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February 4, 2021

**Statement by Ms. Levonian, Mr. O'Brolchain, and Mr. Mooney on Iraq
(Preliminary)
Executive Board Meeting
February 8, 2021**

We thank staff for their comprehensive report, and Mr. Mohieldin, Mr. Alhosani and Ms. Choueiri for their useful Buff statement. Iraq has been severely impacted by the COVID-19 pandemic, which has been exacerbated by the consequent strain on the fragile health system. The authorities are implementing a robust suite of fiscal measures to assist the most vulnerable, but risks remain in the form of geopolitical tensions, social unrest and an enlarged civil service. We agree with the thrust of staff's assessment and offer the following points for emphasis.

Fiscal consolidation is paramount for Iraq, particularly in terms of civil service reform. The current public sector wage and pension bill is unsustainable, as outlined in Annex IV. In this regard, we agree with staff that stricter controls over government HR management and optimization of compensation is an urgent priority, in order to create the fiscal space for priority needs and improve incentives for private employment. The suite of measures announced in December, as outlined in the Buff, are a positive step forward in this area.

We note the dominance of state-owned banks (SOBs) in the financial sector and agree with staff that an urgent audit of these institutions is required, given their poor supervision by the CBI. We welcome the recent measures undertaken by the CBI to enhance the AML/CFT framework and encourage further diligence in this regard, particularly in the areas of identification of beneficial ownership.

We welcome the ambitious proposals set out in the "White Paper", particularly in the areas of pension reform, and enhancements to the electricity sector. Sustained implementation of these measures is crucial. *What is the likelihood of reform implementation being thrown off-track by political instability or renewed social unrest?* We note the inefficiencies in the social welfare system, as illustrated in Box 1. We urge the authorities to address these issues to ensure that there is no spike in Iraq's poverty rate. In this regard, we welcome the authorities' intention to reform the Public Distribution System food rationing in

order to ensure the protection of the poorest groups. We note the high rates of youth unemployment and agree with staff that this issue needs to be tackled as economies seek alternatives to oil. *Has any recent analysis been carried out on female labor force participation?* Finally, we positively note the authorities' ongoing engagement with the Fund regarding a potential RFI.