IMF Country Report No. 16/379

IRAQ

December 2016

FIRST REVIEW OF THE THREE-YEAR STAND-BY ARRANGEMENT AND FINANCING ASSURANCES REVIEW, REQUESTS FOR WAIVERS OF NONOBSERVANCE AND APPLICABILITY OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, AND REPHASING OF THE ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR IRAQ

In the context of this Staff Report, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 5, 2016, following discussions that ended on October 10, 2016, with the officials of Iraq on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on November 21, 2016.
- The Staff Report includes a **Debt Sustainability Analysis** prepared by the staff of the IMF.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Iraq.

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

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

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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IMF Executive Board Completes First Review of Iraq's Stand-By Arrangement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Iraq's three-year Stand-By Arrangement (SBA), which is designed to support Iraq's economic reform program and restore fiscal balance over the medium term. The Board also completed financing assurances review under the SBA. The SDR 3.831 billion arrangement (about US$5.34 billion at the time of approval) was approved in July, 2016 (See Press Release No. 16/321). The Board's approval enables the disbursement of SDR 455 million (about US$617.8 million).

As part of the completion of the first review, the Board also approved Iraq's request for a waiver for the non-observance of the continuous ceiling on new external arrears, and request to modify performance criteria. The Board also approved the request for a waiver of applicability for end of September targets of four performance criteria on the floor on gross international reserves (GIR) of the Central Bank of Iraq (CBI), the ceiling on net domestic assets (NDA) of the CBI, the ceiling on the stock of outstanding arrears to international oil companies and the ceiling on the stock of gross public debt, as well as a request for the rephasing of the arrangement.

Iraq's economic reform program supported by the SBA aims to address the urgent balance of payments need, bring spending in line with lower global oil prices, and ensure debt sustainability. The program also includes measures to protect the poor, strengthen public financial management, enhance financial sector stability, and curb corruption. Iraq will require the support of the international community to implement these policies.

Following the Executive Board's decision, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair of the Board, issued the following statement:

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

“The revised fiscal program in 2016 and the draft budget in 2017 are aligned with the SBA. The composition of the fiscal adjustment should be improved over time by increasing non-oil revenue and reducing current expenditure, including the payroll and pension payments, and reforming the electricity sector, subsidies, and state-owned enterprises, in order to make room for larger but more effective and efficient investment expenditure that is conducive to growth.

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

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

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

INTERNATIONAL MONETARY FUND

IRAQ

November 21, 2016

FIRST REVIEW OF THE THREE-YEAR STAND-BY ARRANGEMENT AND FINANCING ASSURANCES REVIEW, REQUESTS FOR WAIVERS OF NONOBSERVANCE AND APPLICABILITY OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, AND REPHASING OF THE ARRANGEMENT

KEY ISSUES

Context: Iraq is adjusting to a double shock arising from the ISIS attacks and the sharp drop in global oil prices. The conflict has hurt the economy through displacement and impoverishment of millions of people, and destruction of infrastructure and assets. The oil price decline has resulted in a massive reduction in budget revenue, pushing the fiscal deficit to an unsustainable level. The authorities are responding to the crisis with a mix of necessary fiscal adjustment and financing, maintaining their commitment to the exchange rate peg. The peg provides a key nominal anchor in a highly uncertain environment with policy capacity weakened by the war against ISIS.

First Review Under the SBA. To help address this double shock, the authorities requested a Stand-By Arrangement (SBA) that the IMF Executive Board approved in July 2016 with access of SDR 3,831 million (230 percent of quota). Two performance criteria (PCs) at end September appear to have been met on the basis of preliminary unaudited data and there is no data available yet to assess the other PCs. One PC could not be monitored as designed at end-September. One PC at end-June 2016 was missed. One continuous PC was missed. Completion of some structural benchmarks was delayed, but progress is being made for each. Hence, program performance has been mixed but understandings on sufficient corrective actions have been reached to put the program back on track.

Outlook and Risks. With the current outlook for moderately higher oil prices, and assuming that the authorities implement the programmed fiscal consolidation, the budget deficit of 12 percent of GDP in 2015 can be eliminated by 2020, the public debt-to-GDP ratio stabilized by 2018, and the balance of payments brought back into surplus by 2021. But risks remain very high, arising primarily from a further fall in oil prices, setbacks in the war against ISIS, political tensions, and weak administrative capacity.

Key Policy Recommendations:

- Implement the revised 2016 fiscal program and the 2017 budget introduced to parliament in order to set the stage for restoring fiscal balance over the medium term.
- Protect social spending.
- Step up efforts to identify arrears already accumulated and prevent the accumulation of new ones.
- Complete the audits of the state-owned banks that dominate the banking system.

Approved By
Aasim M. Husain and Vitaliy Kramarenko

Discussions took place in Amman during August 25–September 10, 2016, and in Washington, D.C. during October 6–10, 2016. Staff representatives comprised Christian Josz (head), Ritu Basu, Amgad Hegazy (all MCD), Csaba Feher (FAD), Christiane Kneer (SPR), and Marwa Alnasaa (Resident Representative for Iraq based in Amman). Maya Choueiri (Senior Advisor, OED) joined the mission. Cecilia Pineda and Gregory Basile assisted in the preparation of the report.

CONTENTS

FIGURE

TABLES

ANNEX

APPENDICES

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

1. **The economy has been hit hard by the collapse in oil prices and the ISIS attacks**. Although slightly higher since the approval of the SBA,[1] Iraqi oil prices have remained at about one-third of their level in 2013 (Table 1). The ongoing armed conflict with ISIS continues to strain the country's resources and is resulting in new waves of internally displaced people.

A. Background

2. **Iraqi forces are making progress in retaking territories controlled by ISIS.** After regaining control of Ramadi and Fallujah, the Iraqi army and its international partners have started a major military operation to retake control of Mosul, Iraq's second largest city.

3. **The recent offensive to retake Mosul is expected to increase the need for humanitarian assistance.** The war against ISIS has boosted the number of internally displaced persons to 3.3 million and the number of people in need of humanitarian assistance to 10 million (26 percent of the population) including 225,000 Syrian refugees (Memorandum of Economic and Financial Policies—MEFP, ¶3).

4. **The political situation remains unstable**. Since the SBA approval, the Interior Minister resigned in the aftermath of a terrorist attack that claimed the lives of more than 300 people and Parliament withdrew its confidence in the Defense and Finance Ministers. In the face of such political instability, subsequent to the SBA approval, the Prime Minister decided to reverse the tax increase for senior civil servants that the Council of Ministers had approved as a prior action before the approval of the SBA request (¶14).

5. **Relations between the federal government in Baghdad and the Kurdistan Regional Government (KRG) have improved**. Both governments are closely collaborating in the offensive to retake control of Mosul (¶2). In August 2016, the federal government and the KRG agreed to resume oil exports by the North Oil Company through the pipeline linking the KRG to Turkey in an amount of 0.15 million barrels per day (mbpd) and to equally split the export revenue until the end of year. Following that decision, 0.095 mbpd of oil was exported through the pipeline in September. Both governments are still discussing changing the modalities of the budget sharing agreement under which the KRG is supposed to transfer the revenue from the oil extracted in KRG and the federal government makes transfers to the KRG equivalent to 17 percent of non-sovereign spending in the federal budget,[2] which was implemented for two months in 2014 and five months in 2015 (MEFP, ¶5). At the projected level of oil prices, the budget sharing agreement would lead to a net transfer from the federal government to KRG of ID 0.7 trillion ($0.6 billion) in 2016 and ID 1.5 trillion ($1.2 billion) in 2017 (Table 3).

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[1] See Iraq Country Report No. 16/225: First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement-Press Release; Staff Report; and Statement by the Executive Director for Iraq.

[2] Non-sovereign spending is defined as total spending minus expense of the Parliament, the Presidency, the Cabinet, the Ministry of Foreign Affairs, the Ministry of Defense, the Federal Court, several federal government commissions and debt service.

B. Recent Economic Developments

6. Nominal GDP was revised upward by 2.8 percent in 2014 and by 13.6 percent in 2015 (Tables 1–2). Two thirds of that revision is the result of an upward revision of the level of construction activity in line with the evolution of public investment in 2015, and the non-oil GDP deflator, explained by the ISIS occupation since mid-2014.[3] The balance stems from the full incorporation of KRG oil production, which had only been recorded for 2 months in 2014 and 5 months in 2015 in the national accounts previously, in line with the implementation of the budget sharing agreement (¶5).

7. During the first half of 2016, overall real GDP growth was robust, on the back of strong oil production, while non-oil GDP continued to contract as a result of the war with ISIS and the ongoing fiscal consolidation. Oil GDP grew by 29 percent while non-oil GDP contracted by 1 percent y-o-y in the first of 2016. In January–August, 2016, Iraq produced 4.478 million barrels per day (4.2 mbpd programmed in 2016). The federal government exported 3.246 mbpd during January–August, 2016 (3.05 mbpd programmed in 2016), at an average price of $32.9 per barrel ($34.5 programmed in 2016) and KRG exported 0.461 mbpd (0.55 mbpd programmed), at an average price of $29.6 per barrel. Additional export gains have materialized since September due to the resumption of North Oil Company exports through Kurdistan (¶5). In September, the consumer price index (CPI) increased by 1.2 percent y-o-y, but was likely underestimated because the CPI coverage excludes the areas occupied by ISIS, which were inhabited by about 20 percent of the population before the ISIS occupation.

8. During the first half of 2016, the budget execution was much lower than programmed due to difficulties in raising domestic financing (Table 3; and MEFP, ¶11 and Table 4)**.** While oil exports revenue, non-oil tax revenue and the CBI's discounting of Treasury bills were on track, dividends from oil state-owned enterprises (SOEs) and domestic financing of the deficit were much lower than programmed. The oil SOEs transferred only ID 13 billon (compared to ID 1.35 trillion programmed) owing to cash constraints and the authorities could only raise ID 0.6 trillion in bonds (yielding an 8 percent annual interest rate) compared to ID 5.0 trillion programmed. As a consequence, the government prioritized the payment of wages, pensions, goods and services, and debt service. The fiscal deficit (5.7 percent of (annual) GDP) and the non-oil primary deficit (17.6) percent of (annual) non-oil GDP), were much lower than programmed (respectively 10.9 percent of GDP and 26.9 percent of non-oil GDP). While the heavy burden of the fiscal consolidation taken by investment expenditure is clearly suboptimal, it is forced by the lack of financing. Its negative impact on growth is attenuated by the weak quality of such spending owing to severe deficiencies in public financial management, according to the last World Bank Expenditure Review.[4]

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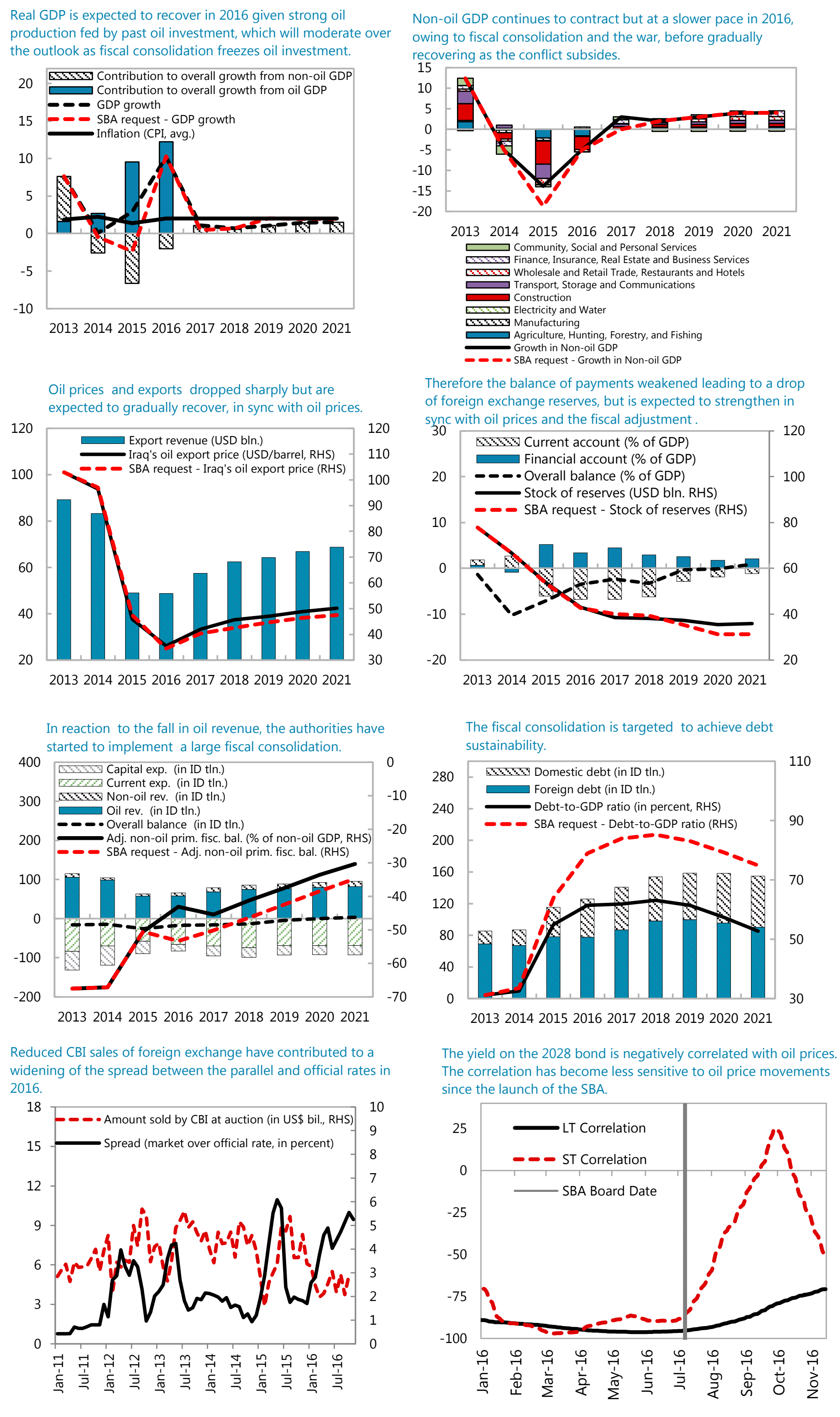
[3] The ISIS occupation caused an increase in transport cost as it closed the shortest trading routes, leading the statistical agency to increase its estimate of the non-oil GDP deflator in 2015 from 6.5 to 14.3 percent.

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

Figure 1. Iraq: Recent Economic Developments and Outlook, 2013–21



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

9. The balance of payments has continued to record a large deficit that was financed by a lower drawdown of official foreign exchange reserves than envisaged under the program (Tables 6-8, and MEFP, Table 1)**.** Gross foreign exchange reserves fell from $53.7 billion at end-2015 (9.5 months of imports of goods and services) to $47.6 billion (7.4 months of imports of goods and services) at the end of June 2016 ($39.3 billion programmed).

10. Broad money contracted by 2.8 percent during the first six months of 2016 reflecting the reduction of official and private foreign exchange assets and the weakness of non-oil economic activity (Tables 7-8).

11. The spread between the official and parallel exchange rates has increased from 3 percent in December 2015 to about 9 percent since May 2016, as the Central Bank of Iraq has reduced its foreign exchange sales on the official market to protect reserves (Figure 1).

12. The yield on Iraqi dollar bonds maturing in 2028 fell from 12 percent in December 2015 and to about 10 percent in November 2016 in sync with the movement of oil prices. The yield was temporarily less sensitive to oil price movements after the launch of the SBA (Figure 1).

13. In anticipation of the increasing need for humanitarian assistance (¶3), donors have pledged aid to United Nations (UN) agencies. On July 21, 2016, at a donor meeting organized by the United States in Washington, donor countries pledged $2.1 billion to help Iraq in four priority areas: humanitarian aid, de-mining, immediate stabilization, and longer-term recovery. The money will help UN specialized agencies to finance their activities in these areas in Iraq in the coming years.

C. Performance Under the Stand-By Arrangement (SBA)

14. Program performance has been mixed but understandings on sufficient corrective actions have been reached to put the program back on track (MEFP, Tables 1–2 and ¶¶16–21). As the review is being conducted after the end-September test date, the end-September performance criteria (PCs) have become the controlling PCs for the first SBA review:

- *The two PCs at end-September appear to have been met on the basis of preliminary unaudited data*: the floor on gross international reserves (GIR) of the CBI and the ceiling on net domestic assets (NDA) of the CBI. However, since audited data is not yet available, the authorities request waivers of applicability for these two PCs pending the audit validation and the other two PCs at end-September. The PC on the non-oil primary balance is not being assessed at end-September (see discussion below), and there is no clear evidence that the other two quantitative PCs will not be met at end-September.

- *The continuous ceiling on new external arrears was missed* during July 1–November 2, 2016 because a debt service payment to Italy of CHF 0.4 million due on June 30 could not go through for technical reasons. Because the problem was solved and the arrear paid on November 2, the government requests a waiver for the non-observance of this PC.

- *Three performance criteria (PC) out of five at end-June were met.*

- The floor on GIR of the CBI, the ceiling on NDA of the CBI, and the ceiling on gross public debt were met.[5]

- The floor on the central government non-oil primary balance could not be monitored because the authorities could not complete a survey of all domestic arrears at end-June and therefore could not measure non-oil primary expenditure on an accrual basis as required under the Technical Memorandum of Understanding (TMU) of June 19, 2016.[6] In retrospect, staff's initial judgment that the strains on statistical and economic policy institutions posed by the ongoing conflict and weaknesses in the provision of reliable data for program monitoring could be overcome, reflected in setting this PC, has proved optimistic. Indeed, the strains are now expected to persist, implying that this PC cannot be assessed in the required degree of accuracy and completeness either for purposes of completing the first review under the arrangement or for future reviews. Hence, the government proposes a change in the definition of the non-oil primary balance to measure expenditure on a cash rather than an accrual basis (TMU, ¶8). Even though the proposed change weakens coverage, the authorities commit to continue the surveys of domestic arrears and produce them in a timelier manner in the future. Should those give any indication of widening difference between expenditure on cash and accrual basis, they will take corrective measures.

- The ceiling on the stock of outstanding arrears to international oil companies (IOCs) was missed by a small margin (2 percent), due to high spending pressures from the war against ISIS and IDPs (¶¶2–3) and the shortfall in domestic financing (¶8). The government is conducting discussion on these arrears with IOCs in good faith and commits to reduce its arrears to IOCs to zero by year-end.[7]

- *One out of two indicative targets (IT) at end-June was met*. The stock of outstanding domestic arrears on non-oil investment was below its ceiling by a large margin (40 percent) because of the correction of mistakes in the initial survey conducted in May 2016. Social spending at end-June remained below its floor by a significant margin (8 percent) because of the cash constraint (¶8). The government commits to catch up with the execution of such spending by year-end.

- *The government reversed one of the prior actions for the approval of the SBA*. Subsequent to program approval, the Prime Minister reversed the tax increase for the two top tiers of the civil service, which was a prior action for the SBA. This reversal reduced non-oil tax revenue by ID 0.3 trillion (0.1 percent of GDP) in 2016. On October 18, 2016, the Council of Ministers increased

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[5] Because documentation of pre-2003 legacy arrears (¶26) is incomplete, that part of the external debt cannot be audited. It is therefore proposed that the definition of gross public debt in the Technical Memorandum of Understanding (TMU) be changed to assess this PC with unaudited data. It is also proposed that audited data excluding the legacy arrears and other arrears for which insufficient information is available become a new SB (¶32).

[6] See Iraq Country Report No. 16/225, TMU, ¶8. The staff judges that this performance criterion as drafted could not be monitored and hence no waiver is required.

[7] Since the end-September PCs have become the controlling PCs for this review, the authorities do not need to request a waiver of non-performance of this PC at end-June.

custom duties (on tobacco, alcohol, cars, air conditioners, televisions and industrial products) to offset at least half of that revenue loss in 2016 (prior action for the first review).

- *Three out of six structural benchmarks (SB) for the first review were met*.

  - The compilation of fiscal reporting tables in line with the 2014 IMF Government Finance Statistics Manual presentation, the approval of a draft Financial Management Law according to World Bank and IMF recommendations, and the adoption of a by-law to set up a mechanism to comply with the relevant UN Security Council resolution on terrorism and terrorism financing were implemented.

  - The three missed SBs— inventory of domestic arrears, audit of the civil service wage payroll, and audit of the pensioner payroll—are more time consuming than anticipated and the authorities propose to postpone them to, respectively, the second (for the SB on inventory) and third (for the SBs on audits) reviews. Although incomplete, the audits of the wage and pensioner payrolls have already identified about 13,130 "multiple dippers," i.e., wage earners or pensioners who illegally cumulated multiple benefits. To make the audit of the civil service wage payroll more manageable, it is proposed to limit it to central government employees. The inventory of domestic arrears was incomplete because many spending units were under heavy work pressure. The government will set up a unit in the Prime Minister's office to strengthen the monitoring of commitments under the SBA in general and follow up with the spending units that have not replied on the inventory of arrears in particular. Although incomplete, the inventory has already identified arrears in an amount of 6.1 percent of GDP at end-June 2016, out of which 1.7 percent of GDP were additional to those identified at the start of the program. External arrears to the IOCs amounted to 2.1 percent of GDP at end-June.

D. Outlook

15. The outlook has improved since the SBA approval because of higher future oil production and prices. (Text Table 1 and Tables 1–8):

- Oil production and exports were revised upwards by respectively 6 and 5 percent to 4.5 and 3.8 mbpd in 2016 and beyond, in light of developments during the first 8 months of 2016 (¶7).

- Iraqi oil export prices[8] were revised upwards by $1 in 2016 and $1.7–2.7 during 2017–21, in line with the latest IMF World Economic Outlook.

[8] During the first 8 months of 2016, Iraqi oil prices from the Basra oil fields were about $7 per barrel lower and the KRG oil prices about $10 per barrel lower than the average petroleum spot price (APSP, the average of the Brent, West Texas and Dubai oil prices). These differentials are assumed to continue through 2021.

Text Table 1. Iraq: Selected Economic Indicators, 2013–21

	2013	2014	2015		2016		2017		2018		2019		2020		2021	
			Est. 1/	Rev. Est.	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.
Real GDP Growth (percent)	7.6	0.1	-2.4	2.9	10.3	10.2	0.5	1.1	0.7	0.7	2.0	1.1	1.9	1.4	2.0	1.5
Non-oil real GDP (percent)	12.4	-5.1	-18.7	-13.9	-5.0	-5.0	0.0	3.0	2.0	2.0	3.0	3.0	4.0	3.9	4.0	4.0
Inflation (eop, y-o-y)	3.1	1.6	2.3	2.3	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Oil production (mbpd)	3.0	3.1	3.5	3.7	4.2	4.5	4.2	4.5	4.2	4.5	4.3	4.5	4.3	4.5	4.4	4.5
Oil exports (mbpd)	2.4	2.6	3.0	3.4	3.6	3.8	3.6	3.8	3.6	3.8	3.6	3.8	3.6	3.8	3.6	3.8
Iraq oil export prices (US$ pb)	102.9	96.5	47.5	45.9	34.5	35.5	40.3	42.0	42.5	45.7	44.6	47.0	46.4	48.8	47.5	50.2
Fiscal balance (percent of GDP)	-5.8	-5.4	-14.3	-12.3	-14.7	-8.2	-8.2	-7.0	-8.7	-5.3	-3.6	-1.7	-1.8	0.1	-0.6	1.1
Non-oil primary fiscal balance (percent of non-oil GDP)	-67.6	-58.6	-51.6	-45.0	-53.3	-43.1	-50.2	-45.4	-46.4	-41.2	-42.5	-37.6	-38.5	-33.6	-34.8	-30.4
Adjusted non-oil primary fiscal balance (percent of non-oil GDP) 2/	-67.6	-67.0	-53.6	-46.8	-53.3	-43.1	-50.2	-45.4	-46.4	-41.2	-42.5	-37.6	-38.5	-33.6	-34.8	-30.4
Adjusted non-oil primary expenditure (annual real growth, percent) 2/	17.2	-9.6	-30.1	-30.5	-1.2	-6.8	-2.6	13.2	-2.6	-4.3	-2.5	-2.9	-2.2	-3.4	-2.3	-2.2
Total government debt (percent of GDP)	31.2	32.6	63.9	54.9	79.0	61.3	81.1	61.9	85.2	63.1	83.1	61.3	79.3	57.3	74.9	52.6
Current account balance (percent of GDP)	1.1	2.7	-6.4	-6.1	-11.0	-6.8	-6.4	-6.8	-8.5	-6.2	-4.5	-2.9	-3.3	-1.9	-1.3	-1.2
Gross international reserves (US$ billion)	77.8	66.7	53.4	53.7	42.7	43.0	40.1	38.5	39.3	38.1	35.4	37.3	31.5	35.5	31.6	35.9
Gross international reserves (months of imports of goods and services)	10.8	10.9	9.9	9.6	7.8	6.7	7.0	5.9	6.7	5.8	5.9	5.6	5.1	5.2	5.0	5.2
Financing gap (US$ billion) 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.5	6.5	0.6	0.6	0.0	0.0	0.0	0.0
Sensitivity of financing gap per $1 of oil price change (in $ billion)	0.0	0.0	0.0	0.0	0.7	0.7 3/	1.3	1.4	1.3	1.4	1.3	1.4	1.3	1.4	1.3	1.4

Sources: Iraqi authorities; and Fund staff estimates.

1/ IMF Country Report No. 16/225. Iraq: Staff Report for the First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement; with the financing gap path modified to reflect unindentified financing only, upon the approval of the three-year SBA.
2/ Adjusted to account for a full year estimate of federal government transfers to the Kurdistan Regional Government in 2014 and 2015, for which actual transfers were made for only 2 and 5 months, respectively.
3/ Half year effects.
4/ Only unidentified financing.

- With this upward revision in oil production and exports, the implementation of the fiscal consolidation under the SBA should result in a slightly faster elimination of the fiscal deficit and reduction of the current account deficit than projected in the SBA request.

- In addition, the upward revision of nominal GDP for 2014 and 2015 implies a higher path for future years (¶6).

- Overall real GDP growth projections remain close to the SBA request, with close to 10 percent growth in 2016 still driven by oil production, and low growth after that. Oil production is still projected to plateau at the 2016 level, since putting oil production on an increasing path would require a much higher oil investment expenditure that the authorities cannot afford at the projected level of oil prices. In 2017, non-oil growth is expected to pick up somewhat faster than in the SBA request, as some of the external financing initially programmed at the end of 2016 will only come during the first quarter of 2017(¶¶20, 21, and 31).[9] Non-oil growth is projected to gradually return to half of its pre-2014 trend in the medium term, as progress is made in the war against ISIS.

- The stronger oil sector outlook and GDP data revisions should improve the paths of total public debt and official foreign exchange reserves. Public debt should peak at 63 percent of GDP in 2018 (85 percent of GDP in 2018 in the SBA request) declining to 53 percent in 2021 (75 percent in the SBA request). GIR should bottom out at $35.5 billion (5.2 months of imports of goods and services) in 2020, compared to $31.5 billion (5.1 months of imports of goods and services) in the SBA request, which would still be broadly adequate (Table 12).

[9] Since 2013, the average fiscal multiplier, measured by the ratio of real non-oil GDP growth to real non-oil primary expenditure, has been 0.59 (Table 1). In 2017, non-oil GDP growth relies on a more conservative multiplier.

16. The outlook is subject mainly to downside risks. On the one hand, setbacks in the war against ISIS and/or worsening of the security situation in the south of the country could weaken growth, public finances and the balance of payments. A further decline in oil prices or a shortfall in projected financing or in oil production would necessitate larger indirect monetary financing and faster drawdown of official foreign exchange reserves. On the other hand, an increase in oil prices would increase oil revenue (by $1.4 billion annually for every $1 per barrel increase, Text Table 1).

ECONOMIC POLICIES TO ADDRESS THE CRISIS

In order to lay the ground for the necessary fiscal adjustment in the medium term, the authorities will implement a tight fiscal policy both in 2016 and 2017, while maintaining their commitment to the exchange rate peg and protecting social spending, i.e. spending on health and education, food and agricultural subsidies, and transfers to internally displaced people and refugees. They will also take steps to strengthen public financial management as well as financial sector stability and development.

A. Managing External Pressures

17. The authorities remain committed to maintaining the Iraqi Dinar's peg to the U.S. dollar (MEFP, ¶23). The peg provides a key nominal anchor in a highly uncertain environment with policy capacity weakened by the conflict with ISIS. To analyze the persistence of spread between official and parallel market rate (¶11) and make recommendations to reduce it, the CBI has requested technical assistance from the IMF Monetary and Capital Markets department.

18. The authorities are gradually removing remaining exchange restrictions and a multiple currency practice (MEFP, ¶24). A move towards acceptance of the obligations under Article VIII of the IMF's Articles of Agreement will send a positive signal to the investor community. As a first step, the CBI made the weekly limits on the purchase of cash at the weekly foreign currency auctions indicative, by announcing that the CBI will directly meet any documented, bona fide need in excess of limits, or that banks may access foreign exchange in excess of the weekly limit to meet client demand based on appropriate documentation. As a second step, the CBI will issue clarifying implementing regulations and comprehensive instructions, to remove the limitation on transfer of investment proceeds that gives rise to an exchange restriction (SB, MEFP Table 2).

B. Implementing Fiscal Consolidation to Achieve Debt Sustainability

19. In order to maintain macroeconomic stability, the government will continue to implement a large fiscal consolidation to bring spending in line with the lower oil revenue stream (MEFP, ¶¶25-27; Text Table 2 and Tables 3–5). This will require: (i) a sizable further reduction in the adjusted non-oil primary balance (PC, MEFP, Table 1), of about 9 percent of non-oil GDP over 2016–19; and (ii) a large increase in mostly domestic but also external financing over the short run that will remain compatible with debt sustainability in the medium run. The ongoing fiscal consolidation in reaction to cash constraints is bringing the non-oil primary balance closer to a level aligned with sustainable public spending under the permanent income hypothesis (PIH).[10] In order to minimize the impact of the fiscal consolidation on the population, the government will protect social spending, i.e., spending on health and education, transfers in support of the social safety net and assistance for internally displaced persons and refugees (MEFP, IT, Table 2).

20. In 2016, the government will implement a fiscal program that is significantly more restrictive than the fiscal program at the time of the SBA request because of shortfalls in domestic and external financing (MEFP, ¶29–30, Text Table 2, and Tables 3–5). A review of budget execution indicated that the government can expect ID 2.0 trillion ($1.7 billion) more revenue than projected at the time of the SBA approval owing mostly to an upward revision of oil revenue (¶15). Unfortunately, the government will also collect ID 9.3 trillion ($7.8 billion) less in financing mainly because of the inability to raise more than ID 0.6 trillion ($0.5 billion) with the issuance of domestic bonds compared to ID 5 trillion ($4.2 billion) initially programmed (¶8), but also because of the delay to 2017 of external financing originally planned for 2016 ($1.4 billion in project financing, $1 billion US guaranteed bond, $1 billion Eurobond planned following the former, and $0.6 billion of IMF financing, ¶31). Therefore, the acting Minister of Finance will reduce total spending by 8 percent or ID 7.2 trillion in 2016 compared to the level programmed at the SBA approval, out of which ID 5.4 trillion will be allocated to investment spending and ID 1.8 trillion to current spending, and communicate that decision to the ministries concerned (PA for the first review, Table 2). These cuts will still allow for a sizeable increase of spending during the second semester (+42 percent compared to the first semester) given the low level of budget execution during the first semester (¶8). Consequently, the authorities request a downward revision of the ceiling of the non-oil primary deficit and changes to the gross international reserves of the CBI, the net domestic assets of the CBI, and the gross public debt for end-December 2016 (proposed revised PCs, Table 1).

[10] Under the PIH, with the present path of oil prices, the "sustainable" level of the non-oil primary deficit—the level that would permit accumulation of sufficient savings over the long term such that the financial yield from the savings could finance a constant level of public expenditure after 35 years—is 30 percent of non-oil GDP, implying total adjustment of 17 percentage points from the 2015 level.

Text Table 2. Iraq: Summary of Central Government Fiscal Accounts, 2013–21

(In trillions of Iraqi dinars; unless otherwise indicated)

	2013	2014	2015		2016				2017			2018		2019		2020		2021	
			Est.[1/]	Rev. Est.	H1 Est.	Prog.[1/] (a)	Rev. Prog. (b)	(b)-(a)	Prog.[1/]	Rev. Prog. (c)	(c)-(b)	Proj.[1/]	Rev. Proj.	Proj.[1/]	Rev. Proj.	Proj.[1/]	Rev. Proj.	Proj.[1/]	Rev. Proj.
Revenues and grants	115	104	63	63	22	64	66	2	74	79	13	78	86	83	88	87	92	90	96
Oil revenue	106	99	58	58	19	57	58	1	66	69	11	70	75	74	77	77	80	79	82
Crude oil export revenues	104	97	57	57	19	54	58	4	63	68	10	66	74	69	76	72	79	74	81
Transfers from oil-related public enterprises	2	1	0	0	0	3	0	-3	4	1	0	4	1	5	1	5	1	5	1
Non-oil revenue	10	6	6	6	3	7	8	1	8	10	2	9	11	9	12	10	13	11	14
Expenditures	131	119	90	89	34	90	83	-7	90	95	12	96	99	91	93	91	92	92	92
Current expenditures	84	70	56	58	28	68	66	-2	68	70	3	73	75	68	69	68	69	67	69
Wages	33	32	33	33	15	36	36	0	35	36	0	35	35	34	35	33	34	33	33
Pensions	9	8	9	9	5	10	10	0	10	10	0	10	10	10	10	10	10	10	10
Goods and services	16	9	4	5	4	6	6	0	6	7	1	6	7	6	8	6	8	6	8
Transfers	20	15	9	9	3	13	11	-2	13	13	2	13	13	13	13	13	13	13	13
Interest payments	1	1	1	1	1	3	2	0	3	3	1	4	3	5	3	5	4	6	4
War reparations (payments to Kuwait)	5	5	0	0	0	0	0	0	0	0	0	5	5	0	0	0	0	0	0
Investment expenditures	48	49	34	32	6	22	17	-5	22	25	9	23	24	23	24	24	23	24	23
Oil-related	15	24	19	19	6	15	13	-2	15	14	1	15	14	15	14	15	14	15	14
Non-oil related	32	25	15	13	1	7	4	-3	8	12	8	8	10	8	10	9	9	9	10
Balance (including grants)	-16	-14	-26	-26	-12	-26	-17	9	-16	-16	1	-18	-13	-8	-4	-4	0	-2	3
Financing	17	19	26	26	12	26	17	-9	16	16	-1	18	13	8	4	4	0	2	-3
External financing	13	6	3	4	0	4	-2	-6	5	9	11	4	3	-3	1	-6	-4	-9	-8
Domestic financing	5	13	23	21	12	22	18	-3	11	7	-12	8	2	10	3	10	4	10	4
Financing gap	0	0	0	0	0	0	0	0	0	0	0	6	8	1	1	0	0	0	0
Memorandum items:																			
Non-oil primary expenditure [2/]	110	89	69	69	28	73	68	-5	72	78	11	72	77	71	76	71	75	71	75
Transfers to KRG	16	3	3	3	0	10	8	-1	10	12	3	10	12	10	12	10	12	10	12
Adjusted non-oil primary expenditure [3/]	110	101	72	71	31	73	68	-5	72	78	11	72	77	71	76	71	75	71	75
Adjusted non-oil primary expenditure (annual real growth, percent) [3/]	17	-10	-30	-31	-15	-1	-7	-6	-3	13	20	-3	-4	-2	-3	-2	-3	-2	-2
Non-oil primary fiscal balance [4/]	-100	-84	-64	-63	-24	-65	-60	5	-64	-68	-8	-63	-66	-62	-64	-61	-62	-60	-61
Adjusted non-oil primary fiscal balance [3/]	-100	-96	-66	-66	-28	-65	-60	5	-64	-68	-8	-63	-66	-62	-64	-61	-62	-60	-61
Adjusted non-oil primary fiscal balance (percent of non-oil GDP) [3/]	-68	-67	-54	-47	-20	-53	-43	10	-50	-45	-2	-46	-41	-42	-38	-38	-34	-35	-30
Public Debt (percent of GDP)	31	33	64	55	59	79	61	-18	81	62	0	85	63	83	61	79	57	75	53
Gross International Reserves (US$ billion)	78	67	53	54	49	43	43	0	40	39	-4	39	38	35	37	31	35	32	36

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

1/ IMF Country Report No.16/225. Iraq: Staff Report for the First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement; with the financing gap path modified to reflect unidentified financing only, upon the approval of the three-year SBA.

2/ Excludes interest payments, oil related spending and war reparations to Kuwait from total expenditure.

3/ Adjusted to account for a full year estimate of federal government transfers to the Kurdistan Regional Government in 2014 and 2015, for which actual transfers were made for only 2 and 5 months, respectively.

4/ Difference between non-oil revenue and non-oil primary expenditure.

21. The 2017 budget that the authorities introduced to parliament is slightly more expansive than the fiscal program anticipated at the time of the SBA request because of the postponement of some external financing from 2016 to 2017. Over 2016-17, fiscal policy remains in line with the SBA (PA, MEFP, Table 2 and ¶¶31–33; Text Table 2 and Tables 3–5). It will stabilize the ratio of the non-oil primary fiscal balance to non-oil GDP at about the same level as in 2015. Total expenditure is 6 percent higher than programmed in the SBA request because some external financing initially programmed in 2016 will be delayed to 2017 (¶20). The main measures in the draft 2017 budget follow:

- *Oil exports* are projected at 3.75 mbpd, out which 0.55 mbpd by KRG, in line with developments during January–August 2016, at a price of $42 per barrel. If oil prices drop below the level adopted in the 2017 budget, the government will identify spending to be cut for discussion with the IMF staff on the occasion of the second review of the SBA.

- *Non-oil tax revenue* is set to increase by 1.0 percent of non-oil GDP on account of the full year effect of October 2016 tax measures (¶14), the increase of the flat tax on wages and pension for the war effort and IDPs from 3.0 to 4.8 percent, the increase of several other fees or taxes (fee on air tickets, taxes on rental income and agricultural land use), and administrative efforts.

- The *wage bill* will be reduced by one percent in nominal terms compared to the revised fiscal program in 2016 by the implementation of natural attrition involving the replacement of only one out of six retiring civil servants.

- *Pension payments*, which represent only the pensions paid to public sector employees who retired before 2006[11] and the non-contributory pensions paid to war and other victims, will be frozen in nominal terms at the level of the revised fiscal program in 2016 by the natural attrition of pre-2006 retirees and the enforcement of the existing rules preventing collection of multiple pensions and benefits, or collecting pensions without minimum contribution period or below legal pensionable age.

- The allocation for *goods and services* is set to increase by 17 percent in nominal terms compared to the revised fiscal program for 2016, notably in order to make room for increased purchase of gas by Ministry of Oil from the Basra Gas Company to reduce gas flaring and decrease the cost of electricity production (¶25).

- The allocation for *transfers* is set to increase by 19 percent in nominal terms compared to the revised fiscal program for 2016, in anticipation of measures needed to help IDPs in the aftermath of the liberation of ISIS-occupied territories (¶3).

[11] The pensions of the public sector workers who retired since 2006 are paid by the contributive pension fund set up and being reformed with the assistance of the World Bank.

- The allocation for *non-oil investment expenditure* is set to almost triple in nominal terms compared to the very low level in the revised fiscal program in 2016; a quarter of that increase is explained by the postponement to 2017 of investment financed by project loans initially programmed in 2016; since this amount is significantly lower than the country's needs and the amounts spent before 2016, it will need to be allocated to priority projects already started.

- The allocation for *oil investment expenditure* is set to increase by 9 percent in nominal terms compared to the revised fiscal program in 2016.

- The draft budget includes a provision for the *repayment of arrears* on non-oil related spending of ID 1.3 trillion, in anticipation of the results of the audit of these arrears by the BSA (¶27). The government will introduce a supplementary budget in 2017 if it decides to pay a larger amount of these arrears in 2017.

22. In spite of the fiscal consolidation, the government will still face large budget deficits in 2016–17 that will be financed mainly by indirect monetary financing and the associated drawdown in official foreign exchange reserves, as well as loans from the international community (MEFP, ¶¶30 and 33)**.**

- In 2016, the deficit (ID 16.7 trillion) will be mostly financed by domestic bank financing (ID 19.0 trillion), most of which (ID 12.6 trillion) will be refinanced at the discount window of the CBI because banks' liquidity is constrained. The external financing of the deficit will come from loans from the IMF under the SBA ($1.3 billion); the World Bank under a Development Policy Loan to be disbursed in December 2016 ($1.46 billion), of which $458 million will be guaranteed by Canada and the United Kingdom as part of the international financial aid package announced by the G7 last May (¶31, Text Table 3); and a budget support loan by the Japan International Cooperation Agency (JICA, $237 million). The external financing will also be covered by project loans from the U.S. government ($1.288 billion), JICA ($326 million), the World Bank ($55 million), and Italy ($33 million).

- In 2017, the deficit (ID 15.9 trillion) will be mostly financed by external financing (ID 9.1 trillion), including loans from the IMF under the SBA ($1.7 billion), the World Bank under a Development Policy Loan to be disbursed in December 2017 ($1.0 billion), a US guaranteed bond ($1 billion, initially planned during the last quarter of 2016, ¶20), a Eurobond issuance ($1 billion, following the US guaranteed bond, ¶20), a budget support loan by JICA ($200 million), a budget loan from France ($450 million) and a budget support grant from the European Commission ($100 million). The external financing will also be covered by project loans from the United States ($1.477 billion), China ($833 million), Japan ($350 million), Germany ($190 million), the World Bank ($140 million), Sweden ($150 million), Italy ($134 million), United Kingdom ($100 million), and the Islamic Development Bank ($50 million). Domestic financing (ID 6.8 trillion) will almost all come from domestic bank financing refinanced at the discount window of the CBI. The domestic financing, 80 percent of which is indirect monetary financing, will contribute to a large foreign exchange reserves drawdown to finance government imports. If oil exports revenue is higher than programmed, the government commits to reduce the indirect monetary financing of the budget deficit by the CBI (TMU, ¶17).

23. The government will identify contingency measures in case oil revenue is lower than programmed (MEFP, ¶34). It will identify spending to be cut for discussion with the IMF staff on the occasion of the second review of the SBA.

24. The government will strive to stop using arrears to finance spending in 2016 and beyond (MEFP, ¶35 and Table 1)**.** The program includes a zero ceiling on new external arrears (PC), gradual pay down of outstanding arrears to IOCs by end-2016 (PC) and ceilings on the stock of domestic arrears on non-oil investment (IT). To end the accumulation of arrears to the Basra Gas Company, the government proposes to add these arrears to the PC on the stock of outstanding arrears (TMU, ¶9). This will help support adequate and timely investment in the oil and gas sector to ensure that oil production—which finances the bulk of imports and public spending—and investment in gas flaring elimination remain on the projected path. The scope of the coverage of the conditionality on domestic arrears could be widened to all spending and the conditionality on domestic arrears could be strengthened to a PC if the government's ability to reliably monitor and prevent them can be enhanced.

25. In 2017–19 and beyond, the government will design and implement deeper revenue and expenditure reforms in order to continue to hold a tight lid on the non-oil primary balance and maintain debt sustainability (MEFP, ¶¶ 36–37)**.** The government will conduct diagnostics of the tax and customs codes and tax and customs administrations with IMF technical assistance in order to increase non-oil tax revenue; reduce the wage bill by natural attrition; complete the audits of the wage earner and pensioner payrolls to first identify, and then cancel payments to illegitimate wage and pension recipients (¶14); reform the contributory public pension system, in discussion and coordination with the World Bank; compile an inventory of all the laws and regulations governing public sector wages and non-contributory pensions in order to discuss legislative changes on the occasion of future program reviews; reform the electricity sector by gradually increasing prices above cost, improving electricity sales revenue collections, reducing distribution losses, and decreasing costs by using the gas currently flared with oil production; and reform the 176 state-owned non-financial enterprises, while protecting social spending.

26. Provided the recommended fiscal adjustment is implemented, public debt is projected to remain sustainable over the medium run.[12] The upwards revision of past GDP and future oil production and prices (¶15) have significantly improved the debt sustainability compared to the SBA request, with total public debt now peaking at 63 percent of GDP in 2018 (85 percent of GDP in 2018 in the SBA request) and declining to 53 percent of GDP in 2021 (75 percent of GDP in the SBA request). However, the implementation of fiscal adjustment plans, the high level of external debt and gross financing needs still pose risks for debt sustainability. The risks are partly mitigated by the fact that one third of the gross financing needs is rollover of short-term debt by state-owned banks that

[12] See Annex I.

will be getting credit from the central bank, which limits the risk of non-rollover, and almost two thirds of external debt consists of legacy arrears still to be restructured on Paris Club terms. Indeed, Iraq's external debt stock of $66 billion at end-2015 includes an estimate of $41 billion of unresolved external arrears to non-Paris Club creditors that were accumulated under the pre-2003 Saddam regime. These arrears can be tolerated under the Fund's policy on Arrears to Official Bilateral Creditors because the aforementioned Paris Club Agreement was found to be adequately representative (i.e., Paris Club creditors provided the majority of the financing contributions required from official bilateral creditors in the context of that agreement) and the authorities have since been making best efforts to conclude agreements with non-Paris Club creditors on Paris Club comparable terms.[13] Indeed, negotiations to implement debt relief on the same terms as with the PC creditors, i.e., an 80 percent net present value reduction, are ongoing (MEFP, ¶27).

C. Strengthening Public Financial Management

27. In order to strengthen fiscal discipline, the government will implement key measures in the short run and build more ambitious reforms later on (MEFP, ¶¶38–39).[14] In the next six months, the authorities will pay particular attention to completing the inventory of arrears (¶14) and their audit by the BSA. Even though the government started to pay a small fraction of domestic arrears before their audit by the BSA, the Council of Ministers decided on October 18 to condition further payments of arrears on non-oil investment identified by the Ministry of Planning and on wheat and ration card purchases identified by the Ministry of Trade to an audit of their validity by the BSA (PA for the first review; MEFP, Table 2). These arrears will also be repaid in line with the government's financing capacity (¶21).

D. Monitoring Financial Risks to Preserve Financial Sector Stability

28. The authorities are taking measures to enhance the stability of the banking sector and credit to the economy (MEFP, ¶¶40–42 and 44). The audit of the 2014 financial statements by international auditors of the two largest state-owned banks Rasheed and Rafidain is expected in February 2017. Based on these audits, the Ministry of Finance will prepare a plan to restructure these banks. The CBI is preparing regulatory changes to strengthen prudential standards and bank supervision with IMF technical assistance. With the guarantee of the state, the CBI has also launched initiatives to boost credit to the economy by providing credit lines to banks in an amount of ID 6 trillion ($5 billion, or 3 percent of GDP) for on-lending to small and middle-sized enterprises and agriculture or infrastructure projects. So far, the CBI has disbursed nine percent of these credit lines (ID 0.5 trillion, $441 million, or 0.3 percent of GDP). Before proceeding any further with these initiatives, the Ministry of Finance and the CBI will analyze the potential fiscal risks posed by these

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[13] Staff will revisit this assessment at each review, to make a judgment about whether the authorities continue to make best efforts to resolve these arrears.

[14] See Iraq Country Report No. 16/225, ¶¶23–24.

credit lines, and discuss with IMF staff whether to continue executing these credit lines on the occasion of the second review.

29. Building on the 2015 IMF safeguards assessment, the government is strengthening the legal framework of the CBI to provide for independent oversight (MEFP, ¶43). The CBI Board will revise the CBI's audit committee charter to include provisions to prohibit CBI executive representation on the committee (SB, MEFP, Table 2). The Council of Ministers will, by end-March 2017, approve and introduce to Parliament amendments to the Law on the CBI to strengthen CBI governance and the internal control framework (SB, MEFP, Table 2). The external auditor of the CBI will also continue to audit program monetary data at test dates.

30. The government will implement reforms to strengthen the anti-money laundering and combating the financing of terrorism (AML/CFT) framework (MEFP, ¶45). As a first step, the government adopted in October a by-law to set up a mechanism to comply with the relevant United Nations Security Council resolutions related to terrorism and terrorism financing and Recommendation 6 of the Financial Action Task Force on Money Laundering and Terrorism Financing (FATF, ¶14).

PROGRAM MODALITIES AND RISKS

31. The program is fully financed until the end of 2017 but there is still a financing gap of $7.1 billion ($6.1 billion in the SBA request) in 2018–19. The increase in the financing gaps stems mainly from the downward revision of the World Bank contribution by $1 billion in 2018 (Text Table 3). The authorities have started to contact donors to fill the remaining financing gap in 2018–19, for which there is good prospect of adequate financing.

Text Table 3. Iraq: Financial Contributions to Fill the Financing Gap, 2016–19

(In US$ billion)

	2016		2017		2018		2019		Total: 2016-19		Mode of delivery
	Prog.1/	Rev. Prog.	Prog.1/	Rev. Prog.	Proj.1/	Rev. Proj.	Proj.1/	Rev. Proj.	Prog.1/	Rev. Prog.	
Initial financing gap	4.917	2.763	8.363	9.310	3.503	3.997	1.306	1.780	18.089	17.850	
Identified financing	4.917	2.763	8.363	9.310	-1.997	-2.493	0.706	1.189	11.989	10.768	
IMF	1.917	1.272	1.393	1.678	1.393	1.390	0.697	1.041	5.400	5.381	Three-Year Stand-By Arrangement.
World Bank	1.000	1.000	1.000	1.000	1.000	0.000	0.000	0.000	3.000	2.000	Development Policy Loans or Policy Based Guarantees.
Kuwait	0.000	0.000	4.600	4.600	-4.600	-4.600	0.000	0.000	0.000	0.000	Postponement of war reparation payment by one year.
USA	1.000	0.000	0.000	1.000	0.000	0.000	0.000	0.000	1.000	1.000	Full guarantee by the U.S. Government of Eurobond issued by the Government of Iraq.
Germany	0.000	0.000	0.560	0.140	0.000	0.140	0.000	0.140	0.560	0.420	Loan disbursements in an amount of €500 million if possible in 2017, otherwise during 2017–20, to implement electricity sector projects with export credit guarantee of the German government.
Japan	0.000	0.000	0.300	0.200	0.200	0.300	0.000	0.000	0.500	0.500	Development Policy Loans in sync with the World Bank Development Policy Loans if possible in 2017 and 2018, otherwise during 2017–19.
France	0.450	0.000	0.000	0.450	0.000	0.000	0.000	0.000	0.450	0.450	Budgetary loan from the French Development Agency amounting to $450 million.
UK	0.430	0.347 2/	0.000	0.000	0.000	0.000	0.000	0.000	0.430	0.347	Additional World Bank lending made possible by the United Kingdom's guarantee for the USD-equivalent of £300m.
Italy	0.000	0.033	0.400	0.134	0.000	0.269	0.000	0.000	0.400	0.435	Project loan disbursement for $402 million, including $100 million for the co-financing of a World Bank project for the Mosul dam, and project grant disbursement for $33 million.
Canada	0.120	0.111 2/	0.010	0.008	0.010	0.008	0.010	0.008	0.149	0.135	Additional World Bank lending made possible by Canada's guarantee for the USD-equivalent of CAD 160 million in 2016; and, in 2017–19, CAD 38 million in other financial support.
European Union	0.000	0.000	0.100	0.100	0.000	0.000	0.000	0.000	0.100	0.100	Project-related grants for development and stabilization objectives.
Remaining financing gap	0.000	0.000	0.000	0.000	5.500	6.491	0.600	0.591	6.100	7.082	

Sources: Iraqi authorities; IMF staff; World Bank staff; Kuwaiti authorities; G7 country authorities; and European Commission.

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

2/ IMF staff estimates; neither of these guarantee agreements has been finalized.

32. The authorities request a rephasing to move from quarterly to semi-annual reviews to facilitate program implementation, and to modify several PC in light of experience (MEFP, ¶46 and Tables 1–2). Data requirements, including on timeliness and the need to prepare audited data, make frequent reviews difficult, especially given the need to hold the reviews off site (in Jordan). Hence, the proposed rephasing will allow more time for the authorities to implement reforms and prepare data for program monitoring. However, staff proposes to still hold missions in between reviews and monitor progress on the basis of unaudited data. The same variables as in the SBA request will serve as PCs at end-December and end-June and IT at end-March and end-September, with some modifications to the definitions of four PCs and the addition of a few adjustors. It is proposed to change the definition of the non-oil primary balance to measure expenditure on a cash rather than accrual basis (¶14). It is also proposed to assess observance of the PCs on gross international reserves and net domestic assets of the CBI and gross public debt based on non-audited numbers and to require external audited data for these PCs as structural benchmarks, with the expectation that any data discrepancies identified by external auditors will be addressed promptly. This will speed up data reporting by the authorities while maintaining an independent quality control of the reported data. The authorities will be required to complete the audits and resolve any problems with numbers identified by the audits prior to review completion. It is also proposed to change the definition of NDA to ease the auditing by the CBI external auditor (MEFP, ¶16; and TMU, ¶7). To reduce the reliance on foreign exchange reserves to finance the budget deficit, an adjustor to the PC on GIR and NDA will be added to save additional revenue flowing from higher than programmed oil export revenue (MEFP, ¶30 and TMU, ¶¶17 and 19). It is also proposed to add an adjustor to the PC on the non-oil primary balance for expenditure financed by project financing, since it is not fully under the control of the authorities. Each program review will continue to set structural benchmarks in areas that are essential for the success of the program (MEFP Table 2). The frequency of Fund purchases will move from quarterly to semi-annual and the amounts available under each review will increase; total resources available under the program will not change (Table 9).

33. The SBA is still subject to several significant risks, the materialization of which would magnify the policy challenges.[15] In light of the very difficult security and political situation (¶¶2-4), appetite for reform may be limited. The agreement between the KRG and the Iraqi authorities (¶5) may not resume and, together with the liberation of territories currently under ISIS control, this may pose large fiscal risk that the current program does not mitigate and for which additional financing will be needed. Weaknesses in the provision of reliable data for program monitoring will continue to be managed by external audits (¶32). On the upside, any increase in oil prices by $1 would increase annual oil revenue by $1.4 billion (Text Table 1), which by program design would be saved to reduce indirect monetary financing and rebuild reserve buffers (¶32). This policy response will be revisited in subsequent reviews if oil prices were consistently above the program assumptions.

[15] See Iraq Country Report No. 16/225, ¶30.

34. Iraq's capacity to repay the Fund should remain adequate. The total outstanding Fund credit would peak at 16 percent of gross official reserves, 10 percent of exports of goods and services, and 7 percent of external public debt (Table 11).

STAFF APPRAISAL

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

36. Performance under the SBA has been mixed but understandings on sufficient corrective actions have been reached to put the program back on track. The Prime Minister's reversal of one of the prior actions for the approval of the SBA was unfortunate. The authorities met three out of five PCs at end-June, missed one PC by a small margin, and, for one PC, experience showed that the authorities cannot measure all expenditure on an accrual basis. They also missed the continuous PC on new external arrears by a small margin. The authorities request a waiver of nonobservance for the continuous PC and propose to adjust the definition of the PC on non-oil primary balance so the information requirements are aligned with their capacity to furnish the requisite information in the future. In light of the revised fiscal program in 2016, they also request changes to the level of the PCs on the central government non-oil primary balance, the gross international reserves of the CBI, the net domestic assets of the CBI, and the gross public debt at end-December 2016. Staff supports these requests. The authorities also request waivers of applicability for four end-September PCs since (audited, where required) information to assess them is not yet available. Based upon the authorities' representation that this data is not available, and as there is no clear evidence that the performance criteria will not be met, staff is satisfied the program will be successfully implemented, notwithstanding the unavailability of the information, and supports this request also. The authorities met three out of six SBs for the first review, and made good progress but need more time to meet the remaining ones.

37. The revised fiscal program in 2016 and the draft budget in 2017 are aligned with the SBA. In 2016, the government will implement a fiscal program that is significantly more restrictive than the fiscal program at the time of the SBA request because of shortfalls in domestic and external financing. In 2017, it will implement a somewhat more expansive fiscal program as some of the external financing initially programmed in 2016 will only come during the first half of 2017. Over time, the authorities need to contain current expenditure, in order to make room for more growth enhancing investment expenditure. Social spending needs to be protected in light of the increasing humanitarian needs that will follow the liberation of ISIS-occupied territories.

38. **Indirect central bank financing is unavoidable at this juncture given limited access to capital markets.** While this form of budget financing is not ideal, the large financing needs make it necessary given the lack of alternative financing and the difficulty to implement an even larger fiscal adjustment. The CBI should stop financing banks for SME, agriculture and infrastructure financing, until the potential fiscal risks have been clarified and addressed on the occasion of the 2nd SBA review.

39. **PFM needs to be overhauled in order to improve the quality of spending and prevent the accumulation of arrears.** To that end, it is crucial that the authorities take steps to implement their new Financial Management Law, comprehensive fiscal and debt reporting, commitment control, a Treasury Single Account, an Integrated Financial Management Information System, and Public Investment Management reforms. The Ministry of Finance should conduct regular surveys to identify all domestic arrears accumulated over the past years and pay them only after audits of their validity by the BSA, in line with the government's financing capacity. The authorities need to pay IOCs and the Basra Gas Company on time in order to secure oil revenue and to reduce gas flaring, which could diminish both the cost of electricity production and air pollution.

40. **Steps to strengthen the legal framework of the CBI, remove exchange restrictions and implement AML/CFT measures are welcome.** They will help to improve the integration of the domestic financial system into the global economy.

41. **The state-owned banks that dominate the banking system need to be restructured.** The audits of the financial statements of the two state-owned banks Rasheed and Rafidain according to international standards need to be followed by the design and implementation of plans to restructure these banks.

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

43. **The risks associated with this SBA remain high.** They mainly stem from further downward oil price shocks, possible external financing shortfalls, setbacks in the war against ISIS, political uncertainties, and administrative weaknesses. Weaknesses remain in reporting for program monitoring, designing and implementing measures to reduce current expenditure, and preventing the build-up of arrears. To minimize the risk of misreporting, PC definitions will be modified and the authorities will continue to call on external auditors to report data on three out of the six PC, and technical assistance to strengthen fiscal reporting. On the upside, higher-than-programmed oil export revenue could reduce the fiscal and external imbalances.

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

Table 1. Iraq: Selected Economic and Financial Indicators, 2013–21

(Quota: SDR 1,663.8 million)
(Population: 34.3 million; 2014)
(Poverty rate: 23 percent, 2014)
(Main export: Crude oil)

	2013	2014 1/	2015		2016		2017		2018		2019		2020		2021	
			Est. 1/	Rev. Est.	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.
Economic growth and prices																
Real GDP (percentage change)	7.6	0.1	-2.4	2.9	10.3	10.2	0.5	1.1	0.7	0.7	2.0	1.1	1.9	1.4	2.0	1.5
Non-oil real GDP (percentage change)	12.4	-5.1	-18.7	-13.9	-5.0	-5.0	0.0	3.0	2.0	2.0	3.0	3.0	4.0	3.9	4.0	4.0
GDP deflator (percentage change)	0.0	-2.6	-27.0	-23.4	-13.2	-11.5	7.8	9.7	5.3	6.4	5.0	4.7	5.2	5.4	4.7	5.0
GDP per capita (US$)	7,021	6,672	4,514	5,127	4,161	4,818	4,395	5,200	4,542	5,434	4,745	5,608	4,962	5,843	5,164	6,073
GDP (in ID trillion)	273.6	266.7	185.1	210.2	177.1	205.1	191.8	227.4	203.4	243.8	217.9	258.0	233.8	275.8	249.6	294.0
Non-oil GDP (in ID trillion)	148.0	142.6	123.4	140.3	122.3	139.0	127.5	149.3	135.7	158.8	145.7	170.6	158.0	184.9	171.4	200.6
GDP (in US$ billion)	234.6	228.7	158.7	180.3	150.1	173.8	162.6	192.4	172.4	206.2	184.7	218.3	198.1	233.3	211.5	248.7
Oil production (mbpd)	3.0	3.1	3.5	3.7	4.2	4.5	4.2	4.5	4.2	4.5	4.3	4.5	4.3	4.5	4.4	4.5
Oil exports (mbpd)	2.4	2.6	3.0	3.4	3.6	3.8	3.6	3.8	3.6	3.8	3.6	3.8	3.6	3.8	3.6	3.8
Iraq oil export prices (US$ pb)	102.9	96.5	47.5	45.9	34.5	35.5	40.3	42.0	42.5	45.7	44.6	47.0	46.4	48.8	47.5	50.2
Consumer price inflation (percentage change; end of period)	3.1	1.6	2.3	2.3	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Consumer price inflation (percentage change; average)	1.9	2.2	1.4	1.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
	(In percent of GDP)															
National Accounts																
Gross domestic investment	26.9	25.9	27.5	24.3	21.9	17.4	20.8	20.2	20.2	18.7	19.7	18.2	19.3	17.4	18.9	17.1
Of which: public	17.4	18.4	18.2	15.1	12.4	8.1	11.7	11.2	11.1	9.9	10.6	9.2	10.2	8.4	9.8	8.0
Gross domestic consumption	69.5	69.6	79.0	81.7	88.8	89.3	85.0	86.6	85.0	85.0	84.3	84.5	83.6	84.0	82.3	83.7
Of which: public	21.0	18.5	24.9	22.3	29.4	25.7	26.7	23.5	24.9	21.7	22.9	20.3	21.0	18.8	19.4	17.5
Gross national savings	28.1	28.6	21.0	18.2	10.9	10.6	11.5	13.4	14.3	12.5	15.2	15.3	16.0	15.5	17.7	15.9
Of which: public	11.2	13.1	4.1	2.8	-1.9	-0.1	0.5	4.4	5.2	4.5	7.2	7.7	8.6	8.4	9.6	9.1
Saving - Investment balance	1.1	2.7	-6.4	-6.1	-11.0	-6.8	-9.2	-6.8	-5.9	-6.2	-4.5	-2.9	-3.3	-1.9	-1.3	-1.2
	(In percent of GDP, unless otherwise indicated)															
Public Finance																
Government revenue and grants	42.2	39.1	34.3	30.2	36.2	32.2	38.7	34.8	38.5	35.1	38.2	34.3	37.3	33.5	36.1	32.5
Government oil revenue	38.6	36.9	31.2	27.4	32.0	28.3	34.4	30.1	34.2	30.6	33.9	29.7	32.9	28.9	31.5	27.9
Government non-oil revenue	3.5	2.2	3.1	2.8	4.2	3.9	4.3	4.6	4.3	4.5	4.3	4.6	4.4	4.6	4.5	4.6
Expenditure, *of which:*	48.0	44.5	48.5	42.5	50.8	40.4	46.9	41.8	47.2	40.4	41.8	36.0	39.1	33.4	36.7	31.4
Current expenditure	30.6	26.1	30.3	27.4	38.4	32.3	35.3	30.6	36.1	30.6	31.2	26.8	28.9	25.0	26.9	23.4
Capital expenditure	17.4	18.4	18.2	15.1	12.4	8.1	11.7	11.2	11.1	9.9	10.6	9.2	10.2	8.4	9.8	8.0
Overall fiscal balance (including grants)	-5.8	-5.4	-14.3	-12.3	-14.7	-8.2	-8.2	-7.0	-8.7	-5.3	-3.6	-1.7	-1.8	0.1	-0.6	1.1
Non-oil primary fiscal balance (percent of non-oil GDP)	-67.6	-58.6	-51.6	-45.0	-53.3	-43.1	-50.2	-45.4	-46.4	-41.2	-42.5	-37.6	-38.5	-33.6	-34.8	-30.4
Adjusted non-oil primary fiscal balance (percent of non-oil GDP) 2/	-67.6	-67.0	-53.6	-46.8	-53.3	-43.1	-50.2	-45.4	-46.4	-41.2	-42.5	-37.6	-38.5	-33.6	-34.8	-30.4
Adjusted non-oil primary expenditure (percent of non-oil GDP) 2/	74.1	71.1	58.3	50.9	59.4	48.9	56.6	52.5	52.8	48.2	48.9	44.5	45.0	40.4	41.3	37.2
Adjusted non-oil primary expenditure (annual real growth, percent) 2/	17.2	-9.6	-30.1	-30.5	-1.2	-6.8	-2.6	13.2	-2.6	-4.3	-2.5	-2.9	-2.2	-3.4	-2.3	-2.2
Memorandum items:																
Total government debt (in percent of GDP) 3/	31.2	32.6	63.9	54.9	79.0	61.3	81.1	61.9	85.2	63.1	83.1	61.3	79.3	57.3	74.9	52.6
Total government debt (in US$ billion) 3/	73.1	74.6	100.2	97.8	118.5	106.6	131.9	119.1	146.9	130.1	153.5	133.9	157.1	133.7	158.4	130.9
External government debt (in percent of GDP)	25.3	25.2	42.3	36.7	47.7	37.8	46.8	38.2	49.1	40.3	44.8	38.7	39.2	34.7	33.1	30.7
External government debt (in US$ billion)	59.3	57.6	67.1	66.1	71.6	65.7	76.1	73.5	84.6	83.2	82.7	84.5	77.6	80.9	70.1	76.4
	(In percent, unless otherwise indicated)															
Monetary indicators																
Growth in reserve money	12.6	-9.6	-12.6	-12.6	-3.5	2.2	2.8	-0.2	9.2	7.2	7.4	6.8	7.6	5.5	10.4	5.5
Growth in broad money	15.9	3.6	-9.0	-9.0	8.6	5.1	6.8	4.9	9.2	7.2	7.4	7.5	7.6	6.3	10.4	8.2
Policy interest rate (end of period)	6.0	6.0	6.0	6.0	...	...	...	...	...	...	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)															
External sector																
Current account	1.1	2.7	-6.4	-6.1	-11.0	-6.8	-6.4	-6.8	-8.5	-6.2	-4.5	-2.9	-3.3	-1.9	-1.3	-1.2
Trade balance	9.9	11.2	-0.1	-0.1	-3.1	-0.8	1.1	-0.4	1.3	1.8	2.2	2.4	2.8	3.0	4.1	3.2
Exports of goods	38.3	40.6	31.1	31.3	30.4	28.3	32.8	30.1	32.6	30.5	32.1	29.7	31.1	28.9	30.8	28.0
Imports of goods	-28.4	-29.4	-31.2	-31.5	-33.5	-29.0	-31.7	-30.5	-31.3	-28.8	-30.0	-27.3	-28.3	-25.9	-26.6	-24.8
Overall external balance	-1.3	-10.3	-9.3	-7.1	-4.4	-3.5	-1.7	-2.3	-3.5	-3.3	-2.4	-0.3	-1.1	-0.1	0.9	0.9
Gross reserves (in US$ billion) 4/	77.8	66.7	53.4	53.7	42.7	43.0	40.1	38.5	39.3	38.1	35.4	37.3	31.5	35.5	31.6	35.9
In months of imports of goods and services	10.8	10.9	9.9	9.6	7.8	6.7	7.0	5.9	6.7	5.8	5.9	5.6	5.1	5.2	5.0	5.2
Exchange rate (dinar per US$; period average)	1,166	1,166	1,167	1,167	...	...	...	...	...	...	...	...	...	...	...	...
Real effective exchange rate (percent change, end of period) 5/	6.5	4.6	7.5	7.5	...	...	...	...	...	...	...	...	...	...	...	...
Financing gap (US$ billion) 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.5	6.5	0.6	0.6	0.0	0.0	0.0	0.0

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

1/ IMF Country Report No. 16/225. Iraq: Staff Report for the First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement; with the financing gap path modified to reflect unidentified financing only, upon the approval of the three-year SBA.

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

3/ Includes arrears.

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

5/ Positive means appreciation.

6/ Only unidentified financing.

Table 2. Iraq: National Accounts, 2013–21

(In percent)

	2013	2014		2015		2016		2017		2018		2019		2020		2021	
		Est. 1/	Rev. Est.	Est. 1/	Rev. Est.	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.
	GDP share	Annual growth rates, constant prices															
Agriculture, Hunting, Forestry, and Fishing	4.3	-4.8	-2.0	-22.3	-24.5	-20.5	-20.5	0.0	0.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Mining. crude oil and Quarrying	49.7	4.2	5.2	12.6	18.2	20.5	20.4	0.7	0.0	0.0	0.0	1.5	0.0	0.8	0.0	0.9	0.0
Crude Oil	49.4	4.3	5.4	12.8	18.4	20.6	20.4	0.7	0.0	0.0	0.0	1.5	0.0	0.8	0.0	0.9	0.0
Other mining	0.3	-26.3	-34.6	-57.6	-28.0	-15.0	-15.0	2.0	2.0	2.0	2.0	2.0	2.0	4.0	2.0	3.5	2.0
Manufacturing	1.5	-21.7	-22.2	-23.4	-22.9	-15.0	-10.0	0.0	0.0	7.0	0.0	7.0	0.0	8.5	0.0	8.5	0.0
Electricity and Water	1.1	14.0	11.8	-8.7	-6.8	0.0	0.0	0.5	2.5	7.0	3.0	7.0	4.0	7.5	5.0	6.5	5.0
Construction	8.7	-9.1	-9.0	-62.3	-34.0	-30.0	-25.0	0.0	6.0	15.0	6.0	15.0	6.0	16.0	7.0	15.0	7.0
Transport, Storage and Communications	7.2	5.4	5.1	-22.0	-21.8	0.0	1.0	2.0	4.0	2.8	3.0	3.0	4.0	3.3	5.0	3.3	5.0
Wholesale and Retail Trade, Restaurants and Hotels	8.5	-2.8	-3.1	-9.0	-8.7	-4.2	-3.0	-3.6	0.5	-4.4	0.5	1.8	4.0	3.4	5.0	3.6	5.0
Finance, Insurance, Real Estate and Business Services	7.2	-7.6	-7.9	-1.3	-0.3	2.7	2.6	2.9	5.5	3.3	5.0	3.9	5.4	4.3	7.2	3.9	7.2
Finance and Insurance Services	1.7	-37.8	-39.2	-35.6	-30.5	-25.0	-25.0	-10.0	0.0	0.0	5.0	10.0	10.0	15.0	10.0	15.0	10.0
Real Estate	5.5	1.9	1.9	5.3	5.3	6.0	6.0	4.0	6.0	3.5	5.0	3.5	5.0	3.5	7.0	3.0	7.0
Community, Social and Personal Services	12.2	-8.5	-8.5	-2.0	-2.0	-0.9	0.0	-0.6	2.5	0.3	-2.0	-1.3	-2.0	-0.2	-2.0	-0.2	-2.0
Producers of Government Services	9.9	-11.0	-11.0	1.1	1.1	1.1	1.1	0.7	3.0	0.7	-2.0	-1.6	-2.0	-0.8	-2.0	-0.8	-2.0
Personal services	2.3	2.5	2.5	-14.0	-14.0	-10.0	-5.0	-7.0	0.0	-2.0	-2.0	0.3	-2.0	3.1	-2.0	3.0	-2.0
Gross Domestic Product at constant prices	100.4	-0.5	0.0	-2.5	2.8	10.3	10.2	0.5	1.1	0.7	0.7	2.0	1.1	1.9	1.4	2.0	1.5
Less: Imputed Bank Service Charge	0.4	-20.9	-20.9	-34.2	-30.6	10.3	5.6	0.5	0.8	0.7	0.7	2.0	2.1	1.9	2.0	2.0	2.0
Gross Domestic Product at constant Factor cost	100.0	-0.4	0.1	-2.4	2.9	10.3	10.2	0.5	1.1	0.7	0.7	2.0	1.1	1.9	1.4	2.0	1.5
Plus: Indirect Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Domestic Product	100.0	-0.4	0.1	-2.4	2.9	10.3	10.2	0.5	1.1	0.7	0.7	2.0	1.1	1.9	1.4	2.0	1.5
Oil GDP	49.4	4.3	5.4	12.8	18.4	20.6	20.4	0.7	0.0	0.0	0.0	1.5	0.0	0.8	0.0	0.9	0.0
Non oil GDP	50.6	-5.1	-5.1	-18.7	-13.9	-5.0	-5.0	0.0	3.0	2.0	2.0	3.0	3.0	4.0	3.9	4.0	4.0
Memorandum:																	
Gross Domestic Product (In ID Trillion)	273.6	259.5	266.7	185.1	210.2	177.1	205.1	191.8	227.4	203.4	243.8	217.9	258.0	233.8	275.8	249.6	294.0
Oil GDP	125.6	116.9	124.1	61.6	69.9	54.8	66.1	64.3	78.1	67.8	84.9	72.2	87.4	75.8	90.9	78.2	93.4
Non oil GDP	148.0	142.6	142.6	123.4	140.3	122.3	139.0	127.5	149.3	135.7	158.8	145.7	170.6	158.0	184.9	171.4	200.6

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

1/ IMF Country Report No. 16/225. Iraq: Staff Report for the First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement; with the financing gap path modified to reflect unidentified financing only, upon the approval of the three-year SBA.

Table 3. Iraq: Central Government Fiscal Accounts, 2013–21

(In trillions of ID; unless otherwise indicated)

	2013	2014	2015		2016			2017		2018		2019		2020		2021	
			Est. 1/	Rev. Est.	H1	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.
Revenues and grants	115.4	104.4	63.5	63.5	22.4	64.0	66.0	74.2	79.1	78.3	85.6	83.3	88.5	87.2	92.4	90.0	95.6
Revenues	115.4	104.4	63.5	63.5	22.4	64.0	66.0	74.2	79.0	78.3	85.6	83.3	88.5	87.2	92.4	90.0	95.6
Oil	105.7	98.5	57.7	57.7	19.4	56.6	58.0	66.1	68.6	69.6	74.5	73.9	76.7	76.9	79.7	78.7	81.9
Crude oil export revenues	104.1	97.1	57.2	57.2	19.4	53.6	57.6	62.5	68.0	65.9	73.9	69.2	76.0	72.0	79.0	73.7	81.2
Transfers from oil-related public enterprises	1.6	1.4	0.5	0.5	0.0	3.0	0.5	3.5	0.6	3.7	0.7	4.7	0.7	4.9	0.7	5.1	0.7
Non-oil	9.7	5.9	5.8	5.8	3.1	7.4	8.0	8.2	10.5	8.7	11.1	9.4	11.8	10.3	12.7	11.3	13.7
Tax revenues	2.9	2.5	1.4	1.4	1.6	3.8	4.7	4.2	6.9	4.4	7.2	4.7	7.5	5.0	7.9	5.4	8.3
Non-tax revenues	6.8	3.3	4.4	4.4	1.4	3.6	3.3	3.9	3.5	4.3	3.9	4.7	4.3	5.3	4.8	5.9	5.4
Grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	131.2	118.8	89.8	89.3	34.1	90.0	82.8	90.0	95.0	96.0	98.6	91.1	92.9	91.4	92.2	91.6	92.3
Current expenditures	83.7	69.6	56.1	57.6	27.8	68.0	66.2	67.7	69.6	73.4	74.6	67.9	69.2	67.5	69.0	67.2	68.8
Salary and pension	41.1	40.3	42.2	42.2	20.0	46.1	46.4	45.4	46.1	44.7	45.4	44.0	44.8	43.3	44.2	42.6	43.6
Salary	32.5	31.8	33.1	33.1	15.4	36.1	36.1	35.4	35.8	34.7	35.1	34.0	34.5	33.3	33.9	32.6	33.3
Salary (Defense/Interior)	8.1	14.2	14.4	14.4	7.4	15.9	15.9	15.5	16.4	15.2	16.2	14.9	15.9	14.6	15.6	14.3	15.3
Salary (others) 3/	24.5	17.6	18.7	18.7	8.0	20.2	20.2	19.8	19.3	19.4	19.0	19.0	18.7	18.7	18.3	18.3	18.0
Pension	8.6	8.4	9.0	9.0	4.6	10.0	10.3	10.0	10.3	10.0	10.3	10.0	10.3	10.0	10.3	10.0	10.3
Goods and services	16.3	9.1	3.9	4.7	3.6	5.9	6.3	5.9	7.3	5.9	7.5	5.9	7.6	5.9	7.8	5.9	7.9
Transfers	20.0	14.7	8.7	9.5	3.3	13.2	11.2	13.2	13.3	13.2	13.3	13.2	13.3	13.2	13.3	13.2	13.3
Social safety net (including PDS)	7.6	7.6	4.5	4.5	0.3	6.3	6.3	6.3	6.8	6.3	6.8	6.3	6.8	6.3	6.8	6.3	6.8
Transfers to SOEs 2/	1.9	1.5	2.4	2.4	0.9	2.5	2.2	2.5	1.9	2.5	1.9	2.5	1.9	2.5	1.9	2.5	1.9
Other transfers	10.5	5.6	1.9	2.6	2.1	4.4	2.7	4.4	4.7	4.4	4.7	4.4	4.7	4.4	4.7	4.4	4.7
Interest payments	1.0	0.7	1.3	1.3	1.0	2.8	2.3	3.1	2.9	4.2	2.9	4.8	3.4	5.1	3.7	5.5	4.0
War reparations 3/	5.2	4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.4	5.4	0.0	0.0	0.0	0.0	0.0	0.0
Investment expenditures	47.6	49.2	33.7	31.6	6.3	22.0	16.6	22.4	25.4	22.7	24.0	23.2	23.8	23.8	23.2	24.4	23.5
Non-oil investment expenditures	32.3	25.4	14.7	12.6	0.7	7.4	4.0	7.6	11.7	7.9	10.3	8.2	10.1	8.7	9.5	9.1	9.8
Financed by project loans	0.0	0.0	0.3	0.3	0.2	4.1	2.4	0.8	4.3	0.8	2.8	0.6	2.5	0.5	1.3	0.5	1.1
Other	32.3	25.4	14.4	12.3	0.5	3.3	1.6	6.8	7.4	7.1	7.5	7.6	7.6	8.2	8.2	8.6	8.6
Oil investment expenditures	15.3	23.8	19.1	19.1	5.6	14.7	12.6	14.8	13.7	14.8	13.7	15.0	13.7	15.1	13.7	15.2	13.7
IOCs						10.7	11.5		11.6		11.6		11.6		11.6		11.6
National oil companies						3.9	1.1		2.1		2.1		2.1		2.1		2.1
Balance (including grants)	-15.8	-14.4	-26.4	-25.8	-11.7	-26.0	-16.7	-15.8	-15.9	-17.7	-13.0	-7.8	-4.5	-4.2	0.2	-1.6	3.3
Balance (excluding grants)	-15.9	-14.4	-26.4	-25.8	-11.7	-26.0	-16.7	-15.8	-16.0	-17.7	-13.0	-7.8	-4.5	-4.2	0.2	-1.6	3.3
Statistical discrepancy	-1.3	-4.4	0.0	0.2	0.2	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	17.2	18.8	26.4	25.6	11.5	26.0	16.7	15.8	15.9	17.7	13.0	7.8	4.5	4.2	-0.2	1.6	-3.3
External financing	12.7	5.9	3.3	4.2	-0.2	4.4	-1.7	5.3	9.1	3.7	3.4	-2.9	0.8	-6.0	-4.2	-8.6	-7.8
Budget Loans	0.0	0.0	2.8	2.8	0.0	10.4	3.5	4.5	6.3	4.3	2.3	0.8	1.0	0.0	0.0	0.0	0.0
International Financial Institutions	0.0	0.0	2.8	2.8	0.0	3.4	3.2	2.8	3.1	2.8	2.0	0.8	1.0	0.0	0.0	0.0	0.0
Bilateral	0.0	0.0	0.0	0.0	0.0	5.8	0.3	0.5	0.8	0.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Eurobond	0.0	0.0	0.0	0.0	0.0	1.2	0.0	1.2	2.4	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Loans	0.0	0.0	0.3	0.3	0.3	4.1	2.4	2.0	4.3	0.8	2.8	0.6	2.5	0.5	1.3	0.5	1.1
Amortization	-1.1	-1.8	-1.6	-1.6	-0.5	-2.1	-2.1	-1.3	-1.4	-1.4	-1.6	-4.3	-2.7	-6.5	-5.5	-9.1	-8.9
Assets held abroad	13.8	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR Holding	0.0	0.0	2.2	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Account payables	0.0	7.9	-4.6	-4.8	-1.6	-0.6	-0.2	0.1	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Arrears			4.1	5.3	1.6	-4.1	-5.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	4.5	12.9	23.0	21.3	11.7	21.5	18.4	10.5	6.8	7.5	2.0	10.0	2.9	10.2	4.0	10.2	4.4
Bank financing	4.6	4.7	18.0	18.0	11.0	16.6	19.0	10.5	6.8	7.5	2.0	10.0	2.9	10.2	4.0	10.2	4.4
CBI	4.2	3.5	10.1	10.1	7.0	12.6	12.6	6.4	5.5	3.6	1.9	4.0	1.9	2.5	1.9	2.5	1.9
Loans	0.0	0.0	6.4	6.4	7.0	12.6	12.6	6.4	5.5	3.6	1.9	4.0	1.9	2.5	1.9	2.5	1.9
Deposits	4.2	3.5	3.7	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.3	1.2	7.9	7.9	4.0	4.0	6.4	4.1	1.3	3.9	0.1	6.0	1.1	7.7	2.1	7.7	2.5
Loans	0.3	1.2	7.9	7.9	2.1	0.0	0.0	4.1	0.9	3.9	0.1	6.0	1.1	7.7	2.1	7.7	2.5
Deposits					2.0	4.0	6.4	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-bank financing	0.0	0.0	0.0	0.0	0.0	7.5	0.6	2.5	1.3	2.5	1.6	0.0	1.6	0.0	0.0	0.0	0.0
Account payables			-0.1	-0.1	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	0.0	2.2	5.2	3.5	0.7	-2.5	-1.2	-2.5	-1.3	-2.5	-1.6	0.0	-1.6	0.0	0.0	0.0	0.0
Financing gap: 4/						0.0	0.0	0.0	0.0	6.5	7.7	0.7	0.7	0.0	0.0	0.0	0.0
Memorandum items:																	
Security-related expenditure (military and police equipment and salaries)	16.4	16.6	15.0	15.0	7.6	16.5	16.6	16.2	17.3	15.9	17.0	15.6	16.7	15.3	16.4	15.0	16.2
Oil export revenue from KRG	11.6	2.5	3.2	3.1	0.0	8.2	7.8	9.6	10.2	10.1	10.6	10.6	10.9	11.0	11.3	11.3	11.6
Transfer to KRG	15.9	2.5	2.5	2.5	0.0	9.8	8.5	9.8	11.6	9.8	11.6	9.8	11.6	9.8	11.6	9.8	11.6
Non-oil primary expenditure	109.7	89.4	69.5	68.9	27.5	72.6	67.9	72.1	78.4	71.7	76.6	71.3	75.8	71.1	74.8	70.8	74.6
Adjusted non-oil primary expenditure 5/	109.7	101.4	72.0	71.4	31.3	72.6	67.9	72.1	78.4	71.7	76.6	71.3	75.8	71.1	74.8	70.8	74.6
Adjusted non-oil primary expenditure (annual real growth, percent) 5/	17.2	-9.6	-30.1	-30.5	-14.8	-1.2	-6.8	-2.6	13.2	-2.6	-4.3	-2.5	-2.9	-2.2	-3.4	-2.3	-2.2
Non-oil primary fiscal balance, accrual basis	-100.0	-83.6	-63.7	-63.1	-24.5	-65.2	-59.9	-64.0	-67.8	-62.9	-65.5	-61.9	-64.1	-60.8	-62.1	-59.6	-60.9
Adjusted non-oil primary fiscal balance 5/	-100.0	-95.5	-66.2	-65.6	-28.2	-65.2	-59.9	-64.0	-67.8	-62.9	-65.5	-61.9	-64.1	-60.8	-62.1	-59.6	-60.9
Non-oil primary fiscal balance, cash basis 6/	-100.0	-81.4		-58.7	-22.3		-61.9		-69.1		-67.1		-65.7		-62.1		-60.9
Gross public debt	85.2	87.0	118.2	115.4	121.4	139.8	125.9	155.6	140.8	173.3	153.8	181.2	158.3	185.3	158.0	186.9	154.7
Average Iraq oil export price (US$/bbl)	102.9	96.5	47.5	45.9	31.0	34.5	35.5	40.3	42.0	42.5	45.7	44.6	47.0	46.4	48.8	47.5	50.2
Volume of oil exports	2.4	2.6	3.0	3.4	3.7	3.6	3.76	3.6	3.75	3.6	3.75	3.6	3.75	3.6	3.75	3.6	3.75
CBI total financing of the budget deficit	4.2	3.5	10.1	10.1	7.0	12.6	12.6	6.4	5.5	3.6	1.9	4.0	1.9	2.5	1.9	2.5	1.9

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

1/ IMF Country Report No. 16/225. Iraq: Staff Report for the First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement; with the financing gap path modified to reflect unidentified financing only, upon the approval of the three-year SBA.

2/ For 2013–14, includes off-budget transfers to SOEs financed by Bank Rafidain.

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

4/ Includes unidentified financing only.

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

6/ The non-oil primary fiscal balance on cash basis adjusts the non-oil primary balance measured on accrual basis by: (a) subtracting the spending financed by arrears' accumulation during that period, and (b) adding the payment of arrears during the same period.

Table 4. Iraq: Central Government Fiscal Accounts, 2013–21
(In percent of GDP)

	2013	2014	2015		2016			2017		2018		2019		2020		2021	
			Est. 1/	Rev. Est.	H1	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.
Revenues and grants	42.2	39.1	34.3	30.2	10.9	36.2	32.2	38.7	34.8	38.5	35.1	38.2	34.3	37.3	33.5	36.1	32.5
Revenues	42.2	39.1	34.3	30.2	10.9	36.2	32.2	38.7	34.7	38.5	35.1	38.2	34.3	37.3	33.5	36.1	32.5
Oil	38.6	36.9	31.2	27.4	9.4	32.0	28.3	34.4	30.1	34.2	30.6	33.9	29.7	32.9	28.9	31.5	27.9
Non-oil	3.5	2.2	3.1	2.8	1.5	4.2	3.9	4.3	4.6	4.3	4.5	4.3	4.6	4.4	4.6	4.5	4.6
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	48.0	44.5	48.5	42.5	16.6	50.8	40.4	46.9	41.8	47.2	40.4	41.8	36.0	39.1	33.4	36.7	31.4
Current expenditures	30.6	26.1	30.3	27.4	13.6	38.4	32.3	35.3	30.6	36.1	30.6	31.2	26.8	28.9	25.0	26.9	23.4
Salary and pension	15.0	15.1	22.8	20.1	9.7	26.0	22.6	23.7	20.3	22.0	18.6	20.2	17.4	18.5	16.0	17.1	14.8
Salary	11.9	11.9	17.9	15.8	7.5	20.4	17.6	18.4	15.7	17.0	14.4	15.6	13.4	14.2	12.3	13.1	11.3
Pension	3.1	3.2	4.9	4.3	2.2	5.6	5.0	5.2	4.5	4.9	4.2	4.6	4.0	4.3	3.7	4.0	3.5
Goods and services	6.0	3.4	2.1	2.2	1.8	3.3	3.1	3.1	3.2	2.9	3.1	2.7	2.9	2.5	2.8	2.4	2.7
Transfers	7.3	5.5	4.7	4.5	1.6	7.5	5.5	6.9	5.9	6.5	5.5	6.1	5.2	5.7	4.8	5.3	4.5
Social safety net	2.8	2.8	2.4	2.1	0.2	3.6	3.1	3.3	3.0	3.1	2.8	2.9	2.6	2.7	2.5	2.5	2.3
Transfers to SOEs 2/	0.7	0.6	1.3	1.1	0.4	1.4	1.1	1.3	0.8	1.2	0.8	1.1	0.7	1.1	0.7	1.0	0.6
Other transfers	3.8	2.1	1.0	1.2	1.0	2.5	1.3	2.3	2.1	2.2	1.9	2.0	1.8	1.9	1.7	1.8	1.6
Interest payments	0.4	0.3	0.7	0.6	0.5	1.6	1.1	1.6	1.3	2.0	1.2	2.2	1.3	2.2	1.3	2.2	1.4
War reparations 3/	1.9	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.7	2.2	0.0	0.0	0.0	0.0	0.0	0.0
Investment expenditures	17.4	18.4	18.2	15.1	3.1	12.4	8.1	11.7	11.2	11.1	9.9	10.6	9.2	10.2	8.4	9.8	8.0
Non-oil investment expenditures	11.8	9.5	7.9	6.0	0.3	4.2	1.9	4.0	5.1	3.9	4.2	3.8	3.9	3.7	3.4	3.7	3.3
Oil investment expenditures	5.6	8.9	10.3	9.1	2.7	8.3	6.1	7.7	6.0	7.3	5.6	6.9	5.3	6.5	5.0	6.1	4.7
IOCs							5.6		5.1		4.8		4.5		4.2		3.9
National oil companies							0.5		0.9		0.9		0.8		0.8		0.7
Balance (including grants)	-5.8	-5.4	-14.3	-12.3	-5.7	-14.7	-8.2	-8.2	-7.0	-8.7	-5.3	-3.6	-1.7	-1.8	0.1	-0.6	1.1
Balance (excluding grants)	-5.8	-5.4	-14.3	-12.3	-5.7	-14.7	-8.2	-8.2	-7.0	-8.7	-5.3	-3.6	-1.7	-1.8	0.1	-0.6	1.1
Statistical discrepancy	-0.5	-1.6	0.0	0.1	0.1	...	...	...	...	...	...	...	...	...	...	...	...
Financing gap																	
Financing	6.3	7.0	14.3	12.2	5.6	14.7	8.2	8.2	7.0	8.7	5.3	3.6	1.7	1.8	-0.1	0.6	-1.1
External financing	4.6	2.2	1.8	2.0	-0.1	2.5	-0.8	2.8	4.0	1.8	1.4	-1.3	0.3	-2.6	-1.5	-3.4	-2.6
Budget Loans	0.0	0.0	1.5	1.4	0.0	5.9	1.7	2.3	2.8	2.1	0.9	0.4	0.4	0.0	0.0	0.0	0.0
International Financial Institutions	0.0	0.0	1.5	1.4	0.0	1.9	1.6	1.5	1.4	1.4	0.8	0.4	0.4	0.0	0.0	0.0	0.0
Bilateral	0.0	0.0	0.0	0.0	0.0	3.3	0.1	0.3	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Eurobond	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.6	1.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Loans	0.0	0.0	0.2	0.1	0.2	2.3	1.2	1.0	1.9	0.4	1.2	0.3	1.0	0.2	0.5	0.2	0.4
Amortization	-0.4	-0.7	-0.9	-0.8	-0.2	-1.2	-1.0	-0.7	-0.6	-0.7	-0.7	-2.0	-1.0	-2.8	-2.0	-3.6	-3.0
Assets held abroad	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR Holding	0.0	0.0	1.2	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Account payables	0.0	2.9	-2.5	-2.3	-0.8	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	0.0	0.0	2.2	2.5	0.8	-2.3	-2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	1.7	4.8	12.4	10.2	5.7	12.2	9.0	5.5	3.0	3.7	0.8	4.6	1.1	4.4	1.4	4.1	1.5
Bank financing	1.7	1.8	9.7	8.6	5.4	9.4	9.3	5.5	3.0	3.7	0.8	4.6	1.1	4.4	1.4	4.1	1.5
CBI	1.5	1.3	5.5	4.8	3.4	7.1	6.1	3.3	2.4	1.8	0.8	1.8	0.7	1.1	0.7	1.0	0.6
Loans	0.0	0.0	3.4	3.0	3.4	7.1	6.2	3.3	2.4	1.8	0.8	1.8	0.7	1.1	0.7	1.0	0.6
Deposits	1.5	1.3	2.0	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.1	0.4	4.3	3.8	2.0	2.3	3.1	2.1	0.6	1.9	0.0	2.7	0.4	3.3	0.7	3.1	0.9
Loans	0.1	0.4	4.3	3.8	1.0	0.0	0.0	2.1	0.4	1.9	0.0	2.7	0.4	3.3	0.7	3.1	0.9
Deposits	0.0	0.0	0.0	0.0	1.0	2.3	3.1	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-bank financing	0.0	0.0	0.0	0.0	0.0	4.2	0.3	1.3	0.6	1.2	0.7	0.0	0.6	0.0	0.0	0.0	0.0
Account payables	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	0.0	0.8	2.8	1.7	0.3	-1.4	-0.6	-1.3	-0.6	-1.2	-0.7	0.0	-0.6	0.0	0.0	0.0	0.0
Financing gap: 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.2	3.1	0.3	0.3	0.0	0.0	0.0	0.0
Memorandum items:																	
Security-related expenditure (military and police equipment and salaries)	6.0	6.2	8.1	7.1	3.7	9.3	8.1	8.5	7.6	7.8	7.0	7.2	6.5	6.5	6.0	6.0	5.5
Current expenditures (percent of GDP)	30.6	26.1	30.3	27.4	13.6	38.4	32.3	35.3	30.6	36.1	30.6	31.2	26.8	28.9	25.0	26.9	23.4
Non-oil primary expenditure (percent of GDP)	40.1	33.5	37.5	32.8	13.4	41.0	33.1	37.6	34.5	35.2	31.4	32.7	29.4	30.4	27.1	28.4	25.4
Adjusted non-oil primary expenditure (percent of GDP) 5/	40.1	38.0	38.9	34.0	15.2	41.0	33.1	37.6	34.5	35.2	31.4	32.7	29.4	30.4	27.1	28.4	25.4
Non-oil primary fiscal balance, accrual basis (percent of GDP)	-36.5	-31.3	-34.4	-30.0	-11.9	-36.8	-29.2	-33.3	-29.8	-30.9	-26.9	-28.4	-24.8	-26.0	-22.5	-23.9	-20.7
Adjusted non-oil primary fiscal balance (percent of GDP) 5/	-36.5	-35.8	-35.8	-31.2	-13.8	-36.8	-29.2	-33.3	-29.8	-30.9	-26.9	-28.4	-24.8	-26.0	-22.5	-23.9	-20.7
Non-oil primary fiscal balance, cash basis (percent of GDP) 6/	-36.5	-30.5		-27.9	-10.9		-30.2		-30.4		-27.5		-25.5		-22.5		-20.7
Gross public debt (percent of GDP)	31.2	32.6	63.9	54.9	59.2	79.0	61.4	81.1	61.9	85.2	63.1	83.1	61.3	79.3	57.3	74.9	52.6
CBI total financing of the budget deficit (percent of GDP)	1.5	1.3	5.5	4.8	3.4	7.1	6.1	3.3	2.4	1.8	0.8	1.8	0.7	1.1	0.7	1.0	0.6

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

1/ IMF Country Report No. 16/225. Iraq: Staff Report for the First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement; with the financing gap path modified to reflect unidentified financing only, upon the approval of the three-year SBA.

2/ For 2013–14, includes off-budget transfers to SOEs financed by Bank Rafidain.

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

4/ Includes unidentified financing only.

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

6/ The non-oil primary fiscal balance on cash basis adjusts the non-oil primary balance measured on accrual basis by: (a) subtracting the spending financed by arrears' accumulation during that period, and (b) adding the payment of arrears during the same period.

Table 5. Iraq: Central Government Fiscal Accounts, 2013–21
(In percent of non-oil GDP)

	2013	2014	2015		2016			2017		2018		2019		2020		2021	
			Est. 1/	Rev. Est.	H1	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.
Revenues and grants	78.0	73.2	51.4	45.2	16.1	52.4	47.5	58.2	53.0	57.7	53.9	57.2	51.9	55.2	50.0	52.5	47.7
Revenues	77.9	73.2	51.4	45.2	16.1	52.4	47.5	58.2	52.9	57.7	53.9	57.2	51.9	55.2	50.0	52.5	47.7
Oil	71.4	69.1	46.7	41.1	13.9	46.3	41.8	51.8	45.9	51.3	46.9	50.7	45.0	48.7	43.1	45.9	40.8
Non-oil	6.5	4.1	4.7	4.1	2.2	6.1	5.8	6.4	7.0	6.4	7.0	6.5	6.9	6.5	6.8	6.6	6.8
Expenditures	88.7	83.3	72.8	63.6	24.6	73.6	59.6	70.6	63.7	70.8	62.1	62.5	54.5	57.8	49.8	53.4	46.0
Current expenditures	56.5	48.9	45.5	41.1	20.0	55.6	47.6	53.1	46.6	54.1	47.0	46.6	40.5	42.7	37.3	39.2	34.3
Salary and pension	27.8	28.2	34.2	30.1	14.4	37.7	33.4	35.6	30.9	32.9	28.6	30.2	26.3	27.4	23.9	24.9	21.7
Salary	22.0	22.3	26.8	23.6	11.1	29.5	26.0	27.7	24.0	25.6	22.1	23.3	20.2	21.1	18.3	19.0	16.6
Pension	5.8	5.9	7.3	6.4	3.3	8.2	7.4	7.8	6.9	7.4	6.5	6.9	6.0	6.3	5.6	5.8	5.1
Goods and services	11.0	6.4	3.2	3.3	2.6	4.8	4.5	4.6	4.9	4.3	4.7	4.0	4.5	3.7	4.2	3.4	3.9
Transfers	13.5	10.3	7.1	6.7	2.3	10.8	8.1	10.4	8.9	9.7	8.4	9.1	7.8	8.4	7.2	7.7	6.6
Social safety net	5.1	5.3	3.6	3.2	0.2	5.2	4.5	5.0	4.5	4.7	4.3	4.3	4.0	4.0	3.7	3.7	3.4
Transfers to SOEs 2/	1.3	1.1	1.9	1.7	0.6	2.0	1.6	2.0	1.3	1.8	1.2	1.7	1.1	1.6	1.0	1.5	0.9
Other transfers	7.1	3.9	1.5	1.9	1.5	3.6	2.0	3.5	3.1	3.2	2.9	3.0	2.7	2.8	2.5	2.6	2.3
Interest payments	0.7	0.5	1.1	0.9	0.7	2.3	1.6	2.5	1.9	3.1	1.8	3.3	2.0	3.3	2.0	3.2	2.0
War reparations 3/	3.5	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.0	3.4	0.0	0.0	0.0	0.0	0.0	0.0
Investment expenditures	32.1	34.5	27.3	22.5	4.5	18.0	11.9	17.5	17.0	16.7	15.1	15.9	13.9	15.1	12.5	14.2	11.7
Non-oil investment expenditures	21.8	17.8	11.9	9.0	0.5	6.0	2.9	6.0	7.8	5.8	6.5	5.6	5.9	5.5	5.1	5.3	4.9
Oil investment expenditures	10.3	16.7	15.4	13.6	4.0	12.0	9.1	11.6	9.2	10.9	8.6	10.3	8.0	9.6	7.4	8.9	6.8
IOCs							8.3		7.8		7.3		6.8		6.3		5.8
National oil companies							0.8		1.4		1.3		1.2		1.1		1.0
Balance (including grants)	-10.7	-10.1	-21.4	-18.4	-8.4	-21.2	-12.0	-12.4	-10.6	-13.0	-8.2	-5.4	-2.6	-2.6	0.1	-0.9	1.7
Balance (excluding grants)	-10.7	-10.1	-21.4	-18.4	-8.4	-21.2	-12.0	-12.4	-10.7	-13.0	-8.2	-5.4	-2.6	-2.6	0.1	-0.9	1.7
Statistical discrepancy	-0.9	-3.1	...	0.2	...	...	...	...	...	...	...	...	...	...	...	...	...
Financing	11.6	13.2	21.4	18.2	8.3	21.2	12.0	12.4	10.6	13.0	8.2	5.4	2.6	2.6	-0.1	0.9	-1.7
External financing	8.5	4.1	2.7	3.0	-0.1	3.6	-1.2	4.2	6.1	2.7	2.1	-2.0	0.5	-3.8	-2.3	-5.0	-3.9
Budget Loans	0.0	0.0	2.3	2.0	0.0	8.5	2.5	3.5	4.2	3.2	1.5	0.6	0.6	0.0	0.0	0.0	0.0
International Financial Institutions	0.0	0.0	2.3	2.0	0.0	2.8	2.3	2.2	2.1	2.1	1.2	0.6	0.6	0.0	0.0	0.0	0.0
Bilateral	0.0	0.0	0.0	0.0	0.0	4.7	0.2	0.4	0.5	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Eurobond	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.9	1.6	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Loans	0.0	0.0	0.2	0.2	0.2	3.3	1.7	1.5	2.8	0.6	1.8	0.4	1.5	0.3	0.7	0.3	0.6
Amortization	-0.8	-1.3	-1.3	-1.1	-0.4	-1.7	-1.5	-1.0	-0.9	-1.0	-1.0	-3.0	-1.6	-4.1	-3.0	-5.3	-4.4
Assets held abroad	9.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR Holding	0.0	0.0	1.7	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Account payables	0.0	5.5	-3.7	-3.4	-1.1	-0.5	-0.1	0.1	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	0.0	0.0	3.4	3.8	1.2	-3.4	-3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	3.1	9.0	18.7	15.2	8.4	17.6	13.2	8.2	4.5	5.6	1.3	6.9	1.7	6.4	2.1	5.9	2.2
Bank financing	3.1	3.3	14.6	12.8	7.9	13.6	13.7	8.2	4.5	5.6	1.3	6.9	1.7	6.4	2.1	5.9	2.2
CBI	2.9	2.5	8.2	7.2	5.0	10.3	9.1	5.0	3.7	2.7	1.2	2.7	1.1	1.6	1.0	1.5	0.9
Loans	0.0	0.0	5.2	4.5	5.0	10.3	9.1	5.0	3.7	2.7	1.2	2.7	1.1	1.6	1.0	1.5	0.9
Deposits	2.9	2.5	3.0	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.2	0.8	6.4	5.6	2.9	3.3	4.6	3.2	0.9	2.9	0.1	4.1	0.6	4.9	1.1	4.5	1.3
Loans	0.2	0.8	6.4	5.6	1.5	0.0	0.0	3.2	0.6	2.9	0.1	4.1	0.6	4.9	1.1	4.5	1.3
Deposits	0.0	0.0	0.0	0.0	1.4	3.3	4.6	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-bank financing	0.0	0.0	0.0	0.0	0.0	6.1	0.5	2.0	0.9	1.8	1.0	0.0	0.9	0.0	0.0	0.0	0.0
Account payables	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	0.0	1.5	4.2	2.5	0.5	-2.0	-0.9	-2.0	-0.9	-1.8	-1.0	0.0	-0.9	0.0	0.0	0.0	0.0
Financing gap: 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.8	4.8	0.5	0.4	0.0	0.0	0.0	0.0
Memorandum items:																	
Security-related expenditure (military and police equipment and salaries)	11.0	11.6	12.2	10.7	5.5	13.5	11.9	12.7	11.6	11.7	10.7	10.7	9.8	9.7	8.9	8.8	8.1
Current expenditures (percent of non-oil GDP)	56.5	48.9	45.5	41.1	20.0	55.6	47.6	56.6	46.6	52.8	47.0	46.6	40.5	42.7	37.3	39.2	34.3
Non-oil primary expenditure (percent of non-oil GDP)	74.1	62.7	56.3	49.1	19.8	59.4	48.9	56.6	52.5	52.8	48.2	48.9	44.5	45.0	40.4	41.3	37.2
Adjusted non-oil primary expenditure (percent of non-oil GDP) 5/	74.1	71.1	58.3	50.9	22.5	59.4	48.9	56.6	52.5	52.8	48.2	48.9	44.5	45.0	40.4	41.3	37.2
Non-oil primary fiscal balance, accrual basis (percent of non-oil GDP)	-67.6	-58.6	-51.6	-45.0	-17.6	-53.3	-43.1	-50.2	-45.4	-46.4	-41.2	-42.5	-37.6	-38.5	-33.6	-34.8	-30.4
Adjusted non-oil primary fiscal balance (percent of non-oil GDP) 5/	-67.6	-67.0	-53.6	-46.8	-20.3	-53.3	-43.1	-50.2	-45.4	-46.4	-41.2	-42.5	-37.6	-38.5	-33.6	-34.8	-30.4
Non-oil primary fiscal balance, cash basis (percent of non-oil GDP) 6/	-67.6	-57.1		-41.9	-16.0		-44.6		-46.3		-42.2		-38.5		-33.6		-30.4
Gross public debt (percent of non-oil GDP)	57.6	61.0	95.8	82.3	87.3	114.3	90.6	122.1	94.3	127.7	96.8	124.3	92.8	117.3	85.5	109.0	77.1
CBI total financing of the budget deficit (percent of non-oil GDP)	2.9	2.5	8.2	7.2	5.0	10.3	9.1	5.0	3.7	2.7	1.2	2.7	1.1	1.6	1.0	1.5	0.9
Non-oil GDP (ID trillion)	148.0	142.6	123.4	140.3	139.0	122.3	139.0	127.5	149.3	135.7	158.8	145.7	170.6	158.0	184.9	171.4	200.6

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

1/ IMF Country Report No. 16/225. Iraq: Staff Report for the First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement; with the financing gap path modified to reflect unidentified financing only, upon the approval of the three-year SBA.

2/ For 2013–14, includes off-budget transfers to SOEs financed by Bank Rafidain.

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

4/ Includes unidentified financing only.

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

6/ The non-oil primary fiscal balance on cash basis adjusts the non-oil primary balance measured on accrual basis by: (a) subtracting the spending financed by arrears' accumulation during that period, and (b) adding the payment of arrears during the same period.

Table 6. Iraq: Balance of Payments, 2013–21
(In billions of U.S. dollars; unless otherwise indicated)

	2013	2014	2015		2016		2017		2018		2019		2020		2021	
			Est. 1/	Rev. Est.	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.
Trade balance	23.2	25.6	-0.2	-0.2	-4.7	-1.3	1.7	-0.8	2.2	3.7	4.0	5.3	5.6	7.0	8.8	8.0
(In percent of GDP)	9.9	11.2	-0.1	-0.1	-3.1	-0.8	1.1	-0.4	1.3	1.8	2.2	2.4	2.8	3.0	4.1	3.2
Exports	89.8	92.9	49.3	56.5	45.6	49.2	53.3	57.9	56.2	63.0	59.3	64.9	61.6	67.5	65.1	69.7
Crude oil	89.4	92.5	49.0	56.1	45.4	48.8	53.0	57.5	55.8	62.5	58.9	64.3	61.0	66.9	64.0	68.7
Other exports	0.4	0.4	0.2	0.4	0.2	0.4	0.3	0.4	0.3	0.5	0.4	0.6	0.6	0.7	1.1	1.0
Imports	-66.5	-67.3	-49.5	-56.7	-50.3	-50.5	-51.5	-58.7	-54.0	-59.3	-55.3	-59.6	-56.0	-60.5	-56.3	-61.7
Private sector imports	-45.2	-47.2	-30.1	-41.6	-31.5	-37.7	-31.5	-41.0	-32.5	-41.2	-33.5	-41.5	-33.6	-42.1	-33.8	-43.3
Government imports	-21.3	-20.0	-19.4	-15.1	-18.8	-12.8	-20.0	-17.7	-21.5	-18.1	-21.8	-18.1	-22.4	-18.3	-22.5	-18.4
Services, net	-14.7	-15.3	-10.1	-10.7	-11.5	-10.4	-11.2	-12.3	-11.2	-11.4	-11.3	-11.1	-11.2	-10.3	-11.3	-10.0
Receipts	3.3	4.1	3.6	6.3	2.8	6.3	3.3	6.5	3.7	7.1	4.2	7.7	5.2	8.8	6.5	9.7
Payments	-18.0	-19.4	-13.7	-16.9	-14.3	-16.8	-14.5	-18.8	-14.9	-18.6	-15.5	-18.8	-16.5	-19.1	-17.8	-19.7
Income, net	-1.0	-1.1	-0.3	-0.6	-0.4	-0.9	-1.0	-1.2	-1.1	-1.4	-1.1	-1.4	-0.9	-1.4	-0.2	-1.1
Transfers, net	-4.9	-3.2	0.3	0.5	0.0	0.8	0.0	1.2	-4.6	-3.7	0.0	0.9	0.0	0.2	0.0	0.2
Private, net	0.2	0.1	0.4	0.4	0.0	0.5	0.0	0.4	0.0	0.3	0.0	0.3	0.0	0.2	0.0	0.2
Official, net	-5.0	-3.3	-0.1	0.1	0.0	0.3	0.0	0.8	-4.6	-4.0	0.0	0.6	0.0	0.0	0.0	0.0
Current account	2.7	6.1	-10.2	-10.9	-16.5	-11.9	-10.4	-13.1	-14.7	-12.9	-8.4	-6.3	-6.6	-4.4	-2.7	-2.9
(In percent of GDP)	1.1	2.7	-6.4	-6.1	-11.0	-6.8	-6.4	-6.8	-8.5	-6.2	-4.5	-2.9	-3.3	-1.9	-1.3	-1.2
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	1.6	-2.0	15.0	9.4	8.9	5.9	7.7	8.6	8.6	6.1	4.7	5.6	4.3	4.1	4.5	5.1
Direct and portfolio investment (net) 2/	5.7	4.6	3.0	3.8	-1.2	-1.2	1.0	0.5	3.0	2.0	4.0	3.0	5.3	5.0	5.9	5.9
Other capital, net	-4.1	-6.5	12.0	5.6	10.1	7.1	6.7	8.1	5.6	4.1	0.7	2.6	-1.0	-0.9	-1.4	-0.8
Official, net	1.4	-2.1	2.0	-4.4	7.6	4.0	4.4	7.6	3.3	2.6	-1.6	1.0	-3.4	-2.6	-5.9	-3.2
Assets	-2.8	-3.5	0.0	-6.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	4.2	1.4	2.0	1.7	7.6	4.0	4.4	7.6	3.3	2.6	-1.6	1.0	-3.4	-2.6	-5.9	-3.2
Disbursements 3/	2.3	0.1	2.8	2.8	8.6	5.0	5.5	8.9	4.3	4.2	1.2	3.0	0.4	1.1	0.4	1.0
Amortization	-1.0	-1.5	-0.8	-1.1	-1.0	-1.0	-1.1	-1.3	-1.0	-1.6	-2.8	-2.0	-3.9	-3.7	-6.3	-4.2
Private, net	-5.6	-4.4	10.0	10.0	2.5	3.0	2.4	0.4	2.4	1.5	2.4	1.6	2.4	1.7	4.5	2.4
Errors and omissions	-7.4	-27.6	-17.1	-11.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-3.1	-23.4	-12.3	-12.7	-7.6	-6.0	-2.7	-4.5	-6.1	-6.8	-3.6	-0.7	-2.3	-0.3	1.8	2.2
(In percent of GDP)	-1.3	-10.3	-7.7	-7.1	-5.1	-3.5	-1.7	-2.3	-3.5	-3.3	-2.0	-0.3	-1.1	-0.1	0.9	0.9
Financing	3.1	23.4	12.3	12.7	6.6	6.0	2.7	4.5	0.6	0.3	3.1	0.1	2.3	0.3	-1.8	-2.2
Development Fund for Iraq (increase -) 4/	11.8	5.6	-1.7	-1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross International Reserves (increase -)	-8.5	11.9	15.0	14.6	10.7	10.7	2.6	4.5	0.8	0.4	3.9	0.8	4.0	1.8	-0.1	-0.4
Fund credit (repayment)	-0.2	-0.8	-0.6	-0.6	-0.1	-0.1	0.0	0.0	-0.2	-0.2	-0.9	-0.7	-1.7	-1.5	-1.7	-1.8
Change in arrears (negative = decrease)			3.5	4.5	-3.5	-4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in payables (negative = decrease)	...	6.7	-3.9	-4.1	-0.5	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap (increase -) 5/	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.5	6.5	0.6	0.6	0.0	0.0	0.0	0.0
Memorandum items:																
GIR (end of period) 6/	77.8	66.7	53.4	53.7	42.7	43.0	40.1	38.5	39.3	38.1	35.4	37.3	31.5	35.5	31.6	35.9
(in months of imports of goods and services)	10.8	10.9	9.9	9.6	7.8	6.7	7.0	5.9	6.7	5.8	5.9	5.6	5.1	5.2	5.0	5.2
GDP	234.6	228.7	158.7	180.3	150.1	173.8	162.6	192.4	172.4	206.2	184.7	218.3	198.1	233.3	211.5	248.7
Of which: Non-oil GDP	126.9	122.3	105.9	120.3	103.6	117.8	108.1	126.3	115.0	134.4	123.5	144.3	133.9	156.4	145.2	169.7

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

1/ IMF Country Report No. 16/225. Iraq: Staff Report for the First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement; with the financing gap path modified to reflect unidentified financing only, upon the approval of the 3-year SBA.

2/ Includes planned issuances of Eurobonds in 2016–18.

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

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

5/ Includes unidentified financing only.

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

Table 7. Iraq: Monetary Survey, 2013–21
In billions of Iraqi dinars, unless otherwise indicated)

	2013	2014	2015		2016			2017		2018		2019		2020		2021	
			Est. 1/	Rev. Est.	June (Est.)	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.
Net foreign assets	109,239	100,541	77,772	74,790	66,888	61,928	57,650	55,977	52,973	53,453	53,130	49,156	52,870	44,917	51,458	45,072	51,968
Of which: CBI	88,544	74,647	63,332	60,350	53,208	50,694	46,416	47,645	41,101	46,753	40,588	42,161	39,625	37,497	37,474	37,651	37,984
Net domestic assets	-19,860	-9,820	6,500	9,482	21,755	29,622	30,884	41,794	39,917	53,343	46,421	65,518	54,184	78,433	62,290	91,065	71,081
Domestic claims	-5,150	-258	17,313	17,202	29,595	41,435	38,884	55,806	49,117	67,455	55,721	79,730	63,584	92,745	71,790	105,477	80,681
Net claims on general government	-27,021	-24,576	-8,230	-8,340	4,222	15,893	11,322	28,895	19,381	38,927	22,980	48,915	27,530	59,096	31,494	69,261	35,937
Claims on general government	11,856	15,892	28,516	28,405	34,643	48,639	41,698	61,640	49,341	71,673	52,940	81,661	57,490	91,841	61,454	102,007	65,897
less: Liabilities to general government	-38,876	-40,468	-36,746	-36,746	-30,421	-32,746	-30,376	-32,746	-29,960	-32746	-29,960	-32,746	-29,960	-32,746	-29,960	-32,746	-29,960
Claims on other sectors	21,871	24,318	25,543	25,543	25,373	25,541	27,563	26,912	29,736	28,528	32,741	30,815	36,054	33,650	40,295	36,216	44,744
Other Item Net (OIN)	-14,710	-9,562	-10,813	-7,720	-7,840	-11,813	-8,000	-14,013	-9,200	-14,113	-9,300	-14,213	-9,400	-14,313	-9,500	-14,413	-9,600
Broad money	89,379	92,638	84,272	84,272	88,643	91,550	88,534	97,771	92,890	106,796	99,551	114,674	107,054	123,350	113,748	136,137	123,050
Currency outside banks	34,995	36,071	34,855	34,855	39,959	33,643	35,633	32,278	33,201	35,258	35,581	35,240	35,388	37,906	37,327	41,835	39,376
Transferable deposits	43,342	41,348	34,659	34,659	34,559	40,614	37,103	45,935	41,864	50,175	44,866	55,713	50,265	59,928	53,599	66,140	58,686
Other deposits	11,041	15,218	14,757	14,757	14,125	17,293	15,798	19,558	17,825	21,364	19,103	23,721	21,402	25,516	22,822	28,161	24,987
Memorandum items																	
Broad money (percentage growth)	15.9	3.6	-9.0	-9.0	-2.8	8.6	5.1	6.8	4.9	9.2	7.2	7.4	7.5	7.6	6.3	10.4	8.2
Broad money (in percent of GDP)	32.7	34.7	45.5	40.1	43.2	51.7	43.2	51.0	40.8	52.5	40.8	52.6	41.5	52.8	41.2	54.5	41.9
M2 velocity (based on non-oil GDP)	1.7	1.5	1.5	1.7	1.6	1.3	1.6	1.3	1.6	1.3	1.6	1.3	1.6	1.3	1.6	1.3	1.6
Credit to the economy (percentage growth)	14.7	11.2	5.0	5.0	5.8	0.0	7.9	5.4	7.9	6.0	10.1	8.0	10.1	9.2	11.8	7.6	11.0
Credit to the economy (in percent of non-oil GDP)	14.8	17.1	20.7	18.2	18.3	20.9	19.8	21.1	19.9	21.0	20.6	21.1	21.1	21.3	21.8	21.1	22.3

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

1/ IMF Country Report No. 16/225. Iraq: Staff Report for the First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement; with the financing gap path modified to reflect unidentified financing only, upon the approval of the three-year SBA.

Table 8. Iraq: Central Bank Balance Sheet, 2013–21

(In billions of Iraqi dinars, unless otherwise indicated)

	2013	2014	2015		2016				2017		2018		2019		2020		2021	
			Est. 1/	Rev. Est.	June (Est.)	Sep. (Est.)	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.
Net foreign assets	88,544	74,647	63,332	60,350	53,208	52,675	50,694	46,416	47,645	41,101	46,753	40,588	42,161	39,625	37,497	37,474	37,651	37,984
Foreign assets	92,314	79,273	63,343	63,733	56,565	56,774	50,705	51,243	47,656	45,928	46,763	45,414	42,172	44,451	37,507	42,301	37,662	42,810
Official reserve assets	90,742	77,720	62,983	63,374	56,199	56,410	50,345	50,876	47,296	45,562	46,403	45,048	41,812	44,085	37,147	41,934	37,302	42,444
Gold	1,902	4,038	3,626	3,626	4,508	4,514	3,916	3,916	4,229	4,229	4,568	4,568	4,933	4,933	5,328	5,328	5,754	5,754
Other	86,723	72,545	59,357	59,357	51,169	51,388	46,429	45,701	43,067	40,073	41,836	39,221	36,879	37,892	31,820	35,347	31,548	35,431
SDR holdings and reserve position in the Fund	2,117	1,136	0	391	521	508	0	1,260	0	1,260	0	1,260	0	1,260	0	1,260	0	1,260
Other foreign assets	1,572	1,553	360	360	366	364	360	366	360	366	360	366	360	366	360	366	360	366
Foreign liabilities	-3,771	-4,626	-10	-3,384	-3,357	-4,099	-10	-4,826	-10	-4,826	-10	-4,826	-10	-4,826	-10	-4,826	-10	-4,826
Net domestic assets	-15,265	-10,311	-5,445	-2,438	7,012	8,143	5,180	12,763	9,777	17,962	15,970	22,710	25,188	28,008	34,949	33,864	42,304	37,271
Domestic assets	864	600	3,031	2,921	11,762	13,661	17,310	17,810	23,705	23,305	27,332	25,203	31,327	27,100	33,827	28,997	36,327	30,894
Net claims on general government	751	513	2,937	2,826	11,673	13,552	17,215	17,715	23,610	23,210	27,237	25,108	31,232	27,005	33,732	28,902	36,232	30,800
Loans to central government	2,756	2,456	2,466	2,356	2,356	2,356	2,266	2,729	2,266	2,729	2,266	2,729	2,266	2,729	2,266	2,729	2,266	2,729
Holdings of discounted treasury bills	0	31	6,225	6,225	13,225	14,179	18,811	18,847	25,206	24,347	28,833	26,245	32,828	28,142	35,328	30,039	37,828	31,937
Other claims	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Domestic currency deposits	-1,895	-1,107	-1,522	-1,522	-1,435	-547	-1,066	-1,066	-1,066	-1,066	-1,066	-1,066	-1,066	-1,066	-1,066	-1,066	-1,066	-1,066
Foreign currency deposits	-109	-867	-4,232	-4,232	-2,473	-2,435	-2,796	-2,796	-2,796	-2,800	-2,796	-2,800	-2,796	-2,800	-2,796	-2,800	-2,796	-2,800
Monetary policy instruments 2/	-10,797	-6,567	-6,455	-6,455	-6,264	-7,423	-10,126	-6,759	-11,924	-7,055	-9,358	-4,204	-4,135	-804	3,125	3,155	7,981	4,664
Other items net	-5,331	-4,343	-2,004	1,088	1,514	1,905	-2,004	1,712	-2,004	1,712	-2,004	1,712	-2,004	1,712	-2,004	1,712	-2,004	1,712
Reserve money	73,259	66,231	57,888	57,888	60,220	60,818	55,874	59,179	57,422	59,063	62,723	63,298	67,349	67,633	72,445	71,338	79,955	75,255
Currency in circulation	40,630	39,884	38,585	38,585	43,143	44,577	35,593	42,548	36,004	41,414	40,398	45,007	43,840	48,187	48,034	51,179	54,215	54,008
Bank reserves	32,629	26,347	19,302	19,302	17,078	16,241	20,281	16,631	21,418	17,649	22,325	18,291	23,510	19,446	24,411	20,159	25,740	21,247
Other liquid liabilities	20	22	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Memorandum items																		
Reserve money (annual growth, in percent)	12.6	-9.6	-12.6	-12.6	4.0 4/	3.4 4/	-3.5	2.2	2.8	-0.2	9.2	7.2	7.4	6.8	7.6	5.5	10.4	5.5
Currency in circulation (annual growth, in percent)	14.4	3.1	-3.3	-3.3	9.1 4/	10.9 4/	-7.8	10.3	1.2	-2.7	12.2	8.7	8.5	7.1	9.6	6.2	12.9	5.5
Gross foreign exchange assets (in millions of U.S. dollars) 3/	77,823	66,655	53,375	53,707	47,626	47,805	42,665	43,043	40,081	38,546	39,325	38,112	35,434	37,297	31,481	35,478	31,612	35,909

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

1/ IMF Country Report No. 16/225. Iraq: Staff Report for the First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement; with the financing gap path modified to reflect unidentified financing only, upon the approval of the three-year SBA.

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

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

4/ Compared to, respectively, end-June and end-September 2015.

Table 9. Iraq: Proposed Schedule of Reviews and Purchases Under the Stand-By Arrangement, 2016–19

Amount of Purchase [1/]			Availability Date	Conditions
Millions of SDR	Percent of Quota	Millions of USD		
455.0	27.3	636.2	On or after June 29, 2016	Executive Board approval of the SBA arrangement.
455.0	27.3	636.2	On or after September 15, 2016	Observance of the continuous and end-June 2016 performance criteria, and completion of the first review under the arrangement.
584.2	35.1	819.6	On or after April 15, 2017	Observance of the continuous and end-December 2016 performance criteria, and completion of the second review under the arrangement.
584.2	35.1	819.6	On or after October 15, 2017	Observance of the continuous and end-June 2017 performance criteria, and completion of the third review under the arrangement.
584.2	35.1	822.0	On or after April 15, 2018	Observance of the continuous and end-December 2017 performance criteria, and completion of the fourth review under the arrangement.
584.2	35.1	822.0	On or after October 15, 2018	Observance of the continuous and end-June 2018 performance criteria, and completion of the fifth review under the arrangement.
584.2	35.1	824.9	On or after April 15, 2019	Observance of the continuous and end-December 2018 performance criteria, and completion of the sixth review under the arrangement.
3,831.0	**230.3**	**5,380.4**	**Total under the SBA arrangement**	

Source: Fund staff estimates.

1/ The SBA request included 12 quarterly reviews and 13 purchases: see Table 10 of IMF Country Report No.16/225.

Table 10. Iraq: Indicators of Fund Credit, 2015–21
(In millions of SDRs; unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021
Disbursements of Fund credit (SBA and RFI)	891	910	1168	1168	584	0	0
SBA, 2009	0	0	0	0	0	0	0
In percent of IMF quota (old)	0	0	0	0	0	0	0
RFI, 2015	891	0	0	0	0	0	0
In percent of IMF quota (old)	75	0	0	0	0	0	0
SBA, 2016	0	910	1168	1168	584	0	0
In percent of IMF quota (current)	0	55	70	70	35	0	0
Obligations (SBA and RFI)	432	47	32	164	577	1137	1306
SBA, 2009 (total)	427	37	0	0	0	0	0
Repayments of SBA 1/	423	37	0	0	0	0	0
Total charges and interest	3	0	0	0	0	0	0
RFI, 2015 (total)	5	7	10	121	453	337	1
Repayments of RFI 1/	0	0	0	111	446	334	0
Total charges and interest	5	7	10	10	7	2	1
SBA, 2016 (total)	0	2	22	43	124	801	1306
Repayments of SBA 1/	0	0	0	0	57	747	1274
Total charges and interest	0	2	22	43	67	54	31
In percent of IMF quota (current)		0	1	3	7	48	78
Total obligations, in percent of:							
Exports of goods and services	1	0	0	0	1	3	3
External public debt	1	0	0	0	1	2	2
Gross reserves	1	0	0	1	2	5	5
GDP	0	0	0	0	0	1	1
IMF Quota (old)	36	4	3	14	49	96	110
IMF Quota (current)		3	2	10	35	68	79
Outstanding Fund credit (SBA and RFI)	928	1801	2970	4027	4108	3027	1753
SBA, 2009	37	0	0	0	0	0	0
RFI, 2015	891	891	891	780	334	0	0
SBA, 2016		910	2078	3247	3774	3027	1753
Total outstanding Fund credit, in percent of							
Exports of goods and services	1	3	5	8	10	7	4
External public debt	2	4	6	7	7	5	3
Gross reserves	2	6	11	15	16	12	7
GDP	1	1	2	3	3	2	1
IMF Quota (old)	78	152	250	339	346	255	147
IMF Quota (current)		108	178	242	247	182	105

Sources: IMF staff estimates and projections.

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

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

	2016	2017	2018	2019
1. Total financing requirements	-14.2	-13.4	-11.0	-3.8
2. Total available financing	14.2	13.4	4.5	3.2
Domestic	15.6	5.7	1.7	2.5
T-bills and bonds	11.2	6.5	3.0	3.8
o/w CBI purchases	10.7	4.7	1.6	1.6
Other [1/]	4.3	-0.7	-1.4	-1.4
External	-1.4	7.7	2.8	0.7
Budget loans	3.0	5.3	2.0	0.8
International Financial Institutions	2.7	2.6	1.7	0.8
International Monetary Fund (SBA)	1.3	1.6	1.6	0.8
World Bank	1.0	1.0	0.0	0.0
Canada, UK	0.5	0.0	0.0	0.0
Bilateral	0.2	0.7	0.3	0.0
Japan	0.2	0.2	0.3	0.0
France	0.0	0.5	0.0	0.0
Eurobond (with and without U.S. Guarantee)	0.0	2.0	0.0	0.0
Project loans [2/]	2.0	3.6	2.4	2.1
U.S.	1.3	1.5	0.0	0.0
Other	0.7	2.1	2.4	2.1
Other [3/]	-6.4	-1.2	-1.5	-2.3
3. Financing gap	0.0	0.0	6.5	0.6
Memorandum Items:				
Gross International Reserves				
Billions of U.S. dollars	43.0	38.5	38.1	37.3
Months of imports	6.7	5.9	5.8	5.6
Exchange rate, average	1180	1182	1182	1182

Source: IMF staff estimates and projections.

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

2/ Includes Italian, German, and other project loans (Text Table 3).

3/ Includes amortization, accounts payable and arrears.

Table 12. Iraq: Reserve Adequacy Indicators, 2013–19

	2013	2014	2015		2016		2017		2018		2019	
			Est. 1/	Rev. Est.	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Proj. 1/	Rev. Proj.	Proj. 1/	Rev. Proj.
Reserves in USD billion 2/	77.8	66.7	53.4	53.7	42.7	43.0	40.1	38.5	39.3	38.1	35.4	37.3
Reserves in months of imports of goods and services	10.8	10.9	9.9	9.6	7.8	6.7	7.0	5.9	6.7	5.8	5.9	5.6
Reserves in percent of external debt service coming due	3,615	3,297	673	618	991	934	785	696	515	587	383	419
Reserves in percent of reserve money	123.9	117.3	107.5	108.2	90.1	85.8	82.4	77.1	74.0	71.2	62.1	65.2
Reserves in percent of broad money	101.5	83.9	73.9	74.3	55.0	57.4	48.4	49.0	43.5	45.3	36.5	41.2
Reserves in percent of the IMF RA metric 3/ 4/	259	217	195	188	162	160	145	137	133	129	114	119
Reserves in percent of the augmented IMF RA metric 5/	…	…	125	147	128	142	112	119	103	112	88	104

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

1/ IMF Country Report No.16/225. Iraq: Staff Report for the First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement; with the financing gap path modified to reflect unidentified financing only, upon the approval of the three-year SBA.

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

3/ Reserves within 100–150 percent of the Reserve Adequacy (RA) metric are considered adequate. The RA metric is a weighted sum of export revenues, broad money, short term debt and the stock of other liabilities.

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

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

Annex I. Public and External Debt Sustainability Analysis

The debt outlook under the baseline scenario of the first review has improved considerably since the approval of the Stand-By Arrangement in July 2016. This is mostly linked to an improved oil price and fiscal outlook in 2016 and beyond, and to data revisions implying higher nominal GDP. The improvement in the fiscal outlook together with a low investor appetite for domestic debt reduced new borrowing in 2016 and over the medium term. Total debt as a share of GDP is projected to peak at 63 percent (previously 85 percent) in 2018 before embarking on a downward path, reaching 53 percent of GDP in 2021. External debt is projected to increase to 38 percent of GDP this year, to peak at 40 percent of GDP (previously 49 percent) in 2018 and to decline to 31 percent of GDP at the end of the forecast period. Provided the recommended fiscal adjustment is implemented, debt is sustainable over the medium run. However, the implementation of fiscal adjustment plans, the high level of external debt, the gross financing needs (although reduced to 16 percent of GDP from 29 percent previously) and sensitivity to macro shocks pose risks for debt sustainability. The risks are partly mitigated by the fact that about one third of the gross financing needs are rollover of short-term debt by state-owned banks and about 60 percent of the external debt consists of legacy arrears still to be restructured on Paris Club terms.

1. **The medium-term debt path under the baseline scenario has been reduced by about 22 percentage points of GDP since the approval of the Stand-By Arrangement in July 2016 owing to improvements in both the GDP and the debt paths.** Total public debt now peaks at 63 percent of GDP (85 percent of GDP in the previous DSA) and comes down to 53 percent of GDP in 2021 (75 percent of GDP in the previous DSA). This improvement by 22 percent of GDP of the debt-to-GDP ratio is explained for 60 percent by the reduction of the nominal debt path, and by the increase in the nominal GDP path for the balance. The starting level of the debt stock in 2015 was revised downward (by $2.4 billion, or 2 percent) because of the elimination of double counting. The nominal debt path improved in the outer years because of the downward revision of the budget deficit. The budget deficit was revised significantly downward in 2016 (by 36 percent in nominal terms) because of the upward revision of oil revenue, and the reduction of public spending caused by the inability to raise as much domestic financing as programmed and the postponement of donor financing from 2016 to 2017. The budget deficit was revised downward in outer years because of the upward revision of oil revenue: oil production was increased by 6 percent in 2016 and the outer years, in light of the outcome so far, and oil prices were revised upward by about $2.2 per barrel on average over the projection period, in line with the latest World Economic Outlook assumptions. Nominal GDP was increased by 14 percent in 2015 because of upward revision of construction and oil production in Kurdistan, and of the non-oil GDP deflator, and was also increased in outer years in line with the upward revision of oil GDP.

2. **Debt is projected to increase over the program period, peak at US$ 134 billion in 2019 and decline to US$ 131 billion in 2021, in line with the evolution of the fiscal balance.** New, mostly domestic borrowing will be necessary to fund large fiscal deficits in 2016, 2017, and 2018, and a smaller deficit in 2019. This will make the total stock of debt peak to the equivalent of US$134 billion (61 percent of GDP) in 2019. Fiscal surpluses and large repayments in subsequent years contribute to a reduction of the debt stock to US$131 billion (53 percent of GDP) by 2021. This also reduces Iraq's gross financing needs significantly over the medium term. On average financing needs over the medium term (16 percent of GDP, previously 29 percent of GDP) only slightly exceed the high risk

threshold of 15 percent of GDP. The risks are also mitigated by the fact that short-term debt consists mostly of T-bills held by state-owned banks and discounted at the central bank, thus limiting the risk of non-rollover.

3. **The composition of debt is expected to shift towards domestic debt over the medium run.** Domestic debt is projected to rise from 18 percent of GDP in 2015 to 24 percent of GDP in 2016 as financing needs this year would mostly be met by bank loans and indirect monetary financing through lending operations of Rasheed and Rafidain. Repayments, particularly external arrears, in 2016 will exceed new external financing, leading to a stabilization of the external debt stock to about US$ 66 billion (38 percent of GDP). This includes external arrears of $41 billion which were accumulated under the pre-2003 government and are still under negotiation. The external arrears have to be settled at the terms of the 2004 Paris Club meeting where a reduction of 80 percent of the net present value of the debt was agreed. The DSA conservatively assumes that these arrears will not be settled during the projection period. If external arrears were reduced to 20 percent of the original US$41 billion, then the debt-to-GDP ratio would fall from 61 to 43 percent in 2016 and peak at 47 percent in 2018 before declining to about 40 percent at the end of the forecast horizon.

4. **Median forecast errors for key macroeconomic variables have been large for Iraq compared to other countries.** This is driven by uncertainties about the outlook for oil prices, the conflict and data weaknesses. Forecasts for real GDP and the primary balance tended to err on the optimistic side. This underscores the risk that the planned fiscal adjustment under the program would not be fully implemented which would increase debt levels further.

5. **Stress tests indicate that Iraq's debt ratio and financing needs are sensitive to shocks.** Iraq's total debt is particularly vulnerable to a growth shock but a worsening of the primary balance or an interest rate shock would also significantly increase debt and financing needs over the medium run.

- **Growth shock:** If projected real GDP rates are lowered by one standard deviation (implying lower real growth by 4 percentage points in 2017 and 2018), the debt ratio would peak at 76 percent of GDP in 2018 before gradually declining to 64 percent in 2021.

- **Primary balance shock:** This scenario assumes a worsening of the primary balance by 4 percentage points of GDP in 2017 and 2018. The larger deficit would make the debt ratio peak at 70 percent in 2018 and fall to 59 percent towards the end of the forecast period.

- **Real interest rate shock:** Increasing real interest rates by 10 percentage points would make the debt ratio peak at 64 percent of GDP in 2018 and 2019 and fall to 59 percent in 2021.[1]

[1] The DSA methodology for generating interest rate shocks is based on GDP deflators rather than CPI inflation. Since this standard methodology generates an excessively large shock in the case of Iraq, the shock was adapted to a more moderate 10 percent increase in the real rate.

- **Real exchange rate shock:** A one-time real depreciation of 30 percent in 2017 would make total public debt peak at 73 percent of GDP in 2018 and fall to 61 percent in 2021.

- **Combined shock:** A combination of these shocks would make debt peak at 90 percent of GDP in 2018. Debt would decline to 84 percent of GDP towards the end of the forecast horizon.

6. **Stress tests in the external DSA suggest that Iraq's external debt ratio is also sensitive to shocks.** While the path of Iraq's external debt would rise only marginally in response to an interest rate or a growth shock, a current account shock and a real depreciation would result in a substantial increase in external debt.

- **Non-interest current account shock:** An increase in the current account excluding interest payments by half a standard deviation in each year from 2017 onwards would make external debt peak at 49 percent of GDP in 2019 before edging down to 47 percent in 2021.

- **Real exchange rate shock:** A one-time real depreciation of 30 percent in 2017 would make external debt peak at 50 percent of GDP in 2018 and decline to 38 percent by 2021.

- **Combined shock:** A one quarter standard deviation shock to the real interest rate, the growth rate and the current account would raise the external debt ratio to 45 percent in 2019 and 41 percent towards the end of the projection period.

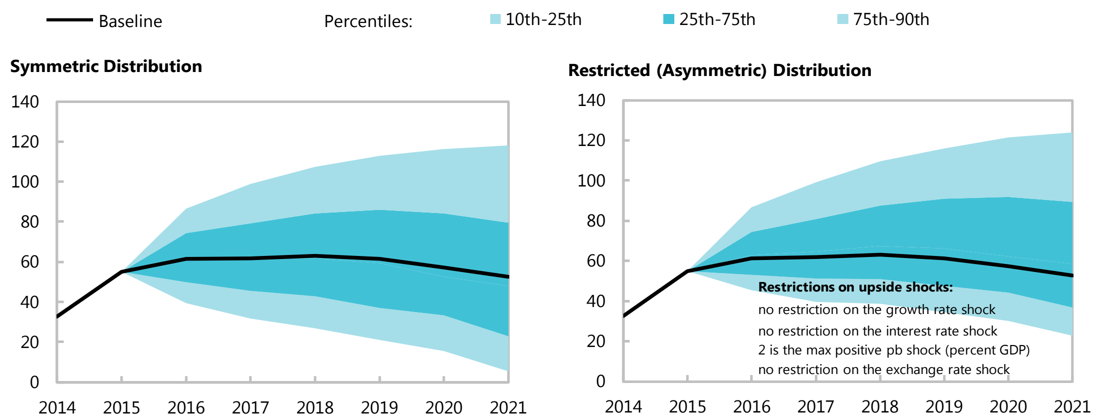
Figure 1. Iraq: Public Sector Debt Sustainability Analysis(DSA)—Risk Assessment

Heat Map

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

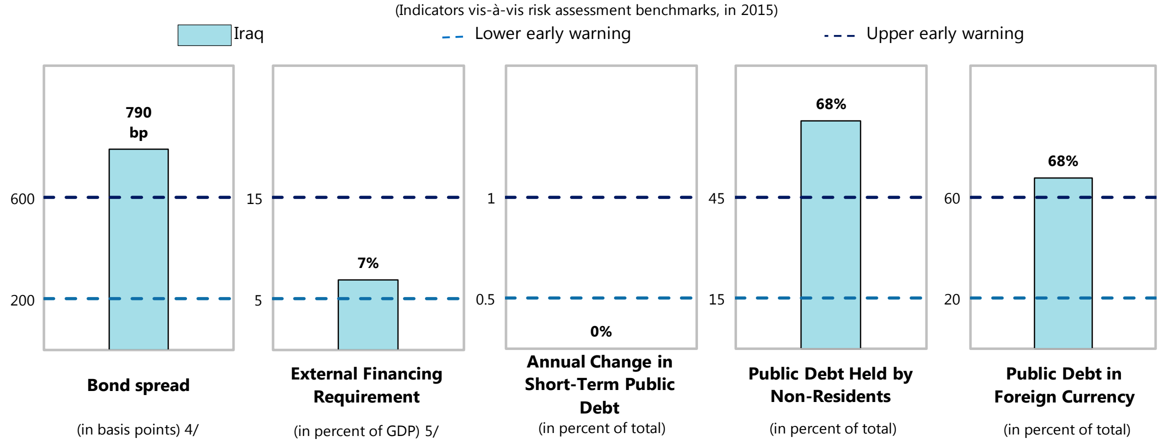
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



Source: IMF staff.

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

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

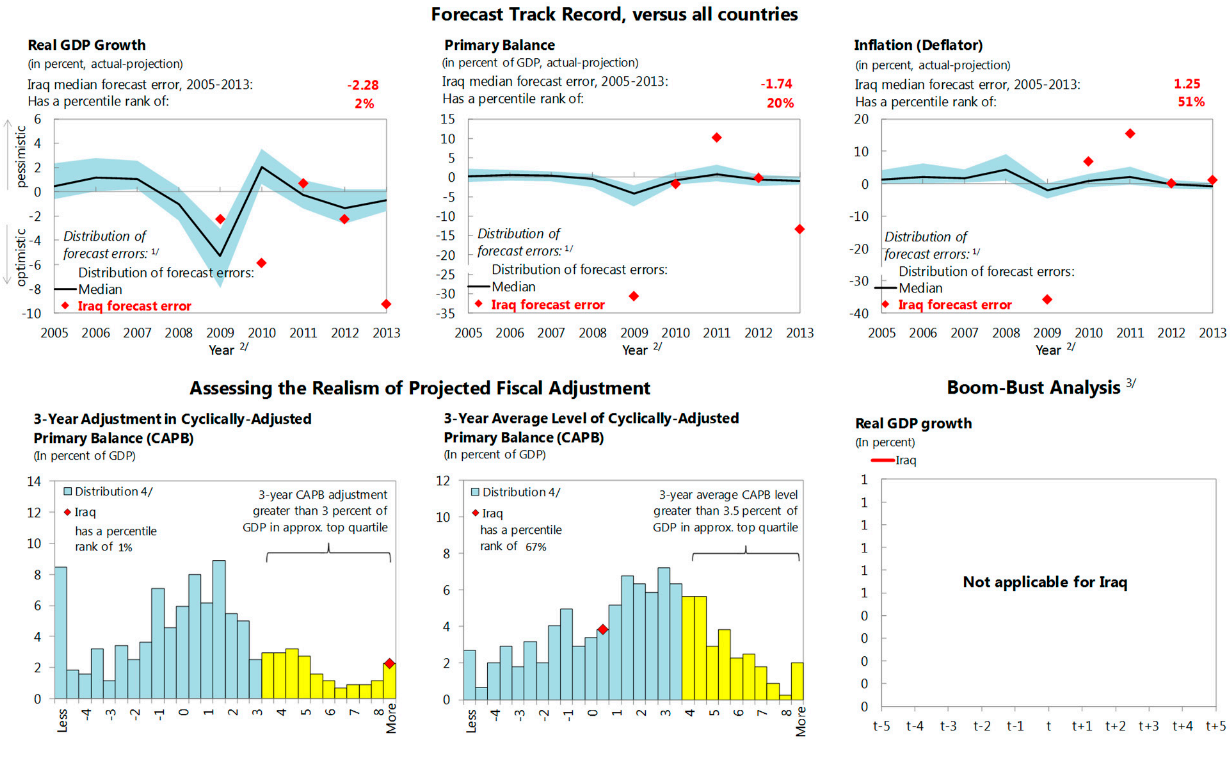
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ EMBIG (bp), an average over the last 3 months, 22-Jul-16 through 20-Oct-16.

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



Source: IMF Staff.

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

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

(In percent of GDP unless otherwise indicated)

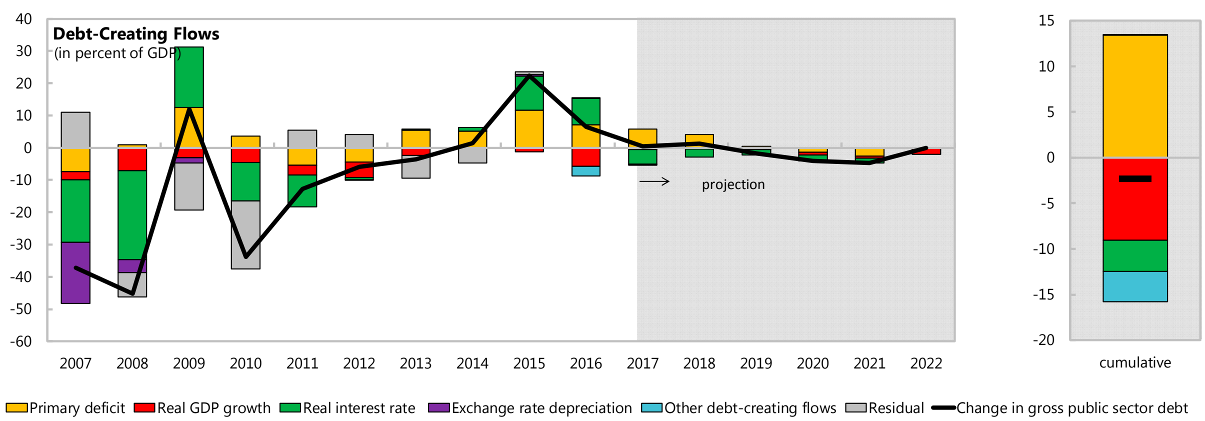
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	92.0	32.6	54.9	61.4	61.9	63.1	61.3	57.3	52.6
Public gross financing needs	0.0	4.7	11.5	20.3	16.2	15.5	12.8	12.2	16.8
Real GDP growth (in percent)	6.3	0.1	2.9	10.2	1.1	0.7	1.1	1.4	1.5
Inflation (GDP deflator, in percent)	14.2	-2.6	-23.4	-11.5	9.7	6.4	4.7	5.4	5.0
Nominal GDP growth (in percent)	21.3	-2.5	-21.2	-2.4	10.9	7.2	5.9	6.9	6.6
Effective interest rate (in percent) [4/]	0.8	0.8	1.5	2.0	1.8	2.1	2.2	2.3	2.5

As of October 20, 2016		
Sovereign Spreads		
Bond Spread (bp) 3/		742
5Y CDS (bp)		745
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	B-	B-
Fitch	B-	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-18.1	1.5	22.3	6.5	0.5	1.2	-1.8	-4.0	-4.7	-2.3	
Identified debt-creating flows	-13.9	6.2	21.4	6.4	0.5	1.2	-1.8	-4.0	-4.7	-2.4	
Primary deficit	0.8	5.1	11.7	7.0	5.7	4.2	0.4	-1.4	-2.5	13.4	-2.2
Primary (noninterest) revenue and grants	48.2	39.1	30.2	32.2	34.8	35.1	34.3	33.5	32.5	202.4	
Primary (noninterest) expenditure	49.0	44.3	41.8	39.3	40.5	39.3	34.7	32.1	30.0	215.8	
Automatic debt dynamics [5/]	-14.7	1.1	9.8	2.5	-5.0	-3.0	-2.2	-2.6	-2.2	-12.5	
Interest rate/growth differential [6/]	-11.1	1.1	9.4	2.5	-5.0	-3.0	-2.2	-2.6	-2.2	-12.5	
Of which: real interest rate	-7.2	1.1	10.6	8.2	-4.4	-2.5	-1.5	-1.8	-1.4	-3.5	
Of which: real GDP growth	-3.9	0.0	-1.2	-5.8	-0.6	-0.4	-0.6	-0.8	-0.8	-9.0	
Exchange rate depreciation [7/]	-3.5	0.0	0.4	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	-3.1	-0.2	0.0	0.0	0.0	0.0	-3.3	
Other flows (+ reduces financing needs) (negative)	0.0	0.0	0.0	-3.1	-0.2	0.0	0.0	0.0	0.0	-3.3	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., other debt flows) (+ increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	-4.2	-4.7	0.9	0.1	0.0	0.0	0.0	0.0	0.0	0.1	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ EMBIG (bp).

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

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

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

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

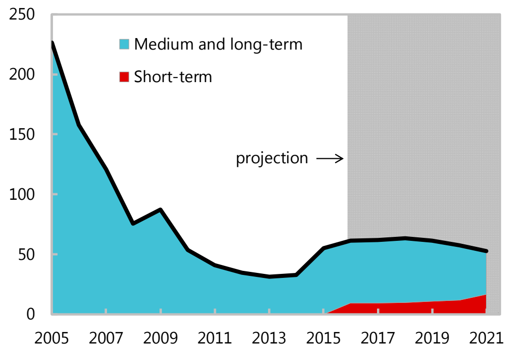
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

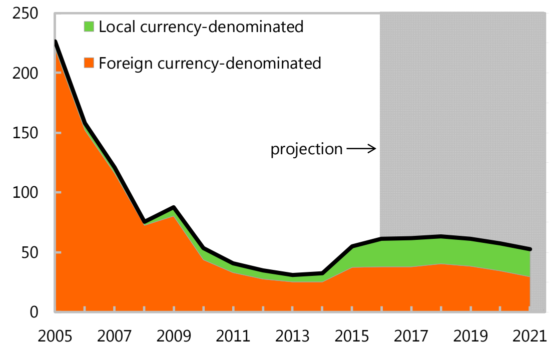
Figure 3. Iraq: Public Debt Sustainability Analysis—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



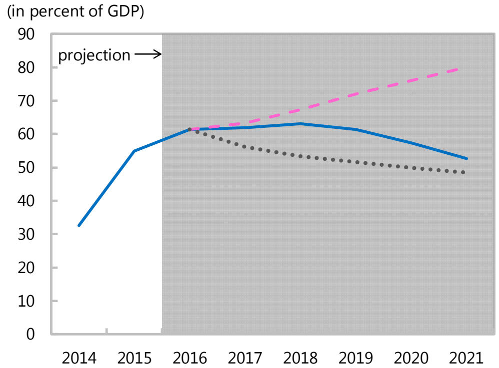
By Currency
(in percent of GDP)



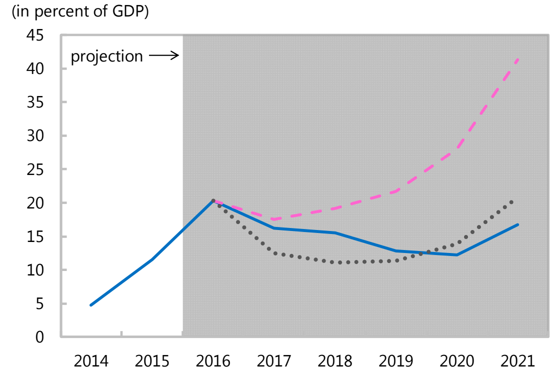
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt [1/]
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

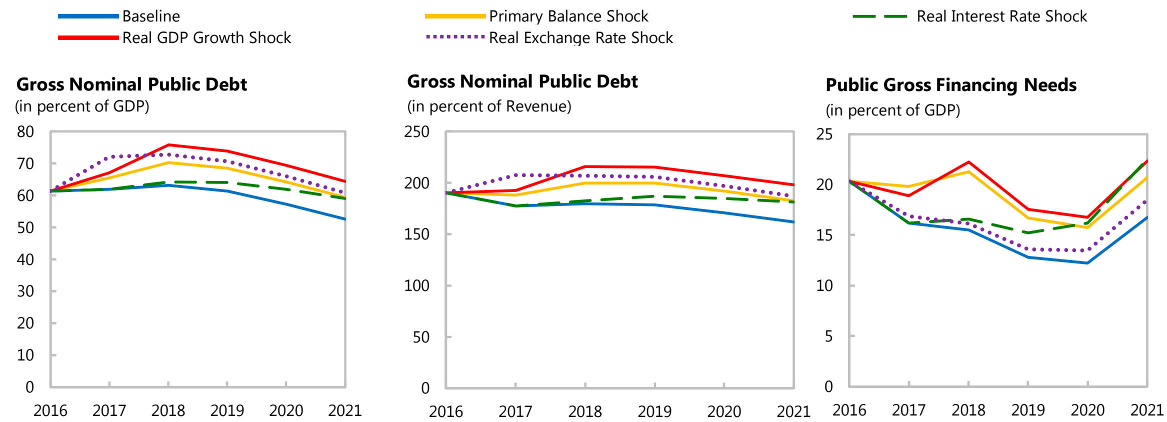
Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	10.2	1.1	0.7	1.1	1.4	1.5
Inflation	-11.5	9.7	6.4	4.7	5.4	5.0
Primary Balance	-7.0	-5.7	-4.2	-0.4	1.4	2.5
Effective interest rate	2.0	1.8	2.1	2.2	2.3	2.5
Constant Primary Balance Scenario						
Real GDP growth	10.2	1.1	0.7	1.1	1.4	1.5
Inflation	-11.5	9.7	6.4	4.7	5.4	5.0
Primary Balance	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0
Effective interest rate	2.0	1.8	2.1	2.2	2.4	2.5

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	10.2	5.8	5.8	5.8	5.8	5.8
Inflation	-11.5	9.7	6.4	4.7	5.4	5.0
Primary Balance	-7.0	-2.5	-2.5	-2.5	-2.5	-2.5
Effective interest rate	2.0	1.8	2.0	2.1	2.3	2.4

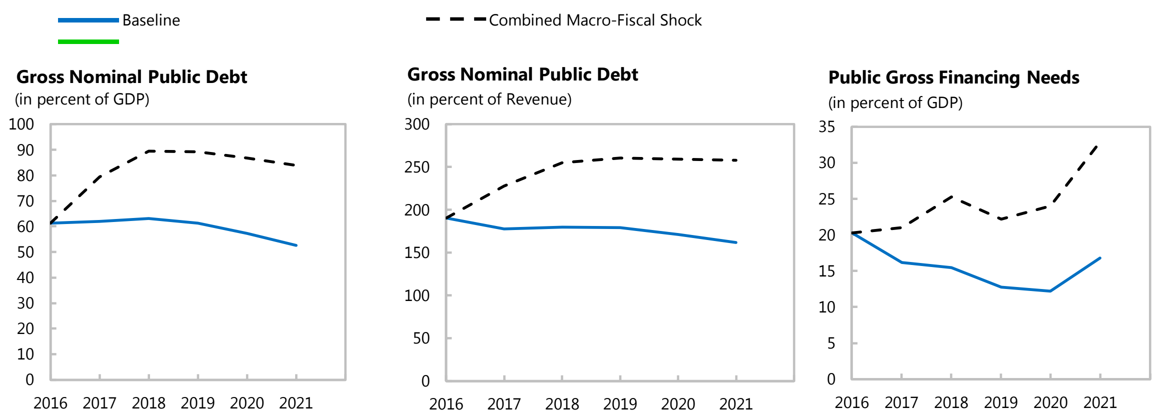
Source: IMF staff.

Figure 4. Iraq: Public Sector Debt Sustainability Analysis (DSA)—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	10.2	1.1	0.7	1.1	1.4	1.5
Inflation	-11.5	9.7	6.4	4.7	5.4	5.0
Primary balance	-7.0	-9.3	-7.7	-0.4	1.4	2.5
Effective interest rate	2.0	1.8	2.3	2.6	2.6	2.7
Real Interest Rate Shock						
Real GDP growth	10.2	1.1	0.7	1.1	1.4	1.5
Inflation	-11.5	9.7	6.4	4.7	5.4	5.0
Primary balance	-7.0	-5.7	-4.2	-0.4	1.4	2.5
Effective interest rate	2.0	1.8	4.0	5.1	5.6	6.0
Combined Shock						
Real GDP growth	10.2	-3.1	-3.5	1.1	1.4	1.5
Inflation	-11.5	8.7	5.4	4.7	5.4	5.0
Primary balance	-7.0	-9.3	-8.5	-0.4	1.4	2.5
Effective interest rate	2.0	2.0	3.9	5.1	5.6	6.0

Real GDP Growth Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	10.2	-3.1	-3.5	1.1	1.4	1.5
Inflation	-11.5	8.7	5.4	4.7	5.4	5.0
Primary balance	-7.0	-7.9	-8.5	-0.4	1.4	2.5
Effective interest rate	2.0	1.8	2.2	2.5	2.5	2.7
Real Exchange Rate Shock						
Real GDP growth	10.2	1.1	0.7	1.1	1.4	1.5
Inflation	-11.5	9.7	6.4	4.7	5.4	5.0
Primary balance	-7.0	-5.7	-4.2	-0.4	1.4	2.5
Effective interest rate	2.0	2.0	1.9	2.1	2.2	2.3

Source: IMF staff.

Table 2. Iraq: External Debt Sustainability Framework, 2011–21
(In percent of GDP; unless otherwise indicated)

	Actual							Projections						
	2011	2012	2013	2014	2015			2016	2017	2018	2019	2020	2021	Debt-stabilizing non-interest current account 6/
Baseline: External debt	32.8	27.7	25.3	25.2	36.7			**37.8**	**38.2**	**40.3**	**38.7**	**34.7**	**30.7**	**-3.9**
Change in external debt	-11.1	-5.1	-2.4	-0.1	11.5			1.1	0.4	2.1	-1.6	-4.0	-3.9	
Identified external debt-creating flows (4+8+9)	-23.1	-11.3	-5.6	-4.0	10.7			3.6	6.2	5.0	1.1	-0.8	-1.7	
Current account deficit, excluding interest payments	-11.2	-5.4	-1.4	-2.9	5.8			6.5	6.3	5.6	2.3	1.4	0.7	
Deficit in balance of goods and services	-12.2	-6.9	-3.6	-4.5	6.0			6.8	6.8	3.8	2.7	1.4	0.8	
Exports	44.4	44.5	39.7	42.4	34.8			31.9	33.5	34.0	33.2	32.7	31.9	
Imports	32.2	37.6	36.0	37.9	40.8			38.7	40.3	37.8	35.9	34.1	32.7	
Net non-debt creating capital inflows (negative)	-1.0	-1.3	-2.4	-2.0	-2.1			0.7	-0.3	-1.0	-1.4	-2.1	-2.4	
Automatic debt dynamics 1/	-10.8	-4.6	-1.7	0.9	7.1			-3.5	0.1	0.4	0.2	0.0	-0.1	
Contribution from nominal interest rate	0.4	0.3	0.3	0.3	0.3			0.3	0.5	0.6	0.6	0.5	0.4	
Contribution from real GDP growth	-2.5	-3.9	-2.0	0.0	-0.9			-3.9	-0.4	-0.3	-0.4	-0.5	-0.5	
Contribution from price and exchange rate changes 2/	-8.7	-1.0	0.0	0.7	7.7			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	12.0	6.2	3.1	3.9	0.8			-2.5	-5.8	-2.9	-2.7	-3.2	-2.2	
External debt-to-exports ratio (in percent)	73.9	62.2	63.7	59.3	105.4			118.4	114.0	118.6	116.4	105.9	96.3	
Gross external financing need (in billions of US dollars) 4/	-19.8	-10.2	-1.7	-4.5	12.4			19.9	16.8	17.1	11.4	12.0	11.3	
in percent of GDP	-10.6	-4.7	-0.7	-2.0	6.9	10-Year	10-Year	11.5	8.7	8.3	5.2	5.2	4.5	
Scenario with key variables at their historical averages 5/								**37.8**	**27.2**	**19.9**	**13.3**	**7.4**	**2.7**	**-1.7**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	7.5	13.9	7.6	0.1	2.9	5.8	4.0	10.2	1.1	0.7	1.1	1.4	1.5	
GDP deflator in US dollars (change in percent)	24.7	3.0	0.0	-2.6	-23.4	9.4	20.9	-12.5	9.5	6.4	4.7	5.4	5.0	
Nominal external interest rate (in percent)	1.1	1.1	1.0	1.0	0.9	0.6	0.4	0.9	1.3	1.7	1.6	1.5	1.3	
Growth of exports (US dollar terms, in percent)	52.0	17.7	-4.1	4.3	-35.3	15.3	33.5	-11.6	16.1	8.9	3.5	5.2	3.9	
Growth of imports (US dollar terms, in percent)	8.7	36.9	3.2	2.5	-15.1	13.9	17.5	-8.7	15.3	0.5	0.6	1.5	2.3	
Current account balance, excluding interest payments	11.2	5.4	1.4	2.9	-5.8	1.9	7.3	-6.5	-6.3	-5.6	-2.3	-1.4	-0.7	
Net non-debt creating capital inflows	1.0	1.3	2.4	2.0	2.1	1.4	0.7	-0.7	0.3	1.0	1.4	2.1	2.4	

Sources: International Monetary Fund; country desk data; and staff estimates.

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

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

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

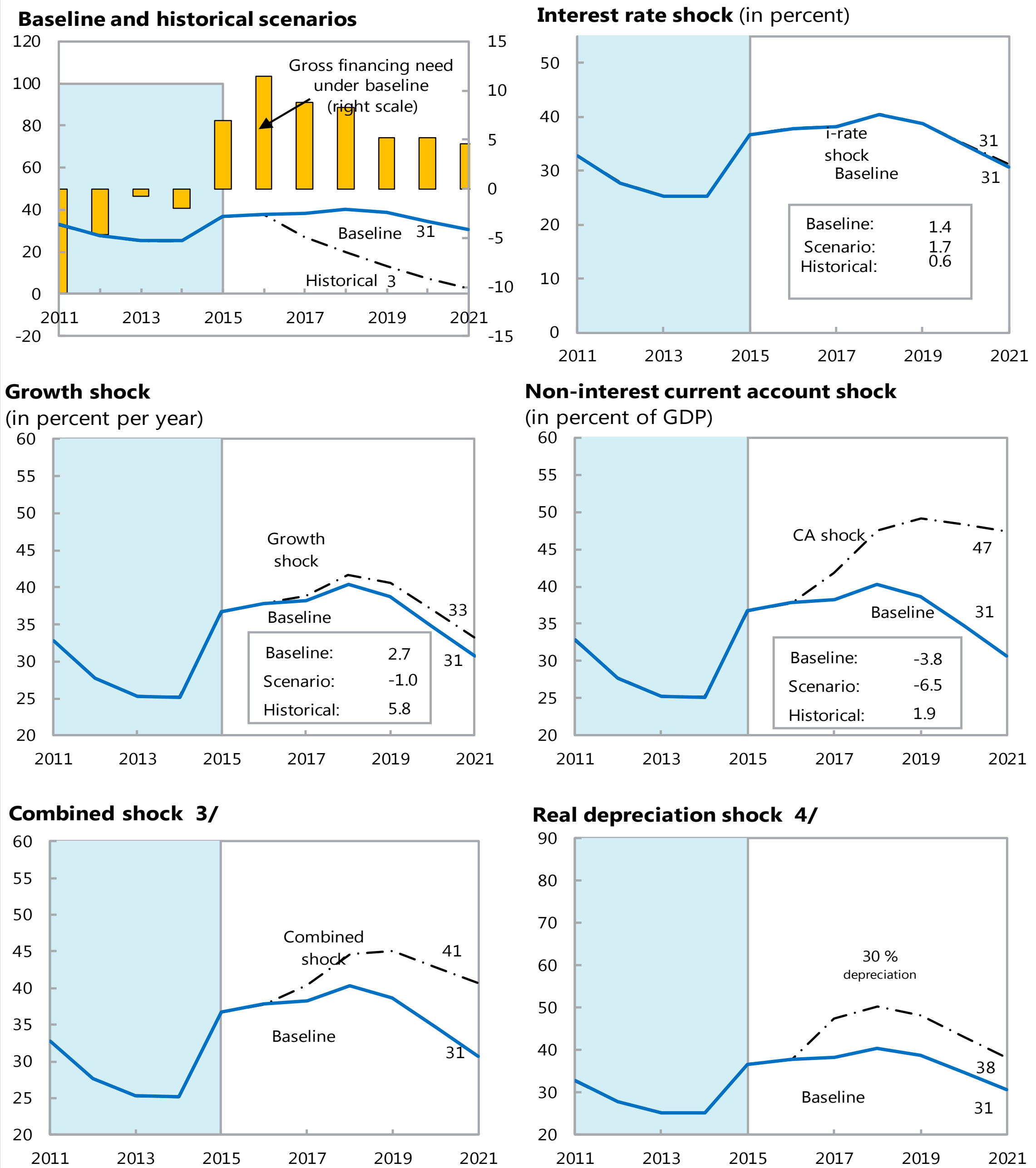
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

Figure 5. Iraq: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund; country desk data; and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2017.

Appendix I. Letter from the Prime Minister

Baghdad, November 20, 2016

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

Dear Ms. Lagarde,

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

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

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

Yours sincerely,

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

Appendix II. Letter of Intent

Baghdad, November 20, 2016

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

Dear Ms. Lagarde:

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

2. As explained in the attached Memorandum of Economic and Financial Policies (MEFP, ¶¶16-21), two performance criteria (PCs) at end-September appear to have been met based on preliminary unaudited data and three out of five performance criteria (PCs) at end-June 2016 were met. The government requests waivers of applicability for the four performance criteria at end-September for which no information is available yet. Unfortunately, the government missed the continuous zero ceiling on new external arrears during July 1–November 2, 2016 because a debt service payment to Italy of CHF 0.4 million due on June 30 could not go through for technical reasons. Because the temporary new external arrear that emerged on July 1 was paid on November 2, the government also requests a waiver for the non-observance of this PC. Finally, we met the indicative target at end-June on the stock of outstanding domestic arrears on non-oil investment but we missed the one on social spending by a significant margin (8 percent) because of the severe cash constraint faced by the economy. We commit to catch up with that floor by year-end.

3. We met three out of six structural benchmarks (SBs): the compilation of fiscal reporting tables in line with the 2014 IMF Government Finance Statistics Manual presentation; the approval of a draft Financial Management Law according to World Bank and IMF recommendations; and the adoption of a by-law to set up a mechanism to comply with the relevant UN Security Council resolution on terrorism and terrorism financing (SB; MEFP, ¶21). We have also made progress in each of the other SBs— inventory of domestic arrears, completion of audit of the civil service wage and pension payroll and—but need more time to complete them. We therefore propose to postpone them to the second and third reviews.

4. To facilitate effective program implementation, the government also requests moving to semi-annual reviews and the associated rephasing of the arrangement, and proposes changing end-December 2016 PCs in line with the tighter fiscal program in 2016, introducing changes to the definition of several PCs, and adding a few new adjustors to some PCs (MEFP, ¶46). The program would also have indicative targets on all the variables serving as PCs at the end of the first and third quarters of the year, which should ensure continued monitoring of program performance on a quarterly frequency and help ensure program performance remains on track.

5. Against this background, the government requests completion of the first review under the SBA and requests purchase of the second tranche of SDR 455 million (27.3 percent of our quota). The government commits to implement the economic and financial policies during 2016–19 described in the attached MEFP in order to gradually bring expenditure down to the new level of oil revenues and achieve debt sustainability, while maintaining the exchange rate peg, strengthening public financial management and banking supervision, and fighting anti-money laundering, countering the financing of terrorism, and corruption. The government will protect social spending and commits to maintain such spending above a floor during the SBA.

6. The government believes that the measures and policies set out in the attached MEFP are appropriate for attaining the objectives of this program and will take any further steps that might be necessary to that end. It will consult with the IMF staff on the adoption of such measures prior to any revision of the policies described in the attached MEFP.

7. The government will provide IMF staff with any relevant information referred to in the attached TMU concerning progress made under the program.

8. The government intends to make public the content of the IMF staff report, including this letter, the attached MEFP, the TMU, and the informational annex of the staff report. It authorizes the IMF staff to publish these documents on its website once the Executive Board has approved this review.

Sincerely yours,

/s/	/s/
Fadhil Nabee Othman	Ali Mohsen Ismail Al Allaq
Deputy Minister of Finance of Iraq	Acting Governor of the Central Bank of Iraq

Attachments:

I. Memorandum of Economic and Financial Policies

II. Technical Memorandum of Understanding

Attachment I. Memorandum on Economic and Financial Policies

1. This Memorandum on Economic and Financial Policies (MEFP) presents recent economic developments in 2016, and outlook and economic and financial policies in 2016–19 in regard to Iraq's Stand-By Arrangement (SBA) with the International Monetary Fund (IMF).[1]

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

A. Background

2. The attacks by the so-called Islamic State in Iraq and Syria (ISIS) have put Iraq in great danger. The Iraqi security forces have made notable progress in the fight against ISIS, with the help of our international partners. In fact, a significant portion of the territory captured by ISIS after its invasion has already been retaken. However, the war is not likely to end soon and will continue to affect the lives of Iraqis as well as the national economy.

3. The ISIS attacks have boosted the number of internally displaced persons (IDPs)—estimated at 3.3 million people in September 2016. Close to 10 million Iraqis (26 percent of the population) need humanitarian assistance. With 225,000 Syrian refugees, Iraq is the fourth largest hosting country in the region for people fleeing Syria. Refugees—60 percent of whom are women and children—mostly reside in the north, including in the Kurdistan Region where they have been granted residency status including the right to work. This refugee inflow is adding to the already difficult internal humanitarian situation faced by the Iraqi government.

4. As a continuation of its economic and political reform agenda, the government of Iraq adopted a comprehensive plan, building on the reforms announced by the Prime Minister in August 2015. The plan focuses on six key pillars, namely: security, stabilization and reconstruction; integrity and transparency; executive actions; legislation; selection of senior administration employees and appointment of employees; and activation of lending for housing, manufacturing and agricultural projects. The plan aims at improving the budget and increasing revenues by ID 20–33 trillion annually in the medium and long term. The initial steps, started before July 2016, include administrative reforms (not requiring changes in laws), amendments to existing transfer regulations and implementation of new taxes. The plan also calls for strengthening the role of the Commission on Integrity.

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

5. Discussions have resumed between the federal government in Baghdad and the Kurdistan Regional Government (KRG) to implement the budget-sharing agreement.[2] In order to facilitate implementation of this arrangement, both parties are considering netting out the KRG oil receipts, which the KRG plans to have audited by international audit companies starting on July 1, 2016, with the budgetary transfers to which the KRG would be eligible under the budget-sharing arrangement. In the meantime, the performance criterion on the non-oil primary balance (¶25) for the Federal Government will continue to have an adjuster in case the budget sharing agreement with the KRG is not implemented (Technical Memorandum of Understanding—TMU, ¶14). In addition, in August 2016, the federal government and the KRG agreed to resume oil exports by the North Oil Company in Kirkuk through the pipeline linking the KRG to Turkey in an amount of 0.15 million barrels per day (mbpd) and to equally split the export revenue until the end of year. In September 2016, the North Oil Company sent 0.095 mbpd through that pipeline.

B. Recent Economic Developments

6. *Nominal GDP was revised upward by 2.8 percent in 2014 and by 13.6 percent in 2015* as a result of the full recording of KRG oil production, which had only been recorded for 2 months in 2014 and 5 months in 2015 in the national accounts previously. The upward revision of nominal GDP in 2015 is also the result of an upward revision of the growth of activity in construction (from -62 to -34 percent) in line with the evolution of public investment in 2015, and of the increase in the non-oil GDP deflator, explained by the ISIS occupation since mid-2014.[3]

7. *Oil production and export volumes have increased in line with the program so far*. In January-August, 2016, Iraq produced 4.478 mbpd (4.2 mbpd programmed in 2016), of which KRG and North and Midland Oil Companies produced about 0.965 mbpd. The federal government exported 3.246 mbpd during January–August, 2016 (3.05 mbpd programmed in 2016), at an average price of $32.9 per barrel ($34.5 programmed for 2016) and KRG exported 0.461 mbpd (0.55 programmed), at an average price of $29.6 per barrel.

8. *Preliminary estimates indicate that non-oil GDP decreased by 1 percent year-on–year (y-o-y) during the first half of 2016.*

9. *In September, the consumer price index (CPI) increased by 1.2 percent y-o-y,* but was likely underestimated because the CPI coverage excludes the areas occupied by ISIS, which were inhabited by about 20 percent of the population before the ISIS occupation.

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[2] According to this agreement, the revenue from the oil extracted in the KRG accrues to the federal government and the federal government makes transfers to the KRG equivalent to 17 percent of non-sovereign spending in the federal budget (i.e., total spending minus expense of the Parliament, the Presidency, the Cabinet, the Ministry of Foreign Affairs, the Ministry of Defense, the Federal Court, several federal government commissions and debt service). In the revised program for 2016 presented in this MEFP, the oil revenue projected for KRG is ID 7.8 trillion and the transfers to the KRG are ID 8.5 trillion.

[3] The ISIS occupation caused an increase in transport cost as it closed the shortest trading routes, leading the statistical agency to increase its estimate of the non-oil GDP deflator in 2015 from 6.5 to 14.3 percent.

10. *Gross foreign exchange reserves (including SDR holdings and reserve position at the IMF, fell from $53.7 billion at end-2015* (9.5 months of imports of goods and services) *to $47.6 billion* (7.4 months of imports of goods and services) *at the end of June 2016*.

11. *During the first half of 2016, the budget execution was much lower than programmed in reaction to difficulties in raising domestic financing.* While oil exports revenue, non-oil tax revenue and the CBI's discounting of Treasury bills were on track, transfers from oil state-owned enterprises (SOEs) and domestic financing of the deficit were much lower than programmed. Indeed, the oil SOEs transferred only ID 13 billion (compared to ID 1.35 trillion programmed) and the authorities could only raise ID 0.6 trillion in bonds (yielding an 8 percent annual interest rate) compared to ID 5.0 trillion programmed. As a consequence, the government prioritized the payment of wages, pensions, goods and services, and debt service. Oil investment by international oil companies (IOCs) continued to be executed as programmed but, prior to program approval, was mainly financed by the accumulation of arrears. The fiscal deficit (5.7 percent of (annual) GDP) and the non-oil primary deficit (17.6) percent of (annual) non-oil GDP), were much lower than programmed (respectively 10.9 percent of GDP and 26.9 percent of non-oil GDP).

12. *Broad money contracted by 2.8 percent during the first six months of 2016 (8.6 percent growth programmed for the whole year in 2016) as the government continued to borrow from banks* while credit to the economy expanded by 5.8 percent (0.0 percent programmed for the whole year in 2016).

13. *On July 21, 2016, at a donor meeting organized by the U.S. in Washington, donor countries pledged $2.1 billion dollars to help Iraq in four priority areas: humanitarian aid, de-mining, immediate stabilization, and longer-term recovery.* The money will help UN specialized agencies to finance their activities in these areas in Iraq in the coming years and will not reduce the medium-term financing gap.

14. *The spread between the official and parallel exchange rates has increased from 3 percent on average in December 2015 to about 9 percent since May 2016 as the CBI has decreased the volume of its auctions of foreign exchange on the official market.* The daily amounts of foreign exchange auctioned by the CBI this year have remained one third lower than last year so far.

15. *The yield on Iraqi dollar bonds maturing in 2028 was around 9 percent in November 2016.*

C. Performance Under the Stand-By Arrangement

16. *Three of the five performance criteria (PC) at end-June 2016 were met (Table 1):*

- The *stock of gross reserves of the CBI* exceeded the programmed floor by $7.0 billion, according to the data audited by the CBI's external auditor. To ease reporting of this data, the government proposes to modify the definition of this PC by stopping to use externally audited data to assess performance of this PC and provide externally audited data as a proposed new structural benchmark (SB, Table 2).

- The *net domestic assets of the CBI* remained below the programmed ceiling by the amount of ID 0.4 trillion ($0.3 billion) according to the data audited by the CBI's external auditor. To ease reporting of this data, the government proposes to modify the definition of this PC by stopping to use externally audited data to assess performance of this PC and provide externally audited data as a proposed new SB (Table 2). To ease the auditing of the net domestic assets, the government proposes to define it as the difference between reserve money and net foreign assets rather than the sum of its components as defined in the TMU of June 19, 2016 (TMU, ¶7).

- The *non-oil primary balance* remained above the programmed floor by ID 4.6 trillion ($3.9 billion, ¶11), according to the cash spending data recorded by the Ministry of Finance and spending financed by the accumulation of arrears before the start of the program highlighted in the partial survey of arrears conducted by the Ministry of Finance (¶19). However, the Ministry of Finance was unable to measure all non-oil spending on an accrual basis as required under the TMU of June 19, 2016 (¶8). Therefore, the government proposes to change its definition in the TMU to measure non-oil expenditure on a cash rather than on an accrual basis. It also proposes to add an adjustor for expenditure financed by project loans since they are not under the direct control of the authorities (TMU, ¶15).

- *Gross public debt* remained below the program ceiling by ID 12.3 trillion ($10.4 billion) according to estimates by the Ministry of Finance partially audited by an external auditor, because of the under execution of spending during the first half of the year (¶11). This estimate relies on audited data for all debt with the exception of the stock of external arrears estimated at $41 billion that were accumulated under the pre-2003 government and are still under negotiation, for which the Debt Directorate of the Ministry of Finance has only partial documentation. To ease reporting of this data, the government proposes to modify the definition of this PC by stopping to use externally audited data to assess performance of this PC and provide externally audited data as a proposed new SB (Table 2). Externally audited data will be provided for all the public debt with the exception of that stock or external arrears and other arrears as a proposed new structural benchmark (SB, Table 2).

- *New external arrears* on existing rescheduled debt and new borrowing remained below the program ceiling by $188 million at the end of June 2016, as the accumulation of new arrears towards IOCs ($2.112 billion) and Italy (CHF 442,798) was lower than programmed ($2.3 billion). However, this continuous PC was missed from July 1 until November 2, when the government paid this arrear to Italy. This arrear occurred because, even though the Debt Directorate of the Ministry of Finance instructed the CBI to make that payment on June 30 and the CBI made the payment, the payment bounced back because the details were incorrect. In light of that payment and the fact that the Debt Directorate clarified with the Italian authorities the payment details to avoid recurrence, the government requests a waiver for the non-observance of that continuous PC during that period.

- The *stock of outstanding arrears to IOCs* was slightly higher ($3.679 billion) than programmed ($3.6 billion). The government anticipates that it will not be able to reduce the stock of outstanding arrears to IOCs to zero by end-September but it commits to limit it to $1.8 billion by then and to zero by end-December. The reasons the government cannot reduce the stock of outstanding arrears to IOCs as fast as programmed are twofold: first, the government is facing high spending pressures from the fight against ISIS and the resulting increase in IDPs (¶3); and second, the government has not been able to raise as much domestic financing as programmed (¶11).

17. On the basis of preliminary and unaudited data, two performance criteria at end-September 2016 appear to have been met:

- The *stock of gross reserves of the CBI* exceeded the programmed floor by $12.9 billion, according to preliminary estimates not yet audited by the CBI's external auditor.

- The *net domestic assets of the CBI* remained below the programmed ceiling by the amount of ID 11 trillion ($9.3 billion) according to preliminary estimates not yet audited by the CBI's external auditor.

- However, since no audited data is available to date for these two PCs and in the absence of information on the other PCs, the government requests waiver of applicability for the four PCs at end-September 2016. The PC on the non-oil primary balance cannot be assessed at end-September (¶16), and there is no clear evidence that the other two quantitative PCs will not be met at end-September.

18. The continuous PC on new arrears on existing rescheduled debt and new borrowing was missed from July 1 until November 2, when the government paid this arrear to Italy. This arrear occurred because, even though the Debt Directorate of the Ministry of Finance instructed the CBI to make that payment on June 30 and the CBI made the payment, the payment bounced back because the details were incorrect. In light of that payment and the fact that the Debt Directorate clarified with the Italian authorities the payment details to avoid recurrence, the government requests a waiver for the non-observance of that continuous PC during that period.

19. *One indicative target out of two was met at end-June (Table 1):*

- *Social spending* (ID 6.854 trillion) was under the programmed floor (ID 7.434 trillion) because of cash constraints (¶11). The government commits to catch up with the execution of such spending by year-end.

- The *stock of outstanding domestic arrears on non-oil investment* (ID 4.491 trillion) was under the program ceiling (ID 7.5 trillion) because the Ministry of Planning corrected mistakes identified in its previous inventory of May 11, 2016.[4] Therefore, the government requests a downward revision of this indicative target accordingly (Table 1).

20. *The government reversed one of the prior actions for the approval of the SBA*. On June 7, 2016, the Council of Ministers approved the MEFP for the SBA request and, on June 17, 2016, the Deputy Minister of Finance instructed the Tax Directorate to implement the decision by the Council of Ministers to include all salaries and wages of non-military government employees from grade two upwards including base salary, supplemental pay, bonuses, overtime and any other allocations (excluding allocations for wife and children), in the taxable base for all employees subject to the income tax, which was a prior action for submitting the SBA request to the IMF Executive Board. After the SBA approval by the IMF Executive Board, the Prime Minister decided to stop the implementation of the Council of Minister's decision because it would result in lowering the net salary of grade two-government employees to below that of grade three-government employees. The reversal of this prior action will reduce non-oil tax revenue by ID 0.3 trillion in 2016. On October 18, 2016, the government adopted the following tax policy measures yielding at least ID 0.15 trillion in 2016 to offset that reduction (prior action for the first review):

- increase the customs duty on air conditioners from 20 percent to 25 percent (with an estimated yield of ID 42 billion during November-December 2016);

- increase the customs duty on television sets from 30 percent to 35 percent (ID 19 billion);

- increase the customs duty on passenger vehicles from 15 percent to 25 percent (ID 19 billion);

- increase the customs duty on cigarettes from 25 percent to 75 percent (ID 13 billion);

- increase the customs duty on alcoholic beverages from 80 percent to 100 percent (ID 4 billion);

- increase customs duty on juices from 20 percent to 25 percent (ID 3 billion); and

- reduction of custom duty exemptions (ID 50 billion).

[4] IMF Country Report No. 16/225, MEFP, ¶25.

21. *The government has met three of the six structural benchmarks (SB) for the first review of the SBA* (Table 2):

- The Ministry of Finance compiled *fiscal reporting tables* at end-December 2015, end-March 2016 and end-June 2016 in compliance with the IMF Government Finance Statistics Manual 2014.

- The Minister of Finance approved a *draft of the Financial Management law* in line with World Bank and IMF comments on the last draft submitted to the Shura Council, as specified in ¶25 of the MEFP of June 19, 2016.

- In light of the limited time since the approval of the SBA, the Board of Supreme Audit (BSA) started but could not complete an *audit of the government wage earner payroll*, which counts about 3 million beneficiaries, to identify ghost wage earners, i.e., people who receive wages without legal or regulatory justification. By comparing the wage payroll of 8 ministries (Defense, Electricity, Finance, Foreign Affairs, Interior, Science and Technology, Transport, Youth and Sport), the Baghdad Municipality and the CBI, that represent about half of the 3 million civil servants, with the pension, social safety net and soft loans for unemployed recipients, the BSA identified 13,130 "double dippers", i.e., civil servants who illegally cumulated a wage with one of these three benefits. The government will cancel the illegal payments and report the savings so realized on the occasion of the second program review. It proposes to postpone this structural benchmark to the third review of the program and to limit it to the payroll of the central government (Table 2). To complete this benchmark, the BSA will, by end-August 2017: (i) complete its search for "double dippers" in spending units representing the other half of the civil service; and (ii) check that, for each civil servant or SOE's employee appearing on the wage earner payroll of spending units, the latter can present the legal or regulatory justification for her or his presence on their payrolls.

- In light of the limited time since the approval of the SBA, the Board of Supreme Audit (BSA) could not complete an *audit of the government pensioner payroll,* which counts about 1,776,028 beneficiaries, to identify ghost pensioners, i.e., people who receive pensions without legal or regulatory justification. In 2015, the National Board of Pensions implemented a campaign to clean its retiree data registry resulting in the removal of at least 30,000 non-eligible retirees. The government proposes to postpone this structural benchmark to the third review of the program (Table 2). To complete this benchmark, the BSA will, by end-August 2017: check that, for each retired civil servant or SOE's employee appearing on the government pensioner payroll, the latter can present the legal or regulatory justification for her or his presence on this payroll.

- On October 9, 2016, the Council of Ministers adopted a *by-law to set up a mechanism to comply with the relevant United Nations Security Council resolutions related to terrorism and terrorism financing* in line with Recommendation 6 of the Financial Action Task Force on Money Laundering and Terrorism Financing (FATF).

- The Ministry of Finance could not complete a *survey of all domestic arrears*, i.e., payment due for more than 90 days, at end-June 2016, including: (i) current spending (salaries, pensions, goods and services and capital purchases), managed by the Ministry of Finance; and (ii) non-oil investments (projects and any associated penalties), managed by the Ministry of Planning. The Ministry of Finance did collect answers from some but not all spending units (see below). Many spending units did not reply because of work pressure. The government will set up a unit in the Prime Minister's office to strengthen the monitoring of commitments under the SBA and follow up with the spending units that have not replied. The government proposes to postpone this structural benchmark to the second review of the program (Table 2). The scope of the structural benchmark will be widened to include all arrears, including those accumulated by the Ministry of Oil on payments due to IOCs and the Basra Gas Company (BGC). At end-June 2016, the Ministry of Finance identified arrears in an amount of ID 12.5 trillion ($ 10.6 billion, or 6.1 percent of GDP), compared to ID 13.0 trillion ($11.0 billion, or 6.3 percent of GDP at the time of program approval:

    - ID 4.491 trillion ($3.8 billion) on non-oil investment by the Ministry of Planning;
    - ID 4.607 trillion ($3.904 billion) by the Ministry of Oil, out of which $3.679 billion on oil spending by the IOCs (¶19) and $225 million on gas purchase from the Basra Gas Company (BGC, ¶37);
    - ID 2.280 trillion ($1.929 billion) by the Ministry of Trade on wheat purchase and ration cards goods; and
    - ID 1.114 trillion ($0.944 billion) by the Ministry of Electricity on electricity purchase.

Economic and Financial Policies for 2016–19

22. *Hit by the fall of oil prices and the ISIS attack, the government has started to implement a program of fiscal consolidation to maintain debt and external sustainability.* The sharp decline in Iraqi oil prices from $103 per barrel in 2013 to $46 in 2015 has caused a sharp increase of the budget deficit from 6 percent of GDP in 2013 to 12 percent of GDP in 2015 and of the public debt from 31 percent of GDP in 2013 to 55 percent of GDP in 2015. It has also caused a deterioration of the current account of the balance of payments from a surplus of 1 percent of GDP in 2013 to a deficit of 6 percent of GDP in 2015, which was partly financed by a decrease of official gross foreign exchange reserves from $78 billion (11 months of imports of goods and services) in 2013 to $54 billion (10 months of imports of goods and services) in 2015. In 2016, this decrease in oil prices has continued, with Iraqi oil prices expected to average $35.5 per barrel.[5] This external shock seems of a permanent nature as prices on future oil markets currently indicate a gradual recovery of Iraqi oil prices to about $50 per barrel at the 2021 horizon ($48 per barrel in the SBA request). Therefore,

[5] In 2016, Iraqi oil prices from the Basra oil fields were about $7 per barrel lower than the average petroleum spot price (APSP, the average of the Brent, West Texas and Dubai oil prices) and KRG oil prices about $10 lower. These price differentials are assumed to continue through 2021 in the macroeconomic framework presented in this MEFP.

the government has started to implement a program of fiscal consolidation to contain the increase in total public debt and the decline of gross foreign exchange reserves to sustainable levels. Under this program, for the implementation of which the government has received commitment of financial support of $11.9 billion, out of which $5.4 billion under the SBA with the IMF, the total public debt would peak at 63 percent of GDP in 2018 (85 percent of GDP in the SBA request) and decrease to 53 percent of GDP in 2021 (75 percent of GDP in 2018 in the SBA request);[6] and the official gross foreign exchange reserves would bottom out at $35.5 billion, 5.2 months of imports of goods and services, in 2020 ($31.5 billion, 5.1 months of imports of goods and services in the SBA request). In light of the oil production observed during the 8 first months of the year (¶7), oil production, including KRG, is expected to grow by 20 percent in 2016 to 4.5 mbpd (4.2 mbpd in the SBA request) and stay close to that level for the next five years, as the government will not be able to finance the higher oil investment that would be required to put oil production on an increasing path. Non-oil GDP could contract by 5 percent in 2016 owing to the war with ISIS and the ongoing fiscal consolidation; it should rebound by 3 percent in 2017 on account of the donor-financed spending delayed from 2016 to 2017; non-oil growth should then gradually recover to half of its pre-2014 trend growth as the government makes progress in liberating ISIS-occupied territories. The gradual increase in oil prices and the ongoing fiscal consolidation will gradually reduce the fiscal deficit from 12 percent of GDP in 2015 to zero in 2020 and the current account deficit of the balance of payments from 6 percent of GDP in 2015 to less than 2 percent in 2021. There remains a financing gap of $7.1 billion in 2018–19 ($6.1 billion in the SBA request), for which the government has started to look for financing.

D. Foreign Exchange Policy

23. *The government is committed to maintaining the peg with the U.S. dollar*. The peg provides a key nominal anchor in a highly uncertain environment with policy capacity weakened by the conflict with ISIS. In August 2016, the CBI increased the amount of daily foreign exchange sales (¶14), without significant impact on the spread so far. To address concerns that foreign exchange sales by the CBI would finance terrorism or money laundering of illegal activities, the CBI has been strengthening its procedures to allocate foreign exchange with the technical assistance of the U.S. Treasury and the Federal Reserve Board and the recourse to external auditors. The CBI has also requested the technical assistance of the IMF Monetary and Capital Markets Department to analyze the reasons why the exchange rate spread between the official rate of the CBI foreign exchange sales and the parallel market rate has increased since the end of 2015 and to make recommendations to reduce the spread.

24. *The government will gradually remove remaining exchange restrictions and a multiple currency practice (MCP) with a view to eliminating exchange rate distortions*. Such a move towards

[6] The downward revision of the debt-to-GDP ratios compared to the SBA request stems from: (i) the downward revision of the stock of external public debt by $1 billion at end-2015 due to the elimination of double counting of one debt; the upward revision of nominal GDP in 2014–15 explained above (¶6); and the upward revision of oil production by 0.2 mbpd; and the upward revision of oil prices by about $2.5 per barrel in the medium term compared to the SBA request.

acceptance of the obligations under Article VIII of the IMF's Articles of Agreement will send a positive signal to the investment community that Iraq is committed to maintain an exchange system that is free of restrictions and MCPs for current international transactions and thus facilitate creation of a favorable business climate. As a first step, on October 16, 2016, the CBI made the weekly limits on the purchase of cash at the foreign currency auctions indicative, in the sense that any bank requiring additional cash for their clients' legitimate travel expenses will be able to obtain the required amount above these limits on the basis of appropriate documentation. As a second step, the CBI will issue clarifying implementing regulations, to remove the limitation on transfer of investment proceeds that gives rise to an exchange restriction (SB, Table 2), as recommended by a recent technical assistance mission of the IMF.

E. Fiscal Policy

25. *In order to maintain macroeconomic stability and achieve debt sustainability, the government commits to pursue its fiscal consolidation efforts to bring spending in line with available resources in 2016–19*. This will require: (i) a sizable reduction in the adjusted non-oil primary balance[7] (PC, Table 1), of about 9 percent of non-oil GDP over 2016–19; and (ii) a large increase in mostly domestic but also external financing over the short run that will remain compatible with debt sustainability in the medium run (¶22).

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

27. *In order to strengthen debt sustainability, the government will continue discussion with Iraq's non-Paris Club creditors* towards which it still has unresolved external arrears in an amount of $41 billion that were accumulated under the pre-2003 Saddam regime. Those arrears make most of the total stock of the external debt stock, which amounted to $66 billion at end-2015. Negotiations with these creditors will continue to seek implementation of debt relief on the same terms as with the Paris Club creditors, i.e., an 80 percent net-present-value reduction.

28. To ease the cash constraint in 2017, the authorities have agreed with the government of Kuwait on a further postponement of the payment of overdue war reparations to Kuwait amounting to $4.6 billion (ID 5.4 trillion or 3.4 percent of non-oil GDP) to 2018. The government requested this postponement to the Governing Council of the United Nations Compensation Commission at its session of November 1–2, 2016.

[7] The non-oil primary fiscal balance is defined as the difference between non-oil revenue and non-oil primary expenditure, i.e., excluding interest payments.

Fiscal Program in 2016

29. The review of budget execution at end-June 2016 revealed that: the execution of most spending except wages, pensions, goods and services and oil investment by IOCs was very low; and the government will collect less revenue than assumed in the SBA request (¶11). Indeed, while oil export revenue was on track, the targets for two other sources of revenue or financing by year-end are out of reach: transfers from oil-related public enterprises will reach ID 0.5 trillion ($0.4 billion) by year-end rather than ID 3 trillion ($2.5 billion) programmed in the SBA request, owing to cash constraints faced by these companies; and the issuance of domestic bonds has only succeeded to mobilize ID 0.6 trillion ($0.5 billion) so far compared to ID 5 trillion ($4.2 billion) targeted in the SBA request. In addition, the government has decided to delay the issuance of both the $1 billion bond guaranteed by the US government and the $1 billion Eurobond to 2017 because the U.S. government is unlikely to issue its guarantee in 2016, and the budget loan from France ($450 milion) will come in early 2017. Finally, the third purchase of the SBA, initially programmed in an amount of $640 million, will take place in 2017 rather than December 2016, in light of the proposed rephasing of the arrangement (¶46). To keep the SBA on track and avoid the accumulation of new arrears, the acting Minister of Finance has decided to increase the allocation for goods and services by ID 0.4 trillion and reduce the allocations for transfers by ID 2 trillion, non-oil investment not financed by project loans by ID 1.7 trillion, and oil investment by national oil companies by ID 2.8 trillion in 2016, all compared to the amounts agreed in the SBA request, and communicate this decision to the concerned spending units (prior action for the first review). As a consequence, the government requests a downward revision of the ceiling of the non-oil primary deficit for end-December 2016 to ID 61.9 trillion (proposed revised PC on a cash basis), compared to ID 65.2 trillion in the fiscal program of the SBA request as well as changes in three other PCs at end-December 2016 on gross international reserves of the CBI, net domestic assets of the CBI, and gross public debt (Table 1).

30. In order to finance the non-oil primary fiscal deficit (ID 61.9 trillion), the interest payments (ID 2.3 trillion) and the oil investment expenditure (ID 12.6 trillion, out of which at least ID 11.5 trillion ($9.8 billion) for the IOCs who account for 95 percent of the oil production), the government will have recourse to oil revenue (ID 58.0 trillion) and financing (ID 18.0 trillion):

- The *domestic financing* will be covered by the issuance of Treasury bills, out of which most (up to ID 12.6 trillion) will be refinanced by commercial banks at the discount window of the CBI, the issuance of national bonds for the general public (ID 0.6 trillion), and the drawdown of government deposits in the banking sector (ID 6 trillion). If oil export revenue is higher than programmed, the government commits to save the excess revenue collected over the amount programmed in order to reduce the indirect monetary financing of the budget deficit by the CBI (new proposed adjustor in the TMU, ¶19).

- The *external financing* will be covered by: loans from the IMF under the SBA ($1.3 billion); the World Bank under a Development Policy Loan to be disbursed in December 2016 ($1.46 billion), of which $458 million will be guaranteed by Canada and the United Kingdom as part of the international financial aid package announced by the G7 last May (¶20); and a budget support loan by the Japan International Cooperation Agency (JICA, $237 million). The external financing will also be covered by project loans from the U.S. government ($1.288 billion), JICA ($326 million), the World Bank ($55 million), and Italy ($33 million). These inflows will broadly offset external debt amortization and repayment of external arrears.

Fiscal Program in 2017

31. In 2017, the government commits to contain the non-oil primary deficit to no more than ID 69.1 trillion on a cash basis, compared to ID 61.9 trillion in the revised fiscal program for 2016 (¶29). On October 18, 2016, the Council of Ministers approved and circulated to parliament a 2017 draft budget to bring it in line with the macroeconomic framework agreed on the occasion of the first review of the SBA (PA, Table 2). This fiscal program will be achieved through the implementation of the following measures:

- collect at least ID 10.5 trillion (6.8 percent of non-oil GDP) in *non-oil revenue*, compared to ID 8.0 trillion (5.8 percent of non-oil GDP) in the revised fiscal program for 2016, thanks to the following measures:
  - increase of the contribution levy to the war effort and the internally displaced people from 3.0 to 4.8 percent of the government employee wages, including SOEs' employees, and pensions; this will yield ID 1.2 trillion; this revenue will also be used to finance other budget expenditure;
  - introduce a flat fee of ID 25,000 ($21) per airline ticket for travel abroad; and
  - increase the rate of taxation of real estate income from 10 to 12 percent
- *contain non-oil primary expenditure* to ID 78.4 trillion (52.5 percent of non-oil GDP) compared to ID 67.9 trillion (48.9 percent of non-oil GDP) in the revised 2016 fiscal program (¶29); this containment will be achieved mostly by the following measures:
  - *reduce the wage bill* by ID 0.3 trillion, mainly through natural attrition: the government will only replace one of six staff retiring, thereby setting the total number of civil servants and military personnel, which amounted to 2,905,226 out of which about 900,000 military and security personnel, on an annual reduction by 50,000 staff or close to 2 percent; finally, the government will encourage leave with partial pay and early retirement;
  - *freeze pension payments* paid by the Ministry of Finance at ID 10.3 trillion, the level in the revised fiscal program for 2016, with a view to cap it at that level in the medium term by natural attrition[8] and the enforcement of the existing rules preventing collection of multiple

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

pensions or collecting pensions without minimum contribution period or below legal pensionable age;

- *cap goods and services* at ID 7.3 trillion, compared to ID 6.3 trillion in the revised fiscal program for 2016; this envelope includes a credit of ID 1.2 trillion for the Ministry of Oil for the purchase of gas from the Basra Gas Company (¶37);

- *cap transfers* at ID 13.3 trillion, compared to ID 11.2 trillion in the revised fiscal program for 2016; all transfers are expected to increase compared to 2016 to help IDPs in the aftermath of the liberation of cities from ISIS, except transfers to SOEs which will be reduced to ID 1.9 trillion, compared to ID 2.2 trillion in the revised fiscal program for 2016; and

- *increase non-oil investment expenditure* to ID 11.7 trillion, out of which ID 4.3 trillion financed by project loans, compared to ID 4.0 trillion (out of which ID 2.4 trillion financed by project loans) in the revised fiscal program in 2016; since this amount is significantly lower than the country's needs and the amounts spent before 2016, it will need to be allocated in priority to projects already started.

32. *The 2017 draft budget will also:*

- *increase oil investment expenditure to ID 13.8 trillion,* or by ID 1.2 trillion compared to the level in the revised fiscal program for 2016, out of which at least $9.8 billion for the IOCs;

- *cap the transfer to KRG* at ID 11.6 trillion;

- *include a provision of ID 1.3 trillion in the 2017 budget for the repayment of arrears on non-oil related spending*, in anticipation of the results of the audit of these arrears by the BSA (¶38); and

- *set a cap of ID 0.5 trillion on the state guarantee* that the government will be authorized to issue in 2017.

33. In order to finance the non-oil primary fiscal deficit (ID 69.1 trillion), the interest payments (ID 2.9 trillion) and the oil investment expenditure (ID 13.8 trillion), the government will have recourse to oil revenue (ID 68.6 trillion), domestic financing (ID 6.8 trillion) and external financing (ID 9.1 trillion):

- The *domestic financing* will be covered by the issuance of Treasury bills (ID 5.5 trillion) that will be refinanced by commercial banks at the discount window of the CBI and the use of government deposits (ID 0.4 trillion).

- The *external financing* will be covered by loans from the IMF under the SBA ($1.7 billion), the World Bank under a Development Policy Loan to be disbursed in December 2017 ($1.0 billion), a US guaranteed bond ($1 billion, initially planned during the last quarter of 2016), a Eurobond issuance ($1 billion following the issuance of the US guaranteed bond), a budget support loan by JICA ($200 million), a budget loan from France ($450 million) and a budget support grant by the European Commission ($100 million). The external financing will also be covered by project loans from the United States ($1.477 billion), China ($833 million), Japan ($350 million), Germany ($190 million), the World Bank ($140 million), Sweden ($150 million), Italy ($134 million), United Kingdom ($100 million), and the Islamic Development Bank ($50 million).

34. In case oil prices drop below the level adopted in the 2017 budget, the government will identify spending to be cut for discussion with the IMF staff on the occasion of the second review of the SBA (¶47).

35. The government will not resort to the accumulation of arrears to finance the deficit. It commits to a zero ceiling on new external arrears to its external creditors (continuous PC, Table 1), a gradual elimination of the existing stock of outstanding arrears to IOCs by the end of 2016 (¶16), and regular inventories of domestic arrears with a view to ensuring that new arrears do not accumulate and to paying down existing ones after proper audit (¶38, second bullet).

F. Revenue Reforms

36. In order to strengthen revenue, the government will implement the following measures:

- *Audit the financial statements of the Development Fund for Iraq and Successor Account 300/600 at the CBI* to check that all oil revenue reaches the treasury and monitor the use of the resources deposited in that account. The Ministry of Finance will continue to have all the transactions moving the balance of its foreign exchange account 300/600 at the CBI audited by an international audit company every six months and will post the audit reports on its external website within six months after the end of each audited semester (SB, Table 2).

- *Conduct diagnostics of the tax and customs codes* to simplify them and broaden the tax base. The Ministry of Finance will, by end-February 2017, prepare tax policy measures to increase tax and customs revenue, with technical assistance from the IMF and the World Bank. The government will introduce tax policy measures to increase non-oil tax revenue in its draft budgets during the period of the SBA (¶31).

- *Conduct diagnostics of the tax and customs administrations* with a view to modernize them and broaden the tax base, with technical assistance from the IMF, the World Bank, the World Customs Organization, and the United Nations Conference for Trade and Development (UNCTAD). The Ministry of Finance will, by end-February 2017, propose a strategy to strengthen the tax and customs administration, with technical assistance from the IMF and the World Bank. The Customs Administration will, by end-December 2016, propose a strategy to implement the UNCTAD ASYCUDA information system in its administration.

G. Expenditure Reforms

37. In order to decrease expenditure, the government will implement the following measures:

- *Control the evolution of wages and pensions* by a combination of the following measures, in addition to those implemented in the 2017 budget (¶31-32):
    - completing the audits of the wage earner and pensioner payrolls of the civil service by the Board of Supreme Audit (BSA) to first identify, and then cancel payments to, illegitimate wage and pension recipients (¶21);
    - implementing legislative changes to contain the evolution of government and SOE employees' wages and non-contributory pensions paid by the Treasury (for e.g., pensions paid to war victims, political opponents of the previous regime, journalists, lawyers, …); as a first step, compile an inventory of all the laws and regulations governing these wages and pensions; legislative changes to that end will be discussed during the third review (¶47);
    - adopting, by end-December 2017, revised parameters of the public pension system proposed by the World Bank.[9]
- *Reform the electricity sector* by a combination of the following measures:
    - implementing the progressive electricity tariff schedule decided by the government in January 2016, which could yield nearly ID 2.1 trillion (1.6 percent of non-oil GDP) in additional revenue for the electricity sector; the additional revenues will be used to finance off-budget investment and repay bank loans of the electricity companies;[10] the tariff increase

[9] According to the World Bank, amending the pension law 9/2014 to introduce the following parametric changes would yield cumulative savings of over ID 1 trillion through 2018 and ID 31 trillion through 2028: (1) decreasing the accrual rate from 2.5 percent to 1.5 percent; (2) increasing the minimum length of service from 15 years to 20 years for pension salary eligibility; (3) changing the base wage for pension calculation from the last three years to the last seven years; and (4) reducing the qualifying conditions for survivorship pensions to only spouses, parents, and children (World Bank, Iraq - Emergency Fiscal Stabilization, Energy Sustainability, and State-Owned Enterprise Transparency Development Policy Financing, December 2015, ¶52, p.24).

[10] Total electricity consumption in 2015 amounted to 42 terawatt hours and revenue collected amounted to ID 0.82 trillion, while the cost of electricity production was ID 4.5 trillion. The increase in the tariff for 2016 may result in an increase in sales to ID 3.25 trillion and a reduction in the gap between revenues and the cost of production to ID 1.25 trillion, if the full amount is collected from consumers and the cost of fuel subsidized by the Ministry of Oil remains the same. In 2015, the central government consumed 4.5 terawatt hours, and the increase in the tariff for 2016 will result in an increase in the cost of the of electricity bill paid by the central financing entities, from ID 0.137 trillion in 2015 to about ID 0.675 trillion in 2016, compared to ID 0.360 trillion in the budget for 2016. The anticipated electricity bill of ID 2.043 trillion in 2016 was obtained by multiplying the quantity consumed by the government in 2015 (11.6 terawatt hours) by the average new government tariff for 2016 (ID 176.09 per kilowatt hour). Therefore, credit for the purpose of electricity consumption was increased in the revised fiscal program for 2016 and in the 2017 draft budget (¶¶29 and 31).

did not increase the tariff for the consumption below 1500 kilowatts per month in order to shield the poorest; and

- reducing gas flaring by using it for electricity production, which, according to the World Bank, could yield about ID 1.4 trillion ($1.2 billion, or 1.1 percent of non-oil GDP) in budget savings per year with an upfront cost of $0.5 billion starting in 2017:[11] to that end, the Ministry of Oil will: pay all its outstanding 2016 arrears ($350 million at end-August) by end-October; pay its estimated remaining gas purchase from BCG in 2016 amounting to $300 million within the contractual 45 day-period after billing; pay the $150 million authorized by the Minister of Finance for capital investment by end-September to finance the gas flaring-reducing investment project at the BGC; and allocate about $1 billion for gas purchase from BGC and $200 million for capital expenditure in the 2017 draft budget (¶31). In order to stop the accumulation of arrears to BGC, the scope of the PC on the stock of arrears to IOCs will be widened to include arrears to BGC starting in December 2016 (TMU, ¶9).

- paying energy bills on time; the Ministry of Electricity will pay the arrears identified at end-June 2016, i.e., $944 million in 2016 (¶21).

- *Reform the social transfers.*[12] The Ministry of Labor and Social Affairs (MOLSA) is setting up a Proxy Means Testing (PMT) data base with the assistance of the World Bank. When that database is completed, the MOLSA will have a database that will be used to determine eligibility for cash transfers based on available budget. This same database could be utilized by other programs (i.e., PDS) to target their assistance (cash or in-kind) to the poor households based on their welfare scores as determined by the PMT.

- *Reform state-owned enterprises (SOEs*). Non-financial SOEs in Iraq include a large variety of public entities, including ministries' directorates/departments, and bodies. There are 176 SOEs in Iraq, with over 550,000 employees, of whom 30 to 50 percent are estimated to represent excess labor. Many of these SOEs have limited rationale beyond providing public employment. As a result, they are structurally loss-making and present a large burden for public finances. The exact scope and scale of the economic, financial and fiscal cost that SOEs represent in Iraq is, however, unknown due to poor reporting of key financial and economic statistics on the SOEs. With the assistance of the World Bank, the government has started to set up a database to monitor the fiscal risks of non-financial SOEs. Building on this information, the government will elaborate measures to restructure the non-financial SOEs on the occasion of future reviews of this SBA.

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

[12] Moving to a more targeted Public Distribution System could yield annual savings of up to ID 1.8 trillion (1.4 percent of non-oil GDP). See "*Food and Electricity Subsidies*" in IMF Country Report No. 15/236. Iraq: Selected Issues.

H. Public Financial Management Reforms

38. In order to strengthen fiscal discipline, the government will implement the following measures:

- *Improve Government Finance Statistics (GFS) reporting*. Building on the IMF technical assistance recommendations, the Ministry of Finance has sent to the IMF staff fiscal reporting tables (including revenue, expenditures and financing) at end-December 2015, end-March 2016 and end-June 2016 in compliance with the IMF Government Finance Statistics Manual 2014 (GFSM 2014, SB for the first review, Table 2). It will publish quarterly fiscal reporting tables in compliance with the IMF GFSM 2014 with a quarter lag on the external website of the Ministry of Finance starting on January 1, 2017.

- *Survey, audit and pay domestic arrears*:

    - *The government will monitor with quarterly surveys the accumulation of arrears by systematically recording in detail and monitoring the existing unpaid obligations on a regular basis*. It will complete by end-February 2017 a survey of all domestic arrears, i.e., payment due for more than 90 days, covering a period at least until September 2016, including: (i) current spending (salaries, pensions, goods and services and capital purchases), managed by the Ministry of Finance; and (ii) non-oil investments (projects and any associated penalties), managed by the Ministry of Planning. The Ministry of Finance will elaborate a consolidated report on all these arrears for the included ministries (SB for the first review postponed to the second review, ¶21 and Table 2). At end-June 2016, the government identified arrears in an amount of ID 12.5 trillion ($10.6 billion, or 6.1 percent of GDP, ¶21)

    - *On the basis of each of these surveys, the government will prepare plans for the orderly payment of the arrears, following an independent audit of the arrears by the BSA and a repayment schedule in line with the government's financing capacity*. On September 27, the Council of Ministers adopted a decision to require verification by the Board of Supreme Audit of all the arrears on non-oil investment identified so far by the Ministry of Planning before starting the payment of any of these arrears. For the arrears on wheat purchase and other ration cards goods identified by the Ministry of Trade, the Council of Ministers adopted another decision on October 17 according to which payment of arrears could start but that the BSA would check the validity of the arrears before they are repaid (these two decisions constituted a prior action for the first review). The BSA will complete the audit of the arrears on non-oil investment by end-December 2016 (proposed SB for the second review). In light of the results of this audit, the government and the IMF staff will discuss the pace of reimbursement of these arrears on the occasion of the second review. In anticipation of the results of this audit, the government has put a provision of ID 1.3 trillion in the 2017 budget for the repayment of these arrears (¶32) and will prepare a supplementary budget in 2017 if this provision proves insufficient. For the other arrears identified so far, i.e., the arrears of the Ministry of Oil to IOCs and the arrears of the Ministry of Electricity on electricity purchase (¶¶21 and 35), the government has authorized their repayment without prior audit of the BSA because the reception of the underlying goods and services by these ministries has already been sufficiently established.

- *The government will observe a ceiling on the accumulation of arrears on non-oil investment as surveyed by the Ministry of Planning* (IT, Table 2). The scope of this IT will be widened to include all arrears on the occasion of future reviews in light of the results of the survey of arrears on the occasion of the second review. This IT will be upgraded to a PC on zero accumulation of arrears as soon as the government has developed the ability to reliably monitor and prevent them.

- *Take steps to move to a Treasury Single Account (TSA).* As a first step, the Ministry of Finance and the CBI compiled a list of all bank accounts controlled by the Ministry of Finance and all spending units and sub spending units of the federal government, in CBI, state-owned and commercial banks at end-December 2015. Going forward, the Ministry of Finance will implement the following measures:

  - Constitute a working group comprising representatives of the Ministry of Finance, CBI, Al Rasheed and Rafidain Banks and TBI to take stock of the readiness of the payment and settlement systems in the country, and develop a plan for modernizing systems to enable operation of a TSA by end-December 2016.

  - In light of the existing and planned banking and financial management information technology infrastructure, develop a strategy and design an action plan for the phased development of the TSA by end-March 2017.

  - Create a Cash Flow Management Unit (CMU) and mandate it to develop cash flow forecasts that will identify cash needs over the course of the budget year as one of its core responsibilities (by end-December 2016) with the support of technical assistance by the IMF. These cash flow forecasts should include details of all receipts and payments into and from the central government accounts and should be used to inform the spending units about funding operations. The CMU will develop: 12-month rolling revenue cash forecasts by end-March 2017; and 12-month rolling expenditure cash forecasts based on the larger spending units by end-June 2017. Throughout 2017, the government will build CMU capacity to develop accurate in-year cash plans, including scenario analysis.

  - Set up a Cash Management Committee (CMC) by end-December 2016 to : (i) oversee the timely and orderly financing of the budget including monitoring of all outflows and monitor all inflows in the TSA/Treasury main accounts, all revenue collection and spending; (ii) monitor the macro-fiscal, macro-economic and monetary situation and activate corrective actions in a timely manner; (iii) ensure coordination and sharing of information between the key stakeholders; and (iv) facilitate policy discussions. Chaired by the most senior official of the Ministry of Finance, the CMC will include representatives of the Debt Management Department, the Budget Department, the Treasury, the Ministry of Oil, large spending units, and the CBI.

- Gradually incorporate all government-related cash operations in the TSA, initially through the use of zero-balance operations during 2017–18, in light of the results of the audits of the financial statements of Rasheed Bank and Rafidain Bank and in sync with the implementation of their restructuring strategy (¶41) and the liquidity situation of any other bank where the government has accounts.

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

  - preparing a monthly budget execution report based on inputs from spending units;
  - implementing cash rationing for each spending unit;
  - improving the recording of commitments: decisions by the Minister of Finance and the Minister of Planning requiring all spending units to record all existing commitments; and production, by the Ministry of Finance, of a report of all recurrent and investment commitments (by project) in coordination with the Ministry of Planning (two SBs, Table 2);
  - prohibiting any commitment beyond quarterly allocations;
  - designing the templates required for a manual commitment control system based on the Appendix 3 to the December 2015 FAD technical assistance report (by end-December 2016);[13]
  - conducting training for spending units on the new system, including a clear definition of commitments (by end-March 2017);
  - requiring all spending units to record all existing commitments (by end-March 2017);
  - Ministry of Finance to produce a report of all recurrent and investment commitments (by project) in coordination with the Ministry of Planning as at end-December 2016;
  - ensure that commitment control functionality is designed in the Integrated Financial Management Information System (IFMIS) by end-March 2017; and

[13] IMF, Fiscal Affairs Department, Strengthening the Draft PFM Law and Budget Execution, Suzanne Flynn, Jacques Charaoui, Janis Platais, Tawfik Ramtoolah, and Arun Srivastava, December 2015.

  - test the commitment functionality in the IFMIS pilot sites (in line with IFMIS pilot plans) by end-2018.

- *Design and implement an Integrated Financial Management Information System (IFMIS) with the assistance of the World Bank:*

  - as a first step, the Ministry of Finance adopted, in July 2016, a road map detailing its core functional requirements, such as: the chart of accounts, multi-year expenditure tracking; carry-over of resources from one year to the next; and management of advances and cash management arrangements;

  - as a second step, the Ministry of Finance will take the necessary steps to hire a company to develop the IFMIS: it published the final standard bidding documents on its web site, and will sign the contract with the selected IFMIS vendor by end-February 2017;

  - as a third step, the Ministry of Finance will develop, test and accept the IFMIS by end-November 2018; and

  - as a final step, the Ministry of Finance will progressively roll out the IFMIS to pilot sites including the Ministry of Finance, the Ministry of Planning, the Ministry of Interior, the Ministry of Construction, Housing and General Municipalities, and the Baghdad and Babil Governorates by end-June 2020.

- *Implement Public Investment Management (PIM) reform with the assistance of the World Bank in line with Decree 445 of October 18, 2015 on PIM:*

  - design the organizational structure of the PIM Central Unit at the federal Ministry of Planning (April 2016) and make this structure fully operational (by end-December 2016);

  - make and publish on the Ministry of Planning website a detailed inventory at both ministry and governorate levels of the portfolio of public investment projects (on-going and new projects with a minimum cost of US$10 million), having a feasibility study made through cost–benefit analysis and expenditure efficiency (by end-December 2016;

  - conduct a capacity needs assessment for the PIM Central Unit at the federal Ministry of Planning and in the two IFMIS pilot governorates of Baghdad and Babil (by end-December 2016); and

  - conduct training for the PIM Central Unit in line with the recommendations of the capacity needs assessment with a preliminary focus on the Logical Framework Approach and the Integrated Project Appraisal at a basic level (by end-2017).

- *Audit budget execution*. The BSA will submit its report of the execution of the 2015 budget to parliament before the end of 2016.

- *Strengthen Debt Management*. The capacity of the Public Debt Directorate will be strengthened with technical assistance support from the Japanese International Cooperation Agency (JICA), one of the largest bilateral and concessional lenders to Iraq. In October 2015, a workshop was held with support from a debt management expert from JICA. This will be followed by a package of training programs consisting of a series of seminars and practical trainings for strengthening the capacity of the Public Debt Directorate. Some training courses may be held in cooperation with neighboring countries and international financial institutions. As a first step, the Public Debt Directorate will seek assistance to strengthen its debt recording systems. The Debt Directorate will conduct a survey of all guarantees issued by the government (new SB for the second review, Table 2).

I. Anti-Corruption Measures

39. In order to combat corruption, the government will implement the following measures:

- On 11 August 2016, the Iraqi government executed a memorandum of understanding with the United Nations Development Program (UNDP), pursuant to which the UNDP will provide assistance to the Iraqi government in the following areas. First, the UNDP will provide staff to support the Iraqi government in the investigation of cases of corruption, in particular relating to financial transactions involving the transfer of money out of Iraq. The assistance will also involve providing advice on how to return such financial assets once traced. Second, the UNDP will provide assistance on legislation to the various bodies involved in investigation of corruption, such as the Bureau of Supreme Audit, the Inspector Generals and the National Integration Commission. In particular, the goal of this assistance is to make the various bodies more robust. Third, the UNDP will provide staff to assist in capacity building. Fourth, the UNDP will provide assistance to Iraq on matters relating to corruption and public relations. The UNDP staff providing such assistance arrived in Iraq in October 2016.

- The Council of Ministers—after review by the Shura Council— will approve and forward to parliament by January 2017 draft amendments to the 2011 law establishing the Commission on Integrity in order to strengthen its governance, accountability and oversight, and independence, and provide it with powers in line with the United Nations Convention Against Corruption (UNCAC, SB, Table 2). The draft amendments will include the essential elements of a legal framework including clarity regarding the institution’s mandate, which consists of: its objectives and functions and its powers to achieve them; clear governance and oversight and an accountability structure; operational and financial autonomy; eligibility criteria for appointments; and clear and transparent rules and procedures for dismissal, and protection for its management and staff. The draft amendment will also include requirements to set-up a comprehensive asset (in Iraq and abroad) declaration regime for senior public officials, their family members, and associates, and a requirement to publish the asset declaration.

- In line with UNCAC requirements, the Council of Ministers will adopt and forward to the parliament by December 2016 amendments to the Criminal Code to criminalize all corruption acts including illicit enrichment, bribery in the private sector, and obstruction of justice.

- In line with UNCAC requirements, the Council of Ministers will adopt and forward to the parliament by February 2017 several draft legislations that are currently being finalized by the Commission on Integrity to strengthen the legislative anti-corruption framework. The draft laws are related to access to information, conflict of interest, asset recovery, and protection of whistleblowers and witnesses.

J. Banking Supervision

40. As of December 31, 2015, there were 56 banks operating in Iraq including 7 state-owned banks (SOB) of which one is an Islamic bank, 32 Iraqi private banks, of which 6 are Islamic banks, and 17 foreign branches, of which 5 are Islamic banks. The SOBs dominate the financial sector and account for the bulk of assets and credits. Three of the SOBs, Rafidain Bank, Rasheed Bank and Trade Bank of Iraq (TBI), account for around 90 percent of the banking system's assets.

41. The financial positions of Rasheed Bank and Rafidain Bank are fragile following years of quasi-fiscal operations. As a first step to restructure these banks, the Ministry of Finance appointed international auditors to audit their latest financial statements according to international standards, in cooperation with the Executive Committee for the restructuring of these banks and the World Bank. The auditors will submit their audit reports to the Ministry of Finance by end-February 2017. As a second step, the Ministry of Finance will, by end-August 2017, elaborate a restructuring plan for these two banks, in cooperation with the Executive Committee for the restructuring of these banks and the World Bank, in light of the results of the aforementioned audits.

42. The CBI will continue to implement reform measures to enhance the stability of the banking sector in Iraq which include inter alia:

- working on reviewing and assessing CBI prudential regulations with the assistance of the IMF Middle East Technical Assistance Center (METAC) and the World Bank;

- strengthening banking supervision including for AML/CFT, with IMF and World Bank technical assistance;

- compiling and publishing financial stability indicators, elaborated with IMF technical assistance (by end-December 2016);

- enforcing the minimum capital requirement of banks of ID 250 billion ($214 million), a level to which all private banks except one have increased their capital;

- contracting a consultant to assist the CBI in rating banks, whereby they have already rated 17 banks: three banks were rated "*satisfactory*", eight banks rated "*fair*" and six banks "*marginal*";
- contracting a consultant to assist the CBI in upgrading the prudential regulations on "*Liquidity*" and "*Capital Adequacy Ratio*";
- preparing a Deposit Insurance Scheme which stipulates the establishment of a corporation to be licensed by the CBI, of which banks will have the opportunity to take a share in the capital;
- contracting a private firm to provide the CBI with a credit registry system for sharing information among banks on their common existing and potential borrowers;
- issuing a banking law for financial institutions offering Islamic services;
- penalizing, financially and administratively, banks and non-bank financial institutions for any non-compliance with laws and regulations in force; and
- introducing the international bank account number (IBAN) system in Iraq.

43. Building on the safeguards assessment conducted by the IMF in December 2015, the government will strengthen the legal framework of the CBI to provide for independent oversight of the CBI's operations. The Governing Council of the CBI will, by end-December 2016, approve a new charter for the Audit Committee prohibiting Central Bank of Iraq executive representation on the committee (SB, Table 2). The Council of Ministers will, by end-March 2017, approve and introduce to parliament amendments to the Law on the Central bank of Iraq to strengthen CBI governance and the internal control framework, in line with the IMF safeguards assessment's recommendations (SB, Table 2). Specifically, the CBI Law should be amended to: (i) specify external auditor selection criteria and timely appointment (i.e., before the end of the fiscal year for which the financial statements need to be audited); (ii) shift the authority to appoint the external auditor from the Ministry of Finance to the CBI; (iii) provide for multi-year appointment terms for the external auditor; (iv) provide for timely publication of audited financial statements; (v) establish an audit committee, including its mandate and composition, and representation on the CBI Board; (vi) change the CBI Board's composition to a non-executive majority; (vii) strengthen the autonomy of the chief internal auditor; and (viii) require market-based rates for lender of last resort operations. The proposed amendments should be developed in consultation with the IMF.

44. On November 25, 2015, the prime minister approved CBI credit lines to banks in an amount of ID 6 trillion, with a state guarantee, for on-lending to small and medium-sized enterprises (SME, ID 1 trillion) and agriculture or infrastructure projects (ID 5 trillion). So far the CBI has disbursed ID 21.2 billion for the former and 0.5 trillion for the latter. Before proceeding any further with these initiatives, the Ministry of Finance and the CBI will analyze the potential fiscal risks posed by these credit lines. In light of this analysis, the government will discuss with IMF staff whether to continue executing these credit lines on the occasion of the second review (¶47).

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

45. *The government will implement reforms to strengthen the anti-money laundering and combating the financing of terrorism (AML/CFT) framework*. This will contribute to improve the integration of the domestic financial system into the global economy, lower transaction costs, improve governance, reduce the size of the informal sector, disrupt ISIS funding, and reduce the terrorist threats it poses.

- As a first step, on October 9, 2016, the government adopted a by-law to set up a mechanism to comply with the relevant United Nations Security Council resolutions related to terrorism and terrorism financing in line with Recommendation 6 of the Financial Action Task Force on Money Laundering and Terrorism Financing (FATF) (SB, Table 2). In addition, the CBI will, by end-December 2016, adopt regulations imposing AML/CFT preventives measures for licensed entities to implement the 2015 law in line with the relevant FATF Recommendations.

- As a second step, the CBI will develop its supervisory capacity to enhance the compliance by these entities with AML/CFT obligations. In this respect, it will adopt risk-based AML/CFT onsite inspection procedures by end-January 2017, and tools for AML/CFT offsite monitoring of licensed entities by end-April 2017. It will allocate 5 experienced supervisors to properly cover AML/CFT issues during onsite examinations and ensure effective implementation. The CBI will recruit 5 additional experienced supervisors by end-January 2017.

- The CBI, in coordination with the AML/CFT Council, will provide the Financial Intelligence Unit (AML Bureau) with all the necessary financial, human, and technical resources to ensure a fully operational and effectively functional unit. The CBI will provide an appropriate budget to the AML Bureau by end-December 2016. Furthermore, the AML Bureau will recruit 5 additional experienced financial analysts[14] by end-March 2017 to analyze the suspicious transactions reports and disseminate them on a timely basis to the law enforcement agencies. The AML Bureau will recruit 5 additional experienced financial analysts by end-March 2018.

- The government will adopt a comprehensive cash-couriers' regulation to implement the requirement of Article 34–35 of the AML/CFT Law and in line with FATF Recommendation by end-December 2016. The Customs Administration will then take the appropriate measures to effectively implement the regulation in order to detect the physical cross-border transportation of currency and bearer negotiable instruments that are suspected to be related to terrorist financing, money laundering or associated predicate offenses, or that are falsely disclosed.

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[14] As per May 2016, the FIU has 7 analysts.

Program Modalities and Monitoring

46. To facilitate effective program implementation, the government requests a rephasing to move from quarterly to semi-annual reviews based on performance at mid- and end-year. Data requirements, including on timeliness, and the need to prepare audited data, make frequent reviews difficult, especially given the need to hold the reviews off-site (in Jordan). Hence, the government requests to move to semi-annual reviews and the associated rephasing of the arrangement to reduce the burden on the government to produce such data and also to allow more time for the reforms to be implemented and the data for program monitoring to be prepared. The semi-annual reviews would continue to have PCs on the non-oil primary balance, the stock of total public debt, the stock of net domestic assets of the CBI, official foreign exchange reserves, the non-accumulation of new external arrears, the stock of outstanding arrears to IOCs and two IT on social spending and the stock of outstanding domestic arrears on non-oil investment (Table 1). The program would also have indicative targets on all these variables at the end of the first and third quarters of the year. In light of the revised fiscal program in 2016 (¶29), the government proposes to modify the level of the PCs on the central government non-oil primary balance, the gross international reserves of the CBI, the net domestic assets of the CBI, and the gross public debt at end-December 2016. In light of experience, the government also proposes to modify the definition of the PC on the non-oil primary balance, total public debt, GIR and NDA and to add a few adjustors to the PC on non-oil primary balance, GIR and NDA (¶16). Each program review will set a few SBs in areas that are essential for the success of the program (Table 2 contains the list until the third review). The second review will take place on or after April 15, 2017, and the third review on or after October 15, 2017.

47. On the occasion of the second review, the authorities and IMF staff will: identify contingency measures in case oil export revenue will be lower than programmed in the 2017 budget (¶34); discuss legislative changes to contain the evolution of government and SOE employee wages and non-contributory pension payments (¶37); decide the pace of paying the arrears identified by the Ministry of Planning, in light of the results of the audit of these arrears by the BSA and the financing capacity of the government (¶38); and discuss the adequacy of direct lending by the CBI (¶44).

Table 1. Iraq: Performance Criteria and Indicative Targets Under the Stand-By Arrangement , 2016–17 [1/]

(In billions of Iraqi dinars, unless otherwise indicated)

	2016									2017							
	Jun				Sep			Dec		Mar		Jun		Sep		Dec	
	Prog.	Adj. Target	Est.	Status	Prog.	Est.	Status	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.	Rev. Prog.
Performance Criteria [2/]																	
Gross international reserves of the CBI (floor; eop stock, in millions of U.S. dollars) [3/]	39,298	40,546	47,626	Met	34,910			42,665	43,043	41,051	40,882	39,881	38,532	39,008	36,560	40,081	38,546
Net domestic assets of the CBI (ceiling; eop stock) [3/]	13,122	11,650	11,275	Met	17,200			7,184	11,051	9,303	13,040	11,028	15,961	12,438	18,534	11,781	16,250
Central government non-oil primary balance (floor) [4/ 5/]	(32,918)	(29,066)	...		(49,145)	...		(65,156)	(61,944)	(15,995)	(17,095)	(31,990)	(34,716)	(47,985)	(51,602)	(63,980)	(69,131)
Gross public debt (domestic and foreign) (ceiling; eop stock) [6/]	137,483	133,631	121,367	Met	142,208			143,584	130,639	147,708	135,571	152,942	140,364	162,213	143,891	167,278	147,809
New external arrears on existing / rescheduled debt and new borrowing (in millions of U.S. dollars; ceiling) [7/]	2300		2,112	Met	0	0.5	Not Met	0	0	0	0	0	0	0	0	0	0
Stock of outstanding arrears to international oil companies (in millions of U.S. dollars; ceiling)	3600		3,679	Not Met	0			0	0	0	0	0	0	0	0	0	0
Indicative Target																	
Social spending (floor) [4/ 8/]	7,434		6,854	Not Met	12,619			18,228	18,228	4,355	4,493	7,434	8,986	12,619	13,480	18,228	17,973
Stock of outstanding domestic arrears on non-oil investment (ceiling) [9/]	7500		4,491	Met	7,500			7,500	4,491	7,500	4,491	7,500	4,491	7,500	4,491	7,500	4,491
<u>Memorandum item:</u>																	
Transfer of the central government to the Kurdistan Regional Government [4/]	3,852		-		6,841			9,828	8,480	2,452	2,898	4,908	5,798	7,367	8,702	9,828	11,606
Total foreign financing and international contributions to fill the financing gap	(1,655)	-	(1,453)		(4,152)			4,422	(1,653)	390	1,924	1,134	2,776	7,484	3,677	10,739	9,123
External Financing [4/ 10/]	(1,655)		(1,453)		(5,660)			(1,375)	(4,875)	(314)	1,392	(628)	1,039	(527)	1,940	835	4,043
International contributions to fill the financing gap [4/ 10/]	-		-		1,508			5,797	3,222	704	532	1,761	1,737	8,011	1,738	9,904	5,080
Iraq oil export price (US$ / barrel, average for the quarter)	35.7		37.1		37.5			39.9	45.3	40.3	40.4	40.3	41.7	40.3	42.6	40.3	43.2
Oil export revenue [4/]	20,851		19,351		36,041			53,617	57,557	15,420	16,130	31,010	32,949	46,772	50,325	62,535	67,950
Expenditure financed by project loans [4/]	-		185		443			4,073	2,398	-	1,746	-	1,746	414	3,000	828	4,254

Source: Iraqi Authorities, and Fund Staff estimates and projections

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

2/ The test dates for performance criteria are end-June and end-December; all variables for other test dates are indicative targets, except for September 2016 when they are performance criteria.

3/ The data at end-June 2016 was fully audited.

4/ Cumulative from January 1.

5/ For end-June and end-September 2016, it was not possible to assess the PC as designed. Therefore, starting December 2016, this PC will be assessed on a cash basis rather than on an accrual basis.

6/ The data at end-June 2016 was only partially audited.

7/ Continuous. The target is $3600 million during June 19-30, 2016 and then zero from July 1, 2016.

8/ See Table 3 for more details.

9/ The scope of this indicative target from June 2017 to December 2017 will be widened to include arrears on current non-oil spending in light of the results of the survey of domestic arrears scheduled for end-February 2017 (Table2).
The numbers for 2017 will be updated in light of the repayment schedule agreed in light of the audit of the validity of the surveyed arrears by the Board of Supreme Audit (BSA), also scheduled for end-February 2017.

10/ See Text Table 3 of the Staff Report and Table 4 of the MEFP for more details.

Table 2. Iraq: Prior Actions and Structural Benchmarks Under the Stand-By Arrangement, 2016–17

Measures	Scheduled review by which the measure will be completed	Macroeconomic justification	Status
Proposed prior actions			
Implementation of tax policy measures yielding at least ID 0.15 trillion in 2016.	1st review	Increase non-oil tax revenue.	Met
Decision by the Acting Minister of Finance to increase the allocation for goods and services by ID 0.4 trillion, and reduce the allocations for transfers by ID 2 trillion, non-oil investment not financed by project loans by ID 1.7 trillion, and oil investment by national oil companies by ID 2.8 trillion in 2016, all compared to the amounts agreed in the SBA request, and communication of that decision to the concerned spending units.	1st review	Prevent the accumulation of arrears.	
Approval by the Council of Ministers and introduction to Parliament of a 2017 draft budget in line with the macroeconomic framework agreed on the occasion of the first review of the Stand-By Arrangement.	1st review	Preserve macroeconomic stability.	Met
Adoption by the Council of Ministers of a decision to require verification by the Board of Supreme Audit of all the arrears on non-oil investment identified by the Ministry of Planning and on wheat and ration card goods purchases identified by the Ministry of Trade before starting the payment of any of these arrears, in accordance with the procedures described in ¶38 of the Memorandum of Economic and Financial Polices (MEFP) for the 1st SBA review.	1st review	Strengthen governance.	Met
Proposed additional structural benchmarks			
Completion of a survey of all arrears of the central government, i.e. payment due for more than 90 days, until at least end-September 2016, including: (i) current spending (salaries, pensions, goods and services and capital purchases), managed by the Ministry of Finance; (ii) non-oil investments (projects and any associated penalties), managed by the Ministry of Planning; and (iii) spending managed by the Ministry of Oil. The Ministry of Finance will elaborate a consolidated report on all these arrears for the included ministries.	2nd review	Improve fiscal transparency.	
Audit by the Board of Supreme Audit of all the arrears on non-oil investment identified so far by the Ministry of Planning and on wheat purchases identified by the Ministry of Trade as listed in ¶21 of the MEFP for the 1st SBA review.	2nd review	Strengthen governance.	
Survey by the Debt Directorate of the Minister of Finance of all guarantees issued by the central government, comprising the amount of the guarantee, its maturity, the identity of the signatory of the guarantee, and the identity of the beneficiary of the guarantee.	2nd review	Strengthen debt management.	
External audit of the gross international reserves and the net domestic assets of the Central Bank of Iraq at end-December 2016 as defined in ¶¶6-7 of the TMU.	2nd review	Strengthen safeguards assessment.	
External audit of the total public debt at end-December 2016 as defined in ¶11 of the TMU, excluding arrears and external debt from the pre-2003 regime for which only partial documentation is available.	2nd review	Strengthen debt management.	

Table 2. Iraq: Prior Actions and Structural Benchmarks Under the Stand-By Arrangement, 2016–17 (concluded)

Measures	Scheduled review by which the measure will be completed	Macroeconomic justification	Status
Structural benchmarks			
Completion by the Ministry of Finance of fiscal reporting tables at end-December 2015, end-March 2016 and end-June 2016 in compliance with the IMF Government Finance Statistics Manual 2014.	1st review	Improve fiscal transparency.	Met
Approval by the Minister of Finance of a draft of the Financial Management law in line with World Bank and IMF comments on the last draft submitted to the Shura Council, as specified in ¶25 of the MEFP of June 19, 2016.	1st review	Strengthen public financial management.	Met
Completion by the Board of Supreme Audit of an audit of the government wage earner payroll to identify ghost wage earners, i.e. people who perceive wages without legal or regulatory justification.	1st review	Decrease current expenditure.	Not met. Limited to central government employees and postponed to the 3rd review.
Completion by the Board of Supreme Audit of an audit of the government pensioner payroll to identify ghost pensioners, i.e. people who perceive wages without legal or regulatory justification.	1st review	Decrease current expenditure.	Not met. Postponed to the 3rd review.
Adoption by the Council of Ministers of a by-law to set up a mechanism to comply with the relevant United Nations Security Council resolutions related to terrorism and terrorism financing in line with Recommendation 6 of the Financial Action Task Force on Money Laundering and Terrorism Financing (FATF) .	1st review	Strengthen link with international financial system.	Met
Completion of a survey of all domestic arrears, i.e. payment due for more than 90 days, at end-June 2016, including: (i) current spending (salaries, pensions, goods and services and capital purchases), managed by the Ministry of Finance; (ii) non-oil investments (projects and any associated penalties), managed by the Ministry of Planning. The Ministry of Finance will elaborate a consolidated report on all these arrears for the included ministries.	1st review	Improve fiscal transparency.	Not met. Postponed to the 2nd review.
Decisions by the Minister of Finance and the Minister of Planning requiring all spending units to record all existing commitments.	2nd review	Improve cash management.	
Posting by the Ministry of Finance on its external website of the financial statements of the Development Fund for Iraq and Successor Account on December 31, 2015 audited according to international standards.	2nd review	Improve fiscal transparency.	
Approval by the Governing Council of the Central Bank of Iraq of a new charter for the Audit Committee prohibiting Central Bank of Iraq executive representation on the committee.	2nd review	Strengthen governance of the central bank.	
Approval by the Council of Ministers and introduction to parliament of draft amendments to the 2011 law establishing the Integrity Commission in order to strengthen its governance, accountability and oversight, and independence, and provide it with powers in line with the United Nations Convention against Corruption, as specified in ¶26 of the MEFP of June 19, 2016.	2nd review	Combat corruption.	
Ministry of Finance to produce a report of all recurrent and investment commitments (by project) in coordination with the Ministry of Planning.	2nd review	Improve cash management.	
Approval by the Council of Ministers and introduction to Parliament of amendments to the Law on the Central bank of Iraq to strengthen CBI governance and the internal control framework, in line with the IMF safeguards assessment's recommendations, as specified in ¶29 of the MEFP of June 19, 2016.	2nd review	Strengthen governance of the central bank.	
Approval by the Council of Ministers and introduction to Parliament of an amendment of the Investment Law, or issuance of clarifying implementing regulations by the Central Bank of Iraq, to remove the limitation on transfer of investment proceeds that gives rise to an exchange restriction.	2nd review	Improve the business environment by eliminating restrictions for current international transactions.	

Source: Iraqi authorities.

Table 3. Iraq: Social Spending [1/]

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

	2016					2017							
	Jun-16		Sep-16	Dec-16		Mar-17		Jun-17		Sep-17		Dec-17	
	Prog. [2/]	Est.	Prog. [2/]	Prog. [2/]	Rev. Prog.	Prog. [2/]	Rev. Prog.	Prog. [2/]	Rev. Prog.	Prog. [2/]	Rev. Prog.	Prog. [2/]	Rev. Prog.
Total Social spending (floor)	7,434	6,854	12,619	18,228	18,228	4,355	4,493	7,434	8,986	12,619	13,480	18,228	17,973
Social Safety Net	765	365	1,215	1,800	1,800	496	494	765	988	1,215	1,482	1,800	1,976
Public Distribution System (PDS - food subsidies)	450	0	900	1,485	1,485	556	381	450	762	900	1,143	1,485	1,524
Wheat and rice subsidy	270	300	630	1,080	1,080	396	342	270	684	630	1,027	1,080	1,369
Assistance and subsidy to Iraqi refugees	0	0	0	0	0	-	-	-	-	-	-	-	-
Assistance and subsidy to internally displaced persons	33	187	450	900	900	-	308	33	617	450	925	900	1,234
Farmer subsidies	45	35	180	405	405	-	110	45	221	180	331	405	441
Health Ministry and Environment Ministry- wages	1,260	1,343	1,889	2,520	2,520	668	615	1,260	1,230	1,889	1,845	2,520	2,460
Higher Education Ministry - wages	1,035	962	1,553	2,070	2,070	564	492	1,035	984	1,553	1,476	2,070	1,968
Lower Education Ministry - wages	3,149	3,438	4,724	6,300	6,300	1,676	1,456	3,149	2,912	4,724	4,369	6,300	5,825
Health Ministry and Environment Ministry- goods and services	324	114	864	1,350	1,350	-	222	324	445	864	667	1,350	889
Higher Education Ministry - goods and services	25	23	65	99	99	-	17	25	34	65	52	99	69
Lower Education Ministry - goods and services	77	85	149	219	219	-	55	77	109	149	164	219	219

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

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

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

Table 4. Iraq: Central Government Fiscal Accounts, 2016-17

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

	2016						2017							
	March	June		Sep.	Dec.		March		June.		Sep.		Dec.	
	Prel. Est.	Prog. 1/	Est.	Prog. 1/	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.
Revenues and grants	7.0	25.6	22.4	43.4	64.0	66.0	18.3	18.8	36.9	38.4	55.5	58.6	74.2	79.1
Revenues	7.0	25.6	22.4	43.4	64.0	66.0	18.3	18.8	36.9	38.3	55.5	58.5	74.2	79.0
Oil	6.0	22.2	19.4	38.1	56.6	58.0	16.3	16.3	32.8	33.2	49.4	50.8	66.1	68.6
Non-oil	1.0	3.4	3.1	5.3	7.4	8.0	2.0	2.5	4.1	5.0	6.1	7.7	8.2	10.5
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.1
Expenditures	15.1	44.8	34.1	67.4	90.0	82.8	22.5	23.7	45.0	47.5	72.9	71.3	95.5	95.0
Current expenditures	12.5	33.8	27.8	50.9	68.0	66.2	16.9	17.4	33.8	34.8	56.1	52.2	73.1	69.6
Salary and pension	9.8	23.0	20.0	34.6	46.1	46.4	11.3	11.5	22.7	23.0	34.0	34.6	45.4	46.1
Salary	7.6	18.0	15.4	27.1	36.1	36.1	8.8	8.9	17.7	17.9	26.5	26.8	35.4	35.8
Pension	2.3	5.0	4.6	7.5	10.0	10.3	2.5	2.6	5.0	5.2	7.5	7.7	10.0	10.3
Goods and services	1.1	3.0	3.6	4.4	5.9	6.3	1.5	1.8	3.0	3.7	4.4	5.5	5.9	7.3
Transfers	1.2	6.6	3.3	9.9	13.2	11.2	3.3	3.3	6.6	6.7	9.9	10.0	13.2	13.3
Social safety net (including PDS)	0.3	3.2	0.3	4.7	6.3	6.3	1.6	1.7	3.2	3.4	4.7	5.1	6.3	6.8
Transfers to SOEs 2/	0.3	1.3	0.9	1.9	2.5	2.2	0.6	0.5	1.3	0.9	1.9	1.4	2.5	1.9
Other transfers	0.6	2.2	2.1	3.3	4.4	2.7	1.1	1.2	2.2	2.3	3.3	3.5	4.4	4.7
Interest payments	0.4	1.2	1.0	2.0	2.8	2.3	0.7	0.7	1.5	1.4	2.3	2.2	3.1	2.9
War reparations 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.4	0.0	5.4	0.0
Investment expenditures	2.6	11.0	6.3	16.5	22.0	16.6	5.6	6.4	11.2	12.7	16.8	19.1	22.4	25.4
Non-oil investment expenditures	0.1	3.7	0.7	5.5	7.4	4.0	1.9	2.9	3.8	5.9	5.7	8.8	7.6	11.7
Oil investment expenditures	2.5	7.3	5.6	11.0	14.7	12.6	3.7	3.4	7.4	6.8	11.1	10.3	14.8	13.7
Balance (including grants)	-8.2	-19.3	-11.7	-24.0	-26.0	-16.7	-4.1	-4.9	-8.1	-9.1	-17.4	-12.6	-21.2	-15.9
Balance (excluding grants)	-8.2	-19.3	-11.7	-24.0	-26.0	-16.7	-4.1	-4.9	-8.1	-9.2	-17.4	-12.7	-21.2	-16.0
Financing	8.2	19.3	11.5	24.0	26.0	16.7	4.1	4.9	8.1	9.1	17.4	12.6	21.2	15.9
External financing	0.2	-1.7	-0.2	-4.2	4.4	-1.7	0.4	1.9	1.1	2.8	7.5	3.7	10.7	9.1
Budget Loans	0.0	0.0	0.0	1.7	10.4	3.5	0.7	0.5	1.8	1.7	8.0	1.7	11.1	6.3
International Financial Institutions	0.0	0.0	0.0	1.5	1.9	3.2	0.4	0.0	0.4	1.0	0.4	1.0	1.6	3.1
Bilateral	0.0	0.0	0.0	0.2	7.3	0.3	0.3	0.5	1.4	0.8	7.6	0.8	8.3	0.8
Eurobond	0.0	0.0	0.0	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	2.4
Project Loans	0.1	0.0	0.3	0.4	0.9	2.4	0.0	1.7	0.0	1.7	0.4	3.0	0.8	4.3
Amortization	-0.5	-1.1	-0.5	-1.6	-2.1	-2.1	-0.3	-0.4	-0.6	-0.7	-0.9	-1.1	-1.3	-1.4
Assets held abroad	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR Holding	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Account payables	-0.8	-0.6	-1.6	-0.6	-0.6	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Arrears	1.4	0.0	1.6	-4.1	-4.1	-5.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	8.0	20.9	11.7	28.1	21.5	18.4	3.7	3.0	7.0	6.3	9.9	8.9	10.5	6.8
Bank financing	7.7	13.4	11.0	20.7	16.6	19.0	3.7	3.0	5.7	5.7	8.6	8.3	10.5	6.8
CBI	2.7	8.3	7.0	12.7	12.6	12.6	1.5	1.7	2.5	3.4	3.8	5.0	6.4	5.5
Loans	2.7	8.3	7.0	12.7	12.6	12.6	1.5	1.7	2.5	3.4	3.8	5.0	6.4	5.5
Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	5.0	5.1	4.0	8.0	4.0	6.4	2.3	1.3	3.2	2.3	4.9	3.3	4.1	1.3
Loans	3.0	5.1	2.1	8.0	0.0	0.0	2.3	1.3	3.2	2.3	4.9	3.3	4.1	0.9
Deposits	2.0	0.0	2.0	0.0	4.0	6.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Non-bank financing	0.0	7.5	0.0	7.5	7.5	0.6	0.0	0.0	2.5	1.3	2.5	1.3	2.5	1.3
Account payables	0.0	0.0	0.0	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	0.3	0.0	0.7	0.0	-2.5	-1.2	0.0	0.0	-1.3	-0.6	-1.3	-0.6	-2.5	-1.3
Financing gap:	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:														
Security-related expenditure (military and police equipment and salaries)	3.7	8.3	7.6	12.4	16.5	16.6	4.1	4.3	8.1	8.6	12.2	13.0	16.2	17.3
Social spending	2.8	7.4	6.9	12.6	18.2	20.3	4.4	5.0	7.4	10.0	12.6	15.0	18.2	20.0
Transfer to KRG	0.0	3.9	0.0	6.8	9.8	8.5	2.5	2.9	4.9	5.8	7.4	8.7	9.8	11.6
Non-oil primary expenditure	12.2	36.3	27.5	54.4	72.6	67.9	18.0	19.6	36.1	39.2	54.1	58.8	72.1	78.4
Non-oil primary fiscal balance, accrual basis	-11.2	-32.9	-24.5	-49.1	-65.2	-59.9	-16.0	-17.1	-32.0	-34.1	-48.0	-51.0	-64.0	-67.8
Non-oil primary fiscal balance, cash basis 4/	-10.9		-22.3			-61.9		-17.1		-34.7		-51.6		-69.1

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

1/ IMF Country Report No. 16/225. Iraq: Staff Report for the First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement; with the financing gap path modified to reflect unidentified financing only, upon the approval of the three-year SBA.

2/ Includes off-budget transfers to SOEs.

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

4/ The non-oil primary fiscal balance on cash basis adjusts the non-oil primary balance measured on accrual basis by: (a) subtracting the spending financed by arrears' accumulation during that period, and (b) adding the payment of arrears during the same period.

Table 5. Iraq: Balance of Payments, 2016-17

(In billions of U.S. dollars; unless otherwise indicated. Cumulative from the beginning of the fiscal year.)

	2016						2017							
	Mar.	Jun.		Sep.	Dec.		Mar.		Jun.		Sep.		Dec.	
	Est.	Prog. 1/	Rev. Prog.	Prog. 1/	Prog. 1/	Rev. Prog.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.
Trade balance	-2.9	-7.3	-2.7	-7.0	-4.7	-1.3	0.3	-0.9	0.6	-1.3	1.2	-1.1	1.7	-0.8
(In percent of GDP)														
Exports	5.2	17.8	16.6	30.7	45.6	49.1	13.1	13.8	26.4	28.1	39.8	42.9	53.3	57.9
Crude oil 1/	5.1	17.7	16.4	30.5	45.4	48.8	13.1	13.6	26.3	27.9	39.6	42.6	53.0	57.5
Other exports	0.1	0.1	0.2	0.2	0.2	0.4	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.4
Imports	-8.1	-25.1	-19.3	-37.7	-50.3	-50.5	-12.9	-14.7	-25.8	-29.3	-38.7	-44.0	-51.5	-58.7
Private sector imports	-5.7	-15.7	-14.0	-23.6	-31.5	-37.7	-7.9	-10.2	-15.7	-20.5	-23.6	-30.7	-31.5	-41.0
Government imports	-2.4	-9.4	-5.3	-14.1	-18.8	-12.8	-5.0	-4.4	-10.0	-8.9	-15.0	-13.3	-20.0	-17.7
Services, net	-1.7	-5.7	-4.0	-8.6	-11.5	-10.4	-2.8	-3.1	-5.6	-6.1	-8.4	-9.2	-11.2	-12.3
Receipts	1.0	1.4	2.4	2.1	2.8	6.3	0.8	1.6	1.7	3.3	2.5	4.9	3.3	6.5
Payments	-2.7	-7.1	-6.4	-10.7	-14.3	-16.8	-3.6	-4.7	-7.2	-9.4	-10.9	-14.1	-14.5	-18.8
Income, net	-0.2	-0.2	-0.4	-0.3	-0.4	-0.9	-0.2	-0.3	-0.5	-0.6	-0.7	-0.9	-1.0	-1.2
Transfers, net	0.1	0.0	0.3	0.0	0.0	0.8	0.0	0.3	0.0	0.7	-4.6	1.0	-4.6	1.2
Private, net	0.1	0.0	0.3	0.0	0.0	0.5	0.0	0.1	0.0	0.2	0.0	0.3	0.0	0.4
Official, net	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.2	0.0	0.5	-4.6	0.7	-4.6	0.8
Current account	-4.7	-13.3	-6.9	-15.9	-16.5	-11.9	-2.8	-4.0	-5.4	-7.3	-12.5	-10.3	-15.0	-13.1
(In percent of GDP)														
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	1.3	-0.2	2.1	0.0	1.1	5.8	0.6	1.9	1.1	2.8	2.1	3.8	3.0	8.6
Direct and portfolio investment (net) 2/	0.6	-0.6	1.2	-0.9	-1.2	-1.2	0.3	0.1	0.5	0.3	0.8	0.4	1.0	0.5
Other capital, net	0.6	0.3	1.0	0.9	2.3	7.0	0.3	1.7	0.6	2.6	1.3	3.4	2.0	8.1
Official, net	-0.3	-0.9	-0.2	-1.0	-0.2	4.0	-0.3	1.6	-0.5	2.3	-0.4	3.1	-0.4	7.6
Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	-0.3	-0.9	-0.2	-1.0	-0.2	4.0	-0.3	1.6	-0.5	2.3	-0.4	3.1	-0.4	7.6
Disbursements 3/	0.1	0.0	0.3	0.4	0.8	5.0	0.0	1.9	0.0	2.9	0.4	4.0	0.7	8.9
Amortization	-0.4	-0.9	-0.4	-1.3	-1.0	-1.0	-0.3	-0.3	-0.5	-0.6	-0.8	-0.9	-1.1	-1.3
Private, net	0.9	1.2	1.1	1.9	2.5	3.0	0.6	0.1	1.2	0.2	1.8	0.3	2.4	0.4
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-3.4	-13.5	-4.8	-15.9	-15.4	-6.0	-2.2	-2.2	-4.3	-4.5	-10.4	-6.5	-12.0	-4.5
(In percent of GDP)														
Financing	3.4	13.5	4.8	15.9	15.4	6.0	2.2	2.2	4.3	4.5	10.4	6.5	12.0	4.5
Development Fund for Iraq (increase -) 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross International Reserves (increase -)	3.1	14.1	6.1	18.5	10.7	10.7	1.6	2.2	2.8	4.5	3.7	6.5	2.6	4.5
Fund credit (net)	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears (negative = decrease)	1.1	0.0	0.1	-3.5	-3.5	-4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in accounts payables (negative = decrease)	-0.7	-0.5	-1.3	-0.5	-0.5	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Financing gap	0.0	0.0	0.0	1.3	4.9	0.0	0.6	0.0	1.5	0.0	6.8	0.0	8.4	0.0
Memorandum items:														
GIR (end of period) 5/	50.6	39.3	47.6	34.9	42.7	43.0	41.1	40.9	39.9	38.5	39.0	36.6	40.1	38.5

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

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

2/ Includes planned issuances of Eurobonds in 2016-2017.

3/ Includes prospective disbursements from the IMF, WB and other donors in 2016-2017.

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

5/ Starting 2014 includes US$ balances from oil revenues.

Table 6. Iraq: Monetary Survey, 2016-17

(In trillions of Iraqi dinars; unless otherwise indicated)

	2016						2017							
	Mar.	Jun.		Sep.	Dec.		Mar.		Jun.		Sep.		Dec.	
	Est.	Prog. 1/	Rev. Prog.	Prog. 1/	Prog. 1/	Rev. Prog.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.
Net foreign assets	69,390	68,970	66,888	66,622	61,928	57,650	59,944	56,091	58,622	55,052	57,740	54,359	55,977	52,973
Of which: CBI	56,694	46,722	53,208	41,544	50,694	46,416	48,789	43,863	47,409	41,084	46,379	38,754	47,645	41,101
Net domestic assets	18,387	20,774	21,755	24,021	29,622	30,884	33,161	32,909	36,038	34,448	38,476	37,141	41,794	39,917
Domestic claims	25,069	38,235	29,595	45,514	41,435	38,884	45,626	42,617	50,421	47,041	53,545	49,989	55,806	49,117
Net claims on general government	-352	12,693	4,222	19,972	15,893	11,322	19,628	14,330	24,119	18,271	27,039	20,897	28,895	19,381
Claims on general government	32,509	49,439	34,643	56,718	48,639	41,698	52,373	44,706	56,864	48,647	59,785	51,273	61,640	49,341
less: Liabilities to general government	-32,861	-36,746	-30,421	-36,746	-32,746	-30,376	-32,746	-30,376	-32,746	-30,376	-32,746	-30,376	-32,746	-29,960
Claims on other sectors	25,421	25,542	25,373	25,542	25,541	27,563	25,998	28,287	26,303	28,770	26,506	29,092	26,912	29,736
Other Item Net (OIN)	-6,682	-17,461	-7,840	-21,492	-11,813	-8,000	-12,465	-9,708	-14,383	-12,593	-15,069	-12,848	-14,013	-9,200
Broad money	87,777	89,743	88,643	90,643	91,550	88,534	93,105	89,000	94,660	89,500	96,216	91,500	97,771	92,890
Currency outside banks	37,518	34,827	39,959	34,164	33,643	35,633	32,650	34,121	32,287	33,616	32,220	33,460	32,278	33,201
Transferable deposits	36,241	38,517	34,559	39,613	40,614	37,103	42,401	38,490	43,747	39,195	44,885	40,707	45,935	41,864
Other deposits	14,019	16,400	14,125	16,866	17,293	15,798	18,054	16,389	18,627	16,689	19,111	17,333	19,558	17,825

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

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

Table 7. Iraq: Central Bank Balance Sheet, 2016-17

(In trillions of Iraqi dinars; unless otherwise indicated)

	2016						2017							
	Mar.	Jun.		Sep.	Dec.		Mar.		Jun.		Sep.		Dec.	
	Est.	Prog. 1/	Rev. Prog.	Prog. 1/	Prog. 1/	Rev. Prog.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.
Net foreign assets	56,694	46,722	53,208	41,544	50,694	46,416	48,789	43,863	47,409	41,084	46,379	38,754	47,645	41,101
Foreign assets	60,042	46,738	56,565	41,560	50,705	51,243	48,799	48,689	47,419	45,910	46,389	43,580	47,656	45,928
Official reserve assets	59,675	46,372	56,199	41,193	50,345	50,876	48,440	48,323	47,060	45,544	46,029	43,214	47,296	45,562
Gold	4,222	3,771	4,508	3,843	3,916	3,916	3,994	3,994	4,073	4,073	4,151	4,151	4,229	4,229
Other	54,929	42,601	51,169	37,350	46,429	45,701	44,445	43,069	42,987	40,212	41,878	37,803	43,067	40,073
SDR holdings and reserve position in the Fund	524	0	521	0	0	1,260	0	1,260	0	1,260	0	1,260	0	1,260
Other foreign assets	366	366	366	366	360	366	360	366	360	366	360	366	360	366
Foreign liabilities	-3,348	-16	-3,357	-16	-10	-4,826	-10	-4,826	-10	-4,826	-10	-4,826	-10	-4,826
Net domestic assets	2,280	11,118	7,012	15,196	5,180	12,763	7,299	14,752	9,024	17,673	10,434	20,246	9,777	17,962
Domestic assets	8,410	12,535	11,762	17,059	17,310	17,810	18,766	19,530	19,821	21,167	21,090	22,797	23,705	23,305
Net claims on general government	8,316	12,440	11,673	16,964	17,215	17,715	18,671	19,435	19,726	21,072	20,995	22,702	23,610	23,210
Loans to central government	2,356	2,366	2,356	2,316	2,266	2,729	2,266	2,729	2,266	2,729	2,266	2,729	2,266	2,729
Holdings of discounted treasury bills	11,225	14,538	13,225	18,961	18,811	18,847	20,267	20,572	21,322	22,209	22,591	23,839	25,206	24,347
Other claims	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Domestic currency deposits	-1,868	-1,668	-1,435	-1,517	-1,066	-1,066	-1,066	-1,066	-1,066	-1,066	-1,066	-1,066	-1,066	-1,066
Foreign currency deposits	-3,397	-2,796	-2,473	-2,796	-2,796	-2,796	-2,796	-2,800	-2,796	-2,800	-2,796	-2,800	-2,796	-2,800
Monetary policy instruments 2/	-6,165	587	-6,264	142	-10,126	-6,759	-9,463	-6,490	-8,793	-5,206	-8,652	-4,263	-11,924	-7,055
Other items net	36	-2,004	1,514	-2,004	-2,004	1,712	-2,004	1,712	-2,004	1,712	-2,004	1,712	-2,004	1,712
Reserve money	58,974	57,840	60,220	56,740	55,874	59,179	56,088	58,615	56,433	58,757	56,813	59,000	57,422	59,063
Currency in circulation	40,644	38,008	43,143	36,674	35,593	42,548	35,425	41,687	35,483	41,678	35,619	41,598	36,004	41,414
Bank reserves	18,330	19,832	17,078	20,066	20,281	16,631	20,663	16,928	20,951	17,079	21,194	17,402	21,418	17,649
Memorandum items														
Gross foreign exchange assets (in millions of U.S. dollars) 3/	50,642	39,298	47,626	34,910	42,665	43,043	41,051	40,882	39,881	38,532	39,008	36,560	40,081	38,546

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

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

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

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

Attachment II. Technical Memorandum of Understanding

1. This memorandum defines the quantitative performance criteria (PCs) and indicative targets (ITs) for the economic program of the Iraqi authorities during the period December 2016–December 2017 under the Stand-By Arrangement (SBA). These PCs, presented in Table 1 of the Memorandum of Economic and Financial Policies (MEFP) attached to the Letter of Intent dated November 20 reflect the understandings reached between the Iraqi authorities and the staff of the IMF. It also specifies the periodicity and deadlines for transmission of data to the staff of the IMF for monitoring purposes.

A. Performance Criteria and Indicative Targets

2. The PCs are the following:

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

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

(iii) a floor on the central government non-oil primary balance;

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

(v) a continuous ceiling on new external payments arrears on any existing, rescheduled and new debt of the central government and/or the CBI; and

(vi) a ceiling on the total gross public debt (domestic and foreign).

3. The indicative targets are the following:

(i) a floor on the central government social spending; and

(ii) a ceiling on the stock of outstanding domestic arrears on non-oil investment expenditure.

B. Definitions

4. An exchange rate set at Iraqi dinar (ID) 1,182 per U.S. dollar ($) will be used for monitoring purposes. This exchange rate will be used to convert into Iraqi dinars the U.S. dollar value of all CBI foreign assets and liabilities denominated in U.S. dollars, as required. For CBI assets and liabilities denominated in SDRs and in foreign currencies other than the U.S. dollar, they will be converted to U.S. dollars at their respective SDR-exchange rates prevailing as of November 20, 2016, as published on the IMF's website. The same rules will be used to convert external debt related parameters.

5. For monitoring purposes, unless specified otherwise, central government is defined to include the central administration, the Kurdistan Regional Government (KRG), as well as agencies included under Section 6 of the federal government budget (the local boards, Iraqi media network,

Iraqi national Olympic committee, Bait-Al-Hikma, Ammant Baghdad, Municipality institutions, as well as the General directorates of sewage and water).

6. **Gross international reserves (GIR) of the CBI** are claims of the CBI on nonresidents that are controlled by the CBI, denominated in foreign convertible currencies, and are immediately and unconditionally available to the CBI for meeting balance of payments needs or for intervention in foreign exchange markets, and are not earmarked by the CBI for meeting specific payments. They include CBI holdings of monetary gold, SDR holdings, Iraq's reserve position in the IMF, foreign currency cash, holdings of non-resident equity and debt securities, and deposits in foreign currency abroad, including foreign exchange account of the government (300/600). Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered; claims on residents; precious metals other than monetary gold; assets in nonconvertible currencies; illiquid assets; and claims on foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options). For program monitoring purposes, the stock of foreign assets of the CBI shall be valued at program exchange rates (¶4).

7. **Net domestic assets (NDA) of the CBI** is defined as the difference between reserve money and net foreign assets. For the purpose of this SBA, net foreign assets of the CBI are defined as the difference between the sum of: (i) gross international reserves as defined ¶6 and (ii) other foreign assets, and (iii) foreign liabilities. Foreign liabilities are the sum of the use of Fund credit (net), and other foreign liabilities of the CBI held by non-residents.

8. **The central government non-oil primary balance** is defined as the difference between non-oil revenue and non-oil primary expenditure measured on a cash basis. Non-oil revenue is defined as total revenue and grants excluding oil-related receipts (exports of crude oil and refined products, and transfers from oil-related state-owned enterprises). Non-oil primary expenditure is defined as total expenditure, including off-budget spending approved by government decree and payment of arrears, excluding (i) interest payments on domestic and external debt; and (ii) all oil-related spending (including war reparations).

9. **Arrears outstanding to international oil companies (IOCs)** are defined as bills of IOCs validated by the Ministry of Oil and due for more than three months after their invoice. IOCs include the Basra Gas Company.

10. **New external payments arrears on rescheduled debt and new external debt contracted or guaranteed by the central government, excluding the KRG, and/or by the CBI** are defined as follows:

- External payment arrears consist of external debt service obligations (principal and interest) falling due that have not been paid within the grace period specified in the contractual agreements falling due after June 30, 2016.

- As set out in the Guidelines on Public Debt Conditionality in Fund Arrangements, paragraph 8, adopted by Executive Board Decision No. 15688-(14/107) of December 5, 2014, the term "*debt*" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

  - *Loans*, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements).

  - *Suppliers' credits*, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided.

  - *Leases*, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

  - *Arrears*, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation within the contractual grace period are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

- For program purposes, external debt is defined based on the residency of the creditor.

11. The **total public debt contracted or guaranteed by the central government** is defined as follows:

- The term "debt" is defined as in the preceding paragraph (¶10).

- Total public debt is the sum of domestic and external debt, with external and domestic debt defined based on the residency of the creditor.

- Total public debt excludes the debt contracted by the KRG.

- Total public debt includes the claims of the CBI on the central government.

- Total public debt includes the arrears as defined in ¶¶9 and 13.
- Total public debt excludes short-term supplier related credit (less than 90 days).

12. **Social spending** (Table 3 of the MEFP) is defined as the sum of expenditure on the social safety net, the public distribution system, wheat and rice subsidies, assistance subsidies to Syrian refugees and the internally displaced, farmer subsidies, and wage expenditure and goods and services of the health, environment and the higher and lower education ministries. The annual targets will be set at 90 percent of the above expenditure in the budget agreed to under the SBA. Expenditure will be measured at the time the Ministry of Finance transfers the money to the spending units.

13. The **stock of outstanding domestic arrears on non-oil investment expenditure** is the value of unpaid bills related to non-oil investment for more than 90 days after their invoice, as measured by the regular surveys of the Ministry of Planning.

C. Adjustors

14. The floor on the central government non-oil primary balance and the ceiling on total public debt will be adjusted if the actual amount of the transfer of the central government to the KRG is less than the programmed amount. In that case, the floor on the central government non-oil primary balance will be adjusted upwards, and the ceiling on the total public debt will be adjusted downwards, by the absolute amount of the difference.

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

16. The ceilings on the stock of net domestic assets (NDA) of the CBI will be adjusted upwards in case foreign financing, defined for purposes of this paragraph and the three following paragraphs as the sum of external financing and international contributions to fill the financing gap as indicated in Table 1 of the MEFP, is lower than programmed to a limit of ID 1.18 trillion. The size of the adjustment will be equal to the difference between the observed and programmed value of foreign financing and capped at the values enumerated in the previous sentence.

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

18. The floor on the stock of gross international reserves of the CBI will be adjusted downwards in case foreign financing is lower than programmed to a limit of $1 billion. The size of the adjustment will be equal to the difference between the observed and programmed value of foreign financing and capped at the values enumerated in the previous sentence.

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

D. Provision of Information to the Fund Staff

20. To monitor developments under the SBA, the authorities agree to provide the Fund, the information specified below after the approval of the SBA. The economic adjustment program of the Iraqi authorities is designed with quarterly PCs and ITs and the actual outcome should be provided within eight weeks following the end of the quarter. However, in order to facilitate regular monitoring, many indicators should be provided with higher frequencies, as indicated below.

Key Financial Indicators

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

Real Sector

- Indicators of oil activity on crude oil and gas production and use, production and sales (export and domestic) of refined petroleum products, including heavy residuals, and associated prices (monthly). These data should be reported no later than two months after the end of the reference month.

- Indicators of non-oil real economic activity (quarterly), including production of cement, fertilizers, and electricity, reported no later than two months after the end of the reference month.

- Total GDP, reported no later than twelve weeks after the end of the reference quarter.

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

Monetary and Financial Sector

- CBI gross foreign exchange reserves (weekly) and balances of the foreign exchange account of the government (300/600). This should be reported no later than 2 weeks after the end of the reference week. The value of the CBI gross foreign exchange reserves as defined in ¶6 at the end of each semester will be audited by the CBI's external auditor and transmitted to the Fund within three months.

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

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

- The monthly assets and liabilities of the central government (ministry of finance and line ministries) in the banking sector with an eight-week lag.

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

- The latest balance sheet and income statement (quarterly) of the Trade Bank of Iraq as well as data on issued, implemented and outstanding Letters of Credit, with no more than a six-week lag.

- The latest balance sheet and income statement (quarterly) of the Rasheed and Rafidain Banks.

- Quarterly financial stability indicators of the banking system, distinguishing the state-owned banks and the private banks, with an eight-week lag.

Fiscal Sector

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

- Detailed revenues, operating and capital expenditure, and financing items of consolidated fiscal and oil operations, and overall fiscal balance. These data should include:

  a) the execution of the Iraqi budget reported on a monthly basis;

  b) transfers to and from the KRG reported on a monthly basis;

  c) social spending as defined in ¶12 and total transfers (including in support of the social safety net—public distribution system—the internally displaced, and on refugees;

d) domestic payments arrears on non-oil investment expenditures, as documented by the survey of the Ministry of Planning, defined in ¶13.

e) payments and/or arrears in payments to international oil companies as defined in ¶9 on a quarterly basis with an eight-week lag;

f) disbursements of external assistance and loans including issuance of Eurobonds and loans from the Trade Bank of Iraq (TBI);

g) execution of letters of credit financed through the TBI or by other means;

h) all operations of account 300/600 and its sub-accounts;

i) other forms of multilateral and bilateral assistance, exceptional financing resources, and other financing resources (such as issuance of domestic or foreign bonds, loans securitized by futures oil revenue, etc.);

j) balances of all government accounts held at the CBI and the commercial banks (including government and/or line ministry deposits, and those of spending and sub-sending units);

k) amounts related to all off-budget and on-budget advances; and

l) outstanding stock of government securities (including treasury bills) held at/by commercial banks, the CBI, and pension funds. These data should be reported on a monthly basis and no later than two months after the end of the reference month.

Balance of Payments

- A preliminary quarterly balance of payments, compiled by the CBI, should be provided three months after the end of the reference quarter.

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

- Amount of total imports of petroleum products financed from the budget and total value of imports of petroleum products on a quarterly basis starting with the first quarter of 2016. These data should be reported no later than eight weeks after the end of the reference quarter.

- Detailed data on disbursement of external assistance (both project and budget financing) from all external creditors and donors and foreign debt amortization and interest payments made. These data should be reported on a monthly basis no more than eight weeks after the end of the reference month.

Public Debt

- Stock of public debt as defined in ¶11 on a quarterly basis with the audited value at end-June and end-December transmitted to the Fund within three months.
- List of short, medium, and long-term government or government-guaranteed external loans, contracted during each quarter, identifying for each loan: the creditor, the borrower (ultimate obligor), the amount and currency, the maturity and grace period, repayment terms, and interest rate (monthly).
- Details on new debt rescheduling and debt relief agreements with bilateral, multilateral, and commercial creditors, including new outstanding amount and currency, schedule of payments (principal and interest), terms of agreement, repayment terms, and interest rate arrangements (quarterly).

Structural Reforms

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

Other Information

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

INTERNATIONAL MONETARY FUND

IRAQ

November 21, 2016

FIRST REVIEW OF THE THREE-YEAR STAND-BY ARRANGEMENT AND FINANCING ASSURANCES REVIEW, REQUESTS FOR WAIVERS OF NONOBSERVANCE AND APPLICABILITY OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, AND REPHASING OF THE ARRANGEMENT—INFORMATIONAL ANNEX

Prepared By

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

CONTENTS

RELATIONS WITH THE FUND

(As of October 31, 2016)

Membership Status: Joined December 27, 1945; Article XIV

General Resources Account

	SDR Million	Percent of Quota
Quota	1,663.80	100.00
Fund Holdings of Currency	2,720.16	163.49
Reserve Tranche Position	289.95	17.43

SDR Department

	SDR Million	Percent of Allocation
Net Cumulative Allocation	1,134.50	100.00
Holdings	18.56	1.64

Outstanding Purchases and Loans

	SDR Million	Percent of Quota
Stand-By Arrangements	455.00	27.35
Emergency Assistance[1]	891.30	53.57

[1] Emergency Assistance may include Emergency Assistance for Natural Disasters (ENDA), Emergency Post-Conflict Assistance (EPCA), and Rapid Financing Instrument (RFI).

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Jul 07, 2016	Jul 06, 2019	3,831.00	455.00
Stand-By	Feb 24, 2010	Feb 23, 2013	2,376.80	1,069.56
Stand-By	Dec 19, 2007	Mar 18, 2009	475.36	0.00

Overdue Obligations and Projected Payment to the Fund

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

	Forthcoming				
	2016	2017	2018	2019	2020
Principal			111.41	502.53	561.74
Charges/Interest	3.82	16.63	16.64	13.46	6.74
Total	**3.82**	**16.63**	**128.05**	**515.98**	**568.48**

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

Implementation of HIPC Initiative: Not Applicable

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

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

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

Safeguards Assessments

The most recent safeguards assessment of the Central Bank of Iraq (CBI) was completed in April 2016. It concluded that the CBI continues to face capacity constraints in its operations, as well as a difficult security situation on the ground. The loss of budget revenue from falling oil prices has made it necessary for the CBI to engage in indirect financing of the government to close the budget gap. Since the 2010 assessment, there has been no concerted effort to strengthen the legal framework, and internal audit remains underdeveloped in spite of extensive assistance from consultants. Priority should be given to addressing the ongoing weaknesses in these areas, along with strengthening the control environment and the internal audit function. A positive development was the substantial improvement in the quality of financial reporting, which was accomplished in part with the assistance of the external auditors.

Exchange Arrangement

Iraq's de jure and de facto exchange rate arrangements have been retroactively reclassified to a conventional peg arrangement, effective January 15, 2012. The Central Bank Law provides the Board of the CBI with power to formulate exchange rate policy. The CBI Board undertook a realignment of the peg from 1166 to 1182 dinar per USD on December 1, 2015, unifying the effective rates applicable to cash sales and transfers at 1190 including the central bank commission. The CBI stands ready to provide foreign exchange at the official exchange rate plus commissions for permissible transactions through its daily auctions (allocations), establishing a peg. However, because certain transactions are excluded from the access to the CBI auctions, many transactions take place at parallel market exchange rates. The CBI publishes the daily volume of the auction allocation on its website.

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

The exchange restrictions arise from (i) the requirement to pay all obligations and debts to the government before proceeds of investments of investors, and salaries and other compensation of non-Iraqi employees may be transferred out of Iraq, and (ii) an Iraqi balance owed to Jordan under an inoperative bilateral payments agreement.

The MCP arises from the official action to limit the purchase of foreign exchange, with no mechanism to ensure that exchange rates in the official auction and in the market do not deviate from each other by more than two percent. The average spread between the official and market rates was around 3 percent in December 2015 and has increased to about 9 percent since May 2016.

In addition, one exchange restriction maintained for security reasons should be notified to the IMF under the framework of Decision 144– (52/51).

Article IV Consultation

Upon the approval of the new 36-month Stand-By Arrangement on July 7, 2016, Iraq was placed on the 24-month consultation cycle. The last Article IV consultation was concluded on July 29, 2015, along with a request for purchase under the Rapid Financing Instrument. The staff report (IMF Country Report No. 15/235) was published on August 18, 2015, and is available on the internet.

Technical Assistance, 2005–16

Department	Date	Purpose
FAD	May 2010	Public Financial Management
	March 2012	Public Financial Management (METAC)
	May 2012	Public Financial Management (METAC)
	December 2012	Public Financial Management (METAC)
	May 2013	Budget Functional Classification workshop (METAC)
	March 2014	Budget Classification (METAC)
	June 2015	Status of Public Financial Management Reforms (METAC)
	November 2015	Public Financial Management Law, budget execution and program-based budgeting
	March 2016	Public Financial Management Law
LEG	April 2010	Phase One of the Three-Phase AML/CFT Capacity Enhancement and Sustainability Training Program
	July 2010	Phase Two of the Three-Phase AML/CFT Capacity Enhancement and Sustainability Training Program
	October 2012	Article VIII acceptance and AML/CFT technical assistance
	December 2012	AML/CFT Legislative Drafting
	May 2015	Desk review of the draft AML/CFT Law
	June 2015	Article VIII acceptance
	September 2015	Desk review of the draft AML/CFT Law
	January 2016	Anti-money Laundering Activities
	March 2016	Cross-border Financial Flows

Department	Date	Purpose
MCM	April 2010	Islamic banking workshop
	August 2010	Reserve management
	August 2010	Remote assistance on liquidity management and treasury market development
	December 2010	Government Securities/Monetary Operations
	January 2011	Government Securities/Monetary Operations
	January 2011	Training on New Developed Regulations and Call Reports (METAC)
	January 2011	Training on Off-Site Supervision and Report Development (METAC)
	April 2011	Risk management workshop (stress testing)
	May 2011	Bank restructuring
	May 2011	Reserve management
	July 2011	Reserve management
	September 2011	Reserve management workshop
	March 2012	Bank restructuring
	October 2012	Article VIII acceptance
	March 2014	Assessment of Banking Needs (METAC)
	April 2014	Central Bank Reserve Management
	May 2015	Asset Management
	November 2015	Banking Supervision (METAC)
	November 2015	Prudential Regulations: Review and Assessment (METAC)
	March 2016	Seminar on Foreign Exchange Regimes and Controls (Joint LEG/MCM)
	September 2016	Reserve Management Workshop
STA	April 2010	External Sector Statistics
	July 2010	Monetary and Financial Statistics
	February 2012	External Sector Statistics
	March 2012	National Accounts Statistics
	May 2012	Monetary and Financial Statistics
	April 2013	National Accounts Statistics
	December 2013	Balance of Payments Statistics
	December 2014	Balance of Payments Statistics (METAC)
	March 2015	Government Finance Statistics (ArabStat)
	May 2015	Government Finance Statistics
	November 2015	Consumer Price Index (METAC)
	January 2016	National Accounts Statistics (METAC)
	March 2016	Government Finance Statistics
	March 2016	External Sector Statistics
	April 2016	Financial Stability Indicators
INS	January 2010	Financial Programming and Policies

RELATIONS WITH THE WORLD BANK GROUP

(As of September 30, 2016)

Title	Products	Provisional and Actual Timing of Missions	Expected and Actual Delivery Date
A. Mutual Information on Relevant Work Program			
The World Bank work program in the next 12 months[1]	**Economic Policy Analysis and Advice** **WB:**		
	-Systematic Country Diagnostic (SCD)	September 2016	December 2016
	-Kurdistan Regional Government, Reimbursable Advisory Services: Economic Growth Diagnostic	December 2015/ Feb/April/June/September 2016	October 2016
	-Assessment of Decentralization and Service Delivery in Iraq	November 2015	March 2016 (Delivered) January 2016 (Delivered)
	-Road Maps for reforming Customs and Taxation in Iraq	November 2015	May 2016 (Delivered)
	-Kurdistan Regional Government Economic Reform Road Map	March 2016	October 2016
	-Kurdistan Regional Government Action Plan to Mitigate Power Cuts	July/September 2016 July/October/December 2016	February 2017
	-Iraq Energy Subsidies and Tariff Reforms (both Iraq and Kurdistan Regional Government)	October/December 2016	February 2017
	-Iraq Energy Sector Programmatic Technical Assistance: Deliverable Gas-to-Power Action Plan	December 2016	March 2017
	- Iraq Country Partnership Framework (CPF)		
	Technical Assistance **WB:** -Public Financial Management (Public Expenditure and Financial Accountability, Capacity Needs Assessment and Integrated Financial Management Information System Request for Proposal)	February/May/October/November 2016	December 2016

[1] Not including infrastructure investments.

	-Public Investment Management in Kurdistan Regional Government	March 2016	June 2016 (Delivered)
	-Kurdistan Regional Government Support to Develop a Social Protection Framework	February/May 2016	June 2016 (Delivered)
	-Extractive Industries Transparency Initiative	January/March 2016	December 2016
	-Pension Reform TA	November 2015 January/October/December 2016	June 2017
	-Doing Business Reforms	January/May/November 2016, January/March 2017	April 2017
	-Central Bank payment system	July/November 2016, January/March 2017	May 2017
	-Anti Money laundering	January/February/April/September/ October 2016, April 2017	May 2017
	-Regulatory reform	December 2015–March/ October 2016	December 2016
	-Water Sector Public Expenditure Review	January–June 2016	June 2016 (Delivered)
	-Poverty TA	June 2016–May 2017	June 2017
	- (Baghdad RAS) Gas value chain in Iraq	January/April/September/ October/ December 2016	April 2017
	-Kurdistan Regional Government, Reimbursable Advisory Services: Procurement reform	January–April 2016	June 2016 (Delivered)
	-Kurdistan Regional Government, Reimbursable Advisory Services: Social safety Nets and pension	June 2016–May 2017	Ongoing
	-Kurdistan Regional Government, Reimbursable Advisory Services: Support to Shura Council	June 2016–May 2017	Ongoing
	IFC:		
	Investments (pipeline and portfolio)		November 2015
	-Power sector		March 2016
	-Basic manufacturing and agribusiness		June 2016
	-Telecom		December 2016
	Advisory		
	-United Bank for Investment restructuring		June 2020

	-Construction reform project -Dairy sector development -Small and Medium Enterprises training with Business Edge -Corporate governance -Financial markets infrastructure -Risk management for banks -Small and Medium Enterprises banking -Investment policy -Suleymaniah Wastewater treatment -Public Private Partnerships prioritization and regulatory framework (Northern Iraq)		Ongoing Ongoing Ongoing TBD TBD TBD
The Fund work program in the next 12 mon ths	**Macroeconomic Policy Analysis and Advice**		
	-First Review of the Staff-Monitored Program and Discussion of a Stand-By Arrangement	March 2016	May 2016
	-First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement	May 2016	July 2016
	-First Review of the Stand-By Arrangement	September 2016	December 2016
	-Second Review of the Stand-By Arrangement	March 2017	June 2017
	-Third Review of the Stand-By Arrangement	September 2017	December 2017
	Technical Assistance		
	-Public financial management	September 2016	November 2016
	-Fiscal accounts reporting	September 2016	November 2016
	-Tax Policy -Public Debt Statistics -Financial Soundness Indicators -Foreign Exchange (Article VIII Issues) -Bank Restructuring -AML/CFT: Law and Institutions -Banking Supervision (METAC)		

B. Requests for Work Program Inputs			
Fund request to Bank	Update on sector reforms (electricity, capture of flared gas, state-owned enterprise, pension),	Ongoing basis	
Bank request to Fund	-Fiscal data to be shared regularly -Coordination on macroeconomic policy -Macroeconomic and financial data to be shared regularly, including any foreign exchange transaction -Sector-specific data -Consultations outcomes to be shared	Ongoing basis	
C. Agreement on Joint Products and Missions			
Joint products in the next 12 months	n/a		

STATISTICAL ISSUES

(As of November 2016)

I. Assessment of Data Adequacy for Surveillance
General Data provision to the Fund has serious shortcomings that significantly hamper surveillance. Macroeconomic statistics suffer from years of neglect and recent turmoil has added to the difficulties. While the Central Statistics Organization (CSO) remained in place, it lacks adequate technical expertise and resources to address the requirements for a modern statistical system. At the Central Bank of Iraq (CBI), statistical capacity is slightly better, but issues of interagency data sharing and data collection responsibilities are hampering progress on external sector statistics—this issue also affects the CSO.
National Accounts The CSO compiles annual and quarterly GDP at current and constant (2007) prices from the production approach, and in current prices from the expenditure approach. The national accounts mainly follow the 1968 System of National Accounts (SNA). Poor and lack of regular comprehensive source data for some industries and for GDP by expenditure have a negative impact on the quality of the national accounts. Volume estimates of GDP suffer from some shortcomings and delays in source data that affect the timelines of the annual estimates. Reduced regional coverage of source data due to the conflicts in four provinces has further weakened the GDP measures. Ongoing TA from METAC is helping the CSO to gradually move to the concepts of the 2008 SNA and to improve methodology. Access to administrative data could be a very significant data input for national accounts estimates, but it would require strong ministerial support and proactive collaboration with other government institutions.
Price Statistics The CSO compiles and disseminates a monthly CPI for all-Iraq (including Kurdistan) and for each governorate. The index was recently rebased to 2012, based on the Household Social and Economic Survey. However, the CPI only covers the urban areas in all governorates and resources are insufficient to expand coverage. Starting June 2014 official data on CPI do not include the four conflict-affected governorates. A quarterly PPI for manufacturing is also compiled on a 2012 base. A recent STA/METAC TA mission provided advice on further improvements to the CSO's price statistics.
Government Finance Statistics Despite the difficult security situation, which has a direct impact on data compilation and analysis, the provision of fiscal data for program monitoring purposes has been satisfactory. Infrequent submission delays occur, and coverage of Kurdistan remains sketchy. However, the authorities are taking measures to address these shortcomings.

In March 2015, an STA mission—overlapping with the Article IV mission—discussed a work plan aimed at improving the frequency and timeliness of fiscal reporting data and setting a migration plan to improve fiscal statistics based on Government Finance Statistics Manual 2014 (GFSM 2014). In March and August 2016, follow-up STA missions assisted in setting up a reporting tool on quarterly statement of government operations for the budgetary central government. Iraq resumed reporting government finance statistics for publication in the Government Finance Statistics Yearbook (GFSY). Currently there are no fiscal statistics published by the government beyond the summary estimates and outturn for the budgetary central government.

Monetary and Financial Statistics

The CBI reports monetary statistics for the central bank and other depository corporations for publication in the IMF's *International Financial Statistics*, using the standardized report forms (SRFs). However, the quality and timeliness of the data continue to be hampered by the lack of staff capacity, particularly at the commercial bank level and source data quality. While most banks, including state-owned banks are using the new report forms, which were developed based on the IMF's Monetary and Financial Statistics Manual, some banks continue to have data reporting problems (e.g., missing data, reporting errors, and reporting delay). As a result, data are reported with a long lag. In addition, monetary statistics do not cover the northern region (Kurdistan) due to problems with data collection, and the reporting of Fund accounts in SRF 1SR for central bank needs improvement. A recent mission on financial soundness indicators in April 2016 found potential departures from international standards in applying the residence concept and classifying state-owned enterprises, and some other areas that need investigation and improvement.

Financial Sector Surveillance

Following a discussion during the 2015 Spring Meetings in Washington, D.C., the CBI requested TA in compiling financial soundness indicators (FSIs). An STA mission was fielded in April 2016 to develop a framework for compiling FSIs. As a result, the CBI has started compiling and reporting the 12 core FSIs and 7 of the 13 additional FSIs for state banks and a similar set of FSIs for private banks on a quarterly basis. However, there are data issues that need to be addressed before FSIs can be used for publication and surveillance, and a follow-up mission to the CBI is planned for FY17.

External Sector Statistics

Balance of Payments and IIP Statistics

The CBI compiles and reports annual as well as quarterly balance of payments data in the format of the IMF's *Balance of Payments Manual, sixth edition* (*BPM6*) to the IMF. The CBI also compiles and disseminates an annual international investment position (IIP) statement. However, the latest 2013–2015 balance of payments data have not yet been included in STA's publications due to very large net errors and omissions, which have raised concerns over data coverage and quality. The latest TA mission on external sector statistics (ESS), conducted in March 2016, noted that errors and omissions could be attributed to: lack of coverage and/or under-coverage of (i) transactions related to production sharing agreements with foreign oil companies and long-term construction work by foreign companies in Iraq; (ii) trade data for the Kurdistan

<table>
<tr><td colspan="2">region; and (iii) incomplete recording of counterpart entries for the net borrowing in the financial account of the balance of payments in 2013 and 2014, which is inconsistent with the significant surpluses recorded in the current account. The mission assessed that the current data sources to compile the ESS are not comprehensive. The paucity of data exists particularly in the areas of external trade in goods and services and foreign direct investment. In light of these findings, the mission has made several recommendations, including enhancement of international transactions reporting system, estimation techniques for Kurdistan imports and securing data on payments made by the Ministry of Oil to international oil companies. International reserves are compiled consistent with international methodologies and published in the IFS since end-2006.

External Trade Statistics

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

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

Export data from the oil sector are received from the Balance of Payments Statistics Division at the CBI. The data on nonoil exports, which amount to the equivalent of 3–5 percent of total exports, are derived from information on the customs export form. Nonoil export data are provided to the CBI on a monthly basis for crosschecking purposes.</td></tr>
<tr><th colspan="2">II. Data Standards and Quality</th></tr>
<tr><td>The country is an e-GDDS participant. The metadata, some of which have been updated in early 2016, for key macroeconomic indicators are available on the country page on the IMF’s Dissemination Standards Bulletin Board.</td><td>No data ROSC is available.</td></tr>
</table>

Iraq: Table of Common Indicators Required for Surveillance
(As of October 31, 2016)

	Date of latest observation (For all dates in table dd/mm/yy)	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8] Data Quality–Methodological Soundness[9]	Data Quality–Accuracy and Reliability
Exchange Rates	05/25/2016	06/2/2016	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	06/2016	10/24/2016	M	M	M, 4–6-week lag		
Reserve/Base Money	05/2016	07/06/2016	M	M	M, 4–6-week lag		
Broad Money	05/2016	05/25/2016	M	M	M, 4–6-week lag		
Central Bank Balance Sheet	04/2016	07/06/2016	M	M	M, 4–6-week lag		
Consolidated Balance Sheet of the Banking System	04/2016	10/06/2016	M	M	Q 4–6-week lag		
Interest Rates[2]	09/2016	10/04/2016	M	M	M, 4–6-week lag		
Consumer Price Index	03/31/2016	05/2016	M	M	M, 3-week lag		
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	06/2016	09/2016	M	M	N/A		
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	06/2016	09/2016	M	M	N/A		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/2015	03/2016	N/A	N/A	N/A		
External Current Account Balance	12/2015	03/2016	Q	Q	Q 9-month lag		

Iraq: Table of Common Indicators Required for Surveillance (concluded)
(As of October 31, 2016)

	Date of latest observation (For all dates in table dd/mm/yy)	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8]	
						Data Quality– Methodological Soundness[9]	Data Quality– Accuracy and Reliability
Exports and Imports of Goods and Services	12/2015	03/2016	Q	Q	Q 9-month lag		
GDP/GNP	03/2016	04/2016	Q	Q	Q 3-month lag		
Gross External Debt	12/2015	03/2016	N/A	N/A	N/A		
International Investment Position[6]	12/2014	06/01/2015	Q	Q	Q 9-month lag		

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

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

[3] Foreign, domestic bank, and domestic nonbank financing.

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

[5] Including currency and maturity composition.

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

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

[8] These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.

[9] Iraq has not had the data ROSC or the Substantive Update.

Statement by Mr. Beblawi, Executive Director and
Ms. Choueiri, Senior Advisor to the Executive Director on Iraq
December 5, 2016

1. Notwithstanding extremely challenging security conditions, Iraq has made good progress under the Fund-supported Stand-By Arrangement (SBA) in adjusting to the shocks arising from the ISIS attacks and the sharp drop in global oil prices. In particular, the outlook improved since the SBA approval because of higher oil production and prices, the fiscal deficit and the non-oil primary deficit were sharply reduced, and the balance of payments deficit was narrowed. Moreover, inflation remained in the low single digits. Despite persistent capacity constraints—which were compounded by the ISIS attacks—structural reforms progressed in several key areas. These areas include fiscal transparency, public financial management, as well as integration within the international financial system. In support of Iraq's efforts, the international community, convened by the United States, pledged U.S.$2.1 billion to United Nations' agencies last July to help the country progress in the humanitarian, de-mining, stabilization, and longer-term recovery areas.

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

Economic Policies and Reforms for the Remainder in 2017–19

3. In order to preserve macroeconomic stability and achieve debt sustainability, the authorities will pursue their fiscal consolidation effort to bring spending in line with available resources. They are keen on minimizing the impact of fiscal consolidation on the population given the large number of internally displaced people and refugees, as well as the expected increase in humanitarian and reconstruction needs as ISIS-occupied territories are liberated. To that effect, they will continue to protect social spending, which includes health and education, transfers in support of the social safety net, and assistance for internally displaced persons and refugees.

4. The revised fiscal program in 2016 and the draft budget in 2017 are closely aligned with the SBA. In 2016, the government is implementing a fiscal program that is significantly more restrictive than programmed because of shortfalls in domestic and external financing. In the 2017 budget, non-oil revenue will go up mainly on account of an increase of the contribution levy to the war effort and the internally displaced people from 3.0 to 4.8 percent of all government employee wages and pensions, which is expected to yield ID 1.2 trillion. At the same time, the wage bill and pension payments will be reduced through natural attrition and the enforcement of existing rules in the case of the latter, while public investment in the oil and non-oil sectors will increase, with a prioritization of projects that have already started in the non-oil sector.

5. In 2017–19, the authorities will design and implement deeper revenue and expenditure reforms in order to continue to contain the non-oil primary deficit and maintain debt sustainability. They will conduct diagnostics of the tax and customs codes and tax and customs administrations with Fund technical assistance in order to increase non-oil tax revenue; reduce the wage bill by natural attrition; complete the audits of the wage earner and pensioner payrolls to first identify, and then cancel payments to non-legitimate wage and pension recipients; reform the contributory public pension system, in coordination with the World Bank; as well as reform the electricity sector and state-owned non-financial enterprises.

6. Public financial management reforms rank high on the authorities' agenda. In this regard, the authorities will focus in the next six months on completing the inventory of arrears and their audit by the Board of Supreme Audit. Future reforms will include gradually moving to a Treasury Single Account, designing and implementing a commitment control system for budget execution as well as an Integrated Financial Management Information System, implementing Public Investment Management reform, and strengthening Debt Management with technical assistance support from the Japanese International Cooperation Agency.

7. Notwithstanding the envisaged consolidation efforts, large fiscal deficits would remain in 2016-17, reflecting continued spending pressures that cannot be further compressed in the current difficult environment. These deficits will be financed mainly by recourse to domestic financing and external financing catalyzed by the SBA. The authorities are keen to avoid excessive indirect central bank financing of the government deficit. Accordingly, if oil exports revenue is higher than programmed, they commit to commensurately reduce the indirect monetary financing of the budget deficit by the Central Bank of Iraq (CBI).

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

9. The authorities are taking measures to enhance the stability of the banking sector. The audit of the 2014 financial statements by international auditors of the two largest state-owned banks Rasheed and Rafidain is expected to be completed in February 2017. Based on these audits, the Ministry of Finance will prepare a plan to restructure the two banks. At the same time, the government is strengthening the legal framework of the CBI to provide for independent oversight, building on the 2016 IMF safeguards assessment. The authorities will continue to implement reforms to strengthen the anti-money laundering and combating the financing of terrorism framework. In this connection, the government adopted in October a by-law to set up a mechanism to comply with the relevant United Nations Security Council

resolutions related to terrorism and terrorism financing and Recommendation 6 of the Financial Action Task Force on Money Laundering and Terrorism Financing.

Performance Under the SBA

10. The Iraqi authorities remain committed to the program's objectives notwithstanding exceptionally difficult circumstances that hamper adequate implementation. They met all the prior actions for the first review, including the circular concerning the 2016 budget that had not been met at the time of the circulation of the staff report. They also met two performance criteria (PCs), the floor on gross international reserves and the ceiling on net domestic assets, at end-September based on preliminary unaudited data. Moreover, they met three out of five performance criteria (PCs) at end-June 2016. They request waivers of applicability for the four performance criteria at end-September for which no information is available yet and for which there is no evidence that these were not observed. The authorities missed the continuous zero ceiling on new external arrears during July 1–November 2, 2016 because a debt service payment to Italy of CHF 0.4 million could not go through for technical reasons. This temporary new external arrear was paid subsequently and the authorities request a waiver for the non-observance of this PC.

11. In the face of extreme political instability following the SBA approval, including the departure of three Ministers from the Government, the Prime Minister decided to reverse the tax increase for senior civil servants that the Council of Ministers had approved as a prior action before the approval of the SBA request. It is well to note that this measure was replaced by an increase of the contribution levy to the war effort and the internally displaced people from 3.0 to 4.8 in the context of the 2017 budget, as discussed above. This is a very courageous and much more comprehensive measure that includes all civil servants, among which military forces, and yields significant revenue.

12. The authorities met three out of six structural benchmarks (SBs) for the first review. These include the compilation of fiscal reporting tables in line with the 2014 IMF Government Finance Statistics Manual presentation, the approval of a draft Financial Management Law according to World Bank and IMF recommendations, and the adoption of a by-law to set up a mechanism to comply with the relevant UN Security Council resolution on terrorism and terrorism financing. They also made good progress to meet the remaining SBs. The SB on the inventory of domestic arrears was only partly implemented because many spending units were under heavy work pressure, and the audit of the civil service wage payroll was incomplete given the very wide scope of the task—it is now proposed to limit it to central government employees. The authorities appreciate staff's recognition that the aforementioned SBs, as well as the SB on the audit of the pensioner payroll require more time than anticipated; they support their postponement to the second and third reviews.

13. The authorities request a rephasing of the program to move from quarterly to semi-annual reviews. This will provide them more time to garner support for difficult reforms and prepare data for program monitoring. In order to facilitate program implementation, the authorities will set up a unit in the Prime Minister's office to strengthen the monitoring of commitments under the SBA and coordinate among various government agencies.

Conclusion

14. Iraq continues to face a particularly difficult time and its economy remains under severe stress. In light of the information provided above, the authorities request completion of the first review under the SBA and request purchase of the second tranche. They see the SBA as providing them with needed financial support and a valuable anchor during a period of considerable uncertainty. They are fully committed to the implementation of the SBA, although stable security conditions remain a prerequisite for the success of their policies. They would like to express their deep appreciation for the international community, the Fund's Executive Board, and Management, for their continued support. They particularly appreciate staff's hard work and constructive engagement, as well as the valuable technical assistance they are receiving in support of their stabilization and reform efforts.