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Iraq and the IMF

Press Release:
IMF Executive Board Completes First Review of Iraq's Stand-By Arrangement
December 15, 2016

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Iraq: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

December 15, 2016

The following item is a Letter of Intent of the government of Iraq, which describes the policies that Iraq intends to implement in the context of its request for a policy support instrument from the IMF. The document, which is the property of Iraq, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Letter from the Prime Minister

Baghdad, November 20, 2016

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

Dear Ms. Lagarde,

As you may be aware, our brave forces have entered into the last chapter of our fight against the terrorist gangs of Daesh. However these achievements on the military front have come at a costly price to our economy, which has only been worsened by the drastic fall in oil prices since the 2nd half of 2014. In response to this double shock, the government has taken bold but necessary steps to put its public finances on a sustainable footing and welcomed support of the international community including our $5.3 billion Stand-By Arrangement (SBA) for three years with the IMF as well as sizable support from donors.

We are committed to these economic reforms and are striving to ensure lasting economic sustainability beyond the war against terrorism and for a better future for all Iraqi citizens. This is further shown in the letter of intent signed by the Governor of the Central Bank of Iraq and the Deputy Minister of Finance, as well as the memorandum on economic and financial policies and the technical memorandum of understanding.

We thank you for the continued support you have shown to Iraq and look forward to continue working with you.

Yours sincerely,

/s/
Dr. Haider Al-Abadi
Prime Minister of the Republic of Iraq
Acting Minister of Finance

Letter of Intent

Baghdad, November 20, 2016

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

Dear Ms. Lagarde:

1. As you know, the Iraqi economy continues to suffer under the ISIS attack and oil price shock that hit the economy in mid-2014. In response to this double shock, the government has taken bold but necessary steps to put its public finances on a sustainable footing and welcomed support of the international community including our $5.3 billion Stand-By Arrangement (SBA) for three years with the IMF as well as sizable support from donors.

2. As explained in the attached Memorandum of Economic and Financial Policies (MEFP, ¶¶16-21), two performance criteria (PCs) at end-September appear to have been met based on preliminary unaudited data and three out of five performance criteria (PCs) at end-June 2016 were met. The government requests waivers of applicability for the four performance criteria at end-September for which no information is available yet. Unfortunately, the government missed the continuous zero ceiling on new external arrears during July 1–November 2, 2016 because a debt service payment to Italy of CHF 0.4 million due on June 30 could not go through for technical reasons. Because the temporary new external arrear that emerged on July 1 was paid on November 2, the government also requests a waiver for the non-observance of this PC. Finally, we met the indicative target at end-June on the stock of outstanding domestic arrears on non-oil investment but we missed the one on social spending by a significant margin (8 percent) because of the severe cash constraint faced by the economy. We commit to catch up with that floor by year-end.

3. We met three out of six structural benchmarks (SBs): the compilation of fiscal reporting tables in line with the 2014 IMF Government Finance Statistics Manual presentation; the approval of a draft Financial Management Law according to World Bank and IMF recommendations; and the adoption of a by-law to set up a mechanism to comply with the relevant UN Security Council resolution on terrorism and terrorism financing (SB; MEFP, ¶21). We have also made progress in each of the other SBs— inventory of domestic arrears, completion of audit of the civil service wage and pension payroll and—but need more time to complete them. We therefore propose to postpone them to the second and third reviews.

4. To facilitate effective program implementation, the government also requests moving to semi-annual reviews and the associated rephasing of the arrangement, and proposes changing end-December 2016 PCs in line with the tighter fiscal program in 2016, introducing changes to the definition of several PCs, and adding a few new adjustors to some PCs (MEFP, ¶46). The program would also have indicative targets on all the variables serving as PCs at the end of the first and third quarters of the year, which should ensure continued monitoring of program performance on a quarterly frequency and help ensure program performance remains on track.

5. Against this background, the government requests completion of the first review under the SBA and requests purchase of the second tranche of SDR 455 million (27.3 percent of our quota). The government commits to implement the economic and financial policies during 2016–19 described in the attached MEFP in order to gradually bring expenditure down to the new level of oil revenues and achieve debt sustainability, while maintaining the exchange rate peg, strengthening public financial management and banking supervision, and fighting anti-money laundering, countering the financing of terrorism, and corruption. The government will protect social spending and commits to maintain such spending above a floor during the SBA.

6. 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.

7. The government will provide IMF staff with any relevant information referred to in the attached TMU concerning progress made under the program.

8. 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 authorizes the IMF staff to publish these documents on its website once the Executive Board has approved this review.

Sincerely yours,

/s/
Fadhil Nabee Othman
Deputy Minister of Finance of Iraq

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

Attachments:
I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding

Attachment I. Memorandum on Economic and Financial Policies

1. This Memorandum on Economic and Financial Policies (MEFP) presents recent economic developments in 2016, and outlook and economic and financial policies in 2016–19 in regard to Iraq's Stand-By Arrangement (SBA) with the International Monetary Fund (IMF).[1]

Background, Recent Economic Developments, and Performance Under the Stand-By Arrangement

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 have boosted the number of internally displaced persons (IDPs)—estimated at 3.3 million people in September 2016. Close to 10 million Iraqis (26 percent of the population) need humanitarian assistance. With 225,000 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 in the Kurdistan Region where they have been granted residency status including the right to work. This refugee inflow is adding to the already difficult internal humanitarian situation faced by the Iraqi government.

4. As a continuation of its economic and political reform agenda, the government of Iraq adopted a comprehensive plan, building on the reforms announced by the Prime Minister in August 2015. The plan focuses on six key pillars, namely: security, stabilization and reconstruction; integrity and transparency; executive actions; legislation; selection of senior administration employees and appointment of employees; and activation of lending for housing, manufacturing and agricultural projects. The plan aims at improving the budget and increasing revenues by ID 20–33 trillion annually in the medium and long term. The initial steps, started before July 2016, include administrative reforms (not requiring changes in laws), amendments to existing transfer regulations and implementation of new taxes. The plan also calls for strengthening the role of the Commission on Integrity.

[1] IMF Country Report No. 16/225. Iraq: First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement.

5. Discussions have resumed between the federal government in Baghdad and the Kurdistan Regional Government (KRG) to implement the budget-sharing agreement.[2] In order to facilitate implementation of this arrangement, both parties are considering netting out the KRG oil receipts, which the KRG plans to have audited by international audit companies starting on July 1, 2016, with the budgetary transfers to which the KRG would be eligible under the budget-sharing arrangement. In the meantime, the performance criterion on the non-oil primary balance (¶25) for the Federal Government will continue to have an adjuster in case the budget sharing agreement with the KRG is not implemented (Technical Memorandum of Understanding—TMU, ¶14). In addition, in August 2016, the federal government and the KRG agreed to resume oil exports by the North Oil Company in Kirkuk through the pipeline linking the KRG to Turkey in an amount of 0.15 million barrels per day (mbpd) and to equally split the export revenue until the end of year. In September 2016, the North Oil Company sent 0.095 mbpd through that pipeline.

A. Recent Economic Developments

6. *Nominal GDP was revised upward by 2.8 percent in 2014 and by 13.6 percent in 2015* as a result of the full recording of KRG oil production, which had only been recorded for 2 months in 2014 and 5 months in 2015 in the national accounts previously. The upward revision of nominal GDP in 2015 is also the result of an upward revision of the growth of activity in construction (from -62 to -34 percent) in line with the evolution of public investment in 2015, and of the increase in the non-oil GDP deflator, explained by the ISIS occupation since mid-2014.[3]

7. *Oil production and export volumes have increased in line with the program so far*. In January-August, 2016, Iraq produced 4.478 mbpd (4.2 mbpd programmed in 2016), of which KRG and North and Midland Oil Companies produced about 0.965 mbpd. The federal government exported 3.246 mbpd during January–August, 2016 (3.05 mbpd programmed in 2016), at an average price of $32.9 per barrel ($34.5 programmed for 2016) and KRG exported 0.461 mbpd (0.55 programmed), at an average price of $29.6 per barrel.

8. *Preliminary estimates indicate that non-oil GDP decreased by 1 percent year-on–year (y-o-y) during the first half of 2016.*

9. *In September, the consumer price index (CPI) increased by 1.2 percent y-o-y,* but was likely underestimated because the CPI coverage excludes the areas occupied by ISIS, which were inhabited by about 20 percent of the population before the ISIS occupation.

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[2] According to this agreement, the revenue from the oil extracted in the KRG accrues to the federal government and the federal government makes transfers to the KRG equivalent to 17 percent of non-sovereign spending in the federal budget (i.e., total spending minus expense of the Parliament, the Presidency, the Cabinet, the Ministry of Foreign Affairs, the Ministry of Defense, the Federal Court, several federal government commissions and debt service). In the revised program for 2016 presented in this MEFP, the oil revenue projected for KRG is ID 7.8 trillion and the transfers to the KRG are ID 8.5 trillion.

[3] The ISIS occupation caused an increase in transport cost as it closed the shortest trading routes, leading the statistical agency to increase its estimate of the non-oil GDP deflator in 2015 from 6.5 to 14.3 percent.

10. *Gross foreign exchange reserves (including SDR holdings and reserve position at the IMF, fell from $53.7 billion at end-2015* (9.5 months of imports of goods and services) *to $47.6 billion* (7.4 months of imports of goods and services) *at the end of June 2016*.

11. *During the first half of 2016, the budget execution was much lower than programmed in reaction to difficulties in raising domestic financing.* While oil exports revenue, non-oil tax revenue and the CBI's discounting of Treasury bills were on track, transfers from oil state-owned enterprises (SOEs) and domestic financing of the deficit were much lower than programmed. Indeed, the oil SOEs transferred only ID 13 billion (compared to ID 1.35 trillion programmed) and the authorities could only raise ID 0.6 trillion in bonds (yielding an 8 percent annual interest rate) compared to ID 5.0 trillion programmed. As a consequence, the government prioritized the payment of wages, pensions, goods and services, and debt service. Oil investment by international oil companies (IOCs) continued to be executed as programmed but, prior to program approval, was mainly financed by the accumulation of arrears. The fiscal deficit (5.7 percent of (annual) GDP) and the non-oil primary deficit (17.6) percent of (annual) non-oil GDP), were much lower than programmed (respectively 10.9 percent of GDP and 26.9 percent of non-oil GDP).

12. *Broad money contracted by 2.8 percent during the first six months of 2016 (8.6 percent growth programmed for the whole year in 2016) as the government continued to borrow from banks* while credit to the economy expanded by 5.8 percent (0.0 percent programmed for the whole year in 2016).

13. *On July 21, 2016, at a donor meeting organized by the U.S. in Washington, donor countries pledged $2.1 billion dollars to help Iraq in four priority areas: humanitarian aid, de-mining, immediate stabilization, and longer-term recovery.* The money will help UN specialized agencies to finance their activities in these areas in Iraq in the coming years and will not reduce the medium-term financing gap.

14. *The spread between the official and parallel exchange rates has increased from 3 percent on average in December 2015 to about 9 percent since May 2016 as the CBI has decreased the volume of its auctions of foreign exchange on the official market.* The daily amounts of foreign exchange auctioned by the CBI this year have remained one third lower than last year so far.

15. *The yield on Iraqi dollar bonds maturing in 2028 was around 9 percent in November 2016.*

B. Performance Under the Stand-By Arrangement

16. *Three of the five performance criteria (PC) at end-June 2016 were met (Table 1):*

- The *stock of gross reserves of the CBI* exceeded the programmed floor by $7.0 billion, according to the data audited by the CBI's external auditor. To ease reporting of this data, the government proposes to modify the definition of this PC by stopping to use externally audited data to assess performance of this PC and provide externally audited data as a proposed new structural benchmark (SB, Table 2).

- The *net domestic assets of the CBI* remained below the programmed ceiling by the amount of ID 0.4 trillion ($0.3 billion) according to the data audited by the CBI's external auditor. To ease reporting of this data, the government proposes to modify the definition of this PC by stopping to use externally audited data to assess performance of this PC and provide externally audited data as a proposed new SB (Table 2). To ease the auditing of the net domestic assets, the government proposes to define it as the difference between reserve money and net foreign assets rather than the sum of its components as defined in the TMU of June 19, 2016 (TMU, ¶7).

- The *non-oil primary balance* remained above the programmed floor by ID 4.6 trillion ($3.9 billion, ¶11), according to the cash spending data recorded by the Ministry of Finance and spending financed by the accumulation of arrears before the start of the program highlighted in the partial survey of arrears conducted by the Ministry of Finance (¶19). However, the Ministry of Finance was unable to measure all non-oil spending on an accrual basis as required under the TMU of June 19, 2016 (¶8). Therefore, the government proposes to change its definition in the TMU to measure non-oil expenditure on a cash rather than on an accrual basis. It also proposes to add an adjustor for expenditure financed by project loans since they are not under the direct control of the authorities (TMU, ¶15).

- *Gross public debt* remained below the program ceiling by ID 12.3 trillion ($10.4 billion) according to estimates by the Ministry of Finance partially audited by an external auditor, because of the under execution of spending during the first half of the year (¶11). This estimate relies on audited data for all debt with the exception of the stock of external arrears estimated at $41 billion that were accumulated under the pre-2003 government and are still under negotiation, for which the Debt Directorate of the Ministry of Finance has only partial documentation. To ease reporting of this data, the government proposes to modify the definition of this PC by stopping to use externally audited data to assess performance of this PC and provide externally audited data as a proposed new SB (Table 2). Externally audited data will be provided for all the public debt with the exception of that stock or external arrears and other arrears as a proposed new structural benchmark (SB, Table 2).

- *New external arrears* on existing rescheduled debt and new borrowing remained below the program ceiling by $188 million at the end of June 2016, as the accumulation of new arrears towards IOCs ($2.112 billion) and Italy (CHF 442,798) was lower than programmed ($2.3 billion). However, this continuous PC was missed from July 1 until November 2, when the government paid this arrear to Italy. This arrear occurred because, even though the Debt Directorate of the Ministry of Finance instructed the CBI to make that payment on June 30 and the CBI made the payment, the payment bounced back because the details were incorrect. In light of that payment and the fact that the Debt Directorate clarified with the Italian authorities the payment details to avoid recurrence, the government requests a waiver for the non-observance of that continuous PC during that period.

- The *stock of outstanding arrears to IOCs* was slightly higher ($3.679 billion) than programmed ($3.6 billion). The government anticipates that it will not be able to reduce the stock of outstanding arrears to IOCs to zero by end-September but it commits to limit it to $1.8 billion by then and to zero by end-December. The reasons the government cannot reduce the stock of outstanding arrears to IOCs as fast as programmed are twofold: first, the government is facing high spending pressures from the fight against ISIS and the resulting increase in IDPs (¶3); and second, the government has not been able to raise as much domestic financing as programmed (¶11).

17. On the basis of preliminary and unaudited data, two performance criteria at end-September 2016 appear to have been met:

- The *stock of gross reserves of the CBI* exceeded the programmed floor by $12.9 billion, according to preliminary estimates not yet audited by the CBI's external auditor.

- The *net domestic assets of the CBI* remained below the programmed ceiling by the amount of ID 11 trillion ($9.3 billion) according to preliminary estimates not yet audited by the CBI's external auditor.

- However, since no audited data is available to date for these two PCs and in the absence of information on the other PCs, the government requests waiver of applicability for the four PCs at end-September 2016. The PC on the non-oil primary balance cannot be assessed at end-September (¶16), and there is no clear evidence that the other two quantitative PCs will not be met at end-September.

18. The continuous PC on new arrears on existing rescheduled debt and new borrowing was missed from July 1 until November 2, when the government paid this arrear to Italy. This arrear occurred because, even though the Debt Directorate of the Ministry of Finance instructed the CBI to make that payment on June 30 and the CBI made the payment, the payment bounced back because the details were incorrect. In light of that payment and the fact that the Debt Directorate clarified with the Italian authorities the payment details to avoid recurrence, the government requests a waiver for the non-observance of that continuous PC during that period.

19. *One indicative target out of two was met at end-June (Table 1):*

- *Social spending* (ID 6.854 trillion) was under the programmed floor (ID 7.434 trillion) because of cash constraints (¶11). The government commits to catch up with the execution of such spending by year-end.

- The *stock of outstanding domestic arrears on non-oil investment* (ID 4.491 trillion) was under the program ceiling (ID 7.5 trillion) because the Ministry of Planning corrected mistakes identified in its previous inventory of May 11, 2016.[4] Therefore, the government requests a downward revision of this indicative target accordingly (Table 1).

20. *The government reversed one of the prior actions for the approval of the SBA*. On June 7, 2016, the Council of Ministers approved the MEFP for the SBA request and, on June 17, 2016, the Deputy Minister of Finance instructed the Tax Directorate to implement the decision by the Council of Ministers to include all salaries and wages of non-military government employees from grade two upwards including base salary, supplemental pay, bonuses, overtime and any other allocations (excluding allocations for wife and children), in the taxable base for all employees subject to the income tax, which was a prior action for submitting the SBA request to the IMF Executive Board. After the SBA approval by the IMF Executive Board, the Prime Minister decided to stop the implementation of the Council of Minister's decision because it would result in lowering the net salary of grade two-government employees to below that of grade three-government employees. The reversal of this prior action will reduce non-oil tax revenue by ID 0.3 trillion in 2016. On October 18, 2016, the government adopted the following tax policy measures yielding at least ID 0.15 trillion in 2016 to offset that reduction (prior action for the first review):

- increase the customs duty on air conditioners from 20 percent to 25 percent (with an estimated yield of ID 42 billion during November-December 2016);

- increase the customs duty on television sets from 30 percent to 35 percent (ID 19 billion);

- increase the customs duty on passenger vehicles from 15 percent to 25 percent (ID 19 billion);

- increase the customs duty on cigarettes from 25 percent to 75 percent (ID 13 billion);

- increase the customs duty on alcoholic beverages from 80 percent to 100 percent (ID 4 billion);

- increase customs duty on juices from 20 percent to 25 percent (ID 3 billion); and

- reduction of custom duty exemptions (ID 50 billion).

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[4] IMF Country Report No. 16/225, MEFP, ¶25.

21. *The government has met three of the six structural benchmarks (SB) for the first review of the SBA* (Table 2):

- The Ministry of Finance compiled *fiscal reporting tables* at end-December 2015, end-March 2016 and end-June 2016 in compliance with the IMF Government Finance Statistics Manual 2014.

- The Minister of Finance approved a *draft of the Financial Management law* in line with World Bank and IMF comments on the last draft submitted to the Shura Council, as specified in ¶25 of the MEFP of June 19, 2016.

- In light of the limited time since the approval of the SBA, the Board of Supreme Audit (BSA) started but could not complete an *audit of the government wage earner payroll*, which counts about 3 million beneficiaries, to identify ghost wage earners, i.e., people who receive wages without legal or regulatory justification. By comparing the wage payroll of 8 ministries (Defense, Electricity, Finance, Foreign Affairs, Interior, Science and Technology, Transport, Youth and Sport), the Baghdad Municipality and the CBI, that represent about half of the 3 million civil servants, with the pension, social safety net and soft loans for unemployed recipients, the BSA identified 13,130 "double dippers", i.e., civil servants who illegally cumulated a wage with one of these three benefits. The government will cancel the illegal payments and report the savings so realized on the occasion of the second program review. It proposes to postpone this structural benchmark to the third review of the program and to limit it to the payroll of the central government (Table 2). To complete this benchmark, the BSA will, by end-August 2017: (i) complete its search for "double dippers" in spending units representing the other half of the civil service; and (ii) check that, for each civil servant or SOE's employee appearing on the wage earner payroll of spending units, the latter can present the legal or regulatory justification for her or his presence on their payrolls.

- In light of the limited time since the approval of the SBA, the Board of Supreme Audit (BSA) could not complete an *audit of the government pensioner payroll,* which counts about 1,776,028 beneficiaries, to identify ghost pensioners, i.e., people who receive pensions without legal or regulatory justification. In 2015, the National Board of Pensions implemented a campaign to clean its retiree data registry resulting in the removal of at least 30,000 non-eligible retirees. The government proposes to postpone this structural benchmark to the third review of the program (Table 2). To complete this benchmark, the BSA will, by end-August 2017: check that, for each retired civil servant or SOE's employee appearing on the government pensioner payroll, the latter can present the legal or regulatory justification for her or his presence on this payroll.

- On October 9, 2016, the Council of Ministers adopted a *by-law to set up a mechanism to comply with the relevant United Nations Security Council resolutions related to terrorism and terrorism financing* in line with Recommendation 6 of the Financial Action Task Force on Money Laundering and Terrorism Financing (FATF).

- The Ministry of Finance could not complete a *survey of all domestic arrears*, i.e., payment due for more than 90 days, at end-June 2016, including: (i) current spending (salaries, pensions, goods and services and capital purchases), managed by the Ministry of Finance; and (ii) non-oil investments (projects and any associated penalties), managed by the Ministry of Planning. The Ministry of Finance did collect answers from some but not all spending units (see below). Many spending units did not reply because of work pressure. The government will set up a unit in the Prime Minister's office to strengthen the monitoring of commitments under the SBA and follow up with the spending units that have not replied. The government proposes to postpone this structural benchmark to the second review of the program (Table 2). The scope of the structural benchmark will be widened to include all arrears, including those accumulated by the Ministry of Oil on payments due to IOCs and the Basra Gas Company (BGC). At end-June 2016, the Ministry of Finance identified arrears in an amount of ID 12.5 trillion ($ 10.6 billion, or 6.1 percent of GDP), compared to ID 13.0 trillion ($11.0 billion, or 6.3 percent of GDP at the time of program approval:
    - ID 4.491 trillion ($3.8 billion) on non-oil investment by the Ministry of Planning;
    - ID 4.607 trillion ($3.904 billion) by the Ministry of Oil, out of which $3.679 billion on oil spending by the IOCs (¶19) and $225 million on gas purchase from the Basra Gas Company (BGC, ¶37);
    - ID 2.280 trillion ($1.929 billion) by the Ministry of Trade on wheat purchase and ration cards goods; and
    - ID 1.114 trillion ($0.944 billion) by the Ministry of Electricity on electricity purchase.

Economic and Financial Policies for 2016–19

22. *Hit by the fall of oil prices and the ISIS attack, the government has started to implement a program of fiscal consolidation to maintain debt and external sustainability.* The sharp decline in Iraqi oil prices from $103 per barrel in 2013 to $46 in 2015 has caused a sharp increase of the budget deficit from 6 percent of GDP in 2013 to 12 percent of GDP in 2015 and of the public debt from 31 percent of GDP in 2013 to 55 percent of GDP in 2015. It has also caused a deterioration of the current account of the balance of payments from a surplus of 1 percent of GDP in 2013 to a deficit of 6 percent of GDP in 2015, which was partly financed by a decrease of official gross foreign exchange reserves from $78 billion (11 months of imports of goods and services) in 2013 to $54 billion (10 months of imports of goods and services) in 2015. In 2016, this decrease in oil prices has continued, with Iraqi oil prices expected to average $35.5 per barrel.[5] This external shock seems of a permanent nature as prices on future oil markets currently indicate a gradual recovery of Iraqi oil prices to about $50 per barrel at the 2021 horizon ($48 per barrel in the SBA request). Therefore,

[5] In 2016, Iraqi oil prices from the Basra oil fields were about $7 per barrel lower than the average petroleum spot price (APSP, the average of the Brent, West Texas and Dubai oil prices) and KRG oil prices about $10 lower. These price differentials are assumed to continue through 2021 in the macroeconomic framework presented in this MEFP.

the government has started to implement a program of fiscal consolidation to contain the increase in total public debt and the decline of gross foreign exchange reserves to sustainable levels. Under this program, for the implementation of which the government has received commitment of financial support of $11.9 billion, out of which $5.4 billion under the SBA with the IMF, the total public debt would peak at 63 percent of GDP in 2018 (85 percent of GDP in the SBA request) and decrease to 53 percent of GDP in 2021 (75 percent of GDP in 2018 in the SBA request);[6] and the official gross foreign exchange reserves would bottom out at $35.5 billion, 5.2 months of imports of goods and services, in 2020 ($31.5 billion, 5.1 months of imports of goods and services in the SBA request). In light of the oil production observed during the 8 first months of the year (¶7), oil production, including KRG, is expected to grow by 20 percent in 2016 to 4.5 mbpd (4.2 mbpd in the SBA request) and stay close to that level for the next five years, as the government will not be able to finance the higher oil investment that would be required to put oil production on an increasing path. Non-oil GDP could contract by 5 percent in 2016 owing to the war with ISIS and the ongoing fiscal consolidation; it should rebound by 3 percent in 2017 on account of the donor-financed spending delayed from 2016 to 2017; non-oil growth should then gradually recover to half of its pre-2014 trend growth as the government makes progress in liberating ISIS-occupied territories. The gradual increase in oil prices and the ongoing fiscal consolidation will gradually reduce the fiscal deficit from 12 percent of GDP in 2015 to zero in 2020 and the current account deficit of the balance of payments from 6 percent of GDP in 2015 to less than 2 percent in 2021. There remains a financing gap of $7.1 billion in 2018–19 ($6.1 billion in the SBA request), for which the government has started to look for financing.

C. Foreign Exchange Policy

23. *The government is committed to maintaining 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. In August 2016, the CBI increased the amount of daily foreign exchange sales (¶14), without significant impact on the spread so far. To address concerns that foreign exchange sales by the CBI would finance terrorism or money laundering of illegal activities, the CBI has been strengthening its procedures to allocate foreign exchange with the technical assistance of the U.S. Treasury and the Federal Reserve Board and the recourse to external auditors. The CBI has also requested the technical assistance of the IMF Monetary and Capital Markets Department to analyze the reasons why the exchange rate spread between the official rate of the CBI foreign exchange sales and the parallel market rate has increased since the end of 2015 and to make recommendations to reduce the spread.

24. *The government will gradually remove remaining exchange restrictions and a multiple currency practice (MCP) with a view to eliminating exchange rate distortions*. Such a move towards

[6] The downward revision of the debt-to-GDP ratios compared to the SBA request stems from: (i) the downward revision of the stock of external public debt by $1 billion at end-2015 due to the elimination of double counting of one debt; the upward revision of nominal GDP in 2014–15 explained above (¶6); and the upward revision of oil production by 0.2 mbpd; and the upward revision of oil prices by about $2.5 per barrel in the medium term compared to the SBA request.

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, on October 16, 2016, the CBI made the weekly limits on the purchase of cash at the foreign currency auctions indicative, in the sense that any bank requiring additional cash for their clients' legitimate travel expenses will be able to obtain the required amount above these limits on the basis of appropriate documentation. As a second step, the CBI will issue clarifying implementing regulations, to remove the limitation on transfer of investment proceeds that gives rise to an exchange restriction (SB, Table 2), as recommended by a recent technical assistance mission of the IMF.

D. Fiscal Policy

25. *In order to maintain macroeconomic stability and achieve debt sustainability, the government commits to pursue its fiscal consolidation efforts to bring spending in line with available resources in 2016–19*. This will require: (i) a sizable reduction in the adjusted non-oil primary balance[7] (PC, Table 1), of about 9 percent of non-oil GDP over 2016–19; 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 (¶22).

26. *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 (IT, Table 1).

27. *In order to strengthen debt sustainability, the government will continue discussion with Iraq's non-Paris Club creditors* towards which it still has unresolved external arrears in an amount of $41 billion that were accumulated under the pre-2003 Saddam regime. Those arrears make most of the total stock of the external debt stock, which amounted to $66 billion at end-2015. Negotiations with these creditors will continue to seek implementation of debt relief on the same terms as with the Paris Club creditors, i.e., an 80 percent net-present-value reduction.

28. To ease the cash constraint in 2017, the authorities have agreed with the government of Kuwait on a further postponement of the payment of overdue war reparations to Kuwait amounting to $4.6 billion (ID 5.4 trillion or 3.4 percent of non-oil GDP) to 2018. The government requested this postponement to the Governing Council of the United Nations Compensation Commission at its session of November 1–2, 2016.

[7] The non-oil primary fiscal balance is defined as the difference between non-oil revenue and non-oil primary expenditure, i.e., excluding interest payments.

Fiscal Program in 2016

29. The review of budget execution at end-June 2016 revealed that: the execution of most spending except wages, pensions, goods and services and oil investment by IOCs was very low; and the government will collect less revenue than assumed in the SBA request (¶11). Indeed, while oil export revenue was on track, the targets for two other sources of revenue or financing by year-end are out of reach: transfers from oil-related public enterprises will reach ID 0.5 trillion ($0.4 billion) by year-end rather than ID 3 trillion ($2.5 billion) programmed in the SBA request, owing to cash constraints faced by these companies; and the issuance of domestic bonds has only succeeded to mobilize ID 0.6 trillion ($0.5 billion) so far compared to ID 5 trillion ($4.2 billion) targeted in the SBA request. In addition, the government has decided to delay the issuance of both the $1 billion bond guaranteed by the US government and the $1 billion Eurobond to 2017 because the U.S. government is unlikely to issue its guarantee in 2016, and the budget loan from France ($450 milion) will come in early 2017. Finally, the third purchase of the SBA, initially programmed in an amount of $640 million, will take place in 2017 rather than December 2016, in light of the proposed rephasing of the arrangement (¶46). To keep the SBA on track and avoid the accumulation of new arrears, the acting Minister of Finance has decided to increase the allocation for goods and services by ID 0.4 trillion and reduce the allocations for transfers by ID 2 trillion, non-oil investment not financed by project loans by ID 1.7 trillion, and oil investment by national oil companies by ID 2.8 trillion in 2016, all compared to the amounts agreed in the SBA request, and communicate this decision to the concerned spending units (prior action for the first review). As a consequence, the government requests a downward revision of the ceiling of the non-oil primary deficit for end-December 2016 to ID 61.9 trillion (proposed revised PC on a cash basis), compared to ID 65.2 trillion in the fiscal program of the SBA request as well as changes in three other PCs at end-December 2016 on gross international reserves of the CBI, net domestic assets of the CBI, and gross public debt (Table 1).

30. In order to finance the non-oil primary fiscal deficit (ID 61.9 trillion), the interest payments (ID 2.3 trillion) and the oil investment expenditure (ID 12.6 trillion, out of which at least ID 11.5 trillion ($9.8 billion) for the IOCs who account for 95 percent of the oil production), the government will have recourse to oil revenue (ID 58.0 trillion) and financing (ID 18.0 trillion):

- The *domestic financing* will be covered by the issuance of Treasury bills, out of which most (up to ID 12.6 trillion) will be refinanced by commercial banks at the discount window of the CBI, the issuance of national bonds for the general public (ID 0.6 trillion), and the drawdown of government deposits in the banking sector (ID 6 trillion). If oil export revenue is higher than programmed, the government commits to save the excess revenue collected over the amount programmed in order to reduce the indirect monetary financing of the budget deficit by the CBI (new proposed adjustor in the TMU, ¶19).

- The *external financing* will be covered by: loans from the IMF under the SBA ($1.3 billion); the World Bank under a Development Policy Loan to be disbursed in December 2016 ($1.46 billion), of which $458 million will be guaranteed by Canada and the United Kingdom as part of the international financial aid package announced by the G7 last May (¶20); and a budget support loan by the Japan International Cooperation Agency (JICA, $237 million). The external financing will also be covered by project loans from the U.S. government ($1.288 billion), JICA ($326 million), the World Bank ($55 million), and Italy ($33 million). These inflows will broadly offset external debt amortization and repayment of external arrears.

Fiscal Program in 2017

31. In 2017, the government commits to contain the non-oil primary deficit to no more than ID 69.1 trillion on a cash basis, compared to ID 61.9 trillion in the revised fiscal program for 2016 (¶29). On October 18, 2016, the Council of Ministers approved and circulated to parliament a 2017 draft budget to bring it in line with the macroeconomic framework agreed on the occasion of the first review of the SBA (PA, Table 2). This fiscal program will be achieved through the implementation of the following measures:

- collect at least ID 10.5 trillion (6.8 percent of non-oil GDP) in *non-oil revenue*, compared to ID 8.0 trillion (5.8 percent of non-oil GDP) in the revised fiscal program for 2016, thanks to the following measures:
    - increase of the contribution levy to the war effort and the internally displaced people from 3.0 to 4.8 percent of the government employee wages, including SOEs' employees, and pensions; this will yield ID 1.2 trillion; this revenue will also be used to finance other budget expenditure;
    - introduce a flat fee of ID 25,000 ($21) per airline ticket for travel abroad; and
    - increase the rate of taxation of real estate income from 10 to 12 percent
- *contain non-oil primary expenditure* to ID 78.4 trillion (52.5 percent of non-oil GDP) compared to ID 67.9 trillion (48.9 percent of non-oil GDP) in the revised 2016 fiscal program (¶29); this containment will be achieved mostly by the following measures:
    - *reduce the wage bill* by ID 0.3 trillion, mainly through natural attrition: the government will only replace one of six staff retiring, thereby setting the total number of civil servants and military personnel, which amounted to 2,905,226 out of which about 900,000 military and security personnel, on an annual reduction by 50,000 staff or close to 2 percent; finally, the government will encourage leave with partial pay and early retirement;
    - *freeze pension payments* paid by the Ministry of Finance at ID 10.3 trillion, the level in the revised fiscal program for 2016, with a view to cap it at that level in the medium term by natural attrition[8] and the enforcement of the existing rules preventing collection of multiple

[8] The pension payments paid by the Ministry of Finance include only the pensions paid to civil servants and state-owned enterprise employees who retired before 2006 and non-contributory pensions decided by parliament.

pensions or collecting pensions without minimum contribution period or below legal pensionable age;

- *cap goods and services* at ID 7.3 trillion, compared to ID 6.3 trillion in the revised fiscal program for 2016; this envelope includes a credit of ID 1.2 trillion for the Ministry of Oil for the purchase of gas from the Basra Gas Company (¶37);

- *cap transfers* at ID 13.3 trillion, compared to ID 11.2 trillion in the revised fiscal program for 2016; all transfers are expected to increase compared to 2016 to help IDPs in the aftermath of the liberation of cities from ISIS, except transfers to SOEs which will be reduced to ID 1.9 trillion, compared to ID 2.2 trillion in the revised fiscal program for 2016; and

- *increase non-oil investment expenditure* to ID 11.7 trillion, out of which ID 4.3 trillion financed by project loans, compared to ID 4.0 trillion (out of which ID 2.4 trillion financed by project loans) in the revised fiscal program in 2016; since this amount is significantly lower than the country's needs and the amounts spent before 2016, it will need to be allocated in priority to projects already started.

32. *The 2017 draft budget will also:*

- *increase oil investment expenditure to ID 13.8 trillion,* or by ID 1.2 trillion compared to the level in the revised fiscal program for 2016, out of which at least $9.8 billion for the IOCs;

- *cap the transfer to KRG* at ID 11.6 trillion;

- *include a provision of ID 1.3 trillion in the 2017 budget for the repayment of arrears on non-oil related spending*, in anticipation of the results of the audit of these arrears by the BSA (¶38); and

- *set a cap of ID 0.5 trillion on the state guarantee* that the government will be authorized to issue in 2017.

33. In order to finance the non-oil primary fiscal deficit (ID 69.1 trillion), the interest payments (ID 2.9 trillion) and the oil investment expenditure (ID 13.8 trillion), the government will have recourse to oil revenue (ID 68.6 trillion), domestic financing (ID 6.8 trillion) and external financing (ID 9.1 trillion):

- The *domestic financing* will be covered by the issuance of Treasury bills (ID 5.5 trillion) that will be refinanced by commercial banks at the discount window of the CBI and the use of government deposits (ID 0.4 trillion).

- The *external financing* will be covered by loans from the IMF under the SBA ($1.7 billion), the World Bank under a Development Policy Loan to be disbursed in December 2017 ($1.0 billion), a US guaranteed bond ($1 billion, initially planned during the last quarter of 2016), a Eurobond issuance ($1 billion following the issuance of the US guaranteed bond), a budget support loan by JICA ($200 million), a budget loan from France ($450 million) and a budget support grant by the European Commission ($100 million). The external financing will also be covered by project loans from the United States ($1.477 billion), China ($833 million), Japan ($350 million), Germany ($190 million), the World Bank ($140 million), Sweden ($150 million), Italy ($134 million), United Kingdom ($100 million), and the Islamic Development Bank ($50 million).

34. In case oil prices drop below the level adopted in the 2017 budget, the government will identify spending to be cut for discussion with the IMF staff on the occasion of the second review of the SBA (¶47).

35. The government will not resort to the accumulation of arrears to finance the deficit. It commits to a zero ceiling on new external arrears to its external creditors (continuous PC, Table 1), a gradual elimination of the existing stock of outstanding arrears to IOCs by the end of 2016 (¶16), and regular inventories of domestic arrears with a view to ensuring that new arrears do not accumulate and to paying down existing ones after proper audit (¶38, second bullet).

E. Revenue Reforms

36. In order to strengthen revenue, the government will implement the following measures:

- *Audit the financial statements of the Development Fund for Iraq and Successor Account 300/600 at the CBI* to check that all oil revenue reaches the treasury and monitor the use of the resources deposited in that account. The Ministry of Finance will continue to have all the transactions moving the balance of its foreign exchange account 300/600 at the CBI audited by an international audit company every six months and will post the audit reports on its external website within six months after the end of each audited semester (SB, Table 2).

- *Conduct diagnostics of the tax and customs codes* to simplify them and broaden the tax base. The Ministry of Finance will, by end-February 2017, prepare tax policy measures to increase tax and customs revenue, with technical assistance from the IMF and the World Bank. The government will introduce tax policy measures to increase non-oil tax revenue in its draft budgets during the period of the SBA (¶31).

- *Conduct diagnostics of the tax and customs administrations* with a view to modernize them and broaden the tax base, with technical assistance from the IMF, the World Bank, the World Customs Organization, and the United Nations Conference for Trade and Development (UNCTAD). The Ministry of Finance will, by end-February 2017, propose a strategy to strengthen the tax and customs administration, with technical assistance from the IMF and the World Bank. The Customs Administration will, by end-December 2016, propose a strategy to implement the UNCTAD ASYCUDA information system in its administration.

F. Expenditure Reforms

37. In order to decrease expenditure, the government will implement the following measures:

- *Control the evolution of wages and pensions* by a combination of the following measures, in addition to those implemented in the 2017 budget (¶31-32):
  - completing the audits of the wage earner and pensioner payrolls of the civil service by the Board of Supreme Audit (BSA) to first identify, and then cancel payments to, illegitimate wage and pension recipients (¶21);
  - implementing legislative changes to contain the evolution of government and SOE employees' wages and non-contributory pensions paid by the Treasury (for e.g., pensions paid to war victims, political opponents of the previous regime, journalists, lawyers, …); as a first step, compile an inventory of all the laws and regulations governing these wages and pensions; legislative changes to that end will be discussed during the third review (¶47);
  - adopting, by end-December 2017, revised parameters of the public pension system proposed by the World Bank.[9]
- *Reform the electricity sector* by a combination of the following measures:
  - implementing the progressive electricity tariff schedule decided by the government in January 2016, which could yield nearly ID 2.1 trillion (1.6 percent of non-oil GDP) in additional revenue for the electricity sector; the additional revenues will be used to finance off-budget investment and repay bank loans of the electricity companies;[10] the tariff increase

[9] According to the World Bank, amending the pension law 9/2014 to introduce the following parametric changes would yield cumulative savings of over ID 1 trillion through 2018 and ID 31 trillion through 2028: (1) decreasing the accrual rate from 2.5 percent to 1.5 percent; (2) increasing the minimum length of service from 15 years to 20 years for pension salary eligibility; (3) changing the base wage for pension calculation from the last three years to the last seven years; and (4) reducing the qualifying conditions for survivorship pensions to only spouses, parents, and children (World Bank, Iraq - Emergency Fiscal Stabilization, Energy Sustainability, and State-Owned Enterprise Transparency Development Policy Financing, December 2015, ¶52, p.24).

[10] Total electricity consumption in 2015 amounted to 42 terawatt hours and revenue collected amounted to ID 0.82 trillion, while the cost of electricity production was ID 4.5 trillion. The increase in the tariff for 2016 may result in an increase in sales to ID 3.25 trillion and a reduction in the gap between revenues and the cost of production to ID 1.25 trillion, if the full amount is collected from consumers and the cost of fuel subsidized by the Ministry of Oil remains the same. In 2015, the central government consumed 4.5 terawatt hours, and the increase in the tariff for 2016 will result in an increase in the cost of the of electricity bill paid by the central financing entities, from ID 0.137 trillion in 2015 to about ID 0.675 trillion in 2016, compared to ID 0.360 trillion in the budget for 2016. The anticipated electricity bill of ID 2.043 trillion in 2016 was obtained by multiplying the quantity consumed by the government in 2015 (11.6 terawatt hours) by the average new government tariff for 2016 (ID 176.09 per kilowatt hour). Therefore, credit for the purpose of electricity consumption was increased in the revised fiscal program for 2016 and in the 2017 draft budget (¶¶29 and 31).

did not increase the tariff for the consumption below 1500 kilowatts per month in order to shield the poorest; and

- o reducing gas flaring by using it for electricity production, which, according to the World Bank, could yield about ID 1.4 trillion ($1.2 billion, or 1.1 percent of non-oil GDP) in budget savings per year with an upfront cost of $0.5 billion starting in 2017:[11] to that end, the Ministry of Oil will: pay all its outstanding 2016 arrears ($350 million at end-August) by end-October; pay its estimated remaining gas purchase from BCG in 2016 amounting to $300 million within the contractual 45 day-period after billing; pay the $150 million authorized by the Minister of Finance for capital investment by end-September to finance the gas flaring-reducing investment project at the BGC; and allocate about $1 billion for gas purchase from BGC and $200 million for capital expenditure in the 2017 draft budget (¶31). In order to stop the accumulation of arrears to BGC, the scope of the PC on the stock of arrears to IOCs will be widened to include arrears to BGC starting in December 2016 (TMU, ¶9).

- o paying energy bills on time; the Ministry of Electricity will pay the arrears identified at end-June 2016, i.e., $944 million in 2016 (¶21).

- *Reform the social transfers.*[12] The Ministry of Labor and Social Affairs (MOLSA) is setting up a Proxy Means Testing (PMT) data base with the assistance of the World Bank. When that database is completed, the MOLSA will have a database that will be used to determine eligibility for cash transfers based on available budget. This same database could be utilized by other programs (i.e., PDS) to target their assistance (cash or in-kind) to the poor households based on their welfare scores as determined by the PMT.

- *Reform state-owned enterprises (SOEs*). Non-financial SOEs in Iraq include a large variety of public entities, including ministries' directorates/departments, and bodies. There are 176 SOEs in Iraq, with over 550,000 employees, of whom 30 to 50 percent are estimated to represent excess labor. Many of these SOEs have limited rationale beyond providing public employment. As a result, they are structurally loss-making and present a large burden for public finances. The exact scope and scale of the economic, financial and fiscal cost that SOEs represent in Iraq is, however, unknown due to poor reporting of key financial and economic statistics on the SOEs. With the assistance of the World Bank, the government has started to set up a database to monitor the fiscal risks of non-financial SOEs. Building on this information, the government will elaborate measures to restructure the non-financial SOEs on the occasion of future reviews of this SBA.

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[11] World Bank, December 2015, ¶62, p.28. BGC gas is the cheapest source of energy to produce electricity in Iraq: it is about twice cheaper than gas imported from Iran and four times cheaper than fuel oil.

[12] Moving to a more targeted Public Distribution System could yield annual savings of up to ID 1.8 trillion (1.4 percent of non-oil GDP). See "*Food and Electricity Subsidies*" in IMF Country Report No. 15/236. Iraq: Selected Issues.

G. Public Financial Management Reforms

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

- *Improve Government Finance Statistics (GFS) reporting*. Building on the IMF technical assistance recommendations, the Ministry of Finance has sent to the IMF staff fiscal reporting tables (including revenue, expenditures and financing) at end-December 2015, end-March 2016 and end-June 2016 in compliance with the IMF Government Finance Statistics Manual 2014 (GFSM 2014, SB for the first review, Table 2). It will publish quarterly fiscal reporting tables in compliance with the IMF GFSM 2014 with a quarter lag on the external website of the Ministry of Finance starting on January 1, 2017.

- *Survey, audit and pay domestic arrears*:

    - *The government will monitor with quarterly surveys the accumulation of arrears by systematically recording in detail and monitoring the existing unpaid obligations on a regular basis*. It will complete by end-February 2017 a survey of all domestic arrears, i.e., payment due for more than 90 days, covering a period at least until September 2016, including: (i) current spending (salaries, pensions, goods and services and capital purchases), managed by the Ministry of Finance; and (ii) non-oil investments (projects and any associated penalties), managed by the Ministry of Planning. The Ministry of Finance will elaborate a consolidated report on all these arrears for the included ministries (SB for the first review postponed to the second review, ¶21 and Table 2). At end-June 2016, the government identified arrears in an amount of ID 12.5 trillion ($10.6 billion, or 6.1 percent of GDP, ¶21)

    - *On the basis of each of these surveys, the government will prepare plans for the orderly payment of the arrears, following an independent audit of the arrears by the BSA and a repayment schedule in line with the government's financing capacity*. On September 27, the Council of Ministers adopted a decision to require verification by the Board of Supreme Audit of all the arrears on non-oil investment identified so far by the Ministry of Planning before starting the payment of any of these arrears. For the arrears on wheat purchase and other ration cards goods identified by the Ministry of Trade, the Council of Ministers adopted another decision on October 17 according to which payment of arrears could start but that the BSA would check the validity of the arrears before they are repaid (these two decisions constituted a prior action for the first review). The BSA will complete the audit of the arrears on non-oil investment by end-December 2016 (proposed SB for the second review). In light of the results of this audit, the government and the IMF staff will discuss the pace of reimbursement of these arrears on the occasion of the second review. In anticipation of the results of this audit, the government has put a provision of ID 1.3 trillion in the 2017 budget for the repayment of these arrears (¶32) and will prepare a supplementary budget in 2017 if this provision proves insufficient. For the other arrears identified so far, i.e., the arrears of the Ministry of Oil to IOCs and the arrears of the Ministry of Electricity on electricity purchase (¶¶21 and 35), the government has authorized their repayment without prior audit of the BSA because the reception of the underlying goods and services by these ministries has already been sufficiently established.

- *The government will observe a ceiling on the accumulation of arrears on non-oil investment as surveyed by the Ministry of Planning* (IT, Table 2). The scope of this IT will be widened to include all arrears on the occasion of future reviews in light of the results of the survey of arrears on the occasion of the second review. This IT will be upgraded to a PC on zero accumulation of arrears as soon as the government has developed the ability to reliably monitor and prevent them.

- *Take steps to move to a Treasury Single Account (TSA).* As a first step, the Ministry of Finance and the CBI compiled 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 at end-December 2015. Going forward, the Ministry of Finance will implement the following measures:

  - Constitute a working group comprising representatives of the Ministry of Finance, CBI, Al Rasheed and Rafidain Banks and TBI to take stock of the readiness of the payment and settlement systems in the country, and develop a plan for modernizing systems to enable operation of a TSA by end-December 2016.

  - In light of the existing and planned banking and financial management information technology infrastructure, develop a strategy and design an action plan for the phased development of the TSA by end-March 2017.

  - Create a Cash Flow Management Unit (CMU) and mandate it to develop cash flow forecasts that will identify cash needs over the course of the budget year as one of its core responsibilities (by end-December 2016) with the support of technical assistance by the IMF. These cash flow forecasts should include details of all receipts and payments into and from the central government accounts and should be used to inform the spending units about funding operations. The CMU will develop: 12-month rolling revenue cash forecasts by end-March 2017; and 12-month rolling expenditure cash forecasts based on the larger spending units by end-June 2017. Throughout 2017, the government will build CMU capacity to develop accurate in-year cash plans, including scenario analysis.

  - Set up a Cash Management Committee (CMC) by end-December 2016 to : (i) oversee the timely and orderly financing of the budget including monitoring of all outflows and monitor all inflows in the TSA/Treasury main accounts, all revenue collection and spending; (ii) monitor the macro-fiscal, macro-economic and monetary situation and activate corrective actions in a timely manner; (iii) ensure coordination and sharing of information between the key stakeholders; and (iv) facilitate policy discussions. Chaired by the most senior official of the Ministry of Finance, the CMC will include representatives of the Debt Management Department, the Budget Department, the Treasury, the Ministry of Oil, large spending units, and the CBI.

  - Gradually incorporate all government-related cash operations in the TSA, initially through the use of zero-balance operations during 2017–18, in light of the results of the audits of the financial statements of Rasheed Bank and Rafidain Bank and in sync with the implementation of their restructuring strategy (¶41) and the liquidity situation of any other bank where the government has accounts.

- *Design and implement a commitment control system for budget execution, in line with IMF technical assistance recommendations*. To avoid emergence of new arrears, the immediate focus will include:

  - preparing a monthly budget execution report based on inputs from spending units;
  - implementing cash rationing for each spending unit;
  - improving the recording of commitments: decisions by the Minister of Finance and the Minister of Planning requiring all spending units to record all existing commitments; and production, by the Ministry of Finance, of a report of all recurrent and investment commitments (by project) in coordination with the Ministry of Planning (two SBs, Table 2);
  - prohibiting any commitment beyond quarterly allocations;
  - designing the templates required for a manual commitment control system based on the Appendix 3 to the December 2015 FAD technical assistance report (by end-December 2016);[13]
  - conducting training for spending units on the new system, including a clear definition of commitments (by end-March 2017);
  - requiring all spending units to record all existing commitments (by end-March 2017);
  - Ministry of Finance to produce a report of all recurrent and investment commitments (by project) in coordination with the Ministry of Planning as at end-December 2016;
  - ensure that commitment control functionality is designed in the Integrated Financial Management Information System (IFMIS) by end-March 2017; and

[13] IMF, Fiscal Affairs Department, Strengthening the Draft PFM Law and Budget Execution, Suzanne Flynn, Jacques Charaoui, Janis Platais, Tawfik Ramtoolah, and Arun Srivastava, December 2015.

  - test the commitment functionality in the IFMIS pilot sites (in line with IFMIS pilot plans) by end-2018.

- *Design and implement an Integrated Financial Management Information System (IFMIS) with the assistance of the World Bank:*

  - as a first step, the Ministry of Finance adopted, in July 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;

  - as a second step, the Ministry of Finance will take the necessary steps to hire a company to develop the IFMIS: it published the final standard bidding documents on its web site, and will sign the contract with the selected IFMIS vendor by end-February 2017;

  - as a third step, the Ministry of Finance will develop, test and accept the IFMIS by end-November 2018; and

  - as a final step, the Ministry of Finance will progressively roll out the IFMIS to pilot sites including the Ministry of Finance, the Ministry of Planning, the Ministry of Interior, the Ministry of Construction, Housing and General Municipalities, and the Baghdad and Babil Governorates by end-June 2020.

- *Implement Public Investment Management (PIM) reform with the assistance of the World Bank in line with Decree 445 of October 18, 2015 on PIM:*

  - design the organizational structure of the PIM Central Unit at the federal Ministry of Planning (April 2016) and make this structure fully operational (by end-December 2016);

  - make and publish on the Ministry of Planning website a detailed inventory at both ministry and governorate levels of the portfolio of public investment projects (on-going and new projects with a minimum cost of US$10 million), having a feasibility study made through cost–benefit analysis and expenditure efficiency (by end-December 2016;

  - conduct a capacity needs assessment for the PIM Central Unit at the federal Ministry of Planning and in the two IFMIS pilot governorates of Baghdad and Babil (by end-December 2016); and

  - conduct training for the PIM Central Unit in line with the recommendations of the capacity needs assessment with a preliminary focus on the Logical Framework Approach and the Integrated Project Appraisal at a basic level (by end-2017).

- *Audit budget execution*. The BSA will submit its report of the execution of the 2015 budget to parliament before the end of 2016.

- *Strengthen Debt Management*. The capacity of the Public Debt Directorate will be strengthened with technical assistance support from the Japanese International Cooperation Agency (JICA), one of the largest bilateral and concessional lenders to Iraq. In October 2015, a workshop was held with support from a debt management expert from JICA. This will be followed by a package of training programs consisting of a series of seminars and practical trainings for strengthening the capacity of the Public Debt Directorate. Some training courses may be held in cooperation with neighboring countries and international financial institutions. As a first step, the Public Debt Directorate will seek assistance to strengthen its debt recording systems. The Debt Directorate will conduct a survey of all guarantees issued by the government (new SB for the second review, Table 2).

H. Anti-Corruption Measures

39. In order to combat corruption, the government will implement the following measures:

- On 11 August 2016, the Iraqi government executed a memorandum of understanding with the United Nations Development Program (UNDP), pursuant to which the UNDP will provide assistance to the Iraqi government in the following areas. First, the UNDP will provide staff to support the Iraqi government in the investigation of cases of corruption, in particular relating to financial transactions involving the transfer of money out of Iraq. The assistance will also involve providing advice on how to return such financial assets once traced. Second, the UNDP will provide assistance on legislation to the various bodies involved in investigation of corruption, such as the Bureau of Supreme Audit, the Inspector Generals and the National Integration Commission. In particular, the goal of this assistance is to make the various bodies more robust. Third, the UNDP will provide staff to assist in capacity building. Fourth, the UNDP will provide assistance to Iraq on matters relating to corruption and public relations. The UNDP staff providing such assistance arrived in Iraq in October 2016.

- The Council of Ministers—after review by the Shura Council— will approve and forward to parliament by January 2017 draft amendments to the 2011 law establishing the Commission on Integrity in order to strengthen its governance, accountability and oversight, and independence, and provide it with powers in line with the United Nations Convention Against Corruption (UNCAC, SB, Table 2). The draft amendments will include the essential elements of a legal framework including clarity regarding the institution's mandate, which consists of: its objectives and functions and its powers to achieve them; clear governance and oversight and an accountability structure; operational and financial autonomy; eligibility criteria for appointments; and clear and transparent rules and procedures for dismissal, and protection for its management and staff. The draft amendment will also include requirements to set-up a comprehensive asset (in Iraq and abroad) declaration regime for senior public officials, their family members, and associates, and a requirement to publish the asset declaration.

- In line with UNCAC requirements, the Council of Ministers will adopt and forward to the parliament by December 2016 amendments to the Criminal Code to criminalize all corruption acts including illicit enrichment, bribery in the private sector, and obstruction of justice.

- In line with UNCAC requirements, the Council of Ministers will adopt and forward to the parliament by February 2017 several draft legislations that are currently being finalized by the Commission on Integrity to strengthen the legislative anti-corruption framework. The draft laws are related to access to information, conflict of interest, asset recovery, and protection of whistleblowers and witnesses.

I. Banking Supervision

40. As of December 31, 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 are 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), account for around 90 percent of the banking system's assets.

41. 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 appointed international auditors to audit their latest financial statements according to international standards, in cooperation with the Executive Committee for the restructuring of these banks and the World Bank. The auditors will submit their audit reports to the Ministry of Finance by end-February 2017. As a second step, the Ministry of Finance will, by end-August 2017, elaborate a restructuring plan for these two banks, in cooperation with the Executive Committee for the restructuring of these banks and the World Bank, in light of the results of the aforementioned audits.

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

- working on reviewing and assessing CBI prudential regulations with the assistance of the IMF Middle East Technical Assistance Center (METAC) and the World Bank;

- strengthening banking supervision including for AML/CFT, with IMF and World Bank technical assistance;

- compiling and publishing financial stability indicators, elaborated with IMF technical assistance (by end-December 2016);

- enforcing the minimum capital requirement of banks of 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 have already rated 17 banks: three banks were rated "*satisfactory*", eight banks rated "*fair*" and six banks "*marginal*";
- contracting a consultant to assist the CBI in upgrading the prudential regulations on "*Liquidity*" and "*Capital Adequacy Ratio*";
- 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;
- penalizing, financially and administratively, banks and non-bank financial institutions for any non-compliance with laws and regulations in force; and
- introducing the international bank account number (IBAN) system in Iraq.

43. Building on the safeguards assessment conducted by the IMF in December 2015, the government will strengthen the legal framework of the CBI to provide for independent oversight of the CBI's operations. The Governing Council of the CBI will, by end-December 2016, approve a new charter for the Audit Committee prohibiting Central Bank of Iraq executive representation on the committee (SB, Table 2). The Council of Ministers will, by end-March 2017, approve and introduce to parliament amendments to the Law on the Central bank of Iraq to strengthen CBI governance and the internal control framework, in line with the IMF safeguards assessment's recommendations (SB, Table 2). Specifically, the CBI Law should be amended to: (i) specify external auditor selection criteria and timely appointment (i.e., before the end of the fiscal year for which the financial statements need to be audited); (ii) shift the authority to appoint the external auditor from the Ministry of Finance to the CBI; (iii) provide for multi-year appointment terms for the external auditor; (iv) provide for timely publication of audited financial statements; (v) establish an audit committee, including its mandate and composition, and representation on the CBI Board; (vi) change the CBI Board's composition to a non-executive majority; (vii) strengthen the autonomy of the chief internal auditor; and (viii) require market-based rates for lender of last resort operations. The proposed amendments should be developed in consultation with the IMF.

44. On November 25, 2015, the prime minister approved CBI credit lines to banks in an amount of ID 6 trillion, with a state guarantee, for on-lending to small and medium-sized enterprises (SME, ID 1 trillion) and agriculture or infrastructure projects (ID 5 trillion). So far the CBI has disbursed ID 21.2 billion for the former and 0.5 trillion for the latter. Before proceeding any further with these initiatives, the Ministry of Finance and the CBI will analyze the potential fiscal risks posed by these credit lines. In light of this analysis, the government will discuss with IMF staff whether to continue executing these credit lines on the occasion of the second review (¶47).

J. Anti-Money Laundering and Countering the Financing of Terrorism Measures

45. *The government will implement reforms to strengthen the anti-money laundering and combating the financing of terrorism (AML/CFT) framework*. This will contribute to improve the integration of the domestic financial system into the global economy, lower transaction costs, improve governance, reduce the size of the informal sector, disrupt ISIS funding, and reduce the terrorist threats it poses.

- As a first step, on October 9, 2016, the government adopted a by-law to set up a mechanism to comply with the relevant United Nations Security Council resolutions related to terrorism and terrorism financing in line with Recommendation 6 of the Financial Action Task Force on Money Laundering and Terrorism Financing (FATF) (SB, Table 2). In addition, the CBI will, by end-December 2016, adopt regulations imposing AML/CFT preventives measures for licensed entities to implement the 2015 law in line with the relevant FATF Recommendations.

- As a second step, the CBI will develop its supervisory capacity to enhance the compliance by these entities with AML/CFT obligations. In this respect, it will adopt risk-based AML/CFT onsite inspection procedures by end-January 2017, and tools for AML/CFT offsite monitoring of licensed entities by end-April 2017. It will allocate 5 experienced supervisors to properly cover AML/CFT issues during onsite examinations and ensure effective implementation. The CBI will recruit 5 additional experienced supervisors by end-January 2017.

- The CBI, in coordination with the AML/CFT Council, will provide the Financial Intelligence Unit (AML Bureau) with all the necessary financial, human, and technical resources to ensure a fully operational and effectively functional unit. The CBI will provide an appropriate budget to the AML Bureau by end-December 2016. Furthermore, the AML Bureau will recruit 5 additional experienced financial analysts[14] by end-March 2017 to analyze the suspicious transactions reports and disseminate them on a timely basis to the law enforcement agencies. The AML Bureau will recruit 5 additional experienced financial analysts by end-March 2018.

- The government will adopt a comprehensive cash-couriers' regulation to implement the requirement of Article 34–35 of the AML/CFT Law and in line with FATF Recommendation by end-December 2016. The Customs Administration will then take the appropriate measures to effectively implement the regulation in order to detect the physical cross-border transportation of currency and bearer negotiable instruments that are suspected to be related to terrorist financing, money laundering or associated predicate offenses, or that are falsely disclosed.

[14] As per May 2016, the FIU has 7 analysts.

Program Modalities and Monitoring

46. To facilitate effective program implementation, the government requests a rephasing to move from quarterly to semi-annual reviews based on performance at mid- and end-year. Data requirements, including on timeliness, and the need to prepare audited data, make frequent reviews difficult, especially given the need to hold the reviews off-site (in Jordan). Hence, the government requests to move to semi-annual reviews and the associated rephasing of the arrangement to reduce the burden on the government to produce such data and also to allow more time for the reforms to be implemented and the data for program monitoring to be prepared. The semi-annual reviews would continue to have PCs on the non-oil primary balance, the stock of total public debt, the stock of net domestic assets of the CBI, official foreign exchange reserves, the non-accumulation of new external arrears, the stock of outstanding arrears to IOCs and two IT on social spending and the stock of outstanding domestic arrears on non-oil investment (Table 1). The program would also have indicative targets on all these variables at the end of the first and third quarters of the year. In light of the revised fiscal program in 2016 (¶29), the government proposes to modify the level of the PCs on the central government non-oil primary balance, the gross international reserves of the CBI, the net domestic assets of the CBI, and the gross public debt at end-December 2016. In light of experience, the government also proposes to modify the definition of the PC on the non-oil primary balance, total public debt, GIR and NDA and to add a few adjustors to the PC on non-oil primary balance, GIR and NDA (¶16). Each program review will set a few SBs in areas that are essential for the success of the program (Table 2 contains the list until the third review). The second review will take place on or after April 15, 2017, and the third review on or after October 15, 2017.

47. On the occasion of the second review, the authorities and IMF staff will: identify contingency measures in case oil export revenue will be lower than programmed in the 2017 budget (¶34); discuss legislative changes to contain the evolution of government and SOE employee wages and non-contributory pension payments (¶37); decide the pace of paying the arrears identified by the Ministry of Planning, in light of the results of the audit of these arrears by the BSA and the financing capacity of the government (¶38); and discuss the adequacy of direct lending by the CBI (¶44).

Table 1. Iraq: Performance Criteria and Indicative Targets Under the Stand-By Arrangement , 2016–17 [1/]

(In billions of Iraqi dinars, unless otherwise indicated)

	2016									2017							
	Jun				Sep			Dec		Mar		Jun		Sep		Dec	
	Prog.	Adj. Target	Est.	Status	Prog.	Est.	Status	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.	Rev. Prog.
Performance Criteria [2/]																	
Gross international reserves of the CBI (floor; eop stock, in millions of U.S. dollars) [3/]	39,298	40,546	47,626	Met	34,910			42,665	43,043	41,051	40,882	39,881	38,532	39,008	36,560	40,081	38,546
Net domestic assets of the CBI (ceiling; eop stock) [3/]	13,122	11,650	11,275	Met	17,200			7,184	11,051	9,303	13,040	11,028	15,961	12,438	18,534	11,781	16,250
Central government non-oil primary balance (floor) [4/ 5/]	(32,918)	(29,066)	...		(49,145)	...		(65,156)	(61,944)	(15,995)	(17,095)	(31,990)	(34,716)	(47,985)	(51,602)	(63,980)	(69,131)
Gross public debt (domestic and foreign) (ceiling; eop stock) [6/]	137,483	133,631	121,367	Met	142,208			143,584	130,639	147,708	135,571	152,942	140,364	162,213	143,891	167,278	147,809
New external arrears on existing / rescheduled debt and new borrowing (in millions of U.S. dollars; ceiling) [7/]	2300		2,112	Met	0	0.5	Not Met	0	0	0	0	0	0	0	0	0	0
Stock of outstanding arrears to international oil companies (in millions of U.S. dollars; ceiling)	3600		3,679	Not Met	0			0	0	0	0	0	0	0	0	0	0
Indicative Target																	
Social spending (floor) [4/ 8/]	7,434		6,854	Not Met	12,619			18,228	18,228	4,355	4,493	7,434	8,986	12,619	13,480	18,228	17,973
Stock of outstanding domestic arrears on non-oil investment (ceiling) [9/]	7500		4,491	Met	7,500			7,500	4,491	7,500	4,491	7,500	4,491	7,500	4,491	7,500	4,491
<u>Memorandum item:</u>																	
Transfer of the central government to the Kurdistan Regional Government [4/]	3,852		-		6,841			9,828	8,480	2,452	2,898	4,908	5,798	7,367	8,702	9,828	11,606
Total foreign financing and international contributions to fill the financing gap	(1,655)	-	(1,453)		(4,152)			4,422	(1,653)	390	1,924	1,134	2,776	7,484	3,677	10,739	9,123
External Financing [4/ 10/]	(1,655)		(1,453)		(5,660)			(1,375)	(4,875)	(314)	1,392	(628)	1,039	(527)	1,940	835	4,043
International contributions to fill the financing gap [4/ 10/]	-		-		1,508			5,797	3,222	704	532	1,761	1,737	8,011	1,738	9,904	5,080
Iraq oil export price (US$ / barrel, average for the quarter)	35.7		37.1		37.5			39.9	45.3	40.3	40.4	40.3	41.7	40.3	42.6	40.3	43.2
Oil export revenue [4/]	20,851		19,351		36,041			53,617	57,557	15,420	16,130	31,010	32,949	46,772	50,325	62,535	67,950
Expenditure financed by project loans [4/]	-		185		443			4,073	2,398	-	1,746	-	1,746	414	3,000	828	4,254

Source: Iraqi Authorities, and Fund Staff estimates and projections

1/ The attached Technical Memorandum of Understanding (TMU) provides definitions.

2/ The test dates for performance criteria are end-June and end-December; all variables for other test dates are indicative targets, except for September 2016 when they are performance criteria.

3/ The data at end-June 2016 was fully audited.

4/ Cumulative from January 1.

5/ For end-June and end-September 2016, it was not possible to assess the PC as designed. Therefore, starting December 2016, this PC will be assessed on a cash basis rather than on an accrual basis.

6/ The data at end-June 2016 was only partially audited.

7/ Continuous. The target is $3600 million during June 19-30, 2016 and then zero from July 1, 2016.

8/ See Table 3 for more details.

9/ The scope of this indicative target from June 2017 to December 2017 will be widened to include arrears on current non-oil spending in light of the results of the survey of domestic arrears scheduled for end-February 2017 (Table2).
The numbers for 2017 will be updated in light of the repayment schedule agreed in light of the audit of the validity of the surveyed arrears by the Board of Supreme Audit (BSA), also scheduled for end-February 2017.

10/ See Text Table 3 of the Staff Report and Table 4 of the MEFP for more details.

Table 2. Iraq: Prior Actions and Structural Benchmarks Under the Stand-By Arrangement, 2016–17			
Measures	Scheduled review by which the measure will be completed	Macroeconomic justification	Status
Proposed prior actions			
Implementation of tax policy measures yielding at least ID 0.15 trillion in 2016.	1st review	Increase non-oil tax revenue.	Met
Decision by the Acting Minister of Finance to increase the allocation for goods and services by ID 0.4 trillion, and reduce the allocations for transfers by ID 2 trillion, non-oil investment not financed by project loans by ID 1.7 trillion, and oil investment by national oil companies by ID 2.8 trillion in 2016, all compared to the amounts agreed in the SBA request, and communication of that decision to the concerned spending units.	1st review	Prevent the accumulation of arrears.	
Approval by the Council of Ministers and introduction to Parliament of a 2017 draft budget in line with the macroeconomic framework agreed on the occasion of the first review of the Stand-By Arrangement.	1st review	Preserve macroeconomic stability.	Met
Adoption by the Council of Ministers of a decision to require verification by the Board of Supreme Audit of all the arrears on non-oil investment identified by the Ministry of Planning and on wheat and ration card goods purchases identified by the Ministry of Trade before starting the payment of any of these arrears, in accordance with the procedures described in ¶38 of the Memorandum of Economic and Financial Polices (MEFP) for the 1st SBA review.	1st review	Strengthen governance.	Met
Proposed additional structural benchmarks			
Completion of a survey of all arrears of the central government, i.e. payment due for more than 90 days, until at least end-September 2016, including: (i) current spending (salaries, pensions, goods and services and capital purchases), managed by the Ministry of Finance; (ii) non-oil investments (projects and any associated penalties), managed by the Ministry of Planning; and (iii) spending managed by the Ministry of Oil. The Ministry of Finance will elaborate a consolidated report on all these arrears for the included ministries.	2nd review	Improve fiscal transparency.	
Audit by the Board of Supreme Audit of all the arrears on non-oil investment identified so far by the Ministry of Planning and on wheat purchases identified by the Ministry of Trade as listed in ¶21 of the MEFP for the 1st SBA review.	2nd review	Strengthen governance.	
Survey by the Debt Directorate of the Minister of Finance of all guarantees issued by the central government, comprising the amount of the guarantee, its maturity, the identity of the signatory of the guarantee, and the identity of the beneficiary of the guarantee.	2nd review	Strengthen debt management.	
External audit of the gross international reserves and the net domestic assets of the Central Bank of Iraq at end-December 2016 as defined in ¶¶6-7 of the TMU.	2nd review	Strengthen safeguards assessment.	
External audit of the total public debt at end-December 2016 as defined in ¶11 of the TMU, excluding arrears and external debt from the pre-2003 regime for which only partial documentation is available.	2nd review	Strengthen debt management.	

Table 2. Iraq: Prior Actions and Structural Benchmarks Under the Stand-By Arrangement, 2016–17 (concluded)

Measures	Scheduled review by which the measure will be completed	Macroeconomic justification	Status
Structural benchmarks			
Completion by the Ministry of Finance of fiscal reporting tables at end-December 2015, end-March 2016 and end-June 2016 in compliance with the IMF Government Finance Statistics Manual 2014.	1st review	Improve fiscal transparency.	Met
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, as specified in ¶25 of the MEFP of June 19, 2016.	1st review	Strengthen public financial management.	Met
Completion by the Board of Supreme Audit of an audit of the government wage earner payroll to identify ghost wage earners, i.e. people who perceive wages without legal or regulatory justification.	1st review	Decrease current expenditure.	Not met. Limited to central government employees and postponed to the 3rd review.
Completion by the Board of Supreme Audit of an audit of the government pensioner payroll to identify ghost pensioners, i.e. people who perceive wages without legal or regulatory justification.	1st review	Decrease current expenditure.	Not met. Postponed to the 3rd review.
Adoption by the Council of Ministers of a by-law to set up a mechanism to comply with the relevant United Nations Security Council resolutions related to terrorism and terrorism financing in line with Recommendation 6 of the Financial Action Task Force on Money Laundering and Terrorism Financing (FATF) .	1st review	Strengthen link with international financial system.	Met
Completion of a survey of all domestic arrears, i.e. payment due for more than 90 days, at end-June 2016, including: (i) current spending (salaries, pensions, goods and services and capital purchases), managed by the Ministry of Finance; (ii) non-oil investments (projects and any associated penalties), managed by the Ministry of Planning. The Ministry of Finance will elaborate a consolidated report on all these arrears for the included ministries.	1st review	Improve fiscal transparency.	Not met. Postponed to the 2nd review.
Decisions by the Minister of Finance and the Minister of Planning requiring all spending units to record all existing commitments.	2nd review	Improve cash management.	
Posting by the Ministry of Finance on its external website of the financial statements of the Development Fund for Iraq and Successor Account on December 31, 2015 audited according to international standards.	2nd review	Improve fiscal transparency.	
Approval by the Governing Council of the Central Bank of Iraq of a new charter for the Audit Committee prohibiting Central Bank of Iraq executive representation on the committee.	2nd review	Strengthen governance of the central bank.	
Approval by the Council of Ministers and introduction to parliament of draft amendments to the 2011 law establishing the Integrity Commission in order to strengthen its governance, accountability and oversight, and independence, and provide it with powers in line with the United Nations Convention against Corruption, as specified in ¶26 of the MEFP of June 19, 2016.	2nd review	Combat corruption.	
Ministry of Finance to produce a report of all recurrent and investment commitments (by project) in coordination with the Ministry of Planning.	2nd review	Improve cash management.	
Approval by the Council of Ministers and introduction to Parliament of amendments to the Law on the Central bank of Iraq to strengthen CBI governance and the internal control framework, in line with the IMF safeguards assessment's recommendations, as specified in ¶29 of the MEFP of June 19, 2016.	2nd review	Strengthen governance of the central bank.	
Approval by the Council of Ministers and introduction to Parliament of an amendment of the Investment Law, or issuance of clarifying implementing regulations by the Central Bank of Iraq, to remove the limitation on transfer of investment proceeds that gives rise to an exchange restriction.	2nd review	Improve the business environment by eliminating restrictions for current international transactions.	

Source: Iraqi authorities.

Table 3. Iraq: Social Spending [1/]

(In billions of Iraqi dinars, cumulative from the beginning of the year)

	2016					2017							
	Jun-16		Sep-16	Dec-16		Mar-17		Jun-17		Sep-17		Dec-17	
	Prog. [2/]	Est.	Prog. [2/]	Prog. [2/]	Rev. Prog.	Prog. [2/]	Rev. Prog.	Prog. [2/]	Rev. Prog.	Prog. [2/]	Rev. Prog.	Prog. [2/]	Rev. Prog.
Total Social spending (floor)	7,434	6,854	12,619	18,228	18,228	4,355	4,493	7,434	8,986	12,619	13,480	18,228	17,973
Social Safety Net	765	365	1,215	1,800	1,800	496	494	765	988	1,215	1,482	1,800	1,976
Public Distribution System (PDS - food subsidies)	450	0	900	1,485	1,485	556	381	450	762	900	1,143	1,485	1,524
Wheat and rice subsidy	270	300	630	1,080	1,080	396	342	270	684	630	1,027	1,080	1,369
Assistance and subsidy to Iraqi refugees	0	0	0	0	0	-	-	-	-	-	-	-	-
Assistance and subsidy to internally displaced persons	33	187	450	900	900	-	308	33	617	450	925	900	1,234
Farmer subsidies	45	35	180	405	405	-	110	45	221	180	331	405	441
Health Ministry and Environment Ministry- wages	1,260	1,343	1,889	2,520	2,520	668	615	1,260	1,230	1,889	1,845	2,520	2,460
Higher Education Ministry - wages	1,035	962	1,553	2,070	2,070	564	492	1,035	984	1,553	1,476	2,070	1,968
Lower Education Ministry - wages	3,149	3,438	4,724	6,300	6,300	1,676	1,456	3,149	2,912	4,724	4,369	6,300	5,825
Health Ministry and Environment Ministry- goods and services	324	114	864	1,350	1,350	-	222	324	445	864	667	1,350	889
Higher Education Ministry - goods and services	25	23	65	99	99	-	17	25	34	65	52	99	69
Lower Education Ministry - goods and services	77	85	149	219	219	-	55	77	109	149	164	219	219

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

1/ The attached Technical Memorandum of Understanding (TMU) provides definitions.

2/ IMF Country Report No. 16/225. Iraq: Staff Report for the First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement.

Table 4. Iraq: Central Government Fiscal Accounts, 2016-17

(In trillions of Iraqi dinars; unless otherwise indicated. Cumulative from the beginning of the fiscal year)

	2016						2017							
	March	June		Sep.	Dec.		March		June.		Sep.		Dec.	
	Prel. Est.	Prog. 1/	Est.	Prog. 1/	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.
Revenues and grants	7.0	25.6	22.4	43.4	64.0	66.0	18.3	18.8	36.9	38.4	55.5	58.6	74.2	79.1
Revenues	7.0	25.6	22.4	43.4	64.0	66.0	18.3	18.8	36.9	38.3	55.5	58.5	74.2	79.0
Oil	6.0	22.2	19.4	38.1	56.6	58.0	16.3	16.3	32.8	33.2	49.4	50.8	66.1	68.6
Non-oil	1.0	3.4	3.1	5.3	7.4	8.0	2.0	2.5	4.1	5.0	6.1	7.7	8.2	10.5
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.1
Expenditures	15.1	44.8	34.1	67.4	90.0	82.8	22.5	23.7	45.0	47.5	72.9	71.3	95.5	95.0
Current expenditures	12.5	33.8	27.8	50.9	68.0	66.2	16.9	17.4	33.8	34.8	56.1	52.2	73.1	69.6
Salary and pension	9.8	23.0	20.0	34.6	46.1	46.4	11.3	11.5	22.7	23.0	34.0	34.6	45.4	46.1
Salary	7.6	18.0	15.4	27.1	36.1	36.1	8.8	8.9	17.7	17.9	26.5	26.8	35.4	35.8
Pension	2.3	5.0	4.6	7.5	10.0	10.3	2.5	2.6	5.0	5.2	7.5	7.7	10.0	10.3
Goods and services	1.1	3.0	3.6	4.4	5.9	6.3	1.5	1.8	3.0	3.7	4.4	5.5	5.9	7.3
Transfers	1.2	6.6	3.3	9.9	13.2	11.2	3.3	3.3	6.6	6.7	9.9	10.0	13.2	13.3
Social safety net (including PDS)	0.3	3.2	0.3	4.7	6.3	6.3	1.6	1.7	3.2	3.4	4.7	5.1	6.3	6.8
Transfers to SOEs 2/	0.3	1.3	0.9	1.9	2.5	2.2	0.6	0.5	1.3	0.9	1.9	1.4	2.5	1.9
Other transfers	0.6	2.2	2.1	3.3	4.4	2.7	1.1	1.2	2.2	2.3	3.3	3.5	4.4	4.7
Interest payments	0.4	1.2	1.0	2.0	2.8	2.3	0.7	0.7	1.5	1.4	2.3	2.2	3.1	2.9
War reparations 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.4	0.0	5.4	0.0
Investment expenditures	2.6	11.0	6.3	16.5	22.0	16.6	5.6	6.4	11.2	12.7	16.8	19.1	22.4	25.4
Non-oil investment expenditures	0.1	3.7	0.7	5.5	7.4	4.0	1.9	2.9	3.8	5.9	5.7	8.8	7.6	11.7
Oil investment expenditures	2.5	7.3	5.6	11.0	14.7	12.6	3.7	3.4	7.4	6.8	11.1	10.3	14.8	13.7
Balance (including grants)	-8.2	-19.3	-11.7	-24.0	-26.0	-16.7	-4.1	-4.9	-8.1	-9.1	-17.4	-12.6	-21.2	-15.9
Balance (excluding grants)	-8.2	-19.3	-11.7	-24.0	-26.0	-16.7	-4.1	-4.9	-8.1	-9.2	-17.4	-12.7	-21.2	-16.0
Financing	8.2	19.3	11.5	24.0	26.0	16.7	4.1	4.9	8.1	9.1	17.4	12.6	21.2	15.9
External financing	0.2	-1.7	-0.2	-4.2	4.4	-1.7	0.4	1.9	1.1	2.8	7.5	3.7	10.7	9.1
Budget Loans	0.0	0.0	0.0	1.7	10.4	3.5	0.7	0.5	1.8	1.7	8.0	1.7	11.1	6.3
International Financial Institutions	0.0	0.0	0.0	1.5	1.9	3.2	0.4	0.0	0.4	1.0	0.4	1.0	1.6	3.1
Bilateral	0.0	0.0	0.0	0.2	7.3	0.3	0.3	0.5	1.4	0.8	7.6	0.8	8.3	0.8
Eurobond	0.0	0.0	0.0	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	2.4
Project Loans	0.1	0.0	0.3	0.4	0.9	2.4	0.0	1.7	0.0	1.7	0.4	3.0	0.8	4.3
Amortization	-0.5	-1.1	-0.5	-1.6	-2.1	-2.1	-0.3	-0.4	-0.6	-0.7	-0.9	-1.1	-1.3	-1.4
Assets held abroad	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR Holding	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Account payables	-0.8	-0.6	-1.6	-0.6	-0.6	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Arrears	1.4	0.0	1.6	-4.1	-4.1	-5.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	8.0	20.9	11.7	28.1	21.5	18.4	3.7	3.0	7.0	6.3	9.9	8.9	10.5	6.8
Bank financing	7.7	13.4	11.0	20.7	16.6	19.0	3.7	3.0	5.7	5.7	8.6	8.3	10.5	6.8
CBI	2.7	8.3	7.0	12.7	12.6	12.6	1.5	1.7	2.5	3.4	3.8	5.0	6.4	5.5
Loans	2.7	8.3	7.0	12.7	12.6	12.6	1.5	1.7	2.5	3.4	3.8	5.0	6.4	5.5
Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	5.0	5.1	4.0	8.0	4.0	6.4	2.3	1.3	3.2	2.3	4.9	3.3	4.1	1.3
Loans	3.0	5.1	2.1	8.0	0.0	0.0	2.3	1.3	3.2	2.3	4.9	3.3	4.1	0.9
Deposits	2.0	0.0	2.0	0.0	4.0	6.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Non-bank financing	0.0	7.5	0.0	7.5	7.5	0.6	0.0	0.0	2.5	1.3	2.5	1.3	2.5	1.3
Account payables	0.0	0.0	0.0	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	0.3	0.0	0.7	0.0	-2.5	-1.2	0.0	0.0	-1.3	-0.6	-1.3	-0.6	-2.5	-1.3
Financing gap:	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:														
Security-related expenditure (military and police equipment and salaries)	3.7	8.3	7.6	12.4	16.5	16.6	4.1	4.3	8.1	8.6	12.2	13.0	16.2	17.3
Social spending	2.8	7.4	6.9	12.6	18.2	20.3	4.4	5.0	7.4	10.0	12.6	15.0	18.2	20.0
Transfer to KRG	0.0	3.9	0.0	6.8	9.8	8.5	2.5	2.9	4.9	5.8	7.4	8.7	9.8	11.6
Non-oil primary expenditure	12.2	36.3	27.5	54.4	72.6	67.9	18.0	19.6	36.1	39.2	54.1	58.8	72.1	78.4
Non-oil primary fiscal balance, accrual basis	-11.2	-32.9	-24.5	-49.1	-65.2	-59.9	-16.0	-17.1	-32.0	-34.1	-48.0	-51.0	-64.0	-67.8
Non-oil primary fiscal balance, cash basis 4/	-10.9		-22.3			-61.9		-17.1		-34.7		-51.6		-69.1

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

1/ IMF Country Report No. 16/225. Iraq: Staff Report for the First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement; with the financing gap path modified to reflect unidentified financing only, upon the approval of the three-year SBA.

2/ Includes off-budget transfers to SOEs.

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

4/ The non-oil primary fiscal balance on cash basis adjusts the non-oil primary balance measured on accrual basis by: (a) subtracting the spending financed by arrears' accumulation during that period, and (b) adding the payment of arrears during the same period.

Table 5. Iraq: Balance of Payments, 2016-17

(In billions of U.S. dollars; unless otherwise indicated. Cumulative from the beginning of the fiscal year.)

	2016						2017							
	Mar.	Jun.		Sep.	Dec.		Mar.		Jun.		Sep.		Dec.	
	Est.	Prog. 1/	Rev. Prog.	Prog. 1/	Prog. 1/	Rev. Prog.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.
Trade balance	-2.9	-7.3	-2.7	-7.0	-4.7	-1.3	0.3	-0.9	0.6	-1.3	1.2	-1.1	1.7	-0.8
(In percent of GDP)														
Exports	5.2	17.8	16.6	30.7	45.6	49.1	13.1	13.8	26.4	28.1	39.8	42.9	53.3	57.9
Crude oil 1/	5.1	17.7	16.4	30.5	45.4	48.8	13.1	13.6	26.3	27.9	39.6	42.6	53.0	57.5
Other exports	0.1	0.1	0.2	0.2	0.2	0.4	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.4
Imports	-8.1	-25.1	-19.3	-37.7	-50.3	-50.5	-12.9	-14.7	-25.8	-29.3	-38.7	-44.0	-51.5	-58.7
Private sector imports	-5.7	-15.7	-14.0	-23.6	-31.5	-37.7	-7.9	-10.2	-15.7	-20.5	-23.6	-30.7	-31.5	-41.0
Government imports	-2.4	-9.4	-5.3	-14.1	-18.8	-12.8	-5.0	-4.4	-10.0	-8.9	-15.0	-13.3	-20.0	-17.7
Services, net	-1.7	-5.7	-4.0	-8.6	-11.5	-10.4	-2.8	-3.1	-5.6	-6.1	-8.4	-9.2	-11.2	-12.3
Receipts	1.0	1.4	2.4	2.1	2.8	6.3	0.8	1.6	1.7	3.3	2.5	4.9	3.3	6.5
Payments	-2.7	-7.1	-6.4	-10.7	-14.3	-16.8	-3.6	-4.7	-7.2	-9.4	-10.9	-14.1	-14.5	-18.8
Income, net	-0.2	-0.2	-0.4	-0.3	-0.4	-0.9	-0.2	-0.3	-0.5	-0.6	-0.7	-0.9	-1.0	-1.2
Transfers, net	0.1	0.0	0.3	0.0	0.0	0.8	0.0	0.3	0.0	0.7	-4.6	1.0	-4.6	1.2
Private, net	0.1	0.0	0.3	0.0	0.0	0.5	0.0	0.1	0.0	0.2	0.0	0.3	0.0	0.4
Official, net	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.2	0.0	0.5	-4.6	0.7	-4.6	0.8
Current account	-4.7	-13.3	-6.9	-15.9	-16.5	-11.9	-2.8	-4.0	-5.4	-7.3	-12.5	-10.3	-15.0	-13.1
(In percent of GDP)														
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	1.3	-0.2	2.1	0.0	1.1	5.8	0.6	1.9	1.1	2.8	2.1	3.8	3.0	8.6
Direct and portfolio investment (net) 2/	0.6	-0.6	1.2	-0.9	-1.2	-1.2	0.3	0.1	0.5	0.3	0.8	0.4	1.0	0.5
Other capital, net	0.6	0.3	1.0	0.9	2.3	7.0	0.3	1.7	0.6	2.6	1.3	3.4	2.0	8.1
Official, net	-0.3	-0.9	-0.2	-1.0	-0.2	4.0	-0.3	1.6	-0.5	2.3	-0.4	3.1	-0.4	7.6
Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	-0.3	-0.9	-0.2	-1.0	-0.2	4.0	-0.3	1.6	-0.5	2.3	-0.4	3.1	-0.4	7.6
Disbursements 3/	0.1	0.0	0.3	0.4	0.8	5.0	0.0	1.9	0.0	2.9	0.4	4.0	0.7	8.9
Amortization	-0.4	-0.9	-0.4	-1.3	-1.0	-1.0	-0.3	-0.3	-0.5	-0.6	-0.8	-0.9	-1.1	-1.3
Private, net	0.9	1.2	1.1	1.9	2.5	3.0	0.6	0.1	1.2	0.2	1.8	0.3	2.4	0.4
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-3.4	-13.5	-4.8	-15.9	-15.4	-6.0	-2.2	-2.2	-4.3	-4.5	-10.4	-6.5	-12.0	-4.5
(In percent of GDP)														
Financing	3.4	13.5	4.8	15.9	15.4	6.0	2.2	2.2	4.3	4.5	10.4	6.5	12.0	4.5
Development Fund for Iraq (increase -) 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross International Reserves (increase -)	3.1	14.1	6.1	18.5	10.7	10.7	1.6	2.2	2.8	4.5	3.7	6.5	2.6	4.5
Fund credit (net)	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears (negative = decrease)	1.1	0.0	0.1	-3.5	-3.5	-4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in accounts payables (negative = decrease)	-0.7	-0.5	-1.3	-0.5	-0.5	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Financing gap	0.0	0.0	0.0	1.3	4.9	0.0	0.6	0.0	1.5	0.0	6.8	0.0	8.4	0.0
Memorandum items:														
GIR (end of period) 5/	50.6	39.3	47.6	34.9	42.7	43.0	41.1	40.9	39.9	38.5	39.0	36.6	40.1	38.5

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

1/ IMF Country Report No. 16/225. Iraq: Staff Report for the First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement.

2/ Includes planned issuances of Eurobonds in 2016-2017.

3/ Includes prospective disbursements from the IMF, WB and other donors in 2016-2017.

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, 2016-17

(In trillions of Iraqi dinars; unless otherwise indicated)

	2016						2017							
	Mar.	Jun.		Sep.	Dec.		Mar.		Jun.		Sep.		Dec.	
	Est.	Prog. 1/	Rev. Prog.	Prog. 1/	Prog. 1/	Rev. Prog.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.
Net foreign assets	69,390	68,970	66,888	66,622	61,928	57,650	59,944	56,091	58,622	55,052	57,740	54,359	55,977	52,973
Of which: CBI	56,694	46,722	53,208	41,544	50,694	46,416	48,789	43,863	47,409	41,084	46,379	38,754	47,645	41,101
Net domestic assets	18,387	20,774	21,755	24,021	29,622	30,884	33,161	32,909	36,038	34,448	38,476	37,141	41,794	39,917
Domestic claims	25,069	38,235	29,595	45,514	41,435	38,884	45,626	42,617	50,421	47,041	53,545	49,989	55,806	49,117
Net claims on general government	-352	12,693	4,222	19,972	15,893	11,322	19,628	14,330	24,119	18,271	27,039	20,897	28,895	19,381
Claims on general government	32,509	49,439	34,643	56,718	48,639	41,698	52,373	44,706	56,864	48,647	59,785	51,273	61,640	49,341
less: Liabilities to general government	-32,861	-36,746	-30,421	-36,746	-32,746	-30,376	-32,746	-30,376	-32,746	-30,376	-32,746	-30,376	-32,746	-29,960
Claims on other sectors	25,421	25,542	25,373	25,542	25,541	27,563	25,998	28,287	26,303	28,770	26,506	29,092	26,912	29,736
Other Item Net (OIN)	-6,682	-17,461	-7,840	-21,492	-11,813	-8,000	-12,465	-9,708	-14,383	-12,593	-15,069	-12,848	-14,013	-9,200
Broad money	87,777	89,743	88,643	90,643	91,550	88,534	93,105	89,000	94,660	89,500	96,216	91,500	97,771	92,890
Currency outside banks	37,518	34,827	39,959	34,164	33,643	35,633	32,650	34,121	32,287	33,616	32,220	33,460	32,278	33,201
Transferable deposits	36,241	38,517	34,559	39,613	40,614	37,103	42,401	38,490	43,747	39,195	44,885	40,707	45,935	41,864
Other deposits	14,019	16,400	14,125	16,866	17,293	15,798	18,054	16,389	18,627	16,689	19,111	17,333	19,558	17,825

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

1/ IMF Country Report No. 16/225. Iraq: Staff Report for the First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement.

Table 7. Iraq: Central Bank Balance Sheet, 2016-17

(In trillions of Iraqi dinars; unless otherwise indicated)

	2016						2017							
	Mar.	Jun.		Sep.	Dec.		Mar.		Jun.		Sep.		Dec.	
	Est.	Prog. 1/	Rev. Prog.	Prog. 1/	Prog. 1/	Rev. Prog.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.
Net foreign assets	56,694	46,722	53,208	41,544	50,694	46,416	48,789	43,863	47,409	41,084	46,379	38,754	47,645	41,101
Foreign assets	60,042	46,738	56,565	41,560	50,705	51,243	48,799	48,689	47,419	45,910	46,389	43,580	47,656	45,928
Official reserve assets	59,675	46,372	56,199	41,193	50,345	50,876	48,440	48,323	47,060	45,544	46,029	43,214	47,296	45,562
Gold	4,222	3,771	4,508	3,843	3,916	3,916	3,994	3,994	4,073	4,073	4,151	4,151	4,229	4,229
Other	54,929	42,601	51,169	37,350	46,429	45,701	44,445	43,069	42,987	40,212	41,878	37,803	43,067	40,073
SDR holdings and reserve position in the Fund	524	0	521	0	0	1,260	0	1,260	0	1,260	0	1,260	0	1,260
Other foreign assets	366	366	366	366	360	366	360	366	360	366	360	366	360	366
Foreign liabilities	-3,348	-16	-3,357	-16	-10	-4,826	-10	-4,826	-10	-4,826	-10	-4,826	-10	-4,826
Net domestic assets	2,280	11,118	7,012	15,196	5,180	12,763	7,299	14,752	9,024	17,673	10,434	20,246	9,777	17,962
Domestic assets	8,410	12,535	11,762	17,059	17,310	17,810	18,766	19,530	19,821	21,167	21,090	22,797	23,705	23,305
Net claims on general government	8,316	12,440	11,673	16,964	17,215	17,715	18,671	19,435	19,726	21,072	20,995	22,702	23,610	23,210
Loans to central government	2,356	2,366	2,356	2,316	2,266	2,729	2,266	2,729	2,266	2,729	2,266	2,729	2,266	2,729
Holdings of discounted treasury bills	11,225	14,538	13,225	18,961	18,811	18,847	20,267	20,572	21,322	22,209	22,591	23,839	25,206	24,347
Other claims	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Domestic currency deposits	-1,868	-1,668	-1,435	-1,517	-1,066	-1,066	-1,066	-1,066	-1,066	-1,066	-1,066	-1,066	-1,066	-1,066
Foreign currency deposits	-3,397	-2,796	-2,473	-2,796	-2,796	-2,796	-2,796	-2,800	-2,796	-2,800	-2,796	-2,800	-2,796	-2,800
Monetary policy instruments 2/	-6,165	587	-6,264	142	-10,126	-6,759	-9,463	-6,490	-8,793	-5,206	-8,652	-4,263	-11,924	-7,055
Other items net	36	-2,004	1,514	-2,004	-2,004	1,712	-2,004	1,712	-2,004	1,712	-2,004	1,712	-2,004	1,712
Reserve money	58,974	57,840	60,220	56,740	55,874	59,179	56,088	58,615	56,433	58,757	56,813	59,000	57,422	59,063
Currency in circulation	40,644	38,008	43,143	36,674	35,593	42,548	35,425	41,687	35,483	41,678	35,619	41,598	36,004	41,414
Bank reserves	18,330	19,832	17,078	20,066	20,281	16,631	20,663	16,928	20,951	17,079	21,194	17,402	21,418	17,649
Memorandum items														
Gross foreign exchange assets (in millions of U.S. dollars) 3/	50,642	39,298	47,626	34,910	42,665	43,043	41,051	40,882	39,881	38,532	39,008	36,560	40,081	38,546

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

1/ IMF Country Report No. 16/225. Iraq: Staff Report for the First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement.

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

3/ See Table 8 of the Staff Report, footnote 3, for coverage.

Attachment II. Technical Memorandum of Understanding

1. This memorandum defines the quantitative performance criteria (PCs) and indicative targets (ITs) for the economic program of the Iraqi authorities during the period December 2016–December 2017 under the Stand-By Arrangement (SBA). These PCs, presented in Table 1 of the Memorandum of Economic and Financial Policies (MEFP) attached to the Letter of Intent dated November 20 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. Performance Criteria and Indicative Targets

2. The PCs 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 ceiling on the stock of outstanding arrears to international oil companies (IOCs);

(v) a continuous ceiling on new external payments arrears on any existing, rescheduled and new debt of the central government and/or the CBI; and

(vi) a ceiling on the total gross public debt (domestic and foreign).

3. The indicative targets are the following:

(i) a floor on the central government social spending; and

(ii) a ceiling on the stock of outstanding domestic arrears on non-oil investment expenditure.

B. Definitions

4. An exchange rate set at Iraqi dinar (ID) 1,182 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 to U.S. dollars at their respective SDR-exchange rates prevailing as of November 20, 2016, as published on the IMF's website. The same rules will be used to convert external debt related parameters.

5. For monitoring purposes, unless specified otherwise, central government is defined to include the central administration, the Kurdistan Regional Government (KRG), as well as agencies included under Section 6 of the federal government budget (the local boards, Iraqi media network,

Iraqi national Olympic committee, Bait-Al-Hikma, Ammant Baghdad, Municipality institutions, as well as the General directorates of sewage and water).

6. **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 (¶4).

7. **Net domestic assets (NDA) of the CBI** is defined as the difference between reserve money and net foreign assets. For the purpose of this SBA, net foreign assets of the CBI are defined as the difference between the sum of: (i) gross international reserves as defined ¶6 and (ii) other foreign assets, and (iii) foreign liabilities. Foreign liabilities are the sum of the use of Fund credit (net), and other foreign liabilities of the CBI held by non-residents.

8. **The central government non-oil primary balance** is defined as the difference between non-oil revenue and non-oil primary expenditure measured on a cash basis. 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 and payment of arrears, excluding (i) interest payments on domestic and external debt; and (ii) all oil-related spending (including war reparations).

9. **Arrears outstanding to international oil companies (IOCs)** are defined as bills of IOCs validated by the Ministry of Oil and due for more than three months after their invoice. IOCs include the Basra Gas Company.

10. **New external payments arrears on rescheduled debt and new external debt contracted or guaranteed by the central government, excluding the KRG, and/or by the CBI** are defined as follows:

- External payment arrears consist of external debt service obligations (principal and interest) falling due that have not been paid within the grace period specified in the contractual agreements falling due after June 30, 2016.

- As set out in the Guidelines on Public Debt Conditionality in Fund Arrangements, paragraph 8, adopted by Executive Board Decision No. 15688-(14/107) of 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.

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

11. The **total public debt contracted or guaranteed by the central government** is defined as follows:

- The term "debt" is defined as in the preceding paragraph (¶10).

- Total public debt is the sum of domestic and external debt, with external and domestic debt defined based on the residency of the creditor.

- Total public debt excludes the debt contracted by the KRG.

- Total public debt includes the claims of the CBI on the central government.

- Total public debt includes the arrears as defined in ¶¶9 and 13.
- Total public debt excludes short-term supplier related credit (less than 90 days).

12. **Social spending** (Table 3 of the MEFP) is defined as the sum of expenditure on the social safety net, the public distribution system, wheat and rice subsidies, assistance subsidies to Syrian refugees and the internally displaced, farmer subsidies, and wage expenditure and goods and services of the health, environment and the higher and lower education ministries. The annual targets will be set at 90 percent of the above expenditure in the budget agreed to under the SBA. Expenditure will be measured at the time the Ministry of Finance transfers the money to the spending units.

13. The **stock of outstanding domestic arrears on non-oil investment expenditure** is the value of unpaid bills related to non-oil investment for more than 90 days after their invoice, as measured by the regular surveys of the Ministry of Planning.

C. Adjustors

14. The floor on the central government non-oil primary balance and the ceiling on total public debt will be adjusted if the actual amount of the transfer of the central government to the KRG is less than the programmed amount. In that case, the floor on the central government non-oil primary balance will be adjusted upwards, and the ceiling on the total public debt will be adjusted downwards, by the absolute amount of the difference.

15. The floor on the central government non-oil primary balance will be adjusted upwards (downwards) if the actual amount of the expenditure financed by project loans is less (more) than the programmed amount. In that case, the floor on the central government non-oil primary balance will be adjusted upwards (downwards) by the absolute amount of the difference.

16. The ceilings on the stock of net domestic assets (NDA) of the CBI will be adjusted upwards in case foreign financing, defined for purposes of this paragraph and the three following paragraphs as the sum of external financing and international contributions to fill the financing gap as indicated in Table 1 of the MEFP, is lower than programmed to a limit of ID 1.18 trillion. The size of the adjustment 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.

17. The ceiling on the stock of net domestic assets (NDA) of the CBI will be adjusted downward in case: (i) foreign financing and/or (ii) oil export revenue is higher than programmed. The size of the adjustment will be equal to the difference between the observed and programmed value of foreign financing and/or oil export revenue.

18. 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 billion. The size of the adjustment 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.

19. The floor on the stock of gross international reserves of the CBI will be adjusted upward in case: (i) foreign financing and/or (ii) oil export revenue is higher than programmed. The size of the adjustment will be equal to the difference between the observed and programmed value of foreign financing and/or oil export revenue.

D. Provision of Information to the Fund Staff

20. To monitor developments under the SBA, the authorities agree to provide the Fund, the information specified below after the approval of the SBA. The economic adjustment program of the Iraqi authorities is designed with quarterly PCs and ITs and the actual outcome should be provided within eight 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 later than three weeks after the end of the reference period.

Real Sector

- 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 later than two months after the end of the reference month.

- Indicators of non-oil real economic activity (quarterly), including production of cement, fertilizers, and electricity, reported no later than two months after the end of the reference month.

- Total GDP, reported no later than twelve weeks after the end of the reference quarter.

- Consumer price index (CPI), including indices for main cities (monthly). These should be reported no later 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 later than 2 weeks after the end of the reference week. The value of the CBI gross foreign exchange reserves as defined in ¶6 at the end of each semester will be audited by the CBI's external auditor and transmitted to the Fund within three months.

- The monthly balance sheet of the CBI, with a month lag. The value of the CBI net domestic assets as defined in ¶7 at the end of each semester will be audited by the CBI's external auditor and transmitted to the Fund within three months.

- The monthly consolidated balance sheet of the other depository corporations (commercial banks), with an eight-week lag.

- The monthly 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 (monthly), with an eight-week lag.

- The latest balance sheet and income statement (quarterly) 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 and income statement (quarterly) 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

- Monthly fiscal reporting tables presented in line with the 2014 IMF Government Financial Statistics Manual, with an eight-week lag.

- 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 reported on a monthly basis;

    b) transfers to and from the KRG reported on a monthly basis;

    c) social spending as defined in ¶12 and total transfers (including in support of the social safety net—public distribution system—the internally displaced, and on refugees;

d) domestic payments arrears on non-oil investment expenditures, as documented by the survey of the Ministry of Planning, defined in ¶13.

e) payments and/or arrears in payments to international oil companies as defined in ¶9 on a quarterly basis with an eight-week lag;

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) other forms of multilateral and bilateral assistance, exceptional financing resources, and other financing resources (such as issuance of domestic or foreign bonds, loans securitized by futures oil revenue, etc.);

j) balances of all government accounts held at the CBI and the commercial banks (including government and/or line ministry deposits, and those of spending and sub-sending units);

k) amounts related to all off-budget and on-budget advances; and

l) 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 two months after the end of the reference month.

Balance of Payments

- A preliminary quarterly balance of payments, compiled by the CBI, should be provided three months after the end of the reference quarter.

- Foreign trade statistics (imports, exports, re-exports) (quarterly). This should be reported no later than eight weeks after the end of the reference quarter.

- Amount of total imports of petroleum products financed from the budget and total value of imports of petroleum products on a quarterly basis starting with the first quarter of 2016. These data should be reported no later than eight weeks after the end of the reference quarter.

- Detailed data on disbursement of external assistance (both project and budget financing) from all external creditors and donors and foreign debt amortization and interest payments made. These data should be reported on a monthly basis no more than eight weeks after the end of the reference month.

Public Debt

- Stock of public debt as defined in ¶11 on a quarterly basis with the audited value at end-June and end-December transmitted to the Fund within three months.

- 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

21. Structural benchmarks comprise a critical component of the SBA. 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

22. 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.