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GRAY/21/389

February 4, 2021

**Statement by Ms. Riach and Mr. Masood on Iraq  
(Preliminary)  
Executive Board Meeting  
February 8, 2021**

We thank staff for the Article IV and selected issue papers and agree with their recommendations. We also thank Mr. Mohieldin, Mr. Alhosani, and Ms. Choueiri for their informative buff statement, and welcome the authorities economic reform plan of October 2020. We are reassured to see that there is broad agreement between authorities and staff on the fiscal and external outlook and the need for urgent and decisive fiscal adjustment.

**We agree with staff's assessment that declining oil revenues and increase wage bills have made the fiscal position untenable as the budget deficit reached 20 percent of GDP in 2020.** We therefore welcome the immediate measures in the 2021 budget to curb this, while recognizing the importance of protecting the most vulnerable. Protecting the population from the health impacts of COVID-19 must be the priority and we therefore support efforts to redirect expenditures towards the health system. We note the sharp increase in public debt in 2020 to 83.1%, with notable uncertainty in the 5-year forecast, as well as sovereign spill-over risks from the state electricity and banking sectors. These risks underline the case for a coherent electricity sector reform strategy and the need for auditing and restructuring of large public banks.

**In addition to the external COVID-19 shock, Iraq's fiscal position has deteriorated due to significant structural weaknesses.** We support recommendations for necessary structural reform including comprehensive civil service reform, embedded in law, and the recalibration of the pension system. We welcome staff's analysis on the sharp growth of Iraq's public sector wage bill and the ratchet effects it exhibits. The authorities ambitious medium-term program sets out welcome proposals to reduce the wage bill. It will also be important for the authorities to help adjust employment expectations, particularly for young people entering the work force, as private sector employment becomes more significant in the labor market. Longer term, diversifying the tax revenue base will be critical to enabling Iraq to move away from a pro-cyclical fiscal position, that exacerbates the economic cycle.

**We note that limited progress has been made to address governance weaknesses highlighted in the 2019 AIV report and agree that progress will be critical to safeguard public resources and improve efficiency.** It will be important to align the anti-corruption framework with international best practice and strengthening AML/CTF compliance practices. Significant and credible governance reforms and assurances for the proper use of public funds will be key to restore public confidence and to allow future support from external donors, including the IMF.

**Close engagement with the IMF has the potential to underpin reform and catalyze broader international support.** We encourage staff to continue to find ways to engage and support the authorities, including through focused technical assistance, and we would welcome an update on the state of negotiations with the authorities on a possible Fund supported program. It will be critical for any future program to have strong political will behind it, to make sure reform, which is needed irrespective of a rise or fall in oil prices, is locked in.