INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/75

IRAQ

February 2023

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

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 2022 Article IV consultation with Iraq, the following documents have been released and are included in this package:

- A **Press Release** for the Article IV consultation with Iraq.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on December 6, 2022, 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 9, 2023.
- An **Informational Annex** prepared by the IMF staff.

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

Selected Issues

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

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Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

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PRESS RELEASE

PR23/31

IMF Executive Board Concludes 2022 Article IV Consultation with Iraq

FOR IMMEDIATE RELEASE

Washington, DC – February 3, 2023: On January 27, 2023, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Iraq, and considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2]

Iraq's economy has been gradually recovering, supported by strong oil revenues and accommodative policies. Domestic inflation has been contained with the pass-through from high global commodity prices muted by domestic food and fuel subsidies. The economy has been largely shielded from the tightening of global financial conditions due to a largely closed capital account and limited private external borrowing.

The formation of a new government in October 2022 provides Iraq with an opportunity to rekindle the reform momentum, which has been stalled for over a year amid political uncertainty. The near-term outlook is positive with high oil revenues expected to produce fiscal and external current account surpluses. At the same time, Iraq's dependence on oil and vulnerability to future oil price volatility have increased. In the baseline of gradually declining oil prices, fiscal and external deficits and financing pressures could re-emerge in the medium term, barring significant reforms.

Executive Board Assessment

In concluding the 2022 Article IV consultation with Iraq, Executive Directors endorsed the staff's appraisal, as follows

The economy is recovering well, and the near-term outlook is positive amid a large oil windfall. Real GDP is estimated to have increased by 8 percent in 2022, driven by a 12-percent expansion in oil production, which is projected to continue rising from 4.4 to 5 million barrels per day by 2027. Real non-oil GDP growth is expected to accelerate from 3.2 percent in 2022 to 4 percent in 2023, helped by the stimulus from the Emergency Law for Food Security and Development, and settle at 3.5 percent in the medium term. Inflation remains subdued due to significant subsidies and price controls. Owing to strong oil revenues, fiscal and current account surpluses are expected to reach 6.1 and

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

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

8.1 percent of GDP, respectively, in 2023, boosting foreign exchange reserves to US$105 billion (10 months of prospective imports).

Nonetheless, the underlying vulnerabilities have increased and could manifest themselves in the medium term. The non-oil primary fiscal deficit has widened from 45 percent of non-oil GDP in 2019 to an estimated 63 percent of non-oil GDP in 2022 and is projected to remain elevated. With gradually declining global oil prices, both fiscal and external current account balances are expected to turn into deficits over the medium term, resulting in renewed financing pressures, drawdown of foreign exchange reserves, and exhaustion of fiscal savings. This outlook is subject additional downside risks related to a faster decline in oil prices, social unrest, escalation of geopolitical tensions, and realization of contingent liabilities, notably in the electricity sector.

Near-term policies should focus on addressing the cost-of-living crisis and saving the bulk of the oil windfall. Providing adequate indexation of targeted cash transfers and low-income pensions will be important to protect the vulnerable from the rising cost of living. The central bank should stand ready to tighten domestic financial conditions should inflation risks begin to materialize. The 2023 budget law should avoid a procyclical spending boost and aim to increase savings with a gradual tightening of the fiscal stance.

A sound fiscal framework would allow to better manage Iraq's oil wealth and reduce vulnerabilities in a highly uncertain global environment. Adopting a fiscal rule targeting a gradual reduction of the non-oil primary fiscal deficit and building a fiscal stabilization buffer would help to carefully balance the goals of improving resilience to oil price volatility and long-term sustainability; containing the growth of current expenditures—most importantly the government wage bill—while raising non-oil revenues to create the space for priority social and development needs; and reducing Iraq's dependence on oil.

Achieving sustainable and inclusive private sector-led growth in the medium term will entail accelerated structural reforms aimed at better protecting the vulnerable, creating a level playing field in the labor market, and improving private sector's access to electricity and finance. To these ends, the authorities should prioritize enhancing the social safety net, including by making the pension system more sustainable and equitable, developing a national employment strategy, stemming losses and improving reliability of the electricity sector, and revitalizing the financial sector through restructuring of state-owned banks and continued enhancement of the AML/CFT framework.

The authorities should continue to advance their anti-corruption agenda. In addition to strengthening of public financial management, key priorities include advancing digitalization of key public institutions and business processes, expanding capacity of the Integrity Commission, and improving the legal framework and institutional structure for anti-corruption efforts.

Staff will continue to support the authorities' efforts to improve data provision which still has serious shortcomings that significantly hamper surveillance.

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

Iraq: Selected Economic Indicators, 2022–24

Population: 43.5 million (2021 est.)
Quota: SDR 1,663.8 million
Main products and exports: Crude oil
Key export markets: United States, India, China, South Korea

Per capita GDP: US$ 5,021 (2021)
Poverty rate: 23 percent (2014)

	2022	2023	2024
	Est.	Proj.	
Output			
Real GDP (% change)	8.1	4.2	3.1
Non-oil real GDP (% change)	3.2	4.2	4.0
Prices			
Inflation, end of period (%)	4.5	3.7	2.5
Central Government Finances			
Revenues and grants (% of GDP)	41.0	45.4	43.4
Oil revenue (% of GDP)	38.9	42.8	40.6
Expenditure and net lending (% of GDP)	34.7	39.3	41.1
Wages and pensions (% of GDP)	14.6	17.8	18.6
Fiscal balance (% of GDP)	6.3	6.1	2.3
Non-oil primary balance (% of non-oil GDP)	-63.0	-63.3	-63.3
Total government debt (% of GDP)	42.9	40.3	37.1
Money and Credit			
Broad money (% change)	6.6	20.7	15.3
Credit to the economy (% change)	9.0	10.4	9.1
Balance of Payments			
Current account (% of GDP)	11.6	8.1	4.1
Foreign direct investment (% of GDP)	0.0	-0.1	0.4
Gross reserves (US$ billions)	90.2	104.7	113.2
In months of imports	9.7	10.4	10.7
Total external debt (% of GDP)	23.0	22.2	21.0
Exchange Rate			
Exchange rate (dinar per US$; period average)	1450	1450	1450
REER (% change, end of period)[1/]	…	…	…
Oil and Gas Sector			
Crude oil production (millions of barrels/day)	4.4	4.6	4.7
Crude oil exports (millions of barrels/day)	3.6	3.9	4.0
Average crude oil export price (US$/barrel)	96.9	83.1	77.8
Crude oil exports (US$ billions)	128.9	117.8	114.6

Sources: Iraqi authorities; and Fund staff estimates.
1/ Positive means appreciation.

INTERNATIONAL MONETARY FUND

IRAQ

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

January 9, 2023

KEY ISSUES

Context: Significant socio-economic fragilities continue to persist. The formation of a new government in October 2022 provides an opportunity to rekindle the reform momentum, which has been stalled for over a year amid political uncertainty. The economy has been gradually recovering, supported by strong oil revenues and accommodative policies. Inflation has been relatively contained as the pass-through from high global commodity prices has been muted by food and fuel subsidies. Despite fiscal and external current account surpluses, Iraq's dependence on oil and vulnerability to future oil price volatility continued to increase.

Outlook: The near-term outlook is positive with high oil revenues expected to produce fiscal and current account surpluses and growth supported by accommodative fiscal and monetary policies. However, the underlying structural imbalances will likely continue to widen, and in the baseline of gradually declining oil prices, fiscal and external deficits are projected to re-emerge in the medium term.

Main policy recommendations:

- **Fiscal policy:** The near-term priority is to protect the vulnerable through higher and better targeted cash transfers while refraining from a procyclical expenditure boost. Over the medium term, a sound fiscal framework, supported by a fiscal rule targeting gradual improvement of the non-oil primary fiscal balance, is needed to carefully balance the goals of strengthening resilience to future oil price volatility, making space for priority spending, and gradually reducing dependence on oil.
- **Monetary and financial sector policies:** The central bank should closely monitor domestic inflationary pressures and, should they intensify, tighten domestic financial conditions by phasing out its lending initiatives and raising interest rates and reserve requirements. Restructuring large state-owned banks and continuing to improve the AML/CFT framework remain essential to enhance financial sector stability and facilitate private sector development.
- **Structural reforms:** Accelerated efforts are needed to upgrade public financial management, mobilize non-oil revenues, reduce the oversized government payroll, enhance the social safety net, improve the electricity sector's efficiency, and reduce corruption.

Approved By
Taline Koranchelian (MCD) and Kristina Kostial (SPR)

Discussions were held in Amman during November 28–December 6, 2022 and in Baghdad during December 7-9, 2022. The team comprised of Tokhir Mirzoev (head), Gazi Shbaikat (Resident Representative), Ali Abbas, Moheb Malak, Ling Zhu (all MCD), Roberto Perrelli (FAD), Chen Ke (LEG), and Ghadeer Noufal (local economist). Mr. Al-Kohlany (OED) participated in mission meetings. Jiayi Ma (MCD) provided research assistance and Regina De La Cruz and Cecilia Pineda (MCD) provided document management. The mission met with the Prime Minister, Ministers of Finance and Planning, Governor of the Central Bank of Iraq, Members of the Parliamentary Finance Committee, other senior officials from Ministries of Water Resources, Labor, Oil, and Electricity, as well as private sector representatives and trade unions.

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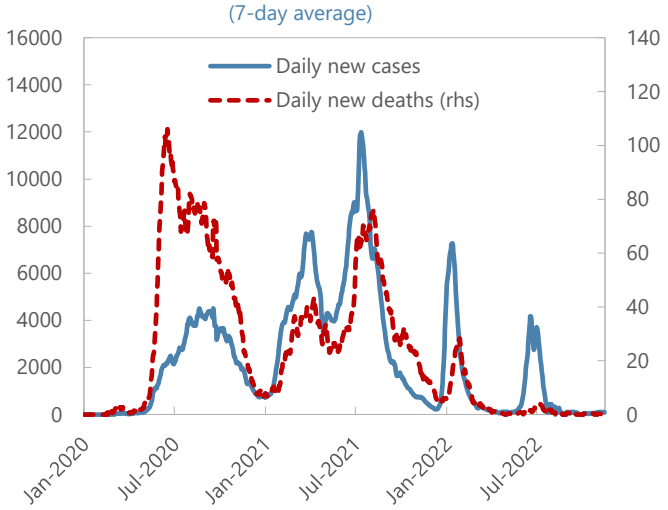
CONTEXT

1. Iraq's economy remains in the grip of a self-perpetuating cycle of fragility. During the past two decades, insecurity and political instability have discouraged private investments and put pressure on the state to maintain a social compact based on government provision of jobs and subsidies which, in turn, is entirely dependent on oil revenues. Weak institutions and governance have undermined efficiency in the use of oil resources and the government's ability to provide adequate public services. Political polarization and social discontent have led to frequent episodes of policy paralysis precluding deep structural reforms to diversify and modernize the economy. The absence of meaningful reforms, in turn, has held back economic development and reinforced dependence on oil—a critical vulnerability in a world that is fighting climate change.

2. The authorities' strong policy response has brought the economy back from the brink of a crisis in 2020. Securing macroeconomic stability at the outset of COVID-19 pandemic and the accompanying oil price collapse entailed difficult measures, including freezing government hiring and wages and a devaluation of the exchange rate. Since then, short-term prospects have improved with waning incidence of COVID-19 and favorable oil market conditions which provide an important opportunity to tackle economic challenges.

Covid-19 Daily New Cases and Deaths: 2020–22
(7-day average)



Sources: Our world in Data (OWID).

3. However, the reform momentum has stalled. A political stalemate between the October 2021 Parliamentary elections and the formation of a new government in October 2022 prevented the adoption of a 2022 government budget and put the authorities' reform agenda largely on hold. The implementation of the recommendations of the 2020 Article IV Consultation has been limited (Annex I). The dispute over resource sharing between the federal government and the Kurdistan Regional Government (KRG) has added a layer of complication while geopolitical strains, risks of social unrest, weak institutions, and corruption persist as formidable obstacles to reforms.

4. Meanwhile, longer-term challenges are beginning to loom large. In addition to short- and medium-term vulnerabilities to oil price volatility, the need for post-war reconstruction, and meeting the Sustainable Development Goals (SDGs), strong demographic pressures amid high youth unemployment coupled with extreme vulnerability to the effects of climate change and the global energy transition could severely test the limits of the current economic model.

RECENT DEVELOPMENTS

5. The economy is gradually recovering. Real GDP is estimated to have increased by 8 percent in 2022, driven by a 12-percent expansion in oil production, which was supported by near-doubling of oil investments. Real non-oil GDP has rebounded by 21 percent in 2021 and continued to expand at a more moderate pace, estimated at 3.2 percent in 2022. The recovery has been led by contact-intensive activities—notably retail, trade, transportation, and hospitality—and, more recently, the construction sector, which benefited from increased public investment and lending support by the central bank (Box 1).

6. Despite large shifts in global food and energy prices, domestic inflation remained stable. Following the dinar devaluation in December 2020, headline and core inflation rose, peaking at 8.4 and 8.6 percent (y-o-y), respectively, in November 2021. Since then, inflation has declined sharply and hovered around 5 percent throughout most of 2022 despite surging global food and energy prices. The limited pass-through can be attributed to the prevalence of administered prices and food and fuel subsidies. Core inflation stood at 4.2 percent as of October 2022.

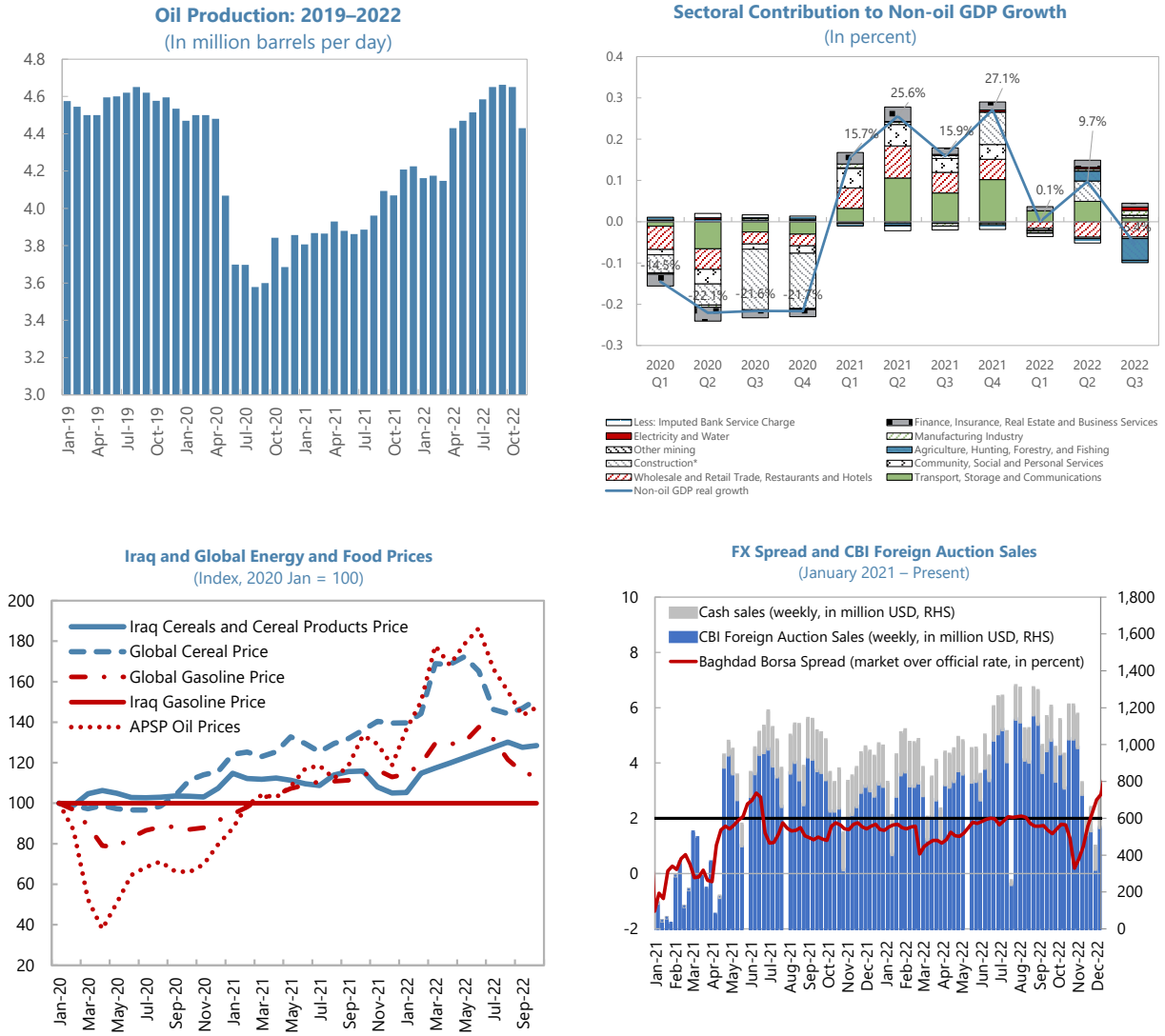
7. The external position strengthened amid improved terms of trade. Helped by the exchange rate adjustment and a near-doubling of oil prices, the external current account balance swung from a double-digit deficit in 2020 to a surplus of 7.8 percent of GDP in 2021.[1] In the first half of 2022, higher consumption of oil for electricity generation and a build-up of inventories owing to disruptions at export terminals have affected the volume of oil exports. Nevertheless, with rising oil prices, monthly oil export revenues increased sharply, peaking at a record-high level of $11.5 billion in June 2022. Alongside, the current account surplus is estimated at 11.6 percent of GDP in 2022. Gross international reserves rose to over $90 billion as of end-2022 from $64 billion at end-2021 (171 percent of the IMF reserve adequacy metric adjusted for potential oil price volatility).
The foreign exchange (FX) market has been broadly stable, and the market exchange rate generally remained within 2 percent of the official rate through most of 2022, although the spread rose somewhat in recent weeks due to tightening of AML/CFT controls over FX auction sales, including enhanced beneficiary disclosure requirements.[2] The real effective exchange rate (REER) appreciated by 4.4 percent (y-o-y) in the first ten months of 2022 on the back of strengthening U.S. dollar.

8. The overall fiscal position improved, but the government's dependence on oil increased. The headline budget deficit shrank from almost 14 percent of GDP in 2020 to 0.4 percent of GDP in 2021, helped by recovering oil revenues and freezing of government employment and wages. Reflecting a large oil price-driven increase in nominal GDP, the government debt-to-GDP

[1] The external sector position of Iraq in 2021 was broadly in line with the level implied by fundamentals and desirable policies (Annex II).

[2] Iraq currently maintains a multiple currency practice subject to Fund approval under Article VIII, Section 3 (see Informational Annex).

Selected High Frequency Economic Indicators, 2019–22



Sources: Iraqi authorities; World Food Program; Food and Agriculture Organization of the United Nations; Central Bank of Iraq; Baghdad Borsa App; and IMF staff calculations.

ratio fell from 84 percent in 2020 to 59 percent in 2021.[3] Nonetheless, the underlying fiscal stance remained loose as a large increase in public investments overshadowed savings in current expenditures.[4] During the first half of 2022, in the absence of an adopted budget, monthly government expenditures (excluding oil investments) were constrained to 1/12th of their 2021 envelope generating large surpluses. In June 2022, spiking energy and food import and subsidy bills have prompted the adoption of the Emergency Law for Food Security and Development (henceforth

[3] The authorities have sold the bulk of their SDR allocation ($2.3 billion) in 2021 to compensate for difficulties in mobilizing other budgeted sources of financing in the first half of that year.

[4] Several key non-oil revenue measures proposed by the government in 2021 did not receive Parliamentary approval.

"Emergency Law"), which authorized additional spending of ID 22.2 trillion (5.5 percent of GDP) on social assistance, conversion of daily workers to contractual employees, food and energy subsidies, and public investment, and set aside ID 2.8 trillion (0.7 percent of GDP) for repayment of overdue bills to farmers and energy suppliers (Text Table 1).[5] The total allocation (ID 25 trillion) is equivalent to more than a third of the projected oil revenue increase in 2022. Staff estimates that the 2022 headline fiscal surplus has reached 6.3 percent of GDP in 2022 but with the non-oil primary deficit widened to 63 percent of non-oil GDP in 2022.

Text Table 1. Allocations Under the Emergency Law on Food Security and Development 2022

	In billions of Iraqi dinars	In percent of GDP	In percent of non-oil GDP
Total	**25,000**	**6.2**	**13.7**
Current expenditures	**11,414**	**2.8**	**6.2**
Energy subsidies	1,664	0.4	0.9
Food/farmer subsidies	4,500	1.1	2.5
Other social assistance	1,228	0.3	0.7
Wage bill (contract conversion)	1,462	0.4	0.8
Others	2,560	0.6	1.4
Public investment	**10,750**	**2.7**	**5.9**
Debt/arrears repayment	**2,836**	**0.7**	**1.6**

Sources: Iraqi authorities; and IMF staff calculations.

9. Domestic financial conditions have been relatively accommodative. Iraq's financial system has been largely shielded from tightening global financial conditions given its relatively closed capital account and negligible external commercial borrowing. The moratorium on loan repayments and lower required reserve requirements, which were introduced early in the pandemic, have been phased out. Since bottoming in mid-2021, deposit interest rates rose marginally while lending interest rates declined further. Credit to the private sector grew at an annualized rate of 14 percent in the first nine months of 2022 helped by fiscal loosening, which provided state-owned banks (SOBs) with significant additional liquidity, and the augmentation of the Central Bank of Iraq's (CBI) lending initiatives (Box 1).[6]

10. The authorities worked to enhance the supervision of large state-owned banks, which remain undercapitalized. Iraq's SOBs collectively account for over 80 percent of the banking system. Large legacy assets, past directed lending practices, and political interference have taken a heavy toll on their financial positions, which have been difficult to assess due to lack of core banking systems, large branch networks, and weak accounting practices. The CBI and the Ministry of Finance (MoF) have developed an action plan to improve lending practices, introduced approval requirements for loans over ID 1 billion, and developed new by-laws to enhance corporate

[5] Conversion of daily workers to contractual employees implements a Cabinet resolution, passed in 2020, to recognize daily (temporary) workers hired by line ministries up to October 2019 and convert them to contractual (full-time but without tenure) workers.

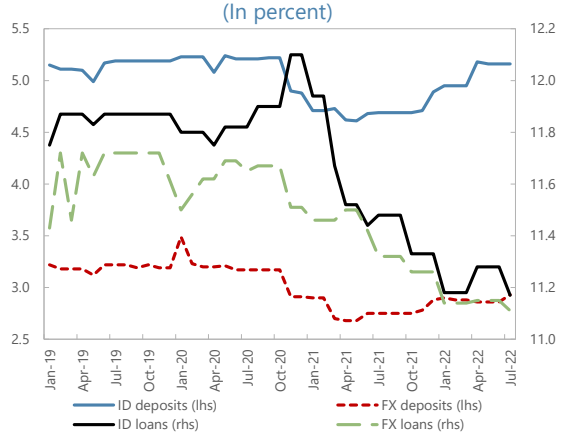
[6] The CBI's support measures introduced in the early stages of the pandemic, namely the moratorium on loan repayment and lower required reserve requirements, have been phased out.

governance, which are awaiting the approval by the State Council. Non-performing loans in SOBs have increased from 10 percent to 17.2 percent between 2019 and 2022 Q2. Private banks remain small and play a limited role in intermediation instead relying on currency exchange, commission-based services, and short-term trade finance.[7]

Box 1. CBI Lending Initiatives

In 2015, the CBI launched two subsidized lending programs: i) ID 5 trillion, channeled through specialized SOBs and the housing fund, to support real estate, industrial, and agricultural sectors; and ii) ID 1 trillion to finance small and medium enterprises through private banks. Demand for real estate financing has been very strong while the uptake in other sectors has been limited.

Domestic Interest Rates: 2019-22
(In percent)



Sources: Central Bank of Iraq (CBI).
Note: Deposits are one year fixed. Loans are more than one year and less than five years.

In mid-2020, the first initiative was augmented by ID 9 trillion (4.5 percent of GDP) and the second by ID 1 trillion (0.5 percent of GDP), and later increased to ID 3 trillion. Lending terms were further eased with interest rates as low as zero for the housing sector. The bulk of the uptake continued to be in real estate sector. In 2021, the CBI launched initiatives to finance renewable energy projects and large projects (over ID 20 billion), allocating ID 1 trillion for each.

Allocations and Disbursement Under the CBI Lending Initiatives [1/]
(In billions of Iraqi dinars)

	2015 Initiative					New Initiatives		Total Initiatives		
	Initial Allocation (1)	Adjustment (2)	Adjusted Allocation (3=1+2)	Disbursement 2015 - 2020Q2 (4)	Remaining (5=3-4)	New Allocation (6)	Disbursement from new allocations (7)	Cumulative allocations (8=3+6)	Cumulative disbursement (9=4+7)	Remaining allocations (8-9)
Agriculture	1,666	(1,493)	173	57	116	250	0	423	57	366
Industrial	1,666	(1,307)	359	161	198	1,000	169	1,359	330	1,029
Real Estate	834	0	834	784	50	4,666	3,965	5,500	4,749	751
Housing Fund	834	800	1,634	1,634	0	3,366	1,850	5,000	3,484	1,516
Total SOB initiative	**5,000**	**(2,000)**	**3,000**	**2,636**	**364**	**9,282**	**5,984**	**12,282**	**8,620**	**3,662**
SME initiative	1,000	0	1,000	183	817	3,000	2,161	4,000	2,344	1,656
Renewable Energy initiative						1,000	0	1,000	0	1,000
Large Projects initiative						1,000	18	1,000	18	983

Source: CBI and Staff calculations
1/ Until September 2022

OUTLOOK AND RISKS

11. The near-term outlook is positive due to a large oil windfall. Real GDP growth is expected to moderate to 4.2 percent in 2023, with oil production averaging 4.6 million barrels per day (mbd) for the year and real non-oil GDP growth also projected at 4.2 percent. The fiscal and

[7] Five largest private banks account for only about a fifth of total private bank assets.

current account balances are projected to post surpluses of 6.1 and 8.1 percent of GDP, respectively, boosting foreign exchange reserves to US$105 billion (10 months of prospective imports). Public debt is expected to decline slightly to 40 percent of GDP.

12. The underlying vulnerabilities will likely manifest themselves in the medium term. Staff's baseline projections assume that structural reforms will remain sluggish while oil prices would gradually decline, in line with the IMF's October 2022 World Economic Outlook.

- ***Growth and inflation are expected to moderate.*** Oil output is projected to gradually reach 5 mbd, while non-oil real GDP growth rate would moderate toward its potential, which, at 3.5 percent, would remain constrained by electricity shortages, water scarcity, limited access to credit, security concerns, labor market challenges, and difficult business environment.

- ***The overall fiscal balance is projected to turn into a deficit around 2025 as current expenditures—driven by the wage bill—surpass one third of GDP***. Without significant reforms, the non-oil primary fiscal deficit (NOPD) would remain above 63 percent of non-oil GDP, and the government would remain heavily oil dependent. Fiscal savings would be exhausted, and the declining trend in the government debt-to-GDP ratio would reverse, although the overall debt burden would remain manageable (Annex III).

- ***The external position would follow a similar path.*** A current account (CA) deficit is projected to emerge starting 2026. Foreign exchange reserves would peak at $114 billion in 2025 and to decline to $95 billion (8 months of prospective imports) by 2027.

13. This outlook is subject to significant risks (Annex IV). While a stronger global recovery and oil prices could support larger fiscal and external surpluses, a deeper global slowdown could put downward pressure on oil revenues. Insistent demands for government jobs and subsidies could further aggravate the underlying fiscal vulnerabilities. Sanctioning of Russian energy companies could disrupt oil production.[8] Stronger pass-through of global inflation and new waves of COVID-19 could disproportionately affect the vulnerable and reduce domestic demand. Realization of contingent liabilities (estimated at $21 billion in 2017) could weigh on debt sustainability (Annex III). Political polarization, social unrest, and escalation of regional tensions could dampen sentiment and paralyze policy making.

14. Iraq is particularly vulnerable to climate change and the global energy transition (Annex V). Over the past four decades, Iraq's average temperatures increased by over 1.5 degrees Celsius. Growing water scarcity and more frequent extreme weather events are taking an increasingly large toll on socio-economic conditions, exacerbating electricity shortages, and reducing potential output, particularly in agriculture. Meanwhile, acceleration of international efforts to stem greenhouse gas emissions could trigger a precipitous contraction of global demand for oil—the lynchpin of Iraq's economy.

[8] Russian companies are involved in the production of around 13 percent of Iraq's oil and own 60 percent of the oil pipeline connecting Kurdistan and Turkey.

POLICIES

Discussions focused on short-term measures to address the rising cost of living and medium-term policies to i) strengthen fiscal sustainability while making the space for critical investment priorities; ii) improve the social safety net; and iii) promote private sector development; with governance reforms encompassing all areas. Consistent with staff's Country Engagement Strategy (Annex VI), discussions covered policies to improve governance, strengthen the fiscal framework, diversify government revenues, rein in the wage bill, reform the social safety net, fix the electricity sector, and enhance financial stability.

15. The immediate priority is to address the cost-of-living crisis. Although inflation has remained stable in recent months, there are risks of its acceleration as high global commodity prices feed through into the prices of imported manufactured goods. Should these risks begin to materialize, staff emphasized the importance of tightening domestic financial conditions—including phasing out CBI's lending support programs, raising interest rates and reserve requirements—to contain domestic drivers of inflation. Staff recommended tightening the fiscal stance in 2023 to save the bulk of the oil windfall and avoid a procyclical spending boost, which could exacerbate inflation pressures. The 2023 budget law should provide adequate indexation of targeted cash transfers and low-income pensions to protect the vulnerable from the rising cost of living.

Economic Goals and Priority Reform Areas

Source: IMF staff.

A. Enhancing the Fiscal Framework

16. A sound fiscal framework is needed to manage Iraq's oil wealth in a highly uncertain global environment. In the coming years, fiscal policy will need to balance three key objectives:

- ***Strengthening resilience to oil price volatility.*** High oil revenues helped to rebuild Iraq's financial buffers, a valuable cushion against short-lived oil price declines. But larger and more sustained shocks could quickly erode these buffers and reignite financing pressures.

- ***Making the space for critical expenditures.*** With a quarter of the population living in poverty, social spending needs remain significant. In addition, fiscal policy will need to accommodate large investments for post-war reconstruction, meeting the SDGs, adapting to climate change,

ending gas flaring, and boosting electricity generation. While the size of the needed public investments is yet to be identified, existing estimates are quite significant.[9]

- ***Ensuring long-term fiscal sustainability amid a global energy transition.*** Ensuring long-term sustainability as the world moves away from fossil fuels would require a significant reduction of Iraq's dependence on oil on a potentially accelerated timetable (see Annex V). This is a formidable challenge as limited institutional capacity, governance and political economy constraints, and socio-economic fragilities severely limit the scope for sweeping reforms.

17. A risk- and rules-based approach to fiscal policy would help achieve these goals. A key element of the proposed approach is continued fiscal saving for short-term stabilization purposes and to support long-term sustainability. Furthermore, containing current expenditures while raising non-oil revenues will help create the fiscal space for priority needs and improve the ability to adjust to shocks. The third element entails formulation of medium-term policies with an eye on long-term challenges, notably the need to reduce dependence on oil. Toward these ends, staff recommended establishing a fiscal rule based on an annual ceiling on NOPD that is consistent with its reduction by at least 2 percent of non-oil GDP per year. Deviations from the rule in any year would be gradually compensated over the next four years, on a rolling basis, with a view to reduce the NOPD by around 10 percent of non-oil GDP over a five-year period. The rule's adequacy would be reviewed every five years. Such an approach would gradually strengthen Iraq's fiscal resilience and prepare the economy for the consequences of the global energy transition (see Annex V).[10]

18. Staff proposed a medium-term macroeconomic reform framework consistent with these considerations. Under the baseline oil price projections, which remain high, the proposed framework would facilitate augmenting the fiscal savings for stabilization purposes to ID 43 trillion—over two thirds of the level calibrated to enable smooth government expenditures amid oil price volatility without depleting the fiscal savings with a 90-percent probability (ID 59 trillion, see Annex V)—while maintaining public debt on a declining trajectory. The proposed adjustment would be accomplished by a combination of current expenditure restraints and non-revenue measures (see below), which would allow gradually scaling up non-oil public investments and enhancing the social safety net.

19. Continuing to improve public financial management will be essential. The budget process would benefit from better macro-fiscal planning, budget preparation and execution, and a strategic medium-term approach. Improving non-oil investment planning, project selection, and transparent execution will ensure effective use of limited resources. Implementing the framework for managing government guarantees, monitoring contingent liabilities, and avoiding extra-budgetary expenditures will help contain fiscal risks. Accelerating progress with strengthening cash management and forecasting and implementing a comprehensive commitment control system, key recommendations of past IMF technical assistance (TA), will limit expenditure arrears and improve budget execution. Establishing a

[9] The 2018 Damage and Needs Assessment by the World Bank cites reconstruction needs of $57 billion. The price tags for tackling water scarcity and gas flaring were estimated at $70 billion and $29 billion, respectively, in the World Bank's 2022 Climate Change Development Report. Achieving the SDGs could require annual investments of as much as 7 percent of non-oil GDP (around $20 billion) until 2030 (World Bank, 2019).

[10] A fiscal rule based on the non-oil primary fiscal balance (as opposed to current expenditures) is motivated by the increasingly important role that non-oil revenues will need to play in reducing oil dependence.

Treasury Single Account and accelerating the implementation of an Integrated Financial Information Management System (IFMIS) will help to significantly improve control over public resources.

Selected Indicators: Baseline
(In percent of GDP, unless otherwise indicated)

				Est.	Projections				
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Total revenue	35.9	31.3	36.6	41.0	45.4	43.4	40.9	38.5	36.6
of which: non-oil	2.5	3.0	4.4	2.1	2.6	2.8	2.9	3.0	3.0
Total expenditure	35.0	45.2	37.0	34.7	39.3	41.1	43.0	44.4	45.7
of which: current	28.1	37.5	30.1	25.3	30.4	32.0	33.7	34.9	36.1
of which: capital	7.0	7.6	6.9	9.4	8.9	9.2	9.4	9.5	9.6
of which: non-oil	2.2	2.9	4.2	5.9	4.4	4.7	4.9	5.1	5.3
Overall fiscal balance	0.8	-13.9	-0.4	6.3	6.1	2.3	-2.1	-5.9	-9.2
Non-oil primary balance (in percent of non-oil GDP)	-44.5	-52.0	-52.1	-63.0	-63.3	-63.3	-63.5	-63.2	-63.1
Public debt	45.1	84.3	59.1	42.9	40.3	37.1	36.2	35.1	42.0
Current account	0.5	-10.9	7.8	11.6	8.1	4.1	0.6	-2.4	-4.6
International reserves (in billions of U.S. dollars)	68.0	54.4	64.2	90.2	104.7	113.2	114.1	107.5	95.0
International reserves (in months of imports)	11.8	9.0	7.1	9.7	10.4	10.7	10.3	9.3	7.9
Memorandum Items									
Fiscal savings (in trillions of Iraqi dinars)	8.3	7.3	5.8	27.5	38.5	38.5	29.9	5.0	0.9
Wage bill (In percent of non-oil GDP)	24.9	29.0	26.2	24.5	27.8	27.1	27.2	27.0	27.2
Wage bill excluding KRG transfer (In percent of non-oil GDP)	21.7	25.2	25.4	23.7	24.8	24.1	24.2	24.0	24.2
Primary current spending									
Annual nominal growth (in percent)	10.4	-2.2	19.6	12.6	20.5	8.0	8.1	6.9	7.3
In percent of non-oil GDP	44.9	52.0	52.4	54.4	59.6	59.2	59.5	59.1	59.0
Nominal GDP (in trillions of Iraqi dinars)	277	202	300	396	391	400	410	423	438
Real GDP Growth (in percent)	5.8	-15.7	7.7	8.1	4.2	3.1	2.6	2.4	2.2

Sources: IMF staff estimates.

Selected Indicators: Adjustment Scenario
(In percent of GDP, unless otherwise indicated)

				Est.	Projections				
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Total revenue	35.9	31.3	36.6	41.0	45.8	44.4	42.2	40.6	38.9
of which: non-oil	2.5	3.0	4.4	2.1	2.9	3.3	3.6	3.9	4.2
Total expenditure	35.0	45.2	37.0	34.7	38.7	39.7	40.1	40.4	40.6
of which: current	28.1	37.5	30.1	25.3	29.8	30.5	30.6	30.6	30.5
of which: capital	7.0	7.6	6.9	9.4	8.9	9.2	9.5	9.8	10.1
of which: non-oil	2.2	2.9	4.2	5.9	4.4	4.7	5.0	5.4	5.8
Overall fiscal balance	0.8	-13.9	-0.4	6.3	7.1	4.7	2.1	0.2	-1.7
Non-oil primary balance (in percent of non-oil GDP)	-44.5	-52.0	-52.1	-63.0	-61.5	-59.5	-57.2	-55.1	-53.0
Public debt	45.1	84.3	59.1	42.9	40.3	36.6	33.7	32.4	31.2
Current account	0.5	-10.9	7.8	11.8	9.1	6.7	4.1	2.2	0.3
International reserves (in billions of U.S. dollars)	68.0	54.4	64.2	90.9	108.0	123.7	134.5	141.1	143.0
International reserves (in months of imports)	11.8	9.0	7.2	10.0	11.3	12.5	13.1	13.2	12.8
Memorandum Items									
Fiscal savings (in trillions of Iraqi dinars)	8.3	7.3	5.8	27.5	42.7	50.5	50.5	50.5	42.9
Wage bill (In percent of non-oil GDP)	24.9	29.0	26.2	24.5	26.8	25.0	23.2	21.6	20.1
Wage bill excluding KRG transfer (In percent of non-oil GDP)	21.7	25.2	25.4	23.7	23.8	22.0	20.2	18.6	17.1
Primary current spending									
Annual nominal growth (in percent)	10.4	-2.2	19.6	12.6	17.7	5.4	3.1	3.1	3.2
In percent of non-oil GDP	44.9	52.0	52.4	54.4	58.2	56.5	54.1	51.9	49.8
Nominal GDP (in trillions of Iraqi dinars)[1/]	277	202	300	396	391	400	410	423	438
Real GDP Growth (in percent)	5.8	-15.7	7.7	8.1	4.2	3.1	2.6	2.4	2.2

Sources: IMF staff estimates.

1/ The positive growth impact of increased investments and efficiency gains from reforms is assumed to broadly offset the negative impact of fiscal adjustment.

Baseline and Staff-Proposed Reform Scenarios, 2019–27

Sources: IMF staff calculations and estimates.

1/Net government debt is total government debt net of TX reserves.

Authorities' Views

20. The authorities broadly agreed with these priorities while citing pent-up spending pressures as a key obstacle to progress in the near term. The authorities expected to enunciate their 2023 budget plans in early 2023. While the government's economic program aims at strengthening public finances and reducing dependence on oil, the authorities underscored significant spending pressures stemming from unfulfilled promises made after the 2019 protests,

legally mandated hiring of certain university graduates, large investment and social needs, and continued enrollment into non-contributory pension schemes. Consequently, they saw limited scope for savings in the near term.

B. Diversifying Government Revenues

21. A medium-term strategy to progressively raise non-oil revenues would support critical expenditures while reducing reliance on oil. Given limited capacity and a low base (non-oil revenues account for around 8 percent of total revenues), efforts should start with measures that are easy to administer in better-controlled collection points (e.g., public sector entities, border crossings, and easy-to-monitor points of sale) and be gradually expanded along with improvements in administrative capacity. Due to past difficulties of sustaining non-oil revenue reforms—which were introduced in annual budget laws and automatically expired—it would be important for such policies to be reflected in stand-alone laws. TA from the IMF and other international partners could support the design of a revenue mobilization strategy.

22. Staff recommended several policy options to raise revenues in the short term. These include making payroll taxes more progressive by increasing the rate applicable to higher-income groups and applying such taxes to total earnings, including allowances; raising taxes on oil and oil derivatives, which would also promote greater energy efficiency; introducing selective sales and excise taxes on items such as luxury goods, hotels, telecom services, automobiles, alcohol and tobacco; introducing turnover taxes on retail outlets; and removing exemptions from customs duties.

23. Efforts to strengthen tax and customs administration should support revenue mobilization efforts. Priorities include improving the organizational structure of tax administration along functional lines, implementing a tax information technology (IT) system, and strengthening compliance by large taxpayers. Recent progress with digitalization of customs procedures needs to be accelerated and complemented with stronger cross-border management, including through anti-smuggling initiatives, and alignment of customs valuation, classification, and other procedures with international standards. Modernization of the customs law and re-engineering business processes for automation purposes would strengthen the legal and operational frameworks underpinning these changes.

Authorities' Views

24. The authorities recognized the importance of mobilizing non-oil revenues and saw enhancing customs administration as a key priority. A new customs law has been drafted to align with international standards, and the authorities sought IMF's assistance with its review. In addition, the authorities are rolling out the Automated System for Customs Data (ASYCUDA) with the assistance of the United Nations Conference on Trade and Development. The rollout is expected to be completed during the next two years, and the authorities expect boosting customs revenues (0.6 percent of non-oil GDP in 2022) by as much as fifty percent over the medium term. Prospects

for other non-oil revenue measures were seen as less certain given heightened social tensions and past difficulties in securing Parliamentary approval of such measures.

C. Reining in the Government Wage Bill

25. A determined effort to reduce the government wage bill will be critical for fiscal sustainability. Iraq's government employs nearly 38 percent of the labor force, spending around 40 percent of its annual budget—one of the largest in the world. Generous allowances and benefits associated with public employment also discourage private sector job creation. In recent years, the government wage bill has expanded rapidly as large groups of daily and contractual workers and university graduates have been admitted into the civil service. A hiring freeze, implemented as part of the 2021 budget, has temporarily interrupted this trend. More sustainable reforms are needed to contain the government payroll while promoting private employment.

26. Staff proposed a multi-pronged approach to wage bill reform:

- ***Strengthening control over payroll*** by completing biometric registration and creating a centralized database of government employees coupled with detailed and regular reporting requirements by each government agency on the size of the workforce by grade, type of employment and compensation, as well as retirements, hiring, and promotions. Replacing statutory promotions with performance-based ones within an overall limit would help reduce wage drift.

- ***An attrition-based employment reduction strategy*** coupled with efforts to identify and eliminate redundant positions to lessen excess employment. Over the next five years, on average, staff proposed replacing every three retirees with one new hire.

- ***Enhancing the gatekeeper role*** of the Federal Civil Service Commission (FCSC) in approving hiring decisions and aligning such approvals with the budget planning and execution processes. This should be accompanied by eliminating the provisions in various laws that mandate automatic government employment of university graduates in various areas.

- ***Closer alignment of compensation with the private sector and productivity,*** for example, by capping the maximum size of non-wage compensation (allowances) and linking future wage increases to economy-wide productivity gains.

While implementing these measures, staff recommended that the authorities, with TA from international partners, prepare a blueprint for a comprehensive civil service reform to be executed over the medium term.

27. Efforts to control the government wage bill should be accompanied by broader labor market reforms. The 2021 Labor Force Survey shed light on significant obstacles faced in the labor market by Iraq's youth and women (Box 2). Staff encouraged the authorities to develop a national employment strategy with active labor market policies aimed at increasing labor force participation, removing obstacles for private employment, especially among women, addressing mismatches

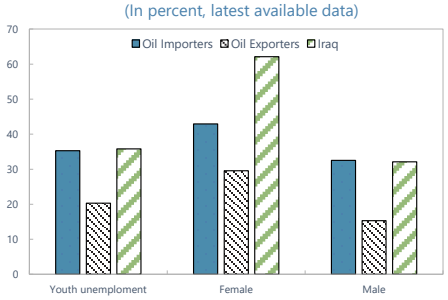
between educational curricula and the skills needed in the private sector, strengthening the pension system (¶30), and reducing informality.

Box 2. Labor Market Conditions

The 2021 Labor Force Survey (LFS) was the first conducted in Iraq in over a decade. The overall unemployment rate was estimated at 16.6 percent with a labor force participation of under 40 percent—well below the MENA region average of 52 percent—and a median monthly earning of ID 614,000 (US$423). Among other things, the survey highlighted two key distortions in the labor market:

Youth and women face significant challenges. Only about a quarter of Iraq's youth participate in the labor market and over 35 percent of them are unemployed. Similarly, of only 11 percent of working-age women who participate in the labor force, 28 percent are without jobs. Employed women typically hold at least a university degree and occupy professional positions. By contrast, less than 5 percent of women with primary education participate in the labor market (70 percent among men).

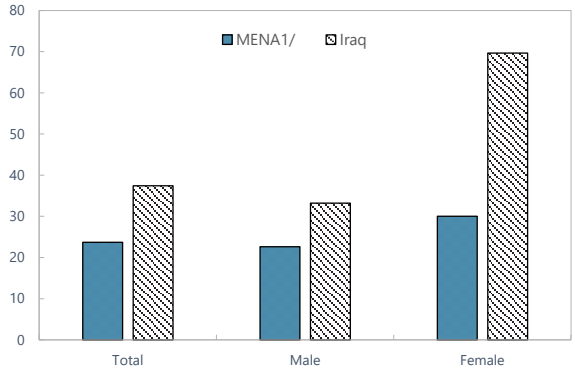
Youth Unemployment by Gender
(In percent, latest available data)



Sources: ILOSTAT; and IMF staff calculations.
Latest Available Data. OI: MENA Oil Importer, OE: MENA Oil Exporters

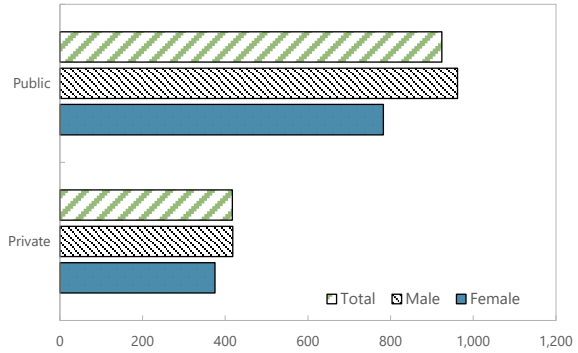
The State dominates the labor market. The share of public sector employment in Iraq (37 percent) is the highest among MENA countries. Over two thirds of all employed women work for the public sector—compared to less than a quarter in other MENA countries—whereas private sector employment is dominated by men with more than a half of private jobs accounted by the informal sector and concentrated in construction, transportation, and trade. Government jobs are overwhelmingly more attractive than those in the private sector with average wage premium of over 120 percent (even higher when accounting for more generous pension benefits).

Public Employment Share of Total Employment
(In percent)



Sources: ILOSTAT; and IMF staff calculations.
1/MENA Countries include latest available data for Egypt, Iraq, Iran, Jordan, Lebanon, Morocco, Oman, Qatar, United Arab Emirates, and West Bank and Gaza.

Employees' Average Monthy Earning Per Employment Sector
(In thousands of Iraqi dinars)



Sources: Labour Force Survey; Iraq Central Statistical Organization; and IMF staff calculations.

Authorities' Views

28. The authorities highlighted some progress in public payroll control while underscoring challenges for deeper reforms. After adding over 100 thousand employees to the civil service in 2022, the government intends to halt hiring of daily and contractual workers—a key pressure point on the wage bill. In addition, the FCSC plans a biometric registration of civil servants and is strengthening the hiring process. At the same time, weak private sector job creation and high youth unemployment were seen as key obstacles to substantive reforms of the civil service. The authorities expected wage bill pressures to continue amid demands for substantial cost-of-living adjustment (after a two-year wage freeze), hiring requests from local governments, and legally guaranteed public employment of various university graduates.

D. Strengthening Social Safety Nets

29. Improving the targeting, coverage, and adequacy of the social safety net will be essential to ease socio-economic fragilities. Iraq's social safety net is fragmented and inefficient, split among the cash transfers program, the Public Distribution System (PDS)—a universal in-kind food distribution program—and the pension system. These systems comprised almost 30 percent of current expenditures in 2021 (8.7 percent of GDP). While previous efforts have improved targeting of the cash transfer program, coverage gaps remain, and an estimated 1.7 million households who were identified as eligible do not receive assistance due to insufficient funding. At the same time, the PDS, which consumes 1.4 percent of GDP, covers almost the entire population. Staff recommended to significantly downsize the PDS (and gradually phase it out) by limiting eligibility to those in the social security database and use the savings to augment the budget for targeted cash transfers. Coverage of the latter should be expanded to include all eligible households with regular updates of the population registry and the targeting criteria, including to avoid downsizing the PDS affecting the most vulnerable. Staff also recommended introducing automatic indexation of cash transfers to inflation to preserve adequate protection on an ongoing basis.

30. A comprehensive reform of the pension system would strengthen fiscal sustainability and promote private job creation. Significant expansion of public pension benefits in recent years with unchanged contributions threaten the financial sustainability of the State Pension Fund (SPF). Meanwhile, non-contributory pensions (to families of martyrs and victims of terrorism and political persecution) combined with "legacy pensions" (to those who retired prior to 2006), which are no longer supported by contributions, require annual budget outlays of nearly 4 percent of GDP. The public pension system is significantly more generous than that of the private sector, putting the latter at a disadvantage in the labor market. Staff, in collaboration with the International Labor Organization (ILO) and the World Bank, presented a blueprint for a medium-term pension reform strategy.[11] The proposed strategy would initially improve financial sustainability of the public pension system through parametric changes affecting the retirement age, the replacement rate, and

[11] The blueprint for the broader pension reform will be issued as a separate publication.

the methodology for calculating pension benefits.[12] Limiting survivor benefits to immediate family members, as in other countries, would help contain the future cost of non-contributory schemes. Looking ahead, reforms should align the pension schemes for private and public sectors to facilitate labor mobility and private employment.

Authorities' Views

31. The authorities are studying options to strengthen the social safety net, a key government priority. They highlighted that the Emergency Law already raised assistance under both PDS and cash transfers programs, and the government is considering additional options. While agreeing with scope to further improve targeting, the authorities noted that eligibility for PDS assistance is already limited to those with monthly incomes below ID 1.5 million and cited the provision of increased food rations to those in the social security database. They agreed with the need for pension reforms to ensure sustainability of the SPF although cited the political economy constraints as formidable. The authorities saw improved collection of pension contributions, particularly in state-owned enterprises, as an area where progress can be made in the short term.

E. Fixing the Electricity Sector

32. The loss-making electricity sector burdens public finances while hampering private sector development.[13] Caught in a cycle of inefficiency, loss-making and underinvestment, the electricity sector recovers only about a tenth of its cost and incurs annual losses in excess of 3 percent of GDP (over 6 percent of GDP if the implicit fuel subsidy is factored in). The lack of reliable access to electricity is a major constraint to private sector development and a source of social discontent. As the demand for electricity is projected to grow with the increasing population and rising temperatures, a continuation of past trends and policies is becoming increasingly unsustainable.

33. An ambitious sectoral reform strategy should seek to ensure sustainability. Key elements of a strategy should include i) enhanced monitoring and transparency of the sector's explicit and implicit costs to inform fiscal planning and avoid arrears; ii) sustained efforts to improve collection supported by accelerated implementation of smart metering, especially for large consumers, to enhance cost recovery and facilitate tariff restructuring; iii) financing the sector's investment needs based on prioritizing efficiency-enhancing projects, including in gas capture and renewable energy; iv) strengthening the regulatory framework for private sector participation and reviewing the tariff structure with a view to reaching cost recovery over the medium term; v) efforts to maximize productivity of existing assets and reduce technical losses. The authorities agreed with these priorities but saw fixing the electricity shortage as the most pressing priority underpinning their focus on an ambitious investment plan to boost generation.

[12] See accompanying Selected Issues chapter "Ensuring Sustainability of the Public Pension System."

[13] See accompanying Selected Issues chapter "The Fiscal Cost of Iraq's Electricity Sector and Potential Gains from Reform."

F. Enhancing Financial Stability

34. Restructuring large state-owned banks would support private sector development. While welcoming recent progress, staff underscored the importance of maintaining the reform momentum. Key priorities include obtaining final approval of the new by-laws for large SOBs by the State Council and certification of the banks' past financial statements by the Federal Bureau of Supreme Audit (BSA).[14] These steps would pave the way for launching the international audits and asset quality reviews to determine potential recapitalization needs. At the same time, accelerated implementation of core banking systems, continued improvement of lending standards and practices, and close supervision will be essential to mitigate future risks.

35. Continued improvement of the AML/CFT framework, including in the banking sector, would strengthen financial stability and facilitate correspondent banking relationships. Prioritizing and addressing the risks identified in the first national risk assessment (NRA) will be important ahead of the mutual evaluation by the Middle East and North Africa Financial Action Task Force (MENAFATF), which is planned for 2023. This should be accompanied by informing all stakeholders, including regulated entities, of the NRA's findings and ensuring their cooperation in implementing the recommended actions. Further improvements of risk-based AML/CFT supervision of banks are needed, including on sanctioning large SOBs for non-compliance, which has been identified as a priority in the NRA.

Authorities' Views

36. The authorities highlighted notable progress in the AML/CFT area but limited advancement of SOB reform. They cited Iraq's removal from the EU's list of high-risk jurisdictions and the completion of the first national risk assessment, which will be presented to the government soon, as key milestones. The authorities envisaged a two-year implementation period of the assessment's recommendations and requested IMF support. They highlighted, that international audits of large SOBs continue to await BSA's certification of past financial statements while the revised by-laws are yet to be finalized. They expected implementation of core banking systems at one of the SOBs by end-2023, while noting that it is held back at the largest SOB by significant administrative challenges. The central bank noted its work on a new trade finance mechanism and requested IMF TA.

G. Improving Governance and Statistics

37. Broader anti-corruption efforts need to continue. While many of the reforms outlined above would strengthen governance, staff emphasized the importance of continuing other efforts to reduce corruption, including through implementation of the 2021-24 National Integrity and

[14] Among other things, the revised by-laws improve independence of the banks' Executive Boards by reducing the government's representation.

Anti-Corruption Strategy.[15] Staff also reiterated past advice on the need for improving the legal framework and streamlining the institutional structure for combatting corruption, enhancing the asset declaration regime, increasing transparency of oil and gas contracts, and digitalization of key public registries and databases (such as for property and real estate transactions). Moreover, staff recommended strengthening oversight of SOEs and closing data gaps in regulatory frameworks (such as product market regulation and trade facilitation).

38. Data provision has serious shortcomings that significantly hamper surveillance owing to limited technical capacity and weak IT systems, which affect quality and coverage, particularly of the real and external sector statistics. It was agreed that advancing digitalization and significant TA provision remain important to address these shortcomings.

Authorities' Views

39. Combatting corruption was declared a top priority of the new government. The Integrity Commission is evaluating key government agencies' anti-corruption efforts and plans to present its findings to the government in early 2023. The authorities also pointed out several high-profile prosecution cases and enhanced cooperation with the civil society as examples of their stepped-up efforts. Among key obstacles, they cited administrative challenges, insufficient cooperation by foreign jurisdictions in the recovery of stolen assets, and weak IT systems preventing, for example, efficient verification of senior officials' asset declarations. The authorities emphasized advancing e-government, expanding capacity and the investigative powers of the Integrity Commission, continuing to enhance the legal framework and institutional structure for anti-corruption efforts as key priorities and welcomed IMF's assistance.

STAFF APPRAISAL

40. The economy is recovering well, and the near-term outlook is positive amid a large oil windfall. Real GDP is estimated to have increased by 8 percent in 2022, driven by a 12-percent expansion in oil production, which is projected to continue rising from 4.4 to 5 mbd by 2027. Real non-oil GDP growth is expected to accelerate from 3.2 percent in 2022 to 4 percent in 2023, helped by the stimulus from the Emergency Law for Food Security and Development, and settle at 3.5 percent in the medium term. Inflation remains subdued due to significant subsidies and price controls. Owing to strong oil revenues, fiscal and current account surpluses are expected to reach 6.1 and 8.1 percent of GDP, respectively, in 2023, boosting foreign exchange reserves to US$105 billion (10 months of prospective imports).

41. Nonetheless, the underlying vulnerabilities have increased and could manifest themselves in the medium term. The non-oil primary fiscal deficit has widened from 45 percent of non-oil GDP in 2019 to an estimated 63 percent of non-oil GDP in 2022 and is projected to remain

[15] Theft of about $2.5 billion from the General Commission for Taxes during 2021-22—only a fraction of which has been recovered thus far—underscores the magnitude of the corruption challenge.

elevated. With gradually declining global oil prices, both fiscal and external current account balances are expected to turn into deficits over the medium term, resulting in renewed financing pressures, drawdown of foreign exchange reserves, and exhaustion of fiscal savings. This outlook is subject additional downside risks related to a faster decline in oil prices, social unrest, escalation of geopolitical tensions, and realization of contingent liabilities, notably in the electricity sector.

42. Near-term policies should focus on addressing the cost-of-living crisis and saving the bulk of the oil windfall. Providing adequate indexation of targeted cash transfers and low-income pensions will be important to protect the vulnerable from the rising cost of living. The central bank should stand ready to tighten domestic financial conditions should inflation risks begin to materialize. The 2023 budget law should avoid a procyclical spending boost and aim to increase savings with a gradual tightening of the fiscal stance.

43. A sound fiscal framework would allow to better manage Iraq's oil wealth and reduce vulnerabilities in a highly uncertain global environment. Adopting a fiscal rule targeting a gradual reduction of the non-oil primary fiscal deficit and building a fiscal stabilization buffer would help to carefully balance the goals of improving resilience to oil price volatility and long-term sustainability; containing the growth of current expenditures—most importantly the government wage bill—while raising non-oil revenues to create the space for priority social and development needs; and reducing Iraq's dependence on oil.

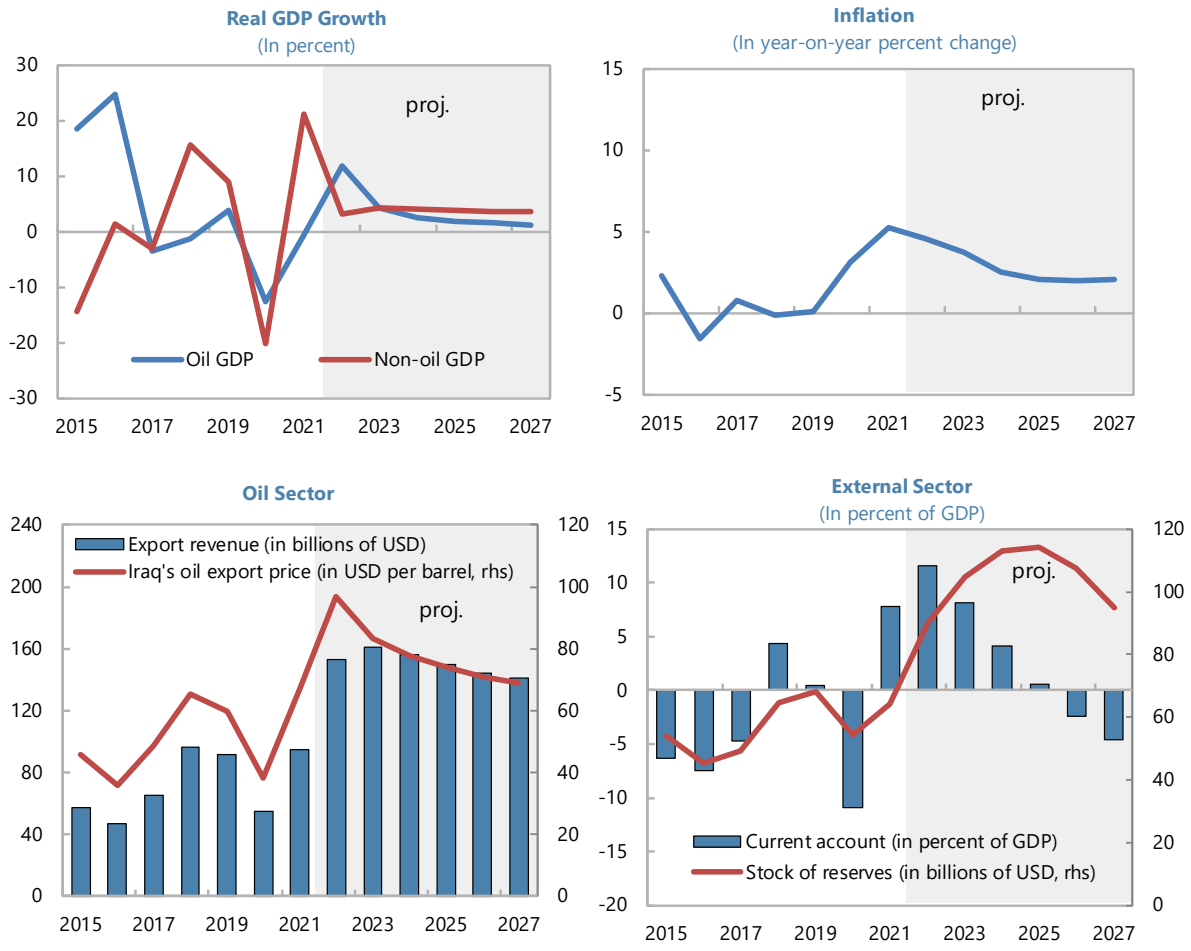
44. Achieving sustainable and inclusive private sector-led growth in the medium term will entail accelerated structural reforms aimed at better protecting the vulnerable, creating a level playing field in the labor market, and improving private sector's access to electricity and finance. To these ends, the authorities should prioritize enhancing the social safety net, including by making the pension system more sustainable and equitable, developing a national employment strategy, stemming losses and improving reliability of the electricity sector, and revitalizing the financial sector through restructuring of state-owned banks and continued enhancement of the AML/CFT framework.

45. The authorities should continue to advance their anti-corruption agenda. In addition to strengthening of public financial management, key priorities include advancing digitalization of key public institutions and business processes, expanding capacity of the Integrity Commission, and improving the legal framework and institutional structure for anti-corruption efforts.

46. Staff will continue to support the authorities' efforts to improve data provision which still has serious shortcomings that significantly hamper surveillance.

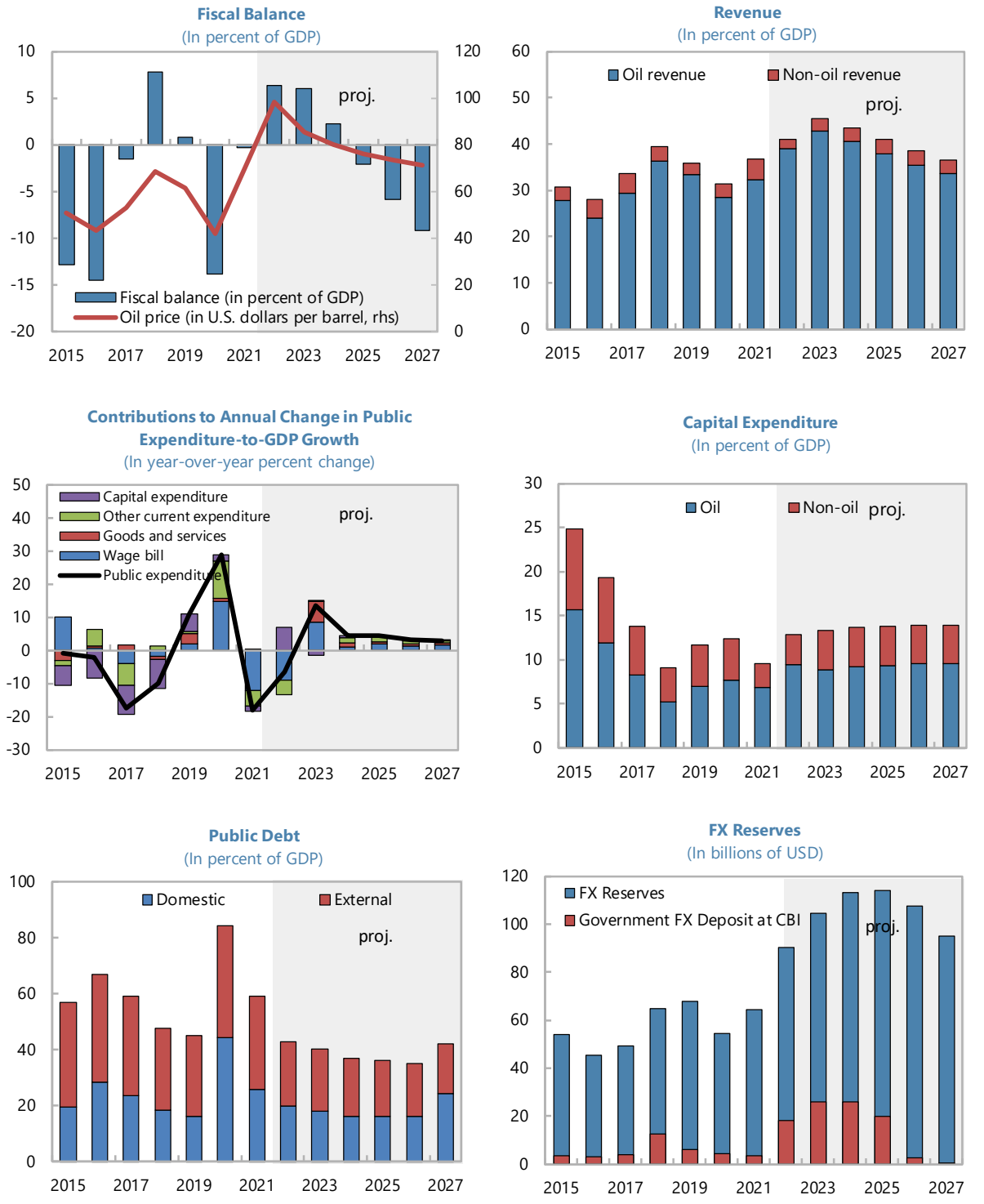
47. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Iraq: Economic Developments and Medium-Term Projections, 2015–27



Sources: Iraqi authorities; IMF staff projections.

Figure 2. Iraq: Fiscal and Debt, 2015–27



Sources: Iraqi authorities; IMF staff projections.

Figure 3. Iraq: Social, Governance, and Labor Market Indicators, 2012–21

Sources: IMF expenditure assessment tool (EAT); World Bank WDI; ILO STATS; World Bank Worldwide Governance Indicators (WGI); and IMF staff calculations.

Table 1. Iraq: Selected Economic and Financial Indicators, 2019–27

				Est.	Projections				
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Economic growth and prices									
Real GDP (percentage change)	5.8	-15.7	7.7	8.1	4.2	3.1	2.6	2.4	2.2
Non-oil real GDP (percentage change)	9.0	-20.2	21.1	3.2	4.2	4.0	3.8	3.6	3.5
GDP deflator (percentage change)	-2.6	-13.5	38.1	22.2	-5.4	-0.7	-0.1	0.6	1.3
GDP per capita (US$)	5,983	4,220	5,021	6,468	6,220	6,205	6,199	6,229	6,283
GDP (in ID trillion)	276.6	201.7	299.8	396.2	390.9	400.1	410.2	422.8	437.6
Non-oil GDP (in ID trillion)	163.5	138.0	163.8	177.5	195.4	212.2	228.6	245.7	264.1
GDP (in US$ billion) 1/	234.0	169.4	206.7	273.2	269.6	275.9	282.9	291.6	301.8
Oil production (mbpd)	4.58	4.00	3.97	4.44	4.63	4.74	4.83	4.91	4.97
Oil exports (mbpd)	3.97	3.43	3.44	3.65	3.88	4.04	4.07	4.09	4.09
Iraq oil export prices (US$ pb) 2/	59.7	38.1	67.4	96.9	83.1	77.8	74.0	71.1	68.8
Consumer price inflation (percentage change; end of period)	0.1	3.2	5.3	4.5	3.7	2.5	2.0	2.0	2.0
Consumer price inflation (percentage change; average)	-0.2	0.6	6.0	5.0	4.1	2.9	2.1	2.0	2.0
National Accounts (in percent of GDP)									
Gross domestic investment	15.1	17.0	14.3	16.8	16.4	16.9	17.1	17.4	17.5
Of which: public	7.0	7.6	6.9	9.4	8.9	9.2	9.4	9.5	9.6
Gross domestic consumption	83.1	91.9	75.4	70.3	75.1	79.0	82.1	84.6	86.8
Of which: public	19.2	24.6	19.3	16.5	21.0	21.9	23.1	23.9	24.9
Gross national savings	15.5	6.1	22.1	28.4	24.6	20.9	17.7	15.0	12.9
Of which: public	7.4	-7.5	5.0	15.1	15.5	12.1	7.7	4.0	0.8
Saving - Investment balance	0.5	-10.9	7.8	11.6	8.1	4.1	0.6	-2.4	-4.6
Public Finance (in percent of GDP)									
Government revenue and grants	35.9	31.3	36.6	41.0	45.4	43.4	40.9	38.5	36.6
Government oil revenue	33.4	28.3	32.3	38.9	42.8	40.6	38.0	35.5	33.5
Government non-oil revenue	2.5	3.0	4.4	2.1	2.6	2.8	2.9	3.0	3.0
Expenditure, of which:	35.0	45.2	37.0	34.7	39.3	41.1	43.0	44.4	45.7
Current expenditure	28.1	37.5	30.1	25.3	30.4	32.0	33.7	34.9	36.1
Capital expenditure	7.0	7.6	6.9	9.4	8.9	9.2	9.4	9.5	9.6
Overall fiscal balance (including grants)	0.8	-13.9	-0.4	6.3	6.1	2.3	-2.1	-5.9	-9.2
Non-oil primary fiscal balance, accrual basis (percent of non-oil GDP)	-44.5	-52.0	-52.1	-63.0	-63.3	-63.3	-63.5	-63.2	-63.1
Adjusted Non-oil primary fiscal balance, accrual basis (excl. KRG, percent of non-oil GDP) 3/	-41.1	-44.1	-42.5	-51.0	-57.7	-56.9	-56.6	-55.9	-66.3
Adjusted non-oil primary expenditure (excl. KRG, percent of non-oil GDP) 4/	45.3	48.4	50.5	55.7	57.5	57.2	57.4	57.0	67.8
Adjusted non-oil primary expenditure (excl. KRG, annual real growth, percent) 4/	10.4	-10.3	16.8	13.8	9.2	4.9	5.8	4.8	25.2
Memorandum items									
Total government debt (in percent of GDP) 5/	45.1	84.3	59.1	42.9	40.3	37.1	36.2	35.1	42.0
Total government debt (in US$ billion) 6/	105.6	117.2	122.2	117.2	108.6	102.3	102.3	102.3	126.7
External government debt (in percent of GDP)	29.1	48.6	33.1	23.0	22.2	21.0	20.0	19.0	17.8
External government debt (in US$ billion)	68.0	67.6	68.5	63.0	59.8	58.0	56.5	55.3	53.8
Monetary indicators (percentage change)									
Growth in reserve money	16.5	13.6	23.9	13.3	9.5	11.6	14.2	15.1	15.7
Growth in broad money	8.4	16.0	16.7	6.6	20.7	15.3	11.7	7.6	1.8
External sector (in percent of GDP)									
Current account	0.5	-10.9	7.8	11.6	8.1	4.1	0.6	-2.4	-4.6
Trade balance	9.8	-3.0	15.6	19.1	14.0	10.2	7.4	4.4	2.0
Exports of goods	38.3	29.6	43.0	50.1	46.6	44.6	42.1	39.6	37.7
Imports of goods	-28.5	-32.6	-27.5	-30.9	-32.6	-34.4	-34.6	-35.2	-35.8
Overall external balance	0.8	-8.2	5.3	10.7	5.4	3.1	0.3	-2.3	-4.2
Gross reserves (in US$ billion)	68.0	54.4	64.2	90.2	104.7	113.2	114.1	107.5	95.0
Total GIR (in months of imports of goods and services)	11.8	9.0	7.1	9.7	10.4	10.7	10.3	9.3	7.9
Exchange rate (dinar per US$; period average)	1,182	1,191	1,450	1,450	1,450	1,450	1,450	1,450	1,450
Real effective exchange rate (percent change, end of period) 7/	-3.6	-10.8	-6.3	...	...	...	...	...	...

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 2021 - 2027.

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, 2019–27

(In trillions of Iraqi dinars; unless otherwise indicated)

				Est.	Projections				
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenues and grants	99.3	63.2	109.9	162.4	177.5	173.7	167.7	162.8	160.0
Revenues	99.3	63.2	109.9	162.4	177.5	173.7	167.7	162.8	160.0
Oil	92.5	57.1	96.7	154.0	167.2	162.6	155.7	150.1	146.7
Crude oil export revenues	91.6	54.9	94.5	152.7	160.9	156.6	149.8	144.3	141.0
Transfers from oil-related public enterprises	0.3	1.5	1.4	0.4	5.2	5.0	4.8	4.7	4.6
Tax on oil company profits	0.5	0.7	0.9	1.0	1.0	1.1	1.1	1.1	1.1
Non-oil	6.8	6.0	13.1	8.4	10.3	11.1	12.1	12.8	13.3
Tax revenues	3.4	4.0	3.7	3.8	4.2	4.6	4.9	5.2	5.6
Direct taxes	1.8	2.6	2.4	2.5	3.2	3.5	3.7	4.0	4.3
Indirect taxes	1.6	1.4	1.3	1.3	1.1	1.1	1.2	1.2	1.3
Non-tax revenues	3.4	2.0	8.7	3.4	5.1	5.4	6.0	6.3	6.4
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	96.9	91.1	111.0	137.3	153.8	164.6	176.4	187.7	200.1
Current expenditures	77.7	75.7	90.3	100.1	119.0	128.0	138.0	147.5	158.2
Salary and pension	51.1	53.4	57.6	58.0	69.5	74.3	80.9	86.2	92.6
Salary	40.6	40.0	42.9	43.5	54.4	57.4	62.2	66.4	71.7
Pensions	10.5	13.4	14.7	14.5	15.1	16.8	18.7	19.8	20.9
Goods and services	10.8	8.6	13.4	18.0	26.2	28.5	30.5	32.6	34.9
Transfers	11.4	9.7	14.9	20.6	20.7	22.9	24.6	26.4	28.4
o/w to SOEs	2.0	1.7	2.0	2.0	2.0	2.2	2.3	2.5	2.6
Interest payments	3.1	2.6	1.5	3.5	2.6	2.3	2.1	2.3	2.3
War reparations [1/]	1.2	1.3	3.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment expenditures	19.2	15.4	20.7	37.2	34.8	36.7	38.4	40.2	41.9
Non-oil investment expenditures	6.1	5.9	12.6	23.5	17.3	18.7	20.2	21.6	23.2
Oil investment expenditures	13.1	9.5	8.1	13.7	17.5	17.9	18.2	18.5	18.8
Fiscal balance	2.3	-28.0	-1.1	25.1	23.7	9.1	-8.7	-24.8	-40.1
Statistical discrepancy	-7.7	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	5.4	26.7	4.2	-25.1	-23.7	-9.1	8.7	24.8	40.1
External financing	1.1	1.4	-5.0	-4.2	-4.6	-2.8	-2.1	-4.8	-1.8
Budget Loans	0.0	2.3	0.0	0.0	0.0	0.0	0.0	-3.1	0.0
International Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	0.0	2.3	0.0	0.0	0.0	0.0	0.0	-3.1	0.0
Eurobond	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Loans	1.0	1.5	0.7	1.5	0.6	0.6	0.6	0.6	0.6
Donor funds for reconstruction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-2.5	-4.5	-5.1	-5.2	-5.1	-3.3	-2.7	-2.4	-2.3
Assets held abroad	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR Holding	0.0	0.0	1.1	1.9	0.0	0.0	0.0	0.0	0.0
Account payables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	2.6	2.1	-0.1	-2.5	0.0	0.0	0.0	0.0	0.0
Domestic financing	4.3	27.6	6.3	-20.9	-19.2	-6.3	10.8	26.6	41.9
Bank financing	3.5	24.8	5.6	-34.4	-15.5	-2.7	14.4	30.2	45.5
CBI	12.0	22.6	6.9	-33.1	-14.2	-1.5	15.3	30.9	44.8
Loans	0.0	22.6	6.9	-11.4	-3.2	-1.5	6.7	6.0	40.6
Deposits	12.0	0.0	0.0	-21.7	-11.0	0.0	8.7	24.8	4.2
Commercial banks	-8.5	2.2	-1.3	-1.3	-1.3	-1.2	-0.9	-0.6	0.7
Loans	-5.5	2.2	-1.3	-1.3	-1.3	-1.2	-0.9	-0.6	0.7
Deposits	-3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-bank financing	0.6	0.0	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Net sale of government financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Account payables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	0.2	2.8	1.0	13.8	-3.4	-3.4	-3.4	-3.4	-3.4
Unidentified financing	0.0	0.0	-3.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items									
Non-oil primary expenditure, accrual basis	79.5	77.7	98.4	120.1	133.7	144.4	156.1	166.9	179.0
Adjusted non-oil primary expenditure, accrual basis (excluding KRG) [2/]	74.1	66.8	82.7	98.8	112.3	121.3	131.1	140.2	179.0
Adjusted non-oil primary expenditure, accrual (annual real growth, percent)	10.4	-10.3	16.8	13.8	9.2	4.9	5.8	4.8	25.2
Domestic inflation (in percent)	-0.2	0.6	6.0	5.0	4.1	2.9	2.1	2.0	2.0
Non-oil primary fiscal balance, accrual basis	-72.7	-71.7	-85.3	-111.9	-123.7	-134.2	-145.2	-155.2	-166.6
Adjusted non-oil primary fiscal balance, accrual basis (excluding KRG) [3/]	-67.2	-60.8	-69.6	-90.6	-102.4	-111.1	-120.2	-128.5	-166.6
Non-oil primary fiscal balance, cash basis [4/]	-70.4	-67.1	-85.2	-100.4	-126.2	-133.3	-144.0	-154.1	-165.8
Adjusted non-oil primary fiscal balance, cash basis (excluding KRG) [3,4/]	-65.0	-56.2	-69.5	-79.1	-104.8	-110.2	-119.0	-127.4	-165.8

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, 2019–27

(In percent of GDP)

				Est.	Projections				
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenues and grants	35.9	31.3	36.6	41.0	45.4	43.4	40.9	38.5	36.6
Revenues	35.9	31.3	36.6	41.0	45.4	43.4	40.9	38.5	36.6
Oil	33.4	28.3	32.3	38.9	42.8	40.6	38.0	35.5	33.5
Crude oil export revenues	33.1	27.2	31.5	38.5	41.2	39.1	36.5	34.1	32.2
Transfers from oil-related public enterprises	0.1	0.7	0.5	0.1	1.3	1.2	1.2	1.1	1.1
Tax on oil company profits	0.2	0.4	0.3	0.2	0.3	0.3	0.3	0.3	0.3
Non-oil	2.5	3.0	4.4	2.1	2.6	2.8	2.9	3.0	3.0
Tax revenues	1.2	2.0	1.2	1.0	1.1	1.1	1.2	1.2	1.3
Direct taxes	0.7	1.3	0.8	0.6	0.8	0.9	0.9	0.9	1.0
Indirect taxes	0.6	0.7	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Non-tax revenues	1.2	1.0	2.9	0.9	1.3	1.3	1.5	1.5	1.5
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	35.0	45.2	37.0	34.7	39.3	41.1	43.0	44.4	45.7
Current expenditures	28.1	37.5	30.1	25.3	30.4	32.0	33.7	34.9	36.1
Salary and pension	18.5	26.5	19.2	14.6	17.8	18.6	19.7	20.4	21.2
Salary	14.7	19.9	14.3	11.0	13.9	14.4	15.2	15.7	16.4
Pensions	3.8	6.6	4.9	3.7	3.9	4.2	4.6	4.7	4.8
Goods and services	3.9	4.3	4.5	4.5	6.7	7.1	7.4	7.7	8.0
Transfers	4.1	4.8	5.0	5.2	5.3	5.7	6.0	6.3	6.5
o/w to SOEs	0.7	0.9	0.7	0.5	0.5	0.5	0.6	0.6	0.6
Interest payments	1.1	1.3	0.5	0.9	0.7	0.6	0.5	0.5	0.5
War reparations [1/]	0.4	0.7	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment expenditures	7.0	7.6	6.9	9.4	8.9	9.2	9.4	9.5	9.6
Non-oil investment expenditures	2.2	2.9	4.2	5.9	4.4	4.7	4.9	5.1	5.3
Oil investment expenditures	4.8	4.7	2.7	3.5	4.5	4.5	4.4	4.4	4.3
Fiscal balance	0.8	-13.9	-0.4	6.3	6.1	2.3	-2.1	-5.9	-9.2
Statistical discrepancy	-2.8	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	1.9	13.2	1.4	-6.3	-6.1	-2.3	2.1	5.9	9.2
External financing	0.4	0.7	-1.7	-1.1	-1.2	-0.7	-0.5	-1.1	-0.4
Budget Loans	0.0	1.1	0.0	0.0	0.0	0.0	0.0	-0.7	0.0
International Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	0.0	1.1	0.0	0.0	0.0	0.0	0.0	-0.7	0.0
Eurobond	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Loans	0.4	0.7	0.2	0.4	0.1	0.1	0.1	0.1	0.1
Donor funds for reconstruction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-0.9	-2.2	-1.7	-1.3	-1.3	-0.8	-0.7	-0.6	-0.5
Assets held abroad	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR Holding	0.0	0.0	0.4	0.5	0.0	0.0	0.0	0.0	0.0
Account payables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Receivables from crude oil exports	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign bank deposits	0.0	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	0.9	1.1	0.0	-0.6	0.0	0.0	0.0	0.0	0.0
Domestic financing	1.5	13.7	2.1	-5.3	-4.9	-1.6	2.6	6.3	9.6
Bank financing	1.2	12.3	1.9	-8.7	-4.0	-0.7	3.5	7.1	10.4
CBI	4.3	11.2	2.3	-8.3	-3.6	-0.4	3.7	7.3	10.2
Loans	0.0	11.2	2.3	-2.9	-0.8	-0.4	1.6	1.4	9.3
Deposits	4.3	0.0	0.0	-5.5	-2.8	0.0	2.1	5.9	1.0
Commercial banks	-3.1	1.1	-0.4	-0.3	-0.3	-0.3	-0.2	-0.1	0.2
Loans	-2.0	1.1	-0.4	-0.3	-0.3	-0.3	-0.2	-0.1	0.2
Deposits	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-bank financing	0.2	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Net sale of government financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Account payables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	0.1	1.4	0.3	3.5	-0.9	-0.8	-0.8	-0.8	-0.8
Unidentified financing	0.0	0.0	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items									
Non-oil primary expenditure, accrual basis (percent of GDP)	28.7	38.5	32.8	30.3	34.2	36.1	38.0	39.5	40.9
Adjusted non-oil primary expenditure, accrual basis (excl. KRG, percent of GDP) [2/]	26.8	33.1	27.6	24.9	28.7	30.3	32.0	33.2	40.9
Non-oil primary fiscal balance, accrual basis (percent of GDP)	-26.3	-35.6	-28.4	-28.2	-31.7	-33.6	-35.4	-36.7	-38.1
Adjusted non-oil primary fiscal balance, accrual basis (excl. KRG, percent of GDP) [3/]	-24.3	-30.2	-23.2	-22.9	-26.2	-27.8	-29.3	-30.4	-38.1
Non-oil primary fiscal balance, cash basis (percent of GDP) [4/]	-25.5	-33.3	-28.4	-25.3	-32.3	-33.3	-35.1	-36.4	-37.9
Adjusted Non-oil primary fiscal balance, cash basis (excluding KRG, percent of GDP) [3,4/]	-23.5	-27.9	-23.2	-20.0	-26.8	-27.5	-29.0	-30.1	-37.9

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, 2019–27

(In percent of non-oil GDP)

	2019	2020	2021	Projections 2022	2023	2024	2025	2026	2027
Revenues and grants	60.7	45.8	64.4	91.2	86.7	78.2	70.1	63.2	58.0
Revenues	60.7	45.8	64.4	91.2	86.7	78.2	70.1	63.2	58.0
Oil	56.5	41.4	59.2	86.1	81.8	72.9	64.7	57.9	52.9
Crude oil export revenues	56.0	39.8	58.0	84.3	80.4	71.6	63.6	56.9	51.7
Transfers from oil-related public enterprises	0.2	1.1	0.7	1.0	0.8	0.7	0.6	0.6	0.8
Tax on oil company profits	0.3	0.5	0.5	0.8	0.6	0.6	0.5	0.5	0.4
Non-oil	4.2	4.4	5.2	5.1	4.9	5.3	5.4	5.3	5.1
Tax revenues	2.1	2.9	2.2	2.1	2.0	2.0	2.0	2.0	2.0
Direct taxes	1.1	1.9	1.4	1.4	1.3	1.3	1.3	1.3	1.3
Indirect taxes	1.0	1.0	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Non-tax revenues	2.1	1.5	3.0	3.0	2.9	3.3	3.4	3.3	3.1
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	59.3	66.0	66.0	73.7	72.7	71.5	70.3	69.4	68.7
Current expenditures	47.5	54.9	53.4	54.6	54.8	54.4	53.9	53.6	53.4
Salary and pension	31.3	38.7	34.0	31.2	34.3	34.0	33.8	33.5	33.3
Salary	24.9	29.0	25.9	24.0	26.3	26.3	26.3	26.3	26.3
Pensions	6.4	9.7	8.1	7.2	8.0	7.8	7.5	7.3	7.1
Goods and services	6.6	6.3	7.8	10.0	9.8	9.7	9.6	9.5	9.5
Transfers	7.0	7.0	9.3	11.7	9.5	9.8	9.8	9.8	9.8
o/w to SOEs	1.2	1.3	1.4	1.3	1.3	1.5	1.5	1.5	1.5
o/w to Households etc.	5.7	5.8	7.9	10.4	8.2	8.3	8.3	8.3	8.3
o/w to Governorates (petrodollar)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest payments	1.9	1.9	0.8	1.7	1.2	1.0	0.8	0.8	0.9
War reparations [1/]	0.7	1.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0
Investment expenditures	11.8	11.2	12.6	19.1	17.9	17.1	16.4	15.8	15.2
Non-oil investment expenditures	3.7	4.3	7.7	10.0	9.4	9.0	8.8	8.6	8.5
Oil investment expenditures	8.0	6.9	4.9	9.1	8.6	8.1	7.6	7.2	6.7
Fiscal balance	1.4	-20.3	-1.5	17.5	14.1	6.8	-0.2	-6.2	-10.7
Statistical discrepancy	-4.7	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	3.3	19.4	2.5	-17.5	-14.1	-6.8	0.2	6.2	10.7
External financing	0.7	1.0	-3.0	-2.9	-2.2	-1.4	-0.9	-1.9	-0.6
Budget Loans	0.0	1.7	0.0	0.0	0.0	0.0	0.0	-1.2	0.0
International Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	0.0	1.7	0.0	0.0	0.0	0.0	0.0	-1.2	0.0
Eurobond	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Loans	0.6	1.1	0.4	0.4	0.3	0.3	0.3	0.3	0.2
Donor funds for reconstruction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.5	-3.3	-3.1	-3.0	-2.5	-1.7	-1.2	-1.0	-0.8
Assets held abroad	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR Holding	0.0	0.0	0.7	1.1	0.0	0.0	0.0	0.0	0.0
Account payables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Receivables from crude oil exports	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign bank deposits	0.0	0.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	1.6	1.6	-0.1	-1.4	0.0	0.0	0.0	0.0	0.0
Domestic financing	2.6	20.0	3.8	-14.6	-11.9	-5.4	1.1	6.9	11.3
Bank financing	2.1	18.0	3.4	-14.2	-10.1	-4.0	1.2	7.0	11.4
CBI	7.3	16.4	4.2	-13.5	-9.5	-3.4	1.7	7.1	11.1
Loans	0.0	16.4	4.2	-8.4	-1.6	-1.4	1.7	7.1	11.1
Deposits	7.3	0.0	0.0	-5.1	-7.9	-2.0	0.0	0.0	0.0
Commercial banks	-5.2	1.6	-0.8	-0.7	-0.6	-0.6	-0.4	-0.2	0.2
Loans	-3.4	1.6	-0.8	-0.7	-0.6	-0.6	-0.4	-0.2	0.2
Deposits	-1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-bank financing	0.4	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Net sale of government financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Account payables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	0.1	2.0	0.6	-0.3	-1.7	-1.3	0.0	0.0	0.0
Unidentified financing	0.0	0.0	-1.0	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)	48.6	56.3	58.8	63.0	62.9	62.5	61.9	61.5	61.0
Adjusted non-oil primary expenditure, accrual basis (excl. KRG, percent of non-oil GDP) [2/]	45.3	48.4	49.4	52.6	52.6	52.3	51.9	51.5	61.0
Non-oil primary fiscal balance, accrual basis (percent of non-oil GDP)	-44.5	-52.0	-53.6	-57.9	-58.3	-57.8	-57.3	-56.8	-56.4
Adjusted non-oil primary fiscal balance, accrual basis (excl. KRG, percent of non-oil GDP) [3/]	-41.1	-44.1	-44.2	-47.5	-47.9	-47.6	-47.2	-46.9	-56.4
Non-oil primary fiscal balance, cash basis (percent of non-oil GDP) [4/]	-43.1	-48.6	-53.6	-59.4	-59.4	-57.2	-56.5	-56.2	-55.9
Adjusted Non-oil primary fiscal balance, cash basis (excl. KRG, percent of non-oil GDP) [3,4/]	-39.7	-40.7	-44.1	-49.0	-49.1	-47.0	-46.4	-46.2	-55.9
Non-oil GDP (ID trillion)	163.5	138.0	163.8	182.8	201.9	219.4	236.3	254.0	273.0

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. In 2014 and 2015, actual transfers were made for only 2 and 5 months, respectively.

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 5. Iraq: Balance of Payments, 2019–27

(In billions of U.S. dollars; unless otherwise indicated)

				Est.	Projections				
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Trade balance	22.9	-5.1	32.2	52.3	37.8	28.2	21.0	12.8	6.0
(In percent of GDP)	9.8	-3.0	15.6	19.1	14.0	10.2	7.4	4.4	2.0
Exports	89.7	50.2	89.0	136.9	125.7	123.1	119.0	115.6	113.9
Crude oil	86.5	47.7	84.6	128.9	117.8	114.6	109.9	106.0	103.7
Other exports	3.2	2.5	4.4	7.9	8.0	8.5	9.1	9.5	10.2
Imports	-66.8	-55.3	-56.8	-84.5	-87.9	-94.9	-98.0	-102.8	-107.9
Private sector imports	-49.0	-43.2	-45.0	-63.7	-69.3	-72.3	-75.8	-80.1	-84.4
Government imports	-17.8	-12.1	-11.8	-20.8	-18.6	-22.6	-22.1	-22.7	-23.5
Services, net	-18.6	-10.0	-10.8	-16.9	-15.1	-16.7	-18.7	-18.8	-19.1
Receipts	7.3	3.8	5.2	6.4	8.6	9.3	10.0	10.8	11.6
Payments	-25.9	-13.8	-16.0	-23.4	-23.7	-26.1	-28.8	-29.6	-30.7
Income, net	-3.4	-3.1	-4.3	-3.7	-1.4	-1.2	-1.7	-2.2	-2.4
Transfers, net	0.3	-0.3	-0.9	-0.1	0.6	0.9	1.1	1.2	1.6
Private, net	0.1	0.0	0.1	0.2	0.4	0.5	0.6	0.7	0.8
Official, net	0.2	-0.3	-1.0	-0.2	0.3	0.4	0.5	0.5	0.8
Current account	1.1	-18.4	16.2	31.6	22.0	11.3	1.6	-7.1	-13.9
(in percent of GDP)	0.5	-10.9	7.8	11.6	8.1	4.1	0.6	-2.4	-4.6
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	5.9	3.7	-1.4	-2.3	-7.5	-2.7	-0.7	0.5	1.3
Direct and portfolio investment (net)	6.7	4.9	-1.5	-0.1	-0.3	1.2	1.7	2.2	2.5
Other capital, net	-0.8	-1.2	0.1	-2.2	-7.1	-3.9	-2.4	-1.7	-1.2
Official, net	4.8	-1.7	1.0	-2.2	-3.1	-1.9	-1.4	-1.2	-1.2
Assets	0.0	0.6	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	4.8	-2.2	2.0	-2.2	-3.1	-1.9	-1.4	-1.2	-1.2
Disbursements [1/]	5.9	1.0	4.5	1.0	0.4	0.4	0.4	0.4	0.4
Amortization	-1.0	-3.2	-2.6	-3.2	-3.5	-2.3	-1.9	-1.6	-1.6
Private, net	-5.6	0.5	-0.9	0.0	-4.0	-2.0	-1.0	-0.5	0.0
Errors and omissions	-5.3	0.9	-3.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.8	-13.9	10.9	29.3	14.5	8.5	0.9	-6.6	-12.6
(in percent of GDP)	0.8	-8.2	5.3	10.7	5.4	3.1	0.3	-2.3	-4.2
Financing	-1.8	13.9	-10.9	-29.3	-14.5	-8.5	-0.9	6.6	12.6
Development Fund for Iraq (increase -) [2/]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross International Reserves (increase -)	-3.3	13.6	-9.8	-26.0	-14.5	-8.5	-0.9	6.6	12.6
Fund credit (repayment)	-0.7	-1.2	-1.0	-0.3	0.0	0.0	0.0	0.0	0.0
Change in arrears (negative = decrease)	2.2	1.5	-0.1	-3.1	0.0	0.0	0.0	0.0	0.0
Change in payables (negative = decrease)	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	0.0	0.0	0.0	0.0	0.0	2.3	2.3
Memorandum items									
GIR (end of period)	68.0	54.4	64.2	90.2	104.7	113.2	114.1	107.5	95.0
GIR (in months of imports of goods and services)	11.8	9.0	7.1	9.7	10.4	10.7	10.3	9.3	7.9
GDP	234.0	169.4	206.7	273.2	269.6	275.9	282.9	291.6	301.8
Of which: Non-oil GDP	138.3	115.9	112.9	122.4	134.7	146.3	157.6	169.5	182.2

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, 2019–27

(In billions of Iraqi dinars; unless otherwise indicated)

				Est.	Projections				
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Net foreign assets	97,798	101,154	115,819	153,792	174,823	187,185	188,505	178,966	160,725
Of which: CBI	76,091	75,223	87,702	126,219	147,250	159,612	160,932	151,393	133,152
Net domestic assets	5,493	18,620	23,918	-4,787	5,085	20,324	43,352	70,591	93,251
Domestic claims	22,712	54,561	59,129	27,425	34,296	45,536	62,563	83,803	100,462
Net claims on general government	-827	26,403	29,599	-4,763	-1,239	6,766	20,692	38,666	51,895
Claims on general government	43,200	68,112	72,562	59,875	55,415	52,715	58,449	63,858	105,186
less: Liabilities to general government	-44,027	-41,709	-42,963	-64,638	-56,654	-45,949	-37,757	-25,192	-53,292
Claims on other sectors	23,539	28,158	29,530	32,188	35,536	38,770	41,871	45,137	48,567
Other Item Net (OIN)	-17,231	-35,941	-35,211	-32,211	-29,211	-25,211	-19,211	-13,211	-7,211
Broad money	103,291	119,775	139,737	149,005	179,908	207,510	231,857	249,557	253,975
Currency outside banks	47,639	59,987	71,526	79,159	84,735	92,764	104,202	118,548	137,188
Transferable deposits	39,132	43,366	48,418	50,662	69,033	83,230	92,593	95,026	84,710
Other deposits	16,520	16,421	19,793	19,184	26,140	31,516	35,062	35,983	32,077
Memorandum items									
Broad money (percentage growth)	8.4	16.0	16.7	6.6	20.7	15.3	11.7	7.6	1.8
Broad money (in percent of GDP)	37.3	59.4	46.6	37.6	46.0	51.9	56.5	59.0	58.0
M2 velocity (based on non-oil GDP)	1.6	1.2	1.2	1.2	1.1	1.0	1.0	1.0	1.0
Credit to the economy (percentage growth)	1.9	19.6	4.9	9.0	10.4	9.1	8.0	7.8	7.6
Credit to the economy (in percent of GDP)	8.5	14.0	9.9	8.1	9.1	9.7	10.2	10.7	11.1
Credit to the private sector (percentage growth)	5.4	18.0	18.5	12.4	10.0	8.6	7.7	7.5	7.5
Credit to the private sector (in percent of GDP)	8.8	14.2	11.4	9.7	10.8	11.4	12.0	12.5	13.0

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

Table 7. Iraq: Central Bank Balance Sheet, 2019–27

(In billions of Iraqi dinars; unless otherwise indicated)

				Est.	Projections				
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Net foreign assets	76,091	75,223	87,702	126,219	147,250	159,612	160,932	151,393	133,152
Foreign assets	80,863	79,497	93,690	131,289	152,319	164,682	166,002	156,463	138,221
Official reserve assets	80,397	78,902	93,122	130,751	151,782	164,144	165,465	155,925	137,684
Gold	5,572	8,487	8,169	11,708	12,293	12,785	13,168	13,564	13,970
Other	74,346	69,807	84,357	118,497	138,942	150,813	151,750	141,815	123,167
SDR holdings and reserve position in the Fund	479	608	597	546	546	546	546	546	546
Other foreign assets	466	595	568	538	538	538	538	538	538
Foreign liabilities	-4,772	-4,274	-5,988	-5,070	-5,070	-5,070	-5,070	-5,070	-5,070
Net domestic assets	2,163	13,639	22,435	-1,446	-10,675	-7,148	13,195	49,051	98,809
Domestic assets	9,843	37,570	48,631	19,644	5,415	3,943	19,285	50,141	94,899
Net claims on general government	7,919	35,335	42,675	9,393	-4,836	-6,309	9,034	39,890	84,648
Claims on general government	16,218	42,660	48,492	36,885	33,705	32,233	38,888	44,922	85,502
Domestic currency deposits	-1,006	-2,332	-854	-854	-854	-854	-854	-854	-854
Foreign currency deposits	-7,294	-4,993	-4,963	-26,639	-37,688	-37,688	-29,000	-4,179	0
Monetary policy instruments 1/	-1,074	-684	-1,105	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000
Other items net	-6,606	-23,247	-25,090	-20,090	-15,090	-10,090	-5,090	-90	4,910
Reserve money	78,253	88,862	110,137	124,773	136,574	152,465	174,127	200,444	231,961
Currency in circulation	51,835	66,031	76,562	87,503	93,846	103,887	118,998	138,629	164,023
Bank reserves	26,418	22,830	33,575	37,270	42,728	48,578	55,129	61,815	67,938
Other liquid liabilities	0	...	...	...	...	...	...	...	...
Memorandum items									
Reserve money (annual growth, in percent)	16.5	13.6	23.9	13.3	9.5	11.6	14.2	15.1	15.7
Currency in circulation (annual growth, in percent)	17.1	27.4	15.9	14.3	7.2	10.7	14.5	16.5	18.3
Gross foreign exchange assets (in millions of U.S. dollars) 2/	68,018	54,415	64,222	90,173	104,677	113,203	114,114	107,535	94,954

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: Selected Financial Sector Indicators for Iraqi Banking System 1/, 2017–22
(Percent)

	2017	2018	2019	2020	2021	2022Q2
Asset Quality						
Regulatory capital to risk-weighted assets	48.1	63.6	53.5	46.5	52.1	42.9
Nonperforming loans net of provisions to capital	14.8	13.3	10.6	19.6	19.3	18.6
Nonperforming loans to total gross loans	14.8	17.5	16.2	21.0	18.5	18.9
Profitability						
Return on assets	1.1	0.6	0.9	1.1	0.7	1.1
Return on equity	7.8	3.7	6.3	7.5	4.8	8.2
Interest margin to gross income	56.1	57.0	59.3	38.9	48.9	50.8
Noninterest expenses to gross income	43.4	59.4	51.3	62.5	59.7	40.1
Liquidity						
Liquid assets to total assets	39.6	41.0	46.3	46.6	47.4	50.3
Liquid assets to short-term liabilities	50.4	51.1	58.2	57.2	59.4	61.4
Customer deposits to total (noninterbank) loans	70.2	74.0	76.8	77.4	86.3	94.0
FX Exposure						
Net open position in foreign exchange to capital	5.2	21.4	34.9	60.8	50.9	54.1
Foreign-currency-denominated loans to total loans	22.2	22.2	21.0	24.3	23.4	26.9
Foreign-currency-denominated liabilities to total liabilities	22.8	24.1	26.9	27.7	27.8	33.0
Sectoral distribution of loans						
To general government	46.1	46.3	49.9	49.6	45.3	45.6
To nonfinancial corporations	14.2	17.6	15.3	16.7	15.8	15.8
To other domestic sectors	37.0	33.7	32.8	31.8	36.4	35.9
To other financial corporations	2.5	2.4	2.0	1.8	2.5	2.7

Sources: National Authorities; and IMF staff calculations

1/ Reported FSIs are subject to significant uncertainity due to lack of core banking systems at SOBs and ommission of non-performing loans to public entities with uncalled government guarantees leading to the overestimation of capital and underestimation of NPLs.

Annex I. Implementation of the 2020 Article IV Recommendations

Key Recommendations	Authorities' Response
Fiscal. Reverse the unsustainable expansion of the wage bill. Reduce inefficient fuel subsidies through an excise tax on petroleum. Implement measures to raise non-oil revenues, including raising progressivity of payroll taxes and eliminating exemption of allowances from taxation.	Partially implemented. A hiring freeze, imposed as part of the 2021 budget, helped to contain the wage bill. However, key measures to raise non-oil revenues and reduce subsidies were not approved by Parliament. Delayed government formation prevented the adoption of a 2022 budget.
Financial stability. Launch international audit of large state-owned banks and advance their restructuring.	Not implemented. International audit continues to await certification of SOB's financial accounts by the Federal Board of Supreme Audit which has not happened since 2014. The authorities revised by-laws for large SOBs which await approval.
Governance. Strengthen risk-based AML/CFT supervision at CBI and align anti-corruption framework with international standards and conventions.	Partially implemented. A new National Integrity and Anti-Corruption Strategy was launched in 2021, and a National Risk Assessment has been completed in 2022. An assessment report on the adequacy of the institutional environment and organization structure for anti-corruption is being prepared along with detailed recommendations to improve controls and oversight.
Social safety nets. Introduce automatic inflation indexation of cash transfer benefits; expand funding to include all eligible households; limit eligibility for the Public Distribution System (PDS) food rationing program to only those in the social security database.	Not implemented. Some of the measures were proposed by the government but did not secure Parliamentary support.
Electricity. Develop a reform strategy to improve cost recovery, reduce arrears, and enhance gas capture.	Not implemented. The authorities are prioritizing improving service coverage in the near term while a comprehensive strategy to reduce losses and improve revenues is lacking.

Annex II. External Sector Assessment

Overall Assessment: *Iraq's external sector position in 2021 was broadly in line with the level implied by fundamentals and desirable policies. The external current account (CA) surplus is projected to gradually decline and turn into a deficit over the medium term, in line with the projected path of oil prices. High sensitivity of the external sector to energy price volatility and domestic fiscal policies underpins key risks to the medium-term outlook.*

Potential Policy Responses: *Continued building of foreign exchange buffers will be important to strengthen resilience to transitory oil price declines and mitigate longer term risks to sustainability associated with the global energy transition. These efforts need to be supported by a prudent fiscal policy, which avoids procyclical boosts to government expenditures and seeks medium-term consolidation, as well as structural reforms aimed at enhancing competitiveness and diversifying the economy.*

Current Account[1]

Background. The CA recorded a surplus of 7.8 of GDP in 2021, a significant improvement from a deficit of 10.9 percent in 2020, with a 5-year average balance (2016-2020) of -3.6 percent of GDP. The oil price rebound was the main driver of the improvement with crude oil and petroleum-related exports rising by 78 percent in 2021. The CA surplus is expected to widen further in 2022 reflecting a further boost to oil revenues from recovering output and price increases, before declining gradually over the medium term in line with the projected path of oil prices. Medium-term uncertainties revolve around oil market conditions, procyclical fiscal spending, geopolitical risks, and the domestic political environment.

Assessment. The EBA-lite assessment for the current account gap in 2021 was 3.4 percent of GDP, reversing from a gap of -4.9 percent in 2020. The assessment of the CA considers the lingering effects of the pandemic on tourism. The policy gap contributions form a large part of the CA gap. However, the regression-based approach underlying the EBA-lite model does not fully account for the characteristics of oil exporters and produces a poor model fit for countries such as Iraq especially under oil price volatility. Staff additionally assessed the current account using two non-regression approaches based on the permanent income hypothesis: (1) An investment needs model, which proposes that resource-rich countries with scarce capital stocks and high investment needs should use part of their resource wealth to finance investment; and (2) a consumption allocation model, which assumes that exhaustible resource exporters should smoothen consumption of resource revenues to satisfy inter-generational financing considerations. Norms are lower for the investment model, indicating the need for higher frontloaded investments taking inefficiencies in public and private investment into account, and higher for the consumption model, indicating the need to save resource wealth to finance per capita annuities for future generations. The results of the models suggest CA gaps of 8.9 percent and -0.9 percent under the investment and consumption models, respectively, although the norm estimated from the investment model is highly sensitive to the choice of the inefficiency parameter. There is significant uncertainty as to what CA norm is appropriate for oil-exporting countries like Iraq given the uncertain long-term future of fossil fuel markets, which puts in doubt the existence of a fixed long-term equilibrium (and thus a CA norm). The energy transition and the global push for net zero suggest that a current account norm ought to be consistent with a fiscal transition path and involve significant precautionary savings (see Annex V).

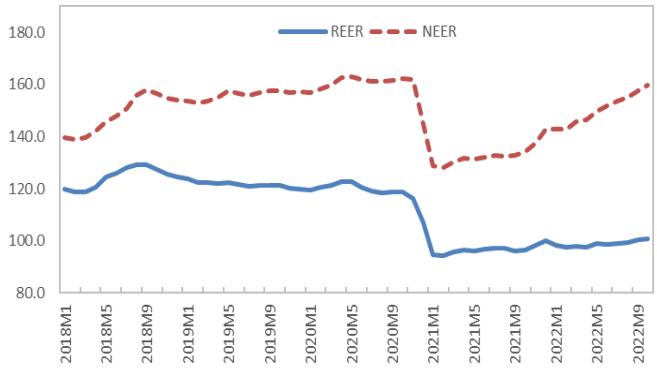
Iraq: EBA-lite Model Results, 2021 (in percent of GDP)				
	CA model	REER model	Investment Needs Model	Consumption Allocation Model
CA-Actual	**7.8**		**7.8**	**7.8**
Cyclical contributions (from model) (-)	0.1			
COVID-19 adjustor (-) 1/	1.09			
Natural disasters and conflicts (-)	0.5			
Adjusted CA	**6.2**			
CA Norm (from model) 2/	**2.8**		**-1.1**	**8.7**
Adjusted CA Norm	**2.8**			
CA Gap	**3.4**	**2.9**	**8.9**	**-0.9**
o/w Relative policy gap	9.1			
Elasticity	-0.30			
REER Gap (in percent)	**-11.3**	**-9.7**		

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. REER and NEER have depreciated by 18.6 percent and 16.8 percent (y-o-y) in 2021, mostly reflecting the dinar devaluation implemented at end-2020. Since then, both REER and NEER have been appreciating owing to the improving terms of trade, the appreciation of the US dollar, and limited pass-through of high global commodity prices into domestic inflation (compared to trading partners) due to subsidies and administrative price controls.

Real and Nominal Effective Exchange Rates
(2010 = 100)



Source: IMF Information Notice System (INS)

Assessment. The REER gap estimated for 2021 is in the range of -11.3 (CA model) to -9.7 (REER model), indicating some REER undervaluation. Notwithstanding the imprecision of estimates from the EBA-lite model for Iraq, the mildly upward trend of the REER in recent months indicates gradual reduction of potential misalignment.

Capital and Financial Accounts: Flows and Policy Measures

Background. Iraq's financial account recorded a small deficit of $1.43 billion (0.7 percent of GDP) in 2021, relative to a surplus of $3.7 billion (2.2 percent of GDP) in 2020. This was driven by larger disinvestment by international oil companies (IOC), which rose from $2.8 billion (1.7 percent of GDP) in 2020 to $6.6 billion (3.2 percent of GDP) in 2021. Outflows through foreign deposits linked to "oil for construction" deal with

China worth $1.025 billion (0.5 percent of GDP) were partly offset by the inflow of SDRs of $2.1 billion (1 percent of GDP). Private flows switched from net inflows of $481 million (0.2 percent of GDP) in 2020 to net outflows of $883 million (0.4 percent of GDP) in 2021.

Assessment. Iraq's capital account remains relatively closed, capital flows are mostly related to the public sector or the private oil sector. High oil prices have reduced the need for external financing and are expected to continue to support the primary income account despite tightening global financial conditions.

FX Intervention and Reserves Level

Background. The Central Bank or Iraq's international reserves increased by $9.8 billion in 2021 driven by a current account surplus, an SDR allocation of $2.273 billion, and the dinar devaluation and fiscal consolidation efforts that reduced the need for monetary financing of the budget. Reserves stood at $64.2 billion (7 months of prospective imports, 66.6 percent of broad money) at end-2021, corresponding to 186 percent of the Fund's Assessing Reserve Adequacy (ARA) metric, above the suggested adequate range of 100-150 percent. Continued fiscal reforms will be essential to limit recourse to central bank financing of the budget in the outer years and to preserve FX buffers.

Assessment. With a favorable medium-term outlook for energy prices, the CBI's foreign reserves are expected to strengthen in the near term, peaking in 2025. Fiscal surpluses in the near term and diminishing debt amortization needs (Annex IV) will reduce strains on the reserve position. However, the projected reduction of reserves in the outer years calls for further fiscal consolidation efforts. The divergence between the ARA metric and the augmented-ARA metric in the medium term indicates the need for additional buffers to account for oil price volatility.

Iraq: Reserve Adequacy Indicators, 2018–27

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Actual	Projections					
Reserves in USD billion	64.7	68.0	54.4	64.2	90.2	104.7	113.2	114.1	107.5	95.0
Reserves in months of imports of goods and services	8.4	11.8	9.0	7.1	9.7	10.4	10.7	10.3	9.3	7.9
Reserves in percent of external debt service coming due	2,430	1,383	1,038	1,100	2,248	3,948	5,225	5,941	5,940	
Reserves in percent of reserve money	113.9	102.7	72.9	84.6	108.3	114.6	111.9	101.6	86.6	69.3
Reserves in percent of broad money	80.3	77.8	54.1	66.6	90.2	86.3	81.3	74.9	65.4	54.0
Reserves in percent of the IMF RA metric 1/	205	208	193	186	195	216	225	220	201	173
Reserves in percent of the augmented IMF RA metric 1/ 2/	112	114	160	171	124	101	96	91	86	75

Sources: Iraq authorities; and Fund 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.

[1] Iraq does not report its net international investment position due to coverage issues, gaps in data, and inconsistencies with the BOP financial account.

Annex III. Public and External Debt Sustainability Analysis

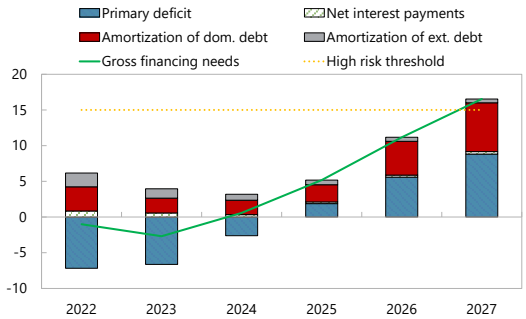
Iraq's public debt has declined sharply from its 2020 peak, with the debt-to-GDP ratio more than halved between 2020-22. This drastic improvement owes to a range of factors including sustained high oil prices and rising domestic inflation. Over the medium term, public debt is projected to continue its improvement before rising slightly in the outer years. However, guarantees and contingent liabilities continue to pose risks to debt sustainability. At the same time, public debt is particularly sensitive to adverse growth and primary balance shocks.[1]

Public Debt Sustainability Analysis

1. Following a 25-percentage point drop in 2021, government debt-to-GDP ratio is set to decline further to 43 percent of GDP in 2022. The 2021 decline in debt ratio was mainly driven by a combination of post-devaluation increase in inflation—which pushed real interest rate down below zero—and a strong economic recovery helped by high oil prices. These factors are expected to continue to remain in force in 2022: growth will remain robust, inflation elevated, and the real interest rate negative. Large fiscal surpluses stemming from record oil revenues have allowed the government to reduce debt in 2022, including by clearing external arrears for energy imports from Iran.[2]

2. At current oil price projections, the declining trend in government debt is expected to reverse in 2027. In the near term, assuming no prefinancing/overfinancing, projected fiscal surpluses will allow the government to continue amortizing its debt without additional borrowing. However, without additional reforms, fiscal surpluses will gradually shrink and turn to deficits with the projected decline in oil prices and a large non-oil primary deficit. Initially, these fiscal deficits can be financed from the fiscal savings (government deposits) in 2025-26, but once these savings are exhausted, deficits will need to be debt-financed.

3. Gross financing needs (GFN) are projected to gradually increase over the medium term to slightly above the high-risk threshold of 15 percent of GDP in 2027. As the fiscal balance gradually deteriorates from a surplus to a deficit, GFN would gradually rise to 16.5 percent of GDP by 2027. Amortization of domestic debt, mostly to the CBI, represents the largest component of financing needs in the medium term and is expected to rise in the outer years as central bank financing (through triangular operation involving commercial banks) is assumed to be one of the main financing



Source: IMF staff calculations.

[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] However, absence of a budget has led to arrears in domestic debt service payment to the CBI in 2022, amounting to ID 14 trillion.

sources in 2025-27.[3] Amortization payments of external debt will average about 1 percent of GDP annually 2022–27, mainly to the IMF, World Bank, Paris-club and non-Paris club restructured debt, bilateral project loans, and Eurobonds.

4. However, guarantees and other contingent liabilities pose significant risks to debt sustainability. Service guarantees, mostly in the electricity sector, were estimated at over $21 billion in 2017 (7.8 percent of the 2022 GDP) but are not included in public debt.[4] A more recent estimate is not available. The state pension fund could trigger additional liabilities.[5] Moreover, there are potentially significant contingent liabilities in the banking sector related to the need to restructure and recapitalize the two largest state-owned banks. Estimating the total size of these needs will require an international audit.

5. Stress tests point to growth and primary balance shocks as the most significant risks to debt sustainability.

- ***Growth shock:*** Lowering real GDP growth by one standard deviation (8.9 percentage points relative to the projection) in 2023 and 2024 would push the debt ratio to reach 66.9 percent of GDP by 2027.
- ***Primary balance shock:*** Worsening of the primary balance by half a standard deviation (4.0 percentage points of GDP) in 2023 and 2024, would gradually raise debt 50.4 percent of GDP by 2025.
- ***Real exchange rate shock:*** A one-time real depreciation of 30 percent in 2023 would increase total public debt to 48.6 percent of GDP in 2027.
- ***Real interest rate shock:*** A one-time, permanent real interest rate increase of 10 percentage points starting in 2023 would have only limited impact on the debt trajectory due to the low debt level, lifting the debt ratio by just one percentage point to 43.1 percent of GDP in 2027.[6]
- ***Combined shocks:*** A combination of these shocks would put debt on a rising trajectory to reach 82.1 percent of GDP by 2027.

[3] Though direct lending is prohibited, the central bank has financed government deficit through discounting treasury bills purchased by state-owned banks in the past, an operation known as triangulation.

[4] 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, comprising $19.4 billion for service payments to independent power producers (IPPs) and $2.3 billion for debt.

[5] See accompanying Selected Issues chapter "Strengthening Sustainability of Public Pension System in Iraq"

[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 AIII.1. Iraq: Public Debt Sustainability Analysis—Baseline Scenario

(In percent of GDP, unless otherwise indicated)

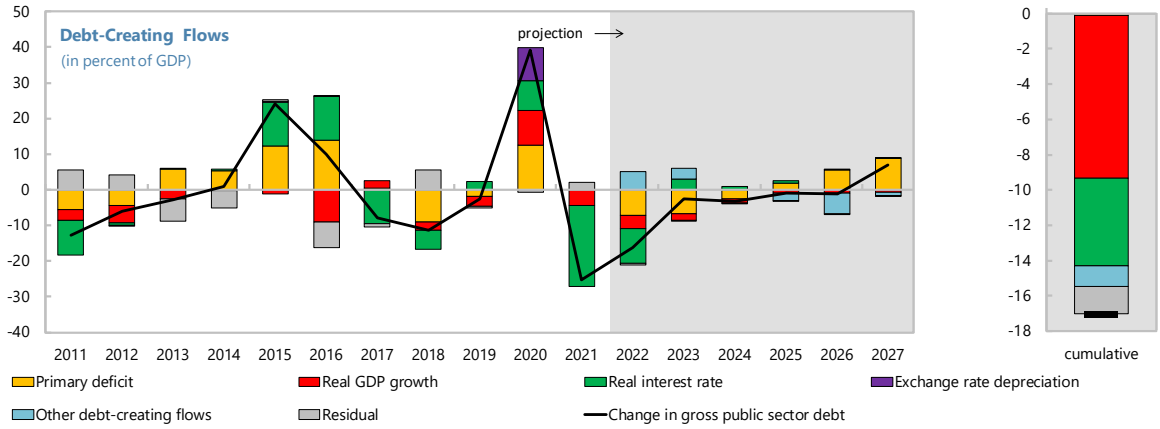
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2011-2019 [2/]	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	46.2	84.3	59.1	42.9	40.3	37.1	36.2	35.1	42.0
Of which: guarantees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public gross financing needs	8.9	17.9	3.0	-1.0	-2.7	0.6	5.2	11.2	16.5
Real GDP growth (in percent)	6.1	-15.7	7.7	8.1	4.2	3.1	2.6	2.4	2.2
Inflation (GDP deflator, in percent)	1.4	-13.5	38.1	22.2	-5.4	-0.7	-0.1	0.6	1.3
Nominal GDP growth (in percent)	7.3	-27.1	48.7	32.2	-1.3	2.4	2.5	3.1	3.5
Effective interest rate (in percent) [4/]	1.6	2.1	0.9	2.0	1.6	1.5	1.4	1.5	1.6

As of December 12, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		504
5Y CDS (bp)		699
Ratings	Foreign	Local
Moody's	Caa1	Caa1
S&Ps	B-	B-
Fitch	B-	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-0.9	39.2	-25.2	-16.2	-2.7	-3.2	-0.9	-1.1	7.0	-17.0	
Identified debt-creating flows	-0.5	39.8	-27.2	-15.7	-2.6	-3.0	-0.6	-0.8	7.2	-15.4	
Primary deficit	1.9	12.6	-0.1	-7.2	-6.6	-2.6	1.9	5.6	8.8	-0.1	-1.6
Primary (noninterest) revenue and grants	38.1	31.3	36.6	41.0	45.3	43.2	40.6	38.2	36.4	244.7	
Primary (noninterest) expenditure	39.9	43.9	36.5	33.8	38.7	40.6	42.5	43.8	45.2	244.6	
Automatic debt dynamics [5/]	-2.3	27.2	-27.1	-13.5	1.3	-0.4	-0.4	-0.6	-0.7	-14.2	
Interest rate/growth differential [6/]	-2.4	18.1	-27.1	-13.5	1.3	-0.4	-0.4	-0.6	-0.7	-14.2	
Of which: real interest rate	0.3	8.3	-22.8	-9.9	3.1	0.8	0.6	0.3	0.1	-5.0	
Of which: real GDP growth	-2.6	9.7	-4.4	-3.6	-1.8	-1.2	-1.0	-0.9	-0.7	-9.2	
Exchange rate depreciation [7/]	0.0	9.2	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	5.0	2.8	0.0	-2.1	-5.9	-1.0	-1.1	
Drawdown of Deposits (+ reduces financing need) (negative)	0.0	0.0	0.0	5.0	2.8	0.0	-2.1	-5.9	-1.0	-1.1	
Residual, including asset changes [8/]	-0.5	-0.7	2.0	-0.5	-0.1	-0.2	-0.3	-0.3	-0.2	-1.6	



Source: IMF staff.

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

2/ Based on available data.

3/ EMBIG.

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

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

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

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

8/ Includes 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.

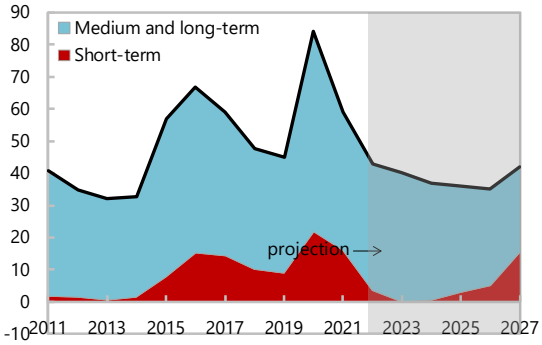
Figure AIII.2. Iraq: Public Debt Sustainability Analysis—Composition of Public Debt and Alternative Scenarios

(In percent of GDP, unless otherwise indicated)

Composition of Public Debt

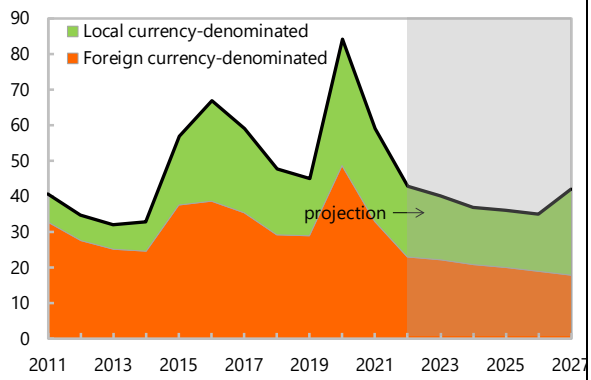
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

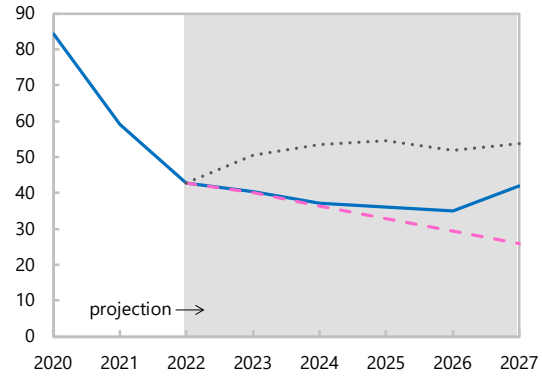


Alternative Scenarios

Baseline — Historical — Constant Primary Balance

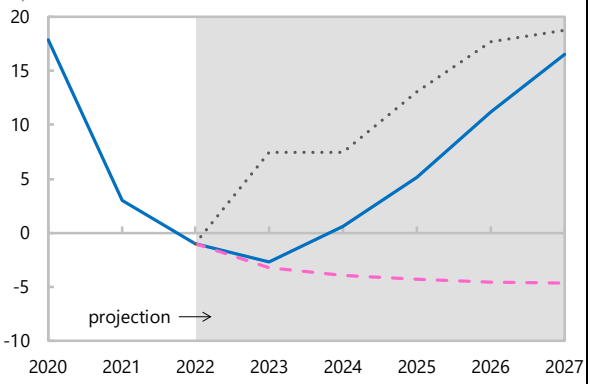
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

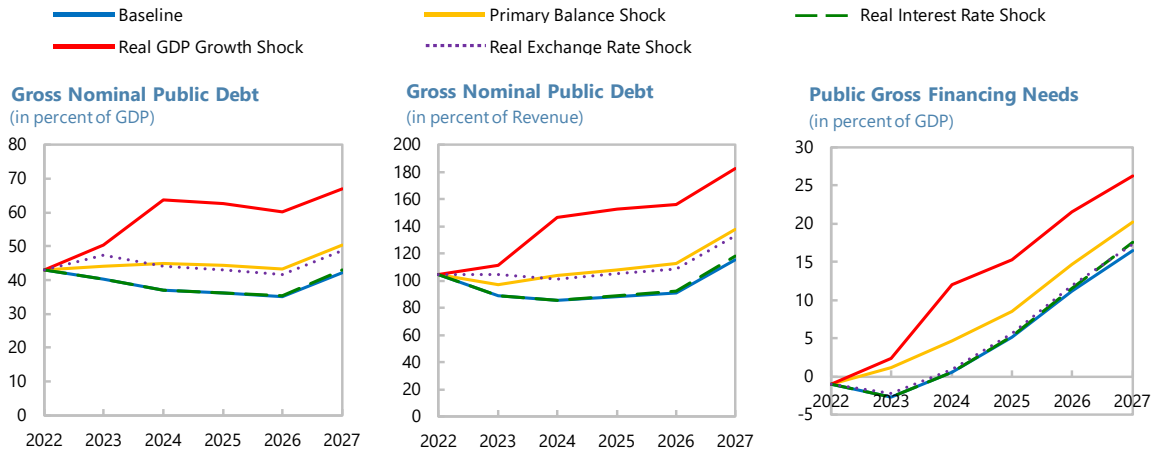
Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	8.1	4.2	3.1	2.6	2.4	2.2
Inflation	22.2	-5.4	-0.7	-0.1	0.6	1.3
Primary Balance	7.2	6.6	2.6	-1.9	-5.6	-8.8
Effective interest rate	2.0	1.6	1.5	1.4	1.5	1.6
Constant Primary Balance Scenario						
Real GDP growth	8.1	4.2	3.1	2.6	2.4	2.2
Inflation	22.2	-5.4	-0.7	-0.1	0.6	1.3
Primary Balance	7.2	7.2	7.2	7.2	7.2	7.2
Effective interest rate	2.0	1.6	1.4	1.4	1.3	1.2

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	8.1	3.9	3.9	3.9	3.9	3.9
Inflation	22.2	-5.4	-0.7	-0.1	0.6	1.3
Primary Balance	7.2	-3.5	-3.5	-3.5	-3.5	-3.5
Effective interest rate	2.0	1.6	2.9	3.6	4.0	4.2

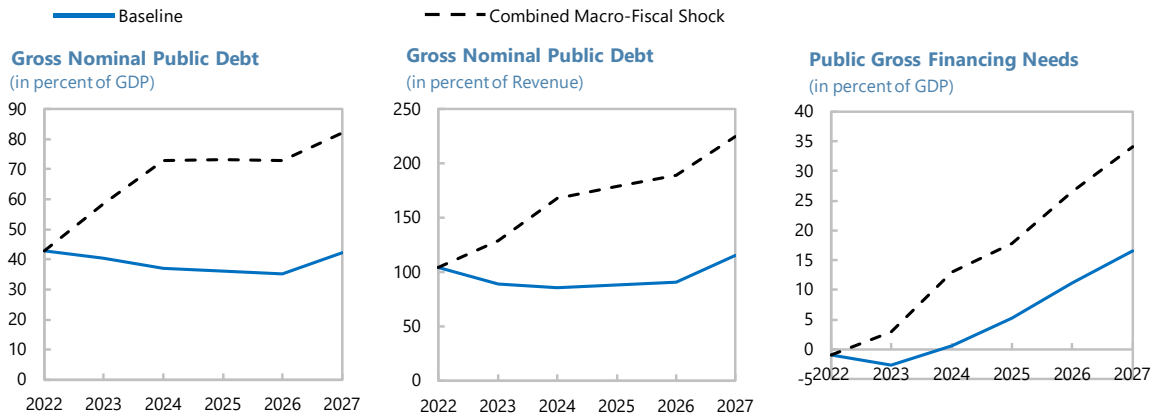
Source: IMF staff.

Figure AIII.3. Iraq: Public Sector Debt Sustainability Analysis—Stress Tests
(In percent of GDP, unless otherwise indicated)

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	8.1	4.2	3.1	2.6	2.4	2.2
Inflation	22.2	-5.4	-0.7	-0.1	0.6	1.3
Primary balance	7.2	2.7	-1.3	-1.9	-5.6	-8.8
Effective interest rate	2.0	1.6	1.8	2.1	2.1	2.1
Real Interest Rate Shock						
Real GDP growth	8.1	4.2	3.1	2.6	2.4	2.2
Inflation	22.2	-5.4	-0.7	-0.1	0.6	1.3
Primary balance	7.2	6.6	2.6	-1.9	-5.6	-8.8
Effective interest rate	2.0	1.6	1.5	1.6	2.5	3.3
Combined Shock						
Real GDP growth	8.1	-4.6	-5.8	2.6	2.4	2.2
Inflation	22.2	-7.6	-2.9	-0.1	0.6	1.3
Primary balance	7.2	2.0	-7.7	-1.9	-5.6	-8.8
Effective interest rate	2.0	1.7	2.7	4.6	5.4	6.1

Real GDP Growth Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	8.1	-4.6	-5.8	2.6	2.4	2.2
Inflation	22.2	-7.6	-2.9	-0.1	0.6	1.3
Primary balance	7.2	2.0	-7.7	-1.9	-5.6	-8.8
Effective interest rate	2.0	1.6	1.9	2.7	2.4	2.4
Real Exchange Rate Shock						
Real GDP growth	8.1	4.2	3.1	2.6	2.4	2.2
Inflation	22.2	-5.4	-0.7	-0.1	0.6	1.3
Primary balance	7.2	6.6	2.6	-1.9	-5.6	-8.8
Effective interest rate	2.0	1.7	1.4	1.3	1.4	1.4

Source: IMF staff.

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

(In percent of GDP, unless otherwise indicated)

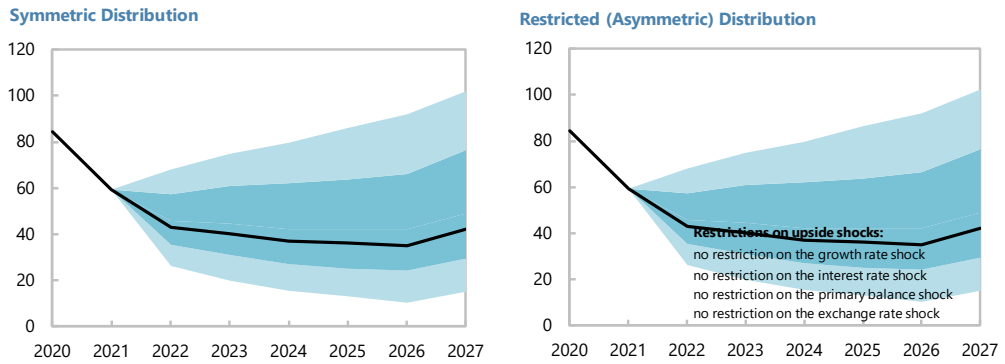
Heat Map

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)

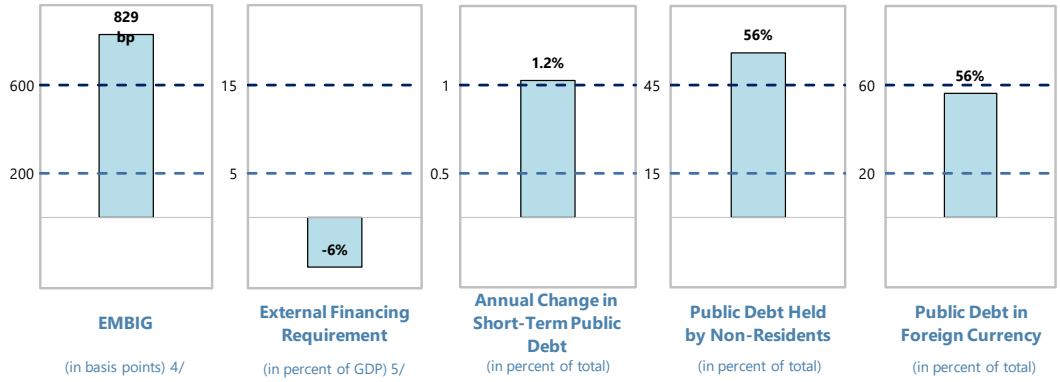
Baseline — Percentiles: 10th-25th, 25th-75th, 75th-90th



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)

iraq — Lower early warning — Upper early warning



Source: IMF staff.

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

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

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

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

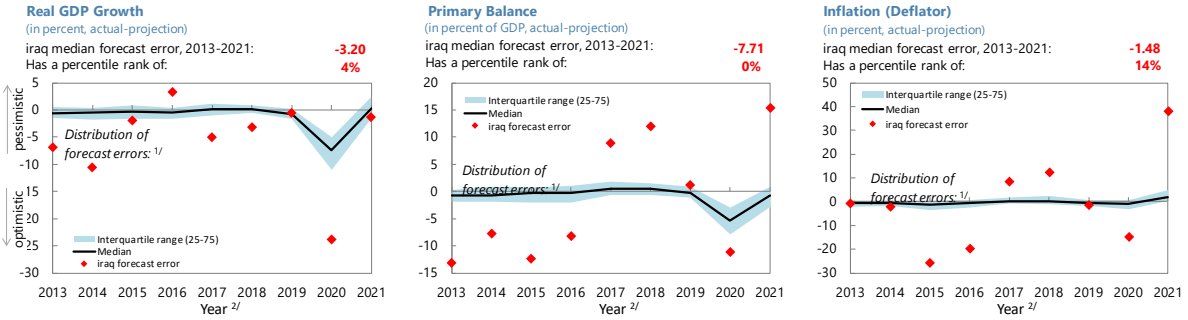
4/ EMBIG, an average over the last 3 months, 13-Sep-22 through 12-Dec-22.

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.

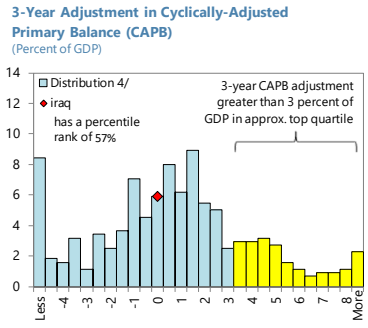
Figure AIII.5. Iraq: Public Debt Sustainability Analysis—Realism of Baseline Assumptions

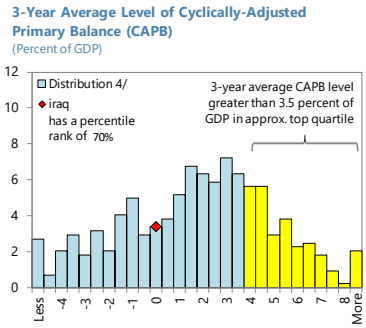
(In percent of GDP, unless otherwise indicated)

Forecast Track Record, versus all countries

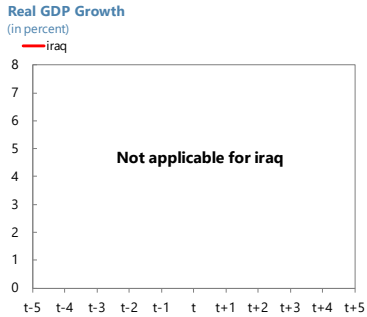


Assessing the Realism of Projected Fiscal Adjustment





Boom-Bust Analysis 3/



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

Table AIII.1. Iraq: External Debt Sustainability Framework, 2017–27

(In percent of GDP, unless otherwise indicated)

	Actual						Projections							
	2017	2018	2019	2020			2021	2022	2023	2024	2025	2026	2027	Debt-stabilizing non-interest current account 6/
Baseline: External debt	35.3	29.4	29.1	48.6			**33.1**	**23.0**	**22.2**	**21.0**	**20.0**	**19.0**	**17.8**	**-1.4**
Change in external debt	-3.2	-6.0	-0.3	19.5			-15.4	-10.1	-0.8	-1.2	-1.0	-1.0	-1.2	
Identified external debt-creating flows (4+8+9)	-2.7	-11.1	-4.2	19.1			-15.8	-13.6	-9.0	-5.2	-1.7	1.2	3.4	
Current account deficit, excluding interest payments	4.4	-4.8	-0.9	10.4			-8.2	-11.8	-8.3	-4.2	-0.7	2.3	4.5	
Deficit in balance of goods and services	3.7	-5.8	-1.8	8.9			-10.3	-13.0	-8.4	-4.2	-0.8	2.1	4.3	
Exports	38.5	43.3	41.5	31.9			45.6	52.4	49.8	48.0	45.6	43.3	41.6	
Imports	42.2	37.5	39.6	40.8			35.2	39.5	41.4	43.8	44.8	45.4	45.9	
Net non-debt creating capital inflows (negative)	-2.5	-1.3	-2.9	-2.9			0.7	0.0	0.1	-0.4	-0.6	-0.8	-0.8	
Automatic debt dynamics 1/	-4.6	-5.0	-0.5	11.6			-8.4	-1.8	-0.8	-0.5	-0.4	-0.4	-0.3	
Contribution from nominal interest rate	0.3	0.4	0.4	0.5			0.4	0.2	0.2	0.1	0.1	0.1	0.1	
Contribution from real GDP growth	1.1	-1.4	-1.7	6.3			-3.1	-2.0	-1.0	-0.7	-0.5	-0.5	-0.4	
Contribution from price and exchange rate changes 2/	-6.1	-4.0	0.8	4.8			-5.7	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-0.4	5.1	3.9	0.4			0.4	3.5	8.2	4.0	0.7	-2.2	-4.5	
External debt-to-exports ratio (in percent)	91.8	67.8	70.1	152.3			72.7	43.9	44.6	43.8	43.8	43.8	42.9	
Gross external financing need (in billions of US dollars) 4/	9.8	-8.8	0.6	22.5			-11.6	-26.3	-18.4	-9.0	0.2	8.7	15.5	
in percent of GDP	5.1	-3.9	0.3	13.3	10-Year	10-Year	-5.6	-9.6	-6.8	-3.2	0.1	3.0	5.1	
Scenario with key variables at their historical averages 5/							**33.1**	**40.9**	**47.5**	**50.3**	**49.1**	**44.6**	**37.2**	**-2.3**
Key Macroeconomic Assumptions Underlying Baseline					Historical Average	Standard Deviation								
Real GDP growth (in percent)	-3.4	4.7	5.8	-15.7	3.9	8.9	7.7	8.1	4.2	3.1	2.6	2.4	2.2	
GDP deflator in US dollars (change in percent)	18.7	12.8	-2.6	-14.2	-1.4	14.5	13.4	22.2	-5.4	-0.7	-0.1	0.6	1.3	
Nominal external interest rate (in percent)	1.0	1.4	1.4	1.2	1.1	0.2	1.0	0.8	0.8	0.6	0.5	0.5	0.4	
Growth of exports (US dollar terms, in percent)	33.3	32.9	-1.4	-44.3	6.6	35.0	74.4	52.1	-6.3	-1.4	-2.6	-2.0	-0.7	
Growth of imports (US dollar terms, in percent)	22.6	5.1	8.8	-25.6	3.4	18.1	5.4	48.3	3.5	8.4	4.8	4.4	4.7	
Current account balance, excluding interest payments	-4.4	4.8	0.9	-10.4	-0.4	6.2	8.2	11.8	8.3	4.2	0.7	-2.3	-4.5	
Net non-debt creating capital inflows	2.5	1.3	2.9	2.9	1.8	1.1	-0.7	0.0	-0.1	0.4	0.6	0.8	0.8	

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).

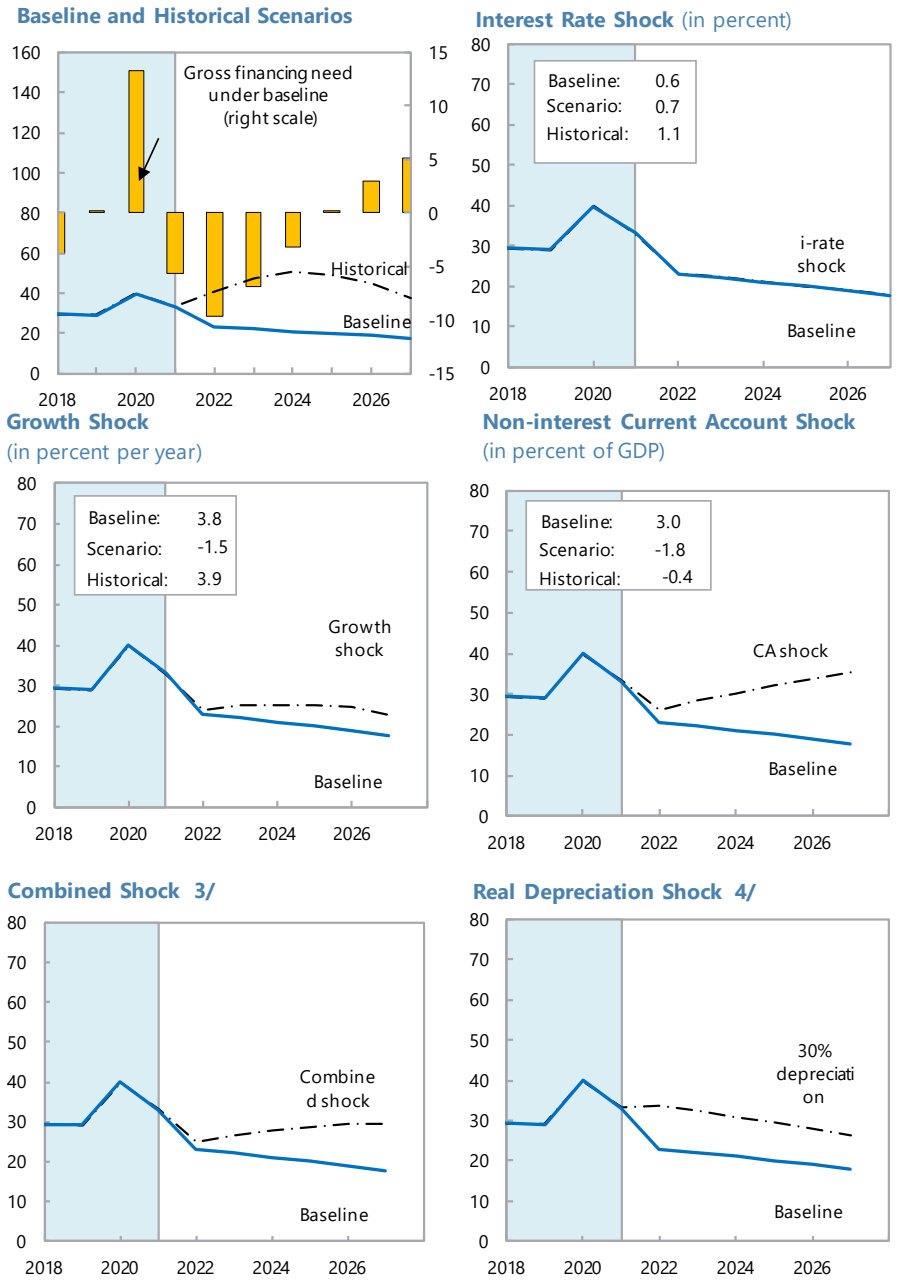
3/ For projection, line includes the impact of price and exchange rate changes.

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



Sources: 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 IV. Risk Assessment Matrix

Source of Risks	Likelihood	Expected Impact on Economy	Policy Response
Global Risks			
Commodity price shocks. A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility.	**High**	**High** A decline in oil prices could put pressure on Iraq's fiscal and external positions, while global food price shocks could affect inflation exacerbating the risks of political instability and social unrest. Heightened oil price uncertainty could discourage new investments in the oil sector constraining future production. On the upside, sustained or higher oil prices could contribute to larger external and fiscal surpluses.	In the short run, continue to build fiscal and external financial buffers. At the same time, accelerate efforts to diversify the economy away from oil and enhance resilience to oil price shocks through wide-ranging fiscal reforms. Strengthen social safety net to better protect the vulnerable.
Intensifying spillovers from Russia's war in Ukraine. Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility.	**High**	**Medium** due to limited direct trade links and a relatively closed capital account. Sanctions against Russian oil companies could affect about a tenth of Iraq's oil production. A rerouting of global oil trade could increase costs.	Solidify macroeconomic stability and strengthen resilience to potential disruptions to oil revenues.
Deepening geo-economic fragmentation and geopolitical tensions. Broadening of conflicts and reduced international cooperation accelerate deglobalization, resulting in a reconfiguration of trade, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial system, and lower potential growth.	**High**	**Medium** Intensification of geopolitical tensions could ignite proxy conflicts in Iraq further deepening political instability and security challenges. Failure to renew Iraq's waiver to import Iranian energy could curtail gas and electricity supply leading to dampened economic activity and rising social discontent. On the upside, conclusion of the Iran nuclear deal could lower tensions and improve sentiment towards Iraq.	Implement structural reforms to create an enabling environment for organic growth. Diversify the country's sources of energy to reduce reliance on gas imports. Improve access to electricity by boosting investments in power-generation capacity and gas capture.
Domestic Risks			
Political uncertainty and social unrest. Political disagreements could further stall important reforms while difficult socio-economic conditions could spark social unrest.	**High**	**High** Failure to implement reforms could aggravate underlying vulnerabilities and social tensions which, in turn, could hurt non-oil growth and lead to policy paralysis or populist policies hindering much-needed reforms.	Build national consensus on reform priorities. Improving public services and addressing corruption will be critical to diffuse social tensions.
New waves of Covid-19.	**Medium**	**Medium** New waves of COVID-19 could dampen economic activity and necessitate lockdowns.	Continue vaccination, strengthen capacity of the health system and the social safety net.
Natural disasters related to climate change. More frequent natural disasters deal severe damage to infrastructure and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium-term growth.	**Medium**	**Medium** More frequent heat waves, droughts, sandstorms and the accompanying salination and desertification could reduce long-term growth potential and lead to significant economic dislocations and social unrest.	Build resilience to climate change. Finalize and publish Iraq's national adaptation plan. Ensure availability of fiscal resources over the medium term for investments in climate adaptation.

Annex V. Embedding the Challenges of Climate Change into Macroeconomic Policies

Climate change poses a multifaceted challenge to Iraq's economy. Rising temperatures and more frequent natural disasters, salination, and desertification threaten habitability of major parts of the country and the livelihoods of millions, particularly in the agriculture sector and risk aggravating Iraq's fragility. At the same time, the accelerating global energy transition and the push for net zero could significantly affect the world's demand for oil—the lynchpin of Iraq's economy. Preparing for these challenges will entail a significant retooling of the fiscal framework while making the space for larger public investments.

Anchoring the Fiscal Framework

1. Fiscal frameworks commonly recommended for resource rich countries usually emphasize the goals of short-term stabilization and long-term intergenerational savings (see IMF 2012). The stabilization goal entails accumulating and maintaining a fiscal buffer in the form of liquid financial assets to allow countercyclical smoothing of government expenditures in response to temporary declines in oil revenues. Once such a buffer has been secured, fiscal frameworks could be anchored by the principle of sharing a country's total resource wealth—a sum of accumulated financial assets and exhaustible resource wealth underground—across generations by preserving its at least a significant portion of it.

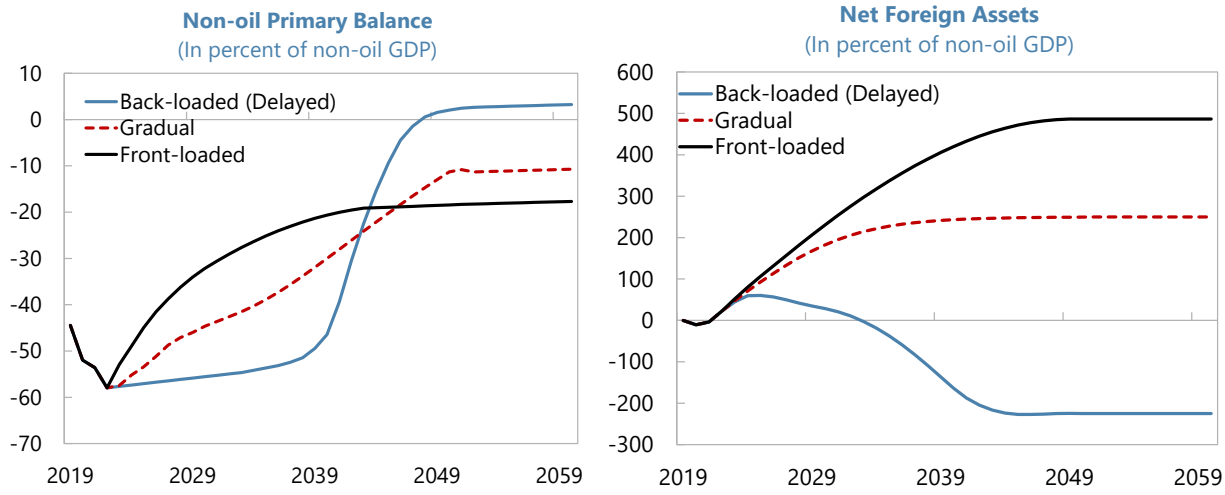
2. Such approaches hinge on assessments of oil wealth, which are increasingly uncertain at a time of a global push for net zero and heightened oil price volatility. According to the UN, more than 70 countries accounting for 75 percent of annual global greenhouse gas emissions have already pledged to reach net zero (NZE) by mid-century. IEA (2021) predicts the global oil demand to shrink by 75 percent to 24 mbd by 2050, and the real oil prices to decline to $25/barrel (in 2019 prices) if these goals were to be achieved. Although energy security concerns could affect the path of such transition, the possibility of severely limited future global demand—and that some of the oil assets could become stranded—makes valuations of oil wealth highly uncertain and fiscal targets based on such valuations less informative.

3. These considerations support the case for anchoring Iraq's long-term fiscal framework by the likely ramifications of the global energy transition. In addition to maintaining a stabilization buffer to withstand transitory oil price shocks, policy makers will need to chart a path for their non-oil fiscal deficits to ensure sustainability as the world moves away from fossil fuels (see IMF 2021). Specifically:

- ***Fiscal buffer for stabilization purposes.*** Staff estimate a fiscal buffer of ID 51 trillion (28 percent of 2022 non-oil GDP) in real terms (ID 59 trillion in nominal terms in 2027) to allow sufficient smoothing of government expenditures and uninterrupted provision of critical public

services over the medium term in response to oil price fluctuations with a 90-percent probability.[1] This buffer can be built up over time as a part of the overall fiscal saving strategy.

Figure AV.1. Iraq: Non-oil Primary Balance and Government's Net Foreign Assets Under Different Policy Scenarios
(In percent of non-oil GDP)



Sources: IMF staff estimates.

- ***Achieving long-term sustainability*** will require a significant reduction of Iraq's non-oil primary fiscal deficit in the coming decades. Scenarios illustrating the size of the associated fiscal challenge in Iraq were constructed at a 30-year horizon (Figure A.V.1).[2] The size of the overall adjustment will depend on its pace. Specifically, a front-loaded effort would allow accumulation of sizable financial savings in the form of net foreign assets (defined as the difference between combined FX reserves of the government and central bank and external debt) which would expand the available fiscal space and hence reduce the total size of adjustment in the long run.[3] By contrast, a significantly backloaded adjustment would preclude such savings (and exhaust

[1] To compute the needed fiscal savings, oil price shocks, estimated as a log AR(1) process, were simulated numerous times for 2023-27. Fiscal balance for each simulation was projected based on an expenditure smoothing rule that gradually adjusts with oil prices (a fiscal balance rule at a reference oil price set equal to a 5-year moving average of past oil prices). The needed fiscal savings was computed as the minimum amount that would avoid full depletion of the buffer over the five-year horizon with a 90-percent probability. In nominal terms, the recommended buffer is projected to rise to ID 59 trillion by 2027. Insuring against larger and/or more persistent oil price shocks would warrant higher savings.

[2] Oil price projections for 2023-27 are based on WEO; oil price and demand projections beyond 2027 are based on IEA's NZE scenario. Consistent with Iraq being a low-cost producer, its market share is assumed to increase by a third so that the overall export volume decreases by two thirds in 2050. After 2050, the oil market is assumed to be in a new equilibrium.

[3] The focus on consolidated net foreign assets is motivated by measuring total financial wealth which is more relevant for inter-generational considerations in resource-rich countries.

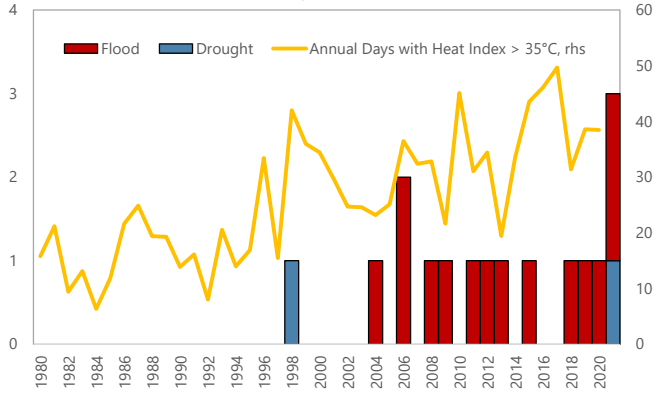
existing buffers) thus requiring a larger reduction of the non-oil primary deficit in the long run. In the illustrative scenario of backloaded adjustment, slow reforms cause net foreign assets to turn negative, and the long-term non-oil primary balance needs to be in surplus to ensure sustainability (a cumulative consolidation of more than 60 percent of non-oil GDP over 27 years).

4. Staff's proposed reform scenario presented above combines short-term stabilization and long-term sustainability considerations. The recommended fiscal rule is consistent with a gradual and even pace of reforms. Over the medium term, it would allow to build over two thirds of the recommended fiscal buffer for stabilization purposes (ID 43 trillion in nominal terms by 2027) while maintaining debt on a declining trajectory. Going forward, it envisages a cumulative consolidation of 47 percent of non-oil GDP over the next 27 years to a long-term equilibrium non-oil primary deficit of 11 percent of the non-oil GDP. Three quarters of this deficit is expected to be financed by the interest income from net foreign assets, which would reach 250 percent of the non-oil GDP by 2050. At the same time, the proposed framework allows for maintaining an elevated level of public investments needed to mitigate and adapt to climate change which, in turn, would be critical for private sector development and fiscal sustainability.

Investing in Climate Adaptation and Mitigation

5. Iraq is one of the most vulnerable countries to climate change. Average temperatures already rose by 1.5 degrees Celsius during the past forty years, and disasters have been frequent and damaging. In 2021, as part of the Paris Agreement, the authorities published their first Nationally Determined Contribution (NDC) document, which outlines the broad contours of their climate adaption and mitigation strategies. Specific plans, cost estimates, and execution procedures are being developed. With the help of the United Nations Environmental and Development Programmes, the authorities are working on a National Adaptation and Mitigation Plans as well as a "Green Paper." The next National Development Strategy is expected to incorporate these plans into the overall development strategy.

Extreme Heat Days and Climate Related Disaster Frequency: 1980-2020

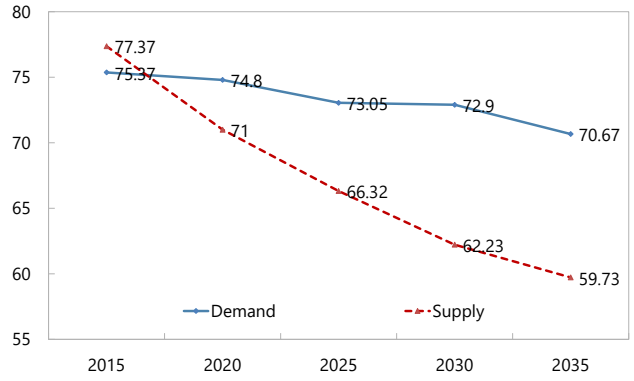


Sources: The Emergency Events Database (EM-DAT) , Centre for Research on the Epidemiology of Disasters (CRED) / UniversitÃ© catholique de Louvain (UCLouvain), Brussels, Belgium, and World Bank Climate Change Knowledge Portal.

6. Water scarcity has been identified as a key climate adaptation challenge. Iraq is already facing a water shortage, and the authorities estimate the demand-supply gap to reach 15 percent by 2035 due to a sustained decline in water supply owing to a variety of factors, including construction of dams in upstream countries, inefficient water transmission and distribution mechanisms, and mismatches between water availability and the water-intensity of crops. Poor wastewater management has led to increased pollution of rivers reaching downstream cities which affects public

health and overall living conditions. Increased water scarcity has forced the government to restrict land area usage for cultivation by 50 percent in 2021-22, leading to a contraction of the agriculture sector and a significant impact on livelihoods of farming communities. Reduced precipitation as a result of climate change could further constrain water supply in the coming years putting a premium on timely policy response.

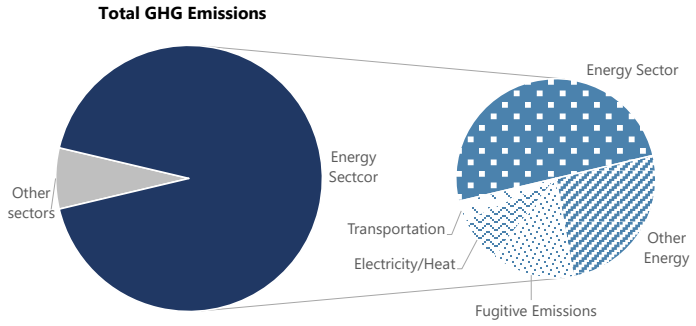
Widening Water Deficit
(In billions of cubic meters)



Source: Iraq Water Strategy.

7. Reducing emissions by the energy sector is another critical challenge. As part of the Paris Agreement, Iraq has made unconditional and conditions commitments to reduce greenhouse gas (GHG) emissions by 1-2 and 13 percent, respectively, relative to the business-as-usual baseline. The bulk (over 90 percent) of Iraq's current GHG emissions originate in the energy sector, and over a half of them represent fugitive emissions due to gas flaring. The authorities have set a goal of ending gas flaring by 2025.

GHG Emissions Composition: 2019



Sources: CAIT.

8. Preliminary estimates of the cost of achieving Iraq's adaptation and mitigation goals point to significant investment needs. For example, the World Bank's Country Climate Development Report (2022) estimates that $233 billion in total investments will be needed by 2040 to address climate adaptation and mitigation challenges while closing the development gap. Bulk of the bill is divided between alleviating water scarcity ($48 billion), capturing gas flaring, and greening the electricity sector ($144 billion). Affording such investments within a fiscal framework aimed at reducing oil dependence will require a significant boost of non-oil revenues and reorientation of expenditures toward greening the economy.

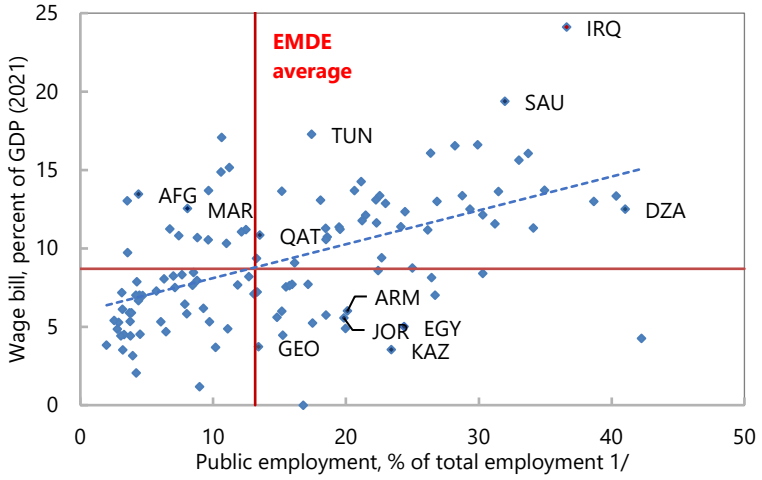
Annex VI. Summary of Country Engagement Strategy

A. Background

1. Forty years of violence and conflict in Iraq have eroded physical and human capital. Two Gulf wars between 1980-91, a decade of severe UN sanctions followed by the 2003 US-led invasion have crippled the country's economy. Since then, Iraq has continued to be mired in conflict, initially driven by the anti-coalition insurgency and ethno-sectarian violence, and later by the war with ISIS, which claimed over 100,000 lives, left five million people internally displaced, and inflicted an estimated $46 billion in damages to infrastructure and property. Although open military hostilities have subsided in recent years, acts of terrorism, periodic clashes among rival paramilitary groups, and killings of political activists remain frequent.

2. Dominant role of the state and dependence on oil have been the hallmarks of Iraq's economic system. Most major industries and large parts of the financial system remain in public ownership. Supported by revenues from a three-fold increase in oil production since 2003, the government has maintained its role as the chief provider of jobs, subsidies, other benefits, and key services. Factors such as insecurity, red tape, underdeveloped infrastructure, and poor access to credit have limited private sector development. As a result, the population has grown dependent on the government, and protests by the unemployed demanding government jobs are commonplace. Unsurprisingly, the government's wage and pension bills consume a significant portion of its revenues making the expenditure rigid and the budget unable to adjust to shocks. At the same time, non-oil fiscal revenue mobilization has been limited, and the government almost entirely depends on oil which provides over 90 precent of budget revenues and FX receipts.[1]

Public Wage Bill and Public Employment in Emerging and Developng Economies



Source: IMF, World Economic Outlook database; country authorities: national labor force surveys; International Labour Organization data; and IMF staff model estimates.

3. Procyclical fiscal policies resulted in chronic vulnerability to oil market downturns, holding back critical spending and buildup of buffers. Additional oil revenues during favorable

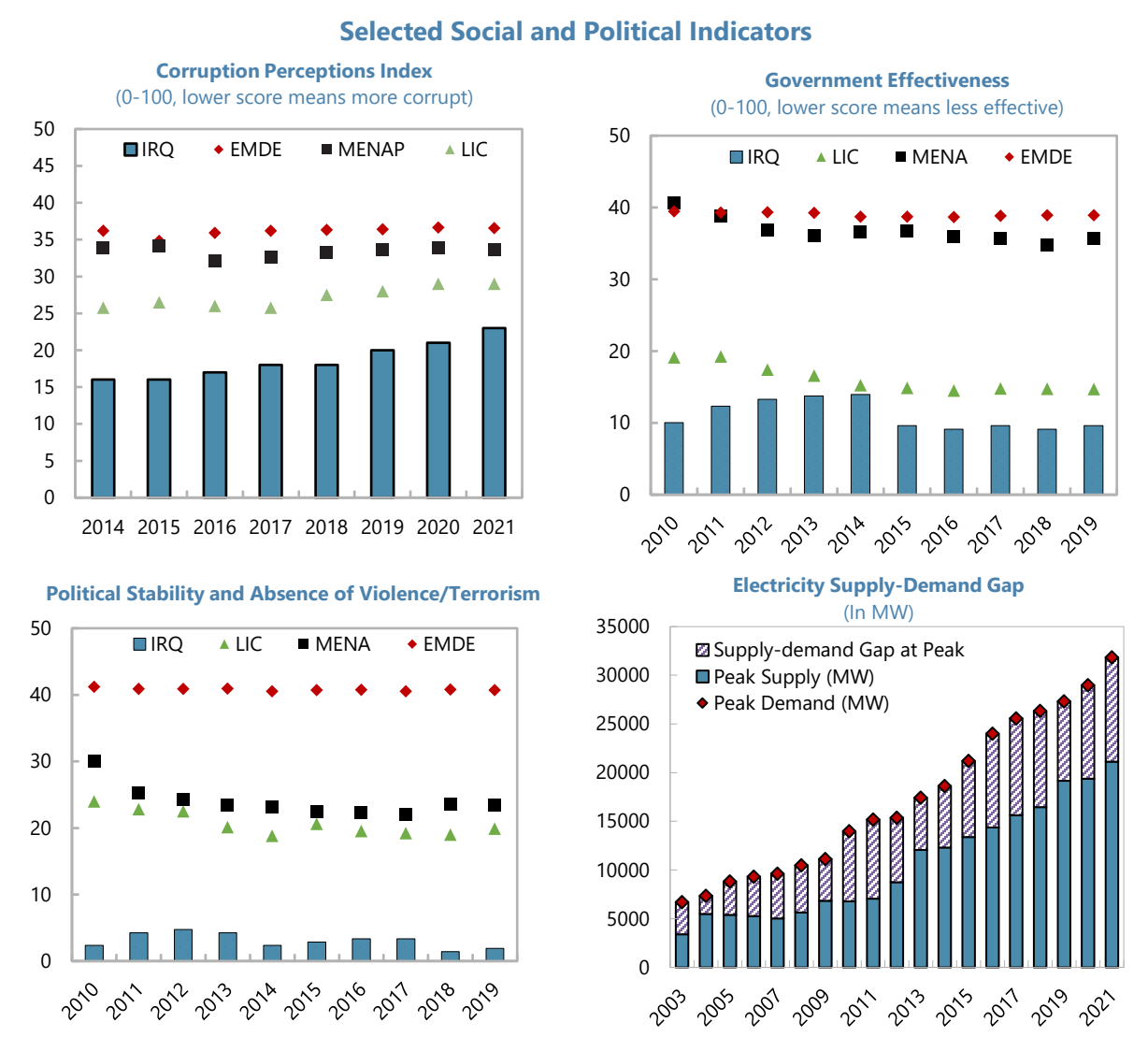
[1] With the world's fifth largest proven crude oil reserves (8 percent of global reserves), Iraq is the second largest OPEC producer behind Saudi Arabia.

market developments were typically spent instead of being saved as buffer, notably on the expansion of the public wage bill, which made public expenditures increasingly rigid and fiscal adjustments politically difficult. Consequently, each major oil price decline led to intense fiscal financing pressures—prompting requests for the Fund support—and drastic cuts to public investments which, in turn, delayed reconstruction and social infrastructure development.

4. A meaningful economic agenda has been elusive. Despite vast oil wealth—Iraq possesses 8 percent of the world's proven crude oil reserves and is the second largest OPEC producer—persistent conflict and political fragmentation have produced poor socio-economic outcomes. Corruption and rent-seeking have been widespread, stunting institutional development. Despite a three-fold increase in oil production since 2003, socioeconomic conditions remain harsh amid rapid population growth and limited job creation. Years of under-investment in critical infrastructure and a large and inefficient civil service have crippled basic public services. Over a quarter of the population lives in poverty, and access to electricity, drinking water, and sanitation in many parts of the country is extremely limited. Progress towards SDGs has been slow—Iraq ranks 113th out of 166 countries globally in terms of SDG achievement—and measures of institutional quality, corruption perception, and trust in the government are similarly unfavorable. Amid rapid population growth, these outcomes have fueled popular discontent and frequent social unrest.

5. Longer-term challenges add to these fragilities. More than half of Iraq's current population is under age 25. The UN projects that the strong population growth will continue and the share of youth (age 15-25) in total population could reach 32 percent by 2100.[2] The increasingly large youth population will continue to put large pressures on the education system and job market. At the same time, Iraq is among the countries most at risk to rising temperatures. More frequent heat waves, droughts, sandstorms and the accompanying salination and desertification threaten to destroy the livelihoods of millions, particularly in the agriculture sector, and make major parts of the country uninhabitable. Water scarcity is a particular concern and could add to regional tensions—about 60 percent of Iraq's water resources originate from outside its borders in Turkey, Iran, and Syria. In addition, the global energy transition could significantly reduce future oil revenues—the lynchpin of Iraq's economy.

[2] See World Bank report "Breaking Out of Fragility: A Country Economic Memorandum for Diversification and Growth in Iraq."



Sources: Transparency International; Worldwide Governance Indicators; and IMF staff calculations.

B. Country Engagement Strategy

6. The Fund has engaged closely with Iraq since 2003. In the wake of the 2003 war, the IMF played an active role in international coordination and reestablishment of key institutions. In 2004, Emergency Post-Conflict Assistance unlocked other donor support and paved the way for a Paris Club debt restructuring agreement. During 2006-08, two successive Stand-by Arrangements (SBA) ensured completion of the Paris Club debt restructuring, helped to restore macroeconomic stability, and created the fiscal space to address urgent social needs. These were followed by another SBA in 2016—in response to the twin shocks of the war with ISIS and the collapse of oil prices in 2014—which was not completed. The COVID-19 crisis in 2020 saw a fresh push for economic transformation and active discussions of a possible Fund arrangement which, however, did not

materialize and the reform momentum slowed amid a political stalemate while oil revenues again reached comfortable levels.

7. Key lessons from past engagement point to the importance of the following in future engagement:

- ***Focusing on incremental but durable changes*** that accumulate over time could be more effective in improving socio-economic outcomes.
- ***Prioritizing capacity development*** efforts by channeling the available resources toward sustaining gradual progress in a limited number of critical areas.
- ***Strengthening broader reform buy-in through active outreach*****,** including by raising public awareness of the Fund's institutional views and messages among various stakeholders.
- ***Maintaining continuous and close engagement at the technical level***, especially when reform momentum cools, will help ensure continuity and allow quick resumption of the policy dialogue.

8. Looking ahead, the Fund will continue to support Iraq through policy advice, capacity development, and—should the circumstances call for it—program engagement. Engagement will focus on strengthening fiscal sustainability and resilience to oil price volatility, improving social protection of vulnerable groups, creating favorable conditions for private sector job creation, and preparing the country for the impact of climate change and the global energy transition. Specifically, engagement will prioritize achieving progress in the following six areas**:**

- ***Improving fiscal policy framework.*** Priorities include improving the budget preparation process and introducing a rules-based fiscal framework, setting medium-term fiscal targets, further enhancing governance and public financial management (PFM) through strengthening control over expenditures, arrears, commitments and government guarantees, improving oil wealth management, and enhancing medium-term budget planning including by embedding policies to achieve the SDGs and adapt to (and mitigate) climate change.
- ***Mobilizing additional non-oil revenue.*** Priorities include strengthening direct, progressive taxation, introducing a sales tax, phasing out fuel subsidies, improving core tax and customs administration and overall governance.
- ***Strengthening the social safety net*** by improving coverage and size of targeted cash transfers while gradually phasing out untargeted food ration cards. In addition, reforming the pension system while balancing principles of equity, financial sustainability, and adequacy will help strengthen public finances, better protect the vulnerable, and encourage private sector job creation.
- ***Modernizing the civil service***. Immediate priorities include strengthening control over the government payroll, reducing scope for "ghost workers" and double dippers, and deploying a sustained attrition-based strategy to reduce the public wage bill and achieve a level playing field

for the private sector in the labor market. Going forward, broader civil service reforms should include a review of the functional classification of positions, the grade structure, and the compensation system, including allowances, to better align government pay with productivity.

- ***Enhancing the financial sector.*** Restructuring the large state-owned banks is the most critical priority to ensure adequate access to finance for private sector development. Immediate priorities include finalizing the revised by-laws for large banks to strengthen their governance, limiting directed lending, and launching international audits to inform restructuring options.

- ***Ensure electricity sector sustainability.*** A comprehensive reform is needed in the medium term to balance the goals of increasing generation capacity, adjusting tariffs, reducing technical losses, and improving collection and cost recovery. These efforts should be supported by measures to improve governance and strengthened monitoring of the electricity sector's costs, arrears, and other liabilities, which (to the extent possible) should be reflected in the government budget.

9. Capacity development and technical assistance should be geared toward supporting the authorities' reform efforts in the six areas. Near-term priorities include strengthening the authorities' FX reserve forecasting capacity to ensure medium-term sustainability, helping implement the new PFM law—including following up on recent TAs on cash management, expenditure control, and tax administration in line with the need to enhance the fiscal policy framework—further strengthening national accounts, price, and external sector statistics, and enhancing the targeting and coverage of social safety net. Medium-term priorities could shift toward modernization of civil service management, calibration of the pension system to ensure adequacy and sustainability, electricity reform, development of a medium-term fiscal framework and fiscal rules, introduction of sales tax, and restructuring of state-owned banks. Areas where there is demand from the authorities and demonstrated absorption capacity, which is limited overall, will take precedence.

10. Leverage the support of and complement the efforts by other international partners. Close coordination and developing new modalities of collaboration will be important to reinforce the policy advice, tackle macro-critical reforms in areas that fall outside of the Fund's core areas of expertise, and increase the impact and coverage of capacity-building efforts. In this context, close engagement through active information-sharing and dialogue with the World Bank and other UN agencies, key bilateral partners, and multilateral forums such as the International Economic Contact Group in the six key reform areas where they are already engaged will remain an important priority.

INTERNATIONAL MONETARY FUND

IRAQ

January 9, 2023

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

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

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FUND RELATIONS

(As of November 30, 2022)

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	1,373.86	82.57
Reserve Tranche Position	289.95	17.43

SDR Department

	SDR Million	Percent of Allocation
Net Cumulative Allocation	2,729.17	100.00
Holdings	13.01	0.48

Outstanding Purchases and Loans: None

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

	Forthcoming				
	2022	2023	2024	2025	2026
Principal					
Charges/Interest		74.85	75.14	75.08	75.11
Total		**74.85**	**75.14**	**75.08**	**75.11**

[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.

There have been no changes to Iraq's exchange system since the last Article IV Consultation. 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 February 8, 2021. The staff report (IMF Country Report No. 21/38) was published on February 11, 2021, and is available on the internet.

Resident Representative

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

Iraq: Technical Assistance, 2015–22		
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)
	April 2021	Customs valuation, rules of origin and tariff classification of goods (METAC)
	August 2021	Audit and verification for Large Taxpayers Department (METAC)
	September 2021	Expenditure control (METAC)
	November 2021	Cash forecasting (METAC)
	December 2021	Audit and verification for industry sectors in Large Taxpayers Department (METAC)
	February 2022	Program and performance budgeting (METAC)
	April 2022	Annual cash forecasting (METAC)
	August 2022	Modernizing the organizational structure of HQ and regional offices (METAC)

Iraq: Technical Assistance, 2015–22 (Continued)		
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)
	January 2020	Basel II & III capital adequacy requirements (METAC)
	June 2020	Basel II & III capital adequacy requirements (METAC)
	July 2021	Risk Management Regulation
	October 2021	Regulation and Supervision of E-Money Institutions
	March 2022	Regulation and Supervision
	August 2022	Capital Framework for Islamic Banks

Iraq: Technical Assistance, 2015–22 (Concluded)		
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
	June 2021	Improvement of annual national accounts
	December 2021	External sector statistics
	December 2021	Government finance statistics
	February 2022	Supply and use tables
	June 2022	Producer Price Index and Residential Property Price Index
	October 2022	Consumer Price Index (METAC)
ICD	March 2022	Macroeconomic Frameworks
	November 2022	

RELATIONS WITH THE WORLD BANK GROUP

(As of December 14, 2022)

The activities of the World Bank Group in Iraq can be found at:

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

STATISTICAL ISSUES

(As of December 14, 2022)

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 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 2021Q2. The national accounts mainly follow the 1968 System of National Accounts (*SNA*). 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. CPI weights are currently from the 2012 Household Social and Economic Survey (HSES). These weights are now outdated, but collection of a new HSES has been delayed. A 2022 METAC mission advised the authorities to evaluate household expenditure data from the supply and use table as a potential source for updating higher level weights. The CSO recently updated the quarterly PPI weights to 2018 with support from the METAC. Work to develop a Residential Property Price Index has also started.
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 Government Finance Statistics (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 produce fiscal statistics based on the Government Finance Statistics Manual 2014. Iraq has resumed reporting 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*, using the standardized report forms (SRFs). However, the timeliness of the SRFs could be improved as the latest submitted data refer to 2022Q1. . Iraq reports data on several series and indicators of the Financial Access Survey, including mobile and internet banking, mobile money, and the two indicators adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals. Iraq doesn't report gender disaggregated data.

Financial Sector Surveillance

The CBI report the FSIs and 7 of the 13 additional FSIs for deposit takers with quarterly frequency for dissemination in the IMF's website. However, the timeliness of the data is hampered by the quality of data sources as the latest data disseminated refer to 2021Q3.

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* 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 due to capacity constraints and the latest data refers to 2014. The latest TA mission on external sector statistics was conducted in December 2021. 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 has serious timeliness and quality shortcomings, due to 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 resources at the border outlets. The Automated System for Customs Data (AYSCUDA) is being implemented, but the pace remains slow. The compilation of external trade statistics has been hampered by a lack of inter-institutional coordination among key data providers.

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.

Export data from the oil sector are received from the Balance of Payments Statistics Division at the CBI. The data on non-oil exports, which amount to the equivalent of 3–5 percent of total

exports, are derived from information on the customs export form. Non-oil export data are provided to the CBI monthly for crosschecking purposes. Transactions related to oil exploration, extraction, and development payments to international oil companies 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 14, 2022)

	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	13/12/2022	14/12/2022	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	09/2022	11/2022	M	M	M, 4–6-week lag
Reserve/Base money	02/2022	11/2022	M	I	I
Broad money	02/2022	11/2022	M	I	I
Central bank balance sheet	02/2022	11/2022	M	I	I
Consolidated balance sheet of the banking system	02/2022	11/2022	M	I	I
Interest rates[2]	NA	NA	NA	NA	NA
Consumer price index	10/2022	12/2022	M	M	M
Revenue, expenditure, balance and composition of financing[3]—general government[4]	NA	NA	NA	NA	NA
Revenue, expenditure, balance and composition of financing[3]—central government	10/2022	12/2022	M	M	M
Stocks of central government and central government-guaranteed debt[5]	2021	03/2022	A	A	N/A
External current account balance	Q2/2022	09/2022	Q	Q	Q,
Exports and imports of goods and services	Q2/2022	09/2022	Q	Q	Q,
GDP/GNP	Q3/2022	11/2022	Q	Q	Q,
Gross external debt	2021	03/2022	A	A	NA
International investment position[6]	NA	NA	NA	NA	NA

[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. Iraq is currently unable to provide fiscal data for the general government due to non-reporting by the Kurdistan Regional Government.

[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).