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Fourth Reviews under  
Iraq's Stand-By  
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**Iraq:** Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

February 23, 2007

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 financial support 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.

Baghdad, February 23, 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, in support of our economic program for 2006. The first and second reviews under the SBA were completed on August 2, 2006. Notwithstanding the very difficult security and political situation, we have continued to make progress in implementing this program. Inflation, however, has persisted at a very high rate and achieving macroeconomic stability remains a challenge. We have already taken a number of corrective measures as described in the attached second Supplementary Memorandum of Economic and Financial Policies (SMEFP). To allow more time to reach the objectives and complete the reforms under the SBA, we request an extension of the current SBA by six months to September 28, 2007. 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 its reviews).
2. Iraq has met all quantitative performance criteria set for end-September 2006. The structural performance criterion for December 31, 2006 on adopting a budget classification and chart of accounts in line with the IMF's *Government Finance Statistics Manual 2001* was, however, not met.
3. On the basis of corrective actions being undertaken as specified in the second SMEFP, we would like to request a waiver for the nonobservance of the performance criterion noted in paragraph 2, and completion of the third and fourth reviews under the SBA. We also request establishment of the quantitative performance criteria proposed in the second SMEFP for end-March and end-June 2007, as well as of the structural performance criteria for end-May and end-June 2007.
4. In the period ahead, we shall strive to lower inflation, maintain a prudent fiscal stance, and undertake reforms that will enable Iraq to move toward a path of high and sustainable growth. A key element of our economic program continues to be the elimination of explicit subsidies on fuel products. We will raise the domestic prices of fuel products in early March as specified in the second SMEFP, as a prior action for completion of the third and fourth reviews, and will continue our policy of gradual price adjustments during the

remainder of the program period. We will 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.

5. We believe that the policies and measures set forth in the attached memorandum will allow to achieve 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 the Fund staff on adoption of such measures in advance of revisions to the policies contained in the second 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.

6. We consent to the publication of this letter, the second SMEFP, the attached Addendum to the Technical Memorandum of Understanding, and the staff report on the third and fourth reviews under the SBA.

Sincerely yours,

/s/

/s/

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

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

## **Second Supplementary Memorandum of Economic and Financial Policies for 2007**

**February 23, 2007**

### **I. INTRODUCTION**

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

### **II. RECENT DEVELOPMENTS UNDER THE STAND-BY ARRANGEMENT**

2. Achieving macroeconomic stability remained a challenge in 2006, in particular in view of the very difficult security situation. The Government of Iraq (GoI) has been able to resist unwarranted spending pressures and the Central Bank of Iraq (CBI) has maintained stable monetary conditions. Inflation, however, has risen to an unacceptable level. Annual consumer price inflation peaked at a rate of almost 77 percent in August, fell back to around 52 percent in September–November, and increased again to almost 65 percent in December. The underlying rate of inflation (excluding fuel and transportation) has been stable, in the range of 30–35 percent.

3. Real GDP growth is estimated at about 3 percent in 2006. This is lower than the 10½ percent projected at the outset of the program, because oil production has not increased as expected. Oil exports have been hampered by technical problems, as well as security and other difficulties in undertaking the necessary investments. Real non-oil GDP growth also lagged expectations and, on the basis of available output indicators, is estimated at 7½ percent compared to 8 percent originally projected.

4. Fiscal policy was restrained in 2006. The GoI has run a surplus through September, mainly because of underspending in investment. Current expenditure was broadly in line with the budget. Oil revenue was slightly above target, with lower-than-expected production volumes more than compensated by higher-than-expected prices. Non-oil revenue was higher than foreseen on account of overperformance in nontax revenue and interest earnings.

5. We have tightened our exchange rate and monetary policies to fight inflation. The exchange rate of the Iraqi dinar was pegged to the U.S. dollar through most of the year at a rate close to ID 1,477 per U.S. dollar. From mid-November this policy has been adjusted to permit a gradual appreciation of the dinar; the daily auction-rate declined to ID 1,325 per U.S. dollar at end-December and reached ID 1,290 per U.S. dollar by end-January. Net

international reserves continued to grow and reached a level of \$15.3 billion at end-November 2006. The CBI also raised its policy interest rate to 16 percent on November 12, 2006, and further to 20 percent as of January 7, 2007.

6. All quantitative performance criteria set for end-September were met (Table 1). The structural performance criterion for end-December 2006 on adopting a budget classification and chart of accounts in line with the IMF's *Government Finance Statistics Manual 2001 (GFSM 2001)* was, however, not met (Table 2).

### III. ECONOMIC AND FINANCIAL POLICIES IN 2007

7. For 2007, the GoI's main macroeconomic policy objectives will be to maintain fiscal sustainability, significantly reduce inflation and continue reforms that help unlock Iraq's potential oil wealth and put the economy on a path to sustainable growth.

8. The 2007 budget is designed to accommodate the exchange rate appreciation, while preserving a solid investment program. Oil revenues are projected on the basis of increasing oil exports to 1.7 million barrels per day (mbpd) from 1.44 mbpd in 2006. The envisaged increase in the reconstruction (import) levy from 5 to 10 percent will be postponed until 2008.

9. The GoI intends to keep spending under control in 2007. The budget makes provision for the (amended) pension system, and allows for a large increase in the allocation for the social protection program, as well as for security. Other current expenditures, including on wages, will rise moderately while the daily hardship allowance for military personnel will be revised to limit the costs. We will freeze hiring in 2007 and resist unbudgeted bonuses. Budgetary support for imports of fuel products will be restricted to \$300 million (for kerosene) and all other imports of fuel products by the Ministry of Oil (MoO) will be financed from the revenues of the MoO. There will remain an implicit subsidy on domestically produced fuel products (mainly regular gasoline and diesel). Budget allocations for oil- and non-oil investment spending are more than double the expected 2006 outturn, which was much lower than foreseen largely due to the prevailing insecurity. The GoI has set up a committee under the supervision of the office of the prime minister to oversee the implementation of large investment projects with the aim to increase the rate of implementation. To improve transparency and program monitoring, the GoI is also investigating the composition of the stock of outstanding letters of credit at the Trade Bank of Iraq and will provide more frequent and better quality data to IMF staff.

10. These policies, and taking account of an envisaged further appreciation of the exchange rate (see below), should contain the consolidated government budget deficit to ID 10.2 trillion. In the event that oil revenues are substantially lower than foreseen, we intend to submit a supplementary 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 at least ID 3 trillion in assets in the Development Fund for Iraq (DFI). To keep the option of domestic financing of the deficit open and maintain a benchmark for market interest rates, we will step up the bi-weekly issuance of treasury bills to ID 150-200 billion.

11. To help curb inflation the CBI will continue its tight monetary policy stance and allow the exchange rate to appreciate gradually, assuming the inflationary situation warrants a continuation of this policy. The CBI also stands ready to further increase its policy interest rate, if needed and effective to bring inflation down.

12. We have raised the domestic prices of fuel products and will continue to gradually increase these prices in the period ahead (Table 3; indicative quantitative benchmarks). The government has exited the domestic market for premium gasoline. Regular gasoline (all of which is produced domestically) will be priced at ID 300 per liter by March 5, 2007, and at ID 350 per liter by end-June 2007. Government imports of premium gasoline will be blended with regular gasoline at a ratio not exceeding 50 percent. We will increase the price of blended gasoline to ID 400 per liter by March 5, 2007, and to ID 450 per liter by end-June. The price of diesel was increased to ID 300 per liter as of January 13, 2007, and will be further raised to ID 350 per liter by March 5, 2007. The price of LPG was increased to ID 2,000 per canister as of January 13, 2007, and will be set at ID 3,000 per canister by March 5, 2007. Kerosene will be priced at ID 150 per liter by March 5, 2007, and at ID 200 per liter by end-June 2007. We will review the price increases planned for end-June in light of the then prevailing security situation. To help the State Oil Marketing Organization (SOMO) import some of the petroleum products without having recourse to the proceeds generated from the sales of these products, the GoI has provided SOMO with a revolving credit, not to exceed a ceiling of ID 300 billion at any point in time (indicative target).

13. The GoI is committed to facilitate private sector imports of petroleum products, which is now permitted under the law liberalizing private gasoline imports (structural benchmark for September 30, 2006). We will make available to the private sector storage facilities and pump stations. We also plan to organize a conference to promote the import of petroleum products by local and international companies.

14. The GoI has adopted a new transitional chart of accounts (CoA) and started using the automated Financial Management Information System (FMIS). The newly adopted CoA is not fully consistent with the Fund's *GFSM 2001*, but we are committed to correct any shortcomings in this regard and identify which accounts in the CoA form part of the budget classification by end-June 2007 (structural performance criterion). An assessment of the FreeBalance software (which was supposed to be completed by end-December) is also behind schedule. The Ministry of Finance (MoF) has started using the FMIS from January 2007. The aggregated monthly reports generated by the FMIS will be reviewed and compared with the corresponding consolidated reports generated by the existing legacy system for the budget as a whole. We will also increase our efforts to make sure that all

spending units, including small independent accounting units, submit their transaction data to the relevant ministry, which should submit consolidated data to the MoF. For spending units where this is not possible in the near future, the MoF will enter their trial balances in the FMIS.

15. We will make every effort to have the amendments to the new pension law passed by the CoR as soon as possible. The main elements of the reform include a gradual reduction of replacement rates to fiscally sustainable levels, and zero indexation in 2007 to ensure affordability in the short-term. The reforms also involve the creation of an extrabudgetary fund, which will receive all pension contributions but would only pay out to new pensioners. The budget will continue to be responsible for paying existing pensioners, resulting in a direct budgetary cost of about ID 1.2 trillion in 2007, which will decline over time. We are committed to managing the extrabudgetary pension fund in a transparent manner, in line with international best practices, and seek technical assistance from the IMF and the World Bank in this area.

16. The GoI is proceeding with its new social protection program. In 2006, we have identified about one million poor families who each received up to \$80 per month from this program. This year, we intend to further expand coverage. At the same time, we are committed to rationalizing the Public Distribution System (PDS). As a start, we have cancelled eligibility for support under the PDS of some of the most well-off individuals (ministers, members of the CoR, and others). Eligibility for the PDS will be limited further in the course of 2007.

17. We intend to complete the census for public service employees (structural performance criterion for end-June 2007). The census, which was a structural benchmark for end-December 2006, could not yet be finalized due to the prevailing security situation. Preparatory work, involving several concerned ministries, has already started. We will invest all our efforts to have it completed by end-June.

18. The CBI has re-appointed Ernst and Young (E&Y) to conduct (i) an 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) and (ii) the audit of the 2006 CBI financial statements in accordance with International Standards on Auditing. The former audit is expected to be finalized by May 31, 2007 (structural performance criterion), while an interim report of the latter is expected to be completed by May 31, 2007 (structural performance criterion).

19. We have received the finalized interim safeguard assessment report (ISAR) that was recently completed by IMF staff. We welcome the inclusion in the ISAR of an action plan to assist the CBI in addressing the concerns and recommendations raised in the ISAR and the E&Y 2005 audit. The CBI is committed to implementing corrective actions based on the recommendation of the ISAR and the E&Y report, including (i) adopting by the CBI Board

of a timetable for the full implementation of the IFRS as the CBI's financial reporting framework (structural benchmark for March 31, 2007); (ii) addressing the lack of proper accounting records maintained by the CBI, one of the major issues giving rise to E&Y's disclaimed audit opinion for 2005 (structural benchmark for June 30, 2007)<sup>1</sup>; and (iii) establishing adequate control procedures for reserves management, including developing a reserves management policy and investment guidelines (structural benchmark for June 30, 2007). In order to help us in implementing this action plan, we have requested technical assistance from the Fund.

20. Due to delays in completing the 2005 CBI audit, the GoI was not able to recapitalize the central bank to the stipulated ID 100 billion (structural benchmark for end-December 2006). We are committed to doing so in 2007 and the MoF has already sent a letter to the CBI reflecting our commitment.

21. We have made significant progress in modernizing the payment system. The real time gross settlement (RTGS) payment system and the automated clearing house (ACH) started their operations ahead of time (structural benchmarks for August and November 2006, respectively). Currently eight commercial bank headquarters are connected to the CBI and we are in the process to expand the coverage to the remaining commercial banks.

22. The CBI and MoF have signed a memorandum of understanding for an operational restructuring of the state-owned Rafidain and Rasheed banks, and a financial restructuring of Rasheed bank.<sup>2</sup> The GoI is committed to implement in full all measures included in the memorandum of understanding. We will appoint an internationally reputable audit firm to conduct an operational and financial audit of these two banks based on their 2006 financial accounts (structural benchmark for April 30, 2007). During the second half of 2007, the MOF will also initiate the restructuring of the other four smaller state-owned banks in line with the approach adopted with regard to Rasheed and Rafidain banks, in consultation with the IMF and the World Bank.

23. The GoI remains committed to developing a competitive and transparent hydrocarbon sector. We will continue our efforts to reach agreement within the government on a new hydrocarbon law. The MoO is working with international oil companies to implement an integrated system of oil metering for upstream and downstream activities. Clamp-on meters

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<sup>1</sup> The following issues will 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 DFI; and (iv) insufficient information to support amounts, and to ensure the completeness and valuation of off-balance sheet commitments.

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

at the Basra export terminal have been installed. We are committed to joining the Extractive Industries Transparency Initiative. As part of this process the MoO will start publishing on its website all available information on production, export, and processing of crude oil.

24. We are taking concerted actions to implement an anti-corruption strategy, especially in the oil sector. The MoO has already cancelled many suspicious contracts related to the import of fuel products and is reviewing its procurement practices to bring them in line with international best practice with World Bank technical assistance.

25. We will continue to work toward resolving outstanding external claims. Negotiations with China are underway, and contacts have been made with key creditor countries from the Gulf region. A number of non-Paris Club bilateral creditors have indicated a desire to securitize their claims. We will facilitate the development of a Special Purpose Vehicle (SPV), in order to encourage the conclusion of bilateral agreements with non-Paris Club creditors, according to the terms and conditions of the Paris Club agreement, and to avoid the emergence of a multiplicity of different securitizations. In this regard, we will keep the Paris Club fully informed. Most of the remaining unresolved private claims (which are only 4 percent of the original claims) are in the process of reconciliation with claims that are being settled as part of the liquidation of the London branch of Rafidain bank.

26. The GOI has established an Iraqi Oversight Board (IOB; structural benchmark for end-September 2006), which was expected to continue the work of the International Advisory and Monitoring Board (IAMB) upon its dissolution at end-2006. Given that a UN Security Council Resolution extended on November 28, 2006 the IAMB mandate for an additional year, we look forward for closely involving the newly-established IOB in the IAMB's work. This would provide the IOB with relevant training prior to the eventual expiration of the IAMB mandate at the end of 2007.

27. The GoI, with the help of the United States, has launched an new initiative toward an International Compact for Iraq (ICI). The objective of the ICI is to allow us to develop, with the support of the international community, a medium-term framework for comprehensive political, security and economic reform. We are committed to ensure that the economic component of the ICI is fully in line with the program under the SBA.

#### **IV. PROGRAM MONITORING**

28. In light of our request to extend the current SBA by six months, we would also like the final (fifth) review, due originally by mid-February 2007, to be rephased to mid-May 2007, and that the last purchase will be available upon observance of the end-June 2007 performance criteria.

29. 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 quantitative performance criteria have been set for end-March and end-June 2007, as specified in Table 1. To improve the timeliness and accuracy of program monitoring, the budget deficit in 2007 will be monitored from below the line (performance criterion; see attached addendum to the TMU). Prior actions for completing the third and fourth reviews have also been set (Table 2). Progress in structural reform will be monitored through structural performance criteria and benchmarks. For this matter, a new structural performance criterion has been set and another one has been rescheduled, while four new structural benchmarks have been set, as specified in Table 2.
30. 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, 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
<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	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
<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 -5,339	4,850 -11,266	5,300	...	...
Central government total financing (ceiling) 4/ 5/ (Actual)	...	...	...	...	...	...	3,000	5,350
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	2,525	5,050
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 2,784	2,800	750	1,500
New medium-and long-term nonconcessional external debt (with original maturities of one year or 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	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
<i>Indicative targets</i>								
Government imports of petroleum products (ceiling) 4/ 9/ (Actual)	...	6,000 4,128	1,700 1,152	3,400 2,312	4,000 3,120	4,200	100	200
Revolving government credit to the State Oil Marketing Organization (ceiling) (Actual)	...	...	...	...	...	...	300	300

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 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: Prior Actions, Structural Performance Criteria, and Structural Benchmarks Under the Stand-By Arrangement

	Date	Status
<b>I. Prior Actions for Completion of the Third and Fourth Reviews</b>		
Re-appoint Ernst & Young to conduct (a) an 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) the audit report of the 2006 CBI financial statements in accordance with International Standards on Auditing.		
Adjust domestic fuel prices to levels at least equal to or above those required for the prior action as specified in Table 3		
<b>II. Structural Performance Criteria</b>		
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. <sup>1/</sup>	December 31, 2006	Not met; rescheduled to end-June 2007. Work is underway
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	
Completion of census of all public service employees (central government and military).	June 30, 2007	Was a missed benchmark for end-December 2006.
<b>III. Structural Benchmarks</b>		
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	Expected in March
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	Underway; included in the 2007 budget
Adopt a CBI Board-approved timetable for the full implementation of IFRS as the bank's financial reporting framework	March 31, 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	
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. <sup>2/</sup>	June 30, 2007	
Establish adequate control procedures for reserves management, including developing reserves management policy and investment guidelines.	June 30, 2007	

<sup>1/</sup> 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).

<sup>2/</sup> 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 DFI; 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		Prior action 3rd & 4th reviews	06/30/07 Program
			Program	Actual	Program	Actual	Program	Actual	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
Regular gasoline	20	100	130	100	155	175	175	175	200	250	300	350
Premium gasoline 1/	50	250	300	250	350	350	400	350	450	350	...	...
Blended gasoline	...	...	...	...	...	...	...	...	...	350	400	450
Kerosene	5	25	50	25	75	75	90	75	115	75	150	200
Diesel	10	90	110	90	125	125	155	150	175	150	350	350

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

## **Addendum to the Technical Memorandum of Understanding**

February 23, 2007

1. All aspects of the Technical Memorandum of Understanding (TMU) of December 6, 2005 and the addendum thereto of July 15, 2006 remain in effect, except for the changes described below.
2. The quantitative performance criteria will be extended for end-March and end-June 2007.
3. To improve the timeliness and accuracy of program monitoring, the budget deficit in 2007 will be monitored from below the line. Hence, for end-March and end-June 2007 the performance criterion on the primary fiscal deficit will be replaced by a new performance criterion on the central government total financing calculated as the sum of external financing and domestic financing of the central government balance. Domestic financing includes any form of resident financing of the consolidated budget from (i) the central bank; (ii) commercial banks; (iii) non-bank financial institutions; (iv) non-financial enterprises; (v) privatization proceeds; (vi) changes in arrears; (vii) households; and (viii) all other domestic financing not elsewhere classified.
4. The new performance criterion on the central government total financing will be monitored using end-month data on the accounts of the Development Fund of Iraq and the consolidated balance sheet of depository corporations, which will be provided to Fund staff with a time lag not to exceed four weeks.
5. The performance criterion on revenues from oil-related state owned enterprises will be changed to reflect that fuel imports are no longer financed from the budget. Revenues of oil-related state owned enterprises now comprise all revenues of the companies listed in paragraph 10 of the original TMU minus the total imports of petroleum products (including LPG, gasoline, kerosene, and diesel) made directly by the government of Iraq or by oil enterprises on its behalf. To monitor this performance criterion the GoI will provide the Fund with the amount of total imports of petroleum products on a quarterly basis starting with the first quarter of 2007. These data should be reported no later than eight weeks after the end of the reference quarter.
6. The indicative target on government imports of petroleum products shall no longer comprise all imports of these products made directly by the government of Iraq but instead comprise imports of petroleum products financed from the budget.
7. The quarterly ceilings for 2007 for central government total financing; the government wage and pension bill; and new medium- and long-term nonconcessional external debt (with original maturities of one year or more) contracted or guaranteed by the

government will be measured on a cumulative basis from January 1, 2007. The quarterly floor for 2007 for revenue of oil-related enterprises, including those remitted to the budget, will be also measured on a cumulative basis from January 1, 2007.

8. A new indicative target for the “revolving government credit to the State Oil Marketing Organization (SOMO)” is added. The revolving government credit to SOMO shall comprise all credits provided by the Ministry of Finance to the Ministry of Oil and/or directly to SOMO for the purpose of importing fuel derivatives. The indicative ceiling shall apply for end-March and end-June 2007, and will be measured on a cumulative basis from January 1, 2007.