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IMF Executive Board Completes Second Review of Iraq's Stand-By Arrangement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Iraq's economic performance under the Stand-By Arrangement (SBA), which is designed to support the country's economic program through March 2009. The Board also completed a financing assurances review under the SBA.

The SDR 475.36 million (about US\$729.3 million) arrangement was approved in December 2007. It is being treated as precautionary by the authorities (see [Press Release No. 07/301](#)), and no disbursements are planned.

Following the Executive Board's discussion of Iraq's economic performance, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, said:

“Economic developments in Iraq have been encouraging in 2008 and the authorities have kept their economic program on track. With the improvements in the security and political situation, economic activity has picked up as oil production and exports have increased and non-oil activity has started to recover, while inflation has remained subdued. The recent sharp drop in world oil prices, however, has worsened Iraq's external and fiscal outlook for the period ahead. Iraq's continued efforts to rebuild its infrastructure and institutions and to achieve higher economic growth depend critically on continued improvements in the security situation, prioritization in the use of lower oil revenues, and the implementation of key structural reforms.

“The draft 2009 budget is based on much lower oil revenue projections than realized in 2008 and contains current spending, including by streamlining the in-kind Public Distribution System, while allowing for increases in investment and security spending. In this connection, it is important to ensure the quality of public investment. In response to the further decline in world oil prices since the submission of the draft budget to parliament, the government has begun preparing additional measures to reduce non-priority spending in 2009, in order to preserve fiscal sustainability. The Central Bank of Iraq (CBI) will continue to keep its policy

interest rate positive in real terms and to manage the exchange rate with a view to keeping inflation under control.

“With lower world oil prices, the indirect subsidies on fuel products are expected to decline in 2009. To establish a transparent framework for future fuel price adjustments, the authorities are developing a periodic adjustment mechanism for domestic fuel prices with assistance from the Fund.

“It is important to step up the pace of structural reforms. The recently adopted action plan to modernize public financial management provides a good basis to make significant progress in this area. The census of public service employees needs to be completed urgently, in order to clean-up and computerize the payroll. In the financial sector, it is crucial to adopt restructuring programs for Rafidain and Rasheed banks based on their financial and operational audits, and to complete the set of prudential regulations for commercial banks. It is also important for the CBI to continue implementing the recommendations of the IMF Safeguards Assessment Report to further improve its accounting and reporting framework.

“Further efforts are required to strengthen governance and fight corruption, in particular in the hydrocarbon sector. While progress has been made recently in oil metering, the metering systems should be extended to all oil sector activities, and the implementation procedures under the Extractive Industries Transparency Initiative should be stepped up. A new legislative framework for the hydrocarbon sector needs to be put in place to facilitate investments in the sector.

“The authorities’ efforts to conclude debt agreements with Iraq’s official and private creditors are commendable. However, further progress is needed to resolve the outstanding claims of official non-Paris Club creditors on terms comparable to those of the 2004 Paris Club Agreement,” Mr. Kato stated.