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Iraq: First Review Under the Stand-By Arrangement, Request for Waiver of Nonobservance of a Performance Criterion, Waiver of Applicability, and Rephasing of Access

The following documents have been released and are included in this package:

- The staff report, prepared by a staff team of the IMF, following discussions that ended on September 18, 2010, with the officials of Iraq on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 20, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release.

- A statement by the Executive Director for Iraq

The document(s) listed below will also be separately released.

Letter of Intent sent to the IMF by the authorities of Iraq*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

IRAQ

First Review Under the Stand-By Arrangement, Request for Waiver of Nonobservance of a Performance Criterion, Waiver of Applicability, and Rephasing of Access

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

Approved by Alfred Kammer and David Marston

September 20, 2010

Executive Summary

- **Stand-By Arrangement**: A two-year Stand-By Arrangement in the amount of SDR 2,376.8 million ($3.6 billion), equivalent to 200 percent of Iraq's quota, was approved by the Executive Board on February 24, 2010. A first purchase of SDR 297.1 million (25 percent of quota) was made following the Board meeting.

- **Program objectives:** In addition to providing temporary budget support, the program aims to ensure macroeconomic stability during the political transition after the March elections, and to provide a framework for advancing structural reforms. The Iraqi economy was severely affected in 2009 by the decline in oil prices, which caused the external current account and the fiscal balance to shift into large deficits. Both are projected to remain in deficit in 2010 and 2011.

- **Program status:** Performance under the program has been broadly satisfactory. All but one of the performance criteria for end-March 2010 were met, as well as all but one of the performance criteria for end-June 2010 for which data are already available. The authorities are requesting a waiver of nonobservance for the end-June performance criterion on the net international reserves and a waiver of applicability for the end-June performance criterion on the central government current spending bill for which data are not yet available. Good progress was also made in implementing most of the structural benchmarks through end-June. Observance of two benchmarks proved more problematic, but actions have since been taken to ensure progress. Against this background, staff supports the authorities' request for completion of the first review and the release of the second disbursement of SDR 475.36 million. Due to the delay in completing the first review, the authorities are also requesting a rephasing of the remaining disbursements.

- This report is based on discussions held during May 12–13, 2010 in Istanbul, and July 13–17, 2010 in Amman. Staff met with the Governor of the Central Bank of Iraq (CBI) Al-Shabibi, Advisor to the Deputy Prime Minister and Senior Personal Advisor to the Minister of Finance Azez, other senior officials and management from the two largest state-owned banks. The staff team comprised Mr. van Rooden (head); Ms. George, Ms. Oliva (all MCD), Mr. Bakhache (SPR), and Mr. Akcakoca (MCM).

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I. Political and Security Situation

1. **The political and security situation remains fragile**. Parliamentary elections held in March did not result in a clear majority for any of the main political blocs. Following a partial recount, Iraq's Supreme Court ratified the election results in early June and the new parliament was seated in mid-June. Discussions to form a new coalition government are still ongoing. The political uncertainty has contributed to surges in sectarian violence and attacks against government institutions, including another attack on the Ministry of Finance in March, and attacks on the Central Bank of Iraq (CBI) and several commercial banks in June.

II. Recent Economic Developments

2. **Oil prices in the first half of 2010 were higher than assumed under the program, but the volume of oil exports remained well below projections**. Export prices of Iraqi oil averaged $75 per barrel in the first half of 2010, compared to a budgeted price of $62.50 per barrel. Exports, however, averaged 1.88 million barrels per day (mbpd) in the first half of 2010, significantly lower than the target of 2.10 mbpd for the year. Bad weather delayed tanker loadings at the main export terminals near Basra, while a bomb attack in April temporarily interrupted exports through the northern pipeline to Turkey. Also, internal political difficulties caused delays in the expected increase in exports from the northern fields. Thus, the trigger for treating the Stand-By Arrangement as precautionary has so far not been met.[1]

3. **With the higher-than-budgeted oil prices more than offsetting the lower export volumes, government oil revenues were higher than projected in the first half of the year.** As a result, and in combination with lower-than-projected spending—both current and capital spending—the budget is estimated to have recorded a surplus in the first half of 2010. Similarly, the balance in the Development Fund for Iraq (DFI) was well above program floors through end-June 2010.[2]

4. **Inflation continued to be in the low single digits and the exchange rate has remained stable**. With core inflation hovering around 3 percent, the CBI lowered its policy interest rate further to 6 percent (from 7 percent) and reserve requirements to 20 percent

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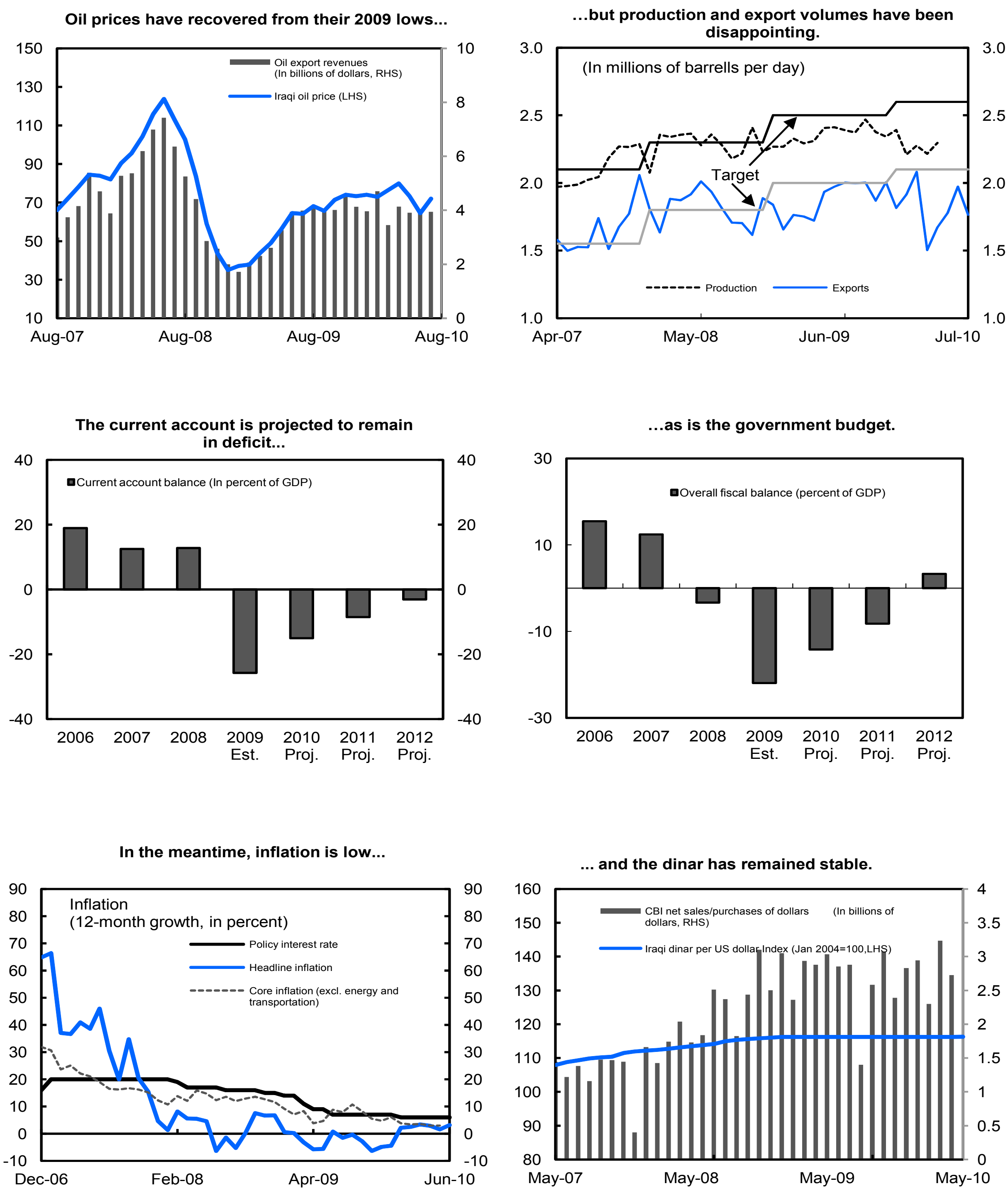
[1] The authorities had indicated that they intend to treat the Stand-By Arrangement as precautionary if at the time of each program review futures prices for Iraqi oil for the year average $73 per barrel or higher, provided that Iraq is able to sustain an export level of 2.1 mbpd in 2010.

[2] The estimate for the 2009 budget deficit was revised downward to 21.9 percent of GDP, from its earlier estimate of 22.6 percent of GDP.

Figure 1. Iraq: Macroeconomic Indicators



Sources: Iraqi authorities and Fund staff estimates.

(from 25 percent) effective April 1, 2010. [3] The volume of foreign exchange sold by the CBI in the foreign exchange auctions remained broadly stable at about $3 billion per month. Combined with somewhat lower than expected transfers from the DFI to the Ministry of Finance's accounts with the CBI, the CBI's international reserves declined to $41 billion by end-June, falling below the program target. Iraq's combined international reserves (the sum of the CBI reserves and the balance in the DFI), however, remained broadly stable during the first half of 2010.

III. Policy Discussions

5. **The discussions for the first review focused on performance under the program in the first half of 2010 and the outlook for the remainder of the year, and also on the need for sustained progress in implementing the structural reform agenda.** The authorities view the program as providing a valuable anchor for their macroeconomic policies during a period of high economic and political uncertainty, and providing access to budget financing. The authorities remain strongly committed to the program supported by the Stand-By Arrangement. The attached Supplementary Letter of Intent of September 18, 2010 describes their policies for the remainder of 2010, supplementing the policies outlined in their Letter of Intent of February 8, 2010 and its attachments.

6. **The discussions for this review were delayed due to lengthening data lags resulting from the attacks on the Ministry of Finance and the CBI.** The authorities are working to overcome the impact of the attacks on administrative capacity and data lags are expected to shorten.

7. **Performance under the program has been broadly satisfactory**. All performance criteria for end-March 2010 were met, with the exception of the floor under the CBI's net international reserves, which was missed by a small margin. Of the performance criteria for end-June 2010 for which data are available, again only the floor under the CBI's net international reserves was missed, this time by a slightly larger margin. Viewed, however, in combination with the much-higher-than programmed balance in the DFI, Iraq's overall reserves turned out higher than anticipated. Going forward, the CBI and the Ministry of Finance will coordinate more closely to help ensure that the NIR target for end-2010 can be met. The authorities are requesting a waiver for the nonobservance of the missed end-June performance criteria and also a waiver of applicability for the end-June 2010 performance criterion on central government current

[3] Starting in 2010, the Central Organization for Statistics and Information Technology (COSIT) has adopted a new CPI series based on updated weights calculated from the 2006/07 Household Survey. While this is a good step forward, the series has not yet been calculated backwards to enable comparison between the old series and the new series, due to a lack of resources at COSIT. COSIT aims to finish calculation of price indices for 2009 using the new weights by end-2010.

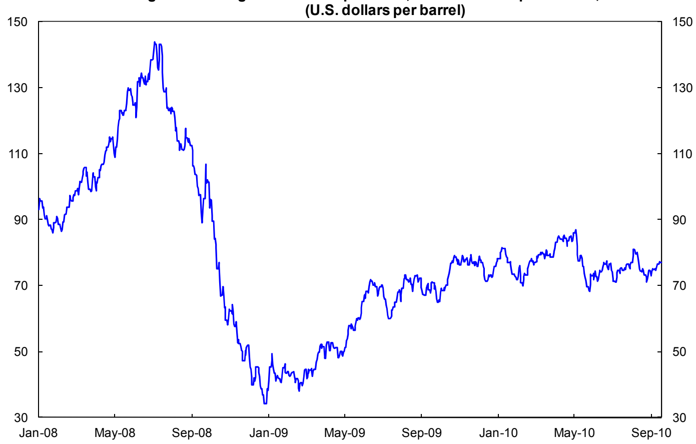
spending for which data are not yet available (and for which there is no evidence that it was not observed). Furthermore, due to the delay in completing the first review, the authorities are requesting a rephasing of the remaining disbursements.

8. **Good progress was also made in implementing the structural reforms under the program.** Despite capacity constraints that were further aggravated by the repeated attacks on government institutions, all but two of the structural benchmarks through end-June were fully or largely observed, albeit some with delays. Observance of two benchmarks proved more difficult. These were the review of all accounts in the banking system classified as central government accounts and the restructuring of the balance sheets of the two state-owned banks, Rafidain and Rasheed. The authorities have made considerable progress on the first in recent months and, with the assistance of Fund staff, have developed a way forward to meet the other (see the section below on structural reforms).

A. Macroeconomic Outlook and Risks

9. **The economic outlook is favorable, but remains subject to large risks.** Iraq's longer-term outlook remains strong as oil production is projected to increase substantially over the medium term as domestic and foreign investment in the sector starts to bear fruit. In the short run, however, oil prices remain highly volatile, posing considerable downside risks. In addition, a prolonged political vacuum or the formation of a government that would be seen as excluding large parts of the electorate could result in a worsening of the security situation. This could also create risks for the development of new oil fields by the international oil companies, which could delay the envisaged increase in oil production. An updated debt sustainability analysis indicates that Iraq's external and public sector debt are projected to decline rapidly to low levels with the steady increase in oil production, and provided that further progress is made in concluding agreements with non-Paris Club creditors, but that the outlook remains vulnerable to shocks to oil production and prices.[4]

Figure 2. Average Petroleum Spot Price, Jan. 1 2008–September 16, 2010
(U.S. dollars per barrel)



Sources: Bloomberg and Fund staff estimates.

[4] Iraq reached a rescheduling agreement earlier this year with the People's Republic of China, providing 80 percent debt relief.

10. **Growth is likely to be significantly lower in 2010 given the lower oil production volumes so far**. Even with an increase in oil production in the second half of 2010, exports may not exceed 1.92 mbpd on average this year. As a result, and with non-oil GDP expected to continue to recover slowly as security conditions improve, overall real GDP growth is expected to reach only 2½ percent in 2010, before picking up in 2011 when the international oil companies' activities are expected to yield an increase in oil production.

11. **The 2010 budget deficit is projected to be smaller than programmed.** Based on current WEO price projections, adjusted for the quality differential between the WEO basket and Iraqi oil, and assuming a modest increase in export volumes in the remainder of the year, oil revenues in 2010 are projected to be somewhat higher than projected under the program. Thus, assuming full execution of the capital budget, the budget deficit could be limited to about 14 percent of GDP, instead of 19 percent of GDP anticipated under the program.

Iraq: Government Finances 2008-12

	2008	2009		2010		2011		2012
	Est.	Cnrtry Rpt 10/72	Est.	Cnrtry Rpt 10/72	Proj.	Cnrtry Rpt 10/72	Proj.	Proj.
	(In trillions of Iraqi dinars)							
Total revenues and grants	87.0	58.9	59.9	70.8	74.8	81.2	81.9	96.1
o/w Crude oil export revenues	73.9	45.5	45.6	56.1	60.0	64.9	65.3	78.3
Total expenditures 1/	88.7	76.3	74.8	88.7	88.7	87.4	90.8	91.8
Current expenditures	63.2	60.4	59.8	62.9	62.9	61.4	64.3	63.4
Capital expenditures	27.3	18.8	19.8	25.8	25.8	26.0	26.5	28.4
Statistical discrepancy/returned LCs	-1.8	-2.8	-4.8	…	…	…	…	…
Balance	-1.7	-17.4	-14.9	-17.9	-14.0	-6.2	-8.9	4.2
In percent of GDP	*-1.6*	*-22.6*	*-19.3*	*-19.1*	*-14.2*	*-5.7*	*-8.2*	*3.3*
Financing	…	17.4	14.9	14.0	14.0	4.4	8.9	…
Use of DFI	…	0.4	0.4	8.7	6.7	0.0	2.0	…
Net external (incl. SDR allocation) 1/	…	-0.3	-0.3	3.0	3.6	0.9	2.9	…
MoF deposits with CBI	…	12.1	12.3	0.0	1.2	0.0	0.0	…
Other domestic bank financing	…	1.2	-1.4	-1.2	2.0	0.0	1.9	…
Treasury bills	…	4.0	4.0	3.5	0.4	3.5	2.1	…
Financing gap	…	0.0	0.0	3.9	0.0	1.8	0.0	…
Memorandum items:								
Balance in DFI (excl. FMS)	12.3	11.7	11.7	3.0	5.0	3.0	3.0	…
MoF deposits with CBI (end of period)	13.1	1.0	1.2	1.0	0.0	1.0	0.0	…
Iraqi oil export price ($pb)	91.5	56.5	56.5	62.5	73.1	67.5	68.0	70.5
Crude oil exports (mbpd)	1.80	1.88	1.88	2.10	1.92	2.25	2.25	2.60

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

1/ Includes statistical discrepancy.
2/ 2010 and 2011 projections include IMF SBA and World Bank DPL disbursements.

12. **The authorities see a continued need for the Fund's financial support, however, and request the second disbursement of SDR 475 million**. They want to be able to maintain a financial buffer as spending is expected to ramp up in the second half of 2010, while economic uncertainties remain high. In the same vein, the authorities are also considering whether to use last year's SDR allocation to finance the 2010 budget or to keep this as a buffer for 2011. The World Bank disbursed $250 million in budget support under its first Development Policy Loan (DPL). Discussions on a second DPL are expected to start once a new government has taken office.

13. **The authorities agree on the need to reduce the budget deficit in 2011 to below 10 percent of GDP as a step to returning to a sustainable fiscal position.** The 2011 budget circular, which allowed for further increases in security and social spending and a large increase in capital spending, was, however, based on relatively optimistic assumptions for oil export volumes and prices. With more conservative assumptions, the budget deficit would increase to almost 15 percent of GDP. Staff urged the authorities to use conservative assumptions for oil exports and prices in preparing the 2011 budget and to aim for a more modest increase in the capital budget given continuing capacity constraints, while making every effort to contain current spending, to ensure that the budget deficit in 2011 would be limited to about 8 percent of GDP.

14. **The CBI will continue to aim at keeping inflation low, predominantly through the continuation of its exchange rate policy.** The exchange rate remains the CBI's main policy instrument, given the very low level of financial intermediation.

B. Structural Reforms

Program Safeguards

15. **The external audits of the CBI's 2008 and 2009 financial statements were completed, as well as a special audit of the CBI's net international reserves as of end-December 2009.** The 2009 management letter has yet to be finalized, however. The audits confirmed the monetary data submitted by the CBI to the IMF. The CBI did not contract a special audit of its end-2009 net domestic assets position, however, since it believed the relevant balance sheet items were already sufficiently covered by the regular audit of its 2009 accounts.

16. **Going forward, the CBI has agreed to have an external auditor conduct special audits of its net international reserves and also of its net domestic assets as of end-June 2010** (a new structural benchmark for end-October 2010). The NDA audit will also include a review of the operations of the Memorandum of Understanding between the CBI and the Ministry of Finance with regard to IMF disbursements and debt service obligations and the operational controls over government accounts held at the CBI.

17. **An update safeguards assessment of the CBI completed in June found that significant safeguards risks remain at the CBI.** These include heavily qualified external

audit opinions, deficiencies in the control framework and concerns with operational controls, and delays in the completion of external audits and publication of financial statements. Mitigating measures had already been incorporated in the Stand-By Arrangement, but additional measures were recommended to help further mitigate remaining safeguards risks. These included co-sourcing the internal audit function, expanding NIR and NDA reviews at test dates, and establishing an independent audit committee. The authorities agreed with the recommendations. Thus, contracting a multi-year co-sourcing agreement with a reputable accounting firm is a new structural benchmark for end-December 2010. In addition, the CBI Board already took a decision to transform the Internal Control Committee into an Audit Committee that will be headed by one of the CBI's deputy governors, but otherwise will consist of a majority of non-executive members. This committee is to be effective in its new format and with a terms of reference in line with Fund staff's recommendations no later than end-October 2010 (another new structural benchmark).

Public Financial Management

18. **After some delays, the authorities were able to clarify the ownership of the bulk of the accounts in the banking system that were classified as central government deposits.** This review also enabled banks to make steady progress in reclassifying accounts previously classified as central government deposits to accounts of public enterprises and institutions. Thus, out of ID 9.8 trillion in central government deposits reported by commercial banks as of end-June 2010, ID 7.6 trillion has been reconciled with Ministry of Finance records. These accounts are mainly accounts of line ministries, reflecting the absence of a Single Treasury Account, and included deposits providing cover for opened letters of credit. Meanwhile, other public institutions held almost ID 20 trillion on deposit as of end-June 2010, of which the bulk belonged to the pension fund, state-owned enterprises, and various agencies and institutions that are (partially) self-funded and work at arm's length from the government. Work to clarify the remaining accounts is continuing. This exercise has made it clear that large improvements in cash management can be made with the eventual introduction of a Single Treasury Account and that efforts will need to be stepped up to introduce the Iraq Financial Management and Information System as a crucial step toward achieving this goal. Further discussions will also be needed to determine whether transfers to the various enterprises and agencies

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

Total government and public sector deposits	29.1
Central government deposits	9.8
Reconciled with MoF (line ministries' accounts)	7.7
To be clarified	2.1
Public sector deposits	19.3
State-owned enterprises	6.9
Pension fund	3.4
Other agencies and local governments	4.4
To be clarified	4.6

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

can be reduced, and whether funds could be returned to the budget (also in conjunction with the review of the outstanding stock of advances).

19. **In the area of fiscal reporting and transparency, the final fiscal accounts for 2008 were submitted to the Board of Supreme Audit (BSA), while the BSA completed the audit of the 2005–07 fiscal accounts and submitted these to the parliament.** Publication of these audited accounts requires a decision by parliament.

20. **Government spending units have improved their monthly financial reporting, but shortcomings remain in terms of coverage and timeliness.** Monthly financial reports are to cover all spending, including information on investment, advances, and letters of credit. To address the shortcomings the Ministry of Finance has issued further instructions to spending units, including providing more detailed information on advances and letters of credit.

21. **Fiscal reporting will further improve following the completion and distribution of a comprehensive accounting manual** (a new benchmark for end-December 2010). The new accounting manual will help ensure consistent reporting across units, in line with the new chart of accounts that had been introduced earlier.

22. **Efforts are underway to implement the benchmarks for end-September.** Staff discussed a terms of reference with the authorities for the review of the largest investment projects initiated in 2008. The World Bank is providing technical assistance to the BSA, which is to carry out the review. The Ministry of Finance, meanwhile, is gathering information on the outstanding stock of advances, as well as for the civil servants census. The latter, however, is expected to be completed only by end-2010.

Oil Sector

23. **Iraq became a candidate member of the Extractive Industries Transparency Initiative (EITI) in February 2010.** The authorities already publish information on all revenues from export sales from its oil sector. Equally, international companies buying oil from Iraq will publish what they have paid to the government. Overseen by a multi-stakeholder group with representatives from national government, companies and civil society, these figures will then be reconciled and published in an EITI Report. Iraq plans to publish its first EITI report in late 2011. Iraq has until February 2012 to implement all EITI standards and undergo an EITI validation in order to become an EITI Compliant country.

24. **The authorities submitted an action plan to the UN Security Council for the establishment of a post-DFI mechanism.** The authorities remain committed to maintain a single oil export revenue account that is subject to the same principles of transparency and accountability as the current DFI regime. The critical issue is the need to resolve remaining Saddam-era claims and liabilities before the privileges and immunities currently provided by

the UN would expire by the end of 2010. Iraq has continued to make good faith efforts to resolve outstanding external claims.

Reserve Management

25. **The CBI has started to report on its international reserves in line with Fund recommendations.** These comprehensive reports are presented to the CBI's management and shared with Fund staff.

Bank Restructuring

26. **No progress had been made in the restructuring of the balance sheets of the two largest state-owned banks, Rafidain and Rasheed.** This largely reflected a lack of institutional capacity and weak coordination between the various parties involved. During the review mission, a detailed action plan was prepared with the assistance of a bank restructuring expert and with the participation of all parties involved to move this process forward. Under the new plan, a Bank Reconciliation Unit (BRU) will be established, chaired by the CBI, with the participation at a technical level of staff from the CBI, the Ministry of Finance, the BSA, Rafidain and Rasheed, and experts of Ernst & Young (who were the agents of the Ministry of Finance in the external debt restructuring process) to deal with the legacy assets and liabilities of the previous regime. The BRU will work under the supervision of the Restructuring Oversight Committee (ROC), consisting of the Minister of Finance, the Governor of the CBI, and the Chairman of the BSA to ensure that the restructuring of these banks' balance sheet has the necessary support and authorization. Under the new plan, the deadline for cleaning up these banks' balance sheets of Saddam-era assets and liabilities is extended until end-June 2011.

IV. Staff Appraisal

27. **The Iraqi authorities have continued to make good progress in rebuilding key economic institutions, while maintaining macroeconomic stability under very difficult circumstances.** With the projected increase in oil production and exports in the coming years, Iraq will be able to strengthen its fiscal and external positions and speed up the rebuilding of its institutions and infrastructure. The creation of sound economic institutions is a cornerstone of the reconstruction process. Although substantial progress has been made, much still remains to be done.

28. **Fiscal policy is on track, but the authorities will need to ensure that the 2011 budget will be consistent with a return to a sustainable fiscal position over the medium term.** In this regard, the 2011 budget should be based on conservative assumptions for oil prices and volumes. The large uncertainty about the global economic outlook and the large scope for delays in the increase in oil production in Iraq warrant a cautious approach. The authorities should also continue to make every effort to contain current spending.

29. **Staff supports the CBI's intention to continue to manage the exchange rate with a view to keeping inflation low.** A strong and stable currency provides a solid anchor for the public's expectations in an otherwise highly uncertain environment.

30. **Strengthening public financial management will need to remain a key focus of the government's structural reform efforts.** The sound and transparent management of public resources is essential for Iraq's overall economic development. Now that fiscal reporting is being placed on the same footing for all spending units, the next steps are to further align reporting to the 2001 GFSM standards, and to introduce an automated financial management and information system that in the coming years should culminate in the establishment of a single treasury account.

31. **Similarly, the authorities will need to press ahead with strengthening financial intermediation in Iraq.** The cleaning up of the balance sheets of the two large state-owned banks, Rafidain and Rasheed, should be completed without further delay. At the same time, the authorities should continue to work together with the World Bank to advance the operational restructuring of these banks.

32. **Risks remain large.** Risks and uncertainties continue to cover a broad range, from political instability and a deterioration of the security situation that would hamper Iraq's development, including of its oil fields, to constraints in administrative capacity and volatility in oil prices.

33. **Despite these risks, staff recommends that the first review under the Stand-By Arrangement and the financing assurances review be completed.** In view of the authorities' performance so far and their strong commitment to the program, as well as the policies and measures described in their supplementary Letter of Intent, staff believes the program is well on track. Also, staff believes that the waiver for the non-observed performance criterion is justified given the commitment of the CBI and the Ministry of Finance to strengthen coordination. Staff furthermore believes that Iraq is making best efforts to reach bilateral agreements on its arrears to official non-Paris Club creditors and that the authorities have been negotiating in good faith to resolve the remaining arrears to private creditors, consistent with the Fund's policy on lending into arrears.

Table 1. Iraq: Selected Economic and Financial Indicators, 2007–12

	2007	2008	2009		2010		2011	2012
	Est.	Est.	Cntry Rpt 10/72	Est.	Cntry Rpt 10/72	Proj.	Proj.	Proj.
Economic growth and prices								
Real GDP (percentage change)	1.5	9.5	4.2	4.2	7.3	2.6	11.5	11.0
Non-oil real GDP (percentage change)	-2.0	5.4	4.0	4.0	4.5	4.5	5.0	5.5
GDP per capita (US$)	1,926	2,845	2,108	2,108	2,505	2,626	2,827	3,245
GDP (in US$ billion)	57.0	86.5	65.8	65.8	80.3	84.1	92.9	109.2
Oil production (In mbpd)	2.04	2.3	2.4	2.4	2.6	2.4	2.8	3.2
Oil exports (In mbpd)	1.59	1.8	1.9	1.9	2.1	1.9	2.2	2.6
Iraq oil export prices (US$ pb)	63.0	91.5	56.5	56.5	62.5	73.1	68.0	70.5
Consumer price inflation (percentage change; end of period)	4.7	6.8	-4.4	-4.4	6.0	6.0	5.0	5.0
Core price inflation (percentage change; end of period)	12.3	11.7	6.1	6.1	6.0	6.0	5.0	5.0
			(In percent of GDP)					
National Accounts								
Gross domestic investment	17.7	28.4	28.1	29.3	31.5	30.2	29.6	28.0
Of which: public	13.6	26.4	24.4	25.6	27.5	26.2	24.4	22.3
Gross domestic consumption	66.0	54.4	87.5	90.8	85.2	79.5	79.7	74.6
Of which: public	38.7	41.6	56.1	52.7	50.2	47.8	44.5	37.2
Gross national savings	30.2	41.2	8.7	3.6	10.5	15.8	21.0	25.1
Of which: public	28.7	23.1	-2.6	7.0	7.7	13.4	15.2	26.1
Saving - Investment balance	12.5	12.8	-19.4	-25.7	-21.0	-14.4	-8.6	-3.0
			(In percent of GDP, unless otherwise indicated)					
Public Finance								
Government revenue and grants	84.3	84.3	76.5	77.8	75.4	76.0	75.3	75.2
Government oil revenue	74.0	77.6	68.0	68.2	67.0	67.8	67.1	67.2
Government non-oil revenue	5.0	3.9	5.3	6.5	6.6	6.5	6.9	6.7
Grants	5.4	2.7	3.1	3.0	1.8	1.7	1.3	1.3
Expenditure, *Of which:* 1/	71.9	87.6	99.0	99.7	94.5	90.1	83.5	71.9
Current expenditure	55.0	61.2	78.4	77.7	67.0	63.9	59.2	49.6
Capital expenditure	13.6	26.4	24.4	25.7	27.5	26.2	24.4	22.3
Primary fiscal balance	13.3	-2.9	-21.7	-21.4	-18.0	-13.1	-6.8	5.0
Overall fiscal balance (including grants)	12.4	-3.3	-22.6	-21.9	-19.1	-14.2	-8.2	3.3
Memorandum items:								
Tax revenue/non-oil GDP (In percent)	4.0	4.2	3.5	5.2	3.0	3.0	3.9	4.9
External assets held abroad (Ex. FMS, in US$ billions)	9.9	10.3	10.0	10.0	2.6	4.3	2.6	4.3
Total government debt (in US$ billions) 2/	103.1	95.6	90.2	93.3	33.8	38.9	41.9	43.6
			(In percent, unless otherwise indicated)					
Monetary Indicators								
Growth in reserve money 3/	73.9	54.5	0.1	0.1	13.5	6.9	...	...
Growth in broad money	37.3	35.4	16.1	26.7	21.9	15.0	...	...
Policy interest rate (end of period) 4/	20.0	15.0	7.0	7.0	…	6.0	...	...
			(In percent of GDP)					
External Sector								
Current account	12.5	12.8	-19.4	-25.7	-21.0	-14.4	-8.6	-3.0
Trade balance	23.3	24.5	-2.9	-10.4	-3.0	2.0	2.4	8.3
Exports of goods	66.4	71.7	59.7	59.3	60.8	61.7	61.0	62.4
Imports of goods	-43.1	-47.2	-62.7	-69.8	-63.8	-59.8	-58.6	-54.0
Overall external balance	25.6	21.4	-10.2	-9.7	-14.1	-7.8	-4.4	2.4
Gross reserves (In US$ billion)	31.5	50.2	44.3	44.3	44.0	46.6	45.0	45.8
In months of imports of goods and services	7.8	11.0	8.5	8.6	8.1	8.3	7.4	7.1
Exchange rate (dinar per US$; period average)	1,255	1,193	1,170	1,170	…	...	...	...

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

1/ 2008 includes expenditures of 11.4 percent of GDP (ID 12.4 trillion) that are outstanding as advances and letters of credit and that have been reclassified mostly as investment spending.
2/ Assumes a debt reduction in 2010 by non-Paris Club official creditors, comparable to the Paris Club agreement.
3/ Required reserve ratios were reduced to 25 percent in 2009 (from 75 pecent), and further reduced to 20 percent in April 2010.
4/ As of April, 2010.

Table 2. Iraq: Fiscal and Oil Sector Accounts, 2007–12

(In trillions of ID; unless otherwise indicated)

	2007	2008	2009		2010		2011		2012
	Est.	Est.	Cntry Rpt 10/72	Est.	Cntry Rpt 10/72	Proj.	Cntry Rpt 10/72	Proj.	Proj.
Revenues and Grants	60.3	87.0	58.9	59.9	70.8	74.8	81.2	81.9	96.1
Revenues	56.4	84.2	56.5	57.6	69.1	73.1	79.8	80.5	94.4
Crude oil export revenues	47.1	73.9	45.5	45.6	56.1	60.0	64.9	65.3	78.3
Revenues of oil-related public enterprises	5.7	6.2	6.9	6.9	6.9	6.8	7.7	7.7	7.5
Tax revenues	1.1	1.3	1.2	1.8	1.2	1.2	1.7	1.7	2.3
Non-tax revenues 1/	2.5	2.7	2.9	3.2	5.0	5.2	5.6	5.8	6.3
Grants	3.8	2.8	2.4	2.3	1.7	1.6	1.4	1.4	1.7
Expenditures	51.4	90.4	76.3	76.8	88.7	88.7	87.4	90.8	91.8
Current expenditures	39.8	63.2	60.4	59.8	62.9	62.9	61.4	64.3	63.4
Salary and pension	13.8	21.1	27.4	27.7	28.4	28.5	28.9	30.1	30.2
Salary	11.2	17.4	22.8	23.3	22.7	22.8	22.9	23.4	22.8
Salary (Defense/Interior)	4.9	6.1	7.8	7.0	7.8	8.1	8.0	8.3	8.1
Salary (others) 2/	6.3	10.7	15.0	16.1	14.9	14.7	14.9	15.1	14.7
Pension	2.6	3.8	4.6	4.4	5.8	5.6	6.0	6.6	7.4
Goods and Services (non-oil sector) 3/	7.6	13.9	10.8	13.1	12.8	11.0	10.4	11.6	11.2
Budgeted goods and services	5.0	11.5	9.3	11.6	11.8	9.9	9.5	10.8	10.5
Other goods and services financed by donors 4/	1.5	2.4	1.5	1.5	1.0	1.0	0.8	0.8	0.7
Goods and Services (oil sector)	5.8	7.3	4.9	5.6	5.5	5.4	6.1	6.1	5.7
Transfers	9.1	16.0	14.2	10.7	11.9	13.4	10.8	11.2	9.9
Social safety net	5.1	8.4	6.2	2.7	4.3	5.7	3.9	4.1	3.5
Transfers to SOEs 5/	1.1	3.0	3.4	1.4	3.0	3.0	2.6	2.6	2.2
Other transfers 6/	2.9	4.6	4.6	6.6	4.5	4.8	4.3	4.5	4.3
Interest payments	0.6	0.5	0.7	0.4	1.1	1.1	1.5	1.5	2.1
War reparations 7/	2.4	3.7	2.3	2.3	2.8	3.0	3.2	3.3	3.9
Contingency	0.5	0.7	0.0	0.0	0.5	0.6	0.5	0.6	0.4
Investment expenditures	9.7	27.3	18.8	19.8	25.8	25.8	26.0	26.5	28.5
Non-oil investment expenditures	8.2	23.4	16.1	16.7	21.8	21.9	22.0	21.8	23.3
Oil investment expenditures (including on refineries)	1.5	3.8	2.7	3.1	4.0	4.0	4.0	4.6	5.1
Change in outstanding Letters of Credit [+ increase] 8/	1.9	...		...	...	...	...	...	...
Returned LCs	...	...	-2.8	-2.8	...	...	...	...	...
Balance (including grants)	8.9	-3.4	-17.4	-16.9	-17.9	-14.0	-6.2	-8.9	4.2
Balance (excluding grants)	5.0	-6.3	-24.8	-19.2	-19.6	-15.6	-7.6	-10.3	2.6
Statistical discrepancy	-0.6	-1.8	0.0	2.3	…	...	...	...	...
Financing, *of which:*	-8.0	-1.7	17.4	14.6	14.0	14.0	4.4	8.9	-4.2
External financing	-2.5	-0.5	0.1	0.1	11.7	10.3	0.9	4.9	-1.0
Assets held abroad	-2.4	0.3	0.4	0.4	8.7	6.7	0.0	2.0	-2.1
Project financing	0.0	0.1	0.8	0.8	1.2	0.6	1.8	1.1	2.0
Other financing 9/	0.0	0.0	0.0	0.0	3.4	4.5	0.0	2.7	0.0
Amortization	0.1	0.8	1.1	1.1	1.6	1.5	0.9	0.9	1.0
Domestic financing	-5.5	-1.2	17.3	14.6	2.3	3.7	3.5	4.0	-3.2
Bank financing	-5.3	-1.2	12.2	9.1	0.0	4.7	0.0	1.9	-4.4
Other domestic bank financing	...	...	1.2	1.5	-1.2	-1.5	0.0	0.0	0.0
T-bills	-0.2	0.0	4.0	4.0	3.5	0.4	3.5	2.1	1.2
Financing gap	...	...	...	...	3.9	0.0	1.8	0.0	0.0
Memorandum items:									
Security-related expenditure	6.7	11.5	12.7	9.2	14.4	12.7	14.5	13.9	14.1
Primary fiscal balance	9.5	-3.0	-16.7	-16.5	-16.9	-12.9	-4.8	-7.4	6.3
Non-oil primary fiscal balance	-34.9	-69.3	-60.6	-58.8	-69.7	-69.4	-66.9	-69.4	-68.8
External assets held abroad (Ex. FMS)	12.0	12.1	11.7	11.7	3.0	5.0	3.0	3.0	5.1
Average Iraq oil export price (US$/bbl)	63.0	91.5	56.5	56.5	62.5	73.1	67.5	68.0	70.5
Crude oil exports	1.59	1.82	1.88	1.88	2.10	1.92	2.25	2.25	2.60
GDP Nominal	71.5	103.2	77.0	77.0	93.9	98.4	108.6	108.6	127.7

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

1/ For 2010, includes $1050m in oil bonuses.
2/ The 2008 wage bill includes an allocation of ID216 billion for salaries of provincial councils and personnel contingent upon the enactment of the draft Provinces Law.
3/ Include goods and services financed by donors, including overhead costs for reconstruction projects.
4/ Includes security spending associated with the implementation of reconstruction projects.
5/ 2008 data excludes an amount of ID636 billion included in the Supplementary Budget to settle arrears of the electricity sector to the state-owned oil companies; this cross-settlement is expected to have no net impact on the budget.
6/ 2009 data includes expenditures made in 2009 but allocated in the 2010 budget.
It also includes ID287 bn on transfers to the Kurdish area linked to increase of the unified general budget.
7/ Calculated as 5 percent of oil exports as per U.N. Security Council Resolution 1483 to finance war reparations to Kuwait.
8/ LCs in the Trade Bank of Iraq, full down-payment is customarily required. 2008 LCs and advances to suppliers were re-classified.
9/ Includes the $1.7bn under the new IMF SDR allocation for 2011, the $500m in soft loans from oil companies obtaining licenses for 2010, the IMF 2010 SBA disbursements and a $500m WB loan under the DPL.

Table 3. Iraq: Fiscal and Oil Sector Accounts, 2007–12
(In percent of GDP)

	2007	2008	2009		2010		2011		2012
	Est.	Est.	Cntry Rpt 10/72	Est.	Cntry Rpt 10/72	Proj.	Cntry Rpt 10/72	Proj.	Proj.
Revenues and Grants	84.3	84.3	76.5	77.8	75.4	76.0	74.7	75.3	75.2
Revenues	79.0	81.5	73.4	74.7	73.6	74.3	73.4	74.1	73.9
Crude oil export revenues	65.9	71.6	59.2	59.2	59.7	60.9	59.7	60.1	61.3
Revenues of oil-related public enterprises	8.0	6.0	9.0	9.0	7.3	6.9	7.1	7.0	5.9
Tax revenues	1.5	1.3	1.6	2.4	1.2	1.2	1.5	1.5	1.8
Non-tax revenues 1/	3.5	2.6	3.7	4.2	5.3	5.3	5.1	5.4	4.9
Grants	5.4	2.7	3.1	3.0	1.8	1.7	1.3	1.3	1.3
Expenditures	71.9	87.6	99.0	99.7	94.5	90.1	80.5	83.5	71.9
Current expenditures	55.0	61.2	78.4	77.7	67.0	63.9	56.5	59.2	49.6
Salary and pension	19.3	20.5	35.6	36.0	30.2	28.9	26.6	27.7	23.7
Salary	15.6	16.8	29.6	30.2	24.1	23.2	21.1	21.6	17.9
Salary (Defense/Interior)	6.9	5.9	10.2	9.1	8.3	8.3	7.3	7.7	6.3
Salary (others) 2/	8.7	10.4	19.5	21.0	15.8	15.0	13.8	13.9	11.5
Pension	3.7	3.7	6.0	5.8	6.1	5.7	5.5	6.1	5.8
Goods and services (non-oil sector) 3/	10.6	13.5	14.1	17.0	13.6	11.1	9.6	10.7	8.7
Budgeted goods and services	7.1	11.1	12.1	15.1	12.6	10.1	8.8	9.9	8.2
Other goods and services financed by donors 4/	2.0	2.3	2.0	2.0	1.1	1.0	0.8	0.8	0.5
Goods and services (oil sector)	8.2	7.0	6.4	7.3	5.8	5.4	5.7	5.6	4.5
Transfers	12.7	15.5	18.4	13.9	12.6	13.7	9.9	10.3	7.8
Social safety net	7.1	8.2	8.0	3.5	4.6	5.8	3.6	3.8	2.7
Transfers to SOEs 5/	1.6	2.9	4.5	1.8	3.2	3.1	2.4	2.3	1.7
Other transfers 6/	4.0	4.4	5.9	8.6	4.8	4.8	4.0	4.1	3.3
Interest payments	0.9	0.5	0.9	0.5	1.1	1.1	1.3	1.4	1.6
War reparations 7/	3.3	3.6	3.0	2.9	3.0	3.0	3.0	3.0	3.1
Investment expenditures	13.6	26.4	24.4	25.7	27.5	26.2	23.9	24.4	22.3
Non-oil investment expenditures	11.4	22.7	20.9	21.6	23.2	22.2	20.3	20.1	18.2
Oil investment expenditures (including on refineries)	2.0	3.7	3.5	4.1	4.2	4.0	3.7	4.0	4.0
Contingency	0.0	0.7	0.0	0.0	0.0	0.6	0.6	0.5	0.3
Change in outstanding Letters of Credit [+ increase] 8/	2.7	0.0	...	...	…	...	…	...	...
Returned LCs	...	...	-3.7	-3.7 ..	…	...	…	...	...
Balance (including grants)	12.4	-3.3	-22.6	-21.9	-19.1	-14.2	-5.7	-8.2	3.3
Balance (excluding grants)	7.0	-6.1	-32.2	-25.0	-20.9	-15.9	-7.0	-9.5	2.0
Statistical discrepancy	-0.9	-1.7	0.0	2.9	…	...		...	...
Financing, Of *which:*	-11.2	-1.6	22.6	19.0	14.9	14.2	4.1	8.2	-3.3
External financing	-3.5	-0.4	0.1	0.1	12.4	10.5	0.9	4.5	-0.8
Assets held abroad	-3.4	0.3	0.5	0.5	9.2	6.8	0.0	1.8	-1.6
Project financing	0.0	0.1	1.1	1.1	1.3	0.6	1.7	1.0	1.6
Other financing 9/	0.0	0.0	0.0	0.0	3.6	4.6	0.0	2.5	0.0
Amortization	0.1	0.8	1.5	1.5	1.7	1.5	0.8	0.8	0.8
Domestic financing	-7.7	-1.2	22.5	18.9	2.5	3.7	3.2	3.7	-2.5
Bank financing	-7.4	-1.2	15.8	11.9	0.0	4.8	0.0	1.8	-3.4
Other domestic bank financing	...	...	1.5	1.9 ..	-1.2	-1.5	…	0.0	0.0
T-bills	-0.3	0.0	5.2	5.2	3.7	0.4	3.2	1.9	0.9
Financing gap	...	...	...	...	4.2	0.0	1.7	0.0	0.0
Memorandum items:									
Security-related expenditure	9.4	11.1	16.5	12.0	15.3	12.9	13.3	12.8	11.0
Primary fiscal balance	13.3	-2.9	-21.7	-21.4	-18.0	-13.1	-4.4	-6.8	5.0
Current expenditures (percent of non-oil GDP)	146.5	197.4	170.9	169.4	160.8	160.8	142.4	149.1	132.7

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

1/ For 2010, includes $1050m in oil bonuses.
2/ The 2008 wage bill includes an allocation of ID216 billion for salaries of provincial councils and personnel contingent upon the enactment of the draft Provinces Law.
3/ Include goods and services financed by donors, including overhead costs for reconstruction projects.
4/ Includes security spending associated with the implementation of reconstruction projects.
5/ 2008 data excludes an amount of ID636 billion included in the Supplementary Budget to settle arrears of the electricity sector to the state-owned oil companies; this cross-settlement is expected to have no net impact on the budget.
6/ 2009 data includes expenditures made in 2009 but allocated in the 2010 budget.
7/ Calculated as 5 percent of oil exports as per UN Security Council Resolution 1483 to finance war reparations to Kuwait.
8/ LCs in the Trade Bank of Iraq, full down-payment is customarily required. 2008 LCs and advances to suppliers were re-classified.
9/ Includes the $1.7bn under the new IMF SDR allocation for 2011, the $500m in soft loans from oil companies obtaining licenses for 2010, the IMF 2010 SBA disbursements and a $500m WB loan under the DPL.

Table 4. Iraq: Central Bank Balance Sheet 2007–10

(In billions of Iraqi dinars, unless otherwise indicated)

	2007	2008	2009				2010			
	Dec.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar. Prel.	Jun. Prel.	Dec. Prog.	Dec. Proj.
Net foreign exchange assets 1/	38,219	58,841	49,217	50,604	49,147	49,794	49,341	46,459	51,502	52,490
Foreign exchange assets	38,219	58,841	49,217	50,604	49,147	51,875	51,357	48,424	51,502	54,507
Gold	192	191	202	206	220	244	246	275	244	244
Other	38,027	58,650	49,015	50,398	48,927	51,631	51,111	48,150	51,259	54,263
Foreign exchange liabilities	0	0	0	0	0	-2,081	-2,016	-1,965	0	-2,016
Net domestic assets	-7,492	-11,372	-5,160	-6,501	-4,381	-2,283	-6,420	198	2,430	-1,716
Domestic assets	-2,449	-9,532	-1,132	-440	2,765	2,744	2	342	2,744	3,960
Net claims on general government	-2,456	-9,536	-1,136	-444	2,761	2,740	-5	342	2,740	3,956
Holdings of treasury bills	3,956	3,236	3,236	3,236	3,236	3,236	3,236	3,236	3,236	3,236
Holdings of discounted treasury bills	733	719	719	719	719	719	719	719	719	719
Overdrafts	0	0	0	0	0	0	0	0	0	0
Domestic currency deposits	-3,583	-8,577	-4,318	-3,476	-701	-1,090	-3,217	-1,472	-1,090	0
Foreign currency deposits	-3,561	-4,915	-773	-923	-493	-126	-744	-2,142	-126	0
Claims on nonbank public institutions	0	0	0	0	0	0	0	0	0	0
Claims on commercial banks	7	4	4	4	4	4	7	0	4	4
Monetary policy instruments 2/	-7,146	-4,995	-5,092	-5,367	-4,599	-3,988	-4,119	-1,426	-1,424	-2,835
Of which: CBI bills	-2,746	-2,224	-1,450	-1,464	-1,312	-1,184	-1,275	-457	...	...
Other items net	2,104	3,155	1,063	-694	-2,547	-1,040	-2,303	1,283	1,110	-2,840
Reserve money	30,726	47,469	44,056	44,086	43,614	47,510	42,921	46,658	53,932	50,775
Currency issued	15,632	21,304	23,089	23,083	24,162	24,169	25,500	26,573	27,843	26,237
Banks reserves	15,094	26,165	20,967	21,002	19,452	23,341	17,421	20,084	26,089	24,538
Memorandum items										
Reserve money (annual growth, in percent)	73.9	54.5	20.2	9.2	5.5	0.1	-2.6	5.8	13.5	6.9
Currency issued (annual growth, in percent)	31.2	36.3	33.9	24.0	27.3	13.4	10.4	15.1	15.2	8.6
Gross foreign exchange assets (in millions of U.S. dollars)	31,455	50,206	42,066	43,126	42,006	44,337	43,895	41,388	44,019	46,587
Foreign exchange liabilities (in millions of U.S. dollars)	0	0	0	0	0	-1,779	-1,723	-1,680	0	-1723
Net foreign exchange assets (in millions of U.S. dollars)	31,455	50,206	42,066	43,126	42,006	42,559	42,172	39,709	44,019	44,863
Gross foreign exchange assets/reserve money (in percent)	124.4	124.0	111.7	114.5	112.7	109.2	119.7	103.8	95.5	107.3
Exchange rate (end of period)	1215.0	1172.0	1170.0	1170.0	1170.0	1170.0	1170.0	1170.0	...	...
Policy interest rate	20.0	15.0	9.0	7.0	7.0	7.0	7.0	6.0	...	...

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

1/ Valued at market exchange rates.
2/ This mainly represents the ID and US$ overnight standing deposit facilities and CBI bills.

Table 5. Iraq: Monetary Survey, 2007–10
(In billions of Iraqi dinars, unless otherwise indicated)

	2007	2008	2009				2010		
	Dec.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Dec. Prog.	Dec. Proj.
Net foreign assets	36,726	59,113	52,431	55,145	54,763	55,173	54,004	51,773	57,870
Of which: CBI	38,219	58,841	49,217	50,604	49,147	49,794	49,341	51,502	52,490
Net domestic assets	-9,490	-22,238	-14,201	-16,831	-11,325	-8,439	-3,465	411	-4,107
Domestic claims	-15,292	-26,391	-18,753	-18,880	-14,243	-13,230	-6,367	-2,699	-8,600
Net claims on general government	-18,134	-30,791	-23,617	-23,912	-19,144	-18,367	-13,834	-11,140	-14,709
Claims on general government	8,194	6,807	6,989	6,503	6,967	7,367	13,298	...	...
less: Liabilities to general government	-26,329	-37,598	-30,606	-30,415	-26,111	-25,734	-27,132	...	...
Claims on other sectors	2,842	4,400	4,864	5,032	4,900	5,136	7,467	8,441	6,110
Other Item Net (OIN)	5,802	4,153	4,552	2,049	2,918	4,791	2,902	3,111	4,493
Broad money	27,235	36,875	38,231	38,314	43,438	46,734	50,539	52,185	53,763
Currency outside banks	14,232	18,492	19,896	19,764	21,148	21,776	22,681	24,782	23,353
Transferable deposits	9,735	13,264	12,885	12,822	16,339	18,615	21,395	20,552	22,808
Other deposits	3,268	5,119	5,450	5,728	5,951	6,343	6,463	6,851	7,603
Memorandum items									
Broad money (percentage growth)	37.3	35.4	41.9	25.8	27.7	26.7	32.2	21.9	15.0
M2 velocity (ratio)	2.6	2.8	...	...	...	1.6	...	1.8	1.8
Credit to the economy (percentage growth)	-0.5	54.8	26.8	49.0	10.0	16.7	53.5	34.6	19.0
Credit to the economy (as a percentage of non-oil GDP)	10.5	13.7	...	...	...	14.5	...	21.6	15.6

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

Table 6. Iraq: Balance of Payments, 2007–14 1/
(In millions of U.S. dollars, unless otherwise indicated)

	2007	2008	2009		2010		2011	2012	2013	2014
		Est.	Cntry Rpt 10/72	Est.	Cntry Rpt 10/72	Proj.			Proj.	
Trade balance	13,266	21,201	-1,931	-6,871	-2,408	1,654	2,275	9,101	17,239	28,168
(In percent of GDP)	23.3	24.5	-2.9	-10.4	-3.0	2.0	2.4	8.3	13.9	19.8
Exports	37,835	62,013	39,320	39,069	48,826	51,934	56,680	68,101	79,111	94,890
Crude oil	37,137	61,165	38,873	38,873	47,906	51,257	55,809	66,881	77,168	92,289
Other exports	698	849	446	196	920	677	871	1,220	1,943	2,601
Imports	-24,569	-40,812	-41,250	-45,940	-51,234	-50,280	-54,405	-59,000	-61,872	-66,723
Government imports 2/	-14,951	-24,971	-23,220	-28,377	-26,291	-28,138	-28,636	-24,763	-25,662	-26,917
Consumption imports	-3,881	-4,367	-10,018	-2,902	-8,091	-8,275	-9,132	-7,123	-7,226	-7,380
Non-oil related capital imports 3/	-6,981	-14,109	-8,241	-19,169	-12,814	-14,503	-14,486	-13,650	-14,423	-15,296
Oil-related capital imports	-1,394	-3,393	-2,952	-4,300	-3,576	-3,522	-3,919	-3,440	-3,475	-3,625
Refined oil products	-2,802	-3,148	-2,009	-2,009	-1,811	-1,838	-1,100	-550	-538	-615
Unclassified government imports	…	…	…	0	…	…	…	…	…	…
Private sector imports	-9,618	-15,841	-18,031	-17,562	-24,943	-22,141	-25,768	-34,237	-36,210	-39,806
Of which: refined oil products	-2,227	-3,148	-3,278	-3,278	-4,225	-4,289	-4,398	-4,948	-4,843	-5,539
Income, net 4/	-3,377	-3,223	-4,000	-3,874	-4,462	-4,555	-822	-1,235	-1,718	-214
Services, net	-4,004	-6,298	-8,296	-6,385	-10,978	-9,769	-10,861	-11,959	-12,660	-13,225
Transfers, net	1,234	-631	1,464	205	1,000	592	1,457	857	25	-546
Private, net (incl. NGOs)	24	67	1,350	141	1,950	1,750	3,063	3,216	3,698	3,883
Official	1,211	-698	114	64	-950	-1,158	-1,605	-2,359	-3,673	-4,429
Receipts	3,067	2,360	2,057	2,008	1,445	1,405	1,185	985	185	185
Payments	-1,857	-3,058	-1,944	-1,944	-2,395	-2,563	-2,790	-3,344	-3,858	-4,614
Current account	7,119	11,049	-12,762	-16,925	-16,848	-12,078	-7,951	-3,237	2,887	14,181
(In percent of GDP)	12.5	12.8	-19.4	-25.7	-21.0	-14.4	-8.6	-3.0	2.3	10.0
Capital account	0	0	0	0	0	0	0	0	0	0
Financial account	7,473	7,428	6,031	10,545	5,535	5,496	3,872	5,805	6,588	7,052
Direct investment	964	1,822	820	1,526	1,208	1,991	3,964	5,371	6,148	7,071
Other capital, net	6,509	5,605	5,211	9,019	4,327	3,505	-92	434	440	-19
Official, net	5,042	4,097	5,526	5,172	4,696	4,053	149	699	689	175
Assets 5/	423	-54	0	-4	0	0	0	0	0	0
Liabilities	4,619	4,151	5,526	5,177	4,696	4,053	149	699	689	175
Loan disbursements 6/	0	64	2,208	1,859	2,046	1,301	899	1,536	1,562	1,142
Amortization 7/ 8/ 9/ 14/	0	-662	-972	-972	-1,369	-1,268	-750	-837	-873	-967
Capitalized interest payment 9/	4,619	4,750	4,290	4,290	4,020	4,020	0	0	0	0
Financial corporations, net 10/	-1,518	0	0	0	0	0	0	0	0	0
Private, net , and errors and omissions 11/	2,985	1,509	-315	3,847	-369	-548	-242	-265	-248	-194
Overall balance	14,591	18,476	-6,732	-6,379	-11,313	-6,583	-4,079	2,568	9,475	21,233
(In percent of GDP)	25.6	21.4	-10.2	-9.7	-14.1	-7.8	-4.4	2.4	7.6	14.9
Financing	-14,591	-18,476	6,732	6,379	7,957	6,583	4,079	-2,568	-9,475	-21,233
Central bank (increase -)	-11,418	-18,751	5,869	5,869	318	-2,249	1,539	-794	-3,742	-9,779
Reserves (net; increase -)	-11,872	-18,751	5,869	5,869	318	-2,249	1,539	-794	-3,742	-9,779
Liabilities (increase +)	-455	0	0	0	0	0	0	0	0	0
Fund credit (net)	-455	0	0	0	0	2,867	831	0	-265	-1,544
Disbursement	0	0	0	0	0	2,867	831	0	0	0
Repayments	-455	0	0	0	0	0	0	0	-265	-1,544
Deferred accrued interest 12/	861	814	686	686	239	239	0	0	0	0
Change in arrears (net, decrease -) 13/	-72	-12,063	-10,167	-10,167	-64,229	-64,594	…	…	…	…
Debt forgiveness 14/	-3	12,063	10,027	10,027	64,229	64,594	…	…	…	…
Development Fund for Iraq (increase -)	-3,960	-539	317	-35	7,400	5,726	1,709	-1,774	-5,468	-9,910
Financing gap	...	...	0	0	3,356	0	0	0	0	0
Memorandum items:										
Central bank reserves	31,455	50,206	44,337	44,337	44,019	46,586	45,047	45,841	49,583	59,362
Central bank reserves (in months of imports of goods and services)	7.8	11.0	8.5	8.6	8.1	8.3	7.4	7.1	7.2	7.2
External assets held abroad (Excl. FMS, in US$ million)	9,882	10,303	9,986	9,986	2,604	4,278	2,568	4,342	9,810	19,720
GDP	56,982	86,526	65,837	65,838	80,284	84,136	92,858	109,162	124,075	142,483
Non-oil GDP	21,658	26,825	30,186	30,186	33,437	33,437	36,864	40,836	45,236	49,633

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

1/ Excludes U.S. military spending in Iraq.
2/ UN Oil for Food Program is excluded from the table because transactions ceased in 2009.
3/ Includes private sector imports for government
4/ Includes interest accrued, deferred, and capitalized.
5/ Includes the U.N. Oil for Food letters of credit.
6/ Reflects the increase in liabilities associated with the SDR allocation of $1.6 billion.
7/ For 2009 and 2010 amortization is based on budget figures.
8/ Includes the estimates of cash payments to settle the debt owed to small private creditors through cash exchange offer.
9/ Based on Paris Club agreement, the payments of principal and most interest during 2006–10 are deferred and capitalized.
10/ Reflects advance transfers for the execution of letters of credit (L/C).
11/ Includes errors and omissions for historical data.
12/ Estimates of accrued interest on existing stock of debt prior to the implementation of the Paris Club agreement.
13/ Includes debt forgiveness and clearance of arrears on multilateral debt and arrears related to fuel imports from Turkey.
14/ The notional debt forgiveness and amortization reflect: (i) the first stage of debt reduction (30 percent) at end 2004; (ii) the second stage reduction (30 percent) at end-2005; and (iii) the settlement of debt owed to private creditors through cash and debt exchanges. Assumes debt reduction comparable to the Paris Club agreement on other debt to official creditors.

Table 7. Iraq: External Debt Sustainability Framework, 2005–14
(In percent of GDP, unless otherwise indicated)

	Estimates					Projections				
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
External debt	351.6	219.7	181.0	110.5	136.5	41.8	39.2	34.0	27.5	23.7
Change in external debt (1)	-124.6	-131.9	-38.7	-70.5	26.0	-94.7	-2.6	-5.2	-6.5	-3.8
Identified external debt-creating flows (2)	-93.1	-125.9	-60.1	-75.2	58.1	-17.7	0.4	-7.8	-11.4	-18.5
Current account deficit, excluding interest payments	-22.3	-28.9	-20.9	-18.6	18.4	8.2	6.9	1.3	-3.8	-10.4
Deficit in balance of goods and services	4.6	-15.7	-16.3	-17.2	20.1	9.6	9.2	2.6	-3.7	-10.5
Exports	74.8	67.1	67.9	73.5	62.7	63.8	63.3	64.5	66.1	68.8
Imports	79.3	51.4	51.7	56.2	82.8	73.5	72.6	67.1	62.4	58.4
Net non-debt creating capital inflows (negative) 1/	-1.6	-0.2	-1.7	-0.6	-2.3	-2.4	-4.3	-4.9	-5.0	-5.0
Automatic debt dynamics 2/	-69.1	-96.8	-37.5	-56.0	42.0	-23.5	-2.2	-4.2	-2.6	-3.1
Contribution from nominal interest rate	16.1	9.9	8.4	5.8	7.3	6.2	1.7	1.7	1.5	0.5
Contribution from real GDP growth	2.8	-15.2	-2.6	-11.3	-6.1	-2.8	-4.4	-3.7	-3.0	-2.6
Contribution from price and exchange rate changes 3/	-88.1	-91.6	-43.3	-50.5	40.8	-26.9	0.4	-2.2	-1.1	-0.9
Residual, incl. change in gross foreign assets (1–2)	-31.6	-6.0	21.4	4.7	-32.1	-77.0	-3.0	2.6	4.9	14.6
External debt-to-exports ratio (in percent)	470.3	327.6	266.5	150.4	217.8	65.5	61.9	52.7	41.6	34.4
Gross external financing need (in billions of U.S. dollars) 4/	-1.8	-7.0	-6.6	-10.4	17.9	13.3	8.7	4.1	-1.7	-11.7
in percent of GDP	-5.7	-15.6	-10.6	-10.7	16.3	10.7	6.2	2.6	-1.0	-5.8
External debt service in percent of exports 5/	22.3	19.9	13.7	8.9	14.0	12.1	3.9	3.8	3.7	3.2
Debt-stabilizing non-interest current account (positive = surplus) 6/	-102.3	-103.0	-17.8	-51.9	7.6	-102.9	-9.5	-6.5	-2.7	6.6
Key Macroeconomic Assumptions										
Real GDP growth (in percent)	-0.7	6.2	1.5	9.5	4.2	2.6	11.5	11.0	10.0	11.0
Exchange rate appreciation (U.S. dollar value of local currency, change in pe	-1.1	0.1	17.0	5.2	2.0	0.0	0.0	0.0	0.0	0.0
GDP deflator (change in domestic currency)	24.0	35.1	6.5	31.8	-28.4	24.5	-1.0	5.9	3.3	3.4
GDP deflator in U.S. dollars (change in percent)	22.7	35.2	24.6	38.7	-27.0	24.5	-1.0	5.9	3.3	3.4
Nominal external interest rate (in percent)	4.1	4.1	4.8	4.9	5.0	5.8	4.4	5.0	5.0	1.9
Growth of exports (U.S. dollar terms, in percent)	31.9	28.8	28.0	64.3	-35.1	30.1	9.5	19.8	16.5	19.6
Growth of imports (U.S. dollar terms, in percent)	2.5	-7.0	27.1	65.3	12.0	13.4	9.0	8.8	5.7	7.4
				Stress Tests for External Debt-to-GDP Ratio						
Lower oil production in 2010–14 7/	351.6	219.7	181.0	110.5	136.5	47.3	61.1	77.2	101.0	137.2
Lower oil price in 2010–14 8/	351.6	219.7	181.0	110.5	136.5	50.9	52.5	49.6	47.4	47.5
Combined shock--lower production and lower oil price in 2010–14 9/	351.6	219.7	181.0	110.5	136.5	56.5	75.2	94.5	123.8	166.0
				Stress Tests for External Debt Service-to-Exports Ratio 5/						
Lower oil production in 2010–14 7/	22.3	19.9	13.7	8.9	14.0	12.8	5.5	7.7	24.7	33.5
Lower oil price in 2010–14 8/	22.3	19.9	13.7	8.9	14.0	13.3	5.0	5.3	9.8	9.6
Combined shock--lower production and lower oil price in 2010–14 9/	22.3	19.9	13.7	8.9	14.0	14.2	6.9	9.9	34.8	45.5
Memorandum items:										
Real GDP growth under stress scenarios (in percent)										
Lower oil production in 2010–14 7/	-0.7	6.2	1.5	9.5	4.2	-0.5	2.0	2.3	2.4	2.4
Lower oil price in 2010–14 8/	-0.7	6.2	1.5	9.5	4.2	2.6	11.5	11.0	10.0	11.0
Combined shock--lower production and lower oil price in 2010–14 9/	-0.7	6.2	1.5	9.5	4.2	-0.5	2.0	2.3	2.4	2.4
Non-interest current account deficit under stress scenarios (in percent of GDP)										
Lower oil production in 2010–14 7/	-22.3	-28.9	-20.9	-18.6	18.4	10.9	16.3	15.2	13.5	9.4
Lower oil price in 2010–14 8/	-22.3	-28.9	-20.9	-18.6	18.4	12.8	11.1	4.8	-0.5	-7.4
Combined shock--lower production and lower oil price in 2010–14 9/	-22.3	-28.9	-20.9	-18.6	18.4	15.5	20.6	18.8	16.9	12.5

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

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

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

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

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

5/ Debt service is total accrued amount including capitalized interest.

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

7/ Assumes that oil production remains constant at 2.3 mbpd (5 percent lower than the baseline value) from 2010 onward.

8/ Assumes that oil price in 2010–14 is 10 percent lower than the Iraqi oil price projections in the baseline.

9/ Assumes that oil production remains at 2.3 mbpd and oil price 10 percent lower than the baseline in 2010–14.

Table 8. Public Sector Debt Sustainability Framework, 2005-2015
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2005	2006	2007	2008	2009			2010	2011	2012	2013	2014	2015	
								I. Baseline Projections						**Debt-stabilizing primary balance 10/**
Public sector debt 1/	353.1	198.4	175.3	108.6	141.7			**42.2**	**41.5**	**36.8**	**28.0**	**22.3**	**18.1**	**-1.4**
o/w foreign-currency denominated	353.1	198.4	175.3	108.6	136.5			41.8	39.2	34.0	27.5	23.7	20.8	
Change in public sector debt	-125.5	-154.7	-23.1	-66.7	33.2			-99.5	-0.8	-4.6	-8.8	-5.7	-4.3	
Identified debt-creating flows (4+7+12)	-92.3	-148.4	-43.2	-55.0	50.9			-16.6	4.2	-9.5	-14.4	-21.6	-24.1	
Primary deficit	-6.7	-16.1	-13.3	2.9	13.7			13.1	6.8	-5.0	-11.5	-19.1	-22.3	
Revenue and grants	107.3	88.2	84.3	84.3	77.8			76.0	75.3	75.2	75.7	77.6	79.8	
Primary (noninterest) expenditure	100.6	72.1	71.0	87.1	91.5			89.1	82.2	70.3	64.2	58.5	57.5	
Automatic debt dynamics 2/	-85.6	-132.3	-29.9	-57.9	37.2			-29.7	-2.6	-4.6	-2.9	-2.5	-1.8	
Contribution from interest rate/growth differential 3/	-89.7	-106.3	-14.0	-53.4	37.4			-29.7	-2.6	-4.6	-2.9	-2.5	-1.8	
Of which contribution from real interest rate	-92.6	-91.1	-11.2	-41.9	43.6			-26.8	1.8	-0.7	0.4	0.2	0.2	
Of which contribution from real GDP growth	2.8	-15.3	-2.7	-11.6	-6.1			-2.9	-4.4	-3.9	-3.3	-2.7	-2.0	
Contribution from exchange rate depreciation 4/	4.2	-25.9	-15.9	-4.5	-0.3			0.0	0.0	0.0	0.0	0.0	0.0	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3)	-33.2	-6.3	20.1	-11.7	-17.7			-82.8	-5.0	4.9	5.5	16.0	19.8	
Public sector debt-to-revenue ratio 1/	329.0	224.9	207.8	128.8	182.2			55.6	55.1	49.0	37.0	28.8	22.7	
Gross financing need 5/	-6.5	-15.5	-12.4	3.3	14.2			14.2	8.2	-3.3	-7.9	-16.3	-19.8	
in billions of U.S. dollars	-2.0	-7.0	-7.1	2.9	9.4	5-Year	5-Year	11.9	7.6	-3.6	-9.8	-23.2	-32.1	
Key Macroeconomic and Fiscal Assumptions						Historical Average	Standard Deviation							Projected Average
Real GDP growth (in percent)	-0.7	6.2	1.5	9.5	4.2	4.1	4.0	2.6	11.5	11.0	10.0	11.0	10.2	10.8
Average nominal interest rate on public debt (in percent) 6/	0.0	0.3	0.5	0.4	0.3	0.3	0.2	1.0	3.6	4.6	4.8	4.5	4.9	4.5
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-24.0	-34.8	-6.0	-31.5	28.7	-13.5	26.1	-23.5	4.6	-1.2	1.5	1.1	1.5	1.5
Nominal appreciation (increase in US dollar value of local currency, in percent)	-1.0	11.3	9.1	3.7	0.2	4.6	5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation rate (GDP deflator, in percent)	24.0	35.1	6.5	31.8	-28.4	13.8	26.1	24.5	-1.0	5.9	3.3	3.4	3.3	3.0
Growth of real primary spending (deflated by GDP deflator, in percent)	-22.6	-23.9	0.0	34.3	9.5	-0.5	24.2	-0.1	2.8	-5.0	0.5	1.3	8.2	1.6
Primary deficit	-6.7	-16.1	-13.3	2.9	13.7	-3.9	12.3	13.1	6.8	-5.0	-11.5	-19.1	-22.3	-10.2
A. Alternative Scenarios								**II. Stress Tests for Public Debt Ratio**						**Debt-stabilizing primary balance 10/**
A1. Key variables are at their historical averages in 2010-2015 7/								**42.2**	**25.8**	**23.2**	**22.1**	**35.1**	**52.3**	**-8.6**
A2. No policy change (constant primary balance) in 2010-2015								**42.2**	**47.8**	**60.5**	**74.4**	**96.7**	**121.9**	**-9.6**
B. Bound Tests														
B1. Real interest rate is at baseline plus one standard deviations								**42.2**	**46.5**	**46.4**	**42.2**	**40.1**	**39.0**	**1.4**
B2. Real GDP growth is at baseline minus one-half standard deviation								**42.2**	**43.6**	**42.2**	**37.6**	**37.3**	**39.9**	**-2.5**
B3. Primary balance is at baseline minus one-half standard deviation								**42.2**	**47.6**	**48.4**	**44.8**	**43.8**	**44.0**	**-3.5**
B4. Combination of B1-B3 using one-quarter standard deviation shocks								**42.2**	**47.4**	**48.3**	**45.0**	**44.4**	**45.3**	**-0.6**
B5. One time 30 percent real depreciation in 2011 9/								**42.2**	**57.6**	**51.2**	**41.3**	**34.4**	**29.2**	**-2.3**
B6. 10 percent of GDP increase in other debt-creating flows in 2011								**42.2**	**51.5**	**45.7**	**36.2**	**29.8**	**25.0**	**-2.0**

1/Coverage of general government gross debt levels in Iraq
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi (1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
6/ Derived as nominal interest expenditure divided by previous period debt stock.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ The implied change in other key variables under this scenario is discussed in the text.
9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).
10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 9. Iraq: Reviews and Disbursements Under the Arrangement

Date	Amount of Purchase			Condition
	In percent of quota	In millions of SDRs	In millions of US$	
February 2010	25	297.10	459.01	Approval of SBA arrangement
On or after May 31, 2010	40	475.36	734.41	Completion of first review and observance of end-March 2010 performance criteria
On or after October 30, 2010	90	1069.56	1652.43	Completion of second review and observance of end-June 2010 performance criteria
On or after May 31, 2011	25	297.10	459.01	Completion of third review and observance of end-December 2010 performance criteria
On or after October 30, 2011	20	237.68	367.21	Completion of fourth review and observance of end-June 2011 performance criteria
Total	200	2376.80	3672.06	

Source: IMF staff projections.

Table 10. Iraq: Indicators of Fund Credit, 2009–16
(in millions of SDRs, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016
Disbursements of Fund credit								
SBA	0.0	1842.0	534.8	0.0	0.0	0.0	0.0	0.0
In percent of IMF quota	0.0	155.0	45.0	0.0	0.0	0.0	0.0	0.0
Obligations								
Repayments of SBA 1/	0.0	0.0	0.0	0.0	170.8	995.3	1017.6	193.1
Total charges and interest	0.0	9.9	28.7	31.4	31.1	24.9	10.9	1.5
Total obligations	0.0	9.9	28.7	31.4	201.9	1020.2	1028.5	194.6
Total obligations, in percent of:								
Exports of goods and services	0.0	0.0	0.1	0.1	0.4	2.6	2.3	0.4
External public debt	0.0	0.0	0.1	0.1	0.9	4.3	4.7	0.9
Gross reserves	0.0	0.0	0.1	0.1	0.6	2.7	2.3	0.4
GDP	0.0	0.0	0.0	0.0	0.3	1.1	1.0	0.1
IMF Quota	0.0	0.8	2.4	2.6	17.0	85.8	86.5	16.4
Outstanding Fund credit								
SBA	0.0	1842.0	2376.8	2376.8	2206.0	1210.7	193.1	0.0
Total outstanding Fund credit	0.0	1842.0	2376.8	2376.8	2206.0	1210.7	193.1	0.0
Total outstanding Fund credit, in percent of								
Exports of goods and services	0.0	5.4	7.2	6.1	4.9	3.1	0.4	0.0
External public debt	0.0	8.1	10.1	10.0	10.0	5.1	0.9	0.0
Gross reserves	0.0	6.2	8.2	8.1	6.9	3.2	0.4	0.0
GDP	0.0	3.4	4.0	3.4	2.8	1.3	0.2	0.0
IMF Quota	0.0	155.0	200.0	200.0	185.6	101.9	16.3	0.0

Sources: IMF staff estimates and projections.

1/ The SBA repayments are on an obligations basis.

ATTACHMENT I. IRAQ: LETTER OF INTENT

September 18, 2010

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

Dear Mr. Strauss-Kahn:

In February 2010, the International Monetary Fund (IMF) approved a Stand-By Arrangement (SBA) for Iraq, to help us address the challenges created by the deterioration of the external environment, including the sharp drop in international oil prices from their peak in 2008 and the slowdown in the global economy. In addition, the program also aims to accelerate the pace of structural reforms, in particular to improve the management of public resources and to develop the financial sector. This arrangement is providing us with needed financial support and a valuable anchor during a period of political transition and considerable uncertainty with regard to the global economic outlook.

We remain, of course, committed to implementing the policies described in our Letter of Intent dated February 8, 2010 and the Memorandum of Economic and Financial Policies attached to that letter. This supplementary Letter of Intent provides information on our recent efforts and achievements, as well as on additional policy measures we plan to undertake during the remainder of 2010 to help ensure that the objectives of the SBA will be met.

Overall economic performance so far in 2010 has been favorable, aided by oil prices that were higher than we had conservatively assumed in our 2010 government budget. Export prices of Iraqi crude oil averaged $75 per barrel in the first half of the year, compared to a budgeted price of $62.50 per barrel. Oil export volumes averaged 1.88 million barrels per day (mbpd), however, in the first half of the year, falling short of our target of 2.10 mbpd for 2010. This was due mainly to adverse weather conditions that delayed tanker loadings at our main export terminals in the Gulf, but also reflecting difficulties in securing an increase in oil exports from the northern oil fields. Nevertheless, with the higher-than-budgeted oil prices, government oil revenues were slightly higher in the first half of the year than projected. As a result, fiscal performance has been strong and while the pace of budget execution has been relatively strong also, the budget deficit in the first half of the year is estimated to have remained below its ceiling. Similarly, the balance in the Development Fund for Iraq (DFI) has exceeded the program floors through end-June 2010.

Inflation continues to be in the low single digits so far in 2010 and the exchange rate has remained stable. With core inflation hovering around 3 percent, the Central Bank of Iraq (CBI) lowered its policy interest rate further to 6 percent (from 7 percent) and reserve requirements to 20 percent (from 25 percent) effective April 1, 2010. With continued strong demand for foreign exchange in the foreign exchange auctions and somewhat lower than expected transfers from the DFI to the Ministry of Finance's accounts with the CBI, the CBI's international reserves declined to $41 billion by end-June, falling below program targets. Our combined international reserves (the sum of the CBI reserves and the balance in the DFI), however, remained broadly stable during the first half of 2010, an outcome that was significantly better than projected.

In the remainder of 2010 and in 2011, we plan to continue with our fiscal and monetary policies as set forth in our letter of February 8, 2010. We hope to be able to fully execute the 2010 government budget, in particular the investment budget, and we are working hard to improve administrative capacity. The 2011 government budget will again be based on conservative assumptions with regard to oil prices and export volumes, and will aim for a substantial reduction in the budget deficit with a view to returning to a sustainable fiscal position, while addressing the large rehabilitation needs of the country. Monetary policy will continue to aim at keeping inflation low, predominantly through a continuation of our exchange rate policy.

We have also made steady progress in advancing our structural reform agenda and most of the structural benchmarks through end-June were fully or largely observed. In the area of program safeguards, the external audits of the CBI's 2008 and 2009 financial statements were completed, as well as a special audit of the CBI's net international reserves as of end-December 2009. The CBI has also started to report on its international reserves in line with IMF recommendations. In the area of fiscal reporting and transparency, the final fiscal accounts for 2008 were submitted to the Board of Supreme Audit (BSA), while the BSA completed the audit of the 2005–07 fiscal accounts and submitted these to the parliament. Publication of these audited accounts requires a decision from parliament. Government spending units have improved their monthly financial reporting, although some difficulties remain, while the processing of this information is hampered by capacity constraints at the Ministry of Finance resulting from the repeated attacks on the ministry. The budget circular issued to line ministries in June for the preparation of the 2011 government budget included ceilings for each ministry for current and capital spending that aim to substantially reduce the size of the budget deficit in 2011. In the area of oil sector transparency, Iraq became a candidate member of the Extractive Industries Transparency Initiative in February 2010. Furthermore, we have submitted an action plan to the UN Security Council to prepare for a post-DFI mechanism. In this regard, we remain committed to maintaining a single oil export revenue account that is subject to the same principles of transparency and accountability as the DFI currently.

The review of all accounts in the banking system that are classified as central government accounts proved to be more difficult than expected, given the vast number of accounts. We have, however, been able to identify which of the accounts reported by banks as central government deposits truly belong to the government, and also clarified the ownership of the bulk of the remaining accounts. As we had expected, the accounts which do not belong to the central government include mainly the pension fund, state-owned enterprises, and various agencies and funds that operate at arm's length of the central government. The CBI is working with the banks to ensure proper differentiation between central government (budget) accounts and other public sector accounts.

Similarly, little progress was made in the restructuring of the balance sheets of the two largest state-owned banks, Rafidain and Rasheed. With the assistance of the IMF, however, we have now developed a way forward to remove the legacy items of the Saddam-era regime from the balance sheets of these banks. More specifically, we will establish a Bank Reconciliation Unit (BRU), with participation at a technical level of staff from these two banks, the CBI, the Ministry of Finance, the BSA, and experts of Ernst & Young (who were the agents of the Ministry of Finance in the external debt restructuring process) to: (i) deal with all legacy external liabilities taking into account the government's actions in the context of Iraq's external debt restructuring (ii) indentify and propose to write-off nonperforming loans to defunct state-owned enterprises; (iii) propose a course of action for other remaining unreconciled accounts; and (iv) after the balance sheets have been cleaned up, revalue the remaining foreign currency denominated balance sheet items. The BRU will work under the supervision of the Restructuring Oversight Committee (ROC), consisting of the Minister of Finance, the Governor of the CBI, and the Chairman of the BSA. The BRU will send its recommendations for final approval to the ROC to ensure that the restructuring of these banks' balance sheet has the necessary support and authorization. Through this process, we aim to complete the restructuring of the balance sheets of Rafidain and Rasheed by end-June 2011 (a new date for the completion of this structural benchmark).

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

We are working to address the remaining safeguard risks at the CBI identified by the IMF's safeguards assessment that was completed in June 2010. The CBI will contract a multi-year co-sourcing agreement with a reputable accounting firm by end-December 2010 (a new structural benchmark under the program), with the external consultant to work alongside its internal audit staff to review and improve the internal audit function. In addition, the CBI Board has adopted a decision to transform the Internal Control Committee into an Audit Committee that will be headed by one of the CBI's deputy governors, but otherwise will consist of a majority of non-executive members and will have a comprehensive mandate to exercise effective oversight. This committee will be effective in this new format no later than end-October 2010 (also a new structural benchmark under the program). Furthermore, the CBI will continue to have an external auditor conduct reviews of its net international reserves and also of its net domestic assets for each test date under the SBA (with the exception of end-March), with the review for end-June 2010 to be completed by end-October 2010 (another new structural benchmark under the program), and with the scope of the NDA review expanded to include a review of the operations of the Memorandum of Understanding between the CBI and the Ministry of Finance with regard to IMF disbursements and debt service obligations and the operational controls over government accounts.

We are also making additional efforts to strengthen public financial management. We will shortly finalize and distribute to all spending units a new accounting manual that will help to improve the implementation of the new Chart of Accounts (a new structural benchmark for end-December 2010). In addition, to further improve the fiscal reporting by spending units, we have issued a circular instructing them to provide additional information on advances and letters of credit. The collection of information for the census of civil service employees is proceeding slowly, but we still hope to be able to gather all the necessary information by end-December 2010. Meanwhile, we will also review, with the assistance of the World Bank and the United Nations, the new Civil Service Law that is currently with the Shura Council in view with international best practices and to ensure effective implementation.

We have met all the performance criteria for end-March 2010, with the exception of the floor under the CBI's net international reserves. We have also met all of the performance criteria for end-June 2010 that can already be assessed, again with the exception of the floor under the CBI's net international reserves. We request a waiver of nonobservance for the missed performance criterion for end-June and also request a waiver of applicability for the end-June 2010 performance criterion related to the central government current spending bill for which data is not yet available and for which there is no evidence that it was not observed. Furthermore, due to the delay in completing the first review, we request rephasing of the disbursements under the SBA. The second review is expected to take place on or after October 30, 2010 and the third review on or after May 31, 2011.

Overall, our economic program is off to a good start and we believe that our policies set forth in our letter of February 8, 2010 and supplemented by the policies described in this letter are adequate to achieve our objectives. In support of our policies, we request the Executive Board of the IMF to complete the first review and approve the second disbursement under the SBA of SDR 475.36 million. We are fully aware of the many challenges ahead and we are prepared to take additional measures if necessary. We will consult with the IMF on the adoption of these measures and in advance of any revision to the policies contained in our economic program, in accordance with IMF policies on such consultation. The Iraqi government and the Central Bank of Iraq will continue to provide the IMF with the necessary information for assessing progress in implementing our program and will maintain a close policy dialogue with IMF staff. We authorize the IMF to publish this Letter of Intent and its attachments, as well as the related staff report on the IMF's website following consideration of our request by the IMF's Executive Board.

Sincerely yours,

/s/	/s/
Mr. Baqir S. Jabr Al-Zubaydi Minister of Finance of Iraq	Dr. Sinan Al-Shabibi Governor Central Bank of Iraq

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

	Amount at 12/31/09	Performance Criteria 3/31/10 Program	3/31/10 Adjusted	3/31/10 Est.	6/30/10 Program	6/30/10 Adjusted	6/30/10 Est.	12/31/10 Program	Indicative targets 6/30/11
Stock of net international reserves of the CBI (floor; eop stock, in millions of U.S. dollars)	44,337	44,257	44,257	43,895	44,178	44,178	41,388	44,019	45,816
Net domestic assets of the CBI 2/ (ceiling; eop stock)	-1,243	-398	-398	-4,117	38	38	-1,085	1,320	717
Development Fund for Iraq balances (DFI) (floor; eop stock; in billions of U.S. dollars, excl. FMS)	9.9	8.0	8.6	11.9	4.5	6.0	9.8	2.6	4.6
Cumulative flow from beginning of calendar year									
Central government fiscal deficit (CGFD, ceiling) 3/ 4/ 5/	...	5,382	4,698	-3,584	9,149	7,378	-2,575	17,939	4,450
Central government current spending bill (ceiling) 3/ 5/	...	8,141	8,141	4,854	14,926	14,926	...	27,138	15,327
Direct government subsidies to the fuel sector 6/	...	0	0	0	0	0	0	0	0
New medium-and long-term nonconcessional external debt (with original maturities of one year or more) contracted or guaranteed by the government (in millions of U.S. dollars; ceiling) 6/ 7/	...	2,000	2,000	0	2,000	2,000	0	2,000	2,000
External arrears on existing/rescheduled debt and new borrowing (in millions of U.S. dollars; ceiling) 6/	...	0	0	0	0	0	0	0	0

1/ The Technical Memorandum of Understanding (TMU; EBS/10/28) provides for precise definitions of all performance variables.
2/ Excluding other items net.
3/ End-March, end-June, and end-December performance criteria are cumulative from January 1, 2010.
4/ The fiscal balance will be measured via the sources of financing. See TMU for details.
5/ The current spending bill includes wages (excluding ministries of defense and interior), public distribution system, and transfers to state owned-enterprises. See TMU for details.
6/ To be monitored on a continuous basis.
7/ Concessionality is defined as loans with a grant element of 35 percent or higher. See TMU for details.

Table 2. Iraq: Structural Benchmarks Under the Stand-By Arrangement 1/

	Date	Status
Program Safeguards and Central Banking		
1. Completion by an external auditor of the audit of the CBI 2008 financial statements in accordance with International Standards on Auditing.	March 31, 2010	Met
2. Prepare and submit to the Governor of the CBI monthly reports on the status of the CBI's investment portfolio, in light of the investment criteria established in the reserve management guidelines.	March 31, 2010	Met
3. Provide to IMF staff: (i) the completed special audit data as of December 31, 2009, including on the CBI's net international reserves and net domestic assets, and (ii) the draft 2009 audited financial statements and draft management letter.	March 31, 2010	Largely met
4. Completion by an external auditor of special audits of the CBI's net international reserves and net domestic assets as of June 30, 2010	*October 30,2010*	
5. Put into effect the changes to the CBI Internal Audit Committee, including majority non-executive membership and a terms of reference establishing mandate and independence	*October 30, 2010*	
6. Contract an external audit firm to assist the CBI with strengthening its internal audit function	*December 31, 2010*	
Bank Restructuring		
7. Completion of the restructuring of the balance sheets of Rasheed and Rafidain banks.	June 30, 2010 *(Extended to June 30, 2011)*	Not met
Public Financial Management		
8. Complete review of all accounts in the banking system that are classified as central government accounts and reconcile them with Treasury records, returning any idle balances received from the budget to the central Treasury.	March 31, 2010	Partially met
9. Submit • to the Board of Supreme Audit and to the Council of Representatives the final accounts of the Federal Budget for the year ending December 31, 2008; • to the Council of Representatives and publish the audited accounts of the Federal Budget for the years ending December 31, 2005 and December 31, 2006; and • to the Board of Supreme Audit and to the Council of Representatives the final accounts of the Federal Budget for the year ending December 31, 2009.	March 31, 2010 March 31, 2010 September 30, 2010	Met Largely met
10. To strengthen reporting and cash management: (i) start receiving monthly reports from spending units on spending, including investment, advances, and letters of credit, no later than two months after the end of each month and reconcile these amounts with the cash balances at the beginning and end of the reporting period; and (ii) approve cash releases only after the Ministry of Finance has reviewed the report from three months before.	Continuous from April 30, 2010	Partially met
11. To improve budget preparation for 2011, set ceilings in the budget circular for current and investment spending, in line with a sustainable medium term budget strategy.	June 30, 2010	Largely met
12. Prepare a detailed report documenting a review of the outstanding stock of advances to identify those that are recoverable; on the basis of the review, classify the debts as recoverable or irrecoverable; set a time schedule for their recovery, and for writing off irrecoverable advances based on appropriate authorization at a high level. Once actions have been taken to recover doubtful amounts, recommend that they be written-off.	September 30, 2010	
13. Complete an audited review of the largest investment projects initiated in 2008. The review, conducted by the BSA, should discuss the criteria used for approving the projects; the procurement process and the project management process.	September 30, 2010	
14. Completion of census of all central government employees (excluding those	September 30,	

employed in the security area).	2010 *(Extended to December 31, 2010*	
15. Complete and distribute to all spending units a new, comprehensive accounting manual	*December 31, 2010*	
Oil Sector		
16. Complete the process of becoming a candidate for membership in the EITI.	March 31, 2010	Met
17. Complete the installation of all domestic metering systems to allow accurate measurement of domestic oil flows.	December 31, 2010	
18. Conduct an audited review of the domestic oil sector to reconcile the flows of oil and oil products at key points in the national system with the financial flows between the various state-owned companies and the budget.	June 30, 2011	
19. Maintain a single account for oil export proceeds, subject to the strict transparency and accountability rules that govern the DFI, including an independent external audit, and the oversight of the Committee of Financial Experts (COFE).	Continuous	Met

1/ Benchmarks in italics are new.

ATTACHMENT II. IRAQ: ADDENDUM TO THE TECHNICAL MEMORANDUM OF UNDERSTANDING

September 18, 2010

1. The Technical Memorandum of Understanding of February 8, 2010 will remain in effect except for the changes described below.

2. The definition of net international reserves is modified as follows: Net international reserves (NIR) are defined as gross usable reserves minus reserve-related liabilities of the CBI. Gross usable reserves of the CBI are claims of the CBI on 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, SDRs, Iraq's reserve position in the IMF, foreign currency cash, and deposits abroad, except for the resources of the DFI but including the CBI DFI sub-account. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered; claims on residents; precious metals other than monetary gold; assets in 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). *Reserve-related liabilities shall be defined as foreign currency denominated liabilities of the CBI to nonresidents with original maturity of one year or less, and all liabilities to the Fund, but excluding the liabilities represented by SDR allocations.* They include: foreign currency reserves of commercial banks held at the CBI; commitments to sell foreign currency arising from derivatives (such as futures, forwards, swaps, and options); and all arrears on principal or interest payments to commercial banks, suppliers, or official export credit agencies. As of December 31, 2009, (net) international reserves amounted to US$44.34 billion, all comprising of reserve assets.

INTERNATIONAL MONETARY FUND

IRAQ

First Review Under the Stand-By Arrangement, Request for Waiver of Nonobservance of a Performance Criterion, Waiver of Applicability, and Rephasing of Access

Informational Annex

Prepared by the Middle East and Central Asia Department

September 20, 2010

Contents Page

ANNEX I. IRAQ: RELATIONS WITH THE FUND

As of August 31, 2010

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

II. **General resources account:**	**SDR Million**	**%Quota**
Quota	1,188.40	100.00
Fund holdings of currency	1,314.41	110.60
Reserve Position	171.10	14.40

III. **SDR department:**	**SDR Million**	**%Allocation**
Net cumulative allocation	1,134.50	100.00
Holdings	1,154.89	101.80

IV. **Outstanding purchases and loans:**	**SDR Million**	**%Quota**
Stand-by Arrangements	297.10	25.00

V. **Latest financial arrangements:**

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Feb 24, 2010	Feb 23, 2012	2,376.80	297.10
Stand-By	Dec 19, 2007	Mar 18, 2009	475.36	0.00
Stand-By	Dec 23, 2005	Dec 28, 2007	475.36	0.00

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

	Forthcoming				
	2010	2011	2012	2013	2014
Principal	0.00	0.00	0.00	111.41	148.55
Charges/Interest	0.97	3.84	3.84	3.59	1.89
Total	0.97	3.84	3.84	115.00	150.44

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

VIII. **Safeguards assessments:**

The Central Bank of Iraq (CBI) is subject to an update safeguards assessment under the current SBA. The safeguards assessment associated to the SBA approved on December 19, 2007 was finalized on March 7, 2008, and an update for Iraq's new SBA, approved on February 24, 2010, was completed in June 2010. The update concluded that significant safeguard risks remain and raised concerns about deficiencies in the control framework, operational controls and delays in the completion of external audits and publication of financial statements. The authorities agreed and steps are being taken to correct the issues that continue to give rise to heavily qualified external audit opinions. Measures to mitigate the safeguards risks include independent reviews of NIR and NDA data and two new structural benchmarks: (i) a co-sourcing multi-year contract agreement with a reputable accounting firm, and (ii) the transformation of the Internal Control Committee into an independent Audit Committee.

IX. **Exchange rate arrangement:**

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

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

X. Article IV consultations:

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

XI. Recent technical assistance:

Department	Date	Topic
FAD	November 2006	Financial Management Information System
	December 2006	Oil sector management and fiscal federalism
	May 2007	Tax policy workshop
	March 2008	Public Financial Management
	August 2008	Oil sector—Pricing and Financial Flows
	March 2008	Oil sector—Taxation
	October 2009	Public Financial Management
	May 2010	Public Financial Management
LEG	August 2008	AML/CFT raising awareness workshop
	October 2008	Article VIII acceptance
	February 2009	Workshop for financial intelligence unit and criminal justice officials on AML/CFT measures
	April 2010	Phase One of the Three-Phase AML/CFT Capacity Enhancement and Sustainability Training Program
	July 2010	Phase Two of the Three-Phase AML/CFT Capacity Enhancement and Sustainability Training Program
MCM	March 2007	Banking restructuring
	March 2007	Banking supervision
	September 2007	Banking restructuring
	March 2008	Liquidity forecasting and management
	April 2008	Bank restructuring workshop
	July 2008	Reserves management
	August 2008	Bank restructuring workshop
	October 2008	Article VIII acceptance
	December 2008	Reserve management
	January 2009	Bank supervision workshop
	March 2009	Banking supervision workshop
	November 2009	Reserve Management
	November 2009	Banking supervision workshop-reporting forms
	August 2010	Reserve Management
STA	January 2006	Balance of Payments statistics
	March 2006	Money and Banking Statistics
	November 2006	Balance of Payments Statistics
	January 2007	Monetary and Financial Statistics

	January 2007	Consumer price statistics
	April 2007	Monetary and Financial Statistics
	February 2007	National Accounts Statistics
	November 2007	Consumer price statistics
	February 2008	Balance of Payments Statistics
	February 2008	National Accounts Statistics
	January 2009	Balance of Payments Statistics
	November 2009	National Accounts Statistics
	April 2010	Balance of Payments Statistics
	July 2010	Monetary and Financial Statistics
INS	February 2006	Financial Programming and Policies
	February 2007	External Sector Issues
	March 2008	Financial Programming and Policies
	January 2009	Financial Programming and Policies
	January 2010	Financial Programming and Policies

XII. **Resident Representative**

Vacant.

ANNEX II. IRAQ: RELATIONS WITH THE WORLD BANK GROUP

As of August 10, 2010

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

A. The Bank Group Strategy and Operations

4. The World Bank's Group's third ISN for Iraq for the period 2009–2011 was discussed by the World Bank's Board of Executive Directors on March 19, 2009. The central guiding principle of the ISN is that the main role for the World Bank is to help Iraq use its resources more effectively and transparently and to lay the ground for private sector development. The ISN includes three thematic areas of engagement: (i) continuing to support ongoing reconstruction and socio-economic recovery; (ii) improving governance and the management of public resources, including human, natural and financial; and (iii) supporting policies and institutions that promote broad-based, private-sector-led growth, with the goal of revitalizing the private sector and facilitating job creation.

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

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

accountable and transparent public financial management system. The Bank has also provided related support to modernize the public procurement system, including the drafting of a new public procurement law.

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

8. **World Bank Iraq Trust Fund (ITF)**. Seventeen donors have deposited US$494 million in the ITF. It has thus far financed 24 grants valued at US$518.6 million, exceeding donor contributions by US$24.2 million and committing 105 percent of donor deposits to projects. ITF projects focus on helping the GOI strengthen its institutional capacity to deliver services, utilize its resources in an efficient and transparent manner, and implement key reforms. ITF grants finance textbooks, schools, pharmaceuticals and health clinics, improved social safety nets, water supply and sanitation, irrigation and drainage, electricity, environmental management, private sector development, and banking and public finance management reform efforts. The ITF also finances technical assistance to help strengthen Iraqi institutions develop baseline poverty data, and improve social safety net targeting mechanisms.

9. Of the 24 grants, 20 are active projects valued at US$453 million and 4 projects are completed. The vast majority of ITF projects are implemented by Iraqi agencies (15) to help the GOI develop effective institutions to ensure country ownership. Five projects, totaling US$21 million, finance technical assistance/capacity building activities that are implemented by the Bank at the request of the GOI. Commitments and disbursements continue to increase. Overall, as of December 31, 2009, commitments total about US$404.6 million (about 82 percent of the grant amounts), and disbursements for project expenditures total US$294.2 million (about 59 percent of the grant amounts).

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

energy sector (including oil, gas and power), with particular emphasis on their coordination and on setting the stage for effective medium- and long-term development.

11. **IDA and IBRD.** In late 2004, Iraq benefited from an exceptional IDA (the Bank's concessional assistance window) allocation of about US$500 million. Since then, the Bank has approved 5 IDA projects amounting to US$509 million, to finance projects in education, roads, electricity and water.[1] Following a lengthy delay in identifying the required steps to make the credits effective, Iraq's parliament ratified the four loans on July 2007, and the water project in September 2009. As of July 2010, commitments total US$307.9 million (about 61 percent of the credit amounts), and disbursements total US$91 million (about 18 percent of the credit amounts). In February 2010, the World Bank's Board of Executive Directors approved the first IBRD loan for Iraq--a US$ 250 million First Programmatic Fiscal Sustainability Development Policy Loan. This project was signed in March 2010; became effective in April 2010 and disbursed in May 2010.

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

13. **IFC investment and advisory services and MIGA's political risk guarantee products aiming at leveraging private financing.** IFC's committed portfolio in Iraq is currently approximately US$20 million in two companies—a 10% equity stake in Credit Bank of Iraq in partnership with the National Bank of Kuwait (NBK); and a US$14 million loan committed in FY10 to Malia Investments for the establishment of a Greenfield hotel in Erbil. IFC also committed in FY10 a US$2 million rights issue in NBK Iraq. The IFC's Iraq Small Business and Finance Facility comprises an investment component of US$68 million to provide funding to local financial institutions for on-lending to micro and SMEs and a technical assistance component of US$20 million to create capacity on the ground for MSME financing. Through IFC Advisory Services, IFC has delivered advisory services on banking, SME lending, management training programs, and other areas of business edge and knowledge. Iraq's membership in MIGA is very recent but private investors have already shown interest in partnering with MIGA for investments in Iraq.

B. IMF-World Bank Collaboration in Specific Areas

[1] The Third Emergency Education Project (US$100 million) was approved by the Board in November 2005; the Emergency Road Rehabilitation Project (US$135 million) was approved in June 2006; the Dokan and Derbandikan Emergency Hydropower Project (US$40 million) was approved in December 2006; the Emergency Electricity Reconstruction Project (US$124 million) was approved in March 2007; and the Emergency Water Supply Project (US$109.5 million) was approved in June 2008.

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

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

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

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

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

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

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

E. Areas of Shared Responsibility

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

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

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

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

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

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

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

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October 1, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under Stand-By Arrangement with Iraq, Grants Waivers and Approves US$741 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Iraq's economic performance under a program supported by a 24-month Stand-By Arrangement (SBA). Completion of the first review makes an additional SDR 475.36 million (about US$ 741 million) available for disbursement, bringing the total resources that are currently available to Iraq under the arrangement to SDR 772.46 million (about US$ 1,204 billion).

The Executive Board also approved a waiver for nonobservance for the end-June performance criterion on the net international reserves and a waiver of applicability for the end-June performance criterion on the central government current spending bill for which data is not yet available. A rephasing of the remaining disbursements was also approved by the Board.

The SBA was approved on February 24, 2010 (see Press Release No. 10/60) for SDR 2.38 billion (about US$3.7 billion). In addition to providing temporary budget support, the SBA supported program aims to ensure macroeconomic stability and provide a framework for advancing structural reforms in Iraq.

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

"Iraq has continued to make good progress in rebuilding key economic institutions and maintaining macroeconomic stability, under very difficult circumstances. The Fund-supported program has provided a valuable anchor for economic policy during a period of high vulnerability. In the first half of 2010, oil revenues remained strong, inflation continued to be subdued, and the budget recorded a surplus. For 2010 as a whole and 2011, based on

conservative assumptions for oil prices and export volumes, Iraq's external and fiscal positions are expected to remain in deficit but return to a surplus in 2012.
"The 2011 budget will need to be consistent with the goal of achieving medium-term fiscal sustainability and be based on conservative assumptions for oil prices and volumes. Containing current spending would allow further increases in investment, and a stronger emphasis on improving the quality of spending and rebuilding public infrastructure will help achieve higher economic growth.

"Success in reconstructing the economy will depend on accelerating the pace of implementation of the government's fiscal and financial sector structural reform agendas. The modernization of Iraq's public financial management system encompasses further improvements in fiscal reporting and the budgetary process, and the adoption of a single treasury account. Further progress in strengthening the Central Bank of Iraq's supervisory role and moving ahead with the financial and operational restructuring of the two largest state-owned banks will help in increasing financial intermediation. As a candidate member of the EITI, the Iraqi authorities intend to continue making progress in strengthening governance and transparency in the hydrocarbon sector.

"The authorities have made commendable efforts to conclude debt agreements. Further progress in resolving outstanding claims under terms comparable to the 2004 Paris Club Agreement will be important."

Statement by Shakour A. Shaalan, Executive Director for Iraq
October 1, 2010

Background

1. Notwithstanding challenging security and political conditions, Iraq has made good progress in implementing its economic program under the Fund-supported Stand-By Arrangement (SBA). In particular, fiscal performance improved, reflecting reduced government spending and higher than projected oil revenues, which resulted in a budget surplus in the first half of 2010. Nonetheless, both the fiscal balance and current account are projected to remain in deficit the current year and next year. Growth is projected to decline in 2010, on account of low oil production and exports. Inflation remained in the low single digits and the exchange rate remained stable. Despite persistent capacity constraints—which were compounded by repeated attacks on the Ministry of Finance and the Central Bank of Iraq (CBI)—structural reforms progressed in several key areas. These areas include program safeguards, central banking, as well as the oil sector.

2. Notwithstanding these accomplishments, the Iraqi economy continues to face daunting challenges and risks, notably political and security instabilities, constraints in administrative capacity and volatility in oil prices.

Economic Policies and Reforms for the Remainder of 2010 and 2011

3. **GDP growth** is expected to recover in 2011 as oil production increases. Non-oil GDP is projected to continue to pick-up slowly as security conditions improve.

4. **The fiscal strategy** continues to aim at containing current spending in order to gradually reduce the deficit and create room for higher investment outlays. A marked decline in the 2010 and 2011 budget deficits is projected, followed by a return to surplus in 2012 as oil revenues increase. Current spending is to be reduced by about 14 percentage points of GDP between 2010 and 2012 mainly by containing the wage bill, further improving the targeting of social spending, and reducing transfers to state-owned enterprises. Investment remains a key priority and the authorities are making every effort to fully execute the 2010 investment budget. They are determined to restore and expand administrative capacity to ensure that implementation quality is not compromised.

5. Considerable effort is being devoted to increasing the pace of **fiscal reforms**. With regard to the 2011 government budget preparation process, line ministries are now restricted to put a ceiling for their current and capital spending with the objective of substantially reducing the size of the budget deficit in 2011. Further efforts are aimed at strengthening public financial management. A new accounting manual is being finalized to help spending units improve the implementation of the new Chart of Accounts. Moreover, the authorities

will review, with World Bank and United Nations assistance, the new Civil Service Law that is currently with the Shura Council to ensure compliance with international best practices.

6. The CBI intends to maintain its present **monetary policy**, which is aimed at keeping inflation in the single digits. The exchange rate remains the CBI's main policy instrument, given the very low level of financial intermediation. The authorities agree with staff that a strong and stable currency provides a solid anchor for the public's expectations in an otherwise highly uncertain environment.

7. Continued progress has been made in **monetary reforms** and the authorities are working to address the remaining issues that were identified by the IMF's safeguards assessment of the CBI. The CBI will contract a multi-year co-sourcing agreement with a reputable accounting firm by end-December 2010. This will help review and improve the internal audit function. The CBI Board has also adopted a decision to transform the Internal Control Committee into an Audit Committee that will have a comprehensive mandate for effective oversight.

8. The review of the accounts in the banking system that were classified as central government deposits proved to be more difficult than expected. Nonetheless, the authorities were able to clarify the ownership of a large portion of the accounts. As they had expected, the accounts which did not belong to the central government included mainly the pension fund, state-owned enterprises, and various agencies and funds that operate at arm's length of the central government. Work to clarify the remaining accounts is ongoing.

9. Little progress was made in the restructuring of the balance sheets of the two largest state-owned banks, Rafidain and Rasheed. With the assistance of the IMF and the World Bank, however, the authorities have developed a plan to address this issue by end-June 2011. They will establish a Bank Reconciliation Unit (BRU) with the participation of all the parties involved. The BRU will work under the supervision of the Restructuring Oversight Committee—which consists of the Minister of Finance, the Governor of the CBI, and the Chairman of the Board of Supreme Audit—to ensure that the restructuring of the banks' balance sheets has the necessary support.

10. **Other structural issues.** Increased transparency and good governance in the oil sector continue to rank high on the authorities' agenda. In this connection, the authorities have submitted an action plan to the UN Security Council to prepare for a post-Development Fund for Iraq mechanism. They reiterate their commitment to maintaining a single oil export revenue account that is subject to the principles of transparency and accountability that apply to the Development Fund for Iraq currently. Iraq became a candidate member of the Extractive Industries Transparency Initiative in February 2010.

Performance Under the SBA

11. The Iraqi authorities have demonstrated a strong commitment to the program's objectives. They met all the performance criteria for end-March 2010, with the exception of the floor for the CBI's net international reserves, which was missed by a small margin. They also met all of the performance criteria for end-June 2010 that can already be assessed, with the exception of the floor for the CBI's net international reserves. They therefore request a waiver of nonobservance for the missed performance criterion for end-June, and a waiver of applicability for the end-June 2010 performance criterion related to the central government current spending bill (for which data is not yet available and for which there is no evidence that it was not observed). Due to the delay in completing the first review, they also request a rephasing of the disbursements under the SBA.

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