

SUR/10/22

February 25, 2010

**The Acting Chair's Summing Up  
Iraq—2009 Article IV Consultation and Request for Stand-By Arrangement  
Executive Board Meeting 10/18  
February 24, 2010**

Executive Directors agreed with the thrust of the staff appraisal. They commended the Iraqi authorities for the progress in rebuilding its economy under extremely difficult security and political conditions. While the medium-term economic outlook remains favorable as oil prices and production are expected to increase in the coming years, major challenges lie ahead. Large fiscal and balance of payment gaps are projected for 2010 and 2011, caused by the lower oil receipts and infrastructure bottlenecks. Directors also noted considerable risks associated with security problems, oil price volatility, and capacity constraints. They welcomed the authorities' strong commitment to consolidate macroeconomic stability and advance the structural reform agenda, particularly in the areas of public financial management and the banking sector. Directors underscored the importance of steadfast implementation of the economic program, which would help unlock much needed resources from other donors and multilateral development banks.

Directors considered that the 2010 budget, based on conservative oil price assumptions, is consistent with the program's objectives. They highlighted the need to contain current spending, in particular through rationalizing the government wage bill and streamlining the in-kind Public Distribution System and transfers to state-owned enterprises. This would create room for targeted social safety nets and for essential investment and reconstruction projects, including improving public service delivery and infrastructure in the oil sector. Directors encouraged further reform efforts aimed at improving budget preparation and execution through developing a medium-term budget framework, and broadening the revenue base by introducing a general sales tax.

Directors welcomed the authorities' continued commitment to strengthen governance and improve transparency in the hydrocarbon sector. Completion of the oil metering system would help facilitate the full reconciliation of oil flows with financial flows between the state-owned oil companies and the budget. Directors congratulated Iraq on becoming a candidate for membership in the Extractive Industries Transparency Initiative. They encouraged the authorities to establish a successor arrangement for the Development Fund for Iraq with the similar standards of transparency and accountability.

Directors supported the central bank's objective of aiming monetary and exchange rate policies at keeping core inflation in single digits. They called on the authorities to

remove the remaining exchange restrictions under Fund jurisdiction. Directors also encouraged the central bank to fully implement the recommendations of the previous safeguards assessment and looked forward to its update. The need to preserve central bank independence was particularly emphasized. Further steps are necessary to strengthen reserve management, banking supervision and prudential regulations, and the AML/CFT framework.

Directors welcomed the authorities' good-faith efforts to conclude debt agreements with the remaining official and private creditors. They encouraged the authorities to continue to work with non-Paris Club creditors, with a view to securing debt relief on terms comparable to those of the 2004 Paris Club Agreement.

While welcoming Iraq's participation in the General Data Dissemination System, Directors called for continued efforts to improve the quality, coverage, and timeliness of macroeconomic statistics.

It is expected that the next Article IV consultation with Iraq will be held in accordance with the Executive Board decision on the consultation cycle for members with Fund arrangements.