

International Monetary Fund

[Iraq](#) and the IMF

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[IMF Executive Board
Completes Fifth
Review and Review
of Financing
Assurances under
Iraq's Stand-By
Arrangement, and
Approves Three-
Month Extension of
the Arrangement to
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August 2, 2007

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

July 17, 2007

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Baghdad, July 17, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Rato:

1. The Executive Board of the IMF approved a request for a Stand-By Arrangement (SBA) for Iraq on December 23, 2005. The first and second reviews under the SBA were completed on August 2, 2006, and the third and fourth reviews were completed on March 12, 2007. To allow more time to reach the objectives and complete the reforms under the SBA, the period of the arrangement was extended to September 28, 2007.
2. Despite the implementation of a new security plan in recent months, the security situation remains difficult. Nevertheless, we managed to make further progress in implementing our economic program supported by the SBA. Inflation, which rose to worrisome heights in 2006, has started to abate but additional actions are needed to bring it down further as described in the attached third Supplementary Memorandum of Economic and Financial Policies (SMEFP).
3. In order to keep a policy framework in place during discussions for an envisaged successor arrangement, we request an extension of the current SBA by three months to December 28, 2007. Completion of the final review of three years of implementation of upper credit tranche Fund arrangements by end-December 2008, will allow us to benefit from the last stage of the 2004 Paris Club debt reduction agreement. We intend to continue to treat the SBA as precautionary (i.e., we do not intend to make the purchases under the SBA that will become available after observance of its performance criteria and completion of the fifth review).
4. Iraq has met all quantitative performance criteria set for end-March 2007. The structural performance criterion on completion by May 31, 2007 of an audit of the net international reserves of the Central Bank of Iraq (CBI) was met, and the interim audit report of the CBI 2006 financial accounts was completed on July 15. The structural performance criterion for end-June, 2007 on adopting a chart of accounts and budget classification in line with the IMF's *Government Finance Statistics Manual 2001*, and the structural performance criterion on completion of a census of all public service employees by end-June 2007 were, however, missed.

5. On the basis of corrective actions being undertaken as specified in the third SMEFP, we would like to request waivers for the nonobservance of these performance criteria, and completion of the fifth review under the SBA. We also request a waiver of applicability of end-June quantitative performance criteria and establishment of the quantitative performance criteria proposed in the third SMEFP for end-September 2007, as well as the rescheduling and redefinition of the missed performance criterion on completion of the census of all public service employees, as described in the third SMEFP.

6. In the period ahead, we shall strive to implement our investment program to increase oil-production, reduce inflation further, maintain a sustainable fiscal stance, and undertake reforms needed to spur the non-oil economy. We will continue to refrain from explicit budgetary subsidies on fuel products (except kerosene), as agreed under the program. To this end, we have raised the domestic prices of regular and blended gasoline and diesel as of July 1, 2007, as specified in the third SMEFP. We are paying special attention to the measures needed to facilitate private sector imports of gasoline. We will also make every effort to have the amendments to the pension law, as agreed with Fund staff, passed by the Council of Representatives as soon as possible.

7. We believe that the policies and measures set forth in the attached memorandum will allow achieving the objectives under the SBA. However, we stand ready to take any additional measures that may be needed to ensure that the program remains on track. We will consult with Fund staff on adoption of such measures in advance of revisions to the policies contained in the third SMEFP, in accordance with the Fund's policies on such consultation. We will provide the Fund with such information as it requests on policy implementation and achievement of program objectives. We consent to the publication of this letter, the third SMEFP, the attached Addendum to the Technical Memorandum of Understanding, and the staff report on the 2007 Article IV consultation and the fifth review under the SBA.

8. Finally, we wish to thank the Fund for its support of Iraq's economic program under these difficult circumstances. We look forward to continue our engagement with the Fund through the regular Article IV consultation process and technical assistance. We will also seek a successor to the present arrangement, for which we intend to initiate negotiations in the fall, to achieve macro-economic stability, continue our economic reform program, and reach the third and last stage of the 2004 Paris Club debt reduction agreement.

Sincerely yours,

/s/

Dr. Sinan Al-Shabibi
Governor of the Central Bank of Iraq

/s/

Mr. Baqir S. Jabr Al-Zubaydi
Minister of Finance of Iraq

**IRAQ—THIRD SUPPLEMENTARY MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES
FOR 2007**

July 17, 2007

I. INTRODUCTION

1. This memorandum supplements the Memorandum of Economic and Financial Policies for 2005–06 (MEFP) and the first and second supplements thereto, annexed to our letters dated December 6, 2005, July 15, 2006, and February 23, 2007, respectively. It describes additional economic objectives and policies agreed in the context of the fifth and final review under the Stand-By Arrangement (SBA). Policies and unfulfilled commitments specified in the MEFP and previous supplements continue to be part of the program.

II. RECENT DEVELOPMENTS UNDER THE STAND-BY ARRANGEMENT

2. Macroeconomic stability came under pressure in 2006 with the pronounced deterioration in the security situation but decisive policy actions since mid-November have put inflation on a downward path. The Central Bank of Iraq (CBI) has tightened its monetary policy stance and allowed the exchange rate to appreciate, while the Government of Iraq (GoI) has kept its spending under control. Also, we have taken measures to reduce fuel shortages. As a result, annual consumer price inflation has come down to 46 percent in June, after reaching about 66 percent in January 2007. The core inflation rate (excluding fuel and transportation) has come down to 19 percent.

3. Lower-than-expected crude oil production has continued to suppress real GDP growth. Economic growth is estimated at 6¼ percent in 2006, compared to 10½ percent projected at the outset of the program. Security, technical, and other difficulties in undertaking the necessary investments kept average oil output at 2 million barrels per day (mbpd), below the target of 2.3 mbpd. Although crude oil production recovered in March and April, it averaged only 1.9 mpbd in the first four months of 2007. Based on indicators for the production of cement, fertilizer, and electricity the non-oil real GDP growth rate is estimated at 7½ percent in 2006. Non-oil real GDP growth is expected to continue at a rate of 5 percent in 2007.

4. The GoI has run a fiscal surplus through March 2007 because of continued underspending but budget execution accelerated in April. Oil revenue was broadly on target, with lower-than-projected production volumes compensated by higher-than-expected prices. Revenues of oil-related state owned enterprises were in line with full cost recovery of fuel imports. The mechanism of funding fuel imports through a revolving credit to the Ministry of Oil (MoO) has worked well, although the disbursement from the Ministry of Finance (MoF) exceeded the indicative target. The indicative target for kerosene was exceeded by a small margin. Non-oil revenue was in line with developments in the tax base.

5. The CBI has gradually appreciated the exchange rate to a level of ID 1,250 per dollar at end-June 2007, a 15 percent appreciation since mid-November 2006. Net international reserves continued to grow and reached a level of \$19.7 billion at end-April 2007. The CBI also raised its policy interest rate in two steps to 20 percent as of early January this year.

6. All quantitative performance criteria set for end-March 2007 were met (Table 1). The structural performance criterion set for end-May on completing a final audit of the CBI net international reserves as at December 31, 2006, was met and the structural performance criterion on completing the interim audit report of the CBI 2006 financial accounts was also met albeit with a delay. However, the structural performance criteria set for end-June 2007 on completion of a census of all public sector service employees (central government and military), and on adoption of a fully detailed budget classification and chart of accounts in line with the IMF's *GFSM 2001*, within a cash accounting framework, were missed (Table 2).

III. ECONOMIC AND FINANCIAL POLICIES IN 2007

7. The GoI's main macroeconomic policy objectives continue to be maintaining fiscal sustainability, further reducing inflation, and accelerating oil sector and other reforms to increase economic growth.

8. In the implementation of the 2007 budget, we are focusing on the need to increase investment, notably in the oil sector, which is key to achieving our growth objective and generating sufficient revenues to maintain fiscal sustainability. We have already taken a number of measures to increase the implementation rate of investment projects. In particular, the cabinet sub-committee on investment has accelerated the approval of large investment projects; the procurement period has been reduced from 60-90 days to no more than 30 days; the thresholds for projects that can be approved at the line-ministry or governorate level has been raised significantly; and budget allocations are being made available to the line ministries on a timely basis. In light of the gestation period of new investment projects in the oil sector and the continued unsettled security situation, however, we expect average crude oil production in 2007 to increase to 2.1 mbpd.¹

9. The GoI will continue keeping current spending within the 2007 budget limits. To this end, we will continue resisting undue wage and pension increases and bonuses, and strictly limit hiring, including in public enterprises, in order to keep the wage bill within the budgeted amount. Direct subsidies on fuel products will be avoided (except for a small subsidy for kerosene).

10. These policies, and taking account of the effect of a further appreciation of the exchange rate on oil revenues, should keep the overall government budget deficit below 10 percent of GDP. In case of a sizable shortfall of oil revenues or the need to reallocate capital expenditure, we intend, in consultation with Fund staff, to submit a supplementary

¹ Projects in the oil sector include the rehabilitation of 120–150 oil wells in the South.

budget to the Council of Representatives (CoR), in order to adjust government spending and keep the overall deficit in line with the level targeted in the 2007 budget. By the end of 2007, we aim to hold the equivalent of about ID 6 trillion in assets in the Development Fund for Iraq (DFI). To keep the option of domestic financing of the deficit open and maintain a market indicator for interest rates, we will step up the bi-weekly issuance of treasury bills to ID 150-200 billion.

11. We are committed to achieving a further reduction of inflation through the appropriate management of the exchange rate. The CBI will continue to allow the exchange rate to appreciate gradually in the coming months. We will closely monitor the effect of this policy on the dollarization of the economy and inflation, and will adjust the pace of appreciation as needed. While we consider the exchange rate the CBI's main policy instrument to bring down inflation, we will also stand ready to further increase the CBI's policy interest rate, if the inflationary situation requires this. The government will continue to support the anti-inflation policies of the CBI by avoiding to put excessive demand pressures on the economy and by taking further measures to reduce commodity shortages, in particular of fuel products.

12. The GoI will take further steps to facilitate private sector imports of petroleum products. We have issued some 20 licenses to private importers of fuel products and expect to issue more in the coming months. We will continue to make available to the private sector storage facilities and pump stations, and will respond promptly to any impediments to the importation of fuel products by the private sector. While private imports in the Kurdish region have begun, the security situation in other parts of the country remains a deterrent for getting the private sector involved in the importation of fuel products.

13. We have raised the domestic prices of fuel products to eliminate direct budgetary subsidies, except for a small subsidy on kerosene (Table 3). A further adjustment was made as of July 1 to bring domestic fuel prices closer to the regional average. By that date, regular gasoline was priced at ID 400 per liter, blended gasoline at ID 450 per liter, and diesel at ID 400 per liter. The State Oil Marketing Organization (SOMO) will continue to use the revolving credit with a ceiling of ID 400 billion provided by the MoF to finance its imports of fuel products. The GoI is willing to consider developing a rule-based mechanism for setting domestic fuel prices in the future. In the coming months we will seek technical assistance on the design and implementation of such a mechanism.

14. The GoI is determined to adopt soon a new chart of accounts and budget classification that is consistent with the Fund's *GFSM 2001*, within a cash accounting framework (structural performance criterion for end-June 2007). The MoF has started using the Financial Management Information System (FMIS) on a trial basis in January 2007 but the existing legacy system will continue to be used by spending agencies in parallel for the time being. The MoF has also adopted a plan to increase coverage of spending units not yet connected to the FMIS, which is currently being implemented. We are also working on entering opening balances and budget transfers in the FMIS and are reviewing the accuracy of the system's output. In order to supplement the functionality offered by the existing FMIS, we are in the process of developing user requirements for a purchasing and a budget module.

15. We are actively seeking to have the amendments to the new pension law enacted by the CoR as soon as possible. The amendments provide for a gradual reduction of replacement rates to fiscally sustainable levels and zero indexation in 2007, in line with earlier understanding with Fund staff. An extra-budgetary pension fund will be created, which will receive all pension contributions but will only pay out to new pensioners, while the budget will continue to be responsible for paying existing pensioners. These changes allow the pension outlays to stay within the budgeted envelope for 2007. We are committed to managing the extrabudgetary fund in a transparent manner, in line with international best practices, and will seek technical assistance from the IMF and the World Bank in this area.

16. The census for public sector employees (structural performance criterion for end-June 2007) has not yet been completed. This project turned out more complicated and time-consuming than initially foreseen as it is linked to the preparations for setting up a computerized government payroll. Also, the security situation has caused unexpected delays, in particular by disrupting the operations of the MoF Information Technology Department. Nevertheless, the preparations for the census have been completed and the census questionnaires have been sent to most relevant government agencies. We envisage to complete the data collection phase of the census (i.e., the completed questionnaires have been received back from the government agencies) by end-November 2007.

17. We are making progress in implementing the new Social Safety Net. To date more than 1 million families have been identified and received cash payments (of up to \$80 per month) under the program. This year, we aim to extend coverage to 1.5 million families. We remain committed to further rationalizing the Public Distribution System and have taken some measures in that regard. As a start, we have cancelled eligibility for support of some of the most well-off individuals (ministers, members of the CoR, and others).

18. We are developing a medium-term tax reform strategy. To this end, we have set up a Tax Policy Unit at the MoF and we are receiving technical assistance from international partners, including the IMF. We aim to develop a strategy that will equip Iraq with a tax system that significantly improves revenue collection while at the same time is conducive for economic development. Our tax strategy will cover the oil sector, personal and non-oil corporate income, and consumption taxes, as well as measures to strengthen the tax and customs administrations. We are considering to introduce a sales-tax as a precursor to a value added tax.

19. Ernst and Young (E&Y) has finalized the audit of the net international reserves data reported to the Fund as of December 31, 2006 (including a full count by the auditor of gold and foreign exchange holdings at the CBI) on May 20. It has also issued an interim audit report of the 2006 CBI financial statements in accordance with International Standards on Auditing on July 15. However, we missed the target date by a few weeks (performance criterion for end-May 2007). We intend to implement in full all recommendations provided in the final audit report of the 2006 CBI financial statements during the course of this year. The capital of the CBI was increased to the statutory level of ID 100 billion in late February (structural benchmark for end-December 2006).

20. We continue to address key concerns raised in the interim safeguards assessment report and the management letters from E&Y. The CBI Board recently adopted a timetable for full implementation of International Financial Reporting Standards as the CBI's financial reporting framework by end-2009 (structural benchmark for March 31, 2007). We are also taking steps to improve the quality of our accounting records and accounting control procedures, while work is underway to improve foreign reserves management by developing a foreign reserves management policy and investment guidelines (structural benchmarks for June 30, 2007).

21. We continue to make progress in expanding the coverage of the real time gross settlement payment system and the automated clearing house. Currently 10 commercial banks' headquarters and the MoF are connected to the CBI; we expect to cover most banks by the end of the year.

22. We have taken important steps towards the restructuring of Rafidain and Rasheed banks. The memoranda of understanding for operational restructuring of both state-owned banks, and a financial restructuring of Rasheed bank were approved by the economic committee of the Council of Ministers in March 2007.² The setting-up by the CBI of the secretariat of the Restructuring Oversight Committee has been completed. An international auditor has been selected in early June to conduct an operational and financial audit of both banks and will be appointed shortly (structural benchmark for end-April 2007). The audits will start soon thereafter and are expected to be completed by early 2008. Work has also begun on the reconciliation of the foreign debt held by both banks and the cleaning up of the banks' large suspense accounts. Later this year, we will initiate, in consultation with the IMF and the World Bank, the restructuring of the other four smaller state-owned banks in line with the approach adopted with regard to Rasheed and Rafidain banks.

23. The GoI will continue its efforts towards developing a competitive and transparent hydrocarbon sector. Draft hydrocarbon legislation will be submitted to the CoR when final agreement between all concerned parties has been reached, possibly in the next few months. The envisaged legislative package includes a draft oil and gas law to regulate the sector, a draft law to reestablish the Iraq National Oil Company, a draft law reorganizing the MoO, and a draft financial management law on the sharing of oil revenues.

24. We are committed to step up our efforts to enhancing transparency and fighting corruption in the oil sector. In this regard, the installation of meters at the Basra export terminal has been completed. These meters are for the most part operational but some of them still need to be certified. The comprehensive metering project with Shell and British Petroleum is underway. We are committed to joining the Extractive Industries Transparency Initiative. The MoO will start publishing on its website information on production, export, and processing of crude oil in the next few months.

² Financial restructuring (involving a recapitalization) of Rafidain bank will await the settlement of claims lodged against its London branch.

25. In order to promote economic activity, we have initiated a rehabilitation program for viable public enterprises, notably in the cement, textile, pharmaceutical, and petrochemical sectors. As a first step, we have encouraged 21 public enterprises to submit a business plan to Rasheed and Rafidain banks, in order to obtain financing to restart activities on a purely commercial basis. Any future government support that may be needed will be modest in size and for a limited period only; such support will be fully included in the government budget.

26. In November 2006, a new investment law was adopted that aims to encourage investment and promote equal treatment for domestic and foreign investors. We are now in the process of setting up the National Investment Commission that will develop and monitor the implementation of investment policies and regulations, and establish one-stop agencies at the national and regional levels to issue investment licenses.

27. We are committed to preserving open trade policies. We will maintain the 5 percent import duty (reconstruction levy), while significantly reducing the number of exemptions to increase customs revenue. In May 2007, the Working Party on Iraq's accession to the World Trade Organization (WTO) met in Geneva and started the process of accession negotiations. We will continue our efforts to secure the accession as soon as possible.

28. We will continue to work toward resolving outstanding external claims. Bilateral agreements with all Paris Club creditors, except Russia, and with nine non-Paris Club official creditors have been signed. Official contacts with key creditor countries in the Gulf region and China have been made, and the technical process of debt reconciliation is ongoing. A Special Purpose Vehicle has been established to facilitate official creditors desiring to securitize their claims, while avoiding the emergence of a multiplicity of different securitizations. Most of the remaining claims of private creditors are in the process of reconciliation with claims that are being settled as part of the liquidation of the London branch of Rafidain Bank. We expect the liquidation to be completed by end-2007, enabling us to complete the resolution of all private claims.

29. As part of the ongoing review of Iraq's exchange system by IMF staff, we have submitted additional exchange regulations and provided requested clarifications. We have also issued new regulations to apply the Anti Money Laundering (AML) Law and set up a new AML office within the CBI to implement the regulations.

30. The newly established Committee of Financial Experts (COFE) is fully operational, and is expected to continue the work of the International Advisory and Monitoring Board (IAMB) once it is dissolved. We are closely involving the COFE in the IAMB's regular work to provide it with relevant training prior to the eventual expiration of the IAMB mandate at the end of 2007. The mandate for the DFI expires at the end of this year. We hope to extend the DFI, with help from the international community, for another two years until end-2009. Meanwhile, the immunity of the DFI accounts held at the Federal Reserve Bank of New York has been extended for a year through May 22, 2008.

31. With the help of the international community we have launched an International Compact for Iraq (ICI) to spearhead a process of comprehensive political, security, and

economic reform. The macroeconomic component of the ICI is consistent with the program under the SBA.

32. We appreciate the technical assistance received from the IMF, and hope to continue receiving such assistance in the areas of bank restructuring, banking supervision, monetary policy operations, reserves management, development of secondary markets, tax policy, tax and customs administration reform, public financial management, and statistics. We would also like to receive Fund technical assistance to implement the safeguards recommendations.

IV. PROGRAM MONITORING

33. In light of our request to extend the current SBA by three months, we would also like that the remaining two purchases under the arrangement be rephased accordingly and that the last purchase will be available upon observance of the end-September 2007 performance criteria.

34. Macroeconomic policy performance will continue to be monitored through quarterly quantitative performance criteria and indicative targets. The quantitative performance criteria under the original program will remain unchanged, and additional performance criteria have been set for end-September, as specified in Table 1. The missed structural performance criterion on completion of the census of all public service employees has been rescheduled and redefined, as specified in Table 2. We remain committed to submitting data to the Fund within the time lags agreed upon in the MEFP and its supplements.

35. The Technical Memorandum of Understanding is modified in the manner described in the attached addendum.

Table 1. Iraq: Quantitative Performance Criteria and Indicative Targets
Under the Stand-By Arrangement (SBA), 2005–07 1/
(In billions of Iraqi dinars, unless otherwise indicated)

	2005	Performance Criteria							
	9/30/05	12/31/05	3/31/06	6/30/06	9/30/06	12/31/06	3/31/07	6/30/07	9/30/07
<i>Cumulative change from September 2005</i>									
Net international reserves of the CBI (floor; in millions of U.S. dollars) (Actual)	8,500 2/	-1,000 +3,041	-1,000 +3,635	-1,000 +3,554	-1,000 +5,252	-1,000 +9,770	0 +8,503	0	0
Lending to the government and the private sector by the CBI (ceiling) 3/ (Actual)	5,100 2/	0 0	0 0	0 0	0 0	0 0	0 0	0	0
<i>Cumulative flow from beginning of calendar year</i>									
Government primary fiscal deficit (ceiling; deficit [+]/surplus[-]) 4/ 5/ (Actual)	...	5,400 -5,102	1,950 -819	3,600 -4,752	4,850 -11,220	5,300 -8,947	...	...	...
Central government total financing (ceiling) 4/ 5/ (Actual)	3,000 -1,688	5,350	5,700
Government wage and pension bill (ceiling) 4/ 6/ (Actual)	...	6,650 7,069	2,400 2,051	4,750 3,898	7,100 5,875	9,500 7,792	2,525 1,644	5,050	7,575
Revenue of oil related enterprises, including those remitted to the budget (floor) 4/ (Actual)	...	900 1,456	700 509	1,500 1,454	2,100 2,651	2,800 3,611	750 1,135	1,500	2,850
New medium-and long-term nonconcessional external debt (with original maturities of one year of more) contracted or guaranteed by the government (in millions of U.S. dollars; ceiling) 4/ 7/ (Actual)	...	500 0	500 0	500 0	500 0	500 0	500 0	500	500
External arrears on new borrowing (in millions of U.S. dollars; ceiling) 8/ (Actual)	...	0 653	0 0	0 0	0 0	0 0	0 0	0	0
<i>Indicative targets</i>									
Government imports of petroleum products (ceiling) 4/ 9/ (Actual)	...	6,000 4,128	1,700 1,045	3,400 1,884	4,000 3,120	4,200 4,082	100 104	200	300
Revolving government credit to the State Oil Marketing Organization (ceiling) (Actual)	300 400	400	400

1/ See Technical Memorandum of Understanding for precise definitions of all performance variables.

2/ Estimated.

3/ Rolling over t-bills does not constitute new lending.

4/ Flows for 12/31/05 are cumulative for 2005. Flows for 2006 and 2007 are cumulative starting 1/1/2006 and 1/1/2007, respectively.

5/ Starting in 2007, the budget deficit will be monitored from below the line (i.e., from the financing side).

6/ Excluding salaries paid by ministries of defense and interior (see Technical Memorandum of Understanding for precise definition).

7/ This ceiling excludes loans with a grant element of 35 percent or more of up to Yen 350 billion for reconstruction projects to be contracted with the government of Japan in 2007.

8/ This will be monitored on a continuous basis.

9/ Starting in 2007, this no longer comprises all imports of petroleum products made directly by the government of Iraq but instead comprise of imports of petroleum products financed from the budget.

Table 2. Iraq: Structural Performance Criteria and Structural Benchmarks
Under the Stand-By Arrangement

I. Structural Performance Criteria	Date	Status
Avoid administrative measures limiting participation or bids in the CBI's regular auction of foreign exchange other than screening related to anti-money laundering or counter-terrorism.	Continuous	Met
Final audit of CBI 2005 Financial operations and statements.	May 15, 2006	Waived; Completed on October 1, 2006
Adoption of fully detailed budget classification and chart of accounts in line with the IMF's Government Financial Statistics Manual (GFSM) 2001, within a cash accounting framework. ^{1/}	June 30, 2007	Not met. Expected soon
Completion by Ernst & Young of (a) a final audit of the net international reserves data reported to the IMF as at December 31, 2006, including a full count by Ernst & Young of gold and foreign exchange holdings at the CBI, and (b) an interim audit report of CBI 2006 financial statements in accordance with International Standards on Auditing.	May 31, 2007	NIR audit completed on time; interim audit report completed on July 15
Completion of census of all public service employees (central government and military).	June 30, 2007	Not met; replaced with a new PC (see below)
Completion of the data collection for the census of all public service employees (central government and military).	November 30, 2007	
II. Structural Benchmarks		
Implementation of payment system regulations.	June 30, 2006	Met
Establishment of an audit oversight committee, to become effective on or before December 31, 2006, including the participation of independent international audit experts, to continue the work of the International Advisory and Monitoring Board (upon its dissolution) in overseeing and making public audits of the Development Fund for Iraq and oil export sales.	September 30, 2006	Met in November 2006; IAMB mandate has been extended to December 31, 2007
Reform of pension law in line with sustainable pension system	September 30, 2006	Underway
Approval by Council of Representatives of law liberalizing private gasoline imports	September 30, 2006	Met
Commencement of operation of Real Time Gross Settlement system (RTGS) linking headquarters of commercial banks to the CBI.	August 31, 2006	Met
Commencement of payments clearing system between the headquarters of commercial banks and the CBI through the Automatic Clearing House (ACH).	November 30, 2006	Met
Full capitalization of CBI to the stipulated ID 100 billion, based on the 2005 audited financial statements and taking into account the restructuring of outstanding claims on the central government that are on the December 31, 2005 balance sheet of the CBI.	December 31, 2006	Met in February 2007
Adopt a CBI Board-approved timetable for the full implementation of IFRS as the bank's financial reporting framework	March 31, 2007	Met on April 1, 2007
Appoint an internationally reputable audit firm to conduct an operational and financial audit of Rasheed and Rafidain banks based on their 2006 financial accounts.	April 30, 2007	Underway; auditor selected and appointment process ongoing
Address the lack of proper accounting records being maintained by the CBI, one of the major issues giving rise to E&Y's disclaimed audit opinion for 2005. ^{2/}	June 30, 2007	Underway
Establish adequate control procedures for reserves management, including developing reserves management policy and investment guidelines.	June 30, 2007	Underway

^{1/} The budget classification and chart of accounts will be deemed in line with the IMF GFSM 2001 if it is consistent with the methodology and high level classification defined in the technical assistance report of the IMF's Fiscal Affairs Department entitled "Iraq Budget Classification Reform" (July 2005).

^{2/} The following issues should be addressed: (i) the lack of reconciliations of local bank's current accounts; (ii) unreconciled suspense accounts and interbranch accounts; (iii) unreconciled differences on accounts managed on behalf of the Ministry of Finance, including the DVI; and (iv) insufficient information to support amounts, and to ensure the completeness and valuation of off-balance sheet commitments.

Table 3. Iraq: Indicative Quantitative Benchmarks Under the Stand-By Arrangement
(In Iraqi dinars per liter, unless otherwise indicated)

	Sep. 2005	Prior Action	03/31/06		06/30/06		09/30/06		12/31/06		03/05/07		06/30/07	
			Program	Actual	Program	Actual	Program	Actual	Program	Actual	Prior action 3rd & 4th reviews	Program	Actual	
Official domestic price of petroleum products (equal to or above, by specified dates)														
LPG (per 12 kg cylinder)	250	600	700	600	800	1,000	900	1,000	1,000	1,000	3,000	3,000	3,000	
Regular gasoline	20	100	130	100	155	175	175	175	200	250	300	350	400	
Premium gasoline 1/	50	250	300	250	350	350	400	350	450	350	...	...	...
Blended gasoline	...	...	...	...	...	...	...	...	...	350	400	450	450
Kerosene	5	25	50	25	75	75	90	75	115	75	150	200	150	
Diesel	10	90	110	90	125	125	155	150	175	150	350	350	400	

1/ Starting 2007, premium gasoline is to be sold only by the private sector at unregulated prices.

IRAQ—ADDENDUM TO THE TECHNICAL MEMORANDUM OF UNDERSTANDING

July 17, 2007

1. All aspects of the Technical Memorandum of Understanding (TMU) of December 6, 2005 (EBS/05/173) and the addenda thereto of July 15, 2006 (EBS/06/98) and February 23, 2007 (EBS/07/21) remain in effect, except for the changes described below.
2. Quantitative performance criteria for end-September 2007 are being added for: (i) the net international reserves of the CBI; (ii) lending to the government and the private sector by the CBI; (iii) central government total financing; (iv) the government wage and pension bill; (v) revenue of oil related enterprises, including those remitted to the budget; and (vi) new medium-and long-term nonconcessional external debt (with original maturities of one year or more) contracted or guaranteed by the government. The quantitative performance criterion for no external arrears on new borrowing will continue to be monitored on a continuous basis. Indicative targets are also being established for end-September 2007.
3. Cumulative flow variables for the quantitative performance criteria will be measured on a cumulative basis from January 1, 2007, except for the net international reserves of the CBI and the lending to the government and the private sector by the CBI, for which cumulative flow variables will be measured from September 30, 2005.
4. The indicative targets on the revolving government credit to the State Oil Marketing Organization and the government imports of petroleum products will be measured on a cumulative basis from January 1, 2007.