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**Statement by Mr. Bevilaqua, Mr. Saraiva, and Ms. Mohammed on Iraq  
(Preliminary)  
Executive Board Meeting  
February 8, 2021**

We thank staff for the informative report and Mr. Mohieldin, Mr. Alhosani and Ms. Choueiri for their insightful statement. The COVID-19 pandemic and the sharp decline of oil revenues have significantly worsened the socio-economic conditions in Iraq, amid heightened political uncertainty. The Covid-19 pandemic has strained the capacity of the health system and led to significant loss of life. The large double digit fiscal and external current account deficits, together with a decline in foreign exchange reserves have constrained the fiscal response to the pandemic. We welcome the authorities' move towards positioning the economy towards macroeconomic stability.

**Addressing the health crisis should remain the highest priority going forward.** We note with concern that despite having the second highest COVID-related fatalities in the region, the expenditure response to the pandemic has been one of the lowest due to the strictly binding fiscal constraint. We welcome the intention to establish the dedicated COVID-19 fund and underscore that transparent procurement and a strong governance structure would be vital in attracting external support. *Can staff advise whether there have been any discussions with international partners to assess their willingness to contribute to the trust fund?* As highlighted in the risk assessment matrix, there are significant downside risk in the short term stemming from the pandemic and its related high impact on the economy, therefore strengthening the capacity of the health system by redirecting government spending and ensuring the efficient deployment of resources should be a priority. Given the potential impact of the pandemic on poverty, it is important that social protection spending is well targeted to protect the most vulnerable groups. *Could staff elaborate on how international partners are helping Iraq access vaccines?*

**Significant policy actions are needed to maintain macroeconomic stability and ensure debt sustainability.** We welcome the authorities' commitment to short-term policies to curb the unsustainable large wage and pension bills to create space for priority needs. We take

note that large gradual fiscal adjustments would need to be frontloaded to put debt on a more sustainable path. However, given the significant downside risks stemming from the potential political constraints and social unrest, we encourage the authorities to remain steadfast in building consensus on the implementation of the short-term policies in order to prevent medium-term reform agenda being derailed. It is important that robust and adequate safety nets be in place to safeguard the most vulnerable from the needed reforms. We positively note that exchange rate adjustment will help reduce the large external deficit and preserve the foreign exchange reserves.

**Over the medium term, it would be important to strengthen the public finance and implement key reforms including in the civil service and pension system.** We welcome the authorities' commitment to fiscal and structural reforms in the economic reform plan "White Paper". We take positive note of the information in Mr. Mohieldin and colleagues' statement that the authorities are preparing an action plan and working with partners to mobilize resources to support the outlined reforms. We see merit in adopting a comprehensive civil service reform to reduce fiscal cost and improve incentives for private employment. A recalibration of the pension system would also help minimize the fiscal risk and ensure its financial sustainability, in addition to incentivizing private saving. The authorities should continue to strengthen public financial management, as well as prioritize setting up a Treasury Single Account and accelerate the implementation of the IFMIS to help tighten controls over budget commitments and cash management. We note from Annex VI, the ambitious fiscal proposals of reducing the fiscal deficit from 20 to 3 percent of GDP and the wage bill from 25 percent to 12.5 percent of GDP in three years and wonder whether this is achievable in the current environment of heightened political instability and tension. *Staff comments are welcomed.*

**Strengthening financial sector supervision and restructuring the large public banks remain essential for financial stability.** The Central Bank of Iraq should enhance its supervision of the large state-owned banks (SOBs) and engage the government to explore options for their restructuring given their potential risk to financial stability. Also, we agree that undertaking an international audit of the large SOBs to allow a more up-to-date assessment of their balance sheets would be beneficial for their speedy restructuring. Meanwhile, we welcome the efforts to continue to strengthen the AML/CFT framework and compliance practices to help maintain financial stability and correspondent banking relationships.

**Addressing governance weaknesses is critical to safeguard public resources and improve efficiency.** We take note that the electricity sector's mounting financial losses could continue to be a drag on the budget and therefore urge the authorities to develop a coherent sector reform strategy to help improve governance and promote anticorruption policies. Going forward, aligning Iraq's anti-corruption framework with international standards and conventions as well as implementing a public investment management system would strengthen capacity for compliance to the terms of donor financing. In this connection, we encourage the authorities to publish key information on awarded contracts including on

beneficial ownership, and deployment of resources for risk-based delivery inspections and ex-post audits of these contracts.

**Finally, we welcome the prospective Fund engagement with Iraq going forward.** We are particularly encouraged by the information outlined in the statement by Mr. Mohieldin and colleagues that the authorities requested access to emergency funding under the Rapid Financing Instrument and have expressed interest in a follow-up Extended Fund Facility to anchor their stabilization and reform efforts.

With these remarks we wish the Iraqi people and authorities success.