

**FOR  
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# IRAQ

## STAFF-MONITORED PROGRAM

December 31, 2015

### KEY ISSUES

**Context:** Iraq is facing a double shock arising from the ISIS attacks and the sharp drop in global oil prices. The conflict is hurting the non-oil economy through destruction of infrastructure and assets, disruptions in trade, and deterioration of investor confidence. The impact of the oil price decline—already felt in 2014—has fully unfolded in 2015, affecting the budget, the external sector, and medium-term growth potential. The authorities are responding to the crisis with a mix of fiscal adjustment and financing, maintaining their commitment to the exchange rate peg.

**Staff-Monitored Program:** To help address the present and urgent balance of payments and budget needs triggered by the ISIS attacks and the collapse in oil prices, the authorities have requested a Staff-Monitored Program (SMP) to establish a track record of policy credibility to pave the way to a possible Fund financing arrangement.

**Outlook and Risks:** Assuming a resolution of the conflict in the coming years and a pickup in oil production together with the envisaged modest recovery in oil prices, the baseline medium-term outlook still looks positive. Under improved security conditions, the macroeconomic scenario would continue to be driven by the expansion in oil revenue, assuming implementation of oil investment to increase oil production, and by fiscal adjustment. But risks remain very high, arising primarily from a further fall in oil prices, worsening of the conflict, political tensions, or poor policy implementation.

#### Key Policy Recommendations:

- In 2015-16, strong fiscal consolidation is needed to address the fall in oil revenues and contain central bank financing of the budget and associated losses in foreign exchange reserves.
- The exchange rate peg remains appropriate, provided that the authorities implement the fiscal consolidation programmed under the SMP.
- Public Financial Management needs to be overhauled in order to improve the quality of spending and the authorities' control over budget execution.
- Banking supervision needs to be strengthened in order to monitor and contain the damage inflicted by the crisis on the banking system.

Approved By  
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Discussions took place in Amman during October 27—November 11, 2015. Staff representatives comprised Christian Josz (head), Ritu Basu, Amgad Hegazy (all MCD), Christiane Kneer (SPR) and Marwa Al Nasaa (Resident Representative). Maya Choueiri (Senior Advisor, OED) joined the mission. Representatives from the World Bank, the Japanese International Cooperation Agency and the U.S. Embassy in Baghdad attended the meetings at the authorities' request. Norma Cayo and Yi Liu assisted in the preparation of the report.

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## BACKGROUND: IRAQ IS FACING AN ACUTE FISCAL AND BALANCE OF PAYMENTS CRISIS

1. **The economy has been hit hard by the collapse in oil prices and the ISIS attacks.** The external environment has worsened since the latest Article IV consultation<sup>1</sup> mainly owing to further weakening of global oil prices. The ongoing armed conflict with ISIS continues to strain the country's resources and is resulting in new waves of internally displaced people.

### A. Background

2. **Iraqi forces are making progress in retaking territories controlled by ISIS.** In October, Iraqi forces and their allies recaptured most of the country's largest oil refinery in Baiji, a strategic city between Baghdad and Mosul. In November, Kurdish forces took control of towns and sections of highway around Sinjar, between Mosul and the border with Syria. In December, the Iraqi forces and their allies launched a major offensive to retake control of Ramadi, west of Baghdad.

3. **The ISIS attacks has boosted the number of internally displaced persons—estimated at 4 million people at end-June 2015** (Memorandum of Economic and Financial Policies—MEFP, ¶13). Close to 10 million Iraqis (almost one third of the population) including 250,000 Syrian refugees need humanitarian assistance.

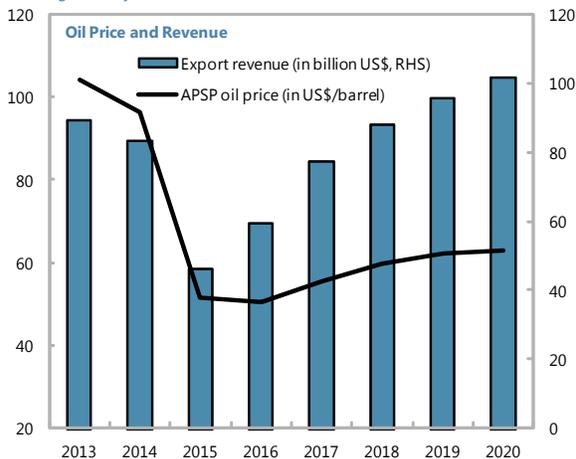
4. **In response to escalating protests across the country fueled by massive electricity outages, Prime Minister Abadi proposed a series of significant administrative reforms in August** (MEFP, ¶14). Parliament approved a number of these measures, including reducing the cabinet from 33 to 22 members, eliminating three vice-president and three deputy prime minister positions, addressing tax evasion, implementing customs at border points including within KRG, reducing security budgets and lowering pension ceilings and salaries for some officials. Nonetheless, Iraqis have continued to protest against the lack of progress to implement these measures to date and demanded decisive steps to address widespread corruption, inefficiency, and low quality of government services.

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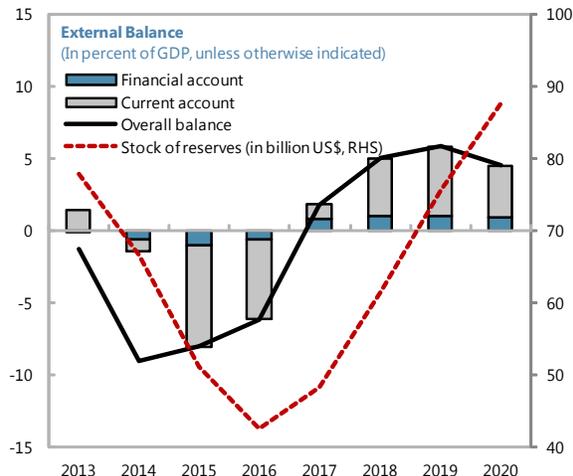
<sup>1</sup> [IMF Country Report No. 15/235. Iraq: 2015 Article IV Consultation and Request for Purchase under the Rapid Financing Instrument-Staff Report.](#)

**Figure 1. Iraq: Recent Economic Developments and Outlook, 2013-20**

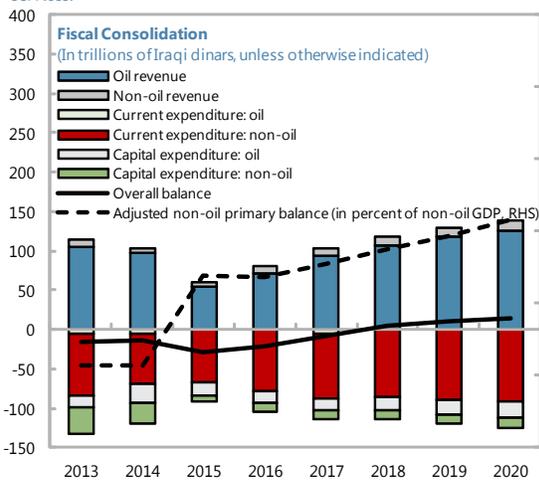
*Oil prices and exports have dropped sharply but are expected to gradually recover.*



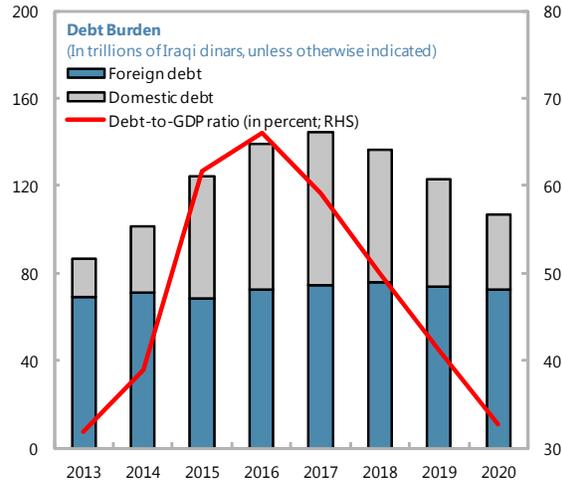
*The balance of payments has weakened, leading to a drawdown of foreign exchange reserves, but is expected to strengthen in sync with oil revenue.*



*In reaction to the fall in oil revenue, the authorities have implemented a large fiscal consolidation involving mostly cuts in non-oil investment and goods and services.*



*The budget deficit is mostly financed by indirect monetary financing leading to a sharp but temporary increase in public debt.*



Sources: Iraqi authorities and IMF staff calculations.

## B. Recent Economic Developments

5. **Oil production, located in areas under control of the Iraqi government and the KRG, is holding well.** For the first 11 months of 2015, it increased by 14 percent and oil exports increased by 23 percent year-on-year. Northern oil exports accelerated in line with the oil revenue sharing agreement between the federal government and the Kurdistan Regional Government (KRG) until June, when the KRG, dissatisfied with the size of the federal transfers, drastically reduced oil supply to the State Oil Marketing Organization (SOMO) and increased its independent sales to finance its expenditure.<sup>2</sup> In November, oil production and exports reached all time highs of, respectively, 4.2 and 4 million barrels per day (mbpd). Exports by the federal government reached 3.4 mbpd and KRG exports 0.6 mbpd.
6. **Non-oil activity in the part of the country that is not occupied by ISIS dropped by 8 percent year-on-year during the first semester of 2015.** The fall was particularly high in construction (-64 percent), manufacturing (-20 percent) and business services (-57 percent). The government has no information on economic activity in the ISIS-controlled territories.
7. **At end-October 2015, y-o-y consumer price inflation (CPI) was low at 1.6 percent,** but is likely underestimated because CPI coverage excludes areas occupied by ISIS.
8. **Broad money stayed flat at end June year-on-year and reserve money contracted by 13 percent at end-September 2015** likely reflecting lower government spending and weakening non-oil economic activity.
9. **The balance of payments registered a deficit during the first ten months of the year which was financed by the use of foreign exchange reserves.** Gross foreign exchange reserves of the Central Bank of Iraq (CBI) stood at \$59 billion (10 months of imports of goods and services) at end-October compared to \$67 billion (13 months of imports of goods and services) at end-2014.
10. **The spread between the official and the parallel foreign exchange market rate receded to around 2 percentage points since August** from as high as 16 percentage points in June, as a result of the elimination of the obligation to pay custom duty and income tax payments when buying foreign exchange.
11. **Public expenditure was compressed owing to the tight financing constraints** (Tables 2-4). During the first eight months of the year, total spending was about 30 percent lower than the path assumed in the budget. Both oil and non-oil investment bore the brunt of the fiscal consolidation during the first eight months of the year but the authorities have cleared all outstanding arrears to international oil companies (IOCs) in an amount of \$3.5 billion and reached

<sup>2</sup> Under the agreement between the KRG and the federal government, the revenue from the oil extracted in KRG accrues to the federal government and the federal government makes transfers to the KRG equivalent to 17 percent of a subset of total expenditure.

agreement with them on the level of oil investment in 2015 and 2016 that will increase oil production. The resulting deficit of ID 11 trillion (5 percent of GDP) was financed mostly by the issuance of T-bills subscribed by the state-owned banks Rasheed and Rafidain, out of which 4 trillion was refinanced at the discount window of the Central Bank of Iraq (CBI). The deficit was also financed by the accumulation of domestic arrears estimated at ID 5 trillion (2.5 percent of GDP) at end-April 2015, and a loan of \$1.2 billion under the Rapid Financing Instrument (RFI) approved by the IMF Executive Board on July 29, 2015.<sup>3</sup>

12. **The government decided to postpone the issuance of Eurobonds.** As part of the preparation to issue Eurobonds to help finance the large fiscal deficit, the Fitch Ratings agency gave a sovereign rating of B- to Iraq. In light of the lack of appetite shown by investors for the proposed Eurobonds during a road show in London and New York in September and the high interest rate required (11.5 percent), the government decided to postpone the issuance of \$2 billion it planned in 2015.

### C. Outlook

13. **In spite of further weakening global oil prices, the fiscal and balance of payments outlooks have improved since the last Article IV consultation assessment owing to a larger than projected fiscal consolidation** (¶111, Text Table 1 and Tables 1–7). An increase of oil production by 10 percent of GDP will allow real GDP to grow by 1.5 percent in 2015, in spite of a further weakening of non-oil activity on the back of lower capital spending (¶115 and 10 and Table 1).<sup>4</sup> In 2016, real GDP growth should rebound to 11 percent thanks to the projected 20 percent increase in oil production,<sup>5</sup> despite flat non-oil GDP. The fall in oil prices since mid-2014 is expected to increase the current account deficit from 1 percent of GDP to 7 percent of GDP in 2015 and 6 percent of GDP in 2016 (Table 5). Because of debt amortization, arrears repayment, and private capital outflows, the overall balance of payments deficit could reach 8 percent of GDP in 2015 and 6 percent of GDP in 2016, of which the financing will involve a large drawdown of official foreign exchange reserves. Reserve coverage would fall from 13 months of imports of goods and services in 2014 to 7 months in 2016. The fall in oil prices is also causing a sharp deterioration of the fiscal position with the budget deficit increasing from 6 percent of GDP in 2014 to 15 percent of GDP in 2015 and 10 percent of GDP in 2016 (provided measures discussed below are implemented), and the total public debt increasing from 39 percent of GDP in 2014 to 66 percent of GDP in 2016. In the medium term, the outlook should improve as oil production expands further,

<sup>3</sup> See [IMF Country Report No. 15/235](#).

<sup>4</sup> In 2015, real GDP growth has been revised upwards from 0.5 percent to 1.5 percent in light of actual half-year output for the non-oil economy (minus 8 percent y-o-y compared to minus 11 percent for the whole year in the last Article IV Staff Report).

<sup>5</sup> This high oil growth rate in 2016 stems partly from the fact that oil production includes KRG production for only 6 months in 2015 but for 12 months in 2016. Assuming constant oil production in KRG in 2015, oil growth would be reduced to 16 percent in 2016. The oil production level of 4.1 mbpd programmed in 2016 was already reached in November 2015 (¶15).

oil prices recover somewhat, and progress is made to retake territories controlled by ISIS, allowing a rebuilding of foreign exchange reserves to about 10 months of imports of goods and services by 2020.

Text Table 1. Iraq: Selected Economic Indicators, 2013–20

	2013	2014 Est.	2015		2016		2017	2018 Proj.	2019	2020
			Proj 1/	Prog.	Proj 1/	Prog.				
Real GDP Growth (percent)	6.6	-2.1	0.5	1.5	7.6	10.6	7.2	7.2	7.1	7.1
Non-oil real GDP (percent)	10.2	-8.8	-11.2	-8.0	2.0	0.0	3.0	4.0	5.0	5.0
Inflation (eop, y-o-y)	3.1	1.6	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Oil production (mbpd)	3.0	3.1	3.4	3.4	3.8	4.1	4.5	4.9	5.3	5.7
Oil exports (mbpd)	2.4	2.5	3.1	2.9	3.3	3.6	3.8	4.0	4.2	4.4
Fiscal balance (percent of GDP)	-5.8	-5.6	-18.4	-14.5	-10.3	-10.2	-3.7	1.9	3.4	4.2
Non-oil primary fiscal balance (percent of non-oil GDP)	-68.7	-60.0	-68.6	-52.1	-61.8	-56.3	-54.5	-52.6	-50.7	-48.5
Total government debt (percent of GDP)	31.9	38.9	70.0	61.7	74.0	66.0	59.1	50.0	41.1	32.7
Current account balance (percent of GDP)	1.4	-0.8	-8.6	-7.0	-6.9	-5.5	1.0	4.0	4.8	3.6
Gross international reserves (billion US\$)	77.8	66.7	50.4	51.1	41.5	42.5	48.2	61.5	75.6	87.5
Gross international reserves (months of imports of goods and services)	10.8	12.9	6.9	8.4	5.5	6.8	6.9	8.3	9.3	9.8

1/ IMF Country Report No. 15/235. Iraq: 2015 Article IV Consultation and Request for Purchase Under the Rapid Financing Instrument.  
Sources: Iraqi authorities; and Fund staff estimates.

## ECONOMIC POLICIES TO ADDRESS THE CRISIS

### A. Implementing a Large Fiscal Consolidation

14. **In order to maintain macroeconomic stability, the government has been implementing a large fiscal consolidation to bring spending in line with available resources in 2015 and 2016** (MEFP, ¶21; Text Table 2 and Tables 2-4). This requires: (i) a sizable reduction in the non-oil primary balance<sup>6</sup> (quantitative targets, MEFP, Table 1), of about 12 percent of non-oil GDP (ID 24 trillion, or \$20 billion) over 2013–16;<sup>7</sup> and (ii) a large increase in mostly domestic but also external financing over the short run that will remain compatible with debt sustainability in the medium run. In order to minimize the impact of the fiscal consolidation on the population, the government will protect social spending, i.e., spending on health and education, transfers in support of the social safety net and assistance for internally displaced persons and refugees (MEFP, quantitative targets, Tables 1 and 3). The ongoing fiscal consolidation in reaction to cash

<sup>6</sup> The non-oil primary fiscal balance is defined as the difference between non-oil revenue and non-oil primary expenditure, i.e. excluding interest payment, see Technical Memorandum of Understanding (TMU), ¶7.

<sup>7</sup> 2013 is the appropriate reference year to measure the fiscal consolidation since it is the last year that fully included revenue and expenditure of KRG in the fiscal tables: 2014 includes only 2 months of KRG's revenue and expenditure and 2015 only 6 months owing to disagreements between KRG and the federal government over their oil revenue sharing agreement. From 2016 on, the program assumes a resumption of the implementation of the oil sharing agreement between the federal government and KRG (¶15) and the fiscal tables fully incorporate KRG's revenue and expenditure.

Text Table 2. Summary of Central Government Fiscal Accounts, 2013–18 (In percent of non-oil GDP)										
	2013	2014		2015		2016		Adjustment (b) - (a)	2017	2018
		Est.	Proj. <sup>1/</sup>	Aug. <sup>2/</sup>	Prog.	Proj. <sup>1/</sup>	Prog.		Proj.	
	(a)	(b)								
Revenues and grants	79.3	74.8	65.0	32.9	46.6	74.3	60.0	-19.3	72.4	76.9
Oil revenue	72.6	70.6	57.2	29.3	41.7	66.3	53.5	-19.1	65.8	70.0
Non-oil revenue	6.6	4.2	7.7	3.5	4.9	8.0	6.5	-0.2	6.7	6.9
Expenditures	90.2	85.3	94.3	40.8	68.6	92.0	75.8	-14.4	78.7	73.5
Current expenditures	57.5	49.4	59.9	30.7	49.6	58.2	56.9	-0.6	59.6	54.5
Wages and pensions	28.2	28.9	32.4	21.6	34.7	31.2	37.4	9.1	36.3	34.9
Goods and services	11.2	6.6	8.9	2.3	4.1	8.5	5.9	-5.3	5.8	6.2
Transfers	13.8	10.0	17.1	6.1	9.5	12.2	11.4	-2.3	11.1	10.7
Interest payments	0.7	0.5	1.6	0.8	1.3	2.3	2.1	1.4	2.6	2.7
War reparations (payments to Kuwait)	3.6	3.5	0.0	0.0	0.0	4.0	0.0	-3.6	3.8	0.0
Investment expenditures	32.7	35.9	34.4	10.1	19.0	33.7	18.9	-13.8	19.2	19.1
Oil-related	10.5	17.1	16.4	3.3	10.4	15.9	10.8	0.3	11.2	11.4
Non-oil related	22.2	18.9	18.0	6.8	8.6	17.8	8.1	-14.1	8.0	7.7
Balance (including grants)	-10.9	-10.4	-29.3	-8.0	-22.0	-17.7	-15.8		-6.3	3.4
Financing	11.8	9.8	29.3	8.0	22.0	17.7	15.8		6.3	-3.4
External financing	8.7	1.0	-4.3	-3.3	-3.0	1.7	1.3		1.5	1.1
Domestic financing	3.1	8.8	21.7	11.3	25.0	1.7	14.4		4.8	-4.5
Financing gap	0.0	0.0	12.0	0.0	0.0	14.4	0.0		0.0	0.0
<b>Memorandum items:</b>										
Non-oil primary expenditure <sup>3/</sup>	75.4	64.2	76.2	36.7	57.0	69.8	62.8	-12.6	61.1	59.5
Non-oil primary fiscal balance <sup>4/</sup>	-68.7	-60.0	-68.6	-33.2	-52.1	-61.8	-56.3	12.4	-54.5	-52.6
Adjusted non-oil primary fiscal balance <sup>5/</sup>	-68.7	-68.6			-56.2		-56.3	-56.3	-54.5	-52.6
Public Debt (percent of GDP)	31.9	38.9	70.0		61.7	74.0	66.0	34.1	59.1	50.0
Gross International Reserves (US\$ billion)	77.8	66.7	50.4		51.1	41.5	42.5	-35.3	48.2	61.5
1/ IMF Country Report No. 15/235. Iraq: 2015 Article IV Consultation and Request for Purchase Under the Rapid Financing Instrument.										
2/ Actual budget execution during January-August.										
3/ Excludes interest payments, oil related spending and war reparations to Kuwait from total expenditure.										
4/ Difference between non-oil revenue and non-oil primary expenditure.										
5/ Adjusted to account for a full year estimate of federal government transfers to the Kurdistan Regional Government in 2014 and 2015, for which actual transfers were made for only 2 and 6 months, respectively.										
Sources: Iraqi authorities; and Fund staff estimates and projections.										

constraints is bringing the non-oil primary balance closer to a level aligned with sustainable public spending under the permanent income hypothesis (PIH).<sup>8</sup>

<sup>8</sup> Under the PIH, the Iraqi authorities should bring the non-oil primary balance to a deficit of no more than 42 percent of non-oil GDP in order to accumulate savings of which the financial yield could finance a constant level of public expenditure after oil resources will have been exhausted.

15. **The fiscal consolidation mostly stems from expenditure cuts in non-oil investment and goods and services** (MEFP, ¶¶22-26). Non-oil investment is programmed to be cut by 14 percent of non-oil GDP over 2013–16, or slightly more than the 12 percent of non-oil GDP reduction in the non-oil primary balance. According to the last World Bank Expenditure Review, the efficiency of public investment in the non-oil sector is low because of severe weaknesses in public financial management.<sup>9</sup> Goods and services and transfers will also be cut by sizable amounts of, respectively, 5 and 2 percent of non-oil GDP. Kuwait’s agreement to postpone the final war reparation payment in an amount of \$4.6 billion (4 percent of non-oil GDP) from 2015 to 2017 will also help to implement the programmed fiscal consolidation. No contribution to the fiscal consolidation is expected from non-oil revenue that is programmed to slightly contract (by 0.2 percent of non-oil GDP) over 2013–16, reflecting the loss of control or closures of some tax and customs offices in the ISIS-occupied territories (¶12) and the drop in non-oil economic activity (¶¶16 and 13), in spite of the increase in wage taxation in 2016, which will increase revenue by ID 1 trillion by reducing the tax exempt-tranche of wages. The programmed fiscal consolidation does not affect wages and pensions, which will record a sizeable increase (by 9 percent of non-oil GDP over 2013-16) partly justified by the need to increase the security payroll to fight ISIS but also exacerbating the already oversized government payroll, which is a major weakness of Iraq’s public finances.<sup>10</sup>

16. **In spite of the fiscal consolidation, the government will still face a large budget deficit both in 2015 and 2016 that will be financed mostly by indirect monetary financing and the associated drawdown in official foreign exchange reserves** (MEFP, ¶¶22-26). The fiscal deficit is projected to rise from 6 percent of GDP in 2014 to 15 percent of GDP in 2015 and 10 percent of GDP in 2016, despite significant scaling back of spending in the face of financing constraints. In 2015, the deficit will be partly financed through domestic arrears, the size of which has been assumed to be the amount identified at end-April (2.5 percent of GDP, ¶11) but will be more fully known in February 2016 once an examination currently underway is completed (¶22). The authorities are committed not to accumulate arrears going forward, and to pay those already accumulated over the next few years in line with their financing capacity and after auditing. The 2015 budget deficit will be also be financed by the issuance of Treasury bills, out of which about half will be refinanced by commercial banks at the discount window of the CBI. The external financing in 2015 will consist of the loan from the IMF under the RFI (¶11), a Development Policy Loan by the World Bank (\$1.2 billion) to be disbursed in December 2015 and project loans by the World Bank (\$19 million), the Japan International Corporation Agency (JICA, \$307 million), and Italy (\$40 million). No financing gap is foreseen in 2016 under the authorities’ planned policies; the deficit is expected to be mostly financed by domestic bank financing, half of which would again be refinanced at the discount window of the CBI because banks’ liquidity is constrained. In 2016, some

<sup>9</sup> [World Bank Group, Republic of Iraq: Public Expenditure Review, Toward More Efficient Spending for Better Service Delivery, 2014.](#)

<sup>10</sup> According to the referred World Bank Expenditure Review (figure 2.6, p.25), the government payroll in Iraq (in percent of GDP) is more than three times higher than in Turkey, Egypt and Kuwait.

drawdown of government deposits in the banking system and issuance of bonds aimed at the general public including the Iraqi Diaspora is also envisaged. Project loans disbursement should amount to \$1.1 billion. Issuance of Eurobonds in an amount of \$2 billion is planned during the second half of the year. The government will stop using arrears to finance spending in 2016 (zero ceiling on external arrears, continuous target, MEFP, Table 1; and measures to survey, audit and pay domestic arrears in ¶23). The domestic financing, half of which is indirect monetary financing, will lead to a sharp increase of the public debt and contribute to a large foreign exchange reserves drawdown to finance government imports.

17. **Based on the current information on domestic arrears, most of the fiscal adjustment is envisaged to have taken place in 2015, building on the adjustment already implemented during the eight first months of the year (¶11).** When corrected for an equal treatment of the KRG (¶14, footnote 4), the non-oil primary balance will be reduced from a deficit of 69 percent of non-oil GDP in 2013 and 2014, to a deficit of 56 percent of non-oil GDP in 2015 and 2016. This path of the fiscal adjustment is based on the level of spending financed by the accumulation of domestic arrears identified so far in 2015, i.e., ID 5 trillion (¶15, 4 percent of non-oil GDP). When the true level of spending financed by arrears will have been identified (¶23), it is possible that the fiscal adjustment in 2015 will turn out to have been less than presently estimated, and consequently adjustment in 2016 would need to be greater than presently envisaged in order to meet the nominal deficit target that has been agreed.

18. **On December 2, 2015, the government introduced amendments to the draft 2016 budget it sent to Parliament in October to bring it into line with the fiscal framework agreed under the SMP, thereby meeting the prior action for management approval (MEFP, Table 2).** In line with the ad referendum agreement reached with staff in November, the spending level of the amended budget is close to the initial draft budget but the financing structure is very different with much lower external financing expected in the amended draft budget.

## B. Managing External Pressures

19. **The government will maintain the Iraqi Dinar's peg to the U.S. dollar (MEFP, ¶18).** The peg provides a key nominal anchor in a highly uncertain environment with policy capacity weakened by the conflict with ISIS. Accommodating external shocks through more exchange rate flexibility—as opposed to fiscal adjustment—is not advisable. A small devaluation would not alter the need for fiscal adjustment much<sup>11</sup> but risk undermining confidence in Iraq's foreign exchange regime and the nominal anchor it provides. A large devaluation could aid fiscal adjustment—provided the government could resist subsequent pressures to raise wages and other budget allocations—but at the risk of exacerbating already difficult social tensions and could trigger a

<sup>11</sup> A 10 percent devaluation of the ID would improve the non-oil primary balance by about 2 percent of non-oil GDP, assuming no adjustment in ID denominated spending including wages and pensions. Given the high import content of consumption that would effectively amount to close to a 5 percent cut in real terms in wages and pensions.

spike in inflation as most food needs and consumer items are imported. Moreover, devaluation would have little impact on exports, which are almost exclusively oil and oil-related products.

20. **The government will gradually remove remaining exchange restrictions and multiple currency practice (MCP) with a view to eliminating exchange rate distortions** (MEFP, ¶19).

Such a move towards acceptance of the obligations under Article VIII of the IMF's Articles of Agreement will send a positive signal to the investment community that Iraq is committed to maintain an exchange system that is free of restrictions and MCP for current international transactions and thus facilitate creation of a favorable business climate. As a first step, the government will, by end-February 2016, amend the Investment Law, or issue clarifying implementing regulations, to remove the limitation on transfer of investment proceeds that gives rise to an exchange restriction, as recommended by a recent technical assistance mission of the IMF.

21. **The government will implement reforms on anti-money laundering and combating the financing of terrorism (AML/CFT)** (MEFP, ¶20). This would improve the integration of the domestic financial system into the global economy and lower transaction costs, improve governance, and reduce the size of the informal sector. As a first step, the government will, by end-February 2016, draft and adopt a by-law to set up a mechanism to comply with the relevant AML/CFT international standards.

### C. Strengthening Public Financial Management

22. **A weak PFM framework has resulted in the lack of fiscal discipline and overly politicized allocation of oil resources.** The IMF and the World Bank have provided technical assistance on key PFM aspects, but there has been very slow progress so far. The authorities have shown keen interest to introduce program (i.e., results-based) budgeting, but this seems premature in light of several fundamental PFM weaknesses that still need to be resolved.

23. **In order to strengthen fiscal discipline, the government will implement key measures in the short run on which to build more ambitious reforms later on** (MEFP, ¶27):

- *The Minister of Finance will approve a new draft of the Financial Management law in line with World Bank and IMF comments on the last draft submitted to the Shura Council (Council of State, structural benchmark for the second review; MEFP, Table 2).*
- *The Ministry of Finance and the Ministry of Planning will survey, audit and pay domestic arrears. As a first step, the Ministry of Planning will complete, by end-February 2016, a survey of domestic arrears on investment spending accumulated by all ministries as of end-September 2015 (structural benchmark, Table 2) and the Ministry of Finance will complete a survey, also by end-February, on current spending arrears accumulated by the same units as of end-September. In addition, they will complete surveys of domestic arrears at end-December 2015 by end-March 2016 and at end-March 2016 by end-May 2016, the latter one to check that no arrears are incurred in 2016. On the basis of each of these surveys, the government will prepare plans for*

the orderly payment of these arrears, which will include an independent audit of these arrears and a repayment schedule in line with its financing capacity. As of end-April 2015, the government identified ID 7.3 trillion in domestic arrears, out of which ID 5 trillion were accumulated in 2015 (¶111). The Board of Supreme Audit will check the validity of these arrears by end-February 2016. So far, the program has provisions for the repayment of the already identified arrears over the next three years.

- *The Ministry of Finance and the CBI will take steps to move to a Treasury Single Account (TSA).* As a first step, they will, by end-February 2016, compile a list of all bank accounts controlled by the Ministry of Finance and all spending units and sub spending units of the federal government, in CBI, state-owned and commercial banks (structural benchmark; MEFP, Table 2).
- *The Ministry of Finance will design and implement a commitment control system for budget execution* that is based on a comprehensive financial plan for budget execution, with the support of IMF technical assistance.
- *The Ministry of Finance will design and implement an Integrated Financial Management Information System (IFMIS)* with the assistance of the World Bank. As a first step, it will adopt, by end-April 2016, a road map detailing its core functional requirements.
- *The Ministry of Planning will implement Public Investment Management (PIM) reform* with the assistance of the World Bank. By end-April 2016, it will set up a central PIM unit that will screen projects based on feasibility studies and develop and manage the Integrated Bank of Projects.
- *The Public Integrity Commission will continue to implement the existing asset declaration procedures for high-level officials in order to improve governance and enhance anti-corruption efforts.* It will continue to publish the names of those who fail to submit their annual declaration.

## D. Monitoring Financial Risks

24. **The crisis is increasing the exposure of the state-owned banks, which dominate the banking sector, to sovereign risk** (Table 8). The largest state-owned banks, Rasheed and Rafidain, which account for 80 percent of banking sector assets, are severely undercapitalized<sup>12</sup> and largely illiquid following years of quasi-fiscal operations. With some temporary credit from the CBI (¶16) and an increase in deposits in line with what has been observed so far in 2015, banks will have sufficient liquidity to finance the budget deficit in 2015–16 (Tables 6-7) and get a significant return<sup>13</sup> that will contribute to their profitability. However, their exposure to sovereign risk has been increasing and the quality of their credit to the economy has been deteriorating owing to the contraction in non-oil GDP (Table 8).

<sup>12</sup> Rasheed's and Rafidain's capitals are only equal to, respectively, half and one fifth of the minimum required capital of ID 250 billion (\$214 million).

<sup>13</sup> Treasury bills earn a real annual interest rate of about 4 percent.

25. **The CBI and the Ministry of Finance will implement reform measures to enhance the stability of the banking sector** (MEFP, ¶¶28-29). The Ministry of Finance will, by end-February 2016, appoint international auditors to audit the latest financial statements of Rasheed Bank and Rafidain Bank according to international standards (structural benchmark; MEFP, Table 2). Based on the results of these audits, it will prepare a plan to restructure these two banks. The CBI will prepare regulatory changes to strengthen prudential standards and the implementation of bank supervision, with the support of external consultants and the IMF Middle East Technical Assistance Center.

## PROGRAM MODALITIES AND RISKS

26. **The SMP will have quarterly reviews** (MEFP, ¶30). It will set quarterly quantitative targets on the non-oil primary balance, the stock of net domestic assets of the CBI, official foreign exchange reserves, social spending, and the absence of new external arrears, starting in December 2015 (MEFP, Table 1), and a few structural benchmarks (MEFP, Table 2). The targets on the stock of net domestic assets of the CBI and official foreign exchange reserves will have adjusters allowing more/less indirect monetary financing and use of reserves in case foreign financing is lower/higher than programmed, with an asymmetric cap on the additional monetary financing to protect foreign exchange reserves (Technical Memorandum of Understanding—TMU, ¶¶13–16). The target for the non-oil primary balance for December 2015 will be adjusted when the true level of spending financed by domestic arrears in 2015 will be known (¶23; TMU, ¶12). The targets on the non-oil primary balance and the stock of net domestic assets of the CBI, the main source of domestic financing of the budget, will keep total public debt on a sustainable trajectory. Each program review will set a few structural benchmarks in areas that are essential for the success of the program. The authorities intend to demonstrate good performance under the SMP to move to a possible Fund financing arrangement.

27. **The SMP is subject to several risks, the materialization of which would magnify the policy challenges.** An escalation of the conflict with ISIS and worsening of the security situation in the south of the country could weaken growth, public finances and the balance of payments. A further decline in oil prices or a shortfall in projected financing or in oil production would necessitate larger indirect monetary financing and drawdown of official foreign exchange reserves. The agreement between the KRG and the Iraqi authorities (¶15) may not resume, although, under current oil prices, this would have a positive impact on the budget since the oil revenue from KRG (ID 3.4 trillion in 2016) are lower than the transfers to KRG (ID 12.3 trillion in 2016). The authorities' track record under the last Stand-By Arrangement under more favorable economic, political and security conditions and in the context of prior actions for the recent purchase under the RFI was weak. In light of the very difficult security situation in the territories occupied by ISIS, the tensions with the KRG over independent oil sales, and the social tensions in the rest of the country, the authorities may face difficulties in gathering the necessary political support to implement the fiscal consolidation and the reforms envisaged under the SMP. To manage these risks, staff urged the authorities to take a realistic view on the feasible composition of fiscal adjustment as well as its magnitude given their present financing constraints, and to only commit to structural reforms that

they were confident to implement, since a good track record under this SMP will be essential to gain access to a possible Fund financing arrangement.

28. **The further decline in oil prices since November may require a revision of the program on the occasion of the first review.** Since the end of the discussion of the SMP with the authorities on November 10, 2015, oil prices have declined and the IMF staff has reduced its oil price projections by 7 percent in 2016 and by 13 percent in 2017 compared to the levels projected in the SMP. Under these lower oil prices, which are not reflected in staff's baseline scenario, government oil revenue and exports would be reduced by ID 5 trillion in 2016 and ID 12 trillion in 2017 compared to the macroeconomic framework of the SMP. At the time of the discussion of the first review scheduled in March 2016, staff and the authorities will discuss how to adjust the macroeconomic framework and quantitative targets in light of the latest oil price outlook and its implications for the external and fiscal positions and financing.

## STAFF APPRAISAL

29. **Iraq is facing a double shock arising from the ISIS attacks and the sharp drop in global oil prices.** The ongoing armed conflict with ISIS continues to strain the country's resources and results in new waves of internally displaced people. The fall in oil prices has caused an acute balance of payments and fiscal crisis.

30. **In spite of these shocks, the economy is still growing thanks to the increase in oil production.** Real GDP is projected to grow by 1.5 percent in 2015 and 10.6 percent in 2016 owing to the continued increase in oil production.

31. **The policies put in place by the authorities to deal with these shocks are broadly appropriate.** In the fiscal area, the authorities are addressing the fall in revenues, which will reverse over the medium term as oil production expands and the insurgency diminishes, with a mix of fiscal adjustment, unfortunately mostly capital expenditure retrenchment, and financing. In the external area, the authorities are appropriately maintaining the peg with the U.S. dollar, which provides a key anchor to the economy. International reserves are at an adequate level and can absorb the projected decline in oil export revenues if the fiscal adjustment under the SMP takes place, oil prices recover somewhat in the medium term, and oil production continues to increase.

32. **But, risks are very high.** The main risks derive from further oil market shocks, the extension of the conflict with ISIS, political tensions, and poor policy implementation. To mitigate these risks, the authorities have designed as light a fiscal adjustment as possible under their present financing constraints and structural measures that they are confident they can implement in the short run under the SMP. Staff recommends implementing these policies and measures rigorously in order to demonstrate good performance, which will be needed to move to a possible Fund financing arrangement.

33. **The size of the fiscal adjustment envisaged in 2015-16 is appropriate to address the pressure from lower oil revenue and higher humanitarian and security spending but the composition of expenditure needs to be improved over time.** The fiscal adjustment in reaction to the fall in oil prices is bringing the non-oil primary balance closer to the level that would sustain a constant level of public spending once the oil resources will have been exhausted. But the composition of the fiscal adjustment is far from ideal, as much of the adjustment is coming from capital spending rather than current items. In the medium term, the authorities need to reduce current expenditure, including the oversized payroll, in order to make room for larger investment expenditure that is conducive to non-oil growth. Oil investment needs to be protected as it is essential to generate the oil revenue to finance most of the public spending.
34. **Some indirect central bank financing of the government is necessary at this juncture.** As other sources of financing are not immediately available, indirect recourse to central bank borrowing, subject to well-defined limit, is unavoidable. The accumulation of domestic arrears to finance the 2015 budget was unfortunate and the authorities' commitment to prevent a recurrence is welcome.
35. **PFM needs to be overhauled in order to improve the quality of spending and the authorities' control over budget execution.** To that end, it is crucial that the authorities take steps to implement a sound PFM law, commitment control, a Treasury Single Account, an Integrated Financial Management Information System, Public Investment Management reforms, and asset declaration for high officials.
36. **Banking supervision needs to be strengthened in order to monitor and contain the damage inflicted by the crisis on the banking system.** The audits of the financial statements of the two state-owned banks Rasheed and Rafidain according to international standards are indispensable first steps
37. **Steps to remove exchange restrictions and implement anti-money laundering and combating the financing of terrorism (AML/CFT) measures are welcome.** This will improve the integration of the domestic financial system into the global economy.
38. **Staff believes the policies laid out in the MEFP are adequate to deal with the present and urgent balance of payments and budget needs triggered by the ISIS attacks and the collapse in oil prices.**

**Table 1. Iraq: Selected Economic and Financial Indicators, 2013–20**

(Quota: SDR 1,188.4 million / 0.5 percent of total)

(Population: 34.3 million; 2014)

(Poverty rate: 23 percent, 2014)

(Main export: Crude oil)

	2013	2014	2015		2016		2017	2018	2019	2020
			Est.	Proj. <sup>1/</sup>	Prog.	Proj. <sup>1/</sup>				
<b>Economic growth and prices</b>										
Real GDP (percentage change)	6.6	-2.1	0.5	1.5	7.6	10.6	7.2	7.2	7.1	7.1
Non-oil real GDP (percentage change)	10.2	-8.8	-11.2	-8.0	2.0	0.0	3.0	4.0	5.0	5.0
GDP deflator (percentage change)	0.1	-1.8	-22.4	-24.1	5.1	-5.3	8.4	4.0	2.7	1.6
GDP per capita (US\$)	6,957	6,520	4,960	4,900	5,470	4,942	5,602	6,086	6,528	6,922
GDP (in ID trillion)	271.1	260.6	203.4	200.9	230.0	210.3	244.6	272.5	299.9	326.2
Non-oil GDP (in ID trillion)	145.5	139.5	127.6	132.2	134.1	136.1	144.4	154.7	167.3	181.0
GDP (in US\$ billion)	232.5	223.5	174.4	172.3	197.3	178.3	207.3	231.0	254.1	276.4
Oil production (mbpd) <sup>2/</sup>	3.0	3.1	3.4	3.4	3.8	4.1	4.5	4.9	5.3	5.7
Oil exports (mbpd) <sup>3/</sup>	2.4	2.5	3.1	2.9	3.3	3.6	3.8	4.0	4.2	4.4
Iraq oil export prices (US\$ pb)	102.9	97.0	54.7	50.1	62.0	45.0	55.4	59.8	62.2	63.0
Consumer price inflation (percentage change; average)	1.9	2.2	2.1	1.9	3.0	3.0	3.0	3.0	3.0	3.0
(In percent of GDP)										
<b>National Accounts</b>										
Gross domestic investment	27.0	26.3	29.8	21.2	27.3	20.7	19.0	18.2	17.8	17.6
Of which: public	17.6	19.2	21.6	12.5	19.7	12.2	11.3	10.8	10.6	10.5
Gross domestic consumption	69.4	72.8	78.5	85.6	77.1	84.6	77.7	77.7	77.3	78.8
Of which: public	21.2	19.0	25.9	25.6	23.1	28.0	24.8	23.3	22.3	21.5
Gross national savings	28.3	25.6	21.3	14.2	20.4	15.2	20.0	22.2	22.6	21.2
Of which: public	11.5	13.9	3.4	-1.9	9.6	2.1	7.8	13.0	14.5	15.0
Saving - Investment balance	1.4	-0.8	-8.6	-7.0	-6.9	-5.5	1.0	4.0	4.8	3.6
(In percent of GDP, unless otherwise indicated)										
<b>Public Finance</b>										
Government revenue and grants	42.6	40.1	40.8	30.7	43.3	38.8	42.8	43.7	43.3	42.6
Government oil revenue	39.0	37.8	35.9	27.4	38.7	34.6	38.8	39.7	39.4	38.5
Government non-oil revenue	3.6	2.3	4.8	3.2	4.6	4.2	3.9	3.9	4.0	4.1
Expenditure, of which:	48.4	45.6	59.2	45.1	53.6	49.0	46.5	41.7	39.9	38.4
Current expenditure	30.9	26.4	37.6	32.7	33.9	36.8	35.2	30.9	29.3	27.9
Capital expenditure	17.6	19.2	21.6	12.5	19.7	12.2	11.3	10.8	10.6	10.5
Overall fiscal balance (including grants)	-5.8	-5.6	-18.4	-14.5	-10.3	-10.2	-3.7	1.9	3.4	4.2
Non-oil primary fiscal balance (percent of non-oil GDP)	-68.7	-60.0	-68.6	-52.1	-61.8	-56.3	-54.5	-52.6	-50.7	-48.5
<b>Memorandum items:</b>										
Development Fund of Iraq/MoF US\$ account (in US\$ billions) <sup>4/</sup>	6.3	0.7	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Total government debt (in percent of GDP) <sup>5/</sup>	31.9	38.9	70.0	61.7	74.0	66.0	59.1	50.0	41.1	32.7
Total government debt (in US\$ billion) <sup>5/</sup>	74.3	87.0	122.1	106.3	145.9	117.7	122.6	115.6	104.3	90.4
External government debt (in percent of GDP)	25.5	27.3	37.0	34.1	35.5	34.3	30.4	27.7	24.6	22.1
External government debt (in US\$ billion)	59.2	61.0	64.5	58.8	69.9	61.1	62.9	63.9	62.4	61.1
(In percent, unless otherwise indicated)										
<b>Monetary indicators</b>										
Growth in reserve money	12.6	-9.6	-1.0	0.1	-6.5	2.1	7.6	11.4	7.4	7.6
Growth in broad money	15.9	3.6	17.5	9.7	8.7	11.6	16.8	14.5	11.4	10.4
Policy interest rate (end of period)	6.0	6.0	...	...	...	...	...	...	...	...
(In percent of GDP, unless otherwise indicated)										
<b>External sector</b>										
Current account	1.4	-0.8	-8.6	-7.0	-6.9	-5.5	1.0	4.0	4.8	3.6
Trade balance	9.7	7.4	-1.3	-2.1	2.6	1.5	9.2	9.5	10.4	9.0
Exports of goods	38.6	37.6	35.6	27.0	38.3	33.3	37.3	38.2	37.8	37.0
Imports of goods	-29.0	-30.2	-36.9	-29.0	-35.8	-31.8	-28.1	-28.6	-27.4	-27.9
Overall external balance	-1.3	-9.0	-13.6	-8.1	-7.9	-6.2	1.8	5.0	5.8	4.5
Reserve reserves (in US\$ billion) <sup>6/</sup>	77.8	66.7	50.4	51.1	41.5	42.5	48.2	61.5	75.6	87.5
In months of imports of goods and services	10.8	12.9	6.9	8.4	5.5	6.8	6.9	8.3	9.3	9.8
Exchange rate (dinar per US\$; period average)	1,166	1,166	...	...	...	...	...	...	...	...
Real effective exchange rate (percent change, end of period) <sup>7/</sup>	6.5	4.6	...	...	...	...	...	...	...	...

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ IMF Country Report No. 15/235. Iraq: 2015 Article IV Consultation and Request for Purchase Under the Rapid Financing Instrument.

2/ Does not reflect KRG production during 2013 and 2014.

3/ Reflects KRG exports through State Organization for Marketing Oil (SOMO).

4/ Reflects the balances of the Development Fund of Iraq which were moved from the Federal Reserve Bank of New York to the CBI as a US\$ account (US\$ balances from oil revenues) in May 2014.

5/ Includes arrears.

6/ Starting 2014 includes US\$ account balances from oil revenues.

7/ Positive means appreciation.

**Table 2. Iraq: Central Government Fiscal Accounts, 2013–20**  
(In trillions of ID; unless otherwise indicated)

	2013	2014	2015		2016		2017	2018	2019	2020	
			Est.	Proj. <sup>1/</sup>	Aug. <sup>2/</sup>	Prog.	Proj. <sup>1/</sup>	Prog.	Proj.		
Revenues and grants	115.4	104.4	82.9	43.4	61.6	99.6	81.7	104.6	119.0	129.9	138.9
Revenues	115.4	104.4	82.9	43.4	61.6	99.6	81.7	104.6	119.0	129.9	138.9
Oil	105.7	98.5	73.0	38.8	55.1	88.9	72.8	95.0	108.3	118.1	125.7
Non-oil	9.7	5.9	9.9	4.7	6.5	10.7	8.8	9.7	10.7	11.9	13.2
Grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	131.2	119.0	120.3	54.0	90.7	123.3	103.1	113.7	113.8	119.6	125.3
Current expenditures	83.7	68.9	76.5	40.6	65.6	78.0	77.4	86.0	84.2	87.9	91.1
Salary and pension	41.1	40.3	41.3	28.5	45.9	41.8	50.9	52.4	54.0	55.6	57.3
Salary	32.5	31.8	32.6	22.0	34.4	33.0	39.1	40.3	41.5	42.8	44.1
Pension	8.6	8.4	8.7	6.5	11.5	8.8	11.8	12.1	12.5	12.8	13.2
Goods and services	16.3	9.1	11.4	3.0	5.4	11.4	8.1	8.3	9.6	11.4	12.7
Transfers	20.0	13.9	21.8	8.0	12.6	16.4	15.6	16.0	16.5	17.0	17.5
Social safety net (including PDS)	7.6	7.6	8.0	3.5	6.6	8.0	7.6	7.8	8.1	8.3	8.6
Transfers to SOEs 3/	1.9	1.5	1.5	1.6	2.4	1.5	2.4	2.5	2.6	2.6	2.7
Other transfers	10.5	4.8	12.4	3.0	3.5	7.0	5.6	5.7	5.9	6.1	6.3
Interest payments	1.0	0.7	2.0	1.1	1.7	3.1	2.9	3.8	4.1	3.9	3.6
War reparations 4/	5.2	4.9	0.0	0.0	0.0	5.4	0.0	5.4	0.0	0.0	0.0
Investment expenditures	47.6	50.1	43.9	13.4	25.1	45.2	25.7	27.7	29.5	31.7	34.1
Non-oil investment expenditures	32.3	26.3	22.9	9.0	11.4	24.0	11.0	11.5	11.9	12.7	13.5
Oil investment expenditures	15.3	23.8	21.0	4.4	13.7	21.3	14.7	16.2	17.6	19.1	20.6
Balance (including grants)	-15.8	-14.6	-37.4	-10.5	-29.1	-23.7	-21.4	-9.1	5.2	10.3	13.7
Balance (excluding grants)	-15.9	-14.6	-37.4	-10.5	-29.1	-23.7	-21.4	-9.1	5.2	10.3	13.7
Statistical discrepancy	-1.3	0.9	...	...	...	...	...	...	...	...	...
Financing	17.2	13.6	37.4	10.5	29.1	23.7	21.4	9.1	-5.2	-10.3	-13.7
External financing	12.7	1.4	-5.5	-4.4	-3.9	2.2	1.8	2.2	1.8	-1.6	-1.8
Assets held abroad	13.8	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project financing	0.0	0.0	0.0	0.5	0.4	0.5	0.9	0.8	0.5	0.3	0.1
World Bank (budget support, other)	0.0	0.0	1.7	0.0	1.4	0.6	0.0	0.0	0.0	0.0	0.0
Regional and foreign national banks	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0
Loan guarantees by export credit agencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Eurobond	0.0	0.0	2.3	0.0	0.0	2.3	2.4	2.4	2.4	0.0	0.0
Amortization	-1.1	-2.6	-1.7	-0.8	-1.7	-1.2	-2.1	-1.0	-1.1	-1.9	-1.9
Arrears	0.0	4.1	-7.9	-4.1	-4.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	4.5	12.2	27.7	15.0	33.0	2.2	19.7	6.9	-7.0	-8.7	-11.9
SDR Allocation	0.0	0.0	1.7	0.5	0.8	0.0	0.0	0.0	0.0	0.0	0.0
IMF (RFI)	0.0	0.0	1.4	1.4	1.4	0.0	0.0	0.0	0.0	0.0	0.0
Commercial bank loans	4.6	5.7	1.5	0.8	5.3	0.0	6.4	2.5	2.6	2.6	2.7
T-bills and bonds	-0.1	5.0	26.2	8.0	21.3	3.0	17.1	7.6	-6.5	-10.7	-14.0
o/w CBI purchases	0.0	0.0	19.0	4.0	15.2	0.0	7.0	4.0	0.0	0.0	0.0
Arrears	0.0	2.3	-2.3	5.0	5.0	0.0	-2.4	-2.4	-2.4	0.0	0.0
Amortization	0.0	-0.8	-0.8	-0.9	-0.9	-0.8	-1.4	-0.7	-0.7	-0.6	-0.6
Financing gap:			15.3	0.0	0.0	19.2	0.0	...	...	...	...
Memorandum items:											
Security-related expenditure (military and police equipment and salaries)	16.4	16.6	19.0		15.6	19.2	17.9	18.4	19.1	19.8	20.4
Non-oil primary expenditure	109.7	89.6	97.3	48.5	75.3	93.5	85.5	88.3	92.0	96.7	101.0
Non-oil primary fiscal balance	-100.0	-83.7	-87.5	-43.8	-68.8	-82.9	-76.7	-78.6	-81.3	-84.8	-87.8
Adjusted non-oil primary fiscal balance 5/	-100.0	-95.7	-74.3		-74.3	-82.9	-76.7	-78.6	-81.3	-84.8	-87.8
Gross public debt	86.6	101.4	142.4		124.0	170.1	138.9	144.6	136.4	123.1	106.6
Development Fund of Iraq (excluding military equipment escrow accounts) 6/	7.3	...	...		...	...	...	...	...	...	...
MOF US\$ account at CBI (denominated in IDs) 6/	...	0.8	1.2	5.5	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Average Iraq oil export price (US\$/bbl)	102.9	97.0	54.7		50.1	62.0	45.0	55.4	59.8	62.2	63.0
CBI total financing of the budget deficit	0.0	0.0	34.2	4.0	15.2	19.2	7.0	4.0	0.0	0.0	0.0

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ IMF Country Report No. 15/ 235. Iraq: 2015 Article IV Consultation and Request for Purchase Under the Rapid Financing Instrument.

2/ Actual budget execution during January-August.

3/ For 2012-2014, includes off-budget transfers to SOEs financed by Bank Rafidain.

4/ Five percent of oil exports as mandated by U.N. Security Council Resolution 1483 to finance war reparations to Kuwait until 2016.

5/ Adjusted to account for a full year estimate of federal government transfers to the Kurdistan Regional Government in 2014 and 2015, for which actual transfers were made for only 2 and 6 months, respectively.

6/ Reflects the balances of the Development Fund of Iraq which were moved from the Federal Reserve Bank of New York to the CBI as a US\$ account (US\$ balances from oil revenues) in May 2014.

**Table 3. Iraq: Central Government Fiscal Accounts, 2013–20**  
(In percent of GDP)

	2013	2014	2015		2016		2017	2018	2019	2020	
		Est.	Proj. <sup>1/</sup>	Aug. 2/	Proj.	Proj. <sup>1/</sup>	Proj.	Proj.			
Revenues and grants	42.6	40.1	40.8	21.6	30.7	43.3	38.8	42.8	43.7	43.3	42.6
Revenues	42.6	40.1	40.8	21.6	30.7	43.3	38.8	42.8	43.7	43.3	42.6
Oil	39.0	37.8	35.9	19.3	27.4	38.7	34.6	38.8	39.7	39.4	38.5
Non-oil	3.6	2.3	4.8	2.3	3.2	4.6	4.2	3.9	3.9	4.0	4.1
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	48.4	45.6	59.2	26.9	45.1	53.6	49.0	46.5	41.7	39.9	38.4
Current expenditures	30.9	26.4	37.6	20.2	32.7	33.9	36.8	35.2	30.9	29.3	27.9
Salary and pension	15.2	15.5	20.3	14.2	22.9	18.2	24.2	21.4	19.8	18.5	17.6
Salary	12.0	12.2	16.0	10.9	17.1	14.3	18.6	16.5	15.2	14.3	13.5
Pension	3.2	3.2	4.3	3.2	5.7	3.8	5.6	5.0	4.6	4.3	4.1
Goods and services	6.0	3.5	5.6	1.5	2.7	5.0	3.8	3.4	3.5	3.8	3.9
Transfers	7.4	5.3	10.7	4.0	6.2	7.1	7.4	6.6	6.1	5.7	5.4
Social safety net	2.8	2.9	3.9	1.7	3.3	3.5	3.6	3.2	3.0	2.8	2.6
Transfers to SOEs 3/	0.7	0.6	0.7	0.8	1.2	0.6	1.1	1.0	0.9	0.9	0.8
Other transfers	3.9	1.8	6.1	1.5	1.8	3.0	2.6	2.3	2.2	2.0	1.9
Interest payments	0.4	0.3	1.0	0.5	0.8	1.3	1.4	1.6	1.5	1.3	1.1
War reparations 4/	1.9	1.9	0.0	0.0	0.0	2.3	0.0	2.2	0.0	0.0	0.0
Investment expenditures	17.6	19.2	21.6	6.7	12.5	19.7	12.2	11.3	10.8	10.6	10.5
Non-oil investment expenditures	11.9	10.1	11.3	4.5	5.7	10.4	5.2	4.7	4.4	4.2	4.1
Oil investment expenditures	5.6	9.1	10.3	2.2	6.8	9.2	7.0	6.6	6.5	6.4	6.3
Balance (including grants)	-5.8	-5.6	-18.4	-5.2	-14.5	-10.3	-10.2	-3.7	1.9	3.4	4.2
Balance (excluding grants)	-5.9	-5.6	-18.4	-5.2	-14.5	-10.3	-10.2	-3.7	1.9	3.4	4.2
Statistical discrepancy	-0.5	0.4	...	0.0	...	...	...	...	...	...	...
Financing gap											
Financing	6.3	5.2	18.4	5.2	14.5	10.3	10.2	3.7	-1.9	-3.4	-4.2
External financing	4.7	0.5	-2.7	-2.2	-2.0	1.0	0.8	0.9	0.6	-0.5	-0.5
Assets held abroad	5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project financing	0.0	0.0	0.0	0.2	0.2	0.2	0.4	0.3	0.2	0.1	0.0
World Bank (budget support, other)	0.0	0.0	0.9	0.0	0.7	0.3	0.0	0.0	0.0	0.0	0.0
Regional and foreign national banks	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Loan securitized by future oil revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Eurobond	0.0	0.0	1.1	0.0	0.0	1.0	1.1	1.0	0.9	0.0	0.0
Amortization	-0.4	-1.0	-0.8	-0.4	-0.8	-0.5	-1.0	-0.4	-0.4	-0.6	-0.6
Arrears	0.0	1.6	-3.9	-2.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	1.7	4.7	13.6	7.4	16.4	1.0	9.3	2.8	-2.6	-2.9	-3.6
SDR Allocation	0.0	0.0	0.8	0.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0
IMF (RFI)			0.7		0.7	0.0	0.0				
Commercial bank loans	1.7	2.2	0.7	0.4	2.7	0.0	3.1	1.0	0.9	0.9	0.8
T-bills	0.0	1.9	12.9	4.0	10.6	1.3	8.1	3.1	-2.4	-3.6	-4.3
o/w CBI purchases	0.0	0.0	9.3	2.0	7.6	0.0	3.3	1.6	0.0	0.0	0.0
Arrears	0.0	0.9	-1.1	2.5	2.5	0.0	-1.2	-1.0	-0.9	0.0	0.0
Amortization	0.0	-0.3	-0.4	-0.5	-0.5	-0.3	-0.7	-0.3	-0.2	-0.2	-0.2
Financing gap:	0.0	0.0	7.5	0.0	0.0	8.4	0.0	...	...	...	...
Memorandum items:											
Security-related expenditure (military and police equipment and salaries)	6.0	6.4	9.4		7.8	8.3	8.5	7.5	7.0	6.6	6.3
MOF US\$ account at CBI in months of salaries and pensions	...	0.2	0.3		0.3	0.3	0.3	0.3	0.3	0.3	0.2
Current expenditures (percent of GDP)	30.9	26.4	37.6		32.7	33.9	36.8	35.2	30.9	29.3	27.9
Non-oil primary expenditure (percent of GDP)	40.5	34.4	47.9	24.2	37.5	40.8	40.7	36.1	33.8	32.2	31.0
Non-oil primary fiscal balance (percent of GDP)	-36.9	-32.1	-43.0		-34.2	-36.0	-36.5	-32.2	-29.8	-28.3	-26.9
Adjusted non-oil primary fiscal balance (percent of GDP) 5/	-36.9	-36.7			-37.0	-36.0	-36.5	-32.2	-29.8	-28.3	-26.9
Gross public debt (percent of GDP)	31.9	38.9	70.0		61.7	74.0	66.0	59.1	50.0	41.1	32.7
CBI total financing of the budget deficit (percent of GDP)	0.0	0.0	16.9		7.6	8.4	3.3	1.6	0.0	0.0	0.0

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ IMF Country Report No. 15/ 235. Iraq: 2015 Article IV Consultation and Request for Purchase Under the Rapid Financing Instrument.

2/ Actual budget execution during January-August.

3/ For 2012-2014, includes off-budget transfers to SOEs financed by Bank Rafidain.

4/ Calculated as 5 percent of oil exports as per U.N. Security Council Resolution 1483 to finance war reparations to Kuwait until 2016.

5/ Adjusted to account for a full year estimate of federal government transfers to the Kurdistan Regional Government in 2014 and 2015, for which actual transfers were made for only 2 and 6 months, respectively.

**Table 4. Iraq: Central Government Fiscal Accounts, 2013–20**  
(In percent of non-oil GDP)

	2013	2014	2015		2016		2017	2018	2019	2020	
			Est.	Proj. <sup>1/</sup>	Aug. 2/	Proj.					Proj. <sup>1/</sup>
Revenues and grants	79.3	74.8	65.0	32.9	46.6	74.3	60.0	72.4	76.9	77.7	76.8
Revenues	79.3	74.8	65.0	32.9	46.6	74.3	60.0	72.4	76.9	77.7	76.8
Oil	72.6	70.6	57.2	29.3	41.7	66.3	53.5	65.8	70.0	70.6	69.5
Non-oil	6.6	4.2	7.7	3.5	4.9	8.0	6.5	6.7	6.9	7.1	7.3
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	90.2	85.3	94.3	40.8	68.6	92.0	75.8	78.7	73.5	71.5	69.2
Current expenditures	57.5	49.4	59.9	30.7	49.6	58.2	56.9	59.6	54.5	52.5	50.4
Salary and pension	28.2	28.9	32.4	21.6	34.7	31.2	37.4	36.3	34.9	33.2	31.7
Salary	22.3	22.8	25.5	16.6	26.0	24.6	28.8	27.9	26.8	25.6	24.3
Pension	5.9	6.0	6.8	4.9	8.7	6.6	8.6	8.4	8.1	7.7	7.3
Goods and services	11.2	6.6	8.9	2.3	4.1	8.5	5.9	5.8	6.2	6.8	7.0
Transfers	13.8	10.0	17.1	6.1	9.5	12.2	11.4	11.1	10.7	10.2	9.7
Social safety net	5.2	5.4	6.3	2.6	5.0	6.0	5.6	5.4	5.2	5.0	4.7
Transfers to SOEs 3/	1.3	1.1	1.2	1.2	1.8	1.1	1.8	1.7	1.7	1.6	1.5
Other transfers	7.2	3.4	9.7	2.2	2.7	5.2	4.1	4.0	3.8	3.6	3.5
Interest payments	0.7	0.5	1.6	0.8	1.3	2.3	2.1	2.6	2.7	2.3	2.0
War reparations 4/	3.6	3.5	0.0	0.0	0.0	4.0	0.0	3.8	0.0	0.0	0.0
Investment expenditures	32.7	35.9	34.4	10.1	19.0	33.7	18.9	19.2	19.1	19.0	18.9
Non-oil investment expenditures	22.2	18.9	17.9	6.8	8.6	17.9	8.1	8.0	7.7	7.6	7.5
Oil investment expenditures	10.5	17.1	16.4	3.3	10.4	15.9	10.8	11.2	11.4	11.4	11.4
Balance (including grants)	-10.9	-10.4	-29.3	-8.0	-22.0	-17.7	-15.8	-6.3	3.4	6.2	7.5
Balance (excluding grants)	-10.9	-10.4	-29.3	-8.0	-22.0	-17.7	-15.8	-6.3	3.4	6.2	7.5
Statistical discrepancy	-0.9	0.7	...	...	...	...	...	...	...	...	...
Financing	11.8	9.8	29.3	8.0	22.0	17.7	15.8	6.3	-3.4	-6.2	-7.5
External financing	8.7	1.0	-4.3	-3.3	-3.0	1.7	1.3	1.5	1.1	-0.9	-1.0
Assets held abroad	9.5	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project financing	0.0	0.0	0.0	0.4	0.3	0.4	0.7	0.6	0.3	0.2	0.1
World Bank (budget support, other)	0.0	0.0	1.4	0.0	1.1	0.4	0.0	0.0	0.0	0.0	0.0
Regional and foreign national banks	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0
Loan securitized by future oil revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Eurobond	0.0	0.0	1.8	0.0	0.0	1.7	1.7	1.6	1.5	0.0	0.0
Amortization	-0.8	-1.8	-1.3	-0.6	-1.3	-0.9	-1.5	-0.7	-0.7	-1.1	-1.0
Arrears	0.0	2.9	-6.2	-3.1	-3.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	3.1	8.8	21.7	11.3	25.0	1.7	14.4	4.8	-4.5	-5.2	-6.6
SDR Allocation	0.0	0.0	1.3	0.4	0.6	0.0	0.0	0.0	0.0	0.0	0.0
IMF (RFI)	0.0	0.0	1.1	1.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Commercial bank loans	3.1	4.1	1.2	0.6	4.0	0.0	4.7	1.7	1.7	1.6	1.5
T-bills	0.0	3.6	20.5	6.1	16.2	2.2	12.5	5.2	-4.2	-6.4	-7.7
o/w CBI purchases	0.0	0.0	14.9	3.1	11.5	0.0	5.1	2.8	0.0	0.0	0.0
Arrears	0.0	1.7	-1.8	3.8	3.8	0.0	-1.8	-1.7	-1.6	0.0	0.0
Amortization	0.0	-0.6	-0.7	-0.7	-0.7	-0.6	-1.0	-0.5	-0.4	-0.4	-0.3
Financing gap:	0.0	0.0	12.0	0.0	0.0	14.4	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Security-related expenditure (military and police equipment and salaries)	11.2	11.9	14.9		11.8	14.3	13.1	12.8	12.3	11.8	11.3
MOF US\$ account at CBI in months of salaries and pensions	...	0.2	0.3		0.3	0.3	0.3	0.3	0.3	0.3	0.2
Current expenditures (percent of non-oil GDP)	57.5	49.4	59.9		49.6	58.2	56.9	59.6	54.5	52.5	50.4
Non-oil primary expenditure (percent of non-oil GDP)	75.4	64.2	76.2		57.0	69.8	62.8	61.1	59.5	57.8	55.8
Non-oil primary fiscal balance (percent of non-oil GDP)	-68.7	-60.0	-68.6	-33.2	-52.1	-61.8	-56.3	-54.5	-52.6	-50.7	-48.5
Adjusted non-oil primary fiscal balance (percent of non-oil GDP) 5/	-68.7	-68.6			-56.2	-61.8	-56.3	-54.5	-52.6	-50.7	-48.5
Gross public debt (percent of non-oil GDP)	59.5	72.7	111.6		93.8	126.9	102.0	100.1	88.1	73.6	58.9
CBI total financing of the budget deficit (percent of non-oil GDP)	0.0	0.0	26.8		11.5	14.4	5.1	2.8	0.0	0.0	0.0
Non-oil GDP (ID trillion)	145.5	139.5	127.6		132.2	134.1	136.1	144.4	154.7	167.3	181.0

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ IMF Country Report No. 15/ 235. Iraq: 2015 Article IV Consultation and Request for Purchase Under the Rapid Financing Instrument.

2/ Actual budget execution during January–August.

3/ For 2012–2014, includes off-budget transfers to SOEs financed by Bank Rafidain.

4/ Calculated as 5 percent of oil exports as per U.N. Security Council Resolution 1483 to finance war reparations to Kuwait until 2016.

5/ Adjusted to account for a full year estimate of federal government transfers to the Kurdistan Regional Government in 2014 and 2015, for which actual transfers were made for only 2 and 6 months, respectively.

**Table 5. Iraq: Balance of Payments, 2013–20**  
(In billions of U.S. dollars; unless otherwise indicated)

	2013	2014	2015		2016		2017	2018	2019	2020
	Prel.	Est.	Proj. 1/	Prog.	Proj. 1/	Prog.		Proj.		
Trade balance	22.5	16.6	-2.3	-3.5	5.0	2.8	19.1	22.0	26.3	24.9
(In percent of GDP)	9.7	7.4	-1.3	-2.1	2.6	1.5	9.2	9.5	10.4	9.0
Exports	89.8	84.0	62.1	46.4	75.6	59.4	77.4	88.2	96.0	102.1
Crude oil 2/	89.4	83.5	61.9	46.2	75.3	59.1	77.0	87.8	95.5	101.6
Other exports	0.4	0.4	0.2	0.3	0.3	0.3	0.3	0.4	0.5	0.6
Imports	-67.3	-67.4	-64.4	-50.0	-70.5	-56.6	-58.2	-66.1	-69.7	-77.2
Private sector imports	-39.8	-35.2	-28.4	-28.5	-32.6	-32.9	-34.0	-38.8	-40.6	-44.6
Government imports	-27.5	-32.2	-36.0	-21.5	-38.0	-23.7	-24.2	-27.3	-29.1	-32.6
Services, net	-13.9	-14.6	-12.3	-8.1	-13.7	-12.2	-12.3	-12.5	-13.8	-14.9
Receipts	3.3	4.1	3.8	3.9	4.0	4.0	4.2	4.7	5.1	5.5
Payments	-17.2	-18.7	-16.1	-12.0	-17.6	-16.1	-16.5	-17.3	-19.0	-20.5
Income, net	-0.5	-0.6	-0.5	-0.5	-0.4	-0.4	-0.2	-0.2	-0.2	0.0
Transfers, net	-4.9	-3.2	0.1	0.1	-4.6	0.0	-4.6	0.0	0.0	0.0
Private, net	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Official, net	-5.0	-3.3	0.0	0.0	-4.6	0.0	-4.6	0.0	0.0	0.0
Current account	3.2	-1.7	-15.0	-12.0	-13.6	-9.8	2.0	9.3	12.2	10.0
(In percent of GDP)	1.4	-0.8	-8.6	-7.0	-6.9	-5.5	1.0	4.0	4.8	3.6
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-0.2	-1.5	-1.9	-1.9	-1.9	-1.3	1.6	2.2	2.5	2.3
Direct and portfolio investment (net) 3/	5.7	4.6	1.0	1.0	2.0	2.0	3.0	4.0	4.5	4.6
Other capital, net	-5.9	-6.1	-2.5	-2.9	-3.9	-3.3	-1.4	-1.8	-2.0	-2.3
Official, net	-0.4	-1.7	-0.5	-0.5	-1.0	-0.1	-0.2	-0.5	-0.7	-0.9
Assets	-2.8	-3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	2.4	1.8	-0.5	-0.5	-1.0	-0.1	-0.2	-0.5	-0.7	-0.9
Disbursements 4/	0.4	0.5	0.0	0.4	0.0	0.8	0.7	0.4	0.3	0.1
Amortization	-0.8	-1.4	-0.8	-0.8	-1.0	-0.9	-0.9	-0.9	-1.0	-1.0
Private, net	-5.6	-4.4	-2.0	-2.4	-3.0	-3.2	-1.2	-1.3	-1.3	-1.4
Errors and omissions	-6.1	-17.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-3.1	-20.2	-16.9	-13.9	-15.5	-11.0	3.6	11.5	14.7	12.4
(In percent of GDP)	-1.3	-9.0	-9.7	-8.1	-7.9	-6.2	1.8	5.0	5.8	4.5
Financing	3.1	20.2	16.9	13.9	11.4	11.0	-3.6	-11.5	-14.7	-12.4
Development Fund for Iraq (increase -) 5/	11.8	5.6	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Gross International Reserves (increase -)	-8.5	11.9	16.4	15.9	9.0	8.6	-5.6	-13.4	-14.1	-11.9
Fund credit (net)	-0.2	-0.8	0.6	0.7	-0.1	-0.1	0.0	-0.2	-0.6	-0.5
World bank	...	0.0	1.5	1.2	0.5	0.0	0.0	0.0	0.0	0.0
Eurobond	...	0.0	2.0	0.0	2.0	2.0	2.0	2.0	0.0	0.0
Islamic Development Bank	...	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Qatar National Bank	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loan securitized by future oil revenue	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears (negative = decrease)	...	3.5	-3.5	-3.5	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	...	0.0	0.0	0.0	4.1	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
GIR (end of period) 6/	77.8	66.7	50.4	51.1	41.5	42.5	48.2	61.5	75.6	87.5
(in months of imports of goods and services)	10.8	12.9	6.9	8.4	5.5	6.8	6.9	8.3	9.3	9.8
GDP	232.5	223.5	174.4	172.3	197.3	178.3	207.3	231.0	254.1	276.4
Of which: Non-oil GDP	124.8	119.6	109.5	113.4	115.0	115.4	122.4	131.1	141.8	153.3

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ IMF Country Report No. 15/235. Iraq: 2015 Article IV Consultation and Request for Purchase Under the Rapid Financing Instrument.

2/ Reflects KRG exports through the State Oil Marketing Company of Iraq.

3/ Excludes planned issuances of Eurobonds in 2016, which are reflected under the financing gap.

4/ Excludes prospective disbursements from the IMF and the WB in 2015 and 2016, which are reflected under the financing gap.

5/ Reflects the transfer of the Development Fund for Iraq from the Federal Reserve Bank of New York to the CBI in May 2014.

6/ Starting 2014 includes US\$ balances from oil revenues.

**Table 6. Iraq: Monetary Survey, 2013–16**  
(In billions of Iraqi dinars, unless otherwise indicated)

	2013 Dec.	2014 Dec. Prel.	2015		2016	
			Dec.	Dec.	Dec.	Dec.
			Proj. <sup>1/</sup>	Prog.	Proj. <sup>1/</sup>	Prog.
Net foreign assets	109,239	102,457	83,052	83,828	73,473	75,291
Of which: CBI	88,544	76,563	56,899	57,675	46,507	48,325
Net domestic assets	-19,860	-9,820	25,761	17,839	44,795	38,153
Domestic claims	-5,150	-258	36,322	30,401	55,356	50,715
Net claims on general government	-27,021	-24,576	15,477	3,217	32,825	21,671
Claims on general government	11,856	15,892	...	43,873	...	58,326
<i>less: Liabilities to general government</i>	-38,876	-40,468	...	-40,656	...	-36,656
Claims on other sectors	21,871	24,318	20,844	27,184	22,531	29,044
Other Item Net (OIN)	-14,710	-9,562	-10,561	-12,562	-10,561	-12,562
Broad money	89,379	92,638	108,813	101,667	118,268	113,444
Currency outside banks	34,995	36,071	40,289	40,743	42,566	44,706
Transferable deposits	43,342	41,348	50,089	44,534	55,336	50,245
Other deposits	11,041	15,218	18,435	16,390	20,366	18,492
Memorandum items						
Broad money (percentage growth)	15.9	3.6	17.5	9.7	8.7	11.6
Broad money (in percent of GDP)	33.0	35.5	53.5	50.6	51.4	53.9
M2 velocity (based on non-oil GDP)	1.6	1.5 <sup>▼</sup>	1.2	1.3 <sup>▼</sup>	1.1	1.2
Credit to the economy (percentage growth)	14.7	11.2	-14.3	11.8	8.1	6.8
Credit to the economy (in percent of non-oil GDP)	15.0	17.4	16.3	20.6	16.8	21.3
Private sector credit growth	15.5	4.5	-2.0	-2.0	3.0	3.0

Sources: Iraqi authorities; and Fund staff estimates and projections.

**Table 7. Iraq: Central Bank Balance Sheet, 2013–16**  
(In billions of Iraqi dinars, unless otherwise indicated)

	2013	2014	2015		2016	
	Dec.	Dec. Prel.	Dec. Proj. <sup>1/</sup>	Dec. Prog.	Dec. Proj. <sup>1/</sup>	Dec. Prog.
Net foreign assets	88,544	76,563	56,899	57,675	46,507	48,325
Foreign assets	92,314	79,273	60,359	61,135	49,906	51,723
Official reserve assets	90,742	77,720	58,806	59,583	48,353	50,170
Gold	1,902	4,038	4,361	4,361	4,710	4,710
Other	86,723	72,545	54,007	54,784	43,354	45,171
SDR holdings and reserve position in the Fund	2,117	1,136	438	438	289	289
Other foreign assets	1,572	1,553	1,553	1,553	1,553	1,553
Foreign liabilities	-3,771	-2,709	-3,460	-3,460	-3,399	-3,398
Net domestic assets	-15,265	-10,311	8,651	8,613	14,772	19,333
Domestic assets	864	600	20,874	17,079	20,994	24,198
Net claims on general government	751	513	20,787	16,992	20,907	24,111
Loans to central government	2,756	2,456	3,705	3,705	3,592	3,592
Holdings of discounted treasury bills	0	31	19,023	15,227	19,023	22,227
Other claims	0	0	0	0	0	0
Domestic currency deposits	-1,895	-1,107	-775	-775	-542	-542
Foreign currency deposits	-109	-867	-1,166	-1,166	-1,166	-1,166
Monetary policy instruments <sup>2/</sup>	-10,797	-6,567	-7,880	-4,122	-4,180	-521
Other items net	-5,331	-4,343	-4,343	-4,343	-2,043	-4,343
Reserve money	73,259	66,231	65,550	66,288	61,279	67,658
Currency in circulation	40,630	39,884	42,849	43,973	44,877	47,064
Bank reserves	32,629	26,347	22,701	22,316	16,402	20,595
Other liquid liabilities	20	22	...	...	...	...
Memorandum items						
Reserve money (annual growth, in percent)	12.6	-9.6	-1.0	0.1	-6.5	2.1
Currency in circulation (annual growth, in percent)	14.4	3.1	7.4	10.3	4.7	7.0
Gross foreign exchange assets (in millions of U.S. dollars) <sup>3/</sup>	77,823	66,655	50,434	51,100	41,469	42,517

Sources: Iraqi authorities; and Fund staff estimates and projections.

<sup>1/</sup> IMF Country Report No. 15/235. Iraq: 2015 Article IV Consultation and Request for Purchase Under the Rapid Financing Instrument.

<sup>2/</sup> This mainly represents the ID standing overnight facilities, US\$ deposits of commercial banks, domestic currency deposits, and CBI bills.

<sup>3/</sup> Starting 2014 reflects the balances of the Development Fund of Iraq were moved from the Federal Reserve Bank of New York to the CBI as a US\$ account (US\$ balances from oil revenues) in May 2014.

**Table 8: Iraq: Selected Banking Indicators, 2011–15**

	2011	2012	2013	2014	Mar-15
Banking assets (in percent of GDP)	66.2	75.1	77.0	86.9	...
State bank assets (in percent of GDP)	60.4	68.2	69.3	78.5	...
Credit to private sector (in percent of GDP)	5.4	5.9	6.4	7.0	...
Credit to private sector (annual growth)	34.6	28.2	15.5	4.5	...
NPL/total loans					
State Owned	1.3	1.0	1.4	1.6	1.5
Private	0.9	0.7	5.3	5.4	6.0
Total	2.3	1.8	6.7	6.9	7.6
Share of NPL (in percent)					
State Owned	41	41	79	78	80
Private	59	59	21	22	20
Deposits in percent of GDP	21.1	18.3	20.1	21.7	...
Source: Central Bank of Iraq.					

## Appendix I. Letter of Intent

Baghdad, December 22, 2015

Ms. Christine Lagarde  
Managing Director  
International Monetary Fund  
700 19th Street, N.W.  
Washington, DC 20431, USA

Dear Ms. Lagarde,

1. The attacks by the so-called Islamic State in Iraq and Syria (ISIS) have put Iraq in great danger. Iraqi security forces have made notable progress in the fight against ISIS, with the help of our international partners. In fact, a significant portion of the territory captured by ISIS after its invasion has already been retaken. However, the war is not likely to end soon and will continue to affect the lives of Iraqis as well as the national economy.
2. The attacks has resulted in the loss of thousands of lives and caused a dramatic humanitarian crisis. More than 4 million people have been displaced in the northern regions since June 2014, in addition to 250 thousand Syrian refugees whom Iraq has been sheltering since the civil war in neighboring Syria. Nearly half of the internally displaced persons are children, forced to live in difficult conditions and to face serious health risks. The refugee crisis is also putting great pressure on Iraq's infrastructure system and public services. Furthermore, the war has destroyed public and private assets and infrastructure, is seriously hampering economic activity in the non-oil sector, and has undermined domestic and external trade.
3. As the ISIS threat expanded, world oil prices fell by 50 percent in the space of a few months, causing a huge external shock to our balance of payments and our budget revenue, which depends predominantly on oil export receipts. The shock has caused a strong deterioration of the current account balance, drained our international foreign exchange reserves, and boosted the Iraqi government budget deficit.
4. Against this background, the government commits to implement the economic and financial policies described in the attached Memorandum on Economic and Financial Policies (MEFP) as part of a Staff-Monitored Program, in order to demonstrate good performance and move to a possible IMF financing arrangement as soon as possible. The MEFP describes the large fiscal consolidation that the government has already implemented in 2015 and plans to continue to implement in 2016. The MEFP describes also the foreign exchange policy, public financial management and banking

supervision reforms that the government commits to implement during the remainder of 2015 and in 2016.

5. The government believes that the measures and policies set out in the attached MEFP are appropriate for attaining the objectives of this program and will take any further steps that might be necessary to that end. It will consult with the IMF staff on the adoption of such measures prior to any revision of the policies described in the attached MEFP.

6. The government will provide IMF staff with any relevant information referred to in the attached Technical Memorandum of Understanding (TMU) concerning progress made under the program.

7. The government intends to make public the content of the IMF staff report, including this letter, the attached MEFP, the TMU, and the informational annex of the staff report. It therefore authorizes the IMF staff to publish these documents on its website once you have approved this Staff-Monitored Program.

Sincerely yours,

/s/

Hoshyar Mahmoud Zebari  
Minister of Finance of Iraq

/s/

Ali Mohsen Ismail Al Allaq  
Acting Governor of the Central Bank of Iraq

Attachments:

1. Memorandum of Economic and Financial Policies
2. Technical Memorandum of Understanding

## Attachment I. Memorandum on Economic and Financial Policies

1. This Memorandum on Economic and Financial Policies (MEFP) sets out recent economic developments, outlook and economic and financial policies in 2015-16 in regard to Iraq's Staff-Monitored-Program with the International Monetary Fund (IMF).

### Background and Recent Economic Developments

#### A. Background

2. The attacks by the so-called Islamic State in Iraq and Syria (ISIS) have put Iraq in great danger. The Iraqi security forces have made notable progress in the fight against ISIS, with the help of our international partners. In fact, a significant portion of the territory captured by ISIS after its invasion has already been retaken. However, the war is not likely to end soon and will continue to affect the lives of Iraqis as well as the national economy.

3. The ISIS attacks has boosted the number of internally displaced persons—estimated at 4 million people at end June 2015. Close to 10 million Iraqis (or almost one third of the population) need humanitarian assistance. With 250,000 Syrian refugees, Iraq is the fourth largest hosting country in the region for people fleeing Syria. Refugees—60 percent of whom are women and children—mostly reside in the north, including the Kurdistan Regional Government (KRG) where they have been granted residency status including rights to work. This refugee inflow is adding to the already difficult internal humanitarian situation faced by the Iraqi government.

4. In response to escalating protests across the country fueled by massive electricity outages, the Prime Minister proposed a series of significant administrative reforms in August. Parliament approved a number of these measures, including reducing cabinet from 33 to 22 members, eliminating three vice-president and three deputy prime minister positions, addressing tax evasion, implementing customs at border points including within KRG, reducing security budgets and lowering pension ceilings and salaries for officials.

#### B. Recent Economic Developments

5. *Oil production*, located in areas under control of the Iraqi government and the KRG, is holding well: for the first 11 months of 2015, it increased by 14 percent compared to last year and oil exports increased by 23 percent. Northern oil exports accelerated in line with the oil revenue sharing agreement between the Iraqi government and KRG until June, when the KRG drastically reduced oil supply to the State Oil Marketing Organization (SOMO) and increased its independent sales to repay the debt to oil companies incurred in 2014 as the oil and budget agreement with Baghdad stumbled.

6. *Non-oil activity in the part of the country that is not occupied by ISIS* dropped by 8 percent year-on-year during the first semester of 2015. The government has no information on economic activity in the ISIS-controlled territories.
7. At end-October 2015, y-o-y consumer price *inflation* (CPI) was low at 1.6 percent, but is likely underestimated because CPI coverage excludes areas occupied by ISIS.
8. *Broad money* stayed flat at end June year-on-year and *reserve money* contracted by 13 percent at end-September likely reflecting lower government spending and weakening non-oil economic activity.
9. *Gross foreign exchange reserves* of the Central Bank of Iraq (CBI) stood at \$59 billion at end-October compared to \$67 billion at end-2014.
10. As part of the preparation to issue *Eurobonds* to help finance the large fiscal deficit, the Fitch Ratings agency gave a sovereign rating of B- to Iraq. In light of the adverse market conditions, the government has decided to postpone the issuance of \$2 billion in Eurobonds from 2015 to 2016 (¶126).
11. The Iraqi *stock exchange* index lost about 16 percent between June and September.
12. The *spread between the official and the parallel foreign exchange market rate* receded to around 2 percentage points since August from as high as 16 percentage points in June, as a result of the elimination of the obligation to prove custom duty and income tax payments before buying foreign exchange.
13. During the first eight months of the year, *public expenditures were compressed owing to the tight financing constraints*. Oil revenue amounted to ID 39 trillion, non-oil revenue amounted to ID 5 trillion, and total spending amounted to ID 54 trillion, out of which ID 41 trillion in current expenditures and ID 13 trillion in investment expenditure. Total spending was about ID 23 trillion lower than the path assumed in the budget. The resulting deficit of ID 11 trillion, or 5 percent of GDP, was financed mostly by the issuance of T-bills subscribed by the state-owned banks Rasheed and Rafidain, of which 4 trillion was refinanced at the discount window of the Central Bank of Iraq (CBI). The deficit was also financed by the accumulation of domestic arrears estimated at ID 5 trillion at end-April 2015. The government paid all the arrears it owed to the international companies (IOCs) in an amount of \$3.5 billion. The deficit was also financed by a loan of \$1.2 billion by the IMF under the Rapid Financing Instrument (RFI) approved by the IMF Executive Board on July 29, 2015.

## Economic and Financial Policies for the End of 2015 and 2016

14. The external outlook has worsened since the latest Article IV consultation assessment (May-June)<sup>1</sup> mainly owing to a further weakening of global oil prices. Lower capital spending on the back of falling oil revenue is expected to contract non-oil economic activity by 8 percent in 2015, after a contraction of close to 9 percent in 2014. Overall real GDP should nonetheless grow by 1.5 percent thanks to an increase of oil production by 10 percent. In 2016, real GDP growth should increase to 10.6 percent thanks to the projected 20 percent increase in oil production, despite flat non-oil GDP.

15. The fall in oil prices since mid-2014 is expected to shift the current account balance from a surplus of 1 percent of GDP in 2014 to a deficit of 7 percent of GDP in 2015 and 6 percent of GDP in 2016. The overall balance of payments deficit will reach \$14 billion in 2015 and \$11 billion in 2016, which will be financed mostly by a large drawdown of official foreign exchange reserves. Official gross foreign exchange reserves held by the CBI would fall from \$67 billion (13 months of imports of goods and services) in 2014 to \$51 billion (9 months) in 2015, and \$43 billion (7 months) in 2016. Reserves should resume their rising trend in 2017 and beyond owing to rising oil revenue: they should gradually increase from \$48 billion (7 months) in 2017 to \$88 billion (10 months) in 2020.

16. The fall in oil prices is also causing a sharp deterioration of the fiscal position with the budget deficit increasing from 6 percent of GDP in 2014 to 15 percent of GDP in 2015 and 10 percent of GDP in 2016 (provided measures discussed below are taken), and the total public debt increasing from 39 percent of GDP in 2014 to 62 percent of GDP in 2015 and 66 percent of GDP in 2016 as result of a sharp increase of mostly domestic borrowing to finance the deficit.

17. In the medium term, the outlook should improve as oil production expands further, oil prices recover somewhat, structural reforms are implemented, and progress is made to retake territories controlled by ISIS.

### C. Foreign Exchange Policy

18. The government will maintain the peg with the U.S. dollar. The peg provides a key nominal anchor in a highly uncertain environment with policy capacity weakened by the conflict with ISIS.

19. The government will gradually remove remaining exchange restrictions and multiple currency practice (MCP) with a view to eliminating exchange rate distortions. Such a move towards acceptance of the obligations under Article VIII of the IMF's Articles of Agreement will send a positive signal to the investment community that Iraq is committed to maintain an exchange system that is free of restrictions and MCPs for current international transactions and thus facilitate creation of a favorable business climate. As a first step, the government will, by end-February 2016, amend the Investment Law, or issue clarifying implementing regulations, to remove the limitation on

<sup>1</sup> See [Country Report No. 15/235. Iraq: 2015 Article IV Consultation and Request for Purchase under the Rapid Financing Instrument](#).

transfer of investment proceeds that gives rise to an exchange restriction, as recommended by a recent technical assistance mission of the IMF.

20. The government will implement reforms on anti-money laundering and combating the financing of terrorism (AML/CFT). This will improve the integration of the domestic financial system into the global economy and lower transaction costs, improve governance, and reduce the size of the informal sector. As a first step, the government will, by end-February 2016, draft, with the help of IMF technical assistance, and adopt a by-law to set up a mechanism to comply with the relevant United Nations Security Council resolutions related to terrorism financing and Recommendation 6 of the Financial Action Task Force on Money Laundering (FATF).

## D. Fiscal Policy

21. In order to maintain macroeconomic stability, the government commits to implement a large fiscal consolidation to bring spending into line with available resources in 2015 and 2016. This will require: (i) a sizable reduction in the non-oil primary balance<sup>2</sup> (quantitative targets, Table 1), of about 12 percent of non-oil GDP (ID 24 trillion, or \$20 billion) over 2013–16;<sup>3</sup> and (ii) a large increase in mostly domestic but also external financing over the short run that will remain compatible with debt sustainability in the medium run. In order to minimize the impact of the fiscal consolidation on the population, the government will protect social spending, i.e. spending on health, education, and transfers in support of the social safety net, the internally displaced and the refugees (quantitative targets, Tables 1 and 3).

### Fiscal Program in 2015

22. In 2015, the government commits to contain the non-oil primary deficit to no more than ID 69 trillion (52 percent of non-oil GDP), compared to ID 84 trillion (60 percent of non-oil GDP) in 2014. This will be achieved through the implementation of the following measures:

- collect at least ID 6.5 trillion (4.9 percent of non-oil GDP) in non-oil revenue, compared to ID 5.9 trillion (4.2 percent of non-oil GDP) in 2014; and
- contain non-oil primary expenditure to ID 75 trillion (57 percent of non-oil GDP) compared to ID 90 trillion (64 percent of non-oil GDP) in 2014; this reduction will be borne mostly by a reduction of non-oil investment expenditure (by ID 15 trillion, or 10 percent of non-oil GDP),

<sup>2</sup> The non-oil primary fiscal balance is defined as the difference between non-oil revenue and non-oil primary expenditure, i.e. excluding interest payment, see Technical Memorandum of Understanding (TMU), 17.

<sup>3</sup> 2013 is the appropriate reference year to measure the fiscal consolidation since it is the last year that fully included revenue and expenditure of KRG in the federal government fiscal tables; 2014 includes only 2 months of KRG's revenue and expenditure and 2015 only 6 months owing to disagreements between KRG and the federal government over their oil revenue sharing agreement. The 2016 budget fully incorporate oil revenue exported by KRG and transfers of the federal government to KRG.

goods and services (ID 3.7 trillion, or 2.4 percent of non-oil GDP) and transfers (by ID 1.3 trillion, or 0.5 percent of non-oil GDP), making room for higher wages for security forces fighting ISIS and for higher pensions; the reduction in non-oil investment expenditure has been achieved by cancelling non-priority projects and delaying other ones to outer years.

23. In order to finance the non-oil primary fiscal deficit, the oil investment expenditure and the debt service, the government will have recourse to oil revenue (ID 55 trillion), domestic financing (ID 33 trillion) and external financing (ID 2 trillion). The domestic financing will be covered by the issuance of Treasury bills, out of which up to ID 15 trillion will be refinanced by commercial banks at the discount window of the CBI. The external financing will be covered by the loan from the IMF under the RFI (\$1.2 billion, ¶13), a Development Policy Loan by the World Bank (\$1.2 billion) to be disbursed in December 2015, and project loans by the World Bank (\$35 million), the Japan International Corporation Agency (JICA, \$307 million), and Italy (\$40 million).

24. To ease the cash constraint in 2015-16, the government of Kuwait has agreed to the postponement of the payment of the balance of war reparations (\$4.6 billion, or 4 percent of non-oil GDP) by the Iraqi government to 2017.

### **Fiscal Program in 2016**

25. On October 18, 2015, the government approved a draft budget for 2016 with a non-oil primary deficit of ID 78 trillion (57 percent of non-oil GDP) with a large amount of foreign financing. In light of the adverse market conditions (¶10), the government decided to reduce its foreign financing forecast and introduced amendments to the 2016 draft budget to parliament on December 2, 2015 that target a slightly lower non-oil primary fiscal deficit of up to ID 77 trillion (56 percent of non-oil GDP; prior action for management approval, Table 2) with financing tilted towards domestic sources. This will be achieved through the implementation of the following measures:

- collect at least ID 8.8 trillion (6.5 percent of non-oil GDP) in non-oil revenue, out of which ID 1 trillion from an increase in wage taxation; and
- contain non-oil primary expenditure to ID 86 trillion (63 percent of non-oil GDP). This containment of non-oil primary expenditure at a level slightly higher than the low level programmed in 2015 will be obtained again mostly by the postponement of lower-priority non-oil investment projects to later years.

26. In order to finance the non-oil primary fiscal deficit, oil investment expenditure and debt service, the government will have recourse to oil revenue (ID 73 trillion), domestic financing (ID 20 trillion) and external financing (ID 4 trillion). The domestic financing will be covered by the issuance of Treasury bills, out of which up to ID 7 trillion will be refinanced by commercial banks at the discount window of the CBI, the issuance of national bonds for the general public in an amount of ID 5 trillion, and the drawdown of government deposits in the banking sector in an amount of ID 4 trillion. The amount of central bank indirect monetary financing will be revisited on the occasion

of the first review in light of the inventory of government cash holdings in bank accounts to be completed by end-February 2016 (¶127). The external financing will be covered by the planned issuance of Eurobonds (\$2 billion), a loan from the Islamic Development Bank (\$500 million) and project loans by the World Bank (\$50 million), JICA (\$502 million), and Italy (\$40 million). The government will not resort to the accumulation of arrears to finance the deficit. It commits to a zero ceiling on external arrears (continuous quantitative target, Table 1) and regular inventories of domestic arrears with a view to ensuring that new arrears do not accumulate and to paying them down after proper audit, as will be done for the existing stock of domestic arrears (¶127, second bullet).

## E. Public Financial Management Reforms

27. In order to strengthen fiscal discipline, the government will implement the following measures:

- *The Minister of Finance will approve a new draft of the Financial Management law in line with World Bank and IMF comments on the last draft submitted to the Shura Council (structural benchmark for the second review, Table 2).*
- *Survey, audit and pay domestic arrears.* As a first step, the Ministry of Planning will complete, by end-February 2016, a survey of domestic arrears on investment spending accumulated by all ministries as of end-September 2015 (structural benchmark, Table 2) and the Ministry of Finance will complete a survey, also by end-February, on current spending arrears accumulated by the same units as of end-September; in addition, similar surveys of arrears as of end-December 2015 by end-March 2016, and as of end-March 2016 by end-May 2016 will be completed. On the basis of each of these surveys, the government will prepare plans for the orderly payment of the arrears, which will include an independent audit of the arrears and a repayment schedule in line with the government's financing capacity. As of end-April 2015, the government identified ID 7.3 trillion in domestic arrears, out of which ID 5 trillion accumulated in 2015 (¶113); the Board of Supreme Audit will audit these arrears to check their validity by end-February 2016. So far, the government has included ID 2.4 trillion for the repayment of domestic arrears in its revised 2016 budget (¶125).
- *Take steps to move to a Treasury Single Account (TSA);* as a first step, the Ministry of Finance and the CBI will, by end-February 2016, compile a list of all bank accounts controlled by the Ministry of Finance and all spending units and sub spending units of the federal government, in CBI, state-owned and commercial banks; details should include balances at end-December 2015, account number, title, location, purpose, authority, and signatories (structural benchmark, Table 2).
- *Design and implement, with the IMF technical assistance, a commitment control system for budget execution* that is based on a comprehensive financial plan for budget execution.

- *Design and implement an Integrated Financial Management Information System (IFMIS) with the assistance of the World Bank; as a first step, adopt, by end-April 2016, a road map detailing its core functional requirements, such as: the chart of accounts, multi-year expenditure tracking; carry-over of resources from one year to the next; and management of advances and cash management arrangements.*
- *Implement Public Investment Management (PIM) reform with the assistance of the World Bank. On October 18, 2015, the Prime Minister issued a decree endorsing the Public Investment Management Decision Process Framework in line with World Bank recommendations covering investment selection, implementation, and ex-post evaluation. By end-April 2016, the federal Ministry of Planning will set up a central PIM unit that will screen projects based on feasibility studies and develop and manage the Integrated Bank of Projects (IBP) to be operated as a sub-system of the existing Iraq Development Management System (IDMS).*
- *Implement the existing asset declaration procedures for high-level officials in order to improve governance and enhance anti-corruption efforts; the Public Integrity Commission will continue to publish the names of those who fail to submit their annual declaration.*

## F. Banking Supervision

28. As of June 30, 2015, there were 56 banks operating in Iraq including 7 state-owned banks (SOB) of which one is an Islamic bank, 32 Iraqi private banks, of which 6 Islamic banks, and 17 foreign branches, of which 5 are Islamic banks. The SOBs dominate the financial sector and account for the bulk of assets and credits. Three of the SOBs, Rafidain Bank, Rasheed Bank and Trade Bank of Iraq (TBI), cluster around 89 percent of the banking system's assets. The financial positions of Rasheed Bank and Rafidain Bank are fragile following years of quasi-fiscal operations. As a first step to restructure these banks, the Ministry of Finance will, by end-February 2016, appoint international auditors to audit the latest financial statements of Rasheed Bank and Rafidain Bank according to international standards (structural benchmark, Table 2), in cooperation with the Executive Committee for the restructuring of these banks and the World Bank.

29. The CBI will continue to implement reform measures to enhance the stability of the banking sector in Iraq which includes inter alia:

- Introducing the international bank account number (IBAN) system in Iraq;
- Increasing the capital requirement of banks to ID 250 billion (\$214 million), a level to which all private banks except one have increased their capital;
- Contracting a consultant to assist the CBI in rating banks, whereby they rated 17 banks: three banks were rated "*satisfactory*", eight banks rated "*fair*" and six banks "*marginal*";
- Contacting a consultant to assist the CBI in upgrading the prudential regulations on "*Liquidity*" and "*Capital Adequacy Ratio*";

- Working on reviewing and assessing CBI prudential regulations with the assistance of the IMF Middle East Technical Assistance Center (METAC);
- Preparing a Deposit Insurance Scheme which stipulates the establishment of a corporation to be licensed by the CBI, of which banks will have the opportunity to take a share in the capital;
- Contracting a private firm to provide the CBI with a credit registry system for sharing information among banks on their common existing and potential borrowers;
- Issuing a banking law for financial institutions offering Islamic services; and
- Penalizing financially and administratively banks and non-banks financial institutions for any non-compliance with laws and regulations in force.

## **Program Monitoring**

30. The program will have quarterly reviews and set quarterly quantitative targets on the non-oil primary balance, the stock of net domestic assets of the CBI, official foreign exchange reserves, social spending, and the absence of new external arrears, starting in December 2015 (Table 1). Each program review will set a few structural benchmarks in areas that are essential for the success of the program (Table 2 contains the list for the first review). The first review should be completed by end-May 2016. The government intends to demonstrate good performance under this Staff-Monitored Program to move to a possible IMF financing arrangement as soon as possible.

**Table 1. Iraq: Quantitative Targets Under the Staff-Monitored Program, 2015–16** <sup>1/</sup>

(In billions of Iraqi dinars, unless otherwise indicated)

	Targets				
	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Stock of gross international reserves of the CBI (floor; eop stock, in millions of U.S. dollars)	51,100	43,064	38,945	37,849	42,517
Net domestic assets of the CBI <sup>2/</sup> (ceiling; eop stock)	12,956	22,029	27,186	28,912	23,677
<i>Cumulative flow from beginning of calendar year</i>					
Central government non-oil primary balance (floor) <sup>3/</sup>	(68,801)	(20,949)	(39,365)	(58,621)	(76,705)
Social spending (floor) <sup>3/4/</sup>	17,456	4,355	8,710	13,829	18,949
New external arrears on existing / rescheduled debt and new borrowing (in millions of U.S. dollars; ceiling) <sup>5/</sup>	0	0	0	0	0

1/ The Technical Memorandum of Understanding (TMU) provides for precise definitions of all quantitative targets.

2/ Excluding other items net.

3/ End-March, end-June, end-September and end-December targets are cumulative from January 1.

4/ Quarterly targets assume spending of at least 90 percent of the budget allocation on health, education, and transfers in support of the social safety net, the internally displaced and refugees (see Table 3).

5/ To be monitored on a continuous basis. The December 2015 target is cumulative from November 10, 2015.

Table 2. Iraq: Prior Action and Structural Benchmarks, 2016

Measures	Scheduled review by which the measure will be completed	Macroeconomic justification	Status
<b>Prior action for Management approval</b>			
Approval by the Council of Ministers and introduction to Parliament of amendments to the draft 2016 budget to bring it into line with the macroeconomic framework agreed under the Staff-Monitored Program.		Preserve macroeconomic stability.	Met
<b>Structural benchmark</b>			
Completion by the Ministry of Planning of a survey of domestic arrears on investment spending accumulated by all ministries of the federal government at end-September 2015. Details should include the amount of the arrear, the identity of the creditor, the bill, the identification of the goods or the services delivered, and the credit line in the budget authorizing such spending.	1st review	Strengthen cash management.	
Compilation by the Ministry of Finance and the Central Bank of Iraq (CBI) of a list of all bank accounts controlled by the Ministry of Finance and all spending and sub-spending units of the central government in CBI, state-owned and commercial banks. Details should include balances at end-December 2015, account number, title, location, purpose, authority, signatories.	1st review	Strengthen cash management.	
Appointment of one or several international auditors to audit the latest financial statements of Rasheed Bank and Rafidain Bank according to international standards.	1st review	Strengthen financial sector stability.	
Approval by the Minister of Finance of a draft of the Financial Management law in line with World Bank and IMF comments on the last draft submitted to the Shura Council.	2nd review	Strengthen public financial management.	
Source: Iraqi authorities.			

**Table 3. Iraq: Social Spending**  
(In billions of Iraqi dinars, cumulative from the beginning of the year)

	Targets				
	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Total Social spending	17,456	4,355	8,710	13,829	18,949
Social Safety Net	1,215	496	991	1,487	1,982
Public Distribution System (PDS - food subsidies)	2,250	556	1,112	1,667	2,223
Wheat and rice subsidy	1,604	396	792	1,188	1,585
Assistance and subsidy to Iraqi refugees	192	0	0	95	189
Assistance and subsidy to internally displaced persons	900	0	0	445	889
Farmer subsidies	457	0	0	226	452
Health Ministry and Environment Ministry- wages	2,546	668	1,335	2,003	2,671
Higher Education Ministry - wages	2,035	564	1,128	1,691	2,255
Lower Education Ministry - wages	6,258	1,676	3,352	5,027	6,703

<b>Table 4. Iraq: Central Government Fiscal Accounts, 2016</b>				
(In trillions of Iraqi dinars; unless otherwise indicated. Cumulative from the beginning of the fiscal year)				
	2016			
	Mar. Prog.	Jun. Prog.	Sep. Prog.	Dec. Prog.
Revenues and grants	15.5	34.5	56.2	81.7
Revenues	15.5	34.5	56.2	81.7
Oil	13.7	30.1	49.7	72.8
Non-oil	1.8	4.3	6.5	8.8
Grants	0.0	0.0	0.0	0.0
Expenditures	27.4	52.7	78.5	103.1
Current expenditures	20.3	39.7	59.0	77.4
Salary and pension	13.4	26.1	38.8	50.9
Salary	10.3	20.1	29.8	39.1
Pension	3.1	6.0	9.0	11.8
Goods and services	2.1	4.1	6.2	8.1
Transfers	4.1	8.0	11.9	15.6
Social safety net (including PDS)	2.0	3.9	5.8	7.6
Transfers to SOEs 1/	0.6	1.2	1.8	2.4
Other transfers	1.5	2.9	4.2	5.6
Interest payments	0.8	1.5	2.2	2.9
War reparations 2/	0.0	0.0	0.0	0.0
Investment expenditures	7.0	13.0	19.5	25.7
Non-oil investment expenditures	3.2	5.5	8.2	11.0
Oil investment expenditures	3.9	7.5	11.2	14.7
Balance (including grants)	-11.9	-18.3	-22.3	-21.4
Balance (excluding grants)	-11.9	-18.3	-22.3	-21.4
Financing	11.9	18.3	22.3	21.4
External financing	-0.5	-1.1	-0.5	1.8
Assets held abroad				
Project financing	0.0	0.0	0.5	0.9
World Bank (budget support, other)	0.0	0.0	0.0	0.0
Regional and foreign national banks	0.0	0.0	0.6	0.6
Loan guarantees by export credit agencies	0.0	0.0	0.0	0.0
Eurobond	0.0	0.0	0.0	2.4
Amortization	-0.5	-1.1	-1.6	-2.1
Arrears	0.0	0.0	0.0	0.0
Domestic financing	12.4	19.3	22.8	19.7
SDR Allocation	0.0	0.0	0.0	0.0
IMF (RFI)	0.0	0.0	0.0	0.0
Commercial bank loans	0.0	2.4	2.4	6.4
T-bills and bonds	12.7	18.8	22.7	17.1
o/w CBI purchases	3.8	4.6	6.2	7.0
Arrears	0.0	-1.2	-1.2	-2.4
Amortization	-0.4	-0.7	-1.1	-1.4
Financing gap:	0.0	0.0	0.0	0.0
Memorandum items:				
Security-related expenditure (military and police equipment and salaries)	4.7	9.2	13.6	17.9
Non-oil primary expenditure	22.8	43.7	65.1	85.5
Non-oil primary fiscal balance	-20.9	-39.4	-58.6	-76.7

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ Includes off-budget transfers to SOEs financed by Bank Rafidain.

2/ Five percent of oil exports as mandated by U.N. Security Council Resolution 1483 to finance war reparations to Kuwait until 2016.

<b>Table 5. Iraq: Balance of Payments, 2016</b>				
(In billions of U.S. dollars; unless otherwise indicated. Cumulative from the beginning of the fiscal year.)				
	2016			
	Mar. Prog.	Jun. Prog.	Sep. Prog.	Dec. Prog.
Trade balance	-3.9	-4.3	-2.4	2.8
(In percent of GDP)				
Exports	11.0	24.4	40.4	59.4
Crude oil 1/	11.0	24.3	40.2	59.1
Other exports	0.1	0.1	0.2	0.3
Imports	-15.0	-28.7	-42.8	-56.6
Private sector imports	-8.7	-16.7	-24.9	-32.9
Government imports	-6.3	-12.0	-17.9	-23.7
Services, net	-3.2	-6.2	-9.2	-12.2
Receipts	1.1	2.0	3.0	4.0
Payments	-4.3	-8.2	-12.2	-16.1
Income, net	-0.1	-0.2	-0.3	-0.4
Transfers, net	0.0	0.0	0.0	0.0
Private, net	0.0	0.0	0.0	0.0
Official, net	0.0	0.0	0.0	0.0
Current account	-7.2	-10.6	-11.9	-9.8
(In percent of GDP)				
Capital account	0.0	0.0	0.0	0.0
Financial account	-0.7	-1.5	-1.8	-1.3
Direct and portfolio investment (net) 2/	0.5	1.0	1.5	2.0
Other capital, net	-1.2	-2.5	-3.3	-3.3
Official, net	-0.4	-0.9	-0.9	-0.1
Assets	0.0	0.0	0.0	0.0
Liabilities	-0.4	-0.9	-0.9	-0.1
Disbursements 3/	0.0	0.0	0.4	0.8
Amortization	-0.4	-0.9	-1.3	-0.9
Private, net	-0.8	-1.6	-2.4	-3.2
Errors and omissions	0.0	0.0	0.0	0.0
Overall balance	-8.0	-12.1	-13.7	-11.0
(In percent of GDP)				
Financing	8.0	12.1	13.7	11.0
Development Fund for Iraq (increase -) 4/	0.0	0.0	0.0	0.0
Gross International Reserves (increase -)	8.0	12.2	13.3	8.6
Fund credit (net)	-0.1	-0.1	-0.1	-0.1
World bank	0.0	0.0	0.0	0.0
Eurobond	0.0	0.0	0.0	2.0
Islamic Development Bank	0.0	0.0	0.5	0.5
Qatar National Bank	0.0	0.0	0.0	0.0
Loan securitized by future oil revenue	0.0	0.0	0.0	0.0
Change in arrears (negative = decrease)	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0
Memorandum items:				
GIR (end of period) 5/	43.1	38.9	37.8	42.5
Sources: Iraqi authorities; and Fund staff estimates and projections.				
1/ Reflects KRG exports through the State Oil Marketing Company of Iraq.				
2/ Excludes planned issuances of Eurobonds in 2016, which are reflected under the financing gap.				
3/ Excludes prospective disbursements from the IMF and the WB in 2015 and 2016, which are reflected under the financing gap.				
4/ Reflects the transfer of the Development Fund for Iraq from the Federal Reserve Bank of New York to the CBI in May 2014.				
5/ Starting 2014 includes US\$ balances from oil revenues.				

**Table 6. Iraq: Monetary Survey, 2016**  
(In trillions of Iraqi dinars; unless otherwise indicated)

	2016			
	Mar. Prog.	Jun. Prog.	Sep. Prog.	Dec. Prog.
Net foreign assets	80,982	79,085	77,820	75,291
Of which: CBI	48,970	44,110	42,816	48,325
Net domestic assets	22,915	26,948	31,257	38,153
Domestic claims	43,694	47,603	51,755	50,715
Net claims on general government	15,890	19,386	23,263	21,671
Claims on general government	55,545	58,042	60,918	58,326
<i>less: Liabilities to general government</i>	-39,656	-38,656	-37,656	-36,656
Claims on other sectors	27,804	28,217	28,493	29,044
Other Item Net (OIN)	-20,779	-20,655	-20,499	-12,562
Broad money	103,897	106,033	109,077	113,444
Currency outside banks	42,506	43,467	44,137	44,706
Transferable deposits	44,875	45,734	47,469	50,245
Other deposits	16,516	16,832	17,471	18,492

Sources: Iraqi authorities; and Fund staff estimates and projections.

**Table 7. Iraq: Central Bank Balance Sheet, 2016**  
(In trillions of Iraqi dinars; unless otherwise indicated)

	2016			
	Mar. Prog.	Jun. Prog.	Sep. Prog.	Dec. Prog.
Net foreign assets	48,970	44,110	42,816	48,325
Foreign assets	52,368	47,508	46,215	51,723
Official reserve assets	50,815	45,955	44,662	50,170
Gold	4,488	4,562	4,636	4,710
Other	45,923	41,027	39,698	45,171
SDR holdings and reserve position in the Fund	405	366	328	289
Other foreign assets	1,553	1,553	1,553	1,553
Foreign liabilities	-3,398	-3,398	-3,398	-3,398
Net domestic assets	17,686	22,843	24,569	19,333
Domestic assets	20,867	21,752	23,321	24,198
Net claims on general government	20,780	21,665	23,234	24,111
Loans to central government	3,677	3,648	3,620	3,592
Holdings of discounted treasury bills	19,000	19,870	21,435	22,227
Other claims	0	0	0	0
Domestic currency deposits	-717	-673	-640	-542
Foreign currency deposits	-1,180	-1,180	-1,180	-1,166
Monetary policy instruments 1/	1,162	5,434	5,591	-521
Other items net	-4,343	-4,343	-4,343	-4,343
Reserve money	66,656	66,952	67,385	67,658
Currency in circulation	44,882	45,667	46,498	47,064
Bank reserves	21,774	21,285	20,887	20,595
Memorandum items				
Gross foreign exchange assets (in millions of U.S. dollars) 2/	43,064	38,945	37,849	42,517

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ This mainly represents the ID standing overnight facilities, US\$ deposits of commercial banks, domestic currency deposits, and CBI bills.

2/ Starting 2014 reflects the balances of the Development Fund of Iraq were moved from the Federal Reserve Bank of New York to the CBI as a US\$ account (US\$ balances from oil revenues) in May 2014.

## Attachment II. Technical Memorandum of Understanding

1. This memorandum defines the quantitative targets for the economic program of the Iraqi authorities during the period November 10, 2015–December 31, 2016 under the Staff-Monitored Program (SMP). These indicators, presented in Table 1 of the Memorandum of Economic and Financial Policies (MEFP) attached to the Letter of Intent dated December 22, 2015 reflect the understandings reached between the Iraqi authorities and the staff of the IMF. It also specifies the periodicity and deadlines for transmission of data to the staff of the IMF for monitoring purposes.

### A. Quantitative Targets

2. The quantitative targets are the following:
- (i) a floor on the stock of gross international reserves of the Central Bank of Iraq (CBI);
  - (ii) a ceiling on net domestic assets of the CBI;
  - (iii) a floor on the central government non-oil primary balance;
  - (iv) a floor on the central government social spending;
  - (v) a continuous ceiling on new external payments arrears on any existing, rescheduled and new debt of the central government and/or the CBI.

### B. Definitions

3. An exchange rate set at ID 1,180 per U.S. dollar will be used for monitoring purposes. This exchange rate will be used to convert into Iraqi dinars the U.S. dollar value of all CBI foreign assets and liabilities denominated in U.S. dollars, as required. For CBI assets and liabilities denominated in SDRs and in foreign currencies other than the U.S. dollar, they will be converted in U.S. dollars at their respective SDR-exchange rates prevailing as of November 10, 2015, as published on the IMF's website. The same rules will be used to convert external debt related parameters.

4. For the monitoring purposes, central government is defined to include the central administration, the Kurdish regional government, as well as agencies included under Section 6 (the local boards, Iraqi media network, Iraqi national Olympic committee, Bait-Al-Hikma, Amman Baghdad, Municipality institutions, as well as the General directorates of sewage and water).

5. Gross international reserves (GIR) of the CBI are claims of the CBI on nonresidents that are controlled by the CBI, denominated in foreign convertible currencies, and are immediately and unconditionally available to the CBI for meeting balance of payments needs or for intervention in foreign exchange markets, and are not earmarked by the CBI for meeting specific

payments. They include CBI holdings of monetary gold, SDR holdings, Iraq's reserve position in the IMF, foreign currency cash, holdings of non-resident equity and debt securities, and deposits in foreign currency abroad, including foreign exchange account of the government (300/600). Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered; claims on residents; precious metals other than monetary gold; assets in nonconvertible currencies; illiquid assets; and claims on foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options). For program monitoring purposes, the stock of foreign assets of the CBI shall be valued at program exchange rates (113).

6. Net domestic assets (NDA) of the CBI include: (i) net claims on the general government, comprising of gross claims on the general government minus general government domestic and foreign currency deposits at the CBI; (ii) gross claims on other depository corporations; (iii) monetary policy instruments, including dinar and foreign currency denominated term deposits and CBI bills held by other depository corporations; (iv) net claims on public nonfinancial corporations; and (v) claims on private sector. For the purpose of this SMP, net domestic assets of the CBI exclude other items net (OIN). OIN is the net value of nonfinancial assets, capital and reserve accounts, IMF account adjustments (differences between national record and IMF record), and provisions.

7. The central government non-oil primary balance is defined as the difference between non-oil revenue and non-oil primary expenditure. Non-oil revenue is defined as total revenue and grants excluding oil-related receipts (exports of crude oil and refined products, and transfers from oil-related state-owned enterprises). Non-oil primary expenditure is defined as total expenditure, including off-budget spending approved by government decree, excluding (i) interest payments on domestic and external debt; and (ii) oil-related spending (including war reparations).

8. Social spending will be defined as the sum of expenditure on the social safety net, the public distribution system, wheat and rice subsidies, assistance subsidies to Iraqi refugees and the internally displaced, farmer subsidies, and wage expenditure of the health, environment and the higher and lower education ministries. The annual targets will be set at 90 percent of the expenditure in the budget. Expenditure will be measured at the time the Ministry of Finance transfers the money to the spending units.

9. A continuous ceiling applies to the non-accumulation of new external payments arrears on rescheduled debt and new external debt contracted or guaranteed by the central government and/or by the CBI. External payment arrears consist of external debt service obligations (principal and interest) falling due after November 10, 2015 and that have not been paid within the grace period specified in the contractual agreements. The SMP monitoring ceilings of the external payments arrears are reported in Table 1.

10. As set out in Executive Board Decision 15688-(14/107), paragraph 8, adopted December 5, 2014) the term "debt" will be understood to mean a current, i.e., not contingent, liability,

created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

- Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements).
- Suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided.
- Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.
- Arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation within the contractual grace period are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

11. For program purposes, external debt is defined based on the residency of the creditor.

### C. ADJUSTORS

12. The floor on the central government non-oil primary balance in December 2015 will be adjusted downwards/upwards in case domestic arrears incurred in 2015 exceed/are less than ID 5 trillion of domestic arrears identified at the end of April 2015. The size of the adjuster will be equal to the difference between the value of domestic arrears and ID 5 trillion.

13. The ceiling on the stock of net domestic assets (NDA) of the CBI will be adjusted upwards in case foreign financing is lower than programmed to a limit of ID 1.4 trillion in December 2015, zero in March and June 2016, ID 1.1 trillion September 2016, and 3.9 trillion in December 16. The size of the adjuster will be equal to the difference between the observed and programmed value of foreign financing and capped at the values enumerated in the previous sentence.

14. The ceiling on the stock of net domestic assets (NDA) of the CBI will be adjusted downward in case foreign financing is higher than programmed. The size of the adjustment will be equal to the difference between the observed and programmed value of foreign financing.

15. The floor on the stock of gross international reserves of the CBI will be adjusted downwards in case foreign financing is lower than programmed to a limit of \$1.2 billion in December 2015 zero in March and June 2016, \$0.9 billion in September 2016, and \$3.3 billion in December 16.

16. The floor on the stock of gross international reserves of the CBI will be adjusted upward in case foreign financing is higher than programmed. The size of the adjustment will be equal to the difference between the observed and programmed value of foreign financing.

## D. Provision of Information to the Fund Staff

### Data

17. To monitor developments under the SMP, the authorities agree to provide the Fund, the information specified below after the approval of the SMP. The economic adjustment program of the Iraqi authorities is designed with quarterly quantitative targets and the actual outcome should be provided within six weeks following the end of the quarter. However, in order to facilitate regular monitoring, many indicators should be provided with higher frequencies, as indicated below.

### Key Financial Indicators

- Weekly preliminary monetary and financial aggregates as in “*Key Financial Indicators*” including exchange rate data (daily), currency in circulation, transferable and other deposits held at commercial banks, balances on government accounts at the CBI, interest rates on loans and on deposits at commercial banks, holdings of government securities, and credit outstanding to the public and private sectors. The data, excluding exchange rates, should be reported no longer than three weeks after the end of the reference period.

### Real Sector

- Oil GDP and indicators of oil activity on crude oil and gas production and use, production and sales (export and domestic) of refined petroleum products, including heavy residuals, and associated prices (monthly). These data should be reported no longer than six weeks after the end of the reference quarter.
- Non-oil GDP and indicators of non-oil real economic activity (quarterly), including production of cement, fertilizers, and electricity, reported no longer than six weeks after the end of the reference quarter.
- Total GDP, reported no longer than six weeks after the end of the reference quarter.

- Consumer price index (CPI), including indices for main cities (monthly). These should be reported no longer than a month after the end of the relevant month.

### **Monetary and Financial Sector**

- CBI gross foreign exchange reserves (weekly) and balances of the foreign exchange account of the government (300/600). This should be reported no longer than 2 weeks after the end of the reference week.
- The monthly balance sheet of the CBI, with a month lag.
- The monthly consolidated balance sheet of the other depository corporations (commercial banks), with an eight-week lag.
- The assets and liabilities of the central government (ministry of finance and line ministries) in the banking sector with an eight-week lag.
- The depository corporations (monetary) survey of all commercial banks and the CBI (quarterly), with an eight-week lag.
- The latest balance sheet of the Trade Bank of Iraq as well as data on issued, implemented and outstanding Letters of Credit, with no more than a six-week lag.
- The latest balance sheet of the Rasheed and Rafidain Banks.
- Quarterly financial stability indicators of the banking system, distinguishing the state-owned banks and the private banks, with an eight-week lag.

### **Fiscal Sector**

- Detailed revenues, operating and capital expenditure, and financing items of consolidated fiscal and oil operations, and overall fiscal balance. These data should include:
  - a) the execution of the Iraqi budget, comprising the incremental revenue from the impact of revenue (tax) measures stipulated in the 2015 Budget Law (sales taxes on mobile phone cards, internet usage, car sales, and on tobacco and alcohol, in addition to incremental receipts from the entry into force of the amended Customs Law for 2010), and savings realized via (a) any cuts in investment projects or financing for investments through public-private partnership schemes; (b) cuts in operating (current) expenditure, such as the enactment of compulsory or voluntary national savings schemes (including as a result of changes in legislation governing the wage ladder for public sector or civil service employees), and removal/streamlining of subsidies on electricity and gasoline or other products;
  - b) transfers to and from the Kurdistan Regional Government;

- c) social spending as defined in 18 and total transfers (including in support of the social safety net—public distribution system—the internally displaced, and on refugees;
- d) operations and deposits of the oil-related state-owned enterprises;
- e) payments and/or arrears in payments to international oil companies;
- f) disbursements of external assistance and loans including issuance of Eurobonds and loans from the Trade Bank of Iraq (TBI);
- g) execution of letters of credit financed through the TBI or by other means;
- h) all operations of account 300/600 and its sub-accounts;
- i) amounts drawn from Iraq's 2009 SDR allocation;
- j) other forms of multilateral and bilateral assistance and exceptional financing resources (such as issuance of domestic bonds, loans securitized by futures oil revenue, etc);
- k) balances of all government accounts held at the CBI and the commercial banks (including government and/or line ministry deposits);
- l) amounts related to all off-budget and on-budget advances; and
- m) outstanding stock of government securities (including treasury bills) held at/by commercial banks, the CBI, and pension funds. These data should be reported on a monthly basis and no later than six weeks after the end of the reference month.

### **Balance of Payments**

- Foreign trade statistics (imports, exports, re-exports) (quarterly). This should be reported no later than six weeks after the end of the reference quarter.
- Amount of total imports of petroleum products financed from the budget on a quarterly basis starting with the first quarter of 2015. These data should be reported no later than six weeks after the end of the reference quarter.
- Detailed data on disbursement of external assistance (both project and budget financing) from the U.S. and other donors, including by recipient sector; foreign debt amortization and interest payments made; and total outstanding domestic and external debt. These data should be reported on a monthly basis no more than six weeks after the end of the reference month.
- The amount and terms of concessional loans contracted and their grant element, on a quarterly basis, with no more than six weeks lag.

- The balance sheet of the Trade Bank of Iraq (TBI) as well as data on issued, implemented and outstanding Letters of Credit, with no more than a six weeks lag.

### **External Debt**

- List of short, medium, and long-term government or government-guaranteed external loans contracted during each quarter, identifying for each loan: the creditor, the borrower (ultimate obligor), the amount and currency, the maturity and grace period, repayment terms, and interest rate (monthly).
- Details on new debt rescheduling and debt relief agreements with bilateral, multilateral, and commercial creditors, including new outstanding amount and currency, schedule of payments (principal and interest), terms of agreement, repayment terms, and interest rate arrangements (quarterly).

### **Structural Reforms**

18. Structural benchmarks comprise a critical component of the SMP. In accordance with agreed benchmarks (Table 2 of the MEFP), the authorities will prepare and send to the IMF staff reports, with appropriate documentation, documenting completion.

### **Other Information**

19. Other details on major economic and social measures taken by the government that are expected to have an impact on program sequencing (such as changes in legislation, regulations, or any other pertinent document) will be sent in a timely manner to IMF staff, for consultation or information.