INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/38

# IRAQ

February 2021

## 2020 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR IRAQ

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2020 Article IV consultation with Iraq, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 8, 2021 consideration of the staff report that concluded the Article IV consultation with Iraq.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 8, 2021, following discussions that ended on December 10, 2020, 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 January 22, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director, Alternate Executive Director, and Senior Advisor** for Iraq.

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

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**International Monetary Fund**
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PRESS RELEASE

PR21/37

# IMF Executive Board Concludes 2020 Article IV Consultation with Iraq

**FOR IMMEDIATE RELEASE**

**Washington, DC – February 11, 2021:** On February 8, 2021 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Iraq.

The COVID-19 pandemic and a sharp decline in oil revenues have exacerbated Iraq's longstanding economic vulnerabilities. Real GDP contracted by an estimated 11 percent in 2020, reflecting a slowdown in non-oil activity and cutbacks in oil output as a result of OPEC+ decisions. Large fiscal and external current account deficits of 20 and 16 percent of GDP, respectively, constrained the government's ability to mount an effective fiscal response to the crisis.

The authorities have begun to take much-needed steps towards ensuring macroeconomic stability while protecting the vulnerable. To help safeguard foreign exchange reserves and reduce the external imbalance, the Central Bank of Iraq has announced a devaluation of the exchange rate. Alongside, the draft 2021 budget, submitted to Parliament, aims to reduce the fiscal deficit through measures to contain the unsustainable expansion of government wage and pension bills and to raise non-oil revenues, while significantly boosting targeted assistance to shield the most vulnerable. The authorities have also set aside sizable resources in support of their efforts to minimize the loss of life to COVID-19, including through acquisition and distribution of a vaccine.

The economy is expected to gradually recover, and the imbalances to narrow, although the outlook remains challenging. Real GDP is projected to return to its pre-pandemic level by 2024. The fiscal and external current account deficits are projected to decline over the medium term. Government debt is expected to peak in 2023 and decline gradually thereafter.

This outlook hinges on strong implementation of reforms and is subject to significant downside risks. Political constraints ahead of the parliamentary elections, renewed bouts of social unrest, or security risks could undermine the reform efforts, putting macroeconomic stability at risk. Furthermore, pandemic-related risks and oil market uncertainties could further complicate the economic situation.

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

**Executive Board Assessment**[2]

Executive Directors agreed with the thrust of the staff appraisal. They noted that the COVID 19 pandemic and the sharp decline in oil revenues have further exacerbated Iraq's existing significant socio-economic fragilities. Directors also noted the authorities' efforts to strengthen the health policy response, boost social safety nets, and reduce the fiscal and external deficits. Nevertheless, downside risks to the economic outlook remain significant amid a challenging socio-political environment. Directors emphasized that implementing strong policies and structural reforms is essential to ensure macroeconomic stability and achieve sustainable and inclusive growth.

Directors emphasized that reducing fiscal imbalances is critical to ensuring fiscal and debt sustainability. They welcomed the authorities' planned fiscal reforms in the "White Paper" and encouraged their careful prioritization and swift implementation while minimizing the impact on the vulnerable. To create room for the much-needed reconstruction and social safety nets, Directors highlighted the importance of strengthening public finances. To this end, they called for a comprehensive civil service reform to contain the public wage bill and recalibration of the pension system to put it on solid financial footing. Priority also needs to be given to increasing non-oil revenues and strengthening public financial management to reduce the fiscal risks stemming from off-budget expenditures and government guarantees.

Directors concurred that the recent exchange rate adjustment would help reduce external imbalances and preserve foreign exchange reserves. They underscored that a strong fiscal framework remains critical to ensuring the credibility of the new exchange rate peg as well as minimizing future need for monetary financing of the budget. Directors also saw need for further monetary policy measures by the central bank to contain inflation.

Directors stressed that wide-ranging structural reforms are necessary to cement macroeconomic stability and pave the way for higher and more inclusive growth. They underscored that reform efforts should focus on stemming the financial losses in the electricity sector. This requires sustained efforts to strengthen governance and improve collection, as well as gradual adjustment of tariffs to increase cost recovery and reduce arrears. In addition, Directors emphasized the importance of reducing corruption in key public institutions, continued improvement and effective implementation of the AML/CFT framework, restructuring of large state-owned banks to foster financial stability, and developing the private sector.

Directors noted the authorities' interest in emergency financing with the Fund to support their stabilization and reform efforts with some Directors encouraging a longer-term arrangement to address structural challenges.

It is expected that the next Article IV consultation with Iraq will take place on the standard 12-month cycle.

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

**Iraq: Selected Economic and Financial Indicators, 2019–26**

| | Act. | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| Economic growth and prices | | | | | | | | |
| Real GDP (percentage change) | 4.5 | -10.9 | 1.2 | 3.9 | 5.7 | 4.1 | 3.1 | 3.4 |
| Non-oil real GDP (percentage change) | 5.7 | -8.0 | 5.0 | 1.1 | 2.5 | 2.7 | 3.4 | 3.6 |
| GDP deflator (percentage change) | -1.8 | -12.6 | 23.5 | 3.6 | 1.6 | 1.9 | 2.6 | 3.2 |
| GDP per capita (US$) | 5,687 | 4,286 | 4,287 | 4,498 | 4,705 | 4,865 | 5,020 | 5,203 |
| GDP (in ID trillion) | 262.9 | 204.8 | 255.9 | 275.5 | 295.7 | 313.7 | 332.1 | 353.2 |
| Non-oil GDP (in ID trillion) | 148.9 | 140.4 | 160.9 | 177.5 | 191.6 | 205.0 | 220.4 | 238.4 |
| GDP (in US$ billion) 1/ | 222.4 | 172.0 | 176.5 | 190.0 | 203.9 | 216.4 | 229.1 | 243.6 |
| Oil production (mbpd) | 4.58 | 4.00 | 3.95 | 4.18 | 4.50 | 4.73 | 4.87 | 5.01 |
| Oil exports (mbpd) | 3.97 | 3.43 | 3.39 | 3.59 | 3.86 | 4.06 | 4.18 | 4.30 |
| Iraq oil export prices (US$ pb) 2/ | 59.7 | 38.2 | 47.0 | 45.8 | 45.2 | 44.8 | 44.8 | 44.7 |
| Consumer price inflation (percentage change; end of period) | 0.1 | 1.0 | 11.5 | 4.6 | 2.6 | 2.0 | 2.0 | 2.0 |
| Consumer price inflation (percentage change; period average) | -0.2 | 0.5 | 7.1 | 7.1 | 3.3 | 2.3 | 2.0 | 2.0 |
| National Accounts (in percent of GDP) | | | | | | | | |
| Gross domestic investment | 15.1 | 17.2 | 19.1 | 16.8 | 16.4 | 16.1 | 16.0 | 15.9 |
| *Of which: public* | 7.3 | 7.9 | 10.6 | 8.1 | 7.7 | 7.4 | 7.3 | 7.0 |
| Gross domestic consumption | 83.0 | 96.0 | 82.9 | 84.5 | 84.6 | 85.0 | 84.7 | 84.6 |
| *Of which: public* | 23.6 | 35.2 | 37.0 | 34.5 | 32.2 | 29.4 | 27.4 | 26.4 |
| Gross national savings | 15.6 | 2.0 | 15.0 | 13.4 | 13.6 | 13.4 | 13.7 | 13.9 |
| *Of which: public* | 8.7 | -12.6 | -5.7 | -3.7 | -1.1 | 1.7 | 2.8 | 3.1 |
| Saving - Investment balance | 0.5 | -15.2 | -4.1 | -3.3 | -2.7 | -2.7 | -2.4 | -2.0 |
| Public Finance (in percent of GDP) | | | | | | | | |
| Government revenue and grants | 37.8 | 30.0 | 40.8 | 40.5 | 40.6 | 40.6 | 39.5 | 38.4 |
| Government oil revenue | 35.2 | 27.0 | 34.3 | 33.4 | 33.3 | 33.1 | 31.9 | 30.8 |
| Government non-oil revenue | 2.6 | 3.0 | 6.5 | 7.1 | 7.4 | 7.5 | 7.6 | 7.6 |
| Expenditure, of which: | 36.9 | 50.3 | 57.0 | 52.9 | 48.6 | 45.5 | 43.2 | 41.6 |
| Current expenditure | 29.5 | 42.5 | 46.4 | 44.7 | 40.9 | 38.1 | 35.9 | 34.6 |
| Capital expenditure | 7.3 | 7.9 | 10.6 | 8.1 | 7.7 | 7.4 | 7.3 | 7.0 |
| Overall fiscal balance (including grants) | 0.9 | -20.3 | -16.2 | -12.4 | -8.0 | -4.9 | -3.7 | -3.2 |
| Non-oil primary fiscal balance, accrual basis (percent of non-oil GDP) | -48.8 | -59.4 | -68.8 | -57.9 | -52.4 | -46.8 | -42.5 | -39.7 |
| Adjusted Non-oil primary fiscal balance, accrual basis (excl. KRG, percent of non-oil GDP) 2/ | -45.2 | -56.1 | -63.9 | -54.8 | -50.0 | -44.9 | -40.9 | -33.6 |
| Adjusted non-oil primary expenditure (excl. KRG, percent of non-oil GDP) 3/ | 49.7 | 56.0 | 68.4 | 60.3 | 55.9 | 51.0 | 47.2 | 44.8 |
| Adjusted non-oil primary expenditure (excl. KRG, annual real growth, percent) 4/ | 10.4 | 5.7 | 30.5 | -9.1 | -3.2 | -4.5 | -2.4 | 0.6 |
| Memorandum items | | | | | | | | |
| Total government debt (in percent of GDP) 5/ | 48.5 | 83.1 | 83.0 | 89.7 | 91.6 | 91.3 | 89.9 | 87.7 |
| Total government debt (in US$ billion) 6/ | 107.9 | 117.4 | 146.6 | 170.5 | 186.8 | 197.5 | 205.9 | 213.7 |
| External government debt (in percent of GDP) | 31.4 | 49.6 | 37.9 | 33.0 | 28.8 | 26.1 | 23.7 | 21.7 |
| External government debt (in US$ billion) | 69.8 | 70.0 | 67.0 | 62.7 | 58.6 | 56.5 | 54.3 | 52.8 |

**Iraq: Selected Economic and Financial Indicators, 2019–26 (Concluded)**

| | Act. | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| Monetary indicators (percentage change) | | | | | | | | |
| Growth in reserve money | 15.8 | 29.5 | 38.3 | 23.3 | 11.5 | 6.9 | 5.0 | 4.8 |
| Growth in broad money | 8.4 | 27.3 | 33.3 | 19.9 | 10.4 | 6.9 | 5.5 | 5.4 |
| External sector (in percent of GDP) | | | | | | | | |
| Current account | 0.5 | -15.2 | -4.1 | -3.3 | -2.7 | -2.7 | -2.4 | -2.0 |
| Trade balance | 10.3 | -6.6 | 3.7 | 3.8 | 3.7 | 3.5 | 3.6 | 3.5 |
| Exports of goods | 40.3 | 29.0 | 34.3 | 33.0 | 32.8 | 32.3 | 31.6 | 30.7 |
| Imports of goods | -30.0 | -35.6 | -30.7 | -29.2 | -29.1 | -28.8 | -28.0 | -27.2 |
| Overall external balance | 0.8 | -8.8 | -2.1 | -2.6 | -3.2 | -1.5 | -1.3 | -0.6 |
| Gross reserves (in US$ billion) | 68.0 | 54.1 | 47.4 | 40.8 | 33.2 | 30.0 | 27.1 | 25.6 |
| Total GIR (in months of imports of goods and services) | 10.7 | 9.4 | 9.2 | 6.7 | 5.0 | 4.3 | 3.9 | 3.5 |
| Exchange rate (dinar per US$; period average) | 1,182 | 1,191 | 1,450 | 1,450 | 1,450 | 1,450 | 1,450 | 1,450 |
| Real effective exchange rate (percent change, end of period) 7/ | -1.2 | ... | ... | ... | ... | ... | ... | ... |

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

1/ Converted from GDP in local currency using the period-average exchange rate (1191 in 2020).

2/ Negative price differential of about $2.9 per barrel compared to the average petroleum spot price (average of Brent, West Texas and Dubai oil prices) in 2020 - 2025.

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

4/ Adjusted to exclude full year estimate of federal government transfers to the Kurdistan Regional Government.

5/ Includes arrears. The debt stock includes legacy arrears to non-Paris Club creditors on which the authorities have requested (but not yet obtained) Paris-Club comparable relief. Implementing comparable terms will substantially reduce debt (e.g. by 15 percent of GDP in 2017). The 14 percentage points increase in 2020 is partly attributed to a devaluation in mid-December 2020 which led to an upward revision of external debt.

6/ Converted from the total government debt in local currency using the end-of-period exchange rate (1450 in 2020).

7/ Positive means appreciation.

INTERNATIONAL MONETARY FUND

# IRAQ

## STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION

January 22, 2021

## KEY ISSUES

**Context.** Iraq's socio-economic fragilities have been severely aggravated by the pandemic and the sharp decline in oil revenues, which arrived on the heels of widespread social unrest and political instability. The health system's limited capacity has been strained, while the fiscal position has become untenable as oil revenues declined sharply to a level that barely covers the government's large wage and pension bills. Although the number of new infections declined recently, Iraq registered the second-highest COVID-related fatalities in the region, and the fiscal response to the pandemic has been one of the lowest. A six-month political paralysis preceding the formation of the government in May 2020 and plans to hold early parliamentary elections in mid-2021 have been weighing on political support for reforms. Risks of social unrest, geopolitical tensions, and insecurity remain elevated.

**Policies.** The authorities are implementing a broad-ranging policy package to stabilize the economy and ensure debt sustainability. Key short-term measures include fiscal reforms in the 2021 budget, which aim to curb the wage bill, reduce inefficient energy subsidies, and boost non-oil revenue. Alongside, the budget includes a significant boosting of targeted cash transfers and health spending. In addition, the Central Bank of Iraq has devalued the exchange rate to safeguard reserves and ensure external sustainability.

**Key Recommendations**. A comprehensive health crisis response, including acquisition and distribution of a vaccine, will be critical to save lives. The authorities' decisive recalibration of short-term policies will help ensure macroeconomic stability in the near term. In addition, deep and broad-ranging structural reforms will be essential to ensure fiscal sustainability and achieve sustainable and inclusive growth. Key priorities include comprehensive reforms of the civil service and the pension system, stemming losses in the electricity sector, strengthening public financial management, reducing corruption, and restructuring large state-owned banks.

Approved By
**Taline Koranchelian and Kristina Kostial**

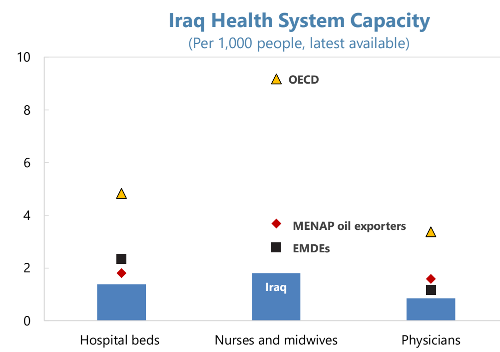
Discussions took place from November 11–December 10, 2020 via video conference. The mission team comprised Tokhir Mirzoev (head), Gazi Shbaikat, Gareth Anderson, Moheb Malak, Jiayi Ma, Ling Zhu, Imad Alakhdar (all MCD), Gee Hee Hong (FAD), Arz Murr (LEG), Kareem Ismail (Resident Representative). Mr. Mohieldin and Ms. Choueiri (OED) participated in discussions. Staff held discussions with senior officials of the Central Bank of Iraq (CBI) and the Ministry of Finance, members of the Parliamentary Finance Committee, as well as other ministries, government agencies, and representatives from the civil society and donor community. Laila Azoor and Cecilia Pineda provided production assistance and Jawed Sakhi provided research assistance.

## CONTENTS

**ANNEXES**

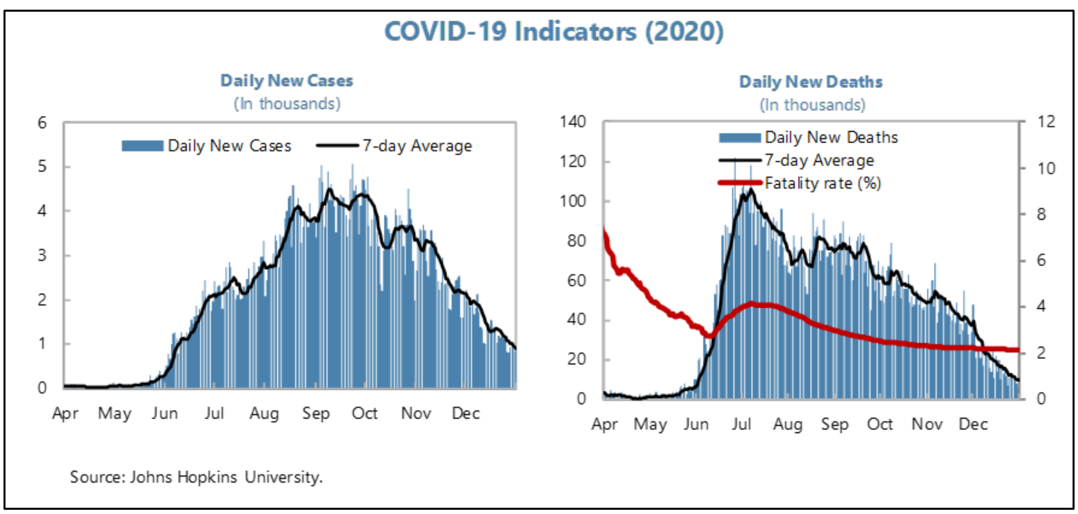
# CONTEXT

**1. Iraq's socio-economic fragilities have been severely aggravated by the pandemic and the sharp decline in oil prices and output amid a challenging political setting.** Arriving on the heels of widespread social unrest and political instability, the COVID-19 health crisis and the concomitant sharp decline in oil revenues—which account for over 90 percent of external and fiscal proceeds—have caught the country ill-prepared. The health system's limited capacity has been strained amid limited resources, while the fiscal position has become untenable as revenues declined to a level that barely covers the government's large wage and pension bills. A six-month political paralysis preceding the formation of the current government in May 2020 and plans to hold early parliamentary elections in mid-2021 have been weighing on political support for reforms. Meanwhile, risks of social unrest, geopolitical tensions, and insecurity remain elevated.




Source: IMF Expenditure Accessment Tool (EAT).

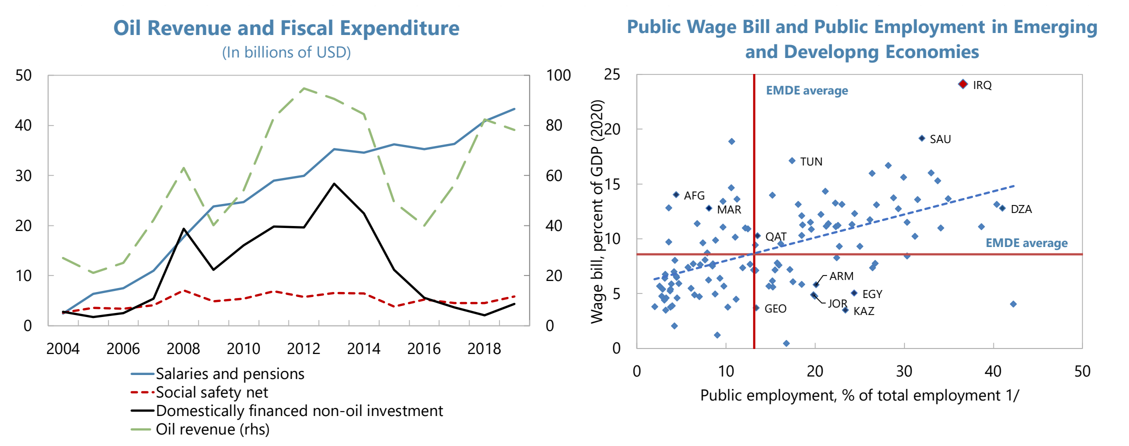
**2. After a difficult summer, the spread of COVID-19 has been showing signs of slowing.** Infections accelerated during the summer, outpacing most countries in the Middle East, while the death toll reached the second-highest level in the region. Since September, the daily increase in the number of cases, fatalities, and the positivity rate have begun to decline. Nevertheless, the risk of a new wave of infections remains elevated, given recent spikes in neighboring countries.



# LONG-STANDING VULNERABILITIES LAID BARE BY THE PANDEMIC

## A. Before the Crisis

**3. The country's economic vulnerabilities and distortions have been mounting for years, aggravated by wars, political fragmentation, systemic and severe corruption, and unsupportive policies.** Decades of conflict have eroded institutions, as well as the stock of physical and human capital, holding back the economy's growth potential. During 2004–19, the oil sector's revenues nearly quadrupled, providing valuable fiscal resources to rebuild and diversify the economy. But weak governance and policy frameworks only reinforced the government's dependence on oil and society's dependence on the government. Fiscal policy has been largely procyclical, with reforms implemented during periods of low oil revenues invariably reversed as soon as the oil market conditions improved. Importantly, fiscal tightening was typically achieved at the expense of reconstruction investment and social assistance, whereas the civil service was generally shielded from spending cuts and always benefited from fiscal expansions. Over the years, this pattern of policy adjustments has created an economy riddled with distortions and vulnerabilities:




Sources: IMF staff calculations, World Economic Outlook database, country authorities: national labor force surveys, International Labour Organization data, and IMF staff model estimates.
1/ Latest available data.

- *Social disparities have been widened* by the uneven distributional impact of fiscal policy, which disadvantaged the private sector, the unemployed, and the poor, while bolstering the civil service, which employs nearly 3.3 million people or 8.5 percent of the population.

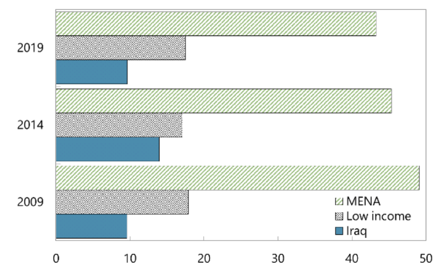
- *Government's expenditure has become increasingly rigid* and fiscal adjustments politically difficult, as the government payroll swelled to an estimated 24 percent of GDP in 2020—one of the highest in the world. Public employment policies have de-linked the allocation of labor resources from productivity and discouraged entrepreneurship.

- *Allocation of financial resources has been skewed* through large state-owned banks' (SOBs) accumulation of significant public sector exposures which are being consistently rolled over and often not serviced. This has undermined the banks' soundness and crowded out the private sector.

- *The non-oil private sector has been unable to take off* with little access to credit, lacking adequate infrastructure, and put at a disadvantage in the labor market. This further restricted job opportunities for the fast-growing youth population whose unemployment rate rose from 16 to 26 percent during 2012–17.

- Handicapped by under-investment in critical infrastructure, weak public institutions plagued by poor governance and a large and inefficient civil service, *the government has been unable to provide adequate basic services*. Social assistance has been divided between several schemes, some of which are poorly targeted and overly generous.

**Government Effectiveness**
(Percentile rank 0 to 100)

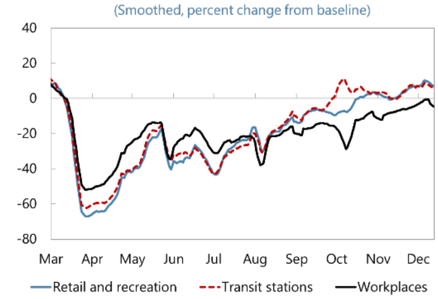



Source: Worldwide Governance Indicators.

## B. Economic Fallout from COVID-19 and Policy Developments

**4. Economic activity has declined sharply in 2020.** Pandemic-related containment measures and the interruption of international travel and trade are expected to have reduced non-oil real GDP by 8 percent in 2020. At the same time, oil production has been cut by about 13 percent owing to OPEC+ commitments. As a result, overall real GDP has likely declined by 11 percent, while weak domestic demand has kept inflation low at 1 percent in 2020. High frequency mobility indicators point to gradual recovery of non-oil activity toward the end of last year. Although actual data is not yet available, a recent study by the World Bank and UNICEF estimates that 4.5 million Iraqis (12 percent of population) could be pushed into poverty by the current crisis, potentially increasing the poverty rate to 32 percent.

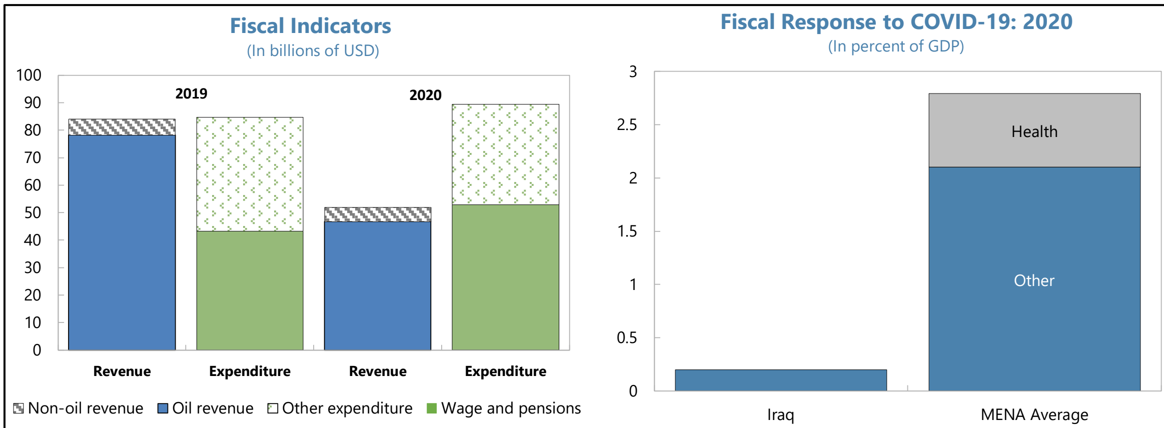
**Mobility Index (2020)**
(Smoothed, percent change from baseline)




Source: Google Mobility.
Note: The data shows how visitors to (or time spent in) categorized places change compared to a baseline day The baseline day is the median value from the 5-week period Jan 3 – Feb 6, 2020.

**5. Plummeting oil exports have created a large external imbalance and put pressure on reserves.** A combination of a sharp drop in oil prices and sizeable production cuts resulted in a 40 percent decline in oil exports (and fiscal revenues) in 2020. Despite some offset from lower imports, the external current account balance swung from a surplus of 0.5 percent of GDP in 2019 to a deficit of 15.2 percent of GDP in 2020. Prior to the devaluation (see below), the external position was substantially weaker than implied by fundamentals and desirable policies, and the real effective exchange rate was overvalued (Annex I). It is premature to provide a definitive post-devaluation assessment, but the overvaluation will have lessened. Gross international reserves declined by $14 billion to $54 billion by end-2020 but remained adequate (178 percent of the ARA metric or

150 percent of the ARA metric adjusted for potential oil price volatility). Since September, the parallel foreign exchange market spread has increased, averaging 6–7 percent until December.




Sources: Iraqi authorities and IMF staff calculations.

Source: IMF staff estimates from the Survey of Policy Responses to COVID-19.

**6. The fiscal strains from lower oil revenues have been aggravated by a rapid expansion of the government wage and pension bills, affecting both 2020 and 2021:**

- *In 2020, payroll and pension expenditures grew by 21 and 28 percent*, respectively, despite the absence of an approved budget.[1] Swelling of the payroll reflected large-scale hiring in the wake of social unrest, while growth of the pension bill stemmed from lowering the mandatory retirement age from 63 to 60 years, relaxing eligibility requirements for early retirement, increasing pension benefits, and expanding non-contributory pension benefits introduced at end-2019. These outlays, together with the oil revenue slump, have opened a budget deficit of about 20 percent of GDP in 2020, after a small surplus in 2019. Having exhausted its own savings and facing tight financing constraints, the government has been prioritizing timely payment of salaries, pensions, and external debt service. Consequently, despite having the second-highest COVID-related fatalities in the region, the expenditure response to the pandemic has been one of the lowest.[2] Limited parliamentary authorization for government borrowing has resulted in the accumulation of over 6 percent of GDP in additional domestic and external arrears, bringing the total stock of arrears to 8.2 percent of GDP. Most of the remaining deficit has been financed by borrowing from the central bank of 13 percent of GDP. Government debt rose from 47 to 83 percent of GDP over the course of 2020, although about 9 percentage points of this increase reflects revaluation of the external debt stock with the new exchange rate (see below).

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[1] There were two key implications stemming from the absence of an adopted 2020 budget. First, monthly expenditures in 2020 have been limited to one-twelfth of their 2019 levels. While binding for most expenditures, this limit was not observed with respect public wage and pension bills. Second, government's borrowing has been subject to temporary parliamentary authorizations. Parliament has issued two such authorizations, which were insufficient to finance the deficit: in June, for domestic borrowing of ID 15 trillion ($12.7 billion) and external borrowing of up to $5 billion, and in November, for ID 12 trillion ($10 billion).

[2] An additional $42 million (<0.1 percent of GDP) has been provided to the Ministry of Health. The Higher Committee for Health and National Safety allocated ID 600 billion (about $0.5 billion or 0.3 percent of GDP) to provide cash transfers for two months to about 10 million people, but only half of this support has materialized.

- *Additional wage and pension commitments are set to add 4.6 percent of GDP to expenditure in 2021.* Significant expansion of the civil service that took place during 2020 was not fully reflected in the contemporaneous fiscal outcome due to appointments made effective in 2021—this will add 2 percent of GDP to the wage bill. Similarly, the pension bill is set to rise by 2.6 percent of GDP in 2021 due to continued implementation of the end-2019 legal amendments to the pension law.[3] In addition, the government has approved a draft Pension and Social Security Law which, pending Parliamentary approval, would extend government pension and social security benefits to private sector employees without ensuring adequate contribution rates.

**7. Recognizing risks to macroeconomic stability, the authorities have begun to reverse their short-term policy course.** In October 2020, they unveiled an economic reform plan ("White Paper"), which outlined the government's broad reform priorities (Annex VI). In December, the authorities announced a package of reforms to reduce the fiscal and external imbalances and strengthen the social safety net. Specifically:

- *The Council of Ministers has approved and sent to Parliament a draft 2021 budget envisaging a set of fiscal consolidation measures:* (i) a nominal freeze of government wages, allowances, and pensions; (ii) a hiring freeze; (iii) removal of the exemption of government allowances from the payroll tax; (iv) a more-than-threefold increase in the domestic price of crude oil to reduce the implicit fuel subsidy; (v) an increase in excise and sales taxes on alcohol, tobacco, car sales, and shopping malls; and (vi) personal income tax measures, including a progressive payroll tax increase on wages, allowances, and pensions,[4] and a 10 percent flat tax rate on retirement benefits and end-year services benefits. At the same time, the government proposed an increase of ID 2.5 trillion (79 percent) in the budget for targeted cash transfers to the vulnerable and allocated ID 725 billion (equivalent to $0.5 billion) for additional COVID-19 related health spending.

**Changes to Payroll Tax Proposed in the 2021 Budget 1/**

| Tax Rates in 2020 | | Proposed Tax Rates in 2021 | |
|---|---|---|---|
| Gross Monthly Income (ID) | Tax Rate (%) 2/ | Gross Monthly Income (ID) | Tax Rate (%) 2/ |
| Up to 250K | 3 | Up to 500K | 0 |
| 250K - 500K | 5 | 500K - 1 mln. | 10 |
| 500K - 1 mln. | 10 | 1 - 1.5 mln. 3/ | 20 |
| Over 1 mln. | 15 | Over 1.5 mln. 3/ | 30 |

1/ Same tax structure applied to pension.
2/ Tax rates are applied on gross monthly income net of the minimum income for each income bracket.
3/ The highest two brackets are also subject to a fixed tax of ID 50K and ID 150K respectively.
Source: Iraqi authorities.

[3] The amendments provide for additional pension benefits, inter alia, to victims of terrorism and political persecution whose enrollment is gradual—subject to verification of documentation—but involves back pay from the date of eligibility.

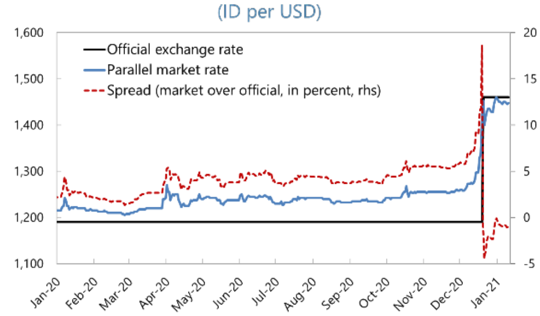
[4] In addition, a 40 percent solidarity tax was introduced on the incomes of the Prime Minister, the President, Speaker of Parliament, and Head of the Judiciary, and a 30 percent tax on the incomes of ministers and their deputies.

| Estimated Fiscal Savings from the Proposed Measures in the 2021 Budget | | |
|---|---|---|
| Proposed Measures in the 2021 Budget | Fiscal Savings 1/ | |
| | In billion of Iraqi dinars | In percent of 2021 GDP |
| **A. Revenues** | | |
| Progressive Payroll Tax | 3,206 | 1.3 |
| Reduction of oil-price subsidy | 1,865 | 0.7 |
| Tax on pensions, retirement and end-year service benefits | 1,021 | 0.4 |
| New excise and sale tax (alcohol, tobacco, vehicle sales) | 493 | 0.2 |
| Additional Revenue Mobilization 2/ | 5,705 | 2.2 |
| **B. Spending 3/** | | |
| Nominal Freeze of Wages, Allowances, Pension and a Hiring Freeze | 1,040 | 0.4 |
| COVID-19 health-related spending | (725) | (0.3) |
| Expansion of cash transfers to cover all eligible poor households | (2,455) | (1.0) |
| **Total Savings** | 10,150 | 4.0 |

1/ Fiscal savings relative to "no-reform" scenario.
2/ Additional revenue mobilization includes (i) a new tax on shopping malls and major markets; (ii) increased fee collections; (iii) sales of state-owned buildings and lands.
3/ Positive (negative) values imply savings (more spending).
Source: IMF staff calculations.

- *Alongside, the CBI announced a 22.7 percent devaluation of the ID/USD exchange rate* to narrow the external imbalance and mitigate pressures on reserves, including by helping to improve the fiscal balance and reduce the need for monetary financing of the budget. Following the devaluation, the parallel market spread initially turned negative but has begun to shrink as the market rate converged closer to the new peg.

**Parallel Market and Official Exchange Rate**
(ID per USD)




Note: Official rate is 1,460 ID per USD starting from December 20, 2020. Official rate was 1,190 ID per U.S. dollar.
Sources: Baghdad Borsa App and Central Bank of Iraq.

8. **Financial sector stability has been maintained, but underlying fragilities remain significant.** At the outset of the pandemic, the CBI lowered the reserve requirement and extended repayments on its directed lending initiatives, providing liquidity support to banks and limiting immediate financial stress. This supported an increase in credit to the private sector, driven by lending to households, of about 15 percent in the first three quarters of 2020 (year-on-year). Nevertheless, reported non-performing loans (NPLs) at state owned banks (SOBs) increased to 12 percent as of Q2 2020, from 10 percent at end-2019. NPLs at SOBs are likely understated, as they do not reflect loans to public entities with uncalled government guarantees. Moreover, many SOBs—which collectively account for over 80 percent of the banking system—likely remain undercapitalized and burdened by legacy assets and political interference. The SOBs are exempted from supervisory scrutiny by the CBI and, in the absence of core banking systems, their financial reports are often incomplete and not properly audited.

# OUTLOOK AND RISKS

9. **The baseline outlook envisages a gradual output recovery.** Phasing out the containment measures and the revival of international trade and travel would support the recovery of economic activity. One-off factors would boost non-oil growth in 2021, but momentum will likely remain subdued due to fiscal restraint and adjustment of domestic demand to the post-devaluation spike in inflation. The latter is expected to reach 11.5 percent at end-2021 followed by a gradual reduction to

2 percent over the medium term.[5] Oil production is expected to remain constrained by OPEC+ commitments, although production limits are assumed to increase over the medium-term. Real GDP is projected to grow at an average rate of 3.5 percent over the medium term and reach its pre-crisis level by 2024, supported by the positive impact of the exchange rate adjustment, growth in the labor force, and fading headwinds from fiscal restraint. Oil prices are expected to recover but will likely remain below the pre-COVID levels.

**10. Implementation of the authorities' reform plans will help improve the fiscal position.** Staff's baseline projections assume adoption of the government's proposed budget and sustained reforms in the medium term as envisaged in the White Paper.[6] In 2021, fiscal revenues are expected to increase by 10.8 percent of GDP—of which 5.4 percent of GDP can be attributed to revaluation of oil revenues at the new exchange rate—more than offsetting the additional wage and pension spending commitments accumulated last year. This would bring the budget deficit down to 16 percent of GDP. In the medium term, the budget deficit is projected to gradually narrow to single digits by 2026. The projected fiscal adjustment path will necessitate sizable, but gradually declining, fiscal financing needs. Consequently, government debt-to-GDP ratio is projected to peak at above 90 percent in 2023 before gradually declining thereafter. Debt composition is expected to remain favorable with legacy debt and borrowing from the central bank and SOBs accounting for over 70 percent of the debt stock in 2020. Government debt is assessed as sustainable, although not with high probability (Annex II). This assessment is conditional on continued implementation of fiscal reforms.

**Composition of Medium-Term Fiscal Adjustment**
(Cumulative change from 2020, in percent of GDP)

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| | Percentage point change in share of GDP relative to 2020 | | | | | |
| **Revenue** | 10.8 | 10.5 | 10.6 | 10.6 | 9.6 | 8.5 |
| Oil Revenue | 7.3 | 6.4 | 6.3 | 6.1 | 4.9 | 3.9 |
| Non-Oil Revenue | 3.5 | 4.1 | 4.3 | 4.5 | 4.6 | 4.6 |
| **Expenditure** | 6.7 | 2.6 | (1.7) | (4.8) | (7.1) | (8.7) |
| Current Spending | 4.0 | 2.3 | (1.5) | (4.3) | (6.5) | (7.8) |
| *o/w wages and salaries* | (2.8) | (4.1) | (5.6) | (7.2) | (8.8) | (9.4) |
| *o/w transfers* | 2.0 | 1.5 | 1.2 | 0.9 | 0.7 | 0.3 |
| *o/w COVID-19 related spending* | 0.3 | | | | | |
| Capital Expenditure | 2.7 | 0.2 | (0.2) | (0.5) | (0.6) | (0.9) |
| **Cumulative change in fiscal balance relative to 2020** | 4.1 | 7.9 | 12.3 | 15.4 | 16.7 | 17.2 |

Source: IMF staff calculations.

**11. The current account deficit would gradually narrow, while foreign exchange reserves are expected to decline in the medium term.** The external current account deficit is expected shrink from 15.2 percent of GDP in 2020 to 2 percent of GDP in the medium term, helped by the devaluation, recovering global oil demand, and fiscal reforms. Nevertheless, the projected path of both fiscal and external adjustment implies that foreign exchange reserves will likely decline further, reaching $25.6 billion in the medium term, equivalent to 64 percent of the ARA metric or 3.5 months of imports (35 percent of the ARA metric adjusted for potential oil price volatility).

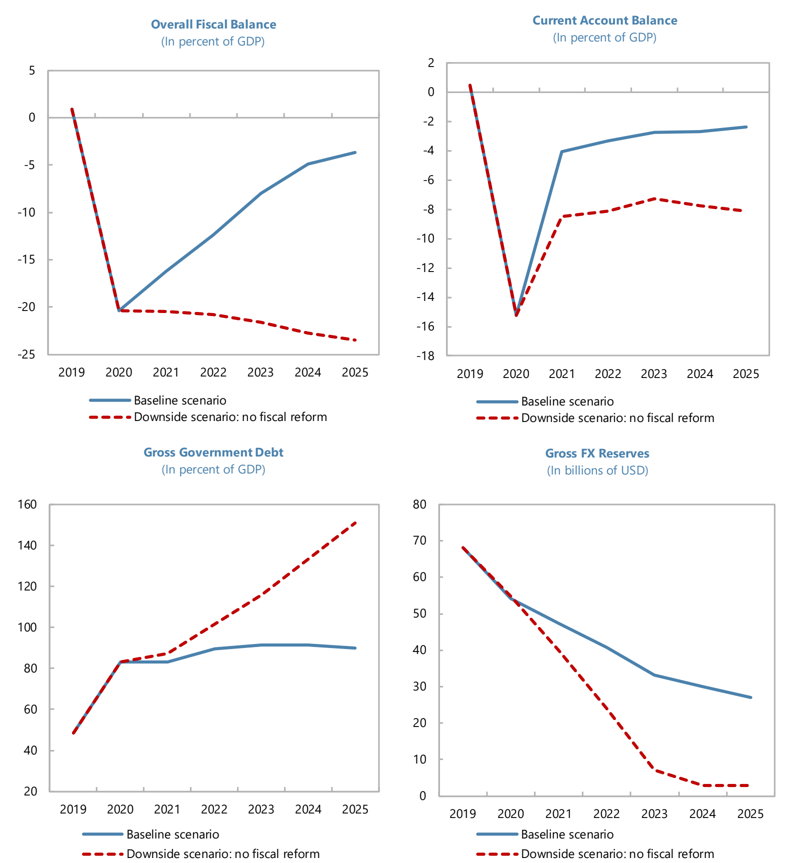
[5] This assumes a passthrough of 50 percent to prices of 85 percent of the consumption basket, over a period of nine months.

[6] Baseline projections in 2021 reflect the authorities' proposed budget and differ only in the forecasted oil revenue, which reflects WEO projections. Medium-term baseline projections assume continued strengthening of nonoil revenue collection, gradual reduction of energy subsidies, and attrition-based reduction in government employment.

**12. Downside risks to this outlook are very high (Annex III).** The most immediate and significant risk stems from potential political constraints and new bouts of social unrest, which could prevent implementation of economic reforms, including adoption of the 2021 budget. In the downside scenario of non-implementation of the planned fiscal reforms, government debt would assume an unsustainable trajectory, and central bank reserves would be depleted in the medium term (Figure 1). In addition, non-oil activity may remain subdued for longer if the vaccine rollout is delayed and COVID-19 proves difficult to eradicate. Relatedly, the oil market outlook remains uncertain, and a "greener" global recovery could hold back oil revenue. Geopolitical tensions and security risks could hamper activity and regional trade. On the upside, stronger oil price recovery and successful efforts to mobilize affordable external financing would strengthen fiscal sustainability and foreign exchange reserves.

**13. The authorities broadly agreed with the economic outlook.** They expected an even larger decline in non-oil GDP in 2020. While acknowledging the impact of the COVID-19 pandemic on the economy, the authorities attributed most of the slowdown in activity to lower oil revenues and fiscal constraints citing resilience of Iraq's large informal sector to shocks and disruptions. The authorities broadly shared staff's views on fiscal and external outlook and the need for urgent and decisive fiscal adjustment. They saw political constraints in the pre-election period as the biggest risk to the economic outlook.

**Macroeconomic Projections (2019–25)**




Sources: Iraqi authorities and IMF staff projections.

# POLICY DISCUSSIONS

*Discussions of short-term policies focused on the authorities' efforts to minimize the loss of life from COVID-19 and calibrate a mix of fiscal and monetary policies to rein in the budget deficit and the external imbalances and ensure macroeconomic stability amid a challenging socio-political environment. Discussions of medium-term priorities were centered on the White Paper's goal of achieving sustainable and inclusive medium-term growth amid formidable challenges. These will require significant structural reforms aimed at strengthening public finances to enable critical expenditure needs, reforming the electricity sector, fighting corruption, and revitalizing the financial sector.*

## A. Stabilizing the Economy

**14. Overcoming the health crisis is the highest priority and will require additional fiscal resources and strong governance.** The next phase of the COVID-19 pandemic, including the acquisition and distribution of a viable vaccine,[7] warrants a comprehensive health crisis response plan with detailed costing of the necessary measures and mobilization of resources to enable their implementation. Ensuring a robust governance structure over the use of these resources and transparent procurement will be critical for credibility and to attract external support. To this end, staff recommended establishing a dedicated COVID-19 fund to combine budgetary and donor resources in support of the health plan, forming a Steering Committee—comprised of key ministries and international partners, notably WHO, UNDP, UNICEF and the World Bank—tasked with managing the fund's resources, and delegating procurement to specialized UN agencies to ensure strong governance. The authorities agreed with this approach. A draft health plan has been developed by the Ministry of Health, and discussions on establishing the dedicated COVID-19 fund have been initiated with key UN Agencies. The draft 2021 budget includes an allocation of $0.5 billion to support this initiative.

**15. Decisive efforts to reduce fiscal imbalances will be essential to maintain macroeconomic stability and ensure debt sustainability.** While welcoming the authorities' planned fiscal reforms, staff encouraged a more frontloaded effort to reverse the unsustainable expansion of the wage bill, as well as additional measures to reduce inefficient oil and electricity subsidies and raise non-oil revenues. The authorities agreed with the need for a larger short-term fiscal adjustment to ensure debt sustainability but, on balance, considered their more gradual approach as appropriate given difficult socio-economic conditions and political constraints. Against this background, staff and the authorities agreed on the importance of maintaining fiscal restraint over a longer period, limiting wage indexation in 2022 to no more than half of inflation, and implementing an attrition-based reduction in the government workforce by at least 2 percent per year over the medium term. Furthermore, slippages with the implementation of planned fiscal policies would warrant additional measures down the road to contain the fiscal deficit, such as

[7] Iraq has also committed to provide the COVID-19 vaccine for 20 percent of the population under the COVAX initiative and plans to acquire 1.5 million doses of the Pfizer-BioNTech vaccine in early 2021.

extending the nominal freeze, cutting allowances of highest-paid civil servants, further reducing energy subsidies, and raising sales and excise taxes.

**16. Embedding fiscal reforms in permanent legislation would help ensure their durability.** Iraq's past reforms, introduced in the annual budget laws, have proven difficult to sustain over time. Therefore, staff recommended that, pending a comprehensive civil service reform, policies to contain the government wage bill—including hiring restrictions, centralized approval of new positions, stricter wage bill reporting and monitoring requirements, and ceiling for wages and allowances by grade—be adopted as a stand-alone law or as amendments to the civil service law, which would be more binding than the annual budget law. Such legislation should also override (or suspend) provisions of other existing laws which, for example, allow decentralized entrance into the civil service, or provide various financial allowances irrespective of the overall size of compensation. Similarly, key fiscal revenue measures need to be reflected in permanent tax legislation. The authorities agreed with the need for permanent legislation while pointing out that this would involve a potentially lengthy process and could be pursued after adoption of the 2021 budget.

**17. Staff supported the exchange rate devaluation while underscoring the critical importance of a strong fiscal framework to ensure its credibility.** The exchange rate adjustment will help reduce the external imbalance and preserve foreign exchange reserves. It will also support the government's efforts in reducing the budget deficit, as fiscal consolidation alone would have required a significantly larger upfront adjustment that may not have been politically or socially feasible and could have undermined critical public services. In this context, staff emphasized that a strong fiscal framework will be essential to minimize future need for monetary financing of the budget. There was also consensus that explicit limits on future central bank financing and the repayment terms—set through an MoU between the CBI and the Ministry of Finance—would help preserve foreign exchange reserves. Staff and the authorities agreed that maintaining the new dinar peg remains appropriate for now given weak capacity to implement an alternative monetary policy framework.

**18. Protecting the vulnerable will be of paramount importance.** The expected spike in poverty as a result of the COVID-19 pandemic and the projected increase in inflation in the wake of the exchange rate devaluation put a premium on adequate protection of those most in need. At present, Iraq's targeted cash transfer system provides support to about 1.4 million Iraqi households but, due to insufficient funding, excludes over half a million additional households below the poverty line. Staff welcomed the authorities' plan to boost the allocation for cash transfers in the 2021 budget, which would allow expanded coverage to all eligible households—amounting to over 20 percent of population—and raise the amount of assistance to shield the vulnerable from the expected increase in inflation. Going forward, staff recommended legal changes to introduce automatic inflation indexation of cash transfer benefits and conduct regular updates of the population registry and the targeting criteria supported by appropriate budget allocations. Furthermore, limiting eligibility for the Public Distribution System (PDS) food rationing program—currently provided to almost the entire population—only to those in the social security database would provide the fiscal space to further increase targeted assistance to the most vulnerable (Box 1).

The authorities agreed with the need to reform the PDS system and plan to take this up in the next stage of their reform agenda.

**19. Staff and the authorities discussed measures to contain the inflationary and financial sector impact of the exchange rate adjustment.** Ensuring credibility of the new peg will be instrumental in bringing inflation down and maintaining financial sector stability. In this context, staff welcomed the authorities' contingency planning, efforts to maintain the provision of liquidity to banks, and a clear public communication strategy to explain the exchange rate adjustment. The monetary policy stance is somewhat expansionary, reflected in strong broad money growth and stemming from monetary financing of the budget. Following the devaluation, SOBs have increased their interest rates. Given the weak monetary transmission mechanism—stemming from low level of private credit and unresponsiveness of SOBs and SOEs to interest rate signals—further measures to contain inflation could include raising the reserve requirement, limiting increases in administered prices, and restricting borrowing by SOEs. Financial stability has been maintained following the exchange rate adjustment. To maintain stability going forward, staff encouraged enhanced monitoring, obtaining regular information on banks' liquidity and balance sheets, and taking early corrective measures where necessary.

### Box 1. Iraq's Social Welfare System

**The economic fallout from the pandemic puts a premium on strengthening social safety nets.** Income and job losses are expected to affect the most vulnerable, and Iraq's poverty rate could spike according to projections by the World Bank and UNICEF.

**Iraq's current social welfare system is fragmented and inefficient.** The core of the system is split between a cash transfers program, public distribution system (PDS), and the pension system. These are complemented by various other subsidies, most notably fuel and electricity, which are both costly and poorly targeted.

**Targeting under the cash transfers program has been improving.** It is the largest component of the social transfer program, accounting for about 1.6 percent of GDP in 2020. Until 2014, eligibility was based on demographic characteristics rather than means-testing, which resulted in low coverage of the poor and high leakage to the non-poor. Following a reform in 2014, the authorities have adopted proxy means-testing to improve efficiency. Regular updates of the population registry and the targeting criteria—supported by appropriate budget allocations—will be important to ensure adequate protection of the most vulnerable.

**By contrast, the PDS food distribution program is both costly and untargeted.** Inherited from the period when the UN sanctions restricted food imports, the program provides ration cards with specific quantities of selected commodities at subsidized prices as a function of household size. Eligibility is nearly universal, covering about 95 percent of population. In addition to poor targeting, the food basket composition requires revision to better meet household needs. The PDS accounted for ½ percent of GDP in 2020.

**The pension system is fiscally unsustainable due to permissive eligibility criteria and generous benefits**. The statutory retirement age of 50 is low, and the replacement rate is high with the minimum full-career pension obtained after 15 years of service. Survivor pensions are expansive, generating multiple, potentially life-long benefits, based on a single contributor's primary entitlement. Even non-contributors are eligible, including survivors of martyrs and victims of political persecution and their survivors, where the definition for eligible survivor has been stretched to include a large group of family members. To ensure fiscal sustainability, a pension reform would need to focus on cost containing measures, including a higher retirement age, deletion of the full career minimum pension, and a review of eligibility criteria.

## B. Supporting a Durable and Inclusive Recovery

**20. A comprehensive civil service reform would reduce fiscal costs and improve incentives for private employment (Annex IV).** Absence of a centralized database of civil servants and poor monitoring are key impediments to effective wage bill management. Thus, the most urgent priority is to put in place an effective IT system that enables strong monitoring, control, and accountability mechanisms within a centralized HR framework across all levels of government. A comprehensive functional review of the civil service must eliminate "ghost workers" and inform optimization of tasks, staffing, and business processes across government institutions. The remuneration framework will need to align pay scales, optimize non-wage payments within an overall cap, and link compensation to productivity under a robust performance assessment framework. A thorough revision of the broader legal framework will need to eliminate hiring and compensation commitments outside of the common HR framework. The authorities were supportive of these views. They pointed out that strengthening the mandate and capacity of the recently established—although not yet fully operational—Federal Civil Service Commission is a key pre-requisite to initiate a civil service reform. Staff recommended close involvement of the Federal Bureau of Supreme Audit and the Ministry of Finance to enforce compliance.

**21. The pension system requires an urgent recalibration to become sustainable (Box 1).** Continued expansion of benefits and eligibility for non-contributory pensions, which are fully paid for by the budget, are straining public finances. A significant expansion of coverage under contributory pensions has not been accompanied by a commensurate adjustment of contribution rates and could undermine sustainability of the Pension Fund. In this context, staff urged the government to withdraw its recent proposal to extend public pension benefits to the private sector until a comprehensive sustainability analysis can be performed and a pension reform strategy is developed. Such a strategy should seek integration of public and private pension systems whose financial sustainability would be assured by adequate contributions. The authorities agreed with the need for a pension reform which is one of the priorities emphasized in their White Paper.

**22. Stemming the electricity sector's downward spiral of mounting financial losses and power outages will preserve valuable fiscal resources and improve socio-economic conditions (Annex V).** On current trends, the sector is bound to continue undermining both fiscal and external sustainability, while power outages would persist amid a widening gap between demand and supply. Staff cautioned that, without achieving cost recovery, the authorities' current plans for additional investment in new generation capacity and imported supply would multiply the sector's quasi-fiscal losses. Against this background, staff emphasized the importance of developing a coherent sector reform strategy, prioritizing strengthening governance, improving collection through smart metering, and reducing theft, and introducing a gradual tariff adjustment to increase cost recovery and reduce arrears. Making meaningful progress in these areas along with increasing private sector participation will be critical for enhancing service provision and ensuring financial viability. Alongside, realizing the Ministry of Electricity's plans to enhance gas capture and reduce flaring would be important in limiting gas imports and contributing to environmental sustainability.

**23. Continued efforts to diversify fiscal revenues and strengthen public financial management would solidify public finances.** A comprehensive tax reform is needed to improve tax and customs administration and develop a progressive and effective tax policy that is conducive to private sector development and poverty reduction. Strengthening public financial management should prioritize setting up a Treasury Single Account (TSA) and accelerated implementation of IFMIS—an electronic system to replace paper-based procedures—to help tighten controls over budget commitments and cash management. Staff urged the authorities to introduce and implement stricter control and accountability over unspent public investment funds by line ministries and local governments and a more transparent public investment management system. The authorities pointed out their ongoing efforts to automate customs procedures and strengthen administration. They expressed interest in additional technical assistance to continue improving public financial management.

**24. These efforts should be complemented with reforms to minimize fiscal risks** stemming from off-budget expenditure, government guarantees, and arrears. Staff welcomed the government approval of an enhanced framework for vetting and issuing government guarantees and encouraged its immediate implementation. Furthermore, staff recommended agreeing a permanent fiscal federalism framework between the Federal and the Kurdistan Regional Governments, with clear revenue and risk-sharing arrangements and division of expenditure responsibilities to help improve budget planning and fiscal sustainability across all levels of government.

**25. Addressing governance weaknesses will be critical to safeguard public resources and improve efficiency.** Limited progress has been made with implementing key recommendations made during the 2019 Article IV Consultation. Staff underscored the need to strengthen understanding of corruption risks, including identification of key areas where illegal proceeds are generated. Simplification, digitalization and transparency of key public services would strengthen overall governance and effectively curb the risk of bribery and embezzlement of public funds—especially in public procurement. This should be combined with publication of key information on awarded contracts, including on beneficial ownership, and deployment of sufficient resources for risk-based delivery inspections and ex-post audits of these contracts. Finally, staff emphasized the need to align the authorities' anti-corruption framework with international standards and conventions.

**26. The CBI needs to strengthen risk-based AML/CFT supervision.** A sound assessment of ML/TF risks would inform effective allocation of resources for risk-based supervision. AML/CFT controls in banks and exchange houses should be enhanced through stronger due diligence, including identification of beneficial owners and politically exposed persons. A more effective implementation of targeted financial sanctions against non-compliant persons or entities would help maintain the stability of correspondent banking relationships. The CBI highlighted recent measures taken to strengthen the AML/CFT regime and reiterated its commitment to continue making progress in this area.

**27. A decisive strategy to restructure the large SOBs and level the playing field in the financial sector will be critical for private sector development.** Limited progress has been made on restructuring the large public banks which dominate the financial sector but are poorly supervised by the CBI and are routinely used for off-budget expenditures. Staff recommended undertaking an urgent international audit of the large SOBs to provide a more up-to-date assessment of their balance sheets and inform options for their speedy restructuring. In the meantime, staff urged the CBI to enhance supervision of these banks and engage the government in a robust discussion of restructuring options. The authorities also saw large SOBs as a risk to financial stability and private sector development. They pointed out that successful restructuring of SOBs would require overcoming significant political constraints and planned close coordination between the CBI and the government to strengthen supervision.

**28. Iraq no longer meets the criteria for post-program monitoring (PPM).** The Executive Board approved the expectation of PPM at the time of the 2019 Article IV Consultation. However, socio-political turmoil and the pandemic precluded holding formal discussions. Iraq no longer meets the criteria for PPM as outstanding credit has fallen below the relevant SDR 1.5 billion threshold. Furthermore, total credit outstanding is also well below the applicable quota-related threshold.

# STAFF APPRAISAL

**29. Iraq's socio-economic conditions have been significantly worsened by the pandemic and the sharp decline in oil revenues.** Adding to popular discontent over social conditions and political instability, the COVID-19 health crisis has led to significant loss of life while straining the health system's limited capacity. The sharp decline in oil revenues and significant expansion of government wage and pension bills have made the fiscal situation untenable as the budget deficit reached 20 percent of GDP in 2020. Alongside, the external current account deficit of 15 percent of GDP has led to a decline in foreign exchange reserves. Severe financing constraints precluded a meaningful fiscal response to the crisis. After declining by 11 percent in 2020, real GDP is projected to reach its pre-crisis level by 2024.

**30. The authorities have begun a much-needed recalibration of their short-term policies.** Staff welcomes the fiscal reforms proposed in the authorities' draft 2021 budget which aim at stemming the unsustainable expansion of wage and pension bills and strengthening non-oil revenues. The exchange rate adjustment will help reduce the large external deficit and preserve central bank reserves. Alongside, the planned boosting of the social safety nets to shield the vulnerable from the side effects of these reforms will be of paramount importance. Continued fiscal restraint in the coming years will be essential, including maintaining measures to contain the government wage bill. Durability of these reforms would be helped by embedding key fiscal measures in permanent legislation. Government debt is assessed as sustainable, although not with high probability and conditional on significant fiscal consolidation over the medium term.

**31. Downside risks are very high.** The most significant immediate risk is non-implementation of key fiscal and structural reforms, for example, due to political constraints or renewed social unrest. This would undermine macroeconomic stability and set government debt on an unsustainable path. In addition, pandemic-related risks and oil market uncertainties could further complicate the economic situation.

**32. Short-term fiscal measures would need to be followed by further strengthening of public finances in the medium term.** Staff welcomes the medium-term fiscal and structural reform plans laid out in the authorities' White Paper. A comprehensive civil service reform—focused on stricter controls over government HR management and optimization of compensation—is an urgent priority to create the fiscal space for priority needs and improve incentives for private employment. A recalibration of the pension system will be essential to ensure its financial sustainability. These reforms should be combined with continued efforts to diversify fiscal revenues, improve public financial management, and minimize fiscal risks from off-budget expenditures.

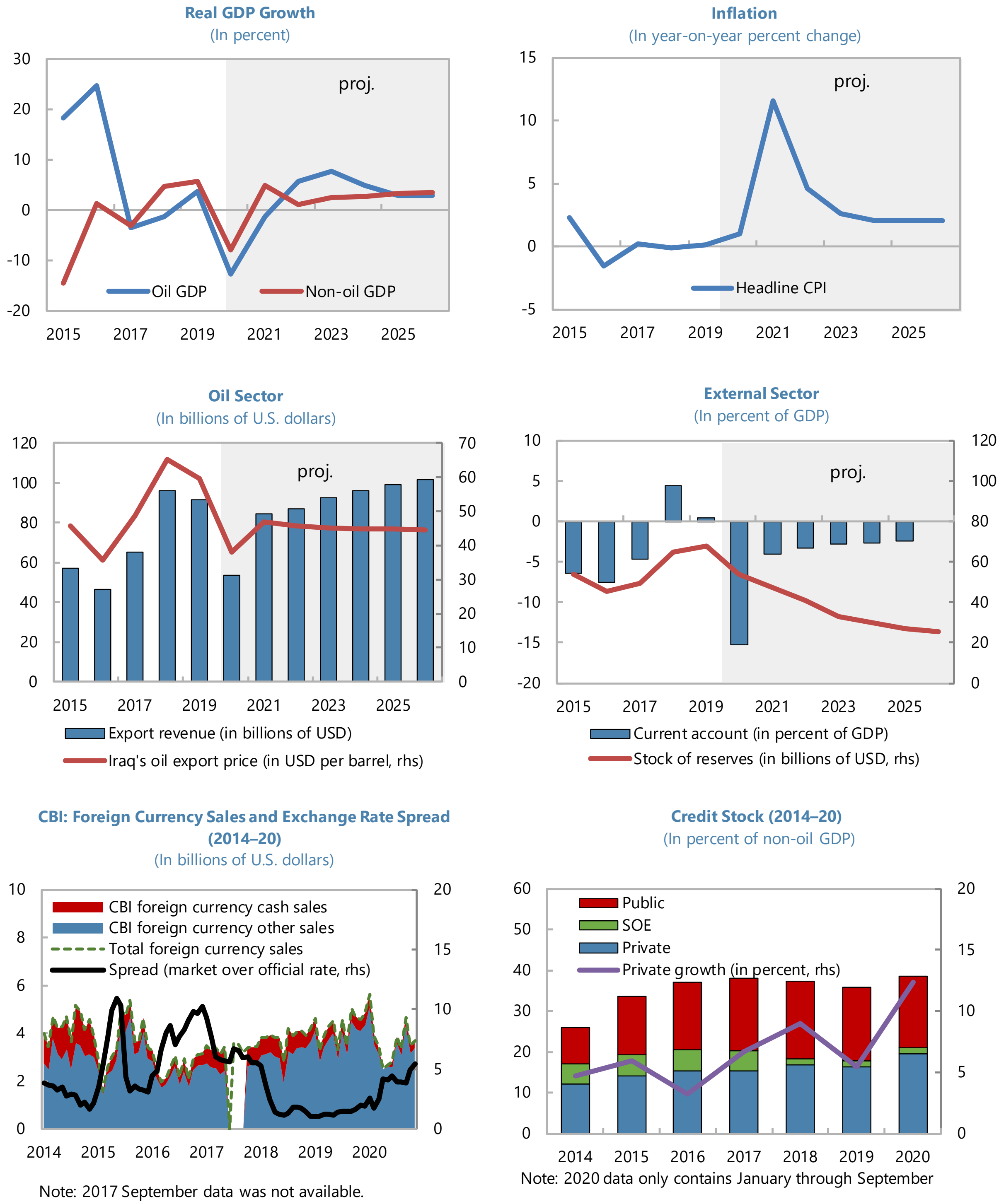
**33. Stemming the electricity sector's downward spiral of mounting financial losses and power outages will help improve public finances and socio-economic conditions.** Decisive implementation of a coherent sector reform strategy prioritizing strengthening governance, improving collection, and reducing theft, as well as gradually adjusting tariffs to increase cost recovery and reduce arrears will be critical. Alongside, realizing the plans to enhance gas capture and reduce flaring would be important in limiting gas imports and contributing to environmental sustainability.

**34. Addressing governance weaknesses will be critical to safeguard public resources and improve efficiency.** Simplification, digitalization and transparency of key public services would strengthen overall governance and effectively curb the risk of bribery and embezzlement of public funds—especially in public procurement. Continued strengthening of ML/TF risk assessments and compliance practices will help maintain financial stability and correspondent banking relationships.

**35. A decisive strategy to restructure the large SOBs and level the playing field in the financial sector will be critical for private sector development.** To this end, an urgent international audit of the largest SOBs is needed to provide an up-to-date assessment of their balance sheets and inform options for their speedy restructuring. In the meantime, enhance supervision of these banks and close dialogue between the CBI and the government is needed to decide on restructuring options.

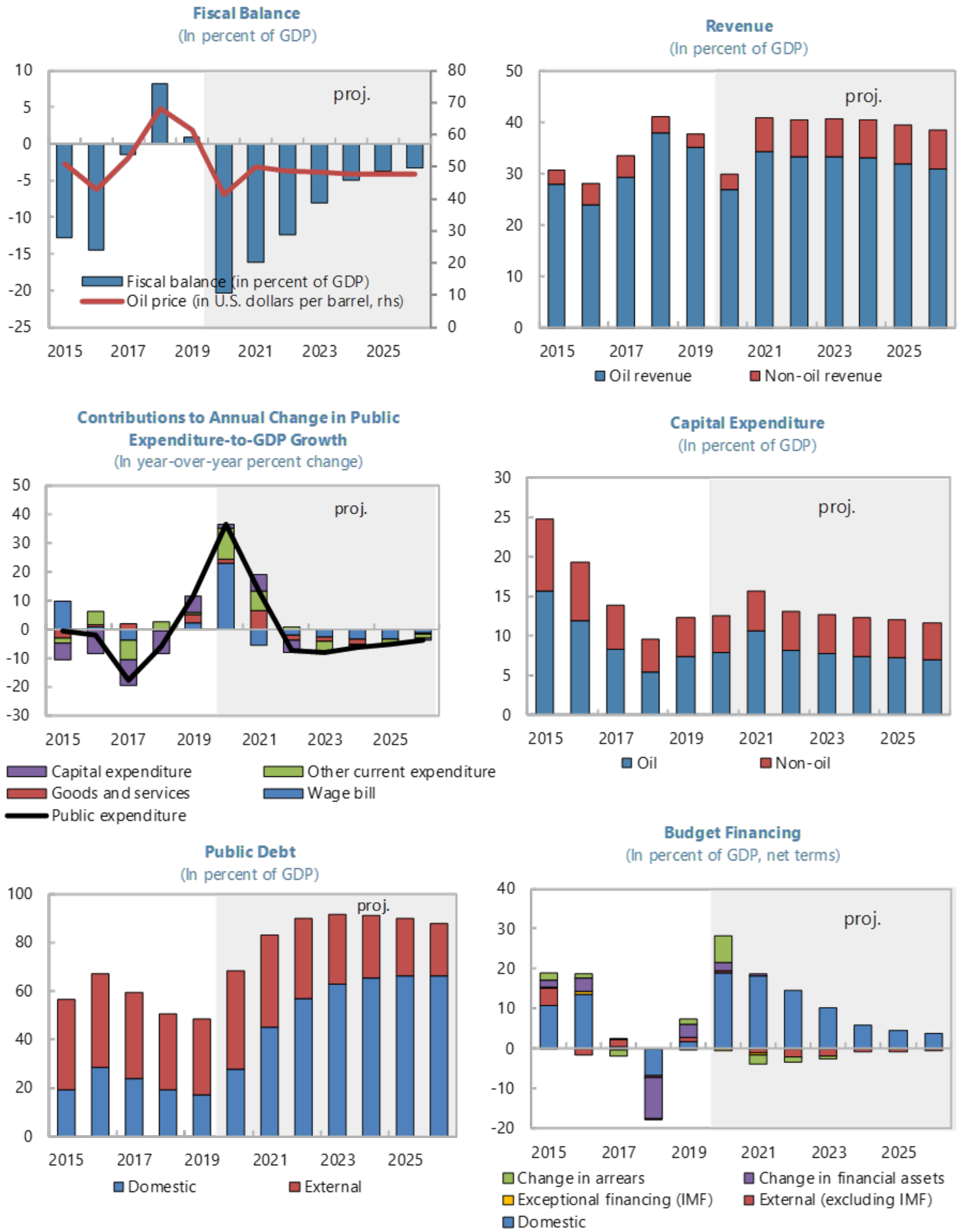
**36. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.**

## Figure 1. Iraq: Economic Developments and Medium-Term Projections, 2015–26




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

## Figure 2. Iraq: Fiscal and Debt, 2015–26




Sources: Iraqi authorities, WEO, and IMF staff calculations.

## Table 1. Iraq: Selected Economic and Financial Indicators, 2016–26

| | | | | | | | Projections | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| Economic growth and prices | | | | | | | | | | | |
| Real GDP (percentage change) | 15.2 | -3.4 | 0.8 | 4.5 | -10.9 | 1.2 | 3.9 | 5.7 | 4.1 | 3.1 | 3.4 |
| Non-oil real GDP (percentage change) | 1.3 | -3.1 | 4.7 | 5.7 | -8.0 | 5.0 | 1.1 | 2.5 | 2.7 | 3.4 | 3.6 |
| GDP deflator (percentage change) | -17.0 | 18.9 | 11.9 | -1.8 | -12.6 | 23.5 | 3.6 | 1.6 | 1.9 | 2.6 | 3.2 |
| GDP per capita (US$) | 4,637 | 5,179 | 5,691 | 5,687 | 4,286 | 4,287 | 4,498 | 4,705 | 4,865 | 5,020 | 5,203 |
| GDP (in ID trillion) | 197.9 | 227.3 | 256.4 | 262.9 | 204.8 | 255.9 | 275.5 | 295.7 | 313.7 | 332.1 | 353.2 |
| Non-oil GDP (in ID trillion) | 129.5 | 137.1 | 137.0 | 148.9 | 140.4 | 160.9 | 177.5 | 191.6 | 205.0 | 220.4 | 238.4 |
| GDP (in US$ billion) 1/ | 167.7 | 192.3 | 216.9 | 222.4 | 172.0 | 176.5 | 190.0 | 203.9 | 216.4 | 229.1 | 243.6 |
| Oil production (mbpd) | 4.63 | 4.47 | 4.41 | 4.58 | 4.00 | 3.95 | 4.18 | 4.50 | 4.73 | 4.87 | 5.01 |
| Oil exports (mbpd) | 3.79 | 3.80 | 3.86 | 3.97 | 3.43 | 3.39 | 3.59 | 3.86 | 4.06 | 4.18 | 4.30 |
| Iraq oil export prices (US$ pb) 2/ | 35.6 | 48.7 | 65.2 | 59.7 | 38.2 | 47.0 | 45.8 | 45.2 | 44.8 | 44.8 | 44.7 |
| Consumer price inflation (percentage change; end of period) | -1.5 | 0.2 | -0.1 | 0.1 | 1.0 | 11.5 | 4.6 | 2.6 | 2.0 | 2.0 | 2.0 |
| Consumer price inflation (percentage change; average) | 0.5 | 0.1 | 0.4 | -0.2 | 0.5 | 7.1 | 7.1 | 3.3 | 2.3 | 2.0 | 2.0 |
| National Accounts (in percent of GDP) | | | | | | | | | | | |
| Gross domestic investment | 21.1 | 16.6 | 12.8 | 15.1 | 17.2 | 19.1 | 16.8 | 16.4 | 16.1 | 16.0 | 15.9 |
| *Of which: public* | 12.0 | 8.3 | 5.5 | 7.3 | 7.9 | 10.6 | 8.1 | 7.7 | 7.4 | 7.3 | 7.0 |
| Gross domestic consumption | 85.3 | 87.0 | 81.2 | 83.0 | 96.0 | 82.9 | 84.5 | 84.6 | 85.0 | 84.7 | 84.6 |
| *Of which: public* | 23.6 | 22.2 | 22.0 | 23.6 | 35.2 | 37.0 | 34.5 | 32.2 | 29.4 | 27.4 | 26.4 |
| Gross national savings | 13.6 | 11.9 | 17.3 | 15.6 | 2.0 | 15.0 | 13.4 | 13.6 | 13.4 | 13.7 | 13.9 |
| *Of which: public* | -2.9 | 6.6 | 13.7 | 8.7 | -12.6 | -5.7 | -3.7 | -1.1 | 1.7 | 2.8 | 3.1 |
| Saving - Investment balance | -7.5 | -4.7 | 4.5 | 0.5 | -15.2 | -4.1 | -3.3 | -2.7 | -2.7 | -2.4 | -2.0 |
| Public Finance (in percent of GDP) | | | | | | | | | | | |
| Government revenue and grants | 28.0 | 33.6 | 41.2 | 37.8 | 30.0 | 40.8 | 40.5 | 40.6 | 40.6 | 39.5 | 38.4 |
| Government oil revenue | 23.9 | 29.3 | 37.9 | 35.2 | 27.0 | 34.3 | 33.4 | 33.3 | 33.1 | 31.9 | 30.8 |
| Government non-oil revenue | 4.2 | 4.2 | 3.2 | 2.6 | 3.0 | 6.5 | 7.1 | 7.4 | 7.5 | 7.6 | 7.6 |
| Expenditure, of which: | 42.5 | 35.1 | 33.0 | 36.9 | 50.3 | 57.0 | 52.9 | 48.6 | 45.5 | 43.2 | 41.6 |
| Current expenditure | 30.6 | 26.8 | 27.6 | 29.5 | 42.5 | 46.4 | 44.7 | 40.9 | 38.1 | 35.9 | 34.6 |
| Capital expenditure | 12.0 | 8.3 | 5.5 | 7.3 | 7.9 | 10.6 | 8.1 | 7.7 | 7.4 | 7.3 | 7.0 |
| Overall fiscal balance (including grants) | -14.5 | -1.5 | 8.2 | 0.9 | -20.3 | -16.2 | -12.4 | -8.0 | -4.9 | -3.7 | -3.2 |
| Non-oil primary fiscal balance, accrual basis (percent of non-oil GDP) | -46.2 | -40.3 | -45.1 | -48.8 | -59.4 | -68.8 | -57.9 | -52.4 | -46.8 | -42.5 | -39.7 |
| Adjusted Non-oil primary fiscal balance, accrual basis (excl. KRG, percent of non-oil GDP) 2/ | -46.2 | -40.3 | -43.0 | -45.2 | -56.1 | -63.9 | -54.8 | -50.0 | -44.9 | -40.9 | -33.6 |
| Adjusted non-oil primary expenditure (excl. KRG, percent of non-oil GDP) 3/ | 52.6 | 47.3 | 49.1 | 49.7 | 56.0 | 68.4 | 60.3 | 55.9 | 51.0 | 47.2 | 44.8 |
| Adjusted non-oil primary expenditure (excl. KRG, annual real growth, percent) 4/ | 0.9 | -4.9 | 3.3 | 10.4 | 5.7 | 30.5 | -9.1 | -3.2 | -4.5 | -2.4 | 0.6 |
| Memorandum items | | | | | | | | | | | |
| Total government debt (in percent of GDP) 5/ | 67.0 | 59.6 | 50.6 | 48.5 | 83.1 | 83.0 | 89.7 | 91.6 | 91.3 | 89.9 | 87.7 |
| Total government debt (in US$ billion) 6/ | 112.2 | 114.6 | 109.9 | 107.9 | 117.4 | 146.6 | 170.5 | 186.8 | 197.5 | 205.9 | 213.7 |
| External government debt (in percent of GDP) | 38.6 | 35.9 | 31.4 | 31.4 | 49.6 | 37.9 | 33.0 | 28.8 | 26.1 | 23.7 | 21.7 |
| External government debt (in US$ billion) | 64.6 | 69.0 | 68.1 | 69.8 | 70.0 | 67.0 | 62.7 | 58.6 | 56.5 | 54.3 | 52.8 |
| Monetary indicators (percentage change) | | | | | | | | | | | |
| Growth in reserve money | 9.2 | -4.4 | 6.7 | 15.8 | 29.5 | 38.3 | 23.3 | 11.5 | 6.9 | 5.0 | 4.8 |
| Growth in broad money | 7.1 | 2.6 | 2.7 | 8.4 | 27.3 | 33.3 | 19.9 | 10.4 | 6.9 | 5.5 | 5.4 |
| External sector (in percent of GDP) | | | | | | | | | | | |
| Current account | -7.5 | -4.7 | 4.5 | 0.5 | -15.2 | -4.1 | -3.3 | -2.7 | -2.7 | -2.4 | -2.0 |
| Trade balance | 1.3 | 4.2 | 13.6 | 10.3 | -6.6 | 3.7 | 3.8 | 3.7 | 3.5 | 3.6 | 3.5 |
| Exports of goods | 29.8 | 35.3 | 42.6 | 40.3 | 29.0 | 34.3 | 33.0 | 32.8 | 32.3 | 31.6 | 30.7 |
| Imports of goods | -28.5 | -31.2 | -29.0 | -30.0 | -35.6 | -30.7 | -29.2 | -29.1 | -28.8 | -28.0 | -27.2 |
| Overall external balance | -3.9 | 2.6 | 6.5 | 0.8 | -8.8 | -2.1 | -2.6 | -3.2 | -1.5 | -1.3 | -0.6 |
| Gross reserves (in US$ billion) | 45.5 | 49.4 | 64.7 | 68.0 | 54.1 | 47.4 | 40.8 | 33.2 | 30.0 | 27.1 | 25.6 |
| Total GIR (in months of imports of goods and services) | 6.7 | 7.0 | 8.4 | 10.7 | 9.4 | 9.2 | 6.7 | 5.0 | 4.3 | 3.9 | 3.5 |
| Exchange rate (dinar per US$; period average) | 1,180 | 1,182 | 1,182 | 1,182 | 1,191 | 1,450 | 1,450 | 1,450 | 1,450 | 1,450 | 1,450 |
| Real effective exchange rate (percent change, end of period) 7/ | 1.9 | -5.1 | 3.2 | -1.2 | ... | ... | ... | ... | ... | ... | ... |

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

1/ Converted from GDP in local currency using the period-average exchange rate (1191 in 2020).

2/ Negative price differential of about $2.9 per barrel compared to the average petroleum spot price (average of Brent, West Texas and Dubai oil prices) in 2020 - 2025.

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

4/ Adjusted to exclude full year estimate of federal government transfers to the Kurdistan Regional Government.

5/ Includes arrears. The debt stock includes legacy arrears to non-Paris Club creditors on which the authorities have requested (but not yet obtained) Paris-Club comparable relief. Implementing comparable terms will substantially reduce debt (e.g. by 15 percent of GDP in 2017). THe 14 percentage points increase in 2020 is partly attributed to a devaluation in mid-December 2020 which led to an upward revision of external debt.

6/ Converted from the total government debt in local currency using the end-of-period exchange rate (1450 in 2020).

7/ Positive means appreciation.

## Table 2. Iraq: Central Government Fiscal Accounts, 2016–26
(In trillions of Iraqi dinars, unless otherwise indicated)

| | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| Revenues and grants | 55.5 | 76.3 | 105.6 | 99.3 | 61.4 | 104.5 | 111.6 | 120.1 | 127.3 | 131.3 | 135.8 |
| Revenues | 55.5 | 76.3 | 105.6 | 99.3 | 61.4 | 104.5 | 111.6 | 120.1 | 127.3 | 131.3 | 135.8 |
| Oil | 47.2 | 66.7 | 97.3 | 92.5 | 55.3 | 87.8 | 92.0 | 98.3 | 103.8 | 106.0 | 109.0 |
| Crude oil export revenues | 46.6 | 65.2 | 96.1 | 91.6 | 53.8 | 84.3 | 86.9 | 92.4 | 96.1 | 99.1 | 101.8 |
| Transfers from oil-related public enterprises | 0.4 | 0.3 | 0.4 | 0.3 | 0.6 | 2.8 | 4.4 | 5.2 | 6.9 | 6.1 | 6.3 |
| Tax on oil company profits | 0.3 | 1.2 | 0.8 | 0.5 | 0.9 | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 | 0.8 |
| Non-oil | 8.3 | 9.6 | 8.3 | 6.8 | 6.2 | 16.7 | 19.6 | 21.7 | 23.4 | 25.2 | 26.8 |
| Tax revenues | 5.2 | 6.7 | 4.9 | 3.4 | 4.0 | 8.7 | 10.7 | 12.2 | 13.2 | 14.3 | 15.1 |
| Direct taxes | 3.7 | 3.9 | 2.6 | 1.8 | 2.9 | 6.6 | 8.4 | 9.5 | 10.1 | 11.0 | 11.9 |
| Indirect taxes | 1.5 | 2.9 | 2.3 | 1.6 | 1.1 | 2.1 | 2.3 | 2.6 | 3.1 | 3.2 | 3.1 |
| Non-tax revenues | 3.0 | 2.9 | 3.4 | 3.4 | 2.2 | 8.0 | 8.9 | 9.6 | 10.2 | 11.0 | 11.8 |
| Grants | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Expenditures | 84.2 | 79.7 | 84.7 | 96.9 | 103.1 | 146.0 | 145.7 | 143.7 | 142.7 | 143.4 | 147.0 |
| Current expenditures | 60.5 | 60.9 | 70.7 | 77.7 | 87.0 | 118.8 | 123.3 | 120.9 | 119.5 | 119.3 | 122.2 |
| Salary and pension | 41.6 | 42.9 | 48.3 | 51.1 | 62.5 | 74.3 | 75.5 | 76.0 | 74.7 | 72.3 | 73.8 |
| Salary | 32.3 | 33.4 | 37.7 | 40.6 | 49.0 | 53.9 | 54.7 | 54.3 | 52.6 | 50.4 | 51.4 |
| Pensions | 9.3 | 9.5 | 10.6 | 10.5 | 13.5 | 20.3 | 20.8 | 21.7 | 22.1 | 22.0 | 22.4 |
| Goods and services | 5.0 | 7.5 | 8.0 | 10.8 | 9.7 | 20.4 | 19.6 | 19.1 | 17.5 | 18.5 | 19.6 |
| Transfers | 12.5 | 8.2 | 10.2 | 11.4 | 10.8 | 18.5 | 18.7 | 19.0 | 19.4 | 19.9 | 19.8 |
| Interest payments | 1.4 | 2.3 | 3.7 | 3.1 | 2.6 | 3.4 | 5.2 | 6.8 | 7.8 | 8.5 | 9.1 |
| War reparations 1/ | 0.0 | 0.0 | 0.4 | 1.2 | 1.4 | 2.2 | 4.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment expenditures | 23.7 | 18.8 | 14.0 | 19.2 | 16.1 | 27.1 | 22.4 | 22.8 | 23.2 | 24.2 | 24.8 |
| Non-oil investment expenditures | 9.0 | 6.2 | 3.6 | 6.1 | 6.6 | 14.1 | 8.6 | 8.0 | 7.7 | 8.2 | 8.3 |
| Oil investment expenditures | 14.7 | 12.6 | 10.5 | 13.1 | 9.5 | 13.0 | 13.7 | 14.8 | 15.6 | 16.0 | 16.5 |
| Fiscal balance | -28.7 | -3.4 | 20.9 | 2.3 | -41.7 | -41.5 | -34.1 | -23.6 | -15.4 | -12.2 | -11.2 |
| Statistical discrepancy | 0.2 | -1.3 | -4.4 | -7.7 | 2.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing | 28.5 | 4.7 | -16.5 | 5.4 | 39.2 | 41.6 | 34.2 | 23.6 | 15.4 | 12.1 | 11.2 |
| External financing | 1.8 | 4.0 | 1.2 | 1.1 | 0.5 | -5.0 | -6.2 | -6.4 | -2.7 | -2.8 | -1.7 |
| Budget Loans | 3.0 | 4.3 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| International Financial Institutions | 2.7 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Bilateral | 0.3 | 0.9 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Eurobond | 0.0 | 2.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Project Loans | 2.3 | 1.9 | 1.1 | 1.0 | 2.2 | 3.8 | 2.5 | 2.5 | 2.4 | 2.4 | 3.2 |
| Donor funds for reconstruction | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortization | -1.1 | -1.0 | -1.7 | -2.5 | -5.2 | -5.9 | -6.7 | -7.3 | -5.0 | -5.1 | -4.9 |
| Assets held abroad | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| SDR Holding | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Account payables | -0.3 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Arrears | -2.0 | -1.9 | 1.5 | 2.6 | 3.5 | -2.9 | -2.0 | -1.5 | 0.0 | 0.0 | 0.0 |
| Domestic financing | 26.7 | 0.7 | -17.7 | 4.3 | 38.8 | 46.5 | 40.4 | 30.0 | 18.0 | 14.9 | 12.9 |
| Bank financing | 21.9 | 1.5 | -17.2 | 3.5 | 31.0 | 50.0 | 42.2 | 30.9 | 17.6 | 14.5 | 12.5 |
| CBI | 16.7 | 1.2 | -14.7 | 12.0 | 31.0 | 47.5 | 42.7 | 31.4 | 18.1 | 14.7 | 12.6 |
| Loans | 14.3 | 2.4 | -1.5 | 0.0 | 27.0 | 47.2 | 42.7 | 31.4 | 18.1 | 14.7 | 12.6 |
| Deposits | 2.4 | -1.2 | -13.2 | 12.0 | 4.0 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Commercial banks | 5.2 | 0.3 | -2.5 | -8.5 | 0.0 | 2.5 | -0.5 | -0.5 | -0.5 | -0.2 | -0.2 |
| Loans | 0.6 | 0.0 | -2.5 | -5.5 | 0.0 | 1.5 | -0.5 | -0.5 | -0.5 | -0.2 | -0.2 |
| Deposits | 4.6 | 0.3 | 0.0 | -3.0 | 0.0 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-bank financing | 2.0 | 1.5 | 1.2 | 0.6 | -2.7 | -0.7 | -0.7 | -0.7 | 0.0 | 0.0 | 0.0 |
| Net sale of government financial assets | 0.3 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Account payables | 1.8 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Arrears | 0.7 | -3.0 | -1.7 | 0.2 | 10.5 | -3.1 | -1.5 | -0.6 | 0.0 | 0.0 | 0.0 |
| Unidentified financing | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items | | | | | | | | | | | |
| Non-oil primary expenditure, accrual basis | 68.1 | 64.8 | 70.1 | 79.5 | 89.6 | 127.4 | 122.3 | 122.1 | 119.3 | 118.9 | 121.4 |
| Adjusted non-oil primary expenditure, accrual basis (excluding KRG) 2/ | 68.1 | 64.8 | 67.2 | 74.1 | 78.7 | 110.0 | 107.1 | 107.1 | 104.6 | 104.1 | 106.9 |
| Adjusted non-oil primary expenditure, accrual (annual real growth, percent) 2/ | 0.9 | -4.9 | 3.3 | 10.4 | 5.7 | 30.5 | -9.1 | -3.2 | -4.5 | -2.4 | 0.6 |
| Domestic inflation (in percent) | 0.5 | 0.1 | 0.4 | -0.2 | 0.5 | 7.1 | 7.1 | 3.3 | 2.3 | 2.0 | 2.0 |
| Non-oil primary fiscal balance, accrual basis | -59.9 | -55.2 | -61.8 | -72.7 | -83.4 | -110.7 | -102.8 | -100.3 | -95.9 | -93.7 | -94.6 |
| Adjusted non-oil primary fiscal balance, accrual basis (excluding KRG) 3/ | -59.9 | -55.2 | -58.9 | -67.2 | -72.5 | -93.3 | -87.6 | -85.3 | -81.2 | -78.9 | -80.0 |
| Non-oil primary fiscal balance, cash basis 4/ | -58.7 | -59.3 | -63.7 | -70.4 | -71.2 | -112.8 | -104.9 | -102.5 | -95.9 | -93.7 | -94.6 |
| Adjusted non-oil primary fiscal balance, cash basis (excluding KRG) 3,4/ | -58.7 | -59.3 | -60.8 | -65.0 | -60.3 | -95.4 | -89.7 | -87.5 | -81.2 | -78.9 | -80.0 |

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

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

2/ Adjusted to exclude full year estimates of federal government transfers to the Kurdistan Regional Government.

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

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

# Table 3. Iraq: Central Government Fiscal Accounts, 2016–26

(In percent of GDP)

| | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| Revenues and grants | 28.0 | 33.6 | 41.2 | 37.8 | 30.0 | 40.8 | 40.5 | 40.6 | 40.6 | 39.5 | 38.4 |
| Revenues | 28.0 | 33.6 | 41.2 | 37.8 | 30.0 | 40.8 | 40.5 | 40.6 | 40.6 | 39.5 | 38.4 |
| Oil | 23.9 | 29.3 | 37.9 | 35.2 | 27.0 | 34.3 | 33.4 | 33.3 | 33.1 | 31.9 | 30.8 |
| Crude oil export revenues | 23.5 | 28.7 | 37.5 | 34.9 | 26.3 | 32.9 | 31.5 | 31.2 | 30.6 | 29.8 | 28.8 |
| Transfers from oil-related public enterprises | 0.2 | 0.2 | 0.2 | 0.1 | 0.3 | 1.1 | 1.6 | 1.8 | 2.2 | 1.8 | 1.8 |
| Tax on oil company profits | 0.1 | 0.5 | 0.3 | 0.2 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 |
| Non-oil | 4.2 | 4.2 | 3.2 | 2.6 | 3.0 | 6.5 | 7.1 | 7.4 | 7.5 | 7.6 | 7.6 |
| Tax revenues | 2.6 | 3.0 | 1.9 | 1.3 | 1.9 | 3.4 | 3.9 | 4.1 | 4.2 | 4.3 | 4.3 |
| Direct taxes | 1.9 | 1.7 | 1.0 | 0.7 | 1.4 | 2.6 | 3.0 | 3.2 | 3.2 | 3.3 | 3.4 |
| Indirect taxes | 0.7 | 1.3 | 0.9 | 0.6 | 0.5 | 0.8 | 0.8 | 0.9 | 1.0 | 1.0 | 0.9 |
| Non-tax revenues | 1.5 | 1.3 | 1.3 | 1.3 | 1.1 | 3.1 | 3.2 | 3.2 | 3.3 | 3.3 | 3.3 |
| Grants | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Expenditures | 42.5 | 35.1 | 33.0 | 36.9 | 50.3 | 57.0 | 52.9 | 48.6 | 45.5 | 43.2 | 41.6 |
| Current expenditures | 30.6 | 26.8 | 27.6 | 29.5 | 42.5 | 46.4 | 44.7 | 40.9 | 38.1 | 35.9 | 34.6 |
| Salary and pension | 21.0 | 18.9 | 18.8 | 19.5 | 30.5 | 29.0 | 27.4 | 25.7 | 23.8 | 21.8 | 20.9 |
| Salary | 16.3 | 14.7 | 14.7 | 15.5 | 23.9 | 21.1 | 19.8 | 18.4 | 16.8 | 15.2 | 14.5 |
| Pensions | 4.7 | 4.2 | 4.1 | 4.0 | 6.6 | 8.0 | 7.6 | 7.3 | 7.1 | 6.6 | 6.3 |
| Goods and services | 2.5 | 3.3 | 3.1 | 4.1 | 4.7 | 8.0 | 7.1 | 6.5 | 5.6 | 5.6 | 5.5 |
| Transfers | 6.3 | 3.6 | 4.0 | 4.3 | 5.3 | 7.2 | 6.8 | 6.4 | 6.2 | 6.0 | 5.6 |
| Interest payments | 0.7 | 1.0 | 1.5 | 1.2 | 1.3 | 1.3 | 1.9 | 2.3 | 2.5 | 2.6 | 2.6 |
| War reparations 1/ | 0.0 | 0.0 | 0.2 | 0.5 | 0.7 | 0.8 | 1.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment expenditures | 12.0 | 8.3 | 5.5 | 7.3 | 7.9 | 10.6 | 8.1 | 7.7 | 7.4 | 7.3 | 7.0 |
| Non-oil investment expenditures | 4.5 | 2.7 | 1.4 | 2.3 | 3.2 | 5.5 | 3.1 | 2.7 | 2.4 | 2.5 | 2.4 |
| Oil investment expenditures | 7.4 | 5.6 | 4.1 | 5.0 | 4.6 | 5.1 | 5.0 | 5.0 | 5.0 | 4.8 | 4.7 |
| Fiscal balance | -14.5 | -1.5 | 8.2 | 0.9 | -20.3 | -16.2 | -12.4 | -8.0 | -4.9 | -3.7 | -3.2 |
| Statistical discrepancy | 0.1 | -0.6 | -1.7 | -2.9 | 1.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing | 14.4 | 2.1 | -6.4 | 2.0 | 19.2 | 16.2 | 12.4 | 8.0 | 4.9 | 3.6 | 3.2 |
| External financing | 0.9 | 1.8 | 0.5 | 0.4 | 0.2 | -1.9 | -2.3 | -2.2 | -0.8 | -0.8 | -0.5 |
| Budget Loans | 1.5 | 1.9 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| International Financial Institutions | 1.4 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Bilateral | 0.1 | 0.4 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Eurobond | 0.0 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Project Loans | 1.2 | 0.8 | 0.4 | 0.4 | 1.1 | 1.5 | 0.9 | 0.8 | 0.8 | 0.7 | 0.9 |
| Donor funds for reconstruction | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortization | -0.6 | -0.4 | -0.7 | -1.0 | -2.5 | -2.3 | -2.4 | -2.5 | -1.6 | -1.5 | -1.4 |
| Assets held abroad | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| SDR Holding | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Account payables | -0.2 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Arrears | -1.0 | -0.8 | 0.6 | 1.0 | 1.7 | -1.1 | -0.7 | -0.5 | 0.0 | 0.0 | 0.0 |
| Domestic financing | 13.5 | 0.3 | -6.9 | 1.6 | 18.9 | 18.2 | 14.7 | 10.1 | 5.7 | 4.5 | 3.6 |
| Bank financing | 11.0 | 0.7 | -6.7 | 1.3 | 15.1 | 19.5 | 15.3 | 10.4 | 5.6 | 4.4 | 3.5 |
| CBI | 8.4 | 0.5 | -5.7 | 4.6 | 15.1 | 18.6 | 15.5 | 10.6 | 5.8 | 4.4 | 3.6 |
| Loans | 7.2 | 1.0 | -0.6 | 0.0 | 13.2 | 18.4 | 15.5 | 10.6 | 5.8 | 4.4 | 3.6 |
| Deposits | 1.2 | -0.5 | -5.1 | 4.6 | 1.9 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Commercial banks | 2.6 | 0.1 | -1.0 | -3.2 | 0.0 | 1.0 | -0.2 | -0.2 | -0.2 | -0.1 | 0.0 |
| Loans | 0.3 | 0.0 | -1.0 | -2.1 | 0.0 | 0.6 | -0.2 | -0.2 | -0.2 | -0.1 | 0.0 |
| Deposits | 2.3 | 0.1 | 0.0 | -1.1 | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-bank financing | 1.0 | 0.7 | 0.5 | 0.2 | -1.3 | -0.3 | -0.3 | -0.2 | 0.0 | 0.0 | 0.0 |
| Net sale of government financial assets | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Account payables | 0.9 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Arrears | 0.4 | -1.3 | -0.7 | 0.1 | 5.1 | -1.2 | -0.5 | -0.2 | 0.0 | 0.0 | 0.0 |
| Unidentified financing | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items | | | | | | | | | | | |
| Non-oil primary expenditure, accrual basis (percent of GDP) | 34.4 | 28.5 | 27.3 | 30.2 | 43.7 | 49.8 | 44.4 | 41.3 | 38.0 | 35.8 | 34.4 |
| Adjusted non-oil primary expenditure, accrual basis (excl. KRG, percent of GDP) 2/ | 34.4 | 28.5 | 26.2 | 28.2 | 38.4 | 43.0 | 38.9 | 36.2 | 33.3 | 31.3 | 30.3 |
| Non-oil primary fiscal balance, accrual basis (percent of GDP) | -30.2 | -24.3 | -24.1 | -27.6 | -40.7 | -43.2 | -37.3 | -33.9 | -30.6 | -28.2 | -26.8 |
| Adjusted non-oil primary fiscal balance, accrual basis (excl. KRG, percent of GDP) 3/ | -30.2 | -24.3 | -23.0 | -25.6 | -35.4 | -36.4 | -31.8 | -28.8 | -25.9 | -23.7 | -22.7 |
| Non-oil primary fiscal balance, cash basis (percent of GDP) 4/ | -29.6 | -26.1 | -24.8 | -26.8 | -34.7 | -44.1 | -38.1 | -34.7 | -30.6 | -28.2 | -26.8 |
| Adjusted Non-oil primary fiscal balance, cash basis (excluding KRG, percent of GDP) 3,4/ | -29.6 | -26.1 | -23.7 | -24.7 | -29.4 | -37.3 | -32.6 | -29.6 | -25.9 | -23.7 | -22.7 |

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

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

2/ Adjusted to exclude full year estimates of federal government transfers to the Kurdistan Regional Government.

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

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

## Table 4. Iraq: Central Government Fiscal Accounts, 2016–26
(In percent of non-oil GDP)

| | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| Revenues and grants | 42.8 | 55.7 | 77.1 | 66.7 | 43.7 | 64.9 | 62.8 | 62.7 | 62.1 | 59.5 | 57.0 |
| Revenues | 42.8 | 55.7 | 77.1 | 66.7 | 43.7 | 64.9 | 62.8 | 62.7 | 62.1 | 59.5 | 57.0 |
| Oil | 36.5 | 48.7 | 71.0 | 62.1 | 39.3 | 54.6 | 51.8 | 51.3 | 50.7 | 48.1 | 45.7 |
| Crude oil export revenues | 36.0 | 47.5 | 70.1 | 61.5 | 38.3 | 52.4 | 48.9 | 48.2 | 46.9 | 44.9 | 42.7 |
| Transfers from oil-related public enterprises | 0.3 | 0.2 | 0.3 | 0.2 | 0.4 | 1.7 | 2.5 | 2.7 | 3.4 | 2.8 | 2.6 |
| Tax on oil company profits | 0.2 | 0.9 | 0.6 | 0.4 | 0.6 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Non-oil | 6.4 | 7.0 | 6.0 | 4.6 | 4.4 | 10.4 | 11.0 | 11.4 | 11.4 | 11.5 | 11.3 |
| Tax revenues | 4.0 | 4.9 | 3.5 | 2.3 | 2.8 | 5.4 | 6.0 | 6.4 | 6.4 | 6.5 | 6.3 |
| Direct taxes | 2.9 | 2.8 | 1.9 | 1.2 | 2.0 | 4.1 | 4.7 | 5.0 | 4.9 | 5.0 | 5.0 |
| Indirect taxes | 1.1 | 2.1 | 1.7 | 1.1 | 0.8 | 1.3 | 1.3 | 1.4 | 1.5 | 1.5 | 1.3 |
| Non-tax revenues | 2.4 | 2.1 | 2.5 | 2.3 | 1.6 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 4.9 |
| Grants | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Expenditures | 65.0 | 58.2 | 61.8 | 65.1 | 73.4 | 90.7 | 82.0 | 75.0 | 69.6 | 65.1 | 61.7 |
| Current expenditures | 46.7 | 44.4 | 51.6 | 52.2 | 61.9 | 73.9 | 69.4 | 63.1 | 58.3 | 54.1 | 51.3 |
| Salary and pension | 32.1 | 31.3 | 35.3 | 34.4 | 44.5 | 46.2 | 42.5 | 39.7 | 36.4 | 32.8 | 31.0 |
| Salary | 25.0 | 24.4 | 27.6 | 27.3 | 34.9 | 33.5 | 30.8 | 28.3 | 25.7 | 22.8 | 21.5 |
| Pensions | 7.2 | 6.9 | 7.7 | 7.1 | 9.6 | 12.7 | 11.7 | 11.3 | 10.8 | 10.0 | 9.4 |
| Goods and services | 3.9 | 5.5 | 5.8 | 7.3 | 6.9 | 12.7 | 11.0 | 10.0 | 8.5 | 8.4 | 8.2 |
| Transfers | 9.6 | 6.0 | 7.4 | 7.7 | 7.7 | 11.5 | 10.5 | 9.9 | 9.5 | 9.0 | 8.3 |
| Interest payments | 1.1 | 1.7 | 2.7 | 2.1 | 1.9 | 2.1 | 2.9 | 3.6 | 3.8 | 3.9 | 3.8 |
| War reparations [1/] | 0.0 | 0.0 | 0.3 | 0.8 | 1.0 | 1.3 | 2.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment expenditures | 18.3 | 13.7 | 10.2 | 12.9 | 11.5 | 16.9 | 12.6 | 11.9 | 11.3 | 11.0 | 10.4 |
| Non-oil investment expenditures | 6.9 | 4.5 | 2.6 | 4.1 | 4.7 | 8.8 | 4.9 | 4.2 | 3.7 | 3.7 | 3.5 |
| Oil investment expenditures | 11.4 | 9.2 | 7.6 | 8.8 | 6.8 | 8.1 | 7.7 | 7.7 | 7.6 | 7.3 | 6.9 |
| Fiscal balance | -22.2 | -2.5 | 15.3 | 1.6 | -29.7 | -25.8 | -19.2 | -12.3 | -7.5 | -5.5 | -4.7 |
| Statistical discrepancy | 0.2 | -0.9 | -3.2 | -5.2 | 1.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing | 22.0 | 3.4 | -12.1 | 3.6 | 27.9 | 25.8 | 19.3 | 12.3 | 7.5 | 5.5 | 4.7 |
| External financing | 1.4 | 2.9 | 0.9 | 0.7 | 0.3 | -3.1 | -3.5 | -3.3 | -1.3 | -1.3 | -0.7 |
| Budget Loans | 2.3 | 3.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| International Financial Institutions | 2.1 | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Bilateral | 0.2 | 0.7 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Eurobond | 0.0 | 1.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Project Loans | 1.8 | 1.4 | 0.8 | 0.7 | 1.6 | 2.4 | 1.4 | 1.3 | 1.2 | 1.1 | 1.3 |
| Donor funds for reconstruction | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortization | -0.9 | -0.7 | -1.3 | -1.7 | -3.7 | -3.6 | -3.8 | -3.8 | -2.4 | -2.3 | -2.0 |
| Assets held abroad | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| SDR Holding | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Account payables | -0.2 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Arrears | -1.6 | -1.4 | 1.1 | 1.7 | 2.5 | -1.8 | -1.1 | -0.8 | 0.0 | 0.0 | 0.0 |
| Domestic financing | 20.6 | 0.5 | -12.9 | 2.9 | 27.6 | 28.9 | 22.8 | 15.7 | 8.8 | 6.8 | 5.4 |
| Bank financing | 16.9 | 1.1 | -12.5 | 2.3 | 22.1 | 31.1 | 23.8 | 16.1 | 8.6 | 6.6 | 5.2 |
| CBI | 12.9 | 0.9 | -10.7 | 8.0 | 22.1 | 29.5 | 24.1 | 16.4 | 8.8 | 6.7 | 5.3 |
| Loans | 11.0 | 1.7 | -1.1 | 0.0 | 19.2 | 29.3 | 24.1 | 16.4 | 8.8 | 6.7 | 5.3 |
| Deposits | 1.9 | -0.9 | -9.6 | 8.0 | 2.8 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Commercial banks | 4.0 | 0.2 | -1.8 | -5.7 | 0.0 | 1.5 | -0.3 | -0.3 | -0.3 | -0.1 | -0.1 |
| Loans | 0.5 | 0.0 | -1.8 | -3.7 | 0.0 | 0.9 | -0.3 | -0.3 | -0.3 | -0.1 | -0.1 |
| Deposits | 3.5 | 0.2 | 0.0 | -2.0 | 0.0 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-bank financing | 1.6 | 1.1 | 0.9 | 0.4 | -1.9 | -0.4 | -0.4 | -0.4 | 0.0 | 0.0 | 0.0 |
| Net sale of government financial assets | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Account payables | 1.4 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Arrears | 0.5 | -2.2 | -1.2 | 0.1 | 7.4 | -2.0 | -0.9 | -0.3 | 0.0 | 0.0 | 0.0 |
| Financing gap [2/] | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items | | | | | | | | | | | |
| Non-oil primary expenditure, accrual basis (percent of non-oil GDP) | 52.6 | 47.3 | 51.1 | 53.4 | 63.8 | 79.2 | 68.9 | 63.7 | 58.2 | 53.9 | 50.9 |
| Adjusted non-oil primary expenditure, accrual basis (excl. KRG, percent of non-oil GDP) [3/] | 52.6 | 47.3 | 49.1 | 49.7 | 56.0 | 68.4 | 60.3 | 55.9 | 51.0 | 47.2 | 44.8 |
| Non-oil primary fiscal balance, accrual basis (percent of non-oil GDP) | -46.2 | -40.3 | -45.1 | -48.8 | -59.4 | -68.8 | -57.9 | -52.4 | -46.8 | -42.5 | -39.7 |
| Adjusted non-oil primary fiscal balance, accrual basis (excl. KRG, percent of non-oil GDP) [4/] | -46.2 | -40.3 | -43.0 | -45.2 | -51.6 | -58.0 | -49.3 | -44.5 | -39.6 | -35.8 | -33.6 |
| Non-oil primary fiscal balance, cash basis (percent of non-oil GDP) [5/] | -45.3 | -43.3 | -46.5 | -47.3 | -50.7 | -70.1 | -59.1 | -53.5 | -46.8 | -42.5 | -39.7 |
| Adjusted Non-oil primary fiscal balance, cash basis (excl. KRG, percent of non-oil GDP) [4,5/] | -45.3 | -43.3 | -44.4 | -43.6 | -42.9 | -59.3 | -50.5 | -45.7 | -39.6 | -35.8 | -33.6 |
| Non-oil GDP (ID trillion) | 129.5 | 137.1 | 137.0 | 148.9 | 140.4 | 160.9 | 177.5 | 191.6 | 205.0 | 220.4 | 238.4 |

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

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

2/ Includes unidentified financing only.

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

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

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

## Table 5. Iraq: Balance of Payments, 2016–26
(In billions of U.S. dollars, unless otherwise indicated)

| | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| Trade balance | 2.1 | 8.0 | 29.5 | 22.8 | -11.4 | 6.5 | 7.3 | 7.5 | 7.5 | 8.3 | 8.5 |
| (In percent of GDP) | 1.3 | 4.2 | 13.6 | 10.3 | -6.6 | 3.7 | 3.8 | 3.7 | 3.5 | 3.6 | 3.5 |
| Exports | 49.9 | 68.0 | 92.5 | 89.6 | 49.8 | 60.6 | 62.8 | 66.9 | 69.9 | 72.4 | 74.8 |
| Crude oil | 49.3 | 67.5 | 91.9 | 86.4 | 47.8 | 58.1 | 59.9 | 63.7 | 66.3 | 68.3 | 70.2 |
| Other exports | 0.3 | 0.4 | 0.6 | 3.2 | 2.0 | 2.5 | 2.8 | 3.2 | 3.6 | 4.1 | 4.6 |
| Imports | -47.8 | -59.9 | -63.0 | -66.8 | -61.2 | -54.1 | -55.5 | -59.4 | -62.4 | -64.1 | -66.3 |
| Private sector imports | -36.7 | -38.0 | -39.4 | -41.4 | -40.6 | -32.4 | -34.6 | -37.9 | -40.7 | -42.3 | -44.6 |
| Government imports | -14.8 | -14.2 | -21.3 | -22.8 | -20.6 | -21.7 | -20.8 | -21.5 | -21.7 | -21.7 | -21.7 |
| Services, net | -12.8 | -15.1 | -16.7 | -18.6 | -11.4 | -10.0 | -9.7 | -9.6 | -9.8 | -10.0 | -9.6 |
| Receipts | 5.5 | 6.0 | 5.6 | 7.3 | 4.0 | 4.6 | 5.7 | 6.6 | 7.2 | 7.8 | 8.4 |
| Payments | -18.3 | -21.2 | -22.3 | -25.9 | -15.3 | -14.7 | -15.4 | -16.1 | -17.1 | -17.8 | -18.0 |
| Income, net | -2.8 | -3.1 | -4.2 | -3.4 | -3.5 | -4.1 | -4.1 | -4.1 | -4.1 | -4.2 | -4.2 |
| Transfers, net | 1.0 | 1.2 | 1.1 | 0.3 | 0.0 | 0.5 | 0.2 | 0.6 | 0.6 | 0.4 | 0.5 |
| Private, net | 0.6 | 0.7 | 0.2 | 0.1 | 0.1 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Official, net | 0.4 | 0.5 | 0.9 | 0.2 | -0.1 | 0.2 | -0.1 | 0.3 | 0.3 | 0.1 | 0.1 |
| Current account | -12.5 | -9.0 | 9.7 | 1.1 | -26.2 | -7.2 | -6.4 | -5.6 | -5.8 | -5.4 | -4.9 |
| (in percent of GDP) | -7.5 | -4.7 | 4.5 | 0.5 | -15.2 | -4.1 | -3.3 | -2.7 | -2.7 | -2.4 | -2.0 |
| Capital account | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial account | 3.9 | 10.3 | 0.6 | 5.3 | 11.0 | 3.5 | 1.4 | -1.0 | 2.6 | 2.5 | 3.4 |
| Direct and portfolio investment (net) | 2.9 | 4.9 | 2.9 | 6.7 | 4.6 | 3.9 | 4.0 | 3.3 | 4.4 | 4.4 | 4.6 |
| Other capital, net | 1.0 | 5.5 | -2.3 | -1.4 | 6.4 | -0.4 | -2.6 | -4.3 | -1.8 | -1.9 | -1.2 |
| Official, net | 3.9 | 5.4 | 1.1 | 4.2 | 0.0 | -0.4 | -2.6 | -4.3 | -1.8 | -1.9 | -1.2 |
| Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Liabilities | 3.9 | 5.4 | 1.1 | 4.2 | -0.6 | -0.4 | -2.6 | -4.3 | -1.8 | -1.9 | -1.2 |
| Disbursements [1/] | 4.7 | 6.6 | 2.1 | 5.8 | 1.8 | 2.7 | 1.7 | 0.7 | 1.7 | 1.6 | 2.2 |
| Amortization | -0.8 | -1.1 | -1.1 | -1.6 | -2.4 | -3.1 | -4.3 | -5.0 | -3.5 | -3.5 | -3.4 |
| Private, net | -2.9 | 0.0 | -3.4 | -5.6 | 6.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Errors and omissions | 2.0 | 3.7 | 3.9 | -4.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | -6.6 | 5.0 | 14.2 | 1.8 | -15.2 | -3.7 | -4.9 | -6.6 | -3.2 | -2.9 | -1.5 |
| (in percent of GDP) | -3.9 | 2.6 | 6.5 | 0.8 | -8.8 | -2.1 | -2.6 | -3.2 | -1.5 | -1.3 | -0.6 |
| Financing | 6.6 | -5.0 | -14.2 | -1.8 | 15.2 | 3.7 | 4.9 | 6.6 | 3.2 | 2.9 | 1.5 |
| Development Fund for Iraq (increase -) [2/] | 0.6 | -1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross International Reserves (increase -) | 8.0 | -2.9 | -15.3 | -3.3 | 13.9 | 6.6 | 6.6 | 7.6 | 3.2 | 2.9 | 1.5 |
| Fund credit (repayment) | -0.1 | 0.0 | -0.2 | -0.7 | -1.2 | -1.0 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in arrears (negative = decrease) | -1.7 | -1.6 | 1.3 | 2.2 | 2.4 | -2.0 | -1.4 | -1.1 | 0.0 | 0.0 | 0.0 |
| Change in payables (negative = decrease) | -0.3 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap (increase -) [3/] | 0.0 | 0.0 | 3.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items | | | | | | | | | | | |
| GIR (end of period) | 45.5 | 49.4 | 64.7 | 68.0 | 54.1 | 47.4 | 40.8 | 33.2 | 30.0 | 27.1 | 25.6 |
| GIR (in months of imports of goods and services) | 6.7 | 7.0 | 8.4 | 10.7 | 9.4 | 9.2 | 6.7 | 5.0 | 4.3 | 3.9 | 3.5 |
| GDP | 167.7 | 192.3 | 216.9 | 222.4 | 172.0 | 176.5 | 190.0 | 203.9 | 216.4 | 229.1 | 243.6 |
| *Of which:* Non-oil GDP | 109.8 | 116.0 | 115.9 | 126.0 | 117.9 | 110.9 | 122.4 | 132.1 | 141.4 | 152.0 | 164.4 |

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

1/ Includes prospective disbursements from the IMF, WB and other donors in 2016–19.

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

3/ Includes unidentified financing only.

## Table 6. Iraq: Monetary Survey, 2016–26
(In billions of Iraqi dinars, unless otherwise indicated)

| | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| Net foreign assets | 60,600 | 63,892 | 86,266 | 97,769 | 94,374 | 86,167 | 77,059 | 65,987 | 61,328 | 57,142 | 55,008 |
| Of which: CBI | 49,550 | 52,864 | 71,212 | 76,062 | 74,810 | 66,603 | 57,495 | 46,423 | 41,764 | 37,578 | 35,444 |
| Net domestic assets | 29,726 | 28,818 | 8,977 | 5,522 | 37,099 | 89,060 | 133,043 | 165,972 | 186,733 | 204,646 | 220,890 |
| Domestic claims | 36,444 | 39,018 | 16,428 | 22,712 | 57,099 | 109,060 | 153,043 | 185,972 | 206,733 | 224,646 | 240,890 |
| Net claims on general government | 11,125 | 13,173 | -6,662 | -827 | 30,010 | 80,842 | 123,191 | 154,195 | 172,640 | 187,995 | 201,305 |
| Claims on general government | 41,490 | 44,385 | 44,353 | 43,200 | 70,037 | 118,869 | 161,218 | 192,222 | 210,667 | 226,022 | 239,331 |
| *less:* Liabilities to general government | -30,365 | -31,212 | -51,015 | -44,027 | -40,027 | -38,027 | -38,027 | -38,027 | -38,027 | -38,027 | -38,027 |
| Claims on other sectors | 25,318 | 25,844 | 23,090 | 23,539 | 27,089 | 28,218 | 29,852 | 31,777 | 34,092 | 36,651 | 39,586 |
| Other Item Net (OIN) | -6,718 | -10,199 | -7,451 | -17,190 | -20,000 | -20,000 | -20,000 | -20,000 | -20,000 | -20,000 | -20,000 |
| Broad money | 90,326 | 92,710 | 95,243 | 103,291 | 131,473 | 175,227 | 210,103 | 231,959 | 248,061 | 261,788 | 275,898 |
| Currency outside banks | 42,075 | 40,343 | 40,498 | 47,639 | 61,899 | 85,882 | 106,240 | 118,812 | 127,388 | 134,229 | 141,127 |
| Transferable deposits | 33,449 | 36,643 | 37,331 | 39,132 | 48,921 | 62,823 | 73,032 | 79,560 | 84,852 | 89,693 | 94,765 |
| Other deposits | 14,802 | 15,724 | 17,414 | 16,520 | 20,653 | 26,522 | 30,831 | 33,587 | 35,821 | 37,865 | 40,006 |
| Memorandum items | | | | | | | | | | | |
| Broad money (percentage growth) | 7.1 | 2.6 | 2.7 | 8.4 | 27.3 | 33.3 | 19.9 | 10.4 | 6.9 | 5.5 | 5.4 |
| Broad money (in percent of GDP) | 45.6 | 40.8 | 37.1 | 39.3 | 64.2 | 68.5 | 76.3 | 78.4 | 79.1 | 78.8 | 78.1 |
| M2 velocity (based on non-oil GDP) | 1.4 | 1.5 | 1.4 | 1.4 | 1.1 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 0.9 |
| Credit to the economy (percentage growth) | -0.5 | 2.1 | -10.7 | 1.9 | 15.1 | 4.2 | 5.8 | 6.4 | 7.3 | 7.5 | 8.0 |
| Credit to the economy (in percent of GDP) | 12.8 | 11.4 | 9.0 | 9.0 | 13.2 | 11.0 | 10.8 | 10.7 | 10.9 | 11.0 | 11.2 |
| Credit to the private sector (percentage growth) | 3.2 | 6.7 | 9.0 | 1.9 | 15.1 | 4.2 | 5.8 | 6.4 | 7.3 | 7.5 | 8.0 |
| Credit to the private sector (in percent of GDP) | 10.0 | 9.3 | 9.0 | 9.3 | 13.4 | 11.2 | 11.0 | 10.9 | 11.0 | 11.1 | 11.3 |

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

## Table 7. Iraq: Central Bank Balance Sheet, 2016–26
(In billions of Iraqi dinars, unless otherwise indicated)

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Projections | | | | | | |
| Net foreign assets | 49,550 | 52,864 | 71,212 | 76,062 | 74,810 | 66,603 | 57,495 | 46,423 | 41,764 | 37,578 | 35,444 |
| Foreign assets | 54,219 | 58,862 | 76,966 | 80,866 | 78,990 | 69,352 | 59,787 | 48,715 | 44,056 | 39,870 | 37,736 |
| Official reserve assets | 53,774 | 58,389 | 76,502 | 80,400 | 78,405 | 68,767 | 59,202 | 48,130 | 43,471 | 39,285 | 37,151 |
| Gold | 3,957 | 4,433 | 4,689 | 5,572 | 8,446 | 9,037 | 9,579 | 10,058 | 10,461 | 10,774 | 11,098 |
| Other | 49,149 | 53,460 | 71,328 | 74,346 | 69,352 | 59,123 | 49,016 | 37,465 | 32,404 | 27,904 | 25,446 |
| SDR holdings and reserve position in the Fund | 482 | 497 | 484 | 482 | 607 | 607 | 607 | 607 | 607 | 607 | 607 |
| Other foreign assets | 446 | 472 | 464 | 466 | 585 | 585 | 585 | 585 | 585 | 585 | 585 |
| Foreign liabilities | -4,669 | -5,939 | -5,645 | -4,787 | -4,180 | -2,749 | -2,293 | -2,293 | -2,293 | -2,293 | -2,293 |
| Net domestic assets | 19,166 | 14,664 | -1,180 | 5,063 | 30,285 | 78,717 | 121,667 | 153,267 | 171,622 | 186,517 | 199,384 |
| Domestic assets | 16,910 | 14,367 | -94 | 9,843 | 38,984 | 87,416 | 130,364 | 161,967 | 180,316 | 195,222 | 208,082 |
| Net claims on general government | 16,281 | 12,909 | -1,863 | 7,919 | 37,060 | 85,491 | 128,439 | 160,042 | 178,391 | 193,297 | 206,158 |
| Claims on general government | 20,236 | 20,012 | 18,410 | 16,218 | 43,013 | 90,444 | 133,392 | 164,995 | 183,344 | 198,250 | 211,111 |
| Domestic currency deposits | -455 | -2,478 | -5,315 | -1,006 | -606 | -306 | -306 | -306 | -306 | -306 | -306 |
| Foreign currency deposits | -3,500 | -4,625 | -14,957 | -7,294 | -5,347 | -4,647 | -4,647 | -4,647 | -4,647 | -4,647 | -4,647 |
| Monetary policy instruments 1/ | -3,199 | -1,500 | -1,052 | -1,074 | -1,087 | -1,086 | -1,085 | -1,088 | -1,081 | -1,092 | -1,086 |
| Other items net | 5,455 | 2,831 | -34 | -3,706 | -7,612 | -7,612 | -7,612 | -7,612 | -7,612 | -7,612 | -7,612 |
| Reserve money | 68,716 | 65,690 | 70,066 | 81,158 | 105,094 | 145,320 | 179,162 | 199,689 | 213,386 | 224,095 | 234,827 |
| Currency in circulation | 45,232 | 44,237 | 47,169 | 54,740 | 70,928 | 98,547 | 121,911 | 135,936 | 145,082 | 152,082 | 159,058 |
| Bank reserves | 23,485 | 21,453 | 22,896 | 26,418 | 34,166 | 46,773 | 57,250 | 63,754 | 68,304 | 72,013 | 75,769 |
| Other liquid liabilities | 0 | 0 | 0 | 0 | ... | ... | ... | ... | ... | ... | ... |
| Memorandum items | | | | | | | | | | | |
| Reserve money (annual growth, in percent) | 9.2 | -4.4 | 6.7 | 15.8 | 29.5 | 38.3 | 23.3 | 11.5 | 6.9 | 5.0 | 4.8 |
| Currency in circulation (annual growth, in percent) | 17.2 | -2.2 | 6.6 | 16.0 | 29.6 | 38.9 | 23.7 | 11.5 | 6.7 | 4.8 | 4.6 |
| Gross foreign exchange assets (in millions of U.S. dollars) 2/ | 45,494 | 49,399 | 64,722 | 68,020 | 54,072 | 47,425 | 40,829 | 33,193 | 29,980 | 27,093 | 25,621 |

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

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

2/ Starting 2014 reflects the balances of the Development Fund of Iraq were moved from the Federal Reserve Bank of New York to the CBI as a $ account ($ balances from oil revenues) in May 2014. Starting Q3 2015, SDRs and reserve position in the Fund are excluded from the definition per instruction from the Central Bank of Iraq. SDR and reserve position and all transactions with the Fund were reported on balance sheet in June 2016 temporarily and the issue is under review.

## Table 8. Iraq: Reserve Adequacy Indicators, 2016–26

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Prel. Actual | Prel. Actual | Projections | | | | | |
| Reserves in USD billion | 45.5 | 49.4 | 64.7 | 68.0 | 54.1 | 47.4 | 40.8 | 33.2 | 30.0 | 27.1 | 25.6 |
| Reserves in months of imports of goods and services | 6.7 | 7.0 | 8.4 | 10.7 | 9.4 | 9.2 | 6.7 | 5.0 | 4.3 | 3.9 | 3.5 |
| Reserves in percent of external debt service coming due | 2,482 | 2,217 | 1,966 | 1,512 | 1,113 | 895 | 725 | 589 | 762 | 690 | 692 |
| Reserves in percent of reserve money | 78.1 | 88.9 | 109.2 | 99.1 | 61.3 | 47.3 | 33.0 | 24.1 | 20.4 | 17.5 | 15.8 |
| Reserves in percent of broad money | 59.4 | 63.0 | 80.3 | 77.8 | 49.0 | 39.2 | 28.2 | 20.7 | 17.5 | 15.0 | 13.5 |
| Reserves in percent of the IMF RA metric 1/ | 174 | 174 | 208 | 213 | 178 | 145 | 115 | 88 | 78 | 68 | 64 |
| Reserves in percent of the augmented IMF RA metric 1/ 2/ | 107 | 113 | 111 | 115 | 150 | 91 | 68 | 49 | 43 | 38 | 35 |

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

1/ Reserves within 100–150 percent of the Reserve Adequacy (RA) metric are considered adequate.

2/ The augmented RA metric adds a buffer to account for the possibility of lower than projected oil prices.

## Table 9. Iraq: Indicators of Fund Credit, 2018–25
(In millions of SDRs, unless otherwise indicated)

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|
| Disbursements of Fund credit (SBA and RFI) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| SBA, 2009 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| In percent of IMF quota (old) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| RFI, 2015 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| In percent of IMF quota (old) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| SBA, 2016 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| In percent of IMF quota (current) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Repurchases and Charges (SBA, RFI and SDR charges) | 166 | 557 | 885 | 715 | 238 | 18 | 11 | 3 |
| SBA, 2009 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Repurchases under the SBA 1/ | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| RFI, 2015 | 111 | 446 | 334 | 0 | 0 | 0 | 0 | 0 |
| Repurchases under the RFI 1/ | 111 | 446 | 334 | 0 | 0 | 0 | 0 | 0 |
| SBA, 2016 | 0 | 57 | 528 | 690 | 219 | 0 | 0 | 0 |
| Repurchases under the SBA 1/ | 0 | 57 | 528 | 690 | 219 | 0 | 0 | 0 |
| In percent of IMF quota (current) | 0 | 3 | 32 | 41 | 13 | 0 | 0 | 0 |
| GRA charges and interest | 45 | 43 | 20 | 24 | 18.7 | 17 | 11 | 2 |
| SDR charges and assessments | 10 | 12 | 4 | 1 | 1 | 1 | 1 | 1 |
| Total obligations, in percent of: | | | | | | | | |
| Exports of goods and services | 0 | 1 | 2 | 1 | 0 | 0 | 0 | 0 |
| External public debt | 0 | 1 | 2 | 2 | 1 | 0 | 0 | 0 |
| Gross reserves | 0 | 1 | 2 | 2 | 1 | 0 | 0 | 0 |
| GDP | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 0 |
| IMF Quota (old) | 14 | 47 | 74 | 60 | 20 | 1 | 1 | 0 |
| IMF Quota (current) | 10 | 34 | 53 | 43 | 14 | 1 | 1 | 0 |
| Outstanding Fund credit (SBA and RFI) | 2,274 | 1,772 | 909 | 219 | 0 | 0 | 0 | 0 |
| SBA, 2009 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| RFI, 2015 | 780 | 334 | 0 | 0 | 0 | 0 | 0 | 0 |
| SBA, 2016 | 1,494 | 1,437 | 909 | 219 | 0 | 0 | 0 | 0 |
| Total outstanding Fund credit, in percent of | | | | | | | | |
| Exports of goods and services | 5 | 4 | 2 | 0 | 0 | 0 | 0 | 0 |
| External public debt | 5 | 4 | 2 | 0 | 0 | 0 | 0 | 0 |
| Gross reserves | 5 | 4 | 2 | 1 | 0 | 0 | 0 | 0 |
| GDP | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 |
| IMF Quota (old) | 191 | 149 | 77 | 18 | 0 | 0 | 0 | 0 |
| IMF Quota (current) | 137 | 106 | 55 | 13 | 0 | 0 | 0 | 0 |

Sources: IMF staff estimates and projections.

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

# Annex I. External Sector Assessment

*Iraq's external position in 2020 was substantially weaker than the level implied by fundamentals and desirable policies. The collapse of oil revenues in the wake of the pandemic has intensified external pressures by reducing exports and increasing monetary financing of the large fiscal deficit. Devaluation of the dinar by 22.7 percent in December 2020 and the authorities' planned fiscal reforms will reduce the current account deficit and relieve pressures on reserves. Sustained fiscal consolidation efforts will be critical to ensure credibility of the new peg and to phase out monetary financing in the medium term.*

## A. Current Account (CA)

**1. Background.** Iraq's CA balance is estimated to have worsened from a surplus of 0.5 percent of GDP in 2019 to a deficit of 15.2 percent of GDP in 2020 primarily due to a sharp decline in oil exports which accounted for more than 95 percent of total exports and 89 percent of total CA receipts over the past five years. A significant loosening of the fiscal stance has supported the resilience of imports which, despite declining by around 8 percent in dollar terms, rose by 6 percentage points relative to GDP. In the medium term, devaluation of the dinar, partial oil price recovery, and the authorities' plans for fiscal consolidation are expected to reduce the CA deficit to 2 percent of GDP in staff's baseline projections which assume sustained implementation of reforms.

**2. Assessment.** Based on the 2020 projected outcome, the EBA-lite model estimates a cyclically adjusted—including for temporary declines in tourism and oil balances as a result of the COVID-19 shock—CA gap of -4.9 percent of GDP, more than half of which reflects the contribution of policy gaps. Investment and consumption variants of models based on the permanent income hypothesis point to CA gaps of -2.7 and -8.6 percent of GDP, respectively.

**Model Estimates for 2020**
(In percent of GDP)

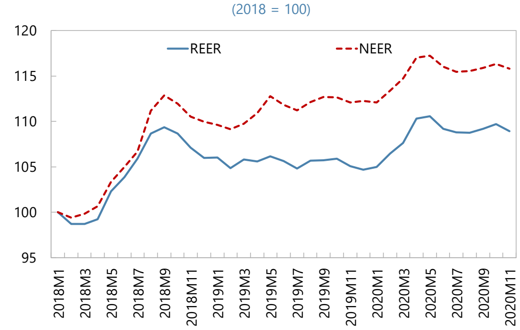
| | EBA-lite CA Model | Investment Needs Model | Consumption Allocation Model |
|---|---|---|---|
| **CA-Actual** | **-15.2** | **-15.2** | **-15.2** |
| Cyclical contributions (from model) | -5.4 | | |
| COVID-19 oil shock adjustor | 7.0 | | |
| COVID-19 tourism shock adjustor | -0.6 | | |
| Natural disasters and conflicts | -0.7 | | |
| **Adjusted CA** | **-4.1** | | |
| **CA Norm** (from model) 1/ | **0.8** | **-12.5** | **-6.6** |
| **Adjusted CA Norm** | **0.8** | | |
| **CA Gap** | **-4.9** | **-2.7** | **-8.6** |
| o/w policy gap | -2.9 | | |
| **Elasticity** | -0.28 | | |
| **REER Gap** | **17.5** | | |

1/ Cyclically adjusted, including multilateral consistency adjustments.
Source: IMF staff estimates

## B. Real Effective Exchange Rate (REER)

**3. The REER appreciated by 2.9 percent during the first eleven months of 2020 (y-o-y), compared to 1.4 percent in 2019.** The appreciation was mainly the result of the appreciation of the NEER mostly owing to the weakness of key trading partner currencies early in the year, notably the Turkish lira. EBA-lite CA model estimates point to a REER overvaluation in 2020, although the estimates are imprecise and applicability of the EBA model to Iraq is not straightforward. The recent devaluation of the dinar is expected to reduce potential misalignment.

**Real and Nominal Effective Exchange Rates**
(2018 = 100)




Source: IMF Information Notice System (INS).

## C. Capital and Financial Accounts: Flows and Policy Measures

**4. The financial account is estimated to have recorded a surplus of 6.4 percent of GDP in 2020 falling short of financing the CA deficit.** The main inflows included direct investment (2.7 percent of GDP), mostly in the oil sector, disbursement of long-term project loans (1.1 percent of GDP) as well as disposal of foreign assets by the private sector (3.7 percent of GDP), while the main outflows were amortization of external debt (1.4 percent of GDP). Given difficult access to international financial markets, mobilizing donor financing in support of a credible reform plan will be essential to boost inflows in the coming years.

## D. FX Intervention and Reserves Level

**5. Gross reserves remained adequate at end-2020 reaching $54.1 billion (31 percent of GDP or 178 percent of the ARA metric).** However, reserves have been under pressure from a large CA deficit and monetary financing of the budget and declined by $14 billion (about 8 percent of GDP) in the course of 2020. Devaluation of the dinar and fiscal consolidation measures are expected to help ease these pressures in the period ahead, although reserves are projected to decline further to reach $25.6 billion by 2026 (about 64 percent of the ARA metric). Continued fiscal reforms will be essential to limit recourse to central bank financing of the budget and preserve the FX buffers.

**Table AI.1. Iraq: Reserve Adequacy Indicators, 2016–26**

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Prel. Actual | Prel. Actual | Projections | | | | | |
| Reserves in USD billion | 45.5 | 49.4 | 64.7 | 68.0 | 54.1 | 47.4 | 40.8 | 33.2 | 30.0 | 27.1 | 25.6 |
| Reserves in months of imports of goods and services | 6.7 | 7.0 | 8.4 | 10.7 | 9.4 | 9.2 | 6.7 | 5.0 | 4.3 | 3.9 | 3.5 |
| Reserves in percent of external debt service coming due | 2,482 | 2,217 | 1,966 | 1,512 | 1,113 | 895 | 725 | 589 | 762 | 690 | 692 |
| Reserves in percent of reserve money | 78.1 | 88.9 | 109.2 | 99.1 | 61.3 | 47.3 | 33.0 | 24.1 | 20.4 | 17.5 | 15.8 |
| Reserves in percent of broad money | 59.4 | 63.0 | 80.3 | 77.8 | 49.0 | 39.2 | 28.2 | 20.7 | 17.5 | 15.0 | 13.5 |
| Reserves in percent of the IMF RA metric 1/ | 174 | 174 | 208 | 213 | 178 | 145 | 115 | 88 | 78 | 68 | 64 |
| Reserves in percent of the augmented IMF RA metric 1/ 2/ | 107 | 113 | 111 | 115 | 150 | 91 | 68 | 49 | 43 | 38 | 35 |

Sources: Iraqi authorities; and IMF staff estimates and projections.
1/ Reserves within 100–150 percent of the Reserve Adequacy (RA) metric are considered adequate.
2/ The augmented RA metric adds a buffer to account for the possibility of lower than projected oil prices.

# Annex II. Public and External Debt Sustainability Analysis

*Iraq's public debt increased by over 30 percent of GDP in 2020, reaching 83.1 percent of GDP, due to sharply lower oil revenue, increased expenditures, and devaluation of the exchange rate. Helped by the fiscal consolidation measures envisaged in the 2021 budget, the fiscal deficit is projected to decline gradually over the medium term. Public debt will peak in 2023 at 91.6 percent of GDP and decline gradually to below 90 percent of GDP by 2025. Financing needs will exceed the high-risk threshold in 2020–23 but are expected to decline below the threshold in the outer years. Continued reforms will be essential to ensure debt sustainability, although risks from potential implementation slippages and contingent liabilities are high. Favorable debt composition—with over 70 percent representing legacy arrears and borrowing from the CBI and SOBs—is an important mitigating factor. Public debt is particularly sensitive to adverse growth and real exchange rate shocks.*[1]

## A. Public Debt Sustainability Analysis

**1. Following severe pressures in 2020, Iraq's fiscal deficit is expected to decline gradually in the medium term, helped by sustained fiscal consolidation.** Oil revenue declined by close to 40 percent in 2020 due to plunging prices and production cuts owing to OPEC+ agreements. Combined with a large increase in wage and pension expenditures, these developments resulted in a fiscal deficit of 20 percent of GDP in 2020. In response, the government has proposed a package of fiscal consolidation measures in the draft 2021 budget which was submitted to parliament last December. Alongside, the CBI devalued the exchange rate by 22.7 percent. Despite higher proposed spending on critical health and social safety needs, these measures are expected to reduce the budget deficit in 2021 to 16 percent of GDP. With continued fiscal restraint, the budget deficit is expected to gradually decline in the medium term, reaching 3.2 percent of GDP by 2025. Financing the deficits in the coming years could be challenging because fiscal buffers have been largely exhausted, the state-owned banks (SOBs) have little additional capacity to lend, and access to external financing is expected to be limited. This may necessitate continued, although declining, recourse to monetary financing.[2]

**2. Government debt is projected to continue rising before peaking in 2023.** In 2020, public debt is projected to have increased to 83.1 percent of GDP (from 48.5 percent of GDP in 2019), although 9 percentage points of this increase can be attributed to a valuation impact from the currency devaluation which was implemented at end-year. In the coming years, public debt is projected to peak at 91.6 percent in 2023 and decline to below 90 percent of GDP by 2025.

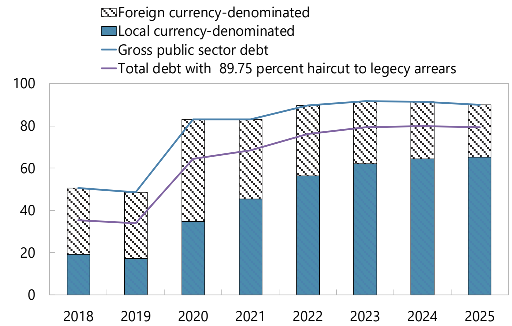
[1] The main assumptions underpinning the DSA are presented in the lower panel of Figure 1 and are based on staff's medium-term macroeconomic framework.

[2] As the central bank law prohibits direct lending to the government, monetary financing is implemented through a triangular operation first implemented in 2015–16 where treasury bills are issued to banks which, in turn, discount them at the central bank. In 2020, monetary financing reached about ID 27 trillion (13 percent of GDP).

**3. Despite high headline ratios, favorable debt composition significantly mitigates debt crisis risks:**

- ***Over a third of total government debt (28 percent of GDP) represents legacy arrears which are yet to be restructured.*** The face value ($40 billion) of external arrears to non-Paris club creditors, accumulated before 2003, is included in the stock of external debt. These arrears have yet to be settled in line with the 2004 Paris Club agreement terms.[3] The DSA maintains a conservative assumption that this will not happen during the projection period. A restructuring on Paris Club terms would lower the entire debt path. For example, debt would decrease from 83.1 to 64.5 percent of GDP in 2020, and from 89.9 to 79.3 percent of GDP in 2025.

**Total Public Debt-to-GDP, 2018–25**
(In percent of GDP)




Source: IMF staff calculations.

- ***Another 37 percent of the debt stock (31 percent of GDP) is medium- to long-term debt owed to the central bank and SOBs.*** In 2020, the entire stock of domestic debt has become medium- to long-term maturity after the government agreed with the CBI and public banks to convert all existing T-bills to 10- and 20-year loans, with repayments starting in March 2021 and interest rates reduced to 2 percent. Government borrowing in 2020—and plans for future borrowing—follow these terms. Looking ahead, the bulk of projected new borrowing is expected from domestic public institutions whose share in total government debt would reach 73.4 percent (65.3 percent of GDP) by 2025.

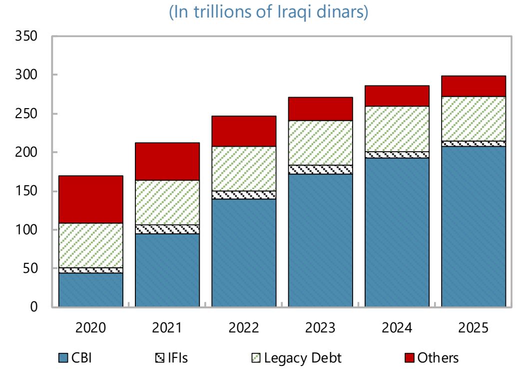
**Composition of Government Debt, 2020**

| | ID trillion | Percent of GDP | Percent of total |
|---|---|---|---|
| **Total Debt** | 170.3 | 83.1 | 100.0 |
| External | 101.5 | 49.6 | 59.6 |
| Legacy arrears | 57.8 | 28.2 | 34.0 |
| IFIs | 6.9 | 3.4 | 4.0 |
| Bilateral and Regional | 25.5 | 12.5 | 15.0 |
| Eurobonds | 6.7 | 3.3 | 3.9 |
| External arrears | 4.6 | 2.2 | 2.7 |
| Domestic debt | 68.8 | 33.6 | 40.4 |
| CBI | 42.5 | 20.8 | 25.0 |
| SOBs | 21.1 | 10.3 | 12.4 |
| Domestic arrears | 5.2 | 2.5 | 3.1 |

Sources: Iraqi authorities and IMF staff calculations.

- The remaining debt stock (24 percent of GDP) includes external and domestic arrears ($3.2 billion and $3.6 billion, respectively, bilateral and regional debt ($17 billion)— mostly long-term project loans by donors and rescheduled Paris Club debt—as well as outstanding debt to the IMF and World Bank ($1.3 billion and $3.5 billion, respectively) and commercial bonds ($4.6 billion).[4]

**Composition of Government Debt, 2020-25**
(In trillions of Iraqi dinars)




Sources: Iraqi authorities and IMF staff calculations.

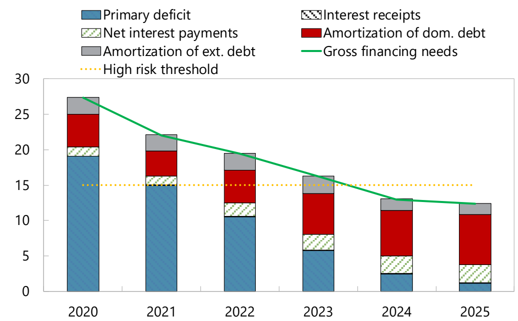
[3] This would provide an 89.75 percent reduction of the net present value (NPV).

[4] External arrears represent ID 4.6 trillion (about $3.2 billion or 2.2 percent of GDP) owed to an Iranian SOE for electricity and gas purchases. Domestic arrears reflect payables to IPPs, government contractors, and debt payments. These arrears are assumed to be cleared over the next three years.

**4. On the other hand, guarantees and other contingent liabilities represent significant risks to debt sustainability**. Service guarantees, mostly in the electricity sector, are estimated to exceed 20 percent of GDP in 2017 but were not included in public debt.[5] Moreover, there are contingent liabilities in the banking sector related to the need to restructure and recapitalize the two largest SOBs, which cannot be accurately measured prior to an international audit. Finally, wage arrears have not been included in the debt stock because staff's preliminary understanding is that they have been paid by line ministries' past savings, and baseline projections assume that these payments will not be claimed from the federal budget.

**5. Gross financing needs (GFN) are projected to remain above the high-risk threshold of 15 percent of GDP until 2022 and decline steadily over the medium term.** As the deficits narrow and the government relies on long-term loans, GFN would decline to 12 percent of GDP by 2025. Amortization payments of external debt will represent 2.1 percent of GDP annually on average during 2020–25 and these are mainly to the IMF, WB, Paris-club and non-Paris club restructured debt, JICA project loans, and Eurobonds. Amortization of domestic debt, mostly to the CBI, will increase to represent the largest component of the financing need.

**Gross Financing Needs (GFN), 2020–25**
(In percent of GDP)




Source: IMF staff calculations.

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

- **Growth shock:** Lowering real GDP growth by one standard deviation (6.2 percentage points relative to the projection) in 2021 and 2022 would push the debt ratio to peak at 116.6 by 2023 and decline gradually to 114.9 percent of GDP by 2025.
- **Real interest rate shock:** A one-time, permanent real interest rate increase of 10 percentage points starting in 2021 would increase the debt ratio gradually to reach 106.1 percent of GDP in 2025.[6]
- **Primary balance shock:** In a scenario of a worsening of the primary balance by 3.9 percentage points of GDP in 2021 and 2022, debt would rise gradually to reach 100 percent of GDP by 2025.
- **Real exchange rate shock:** A one-time real depreciation of 30 percent in 2021 would increase total public debt to over 94.9 percent of GDP in 2021. Debt would increase to a 100 percent in 2022 and decline after that to reach 99.9 percent of GDP by 2025.
- **Combined shocks:** A combination of these shocks would put debt on a rising trajectory to reach 155.3 percent of GDP by 2025.

[5] In 2017, the Debt Directorate of the Ministry of Finance completed a survey of guarantees issued by the central government. At end-June 2017, the stock of guarantees related to foreign currency service payments and debt amounted to $21.7 billion (12 percent of GDP) comprising $19.4 billion for service payments to independent power producers (IPPs) and $2.3 billion for debt.

[6] The DSA methodology for generating interest rate shocks is based on GDP deflators rather than CPI inflation. As this standard approach implies an excessively large shock in the case of Iraq, due to the large weight of oil prices in the GDP deflator, we consider a moderate 10 percent real rate shock.

## Figure AII.1. Iraq: Public Debt Sustainability Analysis—Baseline Scenario

(In percent of GDP unless otherwise indicated)

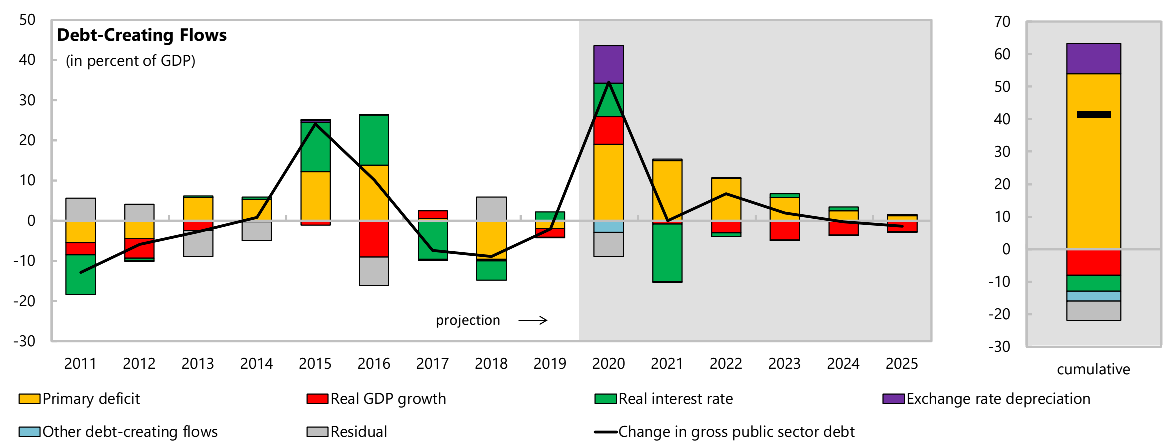
### Debt, Economic and Market Indicators [1/]

| | Actual | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009-2017 [2/] | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| Nominal gross public debt | 51.6 | 50.6 | 48.5 | 83.1 | 83.0 | 89.7 | 91.6 | 91.3 | 89.9 |
| Public gross financing needs | 4.2 | -8.2 | -1.8 | 27.4 | 22.0 | 19.4 | 16.2 | 13.0 | 12.4 |
| Real GDP growth (in percent) | 6.0 | 0.8 | 4.5 | -10.9 | 1.2 | 3.9 | 5.7 | 4.1 | 3.1 |
| Inflation (GDP deflator, in percent) | -0.1 | 11.9 | -1.8 | -12.6 | 23.5 | 3.6 | 1.6 | 1.9 | 2.6 |
| Nominal GDP growth (in percent) | 5.8 | 12.8 | 2.5 | -22.1 | 24.9 | 7.7 | 7.3 | 6.1 | 5.9 |
| Effective interest rate (in percent) [3/] | 1.3 | 2.8 | 2.4 | 2.2 | 2.1 | 2.5 | 2.8 | 3.0 | 3.0 |

| As of December 02, 2020 | | |
|---|---|---|
| Sovereign Spreads | | 754 |
| 5Y CDS (bp) | | 862 |
| Ratings | Foreign | Local |
| Moody's | Caa1 | Caa1 |
| S&Ps | B- | B- |
| Fitch | B- | n.a. |

### Contribution to Changes in Public Debt

| | Actual | | | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009-2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | cumulative | debt-stabilizing primary balance [9/] |
| Change in gross public sector debt | 0.9 | -9.0 | -2.1 | 34.5 | 0.0 | 6.7 | 1.9 | -0.3 | -1.4 | 41.4 | |
| Identified debt-creating flows | 2.1 | -14.8 | -2.0 | 40.7 | -0.4 | 6.6 | 2.0 | -0.2 | -1.3 | 47.3 | |
| Primary deficit | 4.0 | -9.5 | -1.9 | 19.1 | 15.0 | 10.5 | 5.8 | 2.5 | 1.2 | 54.0 | -2.4 |
| Primary (noninterest) revenue and grants | 38.2 | 41.1 | 37.6 | 30.0 | 40.7 | 40.4 | 40.5 | 40.5 | 39.5 | 231.6 | |
| Primary (noninterest) expenditure | 42.2 | 31.6 | 35.7 | 49.1 | 55.7 | 51.0 | 46.3 | 43.0 | 40.6 | 285.6 | |
| Automatic debt dynamics [4/] | -1.9 | -5.3 | -0.1 | 24.4 | -15.2 | -3.9 | -3.8 | -2.7 | -2.4 | -3.6 | |
| Interest rate/growth differential [5/] | -1.9 | -5.3 | -0.1 | 15.1 | -15.2 | -3.9 | -3.8 | -2.7 | -2.4 | -12.9 | |
| Of which: real interest rate | 0.8 | -4.9 | 2.1 | 8.4 | -14.4 | -0.9 | 1.0 | 0.9 | 0.3 | -4.8 | |
| Of which: real GDP growth | -2.7 | -0.4 | -2.2 | 6.8 | -0.8 | -3.0 | -4.8 | -3.6 | -2.7 | -8.0 | |
| Exchange rate depreciation [6/] | 0.1 | 0.0 | 0.0 | 9.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 9.3 | |
| Other identified debt-creating flows [7/] | 0.0 | 0.0 | 0.0 | -2.8 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | -3.0 | |
| Other flows (+ reduces financing needs) (negative) | 0.0 | 0.0 | 0.0 | -2.8 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | -3.0 | |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Residual, including asset changes [8/] | -1.2 | 5.9 | -0.1 | -6.1 | 0.4 | 0.1 | -0.1 | -0.1 | -0.1 | -6.0 | |




Source: IMF staff calculations.

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

2/ Based on available data.

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

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

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

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

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

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

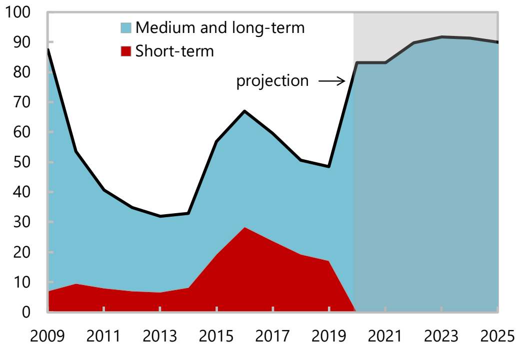
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

## Figure AII.2. Iraq: Public Debt Sustainability Analysis—Composition of Public Debt and Alternative Scenarios

### Composition of Public Debt

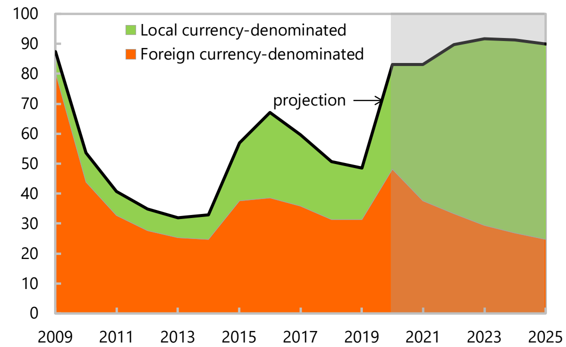
**By Maturity**

(in percent of GDP)




**By Currency**

(in percent of GDP)

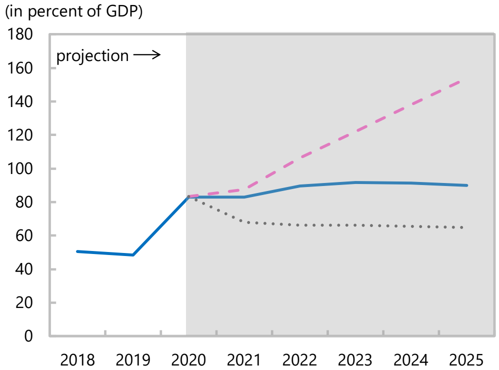



### Alternative Scenarios

Baseline    Historical    Constant Primary Balance

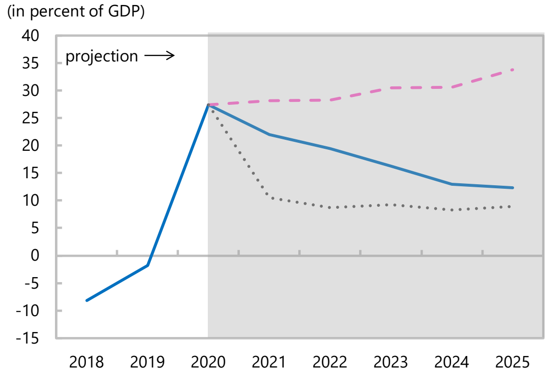
**Gross Nominal Public Debt**

(in percent of GDP)




**Public Gross Financing Needs**

(in percent of GDP)




### Underlying Assumptions

(in percent)

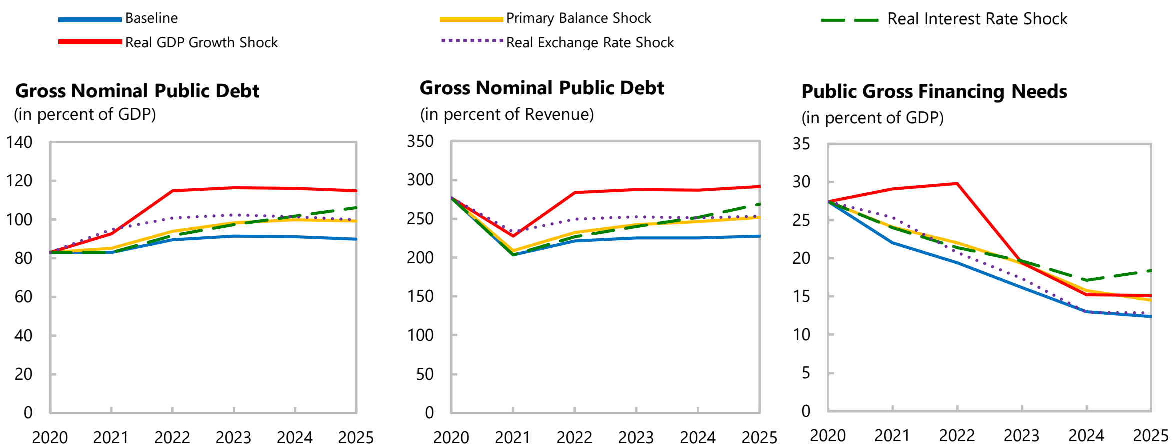
| Baseline Scenario | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| Real GDP growth | -10.9 | 1.2 | 3.9 | 5.7 | 4.1 | 3.1 |
| Inflation | -12.6 | 23.5 | 3.6 | 1.6 | 1.9 | 2.6 |
| Primary Balance | -19.1 | -15.0 | -10.5 | -5.8 | -2.5 | -1.2 |
| Effective interest rate | 2.2 | 2.1 | 2.5 | 2.8 | 3.0 | 3.0 |
| **Constant Primary Balance Scenario** | | | | | | |
| Real GDP growth | -10.9 | 1.2 | 3.9 | 5.7 | 4.1 | 3.1 |
| Inflation | -12.6 | 23.5 | 3.6 | 1.6 | 1.9 | 2.6 |
| Primary Balance | -19.1 | -19.1 | -19.1 | -19.1 | -19.1 | -19.1 |
| Effective interest rate | 2.2 | 2.1 | 2.7 | 2.9 | 3.1 | 3.2 |

| Historical Scenario | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| Real GDP growth | -10.9 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 |
| Inflation | -12.6 | 23.5 | 3.6 | 1.6 | 1.9 | 2.6 |
| Primary Balance | -19.1 | -1.8 | -1.8 | -1.8 | -1.8 | -1.8 |
| Effective interest rate | 2.2 | 2.1 | 2.5 | 3.0 | 3.4 | 3.7 |

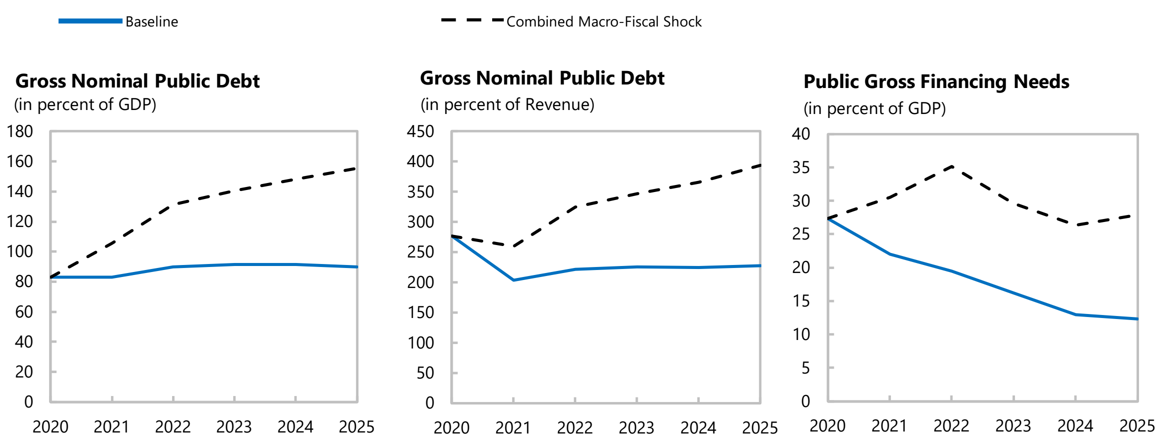
Source: IMF staff calculations.

## Figure AII.3. Iraq: Public Sector Debt Sustainability Analysis—Stress Tests

### Macro-Fiscal Stress Tests




### Additional Stress Tests




### Underlying Assumptions

(in percent)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| **Primary Balance Shock** | | | | | | |
| Real GDP growth | -10.9 | 1.2 | 3.9 | 5.7 | 4.1 | 3.1 |
| Inflation | -12.6 | 23.5 | 3.6 | 1.6 | 1.9 | 2.6 |
| Primary balance | -19.1 | -17.0 | -12.8 | -8.2 | -4.1 | -1.8 |
| Effective interest rate | 2.2 | 2.1 | 2.7 | 3.1 | 3.3 | 3.4 |
| **Real Interest Rate Shock** | | | | | | |
| Real GDP growth | -10.9 | 1.2 | 3.9 | 5.7 | 4.1 | 3.1 |
| Inflation | -12.6 | 23.5 | 3.6 | 1.6 | 1.9 | 2.6 |
| Primary balance | -19.1 | -15.0 | -10.5 | -5.8 | -2.5 | -1.2 |
| Effective interest rate | 2.2 | 2.1 | 5.4 | 7.3 | 8.5 | 9.3 |
| **Combined Shock** | | | | | | |
| Real GDP growth | -10.9 | -5.0 | -2.3 | 5.7 | 4.1 | 3.1 |
| Inflation | -12.6 | 21.9 | 2.1 | 1.6 | 1.9 | 2.6 |
| Primary balance | -19.1 | -19.3 | -18.9 | -8.2 | -4.1 | -1.8 |
| Effective interest rate | 2.2 | 2.4 | 6.2 | 8.2 | 9.1 | 9.7 |

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| **Real GDP Growth Shock** | | | | | | |
| Real GDP growth | -10.9 | -5.0 | -2.3 | 5.7 | 4.1 | 3.1 |
| Inflation | -12.6 | 21.9 | 2.1 | 1.6 | 1.9 | 2.6 |
| Primary balance | -19.1 | -19.3 | -18.9 | -5.8 | -2.5 | -1.2 |
| Effective interest rate | 2.2 | 2.1 | 3.0 | 3.7 | 3.7 | 3.6 |
| **Real Exchange Rate Shock** | | | | | | |
| Real GDP growth | -10.9 | 1.2 | 3.9 | 5.7 | 4.1 | 3.1 |
| Inflation | -12.6 | 23.5 | 3.6 | 1.6 | 1.9 | 2.6 |
| Primary balance | -19.1 | -15.0 | -10.5 | -5.8 | -2.5 | -1.2 |
| Effective interest rate | 2.2 | 2.4 | 2.5 | 2.8 | 2.9 | 3.0 |

Source: IMF staff calculations.

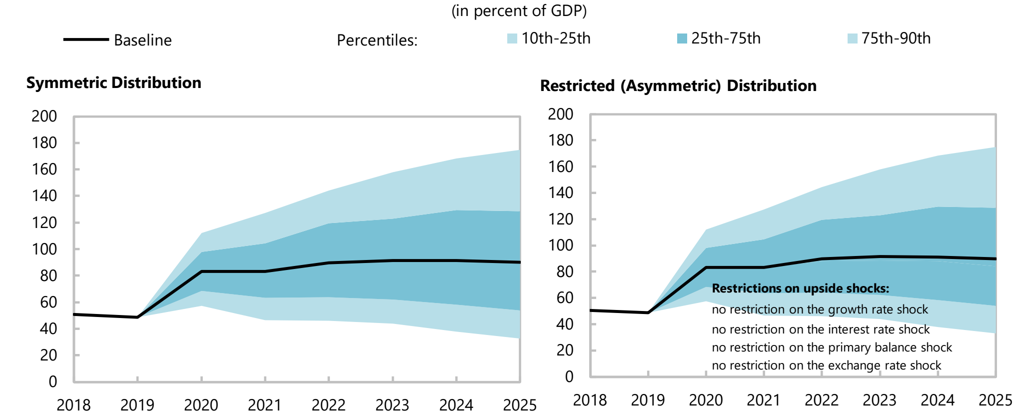
## Figure AII.4. Iraq: Public Sector Debt Sustainability Analysis—Risk Assessment

### Heat Map

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

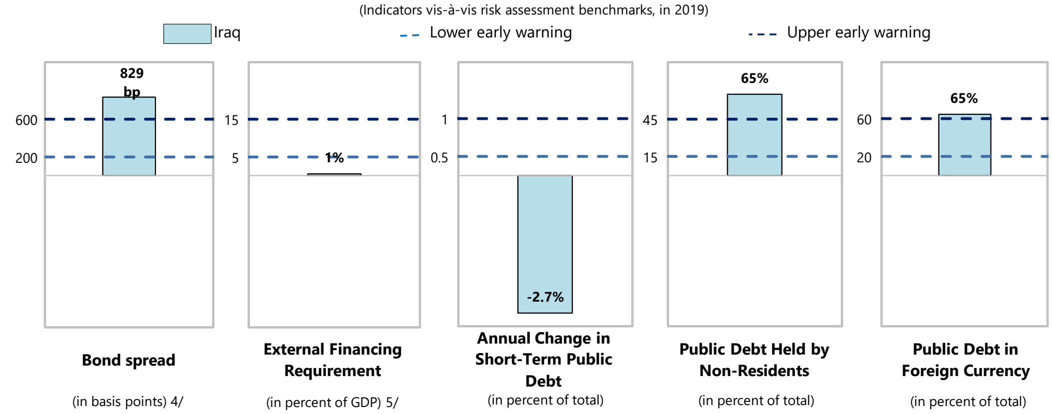
### Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)




### Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)




Source: IMF staff calculations.

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

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

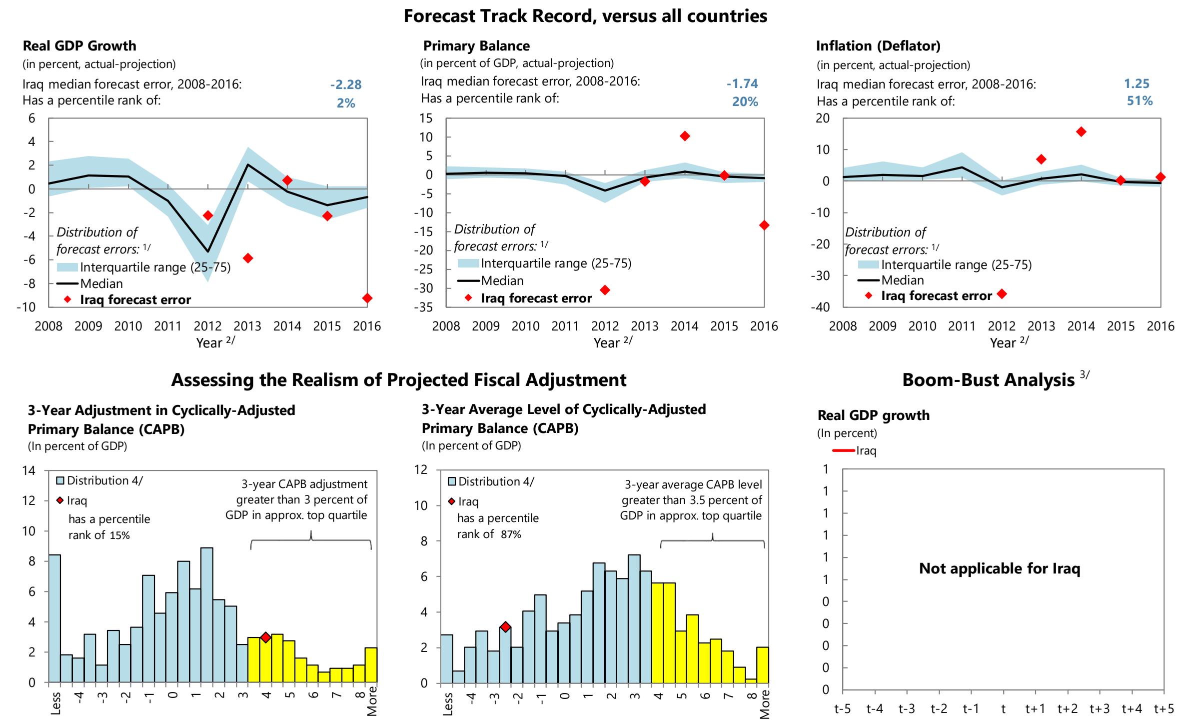
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ EMBIG (bp), an average over the last 3 months, 03-Sep-20 through 02-Dec-20.

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

## Figure AII.5. Iraq: Public Debt Sustainability Analysis—Realism of Baseline Assumptions




Source: IMF staff calculations.

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

# Table AII.1. Iraq: External Debt Sustainability Framework, 2015–25

(In percent of GDP, unless otherwise indicated)

| | 2015 | 2016 | 2017 | 10-Year Historical Average | 10-Year Standard Deviation | Projections 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | Debt-stabilizing non-interest current account 6/ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Baseline: External debt** | 37.7 | 38.6 | 35.9 | | | **31.4** | **31.4** | **49.6** | **37.9** | **33.0** | **28.8** | **26.1** | **23.7** | **-2.2** |
| Change in external debt | 12.9 | 0.9 | -2.7 | | | -4.5 | 0.0 | 18.2 | -11.7 | -4.9 | -4.2 | -2.6 | -2.4 | |
| Identified external debt-creating flows (4+8+9) | 12.7 | 8.0 | -2.8 | | | -9.9 | -4.9 | 16.9 | 1.4 | -0.2 | -0.6 | -0.5 | -0.4 | |
| Current account deficit, excluding interest payments | 6.1 | 7.1 | 4.3 | | | -4.9 | -1.0 | 14.7 | 3.6 | 3.0 | 2.4 | 2.5 | 2.2 | |
| Deficit in balance of goods and services | 5.2 | 6.4 | 3.7 | | | -5.9 | -1.9 | 13.2 | 2.0 | 1.3 | 1.0 | 1.1 | 0.7 | |
| Exports | 34.6 | 33.1 | 38.5 | | | 45.2 | 43.6 | 31.3 | 37.0 | 36.0 | 36.0 | 35.7 | 35.0 | |
| Imports | 39.8 | 39.5 | 42.2 | | | 39.3 | 41.7 | 44.5 | 39.0 | 37.3 | 37.0 | 36.7 | 35.7 | |
| Net non-debt creating capital inflows (negative) | -1.6 | -1.7 | -2.5 | | | -1.3 | -3.0 | -2.7 | -2.2 | -2.1 | -1.6 | -2.0 | -1.9 | |
| Automatic debt dynamics 1/ | 8.2 | 2.6 | -4.6 | | | -3.6 | -0.9 | 4.9 | 0.0 | -1.0 | -1.4 | -0.9 | -0.6 | |
| Contribution from nominal interest rate | 0.3 | 0.4 | 0.4 | | | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 | 0.3 | 0.2 | 0.2 | |
| Contribution from real GDP growth | -0.8 | -6.1 | 1.1 | | | -0.3 | -1.4 | 4.4 | -0.5 | -1.4 | -1.7 | -1.1 | -0.8 | |
| Contribution from price and exchange rate changes 2/ | 8.8 | 8.3 | -6.1 | | | -3.8 | ... | ... | ... | ... | ... | ... | ... | |
| Residual, incl. change in gross foreign assets (2-3) 3/ | 0.2 | -7.0 | 0.1 | | | 5.4 | 4.9 | -7.8 | -4.0 | -4.8 | -3.6 | -2.2 | -2.1 | |
| External debt-to-exports ratio (in percent) | 108.7 | 116.8 | 93.2 | | | 69.4 | 72.0 | 158.6 | 102.6 | 91.5 | 79.8 | 73.3 | 67.8 | |
| **Gross external financing need (in billions of US dollars) 4/** | 12.7 | 13.4 | 10.2 | | | -8.5 | 1.2 | 29.8 | 11.2 | 11.0 | 10.6 | 9.3 | 9.0 | |
| in percent of GDP | 7.1 | 8.0 | 5.3 | | | -3.9 | 0.5 | 17.3 | 6.3 | 5.8 | 5.2 | 4.3 | 3.9 | |
| **Scenario with key variables at their historical averages 5/** | | | | | | **31.4** | **32.5** | **20.4** | **15.6** | **10.9** | **6.7** | **3.8** | **1.1** | **-1.7** |
| **Key Macroeconomic Assumptions Underlying Baseline** | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 2.5 | 15.2 | -3.4 | 5.5 | 5.9 | 0.8 | 4.5 | -10.9 | 1.2 | 3.9 | 5.7 | 4.1 | 3.1 | |
| GDP deflator in US dollars (change in percent) | -26.2 | -18.0 | 18.7 | 1.2 | 17.3 | 11.9 | -1.8 | -13.2 | 1.4 | 3.6 | 1.6 | 1.9 | 2.6 | |
| Nominal external interest rate (in percent) | 0.9 | 0.9 | 1.1 | 0.9 | 0.4 | 1.5 | 1.5 | 1.3 | 1.2 | 1.1 | 1.0 | 0.8 | 0.7 | |
| Growth of exports (US dollar terms, in percent) | -36.6 | -9.9 | 33.5 | 8.7 | 30.4 | 32.5 | -1.1 | -44.5 | 21.3 | 5.0 | 7.2 | 5.0 | 3.9 | |
| Growth of imports (US dollar terms, in percent) | -18.4 | -6.5 | 22.6 | 6.8 | 15.7 | 5.1 | 8.8 | -17.5 | -10.1 | 3.0 | 6.5 | 5.2 | 3.0 | |
| Current account balance, excluding interest payments | -6.1 | -7.1 | -4.3 | -0.1 | 6.9 | 4.9 | 1.0 | -14.7 | -3.6 | -3.0 | -2.4 | -2.5 | -2.2 | |
| Net non-debt creating capital inflows | 1.6 | 1.7 | 2.5 | 1.6 | 0.5 | 1.3 | 3.0 | 2.7 | 2.2 | 2.1 | 1.6 | 2.0 | 1.9 | |

Source: IMF country desk data and staff estimates.

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

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

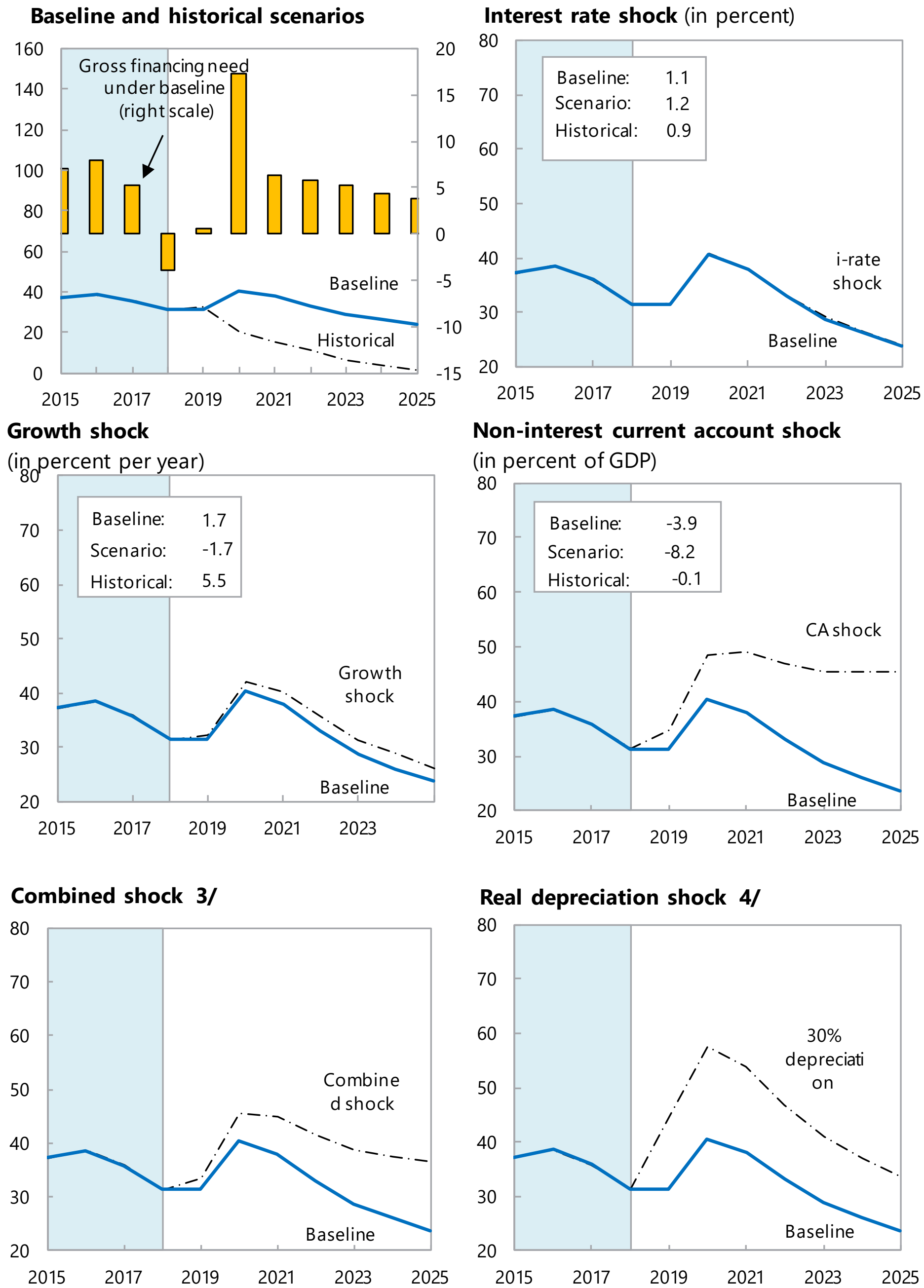
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

## Figure AII.6. Iraq: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)




Source: IMF country desk data and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2019.

# Annex III. Risk Assessment Matrix

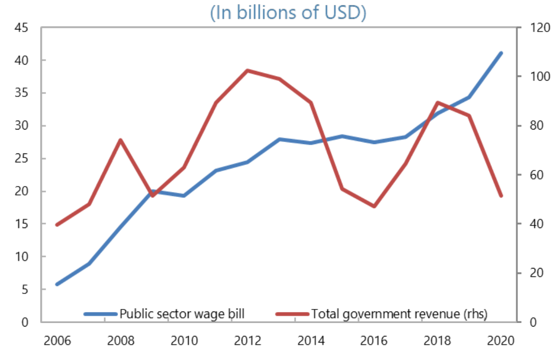
| Source of Risks | Likelihood/ Time Horizon | Expected Impact on Economy | Policy Response |
|---|---|---|---|
| | | **Potential External Shocks** | |
| **Unexpected shift in the COVID-19 pandemic** | | | |
| • **Downside.** The disease proves harder to eradicate (e.g., due to difficulties in finding/distributing a vaccine), requiring more containment efforts and impacting economic activity directly and through persistent behavioral changes (prompting costly reallocations of resources). Limited capacity could raise the fiscal cost of dealing with the health crisis. | **High**<br>Short Term | **High** The recovery would be more prolonged, non-oil activity would remain subdued, and poverty would increase further. Higher non-performing loans would increase the vulnerability of the financial sector. Persistent unemployment, resulting from increased containment measures, would increase the scarring effects of the crisis. Fiscal imbalances would widen further. Health procurement and the provision of basic services may be limited by governance challenges. | Redirect government spending towards boosting the capacity of the health system. Strengthen the social safety net to protect the most vulnerable and increase support to private sector workers most affected by containment measures. Strengthen the governance framework to ensure an efficient deployment of fiscal resources. |
| • **Upside.** Alternatively, recovery from the pandemic is faster than expected due to the discovery of an effective and widely available vaccine and/or a faster-than-expected behavioral adjustment to the virus that boosts confidence and economic activity. | **Low**<br>Short Term | **Medium**. Non-oil activity would be boosted by the removal of containment measures and increased confidence. The recovery would be faster than anticipated, with reduced scarring. | Mobilize resources to ensure a vaccine is widely available, including to vulnerable groups. |
| • **Oversupply and volatility in the oil market**. Supply increases following OPEC+ disagreements and lower demand keep energy prices close to historical lows, but | **Medium**<br>Short/Medium Term | **Medium** Despite increased oil production, lower prices would place continued pressure on oil revenue. Large fiscal and current account deficits | Accelerate efforts to contain the public sector wage bill, reduce non-priority expenditure and mobilize non-oil |

| Source of Risks | Likelihood/ Time Horizon | Expected Impact on Economy | Policy Response |
|---|---|---|---|
| uncertainty about possible production cuts and the pace of demand recovery lead to bouts of volatility. | | persist, and reserves decline sharply. Greater volatility reduces investment in the oil sector, limiting the increase in production over the medium-term. | revenue. Over the long term, reorient the economy to reduce oil revenue dependence. |
| • **Intensified geopolitical tensions and security risks** (e.g. in response to pandemic) cause socio-economic and political disruption, disorderly migration, higher commodity prices (if supply is disrupted), and lower confidence. | **High** Short/Medium Term | **Medium** Heightened geopolitical tensions in the region could delay the country's reform agenda, threaten the energy supply, and endanger the election process planned for 2021. The nonrenewal of the U.S. sanctions waiver enabling Iraq to import gas from Iran would directly affect the energy supply. Increased military and defense spending could add to budgetary pressures, while uncertainty may curtail foreign investment. | Prioritize near-term reform efforts to place the economy on a sounder fiscal footing and enable a reallocation of resources towards security spending, if needed. Diversify the country's sources of energy to reduce reliance on gas imports. Address AML/CFT vulnerabilities that could affect correspondent banking relationships. |
| **Potential Domestic Shocks** | | | |
| **Widespread social discontent and political instability**. Social tensions erupt as the pandemic and inadequate policy response cause economic hardship (including unemployment, higher incidence of poverty, and shortages and higher prices of essentials) and exacerbate preexisting socioeconomic inequities. Economic activity is disrupted. Growing political polarization and instability (e.g. contested elections) weaken policy making and confidence. | **High** Short/Medium Term | **High** Increased unrest and greater political polarization limit reform efforts and increases spending needs, resulting in a further deterioration of the fiscal position. Efforts to curb the public sector wage bill are thwarted. Confidence is dented and the recovery is more prolonged. | Strengthen the social safety net and provide targeted support to vulnerable private sector workers, while building support for near-term reform efforts. |

| Source of Risks | Likelihood/ Time Horizon | Expected Impact on Economy | Policy Response |
|---|---|---|---|
| **Weak implementation of near-term fiscal reforms** Delays in the approval of a 2021 Budget or political constraints limit fast action to address the fiscal crisis and weaken commitment to a medium-term reform agenda. | **High** Short/Medium Term | **High** Double-digit fiscal and current-account deficits persist. Government borrowing from the central bank persists, resulting in a rapid decline in central bank reserves and increased economic instability. | Build a consensus on the immediate reform priorities and the implementation strategy. Ensure the passage of the 2021 Budget in a timely fashion. |

# Annex IV. Public Wage Bill in Iraq

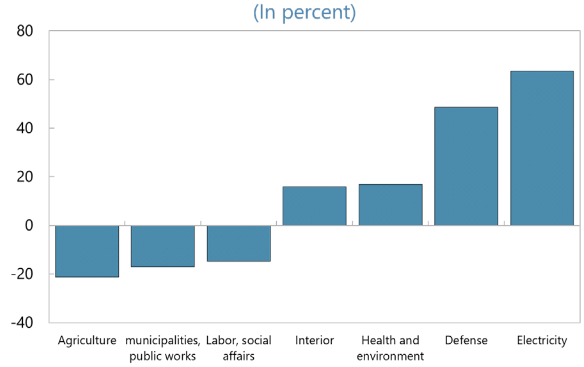
Government Revenue and Wage Bill
(In billions of USD)




Sources: Iraqi authorities and IMF staff calculations.

**1. Iraq's public sector wage bill has dominated government spending, undermining fiscal sustainability.** Over the years, public payroll has been displaying a ratchet effect—increasing when government revenue is high but rarely falling in years of revenue declines. The only reduction in public payroll during the past decade took place in the wake of a sharp decline in oil prices in 2016. It was achieved through a partial hiring freeze applied to most job categories, except in security and health care. This was reversed as soon as the oil price recovered and the wage bill grew to be one of the largest in the world, at 24 percent of GDP in 2020. Despite the fallout from COVID-19 and tight fiscal constraints, the civil service expanded rapidly in 2020, reflecting large-scale hiring of contractors and daily workers of various professions in the wake of the social unrest at the end of 2019. Combined with sizable new hiring commitments which are expected to take effect in 2021, this will result in a 33 percent nominal wage bill growth between 2019 and 2021.

Change of Number of Employees by Ministries (2019-21)
(In percent)

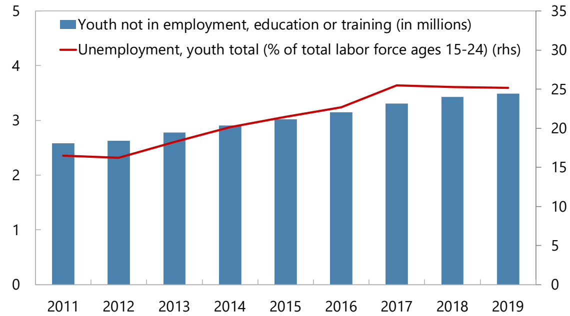



Source: Iraq Ministry of Finance.

**2. Weak HR and data management systems complicate policy making.** Public hiring remains largely decentralized and payroll reporting by line ministries and local governments is irregular and often incomplete. This makes it nearly impossible to keep track of the size of the workforce while promoting "ghost" workers and double dippers. The number of government employees in official statistics shows only about 365,000 new hires between 2017 and 2020 bringing the total to 3.3 million in 2021. This number appears to be significantly understated as it excludes contractors, daily workers, and various categories of local employees who are paid by the federal budget. The official statistics also excludes employees in numerous state-owned enterprises whose wages are paid via federal budget transfers. Anecdotal evidence and news reports place the civil service size closer to 4 million people. Compensation is not closely linked to performance, and an average employee receives non-wage payments of double the base salary. In some ministries, allowances amount to six to ten times the base salary. Aiming to improve public payroll management, the authorities have created a Federal Civil Service Commission to spearhead the process. But progress has been limited and the Commission is not yet fully operational.

**3. The government's role as the employer of first resort is unsustainable.** Public hiring in recent years seems to have been largely unproductive and disconnected from government's actual needs. For example, the most significant hiring in the wake of the 2019 protests was conducted by the Ministry of Electricity but was not matched with increased service provision to the population. Understandably, limited private-sector opportunities make government jobs attractive for Iraq's fast-growing youth. But with youth unemployment already high and the wage and pension bills already consuming nearly all oil revenues, the government's future ability to absorb new job market entrants—estimated at 450,000 annually—is extremely limited. Looking ahead, as the world begins to move away from oil, these considerations warrant a fundamental and urgent rethinking of the government's approach to managing the labor market and the role of the state in Iraq's economy.

**Youth Unemployment Rate and Youth not in Employment, Education or Training**

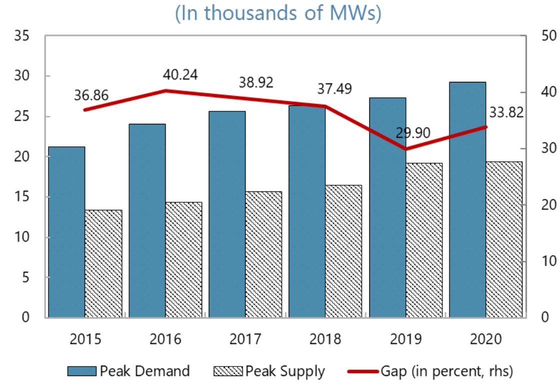



Source: World Bank.

# Annex V. Iraq's Electricity Sector Challenges

**1. Iraq's fiscal and socio-economic fragilities underscore the urgency of a decisive electricity sector reform.** Frequent power outages have been a recurrent theme in social protests. Electricity coverage averages 17 hours a day with significant regional variation. The supply-demand gap at peak was close to 34 percent in 2020, widening marginally from 2019. On current trends, the sector is bound to continue undermining both fiscal and external sustainability, and power outages would persist amid a widening gap between demand and supply. Increasing supply through additional investment in new generation capacity and imports would not be sustainable unless the structural impediments to cost recovery can be addressed—it would multiply the sector's quasi-fiscal losses.

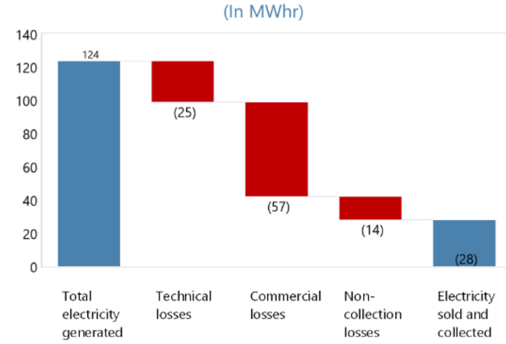
**Peak Supply-Demand**
(In thousands of MWs)




Source: Iraqi authorities.

**2. The sector is mired in inefficiencies, which reduce capacity, inflate costs, and waste potential revenues.** Only about a third of the name plate generation capacity managed by the Ministry of Electricity (MoE) reaches consumers, mainly due to obsolete stations, lack of maintenance and cooling facilities, the use of a suboptimal fuel mix to make up for a shortage of natural gas as well as an overloaded transmission and distribution system. Meanwhile, half of Iraq's gas production is being allowed to flare. Large investments are needed to maintain and upgrade the infrastructure and capture more gas domestically. In addition, the MoE relies on independent power producers (IPPs) and imports to complement its limited capacity. Furthermore, more than half of the domestically generated electricity does not yield any revenue to the MoE because of theft and non-collection.

**Electricity Generated versus Sold and Collected**
(In MWhr)




Source: Iraqi authorities.

**3. The sector's financial losses have weighed heavily on the fiscal position.** The sector's deficit in 2019 exceeded 5 percent of GDP as tariff revenues have been insufficient to cover costs. The deficit has been covered by the budget either directly through transfers—notably to cover wages and imports from Iran—or indirectly, in the form of lower revenues and arrears to state-owned oil companies, which bear the cost of the fuel subsidy to the electricity

**Summary Revenue and Expenditures of Electricity Sector: 2019**

| | In percent of GDP | In trillions of Iraqi dinars |
|---|---|---|
| **Revenue Due (A)** | **0.6** | **1.5** |
| (-) Non-collection losses | 0.2 | 0.6 |
| **Actual Revenue Collected (B)** | **0.3** | **0.9** |
| **Total Unsubsidized cost (C)** | **5.8** | **15.3** |
| o/w Implicit fuel subsidy through MoO | 2.4 | 6.4 |
| **Subsidized cost** | **3.4** | **9.0** |
| o/w fuel | 2.0 | 5.2 |
| o/w wages | 0.5 | 1.4 |
| **Deficit (B-D)** | **(3.0)** | **(8.0)** |
| **Deficit including implicit subsidy (B-C)** | **(5.4)** | **(14.4)** |

Sources: Iraqi authorities and IMF staff calculations.

sector. The already difficult financial situation has been further deteriorated by the hiring of, reportedly, 60,000 employees in 2020, which will add ID 0.6 trillion to the sector's annual wage bill going forward. Additionally, fiscal constraints in 2020 led to a significant buildup of both external arrears to Iran and domestic arrears to IPPs.

**4. The MoE has an ambitious plan to close the supply-demand gap but this will involve significant fiscal and external liabilities.** The MoE plans to add 8300 MW of generation capacity during 2021–023, equivalent to more than half of the electricity generated in 2020. Given tight fiscal constraints, these investments are likely to be financed by additional government-guaranteed borrowing, adding to $5.1 billion in outstanding stock of such loans at end-2019. In addition to creating new capacity, the MoE is planning to increase purchases from IPPs as well as imports through new interconnection lines with Turkey and the Gulf Cooperation Council. Unless technical and collection are addressed, these plans imply a significant increase in fiscal costs and import over the medium term.

**5. Decisive measures are needed to stem the sector's losses while enhancing service provision and improving efficiency.** Ensuring the sector's financial viability will require significant acceleration of plans to enhance revenue collection, including through smart metering. This should be combined with a gradual adjustment of tariff rates—especially for high energy consumers—to ensure cost recovery. Investment plans need to be calibrated to available resources while prioritizing efficiency-enhancing investments to reduce technical losses. These include maintenance of existing capacities, converting simple cycle plants to combined cycle, installing cooling systems to address overheating and upgrading the transmission and distribution networks. Alongside, realizing plans to enhance gas capture and reduce flaring would be important in reducing gas imports and contributing to environmental sustainability. Finally, strengthening governance and setting up an appropriate regulatory framework will be important to promote private investment into the sector.

# Annex VI. The Authorities' Medium-Term Reform Program ("White Paper")

**1. Background.** The Paper was produced at the request of Parliament as part of the June 2020 emergency borrowing law and was presented to parliament in October 2020. It offers a candid assessment of the root causes of Iraq's current macroeconomic imbalances, highlighting, among other factors, the sharp increase in the public sector payroll, the crowding out of private sector activity, and the weakness of financial institutions. The White Paper has been approved by the Council of Ministers.

**2. Scope.** The proposed reforms are broad in scope and largely focused on the medium term. They emphasize ensuring fiscal sustainability and five key pillars: rehabilitating the financial sector; reforming state-owned production sectors; improving key infrastructure; enhancing provision of public services and social assistance; and strengthening governance and the legal environment.

**3. Fiscal proposals.** The White Paper sets an ambitious goal of reducing the fiscal deficit from 20 to 3 percent of GDP in three years. Fiscal measures are focused on expenditure rationalization, raising revenues, and strengthening public financial management (PFM). Specifically, the Paper envisages reducing the wage bill—from 25 percent of GDP to 12.5 percent in three years—through restrictions on new employment, cutting transfers to state-owned enterprises (SOEs) and government subsidies, as well as a pension reform. Revenue mobilization proposals include bringing electricity fees in line with the actual fuel price and reviewing fuel subsidies provided to the SOEs. In the PFM area, the White Paper proposes accelerated implementation of the Integrated Financial Information Management System project (IFMIS) and strengthening institutional and technical capacity of the Ministry of Finance.

**4. Key proposals in other areas.** To rehabilitate the financial sector, the paper mentions potential recapitalization of state-owned banks and accelerating efforts to introduce core-banking systems. Electricity sector proposals include improving revenue collection, upgrading transmission, and incentivizing consumers to rationalize their consumption. The paper also proposes phasing out financial support to SOEs, a law to restructure and transform them into private companies, and a public works program to help absorb redundancies in the labor market.

**5. Sequencing, prioritization, and costing of the proposed reforms are being elaborated.** In addition to the fiscal proposals included in the draft 2021 budget, the authorities are working on a separate detailed action plan to set the White Paper reforms in motion and are working with the World Bank and other bilateral partners on mobilizing donor assistance in support of their implementation. Staff plans to follow up with the authorities on sequencing and costing of the planned reforms and their consistency with fiscal objectives.

INTERNATIONAL MONETARY FUND

# IRAQ

January 22, 2021

## STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

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

## CONTENTS

# FUND RELATIONS

(As of December 31, 2020)

**Membership Status:** Joined December 27, 1945; Article XIV

### General Resources Account

| | SDR Million | Percent of Quota |
|---|---|---|
| Quota | 1,663.80 | 100.00 |
| Fund Holdings of Currency | 2,283.16 | 137.23 |
| Reserve Tranche Position | 289.95 | 17.43 |

### SDR Department

| | SDR Million | Percent of Allocation |
|---|---|---|
| Net Cumulative Allocation | 1,134.50 | 100.00 |
| Holdings | 1.32 | 0.12 |

### Outstanding Purchases and Loans

| | SDR Million | Percent of Quota |
|---|---|---|
| Stand-By Arrangements | 909.30 | 54.65 |

### Latest Financial Arrangements

| Type | Date of Arrangement | Expiration Date | Amount Approved (SDR Million) | Amount Drawn (SDR Million) |
|---|---|---|---|---|
| Stand-By | Jul 07, 2016 | Jul 06, 2019 | 3,831.00 | 1,494.20 |
| Stand-By | Feb 24, 2010 | Feb 23, 2013 | 2,376.80 | 1,069.56 |
| Stand-By | Dec 19, 2007 | Mar 18, 2009 | 475.36 | 0.00 |

**Overdue Obligations and Projected Payment to the Fund** (as of December 31, 2020)
(SDR Million; based on existing use of resources and present holdings of SDRs)[1]

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 | 2025 |
| Principal | 690.23 | 219.08 | | | |
| Charges/Interest | 7.93 | 2.18 | 0.92 | 0.92 | 0.92 |
| **Total** | **698.15** | **221.25** | **0.92** | **0.92** | **0.92** |

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

**Implementation of HIPC Initiative:** Not Applicable

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

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

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

**Safeguards Assessments**

The most recent safeguards assessment of the Central Bank of Iraq (CBI) was completed in April 2016. It concluded that the CBI continues to face capacity constraints in its operations, as well as a difficult security situation on the ground. In line with the IMF safeguards assessment's recommendations the Governing Council of the CBI approved a new charter for the Audit Committee prohibiting CBI executive representation on the committee. Also, the Parliament has approved amendments to the Law on the Central Bank of Iraq to strengthen CBI governance and the internal control framework. However, progress in strengthening the capacity of internal audit and financial reporting has been slow.

**Exchange Arrangement**

Iraq's de jure and de facto exchange rate arrangements are classified as a conventional peg arrangement. The Central Bank Law gives the Board of the Central Bank of Iraq (CBI) the authority to formulate exchange rate policy. Effective December 20, 2020, the official exchange rate was set at ID 1,460 per U.S. dollar including the Central Bank commission (ID 1,450 plus ID 10 (fees)) according to the closing prices of the daily bulletin of gold & main currencies published on the CBI website (www.cbi.iq). Previously, on May 24, 2018, the official exchange rate was set at ID 1,190 per U.S. dollar including the Central Bank commission (ID 1,182 plus ID 8 (fees)).

The CBI provides foreign exchange at the official exchange rate for permissible transactions through its daily auctions (allocations), establishing a peg. However, because certain transactions are excluded from access to the CBI auctions, many transactions take place at parallel market exchange rates. The CBI publishes the daily volume of the auction allocation on its website.

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

The MCP arises from the lack of a mechanism to ensure that the exchange rate at the CBI foreign exchange window and the market rates (retail exchange rates of commercial banks and exchange bureaus for the sale of foreign currency from sources other than the CBI foreign exchange window) do not deviate from each other by more than 2 percent.

### Article IV Consultation

The last Article IV consultation was concluded on July 19, 2019. The staff report (IMF Country Report No. 19/248) was published on July 26, 2019, and is available on the internet.

### Resident Representative

Mr. Gazi Shbaikat has been the Resident Representative for Iraq, based in Amman, since January 2021.

### Technical Assistance, 2015–20

| Department | Date | Purpose |
|---|---|---|
| FAD | June 2015 | Status of public financial management reforms (METAC) |
| | November 2015 | Public financial management law, budget execution, and program-based budgeting |
| | March 2016 | Public financial management law |
| | August 2016 | Implementing a commitment controls system (METAC) |
| | February 2017 | Revenue administration: tax policy |
| | February 2017 | PFM: commitment controls, cash management, treasury single account (METAC) |
| | March 2017 | Advice on a modern LTO/Tax administration |
| | July 2017 | Seminar on Commitment Control System |
| | January 2018 | Assist in the development of an IT System |
| | February 2018 | Commitment controls, cash management and TSA (FAD-METAC) |
| | March 2018 | Improved Integration of Asset and Liability Management Framework |
| | April 2018 | Follow-up on establishment and functioning of large taxpayer office |
| | July 2018 | Follow-up on Treasury Single Account and Cash Flow Management Unit (METAC) |
| | July 2018 | Budget Classification and Chart of Accounts (METAC) |
| | August 2018 | Implementation Plan for New Sales Taxes (METAC) |
| | March 2019 | Budget Classification and Chart of Accounts (METAC) |
| | June 2019 | Managing guarantees and extra-budgetary funds (METAC) |
| | December 2020 | Operationalizing the guarantee framework (METAC) |

| Department | Date | Purpose |
|---|---|---|
| LEG | May 2015 | Desk review of the draft AML/CFT Law |
| | June 2015 | Article VIII acceptance |
| | September 2015 | Desk review of the draft AML/CFT Law |
| | January 2016 | Anti-money laundering activities |
| | March 2016 | Cross-border financial flows |
| | June 2016 | AML/CFT: Review of the framework to implement targeted financial sanctions |
| | December 2016 | UNODC seminar on Strengthening the Legal Regime Against Terrorism in Iraq |
| | December 2016 | Program TA in Central Bank Law |
| | December 2017 | Review of AML/CFT law and integration of internal comments |
| | January 2018 | Review of the "AML/CFT Regulations for Dealers in Precious Metals and Stones" |
| | January 2018 | Review of the "Process for Implementing Targeted Financial Sanctions" |
| | June 2019 | Guarantees and extra-budgetary funds management |
| MCM | May 2015 | Asset management |
| | November 2015 | Banking supervision (METAC) |
| | November 2015 | Prudential regulations: review and assessment (METAC) |
| | March 2016 | Seminar on foreign exchange regimes and controls (Joint LEG/MCM) |
| | September 2016 | Reserve management workshop |
| | November 2016 | Regulations on capital adequacy and liquidity (METAC) |
| | March 2017 | Regulations on credit risk (METAC) |
| | March 2017 | Banking supervision: upgrade CBI prudential regulations (METAC) |
| | April 2017 | Banking supervision (METAC) |
| | June 2017 | Improving Regulatory Framework (METAC) |
| | February 2018 | Improving Regulatory Framework—Follow-up (METAC) |
| | September 2018 | Regulatory Framework of Internal Audit (METAC) |
| | November 2018 | Training on dealing with weak banks (METAC) |
| | November 2018 | Forecasting and Policy Analysis System (FPAS) |
| | September 2019 | Implementation of Basel III (METAC) |

| Department | Date | Purpose |
|---|---|---|
| | January 2020 | Basel II & III capital adequacy requirements (METAC) |
| | June 2020 | Basel II & III capital adequacy requirements (METAC) |
| STA | March 2015 | Government finance statistics (ArabStat) |
| | May 2015 | Government finance statistics |
| | November 2015 | Consumer price index (METAC) |
| | January 2016 | National accounts statistics (METAC) |
| | March 2016 | Government finance statistics |
| | March 2016 | External sector statistics |
| | April 2016 | Financial stability indicators |
| | January 2017 | National accounts (METAC) |
| | January 2017 | External sector statistics (METAC) |
| | February 2017 | Price statistics (METAC) |
| | August 2017 | National accounts (METAC) |
| | April 2018 | External sector statistics (METAC) |
| | August 2018 | National accounts (METAC) |
| | October 2018 | Price statistics (METAC-EDDI2) |
| | December 2018 | Government finance statistics |
| | December 2018 | FSI: Financial soundness indicators |
| | July 2019 | Consumer price index and producer price index (METAC) |
| | September 2019 | External sector statistics (METAC) |
| | February 2020 | FSI: Financial soundness indicators |
| | February 2020 | National accounts (METAC) |
| | July 2020 | Producer price index (METAC) |
| | September 2020 | Consumer price index and Producer price index |
| | October 2020 | National accounts (METAC) |
| | December 2020 | Producer price index |

# RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=IQ

# STATISTICAL ISSUES

(As of December 23, 2020)

## I. Assessment of Data Adequacy for Surveillance

**General**

Data provision to the Fund has serious shortcomings that significantly hamper surveillance. Data availability also continues to impair policymaking in Iraq. The Central Statistics Organization (CSO) lacks adequate technical expertise and resources to address the requirements for a modern statistical system. Both the CSO and the Central Bank of Iraq (CBI) face challenges with interagency data sharing as well as issues surrounding data collection responsibilities.

**National Accounts**

The CSO compiles annual and quarterly GDP by production at current and constant (2007) prices and annual GDP by expenditure in current prices. Quarterly national accounts are available from 2018Q2 to 2020Q3. The national accounts mainly follow the 1968 System of National Accounts (*SNA, 1968*). The lack of regular, reliable and comprehensive source data for some industries and for GDP by expenditure undermine the quality of the national accounts. Volume estimates of GDP suffer from shortcomings, and delays in source data affect the timeliness of the annual estimates. Reduced regional coverage of source data due to the conflicts in four provinces has also further weakened the GDP measures. Ongoing TA from METAC is helping the CSO to introduce a new base/benchmark year, to develop a set of supply and use tables, and to improve the compilation methodology and coverage of GDP based on the *2008 SNA* guidelines. Access to administrative data would significantly enhance the coverage and timeliness of the national accounts estimates, but this would require strong ministerial support and proactive collaboration with other government institutions.

**Price Statistics**

The CSO compiles and disseminates a monthly CPI for all-Iraq (including Kurdistan) and for each governorate. However, the CPI covers only the urban areas in all governorates. In 2016, the index was rebased to 2012, based on the 2012 Household Social and Economic Survey (HSES). A new survey is planned for June 2021. Since June 2014, official data on CPI exclude the four conflict-affected governorates. A TA mission in 2020 assisted the CSO to compile a quarterly producer price index (PPI) according to the international guidelines, primarily to rebase the index to 2020 using weights from the 2018 HSES. Further technical assistance is requested to improve the export and import price indexes and the industrial production index and begin compiling a residential property price index.

**Government Finance Statistics**

The difficult security situation has a direct impact on data compilation and analysis. Infrequent submission and delays occur, and coverage of Kurdistan remains sketchy. However, the authorities are taking measures to address these shortcomings.

STA GFS TA missions have proposed a work plan aimed at improving the frequency and timeliness of fiscal reporting data and setting a migration plan to improve fiscal statistics based on the Government Finance Statistics Manual 2014 (GFSM 2014). Iraq has resumed reporting Government Finance Statistics (GFS) for publication in the IMF GFS database, but shortcomings exist in classification of revenue, mainly related to oil revenues, and in expenditure as data by functions of the government are not reported. Reporting of stock and transactions in assets and liabilities, especially related to currency and deposits and external debt are also limited.

**Monetary and Financial Statistics**

The CBI reports monetary statistics for the central bank and other depository corporations for publication in the IMF's *International Financial Statistics (IFS)*, using the standardized report forms (SRFs). However the timeliness of the data are hampered by capacity constraints, and the SRFs have not been updated since August 2019. According to the CBI, some foreign-owned companies operating in Iraq are classified as nonresidents—The alignment with international standards regarding the application of the residence concept will be needed. Iraq reports some data and indicators of the Financial Access Survey (FAS), including the two indicators adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

**Financial Sector Surveillance**

Following a mission on financial soundness indicators (FSIs) in April 2016, the CBI has compiled the 12 core FSIs and 7 of the 13 additional FSIs for state banks and a similar set of FSIs for private banks with quarterly frequency. The last FSI mission in December 2018 along with the workshop in February 2020 assisted the authorities in compiling the sectoral FSIs, covering the entire banking sector, merging the FSIs for the state-owned and private banks, and prepared metadata. Provisional data, currently under review by STA, has been submitted by the authorities.

**External Sector Statistics**

***Balance of Payments and IIP Statistics***

The CBI compiles and reports annual as well as quarterly balance of payments data in the format of the IMF's *Balance of Payments Manual, sixth edition* (*BPM6*) to the IMF. The CBI also compiles and disseminates an annual international investment position (IIP) statement. However, the IIP dissemination was suspended starting in 2016 and the latest data refers to 2014. The latest TA mission on external sector statistics (ESS) was conducted in September 2019. Despite some progress in reducing net errors and omissions (NEOs), they remain high and persistently negative, suggesting capital flight. STA will continue assisting the CBI in improving data reliability by addressing the most probable sources of the large NEOs, including the recording of oil sector transactions, cross-border trade with Kurdistan, arrears, and in-kind payments for external borrowing. International reserves are compiled consistent with international methodologies and published in the IFS since end-2006.

***External Trade Statistics***

External trade data have serious problems of timeliness and quality, given the absence of reliable customs data. A new customs form for imports is available but is not being used at the customs border due to the security situation and the lack of Customs Department resources at the border

| |
|---|
| outlets. The compilation of external trade statistics has been hampered by a lack of interinstitutional coordination among key data providers.<br><br>Coverage of private sector imports is constrained by a lack of data sources. Only goods that are paid for through the Iraqi banking system are captured. Thus, goods that are imported under external payments arrangements (for example, imports for direct investment projects by international oil companies) are not recorded in the balance of payments. The coverage of the external trade statistics excludes Kurdistan, and no estimates for smuggling are made.<br><br>Export data from the oil sector are received from the Balance of Payments Statistics Division at the CBI. The data on non-oil exports, which amount to the equivalent of 3–5 percent of total exports, are derived from information on the customs export form. Non-oil export data are provided to the CBI monthly for crosschecking purposes.<br><br>Transactions related to oil exploration, extraction, and development payments to international oil companies have recently been included in the balance of payments. |
| **II. Data Standards and Quality** |
| Iraq has been participating in e-GDDS since 2009 but has not yet launched a National Summary Data Page for the dissemination of key macroeconomic statistics. The metadata for key macroeconomic indicators, some of which have been updated in early 2016, are available on the country page on the IMF's Dissemination Standards Bulletin Board website. |

| Iraq: Table of Common Indicators Required for Surveillance (As of December 23, 2020) | | | | | |
|---|---|---|---|---|---|
| | **Date of Latest Observation** (For all dates in table dd/mm/yy) | **Date Received** | **Frequency of Data**[7] | **Frequency of Reporting**[7] | **Frequency of Publication**[7] |
| Exchange rates | 08/2020 | 10/2020 | M | M | M |
| International reserve assets and reserve liabilities of the monetary authorities[1] | 08/2019 | 11/2019 | M | M | M, 4–6-week lag |
| Reserve/Base money | 09/2020 | 11/2020 | M | M | M, 4–6-week lag |
| Broad money | 09/2020 | 11/2020 | M | M | M, 4–6-week lag |
| Central bank balance sheet | 10/2020 | 11/2020 | M | M | M, 4–6-week lag |
| Consolidated balance sheet of the banking system | 09/2020 | 11/2020 | M | M | Q, 4–6-week lag |
| Interest rates[2] | 01/2017 | 02/03/2017 | M | M | M, 4–6-week lag |
| Consumer price index | 11/2020 | 12/22/2020 | M | M | M |
| Revenue, expenditure, balance and composition of financing[3]—general government[4] | 12/2020 | 12/2020 | Q | Q | A |
| Revenue, expenditure, balance and composition of financing[3]—central government | 12/2020 | 12/2020 | Q | Q | A |
| Stocks of central government and central government-guaranteed debt[5] | 12/2019 | 12/2020 | A | A | N/A |
| External current account balance | Q2/2020 | 10/2020 | Q | Q | Q, |
| Exports and imports of goods and services | Q2/2020 | 10/2020 | Q | Q | Q, |
| GDP/GNP | Q3/2020 | 12/2020 | Q | Q | Q, |
| Gross external debt | 12/2019 | 12/2020 | A | A | N/A |
| International investment position[6] | 12/2014 | 12/06/2016 | Q | Q | Q, |

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

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

[3]Foreign, domestic bank, and domestic non-bank financing.

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

[5]Including currency and maturity composition.

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

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

**Statement by Mahmoud Mohieldin, Executive Director for Iraq, Ali Alhosani, Alternate Executive Director for Iraq, and Maya Choueiri, Senior Advisor for Iraq**
**February 8, 2021**

In the past year, the Iraqi economy faced multi-dimensional challenges arising from the COVID-19 pandemic, the collapse in international oil prices, and the decline in oil production owing to OPEC+ commitments. These shocks compound difficult social and political conditions that have been prevailing for several months. The pandemic led to significant loss of life, while straining the health system's limited capacity. Moreover, it could push 4.5 million Iraqis, 12 percent of population, into poverty, potentially increasing the poverty rate to 32 percent.[1] Real GDP contracted by an estimated 11 percent in 2020 and large fiscal and external deficits emerged, of 20 and 16 percent of GDP, respectively. These adverse economic developments constrained the government's ability to provide a more comprehensive fiscal response to the crisis.

The authorities' immediate focus is on minimizing the loss of life from COVID-19 and strengthening social safety nets while ensuring macroeconomic stability. Last December, the Council of Ministers approved and sent to Parliament a draft 2021 budget proposing wide-ranging fiscal consolidation measures, while increasing health spending and targeted cash transfers to the vulnerable. On December 19, 2020, the Central Bank of Iraq announced a 22.7 percent devaluation of the Iraqi dinar/USD exchange rate to narrow the external deficit and mitigate pressures on foreign exchange reserves.

The authorities concur with staff that the pandemic has aggravated socio-economic fragilities that have been building following decades of political, economic, and security shocks. In an effort to address these challenges, the government unveiled a comprehensive economic reform plan in October 2020, the *White Paper*[2], aimed at achieving sustainable and inclusive medium term growth. The authorities' main objectives are rehabilitating the financial sector; reforming state-owned production sectors; improving key infrastructure; enhancing provision of public services and social assistance; and strengthening governance and the legal environment. The authorities are preparing an action plan to operationalize the *White Paper* reforms and are working with the World Bank and other bilateral partners on mobilizing donor assistance in support of their implementation. Ahead of the general elections that are planned to take place in October 2021, consensus-building and broad social acceptance will be essential for carrying out the proposed *White Paper* reforms in the country.

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[1] *UNICEF Iraq, The World Bank, Oxford Poverty and Human Development Initiative and the Ministry of Planning in Iraq,* Assessment of COVID-19 Impact on Poverty and Vulnerability in Iraq, July 2020, https://www.unicef.org/iraq/reports/assessment-covid-19-impact-poverty-and-vulnerability-iraq#:%7E:text=Highlights&text=4.5%20million%20(11.7%25)%20Iraqis,%25%20from%2020%25%20in%202018.

[2] https://gds.gov.iq/ar/iraqs-white-paper-for-economic-reforms-vision-and-key-objectives/ and English version https://drive.google.com/file/d/1TGsOJZtQfSTRoDv9tR3FNv_SQlTUdmxz/view

In support of their stabilization and reform efforts, the Iraq authorities have requested emergency financing under the Fund's Rapid Financing Instrument, which they are currently discussing with IMF staff, and expressed interest in a follow-up Extended Fund Facility.

**COVID-19 response**

To mitigate the adverse impact of containment measures on non-oil activity, the Central Bank of Iraq (CBI) established a fund to collect donations from financial institutions which raised a total of US$37 million. Although spending was reduced in non-essential areas, the authorities safeguarded budgetary allocations to the Ministry of Health. The Supreme Committee for Health and National Safety introduced a US$254 million cash transfer scheme, targeting the families of workers in the private sector that do not receive salaries or benefits from the government.

On the monetary and macro-financial front, the CBI actively sought to support the recovery while maintaining financial stability. It reduced its reserve requirement from 15 percent to 13 percent. At the onset of the crisis, it also announced a moratorium on interest and principal payments by small and medium-sized enterprises (SMEs) through the "one trillion ID" initiative and encouraged banks to extend the maturities of all loans as they deem appropriate. More recently, the CBI offered additional support to existing SMEs under the "one trillion ID" initiative and reduced the interest rates on loans extended through the scheme. The CBI also encouraged the use of electronic payments to contain the transmission of the virus and instructed vendors to eliminate commissions on such payments for six months.

The Ministry of Health has approved the use of a number of vaccines in Iraq, and the authorities have prepared a draft health plan for the acquisition and distribution of a vaccine. The authorities agree with staff's proposal to establish a dedicated COVID-19 fund to combine budgetary and donor resources in support of this health plan and have allocated US$0.5 billion to the initiative in the draft 2021 budget. Key ministries and international partners—notably WHO, UNDP, UNICEF and the World Bank—will manage the fund's resources, and specialized UN agencies will be responsible for procurement to ensure strong governance.

**Fiscal policy and reforms**

In December, the authorities announced a package of fiscal reforms aimed at ensuring macroeconomic stability and debt sustainability, while strengthening the social safety net. The draft 2021 budget that is awaiting parliamentary approval includes wide-ranging fiscal consolidation measures, including:

a. A nominal freeze of government wages, allowances, and pensions;

b. A hiring freeze;

c. Removal of the exemption of government allowances from the payroll tax;

d. A considerable increase in the domestic price of crude oil;

e. An increase in excise and sales taxes on alcohol, tobacco, car sales, and shopping malls; and personal income tax.

In addition, a 40 percent solidarity tax was introduced on the incomes of the Prime Minister, the President, Speaker of Parliament, and Head of the Judiciary, and a 30 percent tax on the incomes of ministers and their deputies. Fiscal adjustment in the 2021 draft budget that does not come at the expenses of critical social and infrastructure spending, for which the budgetary allocations were increased in the draft 2021 budget.

The authorities acknowledge that while a larger short-term fiscal adjustment may be needed to ensure debt sustainability, due consideration must be given to the country's fragile security, political, and social situation. They agreed with staff on the importance of maintaining fiscal restraint over a longer period.

Fiscal reforms are among the priorities emphasized in the *White Paper*. These include a civil service reform, a pension reform, and efforts to automate customs procedures and strengthen administration. The Council of Ministers recently adopted an enhanced framework for vetting and issuing government guarantees in an effort to minimize fiscal risks stemming from off-budget expenditure, government guarantees, and arrears.

**Monetary and exchange rate policies**

Fiscal adjustment alone would have required a significantly larger upfront effort that may not have been politically or socially feasible. Accordingly, in parallel with the fiscal adjustment effort, the CBI announced on December 19, 2020 a 22.7 percent devaluation of the IRD/USD exchange rate to narrow the external deficit and mitigate pressures on foreign exchange reserves, including by helping to improve the fiscal balance and reduce the need for monetary financing of the budget. Careful planning preceded the devaluation, including contingency planning, efforts to maintain the provision of liquidity to banks, and a clear public communication strategy to explain the exchange rate adjustment. The CBI fully shares staff's view that a strong fiscal framework is essential to ensure the credibility of the exchange rate peg and minimize future needs for monetary financing of the budget.

**Towards more equitable and inclusive growth**

The authorities are fully aware of the importance of protecting the most vulnerable groups. Poverty is expected to rise sharply because of a confluence of factors, namely the COVID-19 pandemic, the projected increase in inflation in the wake of the exchange rate devaluation, and the proposed reduction in the public wage bill and pensions.

They proposed an increase in the allocation for cash transfers in the 2021 budget by IRD 2.5 trillion (79 percent) with the aim to (i) expand coverage to all eligible households; and (ii) raise the amount of assistance to shield the vulnerable from the expected increase in inflation.

The authorities also intend to reform the Public Distribution System food rationing program, in terms of implementation and targeting, in order to ensure the protection of the poorest groups.

**Conclusion**

Iraq faces the serious challenge of maintaining economic stability, while ensuring durable social stability, peace and inclusive growth. The Iraqi authorities would like to express their deep appreciation for the Fund's Executive Board, management, and staff for their continued support. They particularly appreciate staff's hard work and constructive engagement, as well as the valuable capacity development they are receiving in support of their stabilization and reform efforts.