6	-10.4	18.3	6.6	11.0	7.5	0.1	-6.9	-9.5
in percent of GDP	-15.6	-10.6	-10.7	16.7	5.3	7.8	4.7	0.0	-3.5	-4.5
External debt service in percent of exports 5/	5.3	1.8	1.5	3.7	4.6	3.5	4.2	3.8	4.5	4.4
Debt-stabilizing non-interest current account (positive = surplus) 6/	-112.7	-25.9	-57.4	1.6	-36.2	-78.4	-8.3	-4.0	4.7	7.3
Key Macroeconomic Assumptions										
Real GDP growth (in percent)	6.2	1.5	9.5	4.2	0.8	12.2	11.1	10.1	9.3	8.8
Exchange rate appreciation (U.S. dollar value of local currency, change in per	0.1	17.0	5.2	2.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP deflator (change in domestic currency)	35.1	6.5	31.8	-29.1	26.2	6.2	5.0	4.7	1.6	1.3
GDP deflator in U.S. dollars (change in percent)	35.2	24.5	38.7	-27.7	26.2	6.2	5.0	4.7	1.6	1.3
Nominal external interest rate (in percent)	0.1	0.2	0.3	0.5	1.3	1.9	5.8	5.9	6.6	6.8
Growth of exports (U.S. dollar terms, in percent)	28.8	28.0	64.3	-36.1	31.4	21.6	18.5	19.5	12.8	10.8
Growth of imports (U.S. dollar terms, in percent)	-7.0	27.1	65.3	11.7	1.3	34.9	9.6	8.0	3.7	8.5
Lower oil production in 2011–15 7/	219.6	181.0	110.5	137.9	106.7	38.6	45.1	60.9	88.6	123.4
Lower oil price in 2011–15 8/	219.6	181.0	110.5	137.9	106.7	40.6	33.6	34.1	36.1	38.9
Combined shock--lower production and lower oil price in 2011–15 9/	219.6	181.0	110.5	137.9	106.7	41.3	47.7	69.8	104.2	145.7
Lower oil production in 2011–15 7/	5.3	1.8	1.5	3.7	4.6	3.7	19.9	8.7	20.8	38.0
Lower oil price in 2011–15 8/	5.3	1.8	1.5	3.7	4.6	3.8	4.3	4.5	7.3	9.4
Combined shock--lower production and lower oil price in 2011–15 9/	5.3	1.8	1.5	3.7	4.6	4.1	21.9	9.5	25.1	46.9
Memorandum items:										
Real GDP growth under stress scenarios (in percent)										
Lower oil production in 2011–15 7/	6.2	1.5	9.5	4.2	0.8	8.7	2.1	2.2	2.3	2.6
Lower oil price in 2011–15 8/	6.2	1.5	9.5	4.2	0.8	12.2	11.1	10.1	9.3	8.8
Combined shock--lower production and lower oil price in 2011–15 9/	6.2	1.5	9.5	4.2	0.8	8.7	2.1	2.2	2.3	2.6
Non-interest current account deficit under stress scenarios (in percent of GDP)										
Lower oil production in 2011–15 7/	-28.9	-20.9	-18.6	19.3	0.6	11.7	12.3	9.0	6.4	8.9
Lower oil price in 2011–15 8/	-28.9	-20.9	-18.6	19.3	0.6	13.5	4.3	0.0	-5.4	-6.5
Combined shock--lower production and lower oil price in 2011–15 9/	-28.9	-20.9	-18.6	19.3	0.6	16.4	16.4	12.8	10.0	12.7

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

1/ Includes net FDI, other net private sector inflows (all assumed to be equity), and use of official assets held abroad. The large reduction of external debt in 2011 reflects the assumption that non-Paris Club debt is rescheduled on Paris Club terms.

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

3/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) 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 remains constant at 2.61 mbpd (5 percent lower than the baseline value) from 2011 onward.

8/ Assumes that oil price in 2011–15 is 10 percent lower than the Iraqi oil price projections in the baseline.

9/ Assumes that oil production remains at 2.61 mbpd and oil price 10 percent lower than the baseline in 2011–15.

Table 11. Public Sector Debt Sustainability Framework, 2005–2015
(In percent of GDP, unless otherwise indicated)

	Actual							Estimate	Projection					
	2005	2006	2007	2008	2009			2010	2011	2012	2013	2014	2015	
								I. Baseline Projections						**Debt-stabilizing primary balance 10/**
Public sector debt 1/	353.0	198.3	175.3	108.5	143.1			**107.1**	**40.3**	**35.5**	**25.7**	**21.9**	**17.8**	**-0.7**
o/w foreign-currency denominated	353.0	198.3	175.3	108.5	137.9			106.7	37.1	32.6	26.0	22.9	21.2	
Change in public sector debt	-125.5	-154.7	-23.1	-66.7	34.6			-36.0	-66.7	-4.8	-9.8	-3.8	-4.1	
Identified debt-creating flows (4+7+12)	-92.4	-147.5	-42.5	-57.0	60.0			-20.2	-3.7	0.0	-7.6	-11.2	-13.2	
Primary deficit	-6.7	-16.1	-13.3	0.7	21.3			9.4	12.4	4.1	-4.4	-9.9	-12.3	
Revenue and grants	107.3	88.2	84.3	79.4	71.7			68.3	70.3	69.4	70.1	70.9	71.5	
Primary (noninterest) expenditure	100.6	72.1	71.0	80.1	93.1			77.8	82.6	73.5	65.7	61.0	59.2	
Automatic debt dynamics 2/	-85.7	-131.4	-29.2	-57.7	38.6			-29.6	-16.0	-4.1	-3.2	-1.3	-0.9	
Contribution from interest rate/growth differential 3/	-89.7	-106.3	-14.0	-53.4	38.9			-29.6	-16.0	-4.1	-3.2	-1.3	-0.9	
Of which contribution from real interest rate	-92.6	-91.1	-11.2	-41.9	45.1			-28.6	-5.1	-0.2	-0.1	0.9	0.9	
Of which contribution from real GDP growth	2.8	-15.3	-2.7	-11.6	-6.2			-0.9	-11.0	-3.9	-3.1	-2.1	-1.7	
Contribution from exchange rate depreciation 4/	4.0	-25.0	-15.3	-4.3	-0.3			0.0	0.0	0.0	0.0	0.0	0.0	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3)	-33.1	-7.2	19.4	-9.7	-25.4			-15.8	-63.1	-4.8	-2.2	7.5	9.1	
Public sector debt-to-revenue ratio 1/	329.0	224.9	207.8	136.7	199.5			156.7	57.4	51.1	36.6	30.9	24.9	
Gross financing need 5/	-6.5	-15.5	-12.4	1.2	21.8			10.5	13.6	5.7	-2.5	-7.6	-7.7	
in billions of U.S. dollars	-2.0	-7.0	-7.1	1.0	14.2			8.7	13.4	6.6	-3.3	-11.3	-12.6	
Key Macroeconomic and Fiscal Assumptions						5-Year Historical Average	5-Year Standard Deviation							Projected Average
Real GDP growth (in percent)	-0.7	6.2	1.5	9.5	4.2	4.1	4.0	0.8	12.2	11.1	10.1	9.3	8.8	10.3
Average nominal interest rate on public debt (in percent) 6/	0.0	0.3	0.5	0.4	0.3	0.3	0.2	1.0	1.4	4.8	4.9	5.5	5.9	4.5
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-24.0	-34.8	-6.0	-31.5	29.4	-13.4	26.4	-25.3	-4.9	-0.1	0.2	3.9	4.5	0.7
Nominal appreciation (increase in US dollar value of local currency, in percent)	-1.0	11.3	9.1	3.7	0.2	4.6	5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation rate (GDP deflator, in percent)	24.0	35.1	6.5	31.8	-29.1	13.7	26.4	26.2	6.2	5.0	4.7	1.6	1.3	3.8
Growth of real primary spending (deflated by GDP deflator, in percent)	-22.6	-23.9	0.0	23.5	21.1	-0.4	22.8	-15.7	19.2	-1.2	-1.5	1.4	5.7	4.7
Primary deficit	-6.7	-16.1	-13.3	0.7	21.3	-2.8	15.0	9.4	12.4	4.1	-4.4	-9.9	-12.3	-2.0
								II. Stress Tests for Public Debt Ratio						**Debt-stabilizing primary balance 10/**
A. Alternative Scenarios														
A1. Key variables are at their historical averages in 2010-2015 7/								**107.1**	**19.1**	**7.6**	**0.8**	**7.4**	**15.5**	**-2.6**
A2. No policy change (constant primary balance) in 2010-2015								**107.1**	**37.4**	**38.2**	**41.9**	**56.7**	**72.9**	**-2.9**
B. Bound Tests														
B1. Real interest rate is at baseline plus one standard deviations								**107.1**	**52.2**	**52.1**	**46.7**	**47.4**	**48.0**	**3.8**
B2. Real GDP growth is at baseline minus one-half standard deviation								**107.1**	**42.3**	**40.5**	**34.5**	**36.0**	**38.6**	**-0.8**
B3. Primary balance is at baseline minus one-half standard deviation								**107.1**	**47.8**	**49.7**	**46.1**	**48.8**	**51.2**	**-2.0**
B4. Combination of B1-B3 using one-quarter standard deviation shocks								**107.1**	**50.3**	**51.4**	**47.2**	**49.6**	**52.1**	**1.5**
B5. One time 30 percent real depreciation in 2011 9/								**107.1**	**92.2**	**82.1**	**68.0**	**62.2**	**56.5**	**-2.2**
B6. 10 percent of GDP increase in other debt-creating flows in 2011								**107.1**	**50.3**	**44.5**	**33.8**	**29.7**	**25.3**	**-1.0**

1/Coverage of general government gross debt levels in Iraq

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi (1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

6/ Derived as nominal interest expenditure divided by previous period debt stock.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ The implied change in other key variables under this scenario is discussed in the text.

9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

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

ATTACHMENT I. IRAQ: LETTER OF INTENT

March 3, 2011

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

The Stand-By Arrangement (SBA) for Iraq that was approved in February 2010 by the Executive Board of the International Monetary Fund (IMF) has continued to provide us with a valuable anchor for our economic policies during a period of political transition and considerable uncertainty with regard to the global economic outlook. The key objectives of the SBA remain the preservation of macroeconomic stability, and the adoption of policies and measures to ensure sustainable growth and poverty reduction. In this regard, the program offers a framework for our structural reform agenda, as we still face many challenges in the rebuilding of key economic institutions. Our reform efforts are particularly geared towards improving public financial management, including the management of our hydrocarbon resources, and developing a financial sector that can support private sector activity. Last but not least, the SBA provides us access to financial assistance to support the economic stability and reconstruction of Iraq in challenging times.

We remain committed to implementing the policies described in our Letter of Intent dated February 8, 2010 and the Memorandum of Economic and Financial Policies attached to that letter, as well as to the policies described in our supplementary Letter of Intent of September 18, 2010. The attached Memorandum of Economic and Financial Policies provides information on our recent efforts and achievements, and outlines our economic program for 2011, the second year of the SBA. The policies and measures described in the attached Memorandum will continue to aim at maintaining macroeconomic stability, in particular by ensuring fiscal sustainability, and moving ahead with the implementation of our structural reform agenda.

While we believe our fiscal and monetary policies were on track in 2010, fiscal end-year data are not yet available. We therefore request waivers of applicability for the end-December 2010 performance criteria for the central government fiscal deficit and the central government current spending bill, for which data are not yet available and for which there is no evidence that these were not observed. All other end-2010 performance criteria were met. As we reported at the time of the first review under the SBA, we met all the performance criteria for end-June 2010, with the exception of the floor under the Central Bank of Iraq's (CBI) net international reserves. We also met the end-June 2010 performance criterion related to the central government current spending bill for which data had not yet been available at the time of the completion of the first review.

Furthermore, we request an extension of the SBA by five months, through July 24, 2012. This would allow time for an additional review based on end-December 2011 performance criteria, which underscores our commitment to the fiscal and monetary policies outlined in the attached MEFP, and also allow for more time for the implementation of the structural reform measures under the program. Linked to this, and as our financing needs have shifted to 2011, we request a rephasing of the remaining disbursements under the SBA, with two equal disbursements of SDR 297.10 million, equivalent to 25 percent of quota each, following the completion of the second and third reviews, a disbursement of SDR 891.30 million, equivalent to 75 percent of quota, following the fourth review, and a final disbursement of SDR 118.84 million, equivalent to 10 percent of quota, following the new fifth review in 2012. We understand that the SBA will continue to be subject to semi-annual reviews, semi-annual performance criteria, and structural benchmarks, as set out in the attached Tables 1 and 2, and described in more detail in the attached Technical Memorandum of Understanding (TMU). In this regard, we understand that the completion of the third review under the SBA—expected to take place on or after May 31, 2011—will require observance of the quantitative performance criteria for end-December 2010 specified in Table 1, that completion of the fourth review—expected to take place on or after October 30, 2011—will require observance of the quantitative performance criteria for end-June 2011, and that the completion of the fifth review—expected to take place on or after May 31, 2012—will require observance of the quantitative performance criteria for end-December 2011.

We remain firmly committed to maintaining the independence of the CBI, as well as to ensuring that all of Iraq's oil exports are in accordance with international agreements and that all oil export revenues accrue to the central government. Given the large uncertainties and the high volatility of international oil prices, we continue to base our projections and the government's budget for 2011 on conservative assumptions for oil export volumes (2.2 million barrel per day on average) and oil prices (an average price of $76.50 per barrel for Iraqi oil). As we also remain firmly committed to containing current government spending, in the event that by end-June 2011 our oil export revenues turn out to be higher than our projection of $30.5 billion, we plan to save half of the additional revenues to rebuild our financial buffers, while using the other half (up to a limit of $5 billion) to finance additional investment to improve the delivery of basic public services. Moreover, if by the time of the fourth program review we see that our oil export revenues in the first three quarters of 2011 have exceeded our projection of $46 billion for that period by more than $3 billion, we intend to treat the SBA as precautionary. Vice versa, should oil export receipts fall below our assumptions, we will reduce spending by half of the revenue shortfall and cover the remaining gap by further using our financial buffers and seeking additional external support, including from the IMF. If the revenue shortfall turns out to be sizable, or if the reserve position of the

CBI weakens below program targets in between test dates, we will consult on the policy response with IMF staff. Similarly, we also intend to treat the SBA as precautionary if by the time of consideration of the fourth review it is expected that the rate of execution of the government's capital budget in 2011 will be less than 90 percent.

Overall, our economic program continues to be on track and we believe that the policies set forth in the attached Memorandum of Economic and Financial Policies are adequate to achieve our objectives. In support of our policies, we request the Executive Board of the IMF to complete the second review and approve the third disbursement under the SBA of SDR 297.10 million. We remain fully aware of the many challenges ahead and we are prepared to take additional measures if necessary. We will consult with the IMF on the adoption of these measures and in advance of any revision to the policies contained in our economic program, in accordance with IMF policies on such consultation. The Iraqi government and the CBI will continue to provide the IMF with the necessary information for assessing progress in implementing our program, as specified in the attached TMU, and will maintain a close policy dialogue with IMF staff. We authorize the IMF to publish this Letter of Intent and its attachments, as well as the related staff report, on the IMF's website following consideration of our request by the IMF's Executive Board.

Sincerely yours,

/s/	/s/
Dr. Rafe Al-Essawi Minister of Finance of Iraq	Dr. Sinan Al-Shabibi Governor of the Central Bank of Iraq

ATTACHMENT II. IRAQ: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2011

March 3, 2011

I. INTRODUCTION

1. During 2010, and despite the political uncertainty following the long delay in reaching an agreement on the formation of a new government after the successful elections of March 7, 2010, the incumbent government continued to implement sound economic policies that were anchored by the Stand-By Arrangement (SBA) with the International Monetary Fund (IMF). Macroeconomic stability has been maintained and structural reforms have progressed, albeit with some difficulty and some delays, reflecting the many challenges we face.

2. This memorandum supplements the Memorandum of Economic and Financial Policies for 2010–11 (MEFP), annexed to our Letter of Intent of February 8, 2010, and our Letter of Intent of September 18, 2010. It outlines our progress under the program, and describes the objectives and policies agreed in the context of the Second Review under the SBA for 2011.

II. RECENT ECONOMIC DEVELOPMENTS

3. Overall macroeconomic performance in 2010 has been strong. The Central Bank of Iraq (CBI) has been successful in keeping inflation under control, by managing the exchange rate and by keeping the policy interest rate positive in real terms. Headline inflation and core inflation (excluding fuel and transportation) have remained in the low single digits. The CBI's policy interest rate, which has been gradually reduced, is currently at 6 percent and positive in real terms. With low inflation, the exchange rate has been stable since the beginning of 2009. The CBI's international reserves increased to $50 billion at end-December 2010, from $44 billion at end-2009.

4. Fiscal policy during 2010 has been tighter than we had planned, mainly reflecting the political uncertainties that caused delays in the execution of our capital budget. While the volumes of oil production and exports in 2010 have been lower than we had planned, mainly due to adverse weather conditions, attacks on pipelines, and political constraints that prevented an increase in exports from our northern fields, this was more than offset by higher-than-budgeted oil prices. Oil production averaged 2.35 million barrels per day (mbpd) in 2010, exports averaged 1.85 mbpd, and prices averaged about $74 per barrel. Thus, aided by higher-than-budgeted oil revenues and with a lower rate of execution of the capital budget, we expect that the government budget deficit in 2010 remained limited to about ID 10 trillion (IMF presentation), equivalent to about 11 percent of GDP.

5. With the lower level of oil production, we expect that overall real GDP growth in 2010 remained below 1 percent, although there are indications that the non-oil sector continues to recover, reflecting the improved security situation.

III. Economic and Financial Policies in 2011

6. In 2011, we plan to build upon the successes of our economic policies of the past few years and to accelerate the reconstruction and rehabilitation process. Most notably, the agreements we have reached in the past one-and-a-half years with the international oil companies to assist us in the development of Iraq's oil fields will start to bear fruit, although the pace of increase in production will be slower than we originally expected, given the scope of auxiliary investment still needed in the sector. We expect that oil production will increase to an average level of 2.75 mbpd in 2011 and that oil exports will average 2.2 mbpd. Oil production and exports will continue to accelerate in the following years, although we recognize that this will need to be accompanied by large investments in our oil infrastructure, to address bottlenecks and ensure that the incremental production can reach international markets.

7. The increase in oil exports will allow us to limit our government budget deficit in 2011, while making additional room for investment. We continue to follow a cautious approach in budgeting oil revenues, as the volatility in international oil prices remains high and uncertainties are many, and we have therefore based our 2011 budget on an average export price for Iraqi oil of $76.50 per barrel. In addition, reflecting our commitment to transparent government finances, we have reflected in our budget the estimated payments to the international oil companies for cost recovery and remuneration, which we expect the companies to request to be paid in-kind. The 2011 government budget aims to limit the deficit to ID 15.7 trillion (Ministry of Finance as well as IMF presentation), or about 13½ percent of GDP. To achieve this, we are strictly containing current spending to ID 66.7 trillion (Ministry of Finance presentation; ID 64 trillion in IMF presentation), a level only somewhat higher than the expected outcome of 2010, to make room for a substantial increase in capital spending. We will use part of the financing resources we planned to use in 2010 to help finance the 2011 deficit. In case oil exports or prices in 2011 turn out higher than budgeted, we will use half of the additional revenues to further increase investment, while the other half will be used to rebuild our financial buffers. As the levels of oil production and exports will increase further in 2012 and the years thereafter, we will aim to gradually reduce the budget deficit further in 2012 and return to a surplus position in the following years, with a view to place government finances on a sustainable footing and rebuild the government's financial buffers. To ensure integrity in our payment and budget systems, we will refrain from accumulating domestic expenditure arrears. In addition, the Ministry of Finance will refrain from issuing guarantees on any loans extended by domestic banks.

8. The CBI will continue to be independent in the pursuit of its policy objectives. The CBI's monetary and exchange rate policies will continue to be aimed at keeping inflation in the low single digits and safeguarding international reserves. We believe that the policy of maintaining a stable exchange rate continues to be appropriate, as it provides a solid anchor for the public's expectations in an otherwise uncertain environment and in an economy with a still very low level of financial intermediation. The policy interest rate will be kept positive in

real terms (measured against core inflation) to signal the CBI's firm commitment to maintain a low rate of inflation.

9. As a result of the increases in oil production in 2011, we expect real GDP growth to pick up to 12 percent in 2011. With oil production continuing to rise in the following years and with a steady further increase in security, economic growth will remain strong over the medium term.

IV. Structural Reforms

Public Financial Management

10. In the past few years, we have embarked on a program to transform and modernize our public financial management (PFM) system. While we faced serious obstacles, including due to repeated attacks on the Ministry of Finance, we have made important progress in 2010 and we will continue in 2011 with our efforts to improve the allocation, execution, transparency, and accountability of the mobilization and use of public resources:

- We convened a medium-term budget strategy workshop in the spring of 2010, with the help of the World Bank, where all the major ministries were represented. These ministries identified their priorities and their sectoral strategies to achieve them. In discussions with the Ministry of Finance, budget ceilings for both current and capital spending were established for the line ministries for the preparation of the 2011 budget. These ceilings helped with the formulation of the 2011 budget. We will work with the World Bank to further improve upon this process in 2011 for the formulation of the 2012 budget.

- We prepared a new accounting manual and will circulate it to all spending units as soon as comments by the Board of Supreme Audit (BSA) have been addressed (a structural benchmark for end-December 2010). This manual will for the first time provide the spending units with a comprehensive set of accounting and reporting instructions, which will improve implementation of the new Chart of Accounts and fiscal reporting.

- To strengthen reporting and cash management, we have also been enforcing the requirement that spending units submit reports on all spending including investment, advances, and letters of credit no later than two months after the end of each month, and we will reconcile these amounts with the cash balances at the beginning and end of the reporting period. In this context, we have issued a circular to spending units to submit additional information on advances and letters of credits. Cash releases will be approved only after the Ministry of Finance has reviewed the report from three months before, reducing the idle balances in spending units' accounts to the minimum required to ensure the continuity of government operations.

- We conducted a review of all the bank accounts that were classified as belonging to the central government (a benchmark that had originally been envisaged for end-March 2010). Due to the very large number of accounts involved, this review took much longer than we had anticipated. We have nearly completed the review, which has enabled us to reclassify about ID3.2 dinar in accounts mistakenly classified as belonging to self-funded agencies as central government investment accounts. The bulk of the accounts, however, were found not to belong to the central government. Of the ID 29.1 trillion reported as of end-June 2010 as belonging to the public sector, only ID 11 trillion was found to belong to the central government and reconciled with Treasury records. Of the ID 16.1 trillion that were classified as public sector deposits, ID 3.4 trillion belonged to the pension fund; ID 6.1 trillion belonged to state-owned enterprises, and the remainder belonged to other public agencies and institutions that operate outside the central government. We will continue to investigate the largest accounts of enterprises and self-funded agencies to determine whether these may include outstanding advances extended by spending units that should be closed and recovered.

- At the same time, we are compiling an inventory of the outstanding stock of advances (part of a delayed benchmark for end-September). We aim to submit the complete inventory report to the BSA by end-May 2011, which will work with the line ministries to identify those advances that should be settled. In doing so, the BSA will assess which advances are recoverable and set a timetable for their recovery. Advances deemed irrecoverable will need to be written off once authorized by the BSA, and the BSA and line ministries will inform the Ministry of Finance accordingly. The Ministry of Finance will continue to provide the BSA with quarterly updates on the stock of outstanding advances. We expect that the BSA will complete an initial review of the stock of advances by end-September 2011 (a new deadline for the full completion of this structural benchmark originally envisaged for end-September 2010).

- The review of the public sector deposits and advances made it clear that large improvements in cash management and fiscal controls and reporting can be made with the eventual introduction of a Single Treasury Account (STA). While we are committed to introduce a STA, this will be a challenging process that will take several years to complete. As an important intermediate step, we are aiming to establish a Financial Management and Information System (FMIS). Despite considerable efforts, the assistance we have received in this area has not resulted yet in the introduction of such a system. Therefore, we will develop, in close consultation with the IMF and the World Bank, a set of core functional requirements for a financial management and information system that is consistent with internationally accepted good practice in this area, including the ability to produce regular comprehensive reports; the inclusion of a commitment control system; and a decision on the envisaged payments system and associated banking arrangement (a new structural benchmark for end-May 2011).

Following this, we will assess whether Freebalance is able to at least provide the indentified core functionalities, which would allow us to introduce a financial management and information system more quickly and set the stage for migrating to a more comprehensive system at a later stage as the business processes are further reviewed to support planned reforms and maximize the potential workflow efficiencies in a computerized environment.

- In the meantime, also as part of a move towards a Single Treasury Account, we will rationalize the arrangements for funding spending units' (SUs) accounts with a view toward consolidating government cash balances by: (i) having the CBI act as the clearing house for government payments; and (ii) restricting pre-funding (i.e., transferring cash in advance) of SUs' bank accounts at the commercial banks (Rasheed and Rafidain) to the bare minimum. Only a small cash balance (required for day-to-day petty cash needs) will be allowed to be retained at the SUs' bank accounts, while for all other transactions the timing of movement of cash from the Ministry of Finance's main account at the CBI will be aligned with the timing of actual payment by the SUs. This will be achieved in two steps: (i) for salary payments, cash transfer from the Ministry of Finance's main account at the CBI to the SUs' bank accounts will be made on fixed dates (2–3 days before the date for salary payments) on a monthly basis based on payroll details received from SUs by the Ministry of Finance; and (ii) cash transfer for high value payments related to capital expenditures and goods and services expenditures by SUs will be made only at the payment stage, i.e., at the stage when the payment order has already been prepared by the respective SU on receipt of invoices/claims from the supplier. The ministries/SUs will maintain sub-accounts (which would essentially be ledger accounts to be maintained by the CBI in its internal system) of the Ministry of Finance's main account at the CBI. The MoF will set cash limits for each SU (equivalent to the amount of cash authorized by the Ministry of Finance for transfer to the SUs' commercial bank accounts) against its respective sub-account, which would be enforced by the CBI through its SU-specific ledger system. Thus, the Ministry of Finance's main account at the CBI will be supplemented by subsidiary ledger accounts to record and control payments attributable to individual SUs. Each of these SU-specific sub-accounts of the Ministry of Finance's main account will not hold cash (the total available government cash balance will be shown against the Ministry of Finance's main account only), but will act as an individual ledger account for the respective SU in the CBI's internal ledger system. When a payment is to be made by a SU, it will issue the respective payment order (after verifying that the payment is within the authorized cash limit issued by the Ministry of Finance) to its banker (either Rasheed or Rafidain), which then makes the payment after clearing it from the CBI. As part of the process of clearing the payment, the CBI will enforce the authorized cash limit against the respective SU (through its SU-specific ledger system) and make the equivalent amount of cash available to the respective commercial bank (either Rasheed or Rafidain) for onward payment to the supplier (a new structural benchmark for end-June 2011).

- We plan to submit shortly to the BSA (and for information to the Council of Representatives) the final fiscal accounts for 2009 (a benchmark for end-September 2010). Publication of the completed audit of the final accounts of the federal budget for 2005–07 is pending parliamentary consideration, and the BSA is currently reviewing the 2008 accounts.

- As our investment needs will continue to be large, we need to ensure the quality of our investment spending. We will proceed with a review of the largest investment projects financed with 2008 budget allocations. This review will be conducted by the BSA with the assistance of the World Bank. However, to be consistent with the BSA's mandate, this review will be limited to assess the implementation and effectiveness of the projects, with a view to distill lessons on how to enhance the quality of investment projects in the future. This review by the BSA will be completed by end-October, 2011 (a new deadline for this benchmark originally envisaged for end-September 2010).

- The census of civil service employees continued to be plagued by difficulties in obtaining information from some line ministries. With the installation of the new government, we plan to bring this project to a completion by mid-2011. Following the completion of the census, we plan to develop a computerized human resource database and a computerized payroll system. In parallel to the census, the BSA continues to verify the personnel records in the line ministries in order to clean up the existing payroll.

- We will continue to improve our scope to mobilize domestic financing through the Treasury bill market. To that end, we will conduct regular auctions, and refrain from cancellations, while allowing interest rates to be fully determined by the market. This will have additional benefits by determining a benchmark interest rate, while the development of a secondary market for treasury bills will allow banks to improve their liquidity management. The CBI will no longer limit the amounts state-owned banks can invest in Treasury bills and the pension fund and other large financial institutions will be allowed to participate directly in the primary market.

Oil Sector

11. With the hydrocarbon sector representing Iraq's main economic asset, we remain committed to ensuring transparency and accountability of the utilization of this important resource. To this effect:

- Iraq became a candidate member in the Extractive Industries Transparency Initiative (EITI) in February 2010. We plan to publish the EITI report which would include reconciled oil flows and payments for the oil sector by end-2011, in advance of February 2012, which is the deadline for us to become EITI compliant.

- We remain committed to establishing a successor framework for the Development Fund for Iraq (DFI) that would come into effect once the current arrangement ends. The successor arrangement will include a single account for all oil export proceeds that will adhere to the same strict transparency and accountability principles that currently govern the DFI. Thus, the successor arrangement will be subject to an independent external audit, and to the oversight of the Committee of Financial Experts (COFE).

- We will agree the modalities for in-kind payments to the international oil companies with the International Advisory and Monitoring Board (IAMB) to ensure full compliance with UN Security Council Resolution 1483.

- In cooperation with the IMF, we will produce medium- and long-term projections of flows to and from the government budget, and including auxiliary investments, stemming from the service agreements signed with the international oil companies. These projections will feed into our Medium-Term Budget Framework.

- We are in the final stages of completing the export metering projects and the certification of the export metering systems. Considerable progress has also been made in completing the installation of a comprehensive domestic custody-transfer metering system and almost 50 percent of the envisaged metering points have been installed. We expect the entire project to be completed by end-2011 (a new date for this structural benchmark initially envisaged for end-December 2010). These systems will also allow us to move ahead with the planned full review of the domestic oil sector to reconcile the flows of oil and oil products with the financial flows between the state-owned oil companies and the budget (a structural benchmark for end-June 2011). In this connection, we also plan to conduct a streamlined Public Expenditure Review of the oil ministry, together with the ministries of health, education, and public works, with the assistance of the World Bank.

- We will continue to ensure that no direct subsidy is placed on any fuel products in Iraq. To eliminate hidden subsidies, we will ensure that all ministries, governmental agencies, and public enterprises will pay domestic market prices for fuel purchases starting in 2011.

Financial Sector

12. Financial intermediation is at a very low level in Iraq. A functioning banking sector is essential for the development of a strong private sector. We have begun to embark on our banking sector reform strategy:

- A critical step will be to complete the financial restructuring of the two largest state-owned banks, Rafidain and Rasheed, based on their completed financial and operational audits. In this regard, we formed a Bank Reconciliation Unit that comprises technical level staff from the banks, the CBI and the Ministry of Finance, and with the assistance of Ernst and Young (who were the agents of the Ministry of Finance in the external debt restructuring process) to: (i) deal with all legacy external liabilities taking into account the government's actions in the context of Iraq's external debt restructuring (ii) indentify and propose to write-off non-performing loans to defunct state-owned enterprises; (iii) propose a course of action for other remaining unreconciled accounts; and (iv) after the balance sheets have been cleaned up, revalue the remaining foreign currency denominated balance sheet items. The BRU will work under the supervision of the Restructuring Oversight Committee (ROC), consisting of the Minister of Finance, the Governor of the CBI, and the Chairman of the BSA. The BRU will send its recommendations for final approval to the respective boards of the two banks. Through this process, we aim to complete the restructuring of the balance sheets of Rafidain and Rasheed by end-June 2011 (a structural benchmark).

- Meanwhile, the Ministry of Finance will continue to work closely with the World Bank under its banking sector project to modernize these banks by moving ahead with the plans for their operational restructuring. These banks will operate on a fully commercial basis, on market terms, and the government will refrain from directing any lending. Decisions on the recapitalization of Rafidain and Rasheed will not be made until the restructuring of their balance sheets has been completed and adequate progress has been made in their operational restructuring, especially by establishing an appropriate governance structure and strengthening risk management and control functions. More generally, given the vulnerabilities these (and other) banks face due to operational risks, the CBI will continue to improve its oversight systems and monitor closely the activities of the banks, particularly during the transition process.

- The new set of prudential regulations for commercial banks, including those related to minimum capital requirements, liquidity risk, and anti-money laundering, are being implemented. Work on the relevant reporting tables for the banks will be completed soon in consultation with the IMF and other technical assistance providers. Under the auspices of the World Bank banking sector project, we have conducted a full assessment of the banking supervision department, and this report will form the basis of improving this department.

- The CBI will continue to strengthen the management of its international reserves in line with the adopted reserves management guidelines. The CBI will follow the guidelines to diversify currency composition and establish an appropriate duration and credit risk profile, and build capacity for risk analysis. We will continue to provide monthly reports to the CBI board (and to the IMF) based on the investment criteria established in the guidelines.

V. Program safeguards and Monitoring, debt and data issues

13. As we did for the program approval and first review disbursements, we intend to continue to use the domestic counterpart of IMF resources for budget support. As before, the CBI—which is the fiscal agent—will request the IMF to disburse the resources directly into a government account at the CBI. To buttress program safeguards risks we have already taken or will take the following measures:

- The CBI appointed an external auditor to conduct special audits of its net international reserves and net domestic assets as of end-June 2010 and this work was completed by mid-January 2011 (a benchmark for end-October 2010). We have also already appointed an international audit firm to conduct the audit of the 2010 CBI financial accounts. In addition, we will request the auditor to also complete special audits of the CBI's net international reserves and net domestic assets as of December 31, 2010 (a new benchmark for end-May 2011); and provide staff with the draft 2010 audited CBI financial statements and draft management letter (also a new benchmark for end-May 2011).

- The recently completed safeguards assessment update made a few recommendations that we will implement: (i) we took a decision and have changed the composition of the CBI's internal audit committee to have a majority non-executive membership and to operate with a terms of reference in line with Fund recommendations (a benchmark for end-October 2010); (ii) we have appointed an external audit expert to help us assess our internal audit needs; and (iii) we are in the process of selecting a reputable accounting firm to conduct an internal audit of the CBI and to provide assistance to strengthen the CBI's internal audit function (a benchmark for end-December 2010).

- We have amended the Memorandum of Understanding between the CBI and the Ministry of Finance to provide the CBI with the authority to appoint its external auditors and to include a provision that requires the Ministry of Finance to issue promissory notes payable on demand to the Fund promptly following each disbursement under the SBA and to deposit these promissory notes in the IMF securities account with the CBI.

14. Progress has been made in moving toward accepting the obligations of Article VIII, Sections 2(a), 3, and 4, of the IMF's Articles of Agreement. We have worked with IMF staff to complete the review of exchange laws and regulations and are considering measures to remove the identified exchange restrictions on current international transactions. We remain

committed to avoid imposing any restrictions on the making of payments and transfers for current international transactions or introducing any multiple currency practices.

15. We will continue our efforts to resolve outstanding external claims under terms that are consistent with the 2004 Paris Club agreement. Bilateral agreements with thirteen non-Paris Club official creditors have already been signed and are being implemented. Regarding private creditors, most of the commercial debt has been restructured and is serviced as agreed. We also are close to finalizing an agreement with the United States government to settle claims of private US citizens and the Oil-for-Food program has been brought to a close. We expect that the proceeds of the liquidation of the London branch of Rafidain bank will be distributed shortly.

16. Recognizing that the Ministry of Finance and the Central Bank of Iraq have exclusive responsibility for settling Saddam era claims against Iraqi public sector obligors, the Ministry of Finance and the CBI shall appoint a reputable international law firm to perform the following tasks including: monitor the filing of lawsuits in foreign courts against Iraqi defendants seeking recovery of Saddam era claims or the enforcement against Iraqi assets of outstanding court judgments or arbitral awards rendered in respect of such claims; recommend the appointment of competent local counsel to defend such actions in the relevant jurisdictions; coordinate and supervise the activities of such local counsel; act as a central source for information on litigation defenses and strategies in these cases and make this information available to local counsel defending the actions; report regularly to the Ministry of Finance and the CBI on the status of these matters.

17. We will also continue our efforts to improve Iraq's statistical database. We have recently updated the weights used for calculating the consumer price index using more recent household survey data. Efforts for further improvement will focus especially on government finance statistics, balance of payments statistics, and the sectoral classification in the monetary statistics.

18. Performance under the program will be monitored through twice-yearly reviews, with macroeconomic policy performance monitored through semi-annual quantitative performance criteria (Table 1). Progress in structural reforms will be monitored through benchmarks (Table 2).

Table1. Iraq: Quantitative Performance Criteria
Under the Stand-By Arrangement, 2009–11 1/
(In billions of Iraqi dinars, unless otherwise indicated)

	Amount at 12/31/09	3/31/10	6/30/10			12/31/10			6/30/11	12/31/11
		Est.	Program	Adjusted	Est.	Program	Adjusted	Est.	Program	Program
Stock of net international reserves of the CBI (floor; eop stock, in millions of U.S. dollars)	44,337	43,895	44,178	44,178	41,388	44,019	44,019	50,632	50,580	50,529
Net domestic assets of the CBI 2/ (ceiling; eop stock)	-1,243	-4,117	38	38	-1,085	1,320	1,320	582	1,554	2,527
Development Fund for Iraq balances (DFI) (floor; eop stock; in billions of U.S. dollars, excl. FMS)	9.9	11.9	4.5	6.0	9.8	2.6	3.7	7.4	5.2	2.9
Cumulative flow from beginning of calendar year										
Central government fiscal deficit (CGFD, ceiling) 3/ 4/ 5/	…	-3,584	9,149	7,378	-2,575	17,939	16,670	…	7,855	15,711
Central government current spending bill (ceiling) 3/ 5/	…	4,854	14,926	14,926	9,964	27,138	27,138	…	14,991	29,981
Direct government subsidies to the fuel sector 6/	…	0	0	0	0	0	0	0	0	0
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) 6/ 7/	…	0	2,000	2,000	0	2,000	2,000	500	2,000	2,000
External arrears on existing/rescheduled debt and new borrowing (in millions of U.S. dollars; ceiling) 6/	…	0	0	0	0	0	0	0	0	0

1/ The Technical Memorandum of Understanding (TMU) provides for precise definitions of all performance variables.
2/ Excluding other items net.
3/ End-March, end-June, and end-December performance criteria are cumulative from January 1.
4/ The fiscal balance will be measured via the sources of financing. See TMU for details.
5/ The current spending bill includes wages (excluding ministries of defense and interior), public distribution system, and transfers to state owned-enterprises. See TMU for details.
6/ To be monitored on a continuous basis.
7/ Concessionality is defined as loans with a grant element of 35 percent or higher. See TMU for details.

Table 2. Iraq: Structural Benchmarks Under the Stand-By Arrangement

	Date	Status
Program Safeguards and Central Banking		
1. Completion by an external auditor of the audit of the CBI 2008 financial statements in accordance with International Standards on Auditing.	March 31, 2010	Met
2. Prepare and submit to the Governor of the CBI monthly reports on the status of the CBI's investment portfolio, in light of the investment criteria established in the reserve management guidelines.	March 31, 2010	Met
3. Provide to IMF staff: (i) the completed special audit data as of December 31, 2009, including on the CBI's net international reserves and net domestic assets, and (ii) the draft 2009 audited financial statements and draft management letter.	March 31, 2010	Largely met
4. Completion by an external auditor of special audits of the CBI's net international reserves and net domestic assets as of June 30, 2010	October 30,2010	Met
5. Put into effect the changes to the CBI Internal Audit Committee, including majority non-executive membership and a terms of reference establishing mandate and independence	October 30, 2010	Met
6. Contract an external audit firm to assist the CBI with strengthening its internal audit function	December 31, 2010	Underway
7. Completion by an external auditor of special audits of the CBI's net international reserves and net domestic assets as of December 31, 2010	May 31, 2011	
8. Provide to IMF staff the draft audited CBI 2010 financial statements and draft management letter.	May 31, 2011	
9. The Ministry of Finance and the CBI to retain reputable legal counsel to: monitor the filing of lawsuits in foreign courts against Iraqi defendants seeking recovery of Saddam era claims or the enforcement against Iraqi assets of outstanding court judgments or arbitral awards rendered in respect of such claims; recommend the appointment of competent local counsel to defend such actions in the relevant jurisdictions; coordinate and supervise the activities of such local counsel; act as a central source for information on litigation defenses and strategies in these cases and make this information available to local counsel defending the actions; report regularly to the Ministry of Finance and the CBI on the status of these matters.	Continuous as of May 1, 2011	
Bank Restructuring		
10. Completion of the restructuring of the balance sheets of Rasheed and Rafidain banks.	June 30, 2011	Underway
Public Financial Management		
11. Complete review of all accounts in the banking system that are classified as central government accounts and reconcile them with Treasury records, returning any idle balances received from the budget to the central Treasury.	March 31, 2010	Partially met
12. Submit • to the Board of Supreme Audit and to the Council of Representatives the final accounts of the Federal Budget for the year ending December 31, 2008; • to the Council of Representatives and publish the audited accounts of the Federal Budget for the years ending December 31, 2005 and December 31, 2006; and • to the Board of Supreme Audit and to the Council of Representatives the final accounts of the Federal Budget for the year ending December 31, 2009.	March 31, 2010 March 31, 2010 September 30, 2010	Met Largely met Underway
13. To strengthen reporting and cash management: (i) start receiving monthly reports from spending units on spending, including investment, advances, and letters of credit, no later than two months after the end of each month and reconcile these amounts with the cash balances at the beginning and end of the reporting period; and (ii) approve cash releases only after the Ministry of Finance has	Continuous from April 30, 2010	Partially met

reviewed the report from three months before.		
14. To improve budget preparation for 2011, set ceilings in the budget circular for current and investment spending, in line with a sustainable medium term budget strategy.	June 30, 2010	Largely met
15. Prepare a detailed report documenting a review of the outstanding stock of advances to identify those that are recoverable; on the basis of the review, classify the debts as recoverable or irrecoverable; set a time schedule for their recovery, and for writing off irrecoverable advances based on appropriate authorization at a high level. Once actions have been taken to recover doubtful amounts, recommend that they be written-off.	September 30, 2010 (full inventory by May 31, 2011, review by September 30, 2011)	Partially met
16. Complete an audited review of the largest investment projects initiated in 2008. The review, conducted by the BSA, should discuss the criteria used for approving the projects; the procurement process and the project management process.	September 30, 2010 (October 31, 2011)	Not met
17. Completion of census of all central government employees (excluding those employed in the security area).	September 30, 2010	Not met
18. Complete and distribute to all spending units a new, comprehensive accounting manual.	December 31, 2010	Underway
19. Develop, in consultation with the IMF and World Bank, a set of core functional requirements for a financial management system that is consistent with international good practice, including the ability to produce regular comprehensive reports; the inclusion of a commitment control system; and a decision on the envisaged payments system and associated banking arrangement.	May 31, 2011	
20. Rationalize the arrangements for spending units' accounts with a view toward consolidating government cash balances.	June 30, 2011	
Oil Sector		
21. Complete the process of becoming a candidate for membership in the EITI.	March 31, 2010	Met
22. Complete the installation of all domestic metering systems to allow accurate measurement of domestic oil flows.	December 31, 2010 (December 31, 2011)	Partially met
23. Conduct an audited review of the domestic oil sector to reconcile the flows of oil and oil products at key points in the national system with the financial flows between the various state-owned companies and the budget.	June 30, 2011	
24. Maintain a single account for oil export proceeds, subject to the strict transparency and accountability rules that govern the DFI, including an independent external audit, and the oversight of the Committee of Financial Experts (COFE).	Continuous	Met

Attachment III. Iraq: Technical Memorandum of Understanding

March 3, 2011

1. This memorandum describes the quantitative and structural performance criteria, benchmarks, and indicators for the third Stand-By Arrangement (SBA) with the International Monetary Fund (IMF). It also specifies the periodicity and deadlines for transmission of data to the staff of the IMF for program monitoring purposes.

I. Quantitative Performance Criteria and Indicators

2. The quantitative performance criteria are the following:

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

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

(iii) a ceiling on the central government fiscal deficit;

(iv) a ceiling on the central government current spending bill;

(v) a floor under the balance in the Development Fund for Iraq (DFI);

(vi) a ceiling on direct government subsidies to the fuel sector;

(vii) a ceiling on contracting and guaranteeing of new medium- and long-term non-concessional external debt contracted or guaranteed by the central government and/or the CBI; and

(viii) a ceiling on external payments arrears on any rescheduled and new debt of the central government and/or the CBI.

II. Definitions

3. For purposes of monitoring under the program, a **program exchange rate** will be used. This program exchange rate will be set at ID 1,170 per U.S. dollar. The program exchange rate will be used to convert into Iraqi dinars the U.S. dollar value of all CBI foreign assets and liabilities denominated in U.S. dollars, as required. For CBI assets and liabilities denominated in SDRs and in foreign currencies other than the U.S. dollar, they will be converted in U.S. dollars at their respective SDR-exchange rates prevailing as of December 31, 2010, as published on the IMF's website.

4. For the purpose of this program, the **international or world oil price** is understood to be the Average Petroleum Spot Price (APSP) used in the IMF's World Economic Outlook

(WEO), which is the simple average of UK Brent, Dubai Fateh, and West Texas Intermediate spot prices reflecting world exports of light, medium, and heavy crude oil. The **projected international or world price** for a particular year is the latest WEO price projection for that year as released by the IMF's Research Department to IMF staff. IMF staff will provide these oil price projections to the Iraqi authorities. For purposes of making projections, the **projected Iraqi oil price** will be calculated as the difference between the relevant projected international or world price (as defined above) and the average differential between the international price and the actual price at which Iraqi crude has been sold in the preceding 18-tmonth period.

5. For the purpose of assessing whether the SBA will be treated as precautionary, the **relevant revenue variable** will be the actual monthly revenues as reported by the Central Bank of Iraq when the payments for oil are deposited into the Development Fund for Iraq.

6. For program purposes, **central government** is defined to include the central administration, the Kurdish government, as well as agencies included under Section 6 (the local boards, Iraqi media network, Iraqi national Olympic committee, Bait-Al-Hikma, Ammant Baghdad, Municipality institutions, as well as the General directorates of sewerage and water).

7. **Net international reserves (NIR)** are defined as gross usable reserves minus reserve-related liabilities of the CBI. Gross usable reserves of the CBI are claims of the CBI on non-residents that are controlled by the CBI, denominated in foreign convertible currencies, and are immediately and unconditionally available to the CBI for meeting balance of payments needs or for intervention in foreign exchange markets, and are not earmarked by the CBI for meeting specific payments. They include CBI holdings of monetary gold, SDRs, Iraq's reserve position in the IMF, foreign currency cash, and deposits abroad, except for the resources of the DFI but including the CBI DFI sub-account. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered; claims on residents; precious metals other than monetary gold; assets in non-convertible currencies; illiquid assets; and claims on foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options). Reserve-related liabilities shall be defined as foreign currency denominated liabilities of the CBI to non-residents with original maturity of one year or less, and all liabilities to the Fund, but excluding the liabilities represented by SDR allocations. They include: foreign currency reserves of commercial banks held at the CBI; commitments to sell foreign currency arising from derivatives (such as futures, forwards, swaps, and options); and all arrears on principal or interest payments to commercial banks, suppliers, or official export credit agencies. As of December 31, 2009, (net) international reserves amounted to US$44.34 billion, all comprising of reserve assets. The program floors on the net international reserves of the CBI are reported in Table 1.

8. **Net domestic assets of the CBI** include (i) net claims on the general government, comprising of gross claims on the general government minus general government domestic

and foreign currency deposits at the CBI; (ii) gross claims on commercial banks; (iii) monetary policy instruments, including dinar and foreign currency denominated term deposits and CBI bills; and (iv) gross claims on non-bank, non-government entities. For the purpose of this arrangement, net domestic assets of the CBI excludes other items net, comprising of net fixed and other assets, minus revaluation accounts and capital and reserve accounts. As of end-December 2009, net claims on the general government amounted to ID 2,740 billion; gross claims on commercial banks stood at ID 4 billion; monetary policy instruments amounted to ID -3,988 billion; and gross claims on non-bank, non-government entities were nil, resulting in a stock of the CBI's net domestic assets of ID -1,243 billion. As of end-December 2009, OIN amounted to ID -1,040 billion. The program ceilings of the net domestic assets of the CBI are reported in Table 1.

9. The **central government fiscal deficit** will be calculated as the sum of domestic and external financing of the central government balance, adjusted for any deviations in the amounts of (i) donor financing for projects and (ii) "other financing" in excess of program projections. 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. External financing includes financing from (i) the Development Fund for Iraq, (ii) donor financing for projects, (iii) other financing not elsewhere classified, and net of (iv) the amortization of external debt. The ceilings for end-June 2011, and end-December 2011 will be measured on a cumulative basis from January 1, 2011. The program ceilings of the central government fiscal deficit are reported in Table 1.

10. The **central government current spending bill** includes the wage and pension bill, the in-kind transfers under the Public Distribution System (PDS), and transfers to state-owned enterprises (SOEs). The **wage and pension bill** includes all wage and pension payments made by the central government, excluding wage payments made by the ministries of defense and interior. Specifically, with reference to the 2009 budget classification, it includes expenditures under Section 1 (except those for the ministries of defense and interior) and Section 6, sub-section 1, items 2(1), 3(1, 3, 5, and 7), 4(1), 5(1), 7(1), 8(1), 9(1), 10(1), 11(1), 12(1), and 13(1). The **Public Distribution System** bill includes the spending reported under Section 7, sub-section 2, item 1(1). The **transfers to the SOEs bill** covers expenditures covered in Section 5, net items covered under subsection 2, items 1(1 to 6). The ceilings on the government current spending bill for end-June 2011, and end-December 2011 will be measured on a cumulative basis from January 1, 2011. The program ceilings of the central government current spending bill are reported in Table 1.

11. The **balance in the DFI** consists of: (i) the main account held at the Federal Reserve Bank of New York that consolidates all receipts from export sales of petroleum and petroleum products; proceeds from frozen assets in foreign countries; balances related to the United Nations Oil for Food Program; interest or other revenue accrued from income investments

(i.e., overnight deposits and repos, interests derived from the PCO, FMS and TBI balances) and T-bills; returned Letters of Credit; and other deposits and revenue covered under the UNSCR 1483 (2003) resolution; and (ii) the balance in the PCO account. For program purposes, the balance in the FMS account is excluded from the balance in the DFI. The program floors on the balance in the DFI are reported in Table 1.

12. **Direct government subsidies to the fuel sector** shall comprise of any financial assistance rendered by the Ministry of Finance to fuel-related enterprises. The ceilings for end-June 2011, and end-December 2011 will be measured on a cumulative basis from January 1, 2011. The program ceilings of the direct government subsidies to the fuel sector are reported in Table 1.

13. A continuous ceiling applies to the non-accumulation of **external payments arrears** on rescheduled debt and new external debt contracted or guaranteed by the central government and/or the CBI. External payment arrears consist of external debt service obligations (principal and interest) falling due after December 31, 2009 and that have not been paid at the time they are due, as specified in the contractual agreements. The program ceilings of the external payments arrears are reported in Table 1.

14. As set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), August 24, 2000), the term "**debt**" will be understood to mean a current liability (i.e., not contingent), created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits), and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair or maintenance of the property. Arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an

obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

15. For purposes of the program, the **guarantee of a debt** arises from any explicit legal obligation of the government or CBI or any other agency acting on behalf of the government to service such a debt in the event of non-payment by the recipient (involving payments in cash or in kind), or indirectly through any other obligation of the government or CBI to cover a shortfall incurred by the loan recipient.

16. The limits on **medium- and long-term external debt** apply to the contracting or guaranteeing by the government and/or the CBI of new, non-concessional external debt with an original maturity of more than one year. This limit applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt in Fund Arrangements (Decision No. 6230-(79/140), August 3, 1979, as amended by Decision Nos. 11096-(95/100), October 25, 1995, and 12274-(00/85), August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received. External debt will be considered to have been contracted at the point the loan agreement or guarantee is ratified by the Iraqi parliament. Excluded from this limit are leases of real property by Iraqi embassies or other foreign representations. External debts will be expressed in U.S. dollar terms, with debts in currencies other than the U.S. dollar converted into U.S. dollars at the market rates of the respective currencies prevailing on December 31, 2010, as published on the IMF's website. The program ceilings of the contracting or guaranteeing of medium- and long-term external debt are reported in Table 1. These limits are applied on a continuous basis to the contracting and guaranteeing of external debt on or after January 1, 2010 and the limit during the period preceding each test date will be the ceiling set for that particular test date.

17. **Concessionality** will be based on currency-specific discount rates based on the Organization for Economic Co-operation Development (OECD) commercial interest reference rates (CIRRs). For loans of an original maturity of at least 15 years, the average of CIRRs over the last 10 years will be used as the discount rate for assessing the concessionality of these loans, while the average of CIRRs of the preceding six-month period will be used to assess the concessionality of loans with original maturities of less than 15 years. To the ten-year and six-month averages of CIRRs, the following margins will be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–30 years; and 1.25 percent for over 29 years. Under this definition of concessionality, only loans with grant element equivalent to 35 percent or more will be excluded from the debt limits. The debt limits also will not apply to loans contracted for debt rescheduling or refinancing (including the deferral of interest in commercial debt), and credits extended by the IMF and the World Bank.

VI. PROGRAM ADJUSTORS

18. If oil revenues exceed the amounts projected under the program ($30.5 billion in the first half of 2011; and $61 billion for the entire year 2011), half of the additional revenues up to a maximum of $5 billion can be used to finance additional capital spending. In this case, the **ceilings on the central government fiscal deficit** for end-June 2011, and end-December 2011 will be adjusted *downwards* by half of the excess as compared to the respective projected amounts, multiplied by the program exchange rate.

19. If oil revenues fall short of the amounts projected under the program (as in paragraph 17), spending will be reduced by half of the shortfall, while the remaining gap of revenues will be financed by drawing down financial buffers built up in the DFI or government deposits in the CBI or commercial banks. In this case, the ceilings on the central government fiscal deficit will be adjusted upwards by half of the shortfall.

20. The **floors under the balance in the DFI** for end-June 2011, and end-December 2011 will be adjusted upwards/downwards by half of the excess/shortfall in oil revenues as compared to the projected amounts as described in paragraph 17.

VII. PROVISION OF INFORMATION TO THE FUND STAFF

A. Data

21. To monitor developments under the SBA, the authorities agree to provide the Fund, the information specified below after SBA approval. The program is designed with semester quantitative performance criteria and the actual outcome should be provided within eight weeks following the end of the semester. However, in order to facilitate regular monitoring, many of the indicators should be provided with higher frequencies, as indicated below.

- CBI gross foreign exchange reserves (weekly) and balances of the DFI held at the FRBNY. This should be reported no longer than 2 weeks after the end of the reference week.

- The monthly balance sheet of the CBI, with a month lag.

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

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

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

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

- Detailed revenues, operating and capital expenditure, and financing items of consolidated fiscal and oil operations, and overall fiscal balance. These data should include the execution of the Iraqi budget, operations and deposits of the oil-related state-owned enterprises, disbursements of external assistance and loans, execution of letters of credit financed under the UN oil-for-food program, all operations of the DFI and its sub-accounts, balances of all government accounts held at the CBI and the commercial banks, and outstanding stock of government securities (including treasury bills). These data should be reported on a monthly basis and no later than eight weeks after the end of the reference month.

- Amount of total imports of petroleum products financed from the budget on a quarterly basis starting with the first quarter of 2009. These data should be reported no later than eight weeks after the end of the reference quarter.

- Indicators of oil activity on crude oil and gas production and use, production and sales (export and domestic) of refined petroleum products, including heavy residuals (monthly). These data should be reported no longer than eight weeks after the end of the reference quarter.

- Indicators of non-oil real economic activity (quarterly), including production of cement, fertilizers, and electricity, reported no longer than eight weeks after the end of the reference quarter.

- Detailed data on disbursement of external assistance (both project and budget financing) from the U.S. and other donors, including by recipient sector; foreign debt amortization and interest payments made; and total outstanding domestic and external debt. These data should be reported on a monthly basis no more than eight weeks after the end of the reference month.

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

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

- Foreign trade statistics (imports, exports, re-exports) (quarterly). This should be reported no longer than eight weeks after the end of the reference quarter.

- The balance sheet of the Trade Bank of Iraq (TBI) as well as data on issued, implemented and outstanding Letters of Credit, with no more than an eight weeks lag.

- The amount and terms of concessional loans contracted and their grant element, on a quarterly basis, with no more than eight weeks lag.

B. Structural Reforms

22. The authorities will prepare and send to the IMF reports, with appropriate documentation, indicating progress achieved, explaining any deviations relative to the initial planning, and specifying expected revised completion dates.

C. Other Information

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

INTERNATIONAL MONETARY FUND

IRAQ

Second Review Under the Stand-By Arrangement, Requests for Waiver of Applicability, Extension of the Arrangement, and Rephasing of Access

Informational Annex

Prepared by the Middle East and Central Asia Department

March 4, 2011

Contents Page

ANNEX I. IRAQ: RELATIONS WITH THE FUND

As of January 31, 2011

I. **Membership status:**
Date of membership: December 27, 1945
Status: Article XIV

II. **General resources account:**	**SDR Million**	**%Quota**
Quota	1,188.40	100.00
Fund holdings of currency	1,789.77	150.60
Reserve Position	171.10	14.40

III. **SDR department:**	**SDR Million**	**%Allocation**
Net cumulative allocation	1,134.50	100.00
Holdings	1,151.87	101.53

IV. **Outstanding purchases and loans:**	**SDR Million**	**%Quota**
Stand-by Arrangements	772.46	65.00

V. **Latest financial arrangements:**

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Feb 24, 2010	Feb 23, 2012	2,376.80	772.46
Stand-By	Dec 19, 2007	Mar 18, 2009	475.36	0.00
Stand-By	Dec 23, 2005	Dec 28, 2007	475.36	0.00

VI. **Projected payments to Fund:**
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2011	2012	2013	2014	2015
Principal	0.00	0.00	111.41	386.23	274.82
Charges/Interest	10.86	10.98	10.69	7.29	2.10
Total	10.86	10.98	122.11	393.52	276.92

VII. **Implementation of HIPC Initiative:** Not Applicable.

VIII. **Safeguards assessments:**

The Central Bank of Iraq (CBI) was subject to an update safeguards assessment, completed on June 14, 2010, with respect to the Stand-By Arrangement with the IMF approved on February 24, 2010. The assessment confirmed significant safeguards risks remained at the CBI, including heavily qualified external audit opinions, structural deficiencies in the control framework and concerns with operational controls, and delays in the completion of external audits and publication of financial statements. Mitigating measures have already been incorporated in the Stand-By Arrangement: an MOU governing budgetary support with the MoF, and the completion of (i) an NIR audit at June 2009 and (ii) the audited 2009 financial statements. To help further mitigate residual safeguards risks, the assessment recommended additional measures, some of which have since been implemented: expanded NIR and NDA reviews as at June 2010 were completed (with further reviews at test dates throughout the program); appointment of an international audit firm to conduct the 2010 audit; and a majority independent audit committee has been established with enhanced terms of reference. A further recommendation to co-source the internal audit function is in progress.

IX. **Exchange rate arrangement:**

The Central Bank of Iraq has been conducting foreign exchange auction on a daily basis since October 4, 2003. The central bank followed a policy of exchange rate stability which has translated in a *de facto* peg of the exchange rate since early 2004. However, from November 2006 until end 2008, the CBI allowed the exchange rate to gradually appreciate. As a result, the exchange rate arrangement of Iraq was reclassified to the category of crawling peg effective November 1, 2006. Since the start of 2009, the CBI returned to its earlier policy of maintaining a stable dinar. Consequently, the exchange rate arrangement of Iraq was reclassified effective January 1 2009 as a stabilized arrangement.

Iraq continues to avail itself of the transitional arrangements under Article XIV. Iraq has a generally unrestricted current account regime and a significantly liberalized capital account. However, four measures (plus one exchange restriction maintained for national or international security) have been identified to give rise to exchange restrictions subject to IMF approval, namely, (i) the requirement to pay all obligations and debts to the government before proceeds of investments of investors, and salaries and other compensation of non-Iraqi employees may be transferred out of Iraq, (ii) the requirement to submit a tax certificate and a letter of non-objection stating that the companies do not owe any taxes to the government before non-Iraqi companies may transfer proceeds of current international transactions out of the country, (iii) the requirement that before non-Iraqis may transfer proceeds in excess of ID 15 million out of Iraq, the banks are required to give due consideration of legal obligations of these persons with respect to official entities, which must be settled before allowing any transfer, and (iv) an Iraqi balance owed to Jordan under an inoperative bilateral payments agreement. In addition, one exchange restriction maintained for security reasons should be notified to the IMF under the framework of Decision 144-(52/51).

X. Article IV consultations:

The last Article IV consultation was concluded on February 24, 2010. The staff report (IMF Country Report No. 10/72) was published on March 16, 2010, and is available on the internet at http://www.imf.org/external/pubs/cat/longres.cfm?sk=23713.0

XI. Recent technical assistance:

Department	Date	Topic
FAD	February 2005	Public Financial Management (Joint FAD-World Bank Mission)
	April 2005	Budget Classification Reform
	November 2006	Financial Management Information System
	December 2006	Oil sector management and fiscal federalism
	May 2007	Tax policy workshop
	March 2008	Public Financial Management
	August 2008	Oil sector—Pricing and Financial Flows
	March 2008	Oil sector—Taxation
	October 2009	Public Financial Management
	May 2010	Public Financial Management
LEG	August 2008	AML/CFT raising awareness workshop
	October 2008	Article VIII acceptance
	February 2009	Workshop for financial intelligence unit and criminal justice officials on AML/CFT measures
	April 2010	Phase One of the Three-Phase AML/CFT Capacity Enhancement and Sustainability Training Program
	July 2010	Phase Two of the Three-Phase AML/CFT Capacity Enhancement and Sustainability Training Program
MCM	March 2007	Banking restructuring
	March 2007	Banking supervision
	September 2007	Banking restructuring
	March 2008	Liquidity forecasting and management
	April 2008	Bank restructuring workshop
	July 2008	Reserves management
	August 2008	Bank restructuring workshop
	October 2008	Article VIII acceptance
	December 2008	Reserve management
	January 2009	Bank supervision workshop
	March 2009	Banking supervision workshop
	July 2009	TA coordination summit
	November 2009	Reserve Management

	November 2009	Banking supervision workshop-reporting forms
	April 2010	Islamic banking workshop
	August 2010	Reserve Management
	August 2010-present	Remote assistance on liquidity management and treasury market development
	April 2011	Risk management workshop
STA	January 2006	Balance of Payments statistics
	March 2006	Monetary and Financial Statistics
	November 2006	Balance of Payments Statistics
	January 2007	Monetary and Financial Statistics
	January 2007	Consumer price statistics
	April 2007	Monetary and Financial Statistics
	February 2007	National Accounts Statistics
	November 2007	Consumer price statistics
	February 2008	Balance of Payments Statistics
	February 2008	National Accounts Statistics
	January 2009	Balance of Payments Statistics
	November 2009	National Accounts Statistics
	April 2010	Balance of Payments Statistics
	July 2010	Monetary and Financial Statistics
INS	February 2006	Financial Programming and Policies
	February 2007	External Sector Issues
	March 2008	Financial Programming and Policies
	January 2009	Financial Programming and Policies
	January 2010	Financial Programming and Policies

XII. **Resident Representative**

Mr. Shbaikat was appointed on December 2010 as resident representative for Iraq. Due to the prevailing security situation he is currently based in Amman (Jordan).

ANNEX II. IRAQ: RELATIONS WITH THE WORLD BANK GROUP

As of February 18, 2011

1. Iraq, a founding member of the International Bank for Reconstruction and Development (IBRD), received six loans from the IBRD between 1950 and 1973 for agriculture, education, flood control, telecommunications, and transport. The last loan closed in 1979. Iraq was in non-accrual status from 1990 to December 2004, when it paid its arrears to the IBRD (about US$108 million). The Bank began reengaging with Iraq in 2003, with the preparation of Watching Briefs followed by a Joint Needs Assessment together with the United Nations. A first Interim Strategy Note (ISN) for Iraq, discussed by the Bank's Executive Directors in January 2004, relied on grants from the multi-donor World Bank-administered Iraq Trust Fund (ITF) to finance projects. This was later supplemented by IDA credits and an IBRD Development Policy Loan.

D. The Bank Group Strategy and Operations

2. The World Bank's Group's third ISN for Iraq for the period FY2009–FY2011 was discussed by the World Bank's Board of Executive Directors on March 19, 2009. The central guiding principle of the ISN is that the main role for the World Bank is to help Iraq use its resources more effectively and transparently and to lay the ground for private sector development. The ISN includes three thematic areas of engagement: (i) continuing to support ongoing reconstruction and socio-economic recovery; (ii) improving governance and the management of public resources, including human, natural and financial; and (iii) supporting policies and institutions that promote broad-based, private-sector-led growth, with the goal of revitalizing the private sector and facilitating job creation. The Bank is initiating preparation of a Country Partnership Strategy (CPS), which will cover the period FY12-FY15.

3. Analytical and Advisory Activities. In addition to financial support, the Bank places special emphasis on its analytical and advisory activities (AAA), including capacity building, policy advice, and economic and sector work, as key vehicles of Bank assistance to Iraq. Examples of recent key analytical work include a Report on the Management of the Public Distribution System (2005), a Public Expenditure Institutional Assessment (2008); and a Poverty Assessment (2010). An Investment Climate Assessment is underway, and a Country Economic Memorandum and a Public Expenditure Review are underway.

4. Public finance management reform continues to be a key component of the Bank's engagement with Iraq. The PEIA, issued to the Government in June 2008, outlined steps for strengthening the accountability and transparency of public finance institutions and policies and help Iraq meet the goals set in the Iraq Compact. The PEIA underpins an Iraqi-owned public finance management reform program. A Public Financial Management project, financed through the World Bank-administered Iraq Trust Fund (ITF) was approved in June 2009 to provide technical assistance (TA) to help the GOI's develop a more effective, accountable and transparent public financial management system. The Bank has also

provided related support to modernize the public procurement system, including the drafting of a new public procurement law.

5. While focusing on public resource management, the Bank is supporting other key issues: strengthening social safety nets and modernizing the pension system; improving the efficiency and effectiveness of the Public (food) Distribution System; assessing poverty and vulnerability; improving management of oil revenues; and restructuring the state-owned banking system, for which an ITF-financed Banking Sector Reform project was approved in April 2009. The Bank has also provided policy support in a wide range of sectors including education, electricity, health, transport, water supply and sanitation, and water resource management.

6. **World Bank Iraq Trust Fund (ITF)**. Seventeen donors have deposited US$494 million in the ITF. ITF projects focus on helping the GOI strengthen its institutional capacity to deliver services, utilize its resources in an efficient and transparent manner, and implement key reforms. ITF grants finance textbooks, schools, pharmaceuticals and health clinics, improved social safety nets, water supply and sanitation, irrigation and drainage, electricity, environmental management, private sector development, banking and public finance management reform efforts, and the development of a national energy strategy. The ITF also finances technical assistance to help strengthen Iraqi institutions to develop baseline poverty data, and improve social safety net targeting mechanisms.

7. The ITF is fully committed, with 19 active projects valued at US$439 million (5 additional projects for US$$89 million have now been completed). The vast majority of ITF projects are implemented by Iraqi agencies (15) to help the GOI develop effective institutions to ensure country ownership. Five projects, totaling US$21 million, finance technical assistance/capacity building activities that are implemented by the Bank at the request of the GOI. Commitments and disbursements continue to increase. Overall, as of December 31, 2010, project-level commitments totaled about US$333.6 million (about 76 percent of the grant amounts), and disbursements for project expenditures totaled US$281.6 million (about 64 percent of the grant amounts).

8. The following technical assistance (TA) operations have been the latest projects approved for ITF financing are: (i) Institutional Strengthening and Capacity Building for the Education Sector Project (US$3 million) to help four education ministries develop a coherent, Iraqi-owned, national education sector strategy; (ii) Pension Reform Implementation Technical Assistance Project (US$6 million) to support the Ministry of Finance in developing a long-term pension strategy to expand social insurance coverage, and unify the policies and administrative bodies of private and public sector pension schemes; and (iii) Integrated National Energy Strategy Technical Assistance Project (US$5 million) to support the GOI in formulating an Integrated National Energy Strategy covering the entire energy sector (including oil, gas and power), with particular emphasis on their coordination and on setting the stage for effective medium- and long-term development.

9. IDA and IBRD. In late 2004, Iraq benefited from an exceptional IDA (the Bank's concessional assistance window) allocation of about US$500 million. Since then, the Bank has approved 5 IDA projects amounting to US$509 million, to finance projects in education, roads, electricity and water. Following a lengthy delay in identifying the required steps to make the credits effective, Iraq's parliament ratified the four loans on July 2007, and the water project in September 2009.As of December 2010, project-level commitments totaled US$332.7 (about 68 percent of the credit amounts) and disbursements totaled US$104.0 (about 20 percent of the credit amounts) In February 2010, the World Bank's Board of Executive Directors approved the first IBRD loan for Iraq--a US$ 250 million First Programmatic Fiscal Sustainability Development Policy Loan. This project was signed in March 2010; became effective in April 2010 and disbursed in May 2010.

10. The Bank engages a Fiduciary Monitoring Agent (FMA) to help supervise ITF and IDA project implementation. The FMA employs about 24 Iraqi professionals to monitor the physical implementation of projects and compliance with procurement and financial management requirements. The FMA visits projects sites and meets with ministry staff on a daily basis and provides monthly progress reports to the Bank.

11. **IFC investment and advisory services and MIGA's political risk guarantee products aiming at leveraging private financing**. IFC's committed portfolio in Iraq currently stands at US$65 million in 3 companies: a 10% equity stake in Credit Bank of Iraq in partnership with the National Bank of Kuwait (NBK); a US$14 million loan committed in FY10 to Malia Investments for the establishment of a Greenfield hotel in Erbil, and a US$45 million loan to Gulftainer (a UAE based container port operator) to support their investments in ports and logistics sector in Basra-southern Iraq The focus of the advisory services activities is to support the improvement of the Investment Climate, Financial Infrastructure strengthening, capacity building of the banking sector, selective SME management training, especially targeting women, and the promotion of public-private partnerships in collaboration with the World Bank. This program will be supported by the Iraq Business Assistance Facility (IBAF), a US$38 million multi-donor fund. In FY11, IFC expects to make new investment commitments in telecommunication, construction material and the power sectors as well as support trade finance through its Global Trade Finance Program (GTF).

12. MIGA approved a $5 million guarantee was approved in September 2010 for Karo Dis Ticaret ve Sanayi Ltd. of Turkey covering a shareholder loan to the Sebeel Al Safa Manufacturing Petrochemicals and Water Filling Company in Iraq. MIGA is considering future projects in housing, oil and gas, and telecoms. Additionally, MIGA has identified several potential projects for Iraq for support under its new Conflict Affected and Fragile Economies Facility (pending Bank Board approval of the facility this summer).

E. IMF-World Bank Collaboration in Specific Areas

13. The Bank is working closely with the Fund on the reform program in Iraq. The two institutions have conducted a number of joint missions and organized policy workshops and training courses for Iraqi civil servants and academics, covering public financial management, oil revenue management, intergovernmental finance, investment climate, payment system, banking supervision, social safety nets, and the like. There are no major differences of views between the two institutions on policy issues. The staffs are in broad agreement on the core reform program in Iraq, namely: (i) reinforcing public governance and institutions, including management of oil revenues; (ii) ensuring coherent and well-sequenced market-focused reforms; (iii) strengthening social safety nets; and (iv) improving delivery of essential services, including education and health.

14. The Bank and the IMF worked collaborated very closely in the design of their respective budget support operations for Iraq. The Bank's Development Policy Loan and the IMF's new Stand-By Arrangement mutually reinforce each other, and are underpinned by a similar set of structural reform priorities.

F. Areas in Which the World Bank Leads and There is No Direct IMF Involvement

15. Through ITF- and IDA-funded projects the Bank is providing emergency support to rehabilitate vital public services—education, health, water supply and sanitation, urban infrastructure, power, and telecommunications. The Bank anchors its project work in focused analysis of sector issues, and supports Iraqi capacity-building via policy workshops and training courses. The Bank leads work on gender issues; and has successfully facilitated the GOI's efforts to undertake an Iraqi Household Socio-Economic Survey (IHSES) as well as a Poverty Reduction Strategy which was completed in June 2009 and included feedback from more than 100 donors and Iraqi stakeholders.

G. Areas in Which the World Bank Leads and Its Analysis Serves as Input into the IMF-Supported Program

16. The Bank has provided policy advice and inputs to the Prime Minister's Supreme Economic Committee and to key ministries. Bank inputs are provided in the form of policy papers on key reform areas, such as subsidy reform, pension system and social protection, oil revenue governance, public finance management, civil service and payroll reform, restructuring of SOEs and public banks, investment climate, and trade policy and facilitation.

17. The IMF has a strong interest in the areas listed above from the macroeconomic perspective (economic growth and fiscal sustainability, including the phasing out of nontransparent quasi-fiscal operations). The IMF has also a strong interest in governance issues, in particular with regards to oil revenue management.

H. Areas of Shared Responsibility

18. The IMF and the World Bank are working together on macroeconomic and fiscal sustainability, revenue management, the reform of domestic subsidies, financial sector reform (comprising state bank restructuring, strengthening payment system and banking supervision and regulation), public debt management, and statistical capacity building. The Bank and the Fund closely coordinate their capacity building activities in macroeconomic management, public sector governance, private sector development, and social safety nets. The Bank's design of the IHSES benefited from comments provided by the Fund.

I. Areas in Which the Fund Leads and its Analysis Serves as Input into the World Bank–Supported Programs

19. The IMF leads the dialogue on core macroeconomic policies and has taken the lead on debt sustainability analysis, monetary policy, and the management of aggregate expenditures. The Bank is working with the IMF to ensure consistency of the overall macroeconomic and fiscal framework. With the support of the IMF and the World Bank, progress in strengthening budget management and banking sector reform is underway. With support from the IMF, the Government also executed a debt restructuring program with all Paris Club creditors.

J. Areas in Which the IMF Leads and There is No Direct World Bank Involvement

20. The IMF leads the dialogue on monetary and credit policies, exchange rate management, tax policy and administration, and balance of payments issues.

Iraq Country Director: Mr. Hedi Larbi, contact number 5367-224.

Table 1. Iraq: Bank-Fund Collaboration	
Area of Reform	Lead Institution
1. Market-focused reform	
Reform of domestic subsidies	World Bank/IMF
Trade policy and facilitation/WTO accession	World Bank
2. Monetary and credit policies	IMF
3. External sector	
Balance of Payments	IMF
Debt sustainability	IMF
4. Public sector governance	
Public financial management	IMF/World Bank
Oil revenue management	World Bank/IMF
Fiscal Federalism	World Bank/IMF
Payroll reform	World Bank
Tax administration	IMF
Tax policy	IMF
Public debt management	World Bank/IMF
Intergovernmental finance	World Bank/ IMF
Governance and anticorruption	World Bank
5. Public service delivery	
Education and health	World Bank
Power, water and infrastructure	World Bank
Agriculture, and environment	World Bank
Telecommunications	World Bank
6. Private sector development	
Investment climate	World Bank
SOE reform	World Bank
Payment System Reform	World Bank/IMF
Financial sector development, incl. payment system and bank supervision and regulation	IMF/World Bank
Public banks restructuring	World Bank/IMF
Housing Finance	World Bank
7. Human development	
Poverty analysis	World Bank
Pension reform	World Bank/IMF
Social protection strategy	World Bank
Labor market issues	World Bank
Gender issues	World Bank
8. Other	
Statistical capacity building	IMF/World Bank
Sector strategies (agriculture, power, telecommunications)	World Bank

ANNEX III. IRAQ: STATISTICAL ISSUES

A. Background

1. Data provided to the Fund, while broadly adequate for program monitoring, have serious shortcomings that significantly hamper economic analysis. Macroeconomic statistics have suffered from years of neglect and recent turmoil has added to the difficulties. While the Central Organization for Statistics and Information Technology (COSIT) remained in place, its technical expertise has become outdated. At the Central Bank of Iraq (CBI), statistical capacity is slightly better, but issues of interagency data sharing and data collection responsibilities are hampering progress on external sector statistics.

2. Since 2003, the Statistics Department (STA) has provided considerable technical assistance (TA) in all major datasets, including on dissemination standards. The authorities participate in the General Data Dissemination System (GDDS). The ongoing TA program takes into account the absorptive capacity of the statistical agencies involved, and the contributions of other donors.

B. Shortcomings of Statistical Framework

National accounts

3. COSIT compiles annual and quarterly national accounts at currant and constant (1988) prices. Annual data of GDP by activity are available on the website of COSIT for 2001-07, and quarterly GDP data for 2007 and the first three quarters of 2008.

4. The national accounts follow the *1968 SNA,* however, with technical assistance from STA, COSIT is moving towards implementing the concepts of the *1993 SNA*. The quality of the national accounts compiled is poor, due to the lack of source data. There are no comprehensive source data available for estimating the value added by activity and for GDP expenditure categories. A Household Budget Survey (HBS), restaurants and hotel survey, and money exchange survey have been conducted during 2007 but, the results have not been processed yet. Public sector hotels are not covered in the survey because they are occupied by the coalition forces and their staff. An establishment survey was supposed to be conducted in 2007, but due to the security situation, COSIT was not able to conduct the scheduled survey. The data on the oil sector is generally adequate and timely, but there is little information on non-oil economic activity. COSIT still includes the Kurdistan Territory's contribution to GDP by economic activities as percentages for each activity based on results obtained from previous estimates dating back to 1990. Other activities that started in the Kurdistan Territory after 1990 are not included. There are limited price and volume indicators which could be used for deriving volume measures of GDP. The base year (1988) is outdated and needs to be updated. Work is underway to move the base year to 2004.

5. Data collection is reasonably comprehensive for current price data in the formal sector. Under current procedures, businesses employing more than 10 people must report calendar year data by the following October, and small businesses need to report by the following June. Because there are sizable penalties for noncompliance, respondents usually meet these deadlines. However, with recent changes in the country, there is a risk that the timeliness of data reporting will deteriorate.

6. There is a shortage of quarterly and monthly indicators of economic activity and a lack of timely data for services. Quarterly GDP estimates are based on a limited number of indicators - crude oil output, electricity, rent of dwellings, and government expenditure. Nevertheless, for several industries, extrapolating from out-of-date benchmarks adversely affects data reliability. The results of the 2007 HSES should provide better indicators.

Consumer price index

7. Consumer price data are available with relatively short lags but do not cover the Kurdish region. Staffing is inadequate in number and training has been received only during STA technical assistance missions. There is not enough computer hardware and software to process the CPI efficiently. Recent technical assistance missions have focused on providing hands-on training on methodologies for compiling the CPI and on methods for making adjustments in the CPI for seasonality and changes in the quality of goods. Improvements in the CPI have been limited by outdated weights, which date back to 1993. Currently, COSIT is in the process of rebasing the CPI based on the 2007 HSES. Limited training has also been provided on methods for constructing the producer price index (PPI) and the wholesale price index (WPI) and on documenting the procedures and methods used to compile the CPI (metadata); work in this area is continuing.

Monetary and financial statistics

8. Notable progress has been made in developing the components and structure for compiling a depository corporations survey, but the quality of the data continues to be hampered by several factors: (i) the lack of sufficiently trained staff and adequate internal cooperation within the CBI; (ii) difficulty in collecting information on banking transactions in the northern region (Kurdistan); (iii) a chart of accounts (COA) that is not fully compliant with current monetary and financial data requirements—the CBI approved in April 2007 a resolution for drafting a new COA by end-2008; (iv) the use of pre-conflict forms for reporting monetary statistics; and (v) the balance sheet presentations for the commercial banks that do not conform with the sectorization and instrument classification of the *Monetary and Financial Statistics Manual (MFSM)*.

1. The recent mission (July 2010) found that the authorities have made progress in implementing the recommendations from previous missions. However, the mission noted the need for the CBI to undertake actions on: (i) improving sectorization of data—provided by Rafidain bank —that are currently classified under general

government sector and public nonfinancial enterprises; (ii) clarifying the status of negative balances for other central government deposits and miscellaneous liabilities in foreign currency as identified in 1SR SRF; and (iii) developing a draft of the bridge table on mapping the new other depository corporations (ODCs) source data onto 2SR SRF.[1]

Balance of payments statistics

9. Balance of payments statistics are available to the Fund for 2005-2008 in the IMF's *Balance of Payments Manual, fifth edition (BPM5)* format. The quality of the information for recent years has improved; however, the presentation is still limited due to coverage problems and some deviations from the internationally acceptable methodologies. Issues regarding the recording of external debt data continue to impact the coverage and timeliness of balance of payments statistics. International reserves are compiled consistent with international methodologies and published in the *IFS* since end-2006.

10. A recent TA mission (April 2010) noted that the quality of the information remains hampered by the lack of data submission to the CBI from other government institutions and the private sector. The paucity of data exist particularly in the areas of external trade in goods and services, foreign direct investment and external debt statistics.

To help address these and other issues, the mission proposed several short-term recommendations, including improved interagency cooperation on direct investment and external debt statistics, further implementation of the international transactions reporting system, and the development of international investment position data. **External trade statistics**

11. External trade data have serious problems of timeliness and are of poor quality. A new customs form for imports is available but it is not being used at the customs border due to the security situation and the lack of Customs Department resources at the border outlets.

Coverage of private sector imports is constrained by data sources. Only goodsthat are paid for through the Iraqi banking system are captured. Thus goods that are imported under external payments arrangements (for example, imports for direct investment projects) are not recorded in the balance of payments. The coverage of the external trade statistics excludes the northern region of the country (Kurdistan), and no estimates for smuggling are made.

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[1] SRFs are the standardized reporting forms used by STA to collected monetary and financial statistics in a structured way (by instrument, currency and sector). 1 SR refers to the central bank form; and 2 SR refers to the form for ODCs

12. Export data from the oil sector are received from the BOPSD at the CBI. The non-oil export data, which amounts to the equivalent of 3–5 percent of total exports, are compiled based on information from the customs export form. Non-oil export data are provided to the CBI on a monthly basis for crosschecking purposes.

Government finance

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

14. In February 2005, an STA mission—held jointly with a parallel FAD and World Bank mission—discussed a work plan aimed at building up reporting as an integral part of a major rehabilitation of the budgetary, accounting, and fiscal management information system. The mission identified institutional, technical, resource, and coordination issues that would need to be addressed prior to developing the government finance statistics (GFS). These include establishing a macro-fiscal directorate-general in charge of developing and disseminating fiscal statistical data, implementing the classification for mapping the chart of accounts and budget classification onto the format of the *Government Finance Statistics Manual* (*GFSM 2001*) (an area where significant progress has been made), and preparing preliminary estimates of GFS-compliant data for general government on a best effort basis. The Ministry of Finance has also set up a debt unit with the support of external consultants. Iraq does not report government finance statistics for publication in the *Government Finance Statistics Yearbook* (*GFSY*) or *IFS*. Currently there are no fiscal statistics published by the government beyond the summary of central government budgetary estimates and outturn.

Statement by Mr. Shaalan on Iraq
Executive Board Meeting
March 18, 2011

Background

1. Iraq was able to maintain macroeconomic stability in 2010, notwithstanding very challenging domestic and external conditions. With the lower level of oil production, GDP growth in 2010 was modest at about 1 percent. Inflation remained in the low single digits, the exchange rate remained stable, and international reserves increased. Fiscal performance improved, mainly reflecting an under-execution of the capital budget and higher than projected oil revenues. The budget deficit is estimated to have remained well below the original forecast. Nonetheless, both the fiscal balance and current account are projected to remain in deficit in 2011 and 2012. Despite persistent capacity constraints and the long delay in forming a new government, structural reforms progressed in several key areas. These areas include program safeguards, central banking, as well as the oil sector.

2. Notwithstanding these accomplishments, the Iraqi economy continues to face daunting challenges and risks, notably a deteriorating security situation, constraints in administrative capacity, delays in the development of oil fields, and volatility in oil prices.

Economic and Financial Policies in 2011

3. As a result of the increase in oil production, **GDP growth** is expected to recover strongly in 2011. Non-oil GDP is projected to continue to pick-up slowly as security conditions improve.

4. **Fiscal policy**. The 2011 budget balances the need to accelerate investment in public services and oil infrastructure with the need to return to a sustainable fiscal position in the coming years. The authorities appreciate the staff's support for their budget. Iraq's reconstruction needs remain large, and the authorities aim to accelerate the pace of investment in 2011, within the country's implementation capacity, to make up for the previous year's delays. Current spending is also projected to increase in 2011—after being held constant in nominal terms for three years. The main objective is to accommodate higher costs of the in-kind Public Distribution System—stemming from the increase in world food prices— as well as higher security outlays. The budget continues to be based on a conservative assumption for oil revenues.

5. **Monetary policy**. The Central Bank of Iraq (CBI) intends to maintain its present monetary policy, which aims at keeping inflation in the single digits. The exchange rate remains the CBI's main policy instrument, given the very low level of financial intermediation. The authorities remain committed to ensuring the independence of the CBI, which they view as critical for maintaining confidence in the Iraqi dinar.

Structural reforms

6. Continued capacity constraints, compounded by the difficult security situation and the long delay in forming a government, have slowed progress in structural reforms. Nonetheless, considerable progress was made in strengthening program safeguards—notably with the completion of an external audit of the CBI's net international reserves and net domestic assets and the strengthening of the internal audit committee that is charged with addressing remaining safeguard risks that were identified in the safeguard assessment update. The restructuring of the balance sheets of the two largest state-owned banks, Rafidain and Rasheed, is ongoing and is expected to be completed by end-June 2011.

7. With regard to public financial management, the review of all bank accounts in the banking system that were classified as central government accounts is nearly completed, with about only 7 percent of the accounts remaining to be clarified. The authorities acknowledge that improvements in cash management as well as fiscal controls and reporting can be made with the introduction of a Single Treasury Account. With support from the World Bank, the Board of Supreme Audit will carry out a review of a number of large 2008 investment projects with a view to distill lessons on how to enhance the quality of investment projects in the future.

8. Continued progress is being made in improving transparency in the oil sector with the installation and calibration of oil metering systems. Moreover, the authorities are working on modeling, in cooperation with the Fund, the implications of the agreements with the international oil companies on government finances. This work would feed into their Medium-Term Budget Framework. They reiterate their commitment to maintaining a single oil export revenue account that is subject to the principles of transparency and accountability that apply to the Development Fund for Iraq currently.

Performance under the Stand-By Arrangement (SBA)

9. The Iraqi authorities have demonstrated a strong commitment to the program's objectives. They met all the performance criteria for which data were available at end-December 2010. They request waivers of applicability for the end-December performance criteria for which data are not yet available, and for which there is no evidence that these were not observed. Furthermore, they request an extension of the SBA by five months to allow time for an additional review and the implementation of the structural reform measures under the program. Accordingly, and as their financing needs have shifted to 2011, they request a rephasing of the remaining disbursements under the SBA. The authorities intend to treat the SBA as precautionary if oil revenues, irrespective of the combination of volumes and prices, in the first three quarters of 2011 exceed the projection of $46 billion by more

than $3 billion or if at the time of the fourth review, the rate of execution of the capital budget is below 90 percent.

10. The Iraqi authorities are grateful for the valuable policy advice and technical assistance they receive from staff in support of their stabilization and reform efforts, as well as for the continued support provided by the Fund and its membership. They see the arrangement as continuing to provide them with a valuable anchor during a period of difficult political transition and considerable global economic uncertainty.

Press Release No. 11/90
FOR IMMEDIATE RELEASE
March 18, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under Stand-By Arrangement with Iraq, Grants Waivers and Approves US$471.1 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Iraq's economic performance under a program supported by a Stand-By Arrangement (SBA). Completion of the second review makes an additional SDR 297.1 million (about US$471.1 million) available for disbursement, bringing the total resources currently purchased by Iraq under the SBA to SDR 1.069 billion (about US$1.7 billion).

The Executive Board also approved a waiver of applicability of the end-December 2010 performance criteria on the central government fiscal deficit and on the central government spending bill, for which data is not yet available. The Executive Board furthermore approved an extension of the SBA by five months to July 2012, and a rephasing of access under the SBA to match disbursements with Iraq's balance of payments financing needs.

The SBA was approved on February 24, 2010 (see Press Release No. 10/60) for SDR 2.38 billion (about US$3.77 billion). The SBA supported program aims to ensure macroeconomic stability and provide a framework for advancing structural reforms in Iraq.

Following the Executive Board's discussion on Iraq, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, stated:

"Iraq has maintained macroeconomic stability under difficult external and internal circumstances, while making efforts to rebuild key economic institutions. Inflation has remained subdued, and the exchange rate has remained stable. The 2011 budget aims to accelerate investment in public services and infrastructure, and accommodates higher social safety net provisions to support those in need. Iraq's rehabilitation needs remain large and the higher investment spending is essential to help create a vibrant private sector that provides employment opportunities for Iraq's large labor force, thus helping to reduce poverty. At the same time, a strong emphasis on ensuring the quality of public spending will be important.

"Decisive efforts to rebuild key economic institutions and improve governance will be critical for private sector development. The formation of the new government and the expected increase in oil production in the coming years offer an opportunity to do so while maintaining macroeconomic stability. Further strengthening public financial management encompasses the introduction of an automated financial management and information system and improvements in cash management which would eventually culminate in the establishment of a single treasury account. Establishing a framework for oil revenues to succeed the Development Fund for Iraq should help ensure continued accountability and transparency. In the financial sector, moving ahead with the financial and operational restructuring of the two largest state-owned banks and enhancing the central bank's supervision capacity will contribute to creating a financial sector that can provide essential services to the private sector.

"Iraq continues to make progress to conclude debt agreements and resolve outstanding claims under terms comparable to the 2004 Paris Club Agreement."