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July 27, 2015

**Statement by Mr. Cottarelli and Ms. Spinella on Iraq
(Preliminary)
Executive Board Meeting
July 29, 2015**

We thank staff for the informative reports and Mr. Beblawi and Ms. Choueiri for their candid Buff statement.

We support Iraq's increased request for financial support from the Fund (purchase of 75 percent of quota under the Rapid Financing Instrument) to assist the country in addressing the amplified external and fiscal needs resulting from the escalation of the ISIS conflict and the collapse in oil prices.

That notwithstanding, we are surprised and disappointed by the Cabinet failure to implement the new electricity tariff schedule, despite the authorities' awareness of its crucial consequence and their initial commitment to adopt it as a prior action. The Selected Issues paper on "Food and electricity subsidies in Iraq" describes in detail the shortcomings of the electricity system and provides four alternative scenarios to reform it and increase its effectiveness and efficiency, all based on the assumption that the prior action would be implemented. We are therefore concerned by the lack of any planned compensating contingency measure at this stage, given the increase in financing gap that will derive from the delay. *We would like to ask staff to further comment on this issue and, if possible, provide a timeline for, and an estimate of, the needed contingency measures.*

We are encouraged by staff's optimism regarding the medium term non-oil projected GDP pace of growth (4-5 percent each year), in spite of the sizable envisaged fiscal tightening. However, we wonder whether the outlook might prove too optimistic. *Could staff elaborate on the underlying conditions needed for achieving the envisaged medium term growth rates? On the relationship between fiscal tightening and GDP growth, could staff clarify the assumption regarding the fiscal multiplier?*

Finally, we welcome the authorities' intention to tap into the international market and *would like to kindly request further information on the anticipated Eurobond issuance: expected time of placement, bond duration and estimated chances of success among professional investors.*