

SUR/07/97

August 2, 2007

**The Acting Chair's Summing Up
Iraq—2007 Article IV Consultation, Fifth Review Under the
Stand-By Arrangement, Financing Assurances Review, and
Requests for Extension of the Arrangement, Waiver of Applicability,
and Waivers for Nonobservance of Performance Criteria
Executive Board Meeting 07/68
August 1, 2007**

Executive Directors agreed with the thrust of the staff appraisal. Directors commended the Iraqi authorities for keeping their economic program on track by strengthening economic policies and making progress in structural reforms, despite an unsettled political situation and a very difficult security environment. They noted, however, that the expansion of oil production is lagging, and that inflation, while on a downward path, remains high, reflecting in large part continued shortages, notably of fuel products. Directors considered that Iraq's economic prospects hinge critically on an improvement in the security situation.

Directors encouraged the authorities to take measures to speed up reconstruction and increase investment, especially in the oil sector. To that effect, they welcomed measures adopted by the authorities to increase the implementation rate of the public investment program, and urged them to take additional measures, if needed, and to strengthen the protection of oil installations.

Directors commended the government's commitment to pursue a prudent fiscal policy by keeping current spending in 2007 within the budget limits and to maintain fiscal sustainability over the medium term. They supported the authorities' decision to resist undue spending pressures and to strictly contain the wage and pension bill, as well as transfers. Directors encouraged the authorities to enact as soon as possible amendments to the new pension law to ensure the fiscal sustainability of the pension system.

Directors welcomed the increase in official fuel prices to regional levels. This will enable the government to continue avoiding direct subsidies on fuel products, except for kerosene. They were encouraged by the authorities' intention to consider developing a rule-based mechanism for setting domestic fuel prices in the future, which would prevent the re-emergence of budgetary subsidies, help fight corruption, and free up resources for much needed investment spending.

Directors were encouraged by the reduction in inflation. They generally supported the policy of the Central Bank of Iraq (CBI) to continue allowing the gradual appreciation of the dinar through end-2007. This would contribute to further reducing inflation and de-dollarizing the economy. Directors called on the CBI to stand ready to accelerate the pace of

appreciation and tighten monetary conditions further if inflation deviates from its downward path and dollarization is not reduced as expected. Key to fighting inflation would be to continue restraining public spending pressures and stepping up efforts to reduce shortages, especially by actively supporting private sector fuel imports.

Directors stressed the need to implement priority structural reforms as expeditiously as circumstances permit. They encouraged the authorities to broaden the coverage of the Financial Management Information System, modernize and streamline the tax system with a view to expanding the tax base and improving incentives for economic activity, and to press ahead with the restructuring of the banking system so as to increase financial intermediation, especially for the private sector. Directors also welcomed the government's efforts to rehabilitate viable public enterprises on a commercial basis, while underscoring that any government financial support should be efficient and fully reflected in the budget.

Directors urged the authorities to improve the transparency and accountability of public financial management and step up their fight against corruption. They were encouraged by the authorities' intention to join the Extractive Industries Transparency Initiative and implement a comprehensive oil metering system as soon as possible.

Directors underscored the need to put in place a new legislative framework for the hydrocarbon sector as soon as possible, which, along with an improvement in the security situation, would help strengthen the investment environment to significantly increase oil production.

Directors welcomed the steps taken in strengthening financial safeguards at the central bank. They urged the CBI to step up its efforts to address all the recommendations of the Fund's interim safeguards assessment report, as well as the Ernst & Young interim 2006 audit report.

Directors commended the authorities' intention to maintain an open trade regime. They supported the authorities' efforts to secure WTO accession. While keeping the present low import tariff, Directors stressed the importance of increasing revenues by scaling down exemptions and strengthening the customs administration.

Directors commended the authorities for the new investment law, which provides an important framework for attracting much-needed foreign investment. They encouraged the authorities to establish the National Investment Commission as soon as possible.

Directors welcomed the authorities' efforts to conclude debt agreements with the remaining official and private creditors. They urged the government and those official creditors still to provide debt relief to conclude debt agreements expeditiously.

Directors stressed the critical need to further improve the statistical database.

It is expected that the next Article IV consultation with Iraq will be held on the 24-month cycle, subject to the provisions on the decision on consultation cycles in program countries.