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

July 23, 2017

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.

Letter from the Prime Minister

Baghdad, 23 July 2017

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, after recapturing the city of Mosul, our brave forces have entered into the last chapter of our fight again the terrorist gangs of Daesh. However these achievements on the military front have come at a very 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 your $5.3 billion Stand-By Arrangement (SBA) for three years with the IMF as well as a sizable support from donors.

We are committed to the economic reforms outlined in the SBA 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, July 23, 2017

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 SDR 3.831 billion (about $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, ¶¶15-17), all performance criteria (PCs) at end-December 2016 and one continuous PC were missed, and one PC at end-June 2017 was likely missed. The government missed these PCs because of the spending pressure flowing from the war against ISIS and the ensuing humanitarian crisis at a time when oil prices fell precipitously. This forced us to spend more in 2016 and pay less external arrears than programmed. The breach of the continuous PC related to the accumulation of external arrears in amounts of $2.5 million for almost two months at the beginning of 2017 and $157 million for several days at the beginning of July 2017, all of which were paid. Considering the temporary nature of these arrears, and the steps described in the MEFP to put the program back on track and improve cash management, the government requests waivers for the non-observance of the continuous PC and one PC at end-June 2017. We also request waivers of applicability for the four PCs at end-June 2017 for which complete information is not available yet.

3. The government has made good progress in meeting the structural benchmarks (SBs) for the second review of the SBA (MEFP, ¶20). In particular, we have completed the following SBs: the survey of arrears of the central government; the audit of arrears on non-oil investment and on wheat purchases by the Board of Supreme Audit; the survey of guarantees issued by the central government; the external audit of the gross international reserves and the net domestic assets of the Central Bank of Iraq (CBI); the external audit of the total public debt; the circular sent by the Ministry of Finance requiring all spending units to record all existing commitments on current and capital expenditures;

the posting on the Ministry of Finance's external website of the financial statements of the Development Fund for Iraq and Successor Account according to international standards; the adoption by the Governing Council of the CBI of a new charter for the Audit Committee prohibiting CBI executive representation on the committee; the introduction to Parliament of amendments to the Law on the CBI to strengthen CBI governance and the internal control framework; and the issuance by the CBI of clarifying implementing regulations to remove the limitation on transfer of investment proceeds that gave rise to an exchange restriction. We have also made progress in the two other SBs—amendments to the 2011 law establishing the Integrity Commission, and report of all current and investment commitments by the Ministry of Finance—but need more time to complete them. We therefore propose to postpone them to, respectively, the third and fourth reviews.

4. In view of the difficulty in reducing the obligations outstanding for more than three months to IOCs to zero because of the lumpy size of oil shipments, the government proposes to raise the floor on these obligations to $500 million, starting in September 2017. The government also supports staff's proposal to set the stock of these obligations as an indicative target rather than a PC starting in September 2017. The government also supports staff's proposal of changing end-December 2017 PCs for the fourth review in line with the revised macroeconomic framework, and setting PCs for end-June and end-December 2018. The program would continue to 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 second review under the SBA and requests purchase of the third tranche of SDR 584.2 million (35.1 percent of our quota). The government commits to implement the economic and financial policies during 2017–19 described in the attached MEFP to gradually bring expenditure down to a level consistent with the lower level of oil revenues to achieve debt sustainability while maintaining the exchange rate peg, strengthening public financial management and banking supervision, and fighting money laundering, 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/	/s/
Dr. Maher H. Johan Acting Deputy Minister of Finance Ministry of Finance	Ali Mohsen Ismail Al Allaq Acting Governor of the Central Bank of Iraq

Attachments:

I. Memorandum on 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 economic developments in 2016 and early 2017, outlook and economic and financial policies in 2017–19 regarding 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. We have achieved great progress in the fight against the so-called Islamic State in Iraq and Syria (ISIS). The Iraqi security forces have liberated Mosul, ISIS's stronghold in Iraq, with the help of our international partners.

3. The conflict with ISIS has caused the destruction of infrastructure and assets and boosted the number of internally displaced persons to 3 million and the number of people in need of humanitarian assistance to 11 million (29 percent of the population). With over 241,000 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.

A. Recent Economic Developments

5. Real GDP increased by 11 percent in 2016 owing to a 25 percent increase in oil production, which was little affected by the conflict with ISIS. While overall real GDP growth in 2016 was in line with the previous projection, the composition of growth was tilted towards higher

[1] IMF Country Report No. 16/379. Iraq: First Review of the Three-Year Stand-By Arrangement.

oil output growth (25 percent rather than 20 percent in the SBA First Review Staff Report) and a larger contraction of non-oil GDP (-8 percent versus -5 percent). Average consumer price inflation was only 0.4 percent in 2016 in the areas not occupied by ISIS (where 80 percent of the population lived before the ISIS occupation). In April, CPI inflation was 1.0 percent year-on-year.

6. Further fiscal consolidation was achieved in 2016, but at a slower pace than programmed mainly because of the inability of the government to control investment expenditure by as much as envisaged but also due to spending pressure stemming from the military campaign against ISIS and humanitarian assistance to IDPs. The non-oil primary balance, on an accrual basis[2], excluding KRG[3], contracted by 1 percent in nominal terms in 2016, reflecting 2 percent real spending growth (following a 25 percent contraction the previous year) and tripling of non-oil revenue (albeit from a very low base). However, this contraction was less than programmed (ID 7.9 trillion, excluding KRG) because of spending overruns in mostly non-oil investment (ID 6.1 trillion), transfers (ID 2.6 trillion) and wages (ID 0.7 trillion), partly because the campaign against ISIS and humanitarian assistance to IDPs and partly because of weak control of investment expenditure by line ministries. In addition, the authorities paid about $2.5 billion less external arrears to international oil companies (IOCs) and other external creditors than programmed because of cash constraints.

7. Preliminary estimates indicate that the fiscal consolidation was on track during the first quarter of 2017. Non-oil primary expenditure, excluding KRG, was less than programmed by ID 2.9 trillion (or 17 percent) while non-oil revenue, excluding KRG, was lower than programmed by a smaller magnitude of ID 0.6 trillion. Therefore, the non-oil primary balance exceeded its programmed floor excluding KRG by 16 percent.

8. In 2016, the current account deficit widened to 8.7 percent of GDP mostly because of the 22 percent fall in oil prices. The deficit was financed by external official loans and the use of official foreign exchange reserves, which fell from $53.7 billion at end-2015 to $45.2 billion (6.7 months of imports of goods and services) at end-2016.

9. In 2016, broad money grew by 7.2 percent as the government continued to borrow from banks while credit to the economy grew by 1.9 percent.

10. State-owned banks, which dominate the banking sector, have weaknesses in their capital and loan portfolio, and private banks' non-performing loans seem to be on the rise, per the CBI's financial soundness indicators (FSIs).

[2] 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. The non-oil primary balance on an accrual basis is the most accurate measure of the fiscal performance in any year because it only includes revenue and expenditure pertaining to that year.

[3] Since the authorities did not implement the budget sharing agreement with KRG in 2016, the fiscal outcomes need to be compared with the programmed levels excluding KRG to assess program performance.

11. The spread between the official and parallel exchange rates vis-à-vis the U.S. dollar decreased from 9 percent on average at the end of 2016 to below 6 percent in June 2017 as the Central Bank of Iraq (CBI) streamlined the documentation requirements for access to its foreign exchange window.

12. The yield on Iraqi dollar bonds maturing in 2028 has declined from about 14 percent in February 2016 to 8.5 percent in early July 2017, in sync with the increase in oil prices and the SBA implementation.

13. Donor disbursements to fill the financing gap identified in the SBA have been coming slightly later than programmed but remain broadly on track. The external financing gap of $12 billion for 2016–17 identified at the outset of the SBA has been closed with $3 billion from the Fund; $2 billion from the World Bank; an additional $2.5 billion from the G7 and the European Union; and deferral of $4.6 billion war reparation payment from Kuwait until 2018. U.K. and Canada have guaranteed $0.444 billion of the $1.444 budget support loan of the World Bank in December 2016. The $1 billion U.S.-guaranteed bond, previously envisaged for late 2016, was issued in January 2017. France is preparing a $0.45 billion budget loan to be disbursed during the third quarter of 2017.

14. On 5 January 2017, the Council of Ministers decreased the electricity tariffs for corporations by 18 percent on average, to help non-oil entrepreneurs.

B. Performance Under the Stand-By Arrangement

15. While not currently implemented, the budget sharing agreement between the federal government in Baghdad and the Kurdistan Regional Government (KRG) is still valid.[4] In the meantime, the performance criterion on the non-oil primary balance (¶16) for the Federal Government will continue to have an adjustor 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.

[4] Per 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 2017 presented in this MEFP, the oil revenue projected for KRG is ID 10.1 trillion and the transfer to KRG is ID 12.0 trillion.

16. The application of relevant adjustors (for non-implementation of the budget sharing agreement with KRG and shortfalls in arrears repayments) **meant that the related performance criteria (PCs) at end-December 2016 were missed** (Table 1):

- The **stock of gross reserves of the CBI** dipped below the adjusted programmed floor by $1.4 billion because the authorities paid significantly less external arrears than programmed and therefore the program floor was raised accordingly.[5]

- The **net domestic assets of the CBI** exceeded the adjusted programmed ceiling by the amount of ID 2.1 trillion for the same reason.[6]

- The **non-oil primary balance** missed the adjusted programmed floor by ID 4.2 trillion (3.1 percent of non-oil GDP) because of spending overages mostly in non-oil investment (¶6). The program floor was adjusted because of the non-implementation of the budget sharing agreement with KRG (¶15).[7]

- The **gross public debt** missed the adjusted programmed ceiling by ID 5.0 trillion, because the overall deficit was higher than programmed (¶6), and because the government paid less arrears than programmed and signed debt guarantees for spending with deferred payment in the military and electricity sectors.

- The **government** missed all these PCs because of the spending pressure flowing from the war against ISIS and the ensuing humanitarian crisis at a time when oil prices fell precipitously. This forced the government to spend more in 2016 and pay less external arrears than programmed.

- The **continuous PC on no new external arrears** on existing rescheduled debt and new borrowing was missed temporarily because of payment delays on a debt service payment of JPY 294 million ($2.5 million) from January 7 until February 28, 2017 and several debt service payments for a total value of $157 million during a few days at the beginning of July 2017 because of organizational problems at the Ministry of Finance. As these deviations were temporary and the arrears were settled within, respectively, several weeks and days, the government requests a waiver for the non-observance of this PC. The government will also expedite the implementation of the Cash Flow Management Unit and Cash Flow Management Committee at the Ministry of Finance (¶38) to solve the organizational problems that led to these payment delays.

- The **stock of outstanding obligations to International Oil Companies for more than three months** (IOCs) was higher ($1,227 million) than programmed (zero). The government could not reduce the stock of obligations outstanding to IOCs for more than three months as fast as programmed as it faced high spending pressures from the fight against ISIS and the resulting

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[5] See ¶19 of TMU, in IMF Country Report No. 16/379, p. 85.

[6] See ¶17 of TMU, in IMF Country Report No. 16/379, p. 84.

[7] See ¶14 of TMU, in IMF Country Report No. 16/379, p. 84.

increase in IDPs (¶3). The government also wants to note that it is difficult to bring these obligations below $500 million for technical reasons. Indeed, payments to IOCs are made through shipments of crude oil of at least 1 million barrels each. About 37 percent of the obligations outstanding to IOCs for more than three months at end-2016 and 85 percent at end-March 2017 are due to smaller claims by IOCs that need to be aggregated to meet the minimum size of the shipment. Thus, the government proposes to raise this ceiling to $500 million starting in September 2017 (Table 1 and ¶46).

17. The floor on social spending (indicative target—IT) **at end-December 2016 was met** (Table 1). However, a second IT was missed:

- **Social spending** (ID 20.0 trillion) exceeded its floor (ID 18.2 trillion).
- The inventory of arrears (¶18) reveals that the **stock of outstanding domestic arrears on non-oil investment** (ID 4.723 trillion) exceeded its ceiling (ID 4.491 trillion) because the inventory of arrears uncovered additional ones.

18. Three of the ITs at end-March 2017 for which information is available were met (Table 1):

- The **stock of gross reserves of the CBI** exceeded the adjusted programmed floor by about $7.0 billion.
- The **net domestic assets of the CBI** were ID 6.8 trillion below the adjusted programmed ceiling.
- The **non-oil primary balance** remained above its adjusted programmed floor (¶7).
- The **gross public debt** exceeded its adjusted programmed ceiling despite the lower budget deficit than programmed because of the overrun of the stock at the end of 2016 (¶16).
- The **stock of outstanding arrears to IOCs** was higher ($447 million) than programmed (zero) for technical reasons (¶16, last bullet).
- The **stock of outstanding domestic arrears on non-oil investment** breached the programmed ceiling by about ID 230 billion because of an upward revision of the stock at end-2016**.**

19. Based on the information available at this time, it is likely that the PC on the stock of outstanding obligations for more than three months to IOCs at end-June 2017 was not met. For reasons explained above (¶16), we expect about $500 million of obligations outstanding to IOCs for more than three months at that date. Considering the progress made since June 2016 when overdue obligations to IOCs amounted to $3,679 million and the commitment to reduce them to no more than $500 million from September 2017 on, the government requests a waiver for the non-observance of this PC.

20. Most structural benchmarks (SB) for the second review have been met and others are in progress (Table 2):

- The Ministry of Finance completed a **survey of all arrears of the central government**. At end-December 2016, the Ministry of Finance identified arrears in an amount of ID 11.1 trillion ($9.4 billion, or 5.5 percent of GDP), out of which ID 4.3 trillion on current expenditure and ID 6.8 trillion on investment expenditure (Tables 5 and 6).

- The Board of Supreme Audit (BSA) has **audited** all the **arrears on non-oil investment** identified so far by the Ministry of Planning **and** all the **arrears on food purchases** identified by the Ministry of Trade as listed in ¶21 of the MEFP for the first SBA review. Out of the 7,023 claims amounting to of ID 4.7 trillion of non-oil investment domestic arrears, the BSA validated 1,855 claims worth ID 1.363 trillion. The Ministry of Planning has reached out to line ministries to provide comments or feedback or missing information for non-compliant claims. The value of legitimate arrears could therefore rise once documentation is completed and clarifications received. Out of the stock of outstanding arrears of ID 2.5 trillion of the Ministry of Trade for purchases of wheat and rice, the BSA verified ID 2.0 trillion.

- The Debt Directorate of the Ministry of Finance completed a **survey of all guarantees issued by the central government**. At end-May 2017, the value of the 11 state guarantees on foreign currency-denominated service payment or debt amounted to $36.0 billion (ID 42.6 trillion, or 21 percent of GDP), out of which $32.4 billion are guarantees of service payments to independent power producers (IPPs) in the electricity sector for the full length of the contracts (about 14 years) and $3.6 billion are debt guarantees. In addition, the value of the guarantee of one local currency-denominated debt amounted to ID 0.5 trillion. The government will inform parliament of these guarantees (¶31).

- The **external** auditor provided its **audit of the gross international reserves and the net domestic assets of the CBI** at end-December 2016 as defined in ¶¶6–7 of the TMU.

- The **external** auditor provided its **audit of the total public debt** at end-December 2016 as defined in ¶11 of the TMU.

- On March 6, 2017, the Minister of Finance sent a **circular** elaborated with the Ministry of Planning and the BSA **requiring all spending units to record all existing commitments** on current and capital expenditures.

- The Ministry of Finance **posted** the **financial statements of the Development Fund for Iraq and Successor Account on December 31, 2015 audited per international standards** on its external website.[8]

[8] The link to the report is: تقرير مدققي الحسابات المستقلين الى الحكومة العراقية2015.

- The Governing Council of the CBI adopted a **new charter for the Audit Committee** prohibiting CBI executive representation on the committee.

- The Council of Ministers has not yet approved draft **amendments to the 2011 law establishing the Integrity Commission** 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. The government needs more time to consult with all stakeholders and proposes to postpone this SB to the third SBA review.

- The Ministry of Finance could not produce a **report on all current and investment commitments** in coordination with the Ministry of Planning, since it issued the circular to the spending units only on March 6. The 663 spending units need training to implement the circular, with the assistance of 24 auditors that the BSA trained in March 2017. Therefore, the government proposes to postpone this SB to the third SBA review.

- The Council of Ministers approved and sent to Parliament **amendments to the Law on the CBI to strengthen its 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.

- The Central Bank of Iraq issued **clarifying implementing regulations to remove** the limitation on transfer of investment proceeds that gives rise to **an exchange restriction**.

Economic and Financial Policies for 2017–19

21. Hit by the fall in 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 $36 in 2016 has caused a sharp increase of the budget deficit from 6 percent of GDP in 2013 to 14 percent of GDP in 2016 and of the public debt from 31 percent of GDP in 2013 to 67 percent of GDP in 2016. It has also caused a deterioration of the current account of the balance of payments from a surplus of 1.1 percent of GDP in 2013 to a deficit of 8.7 percent of GDP in 2016, which was partly financed by a decrease of official gross foreign exchange reserves from $77.8 billion (10.8 months of imports of goods and services) in 2013 to $45.2 billion (6.7 months of imports of goods and services) in 2016. In 2017, a recovery in oil prices is expected, with Iraqi oil prices expected to average $45.3 per barrel.[9] This drop in oil prices seems of a permanent nature as prices on future oil markets currently indicate a flattening of Iraqi oil prices to about $46 per barrel at the 2021 horizon. Therefore, the government has started to implement a program of fiscal consolidation to contain and eventually reverse the increase in total public debt and the decline of gross foreign exchange reserves. Under this program, for the implementation of which the government has received commitment of financial support of

[9] Since January 2015, Iraqi oil prices from the Basra oil fields were about $6.2 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 $9.2 lower. These price differentials are assumed to continue through 2022 in the macroeconomic framework presented in this MEFP.

about $12.0 billion, out of which $5.3 billion under the SBA with the IMF, the total public debt would decrease to 65 percent of GDP in 2018 and 57 percent of GDP in 2021; and the official gross foreign exchange reserves would bottom out at $36 billion, 5.2 months of imports of goods and services in 2021.

22. With the current oil price projections and the implementation of the fiscal consolidation under the SBA, the fiscal and current account deficits should be eliminated or substantially reduced by 2022. In 2017, no growth is expected in real GDP because the 1.5 percent contraction in real oil GDP, as a consequence of the production cut agreed by Iraq at the meeting of the Organization of Petroleum Exporting Countries (OPEC) on November 30, 2016, should compensate the 1.5 percent growth of non-oil real GDP expected as the conflict with ISIS subsides (¶2). Over the whole year of 2017, Iraq, including KRG, is expected to produce 4.566 million barrels per day (mbpd) on average in this MEFP, or 0.21 mbpd less than its production level in October 2016 based on Iraqi sources. In April 2018, oil production is projected to revert to 4.776 mbpd until year-end and increase by 1 percent per year over the projection period from 2019, as the level of oil revenue currently projected would not provide sufficient financing for investment necessary to put the level of oil production on a sharper increasing trajectory. Non-oil real GDP growth should gradually recover to half of its pre-2014 trend as the economy recovers from the conflict with ISIS. The projected level of oil revenue and the ongoing fiscal consolidation should gradually reduce the fiscal deficit from 14 percent of GDP in 2016 to zero in 2021 and the current account deficit of the balance of payments from 8.7 percent of GDP in 2016 to less than 1 percent of GDP in 2022. There remains a financing gap of $7.1 billion in 2018–19 ($5.0 billion in the last quarter of 2018, and $2.1 billion in 2019), starting during the last quarter of 2018. This financing gap does not include Iraq's post-ISIS reconstruction needs, which have not yet been assessed and are therefore not included in the SBA projections.

23. To close the financing gap for 2018–19, the government has started to contact potential donors. The authorities have also contacted the Kuwaiti Development Fund and the World Bank to assist them in assessing the post-ISIS reconstruction needs.

C. Foreign Exchange Policy

24. 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. 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 with recourse to external auditors. The CBI has also requested the technical assistance of the IMF Legal and Monetary and Capital Markets Department to analyze the reasons behind the rise of the exchange rate spread between the official rate of the CBI foreign exchange sales and the parallel market rate since the end of 2015, and to make recommendations to reduce the spread. In the meantime, the CBI has simplified the procedures for access to its foreign exchange window, which has narrowed the spread.

25. 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 acceptance of the obligations under Article VIII of the IMF's Articles of Agreement will send a positive signal to the investor community that Iraq is committed to maintain an exchange system that is free of MCPs and restrictions 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 banknotes at the foreign currency auctions indicative, in the sense that any bank requiring additional cash for their clients' legitimate travel expenses can obtain the required amount above these limits based on appropriate documentation. As a second step, the CBI issued clarifying implementing regulations, to remove the limitation on transfer of investment proceeds that gives rise to an exchange restriction (SB, Table 2).

D. Fiscal Policy

26. 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 2017–19. This will require: (i) a sizable reduction in the adjusted non-oil primary balance (PC, Table 1), of about 12 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. The financing will permit fiscal adjustment to proceed at a more gradual pace than would otherwise be necessitated by the drop in oil revenues.

27. To minimize the impact of the fiscal consolidation on the population, the government will continue to protect social spending, i.e., spending on health, education, reconstruction and transfers in support of the social safety net, the internally displaced and the refugees (IT, Table 1).

28. To strengthen debt sustainability, the government will continue discussions 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 regime. Those arrears make up almost two-thirds of the $67.5 billion of total external debt stock at end-2016. 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 89.75 percent net-present-value reduction.

Fiscal Program in 2017

29. The government will adopt a supplementary budget in 2017, of which parliamentary approval will be a prior action (Table 1). The supplementary budget will slightly reduce total spending (by 2 percent), aimed at offsetting the budgetary impact of revenue measures that had been proposed by the Council of Ministers in the draft 2017 budget but subsequently removed during Parliamentary deliberations. In addition, the supplementary budget will introduce a credit allocation for repaying arrears incurred during previous years. The revised budget will also value oil revenue at $45.3 rather than $42.0 per barrel and remain based on oil export of 3.75 mbpd.

30. In 2017, the government commits to contain the non-oil primary deficit to no more than ID 67.8 trillion on an accrual basis, **the same level as at the first SBA review**. This fiscal program will be achieved through the implementation of the following measures:

- collect at least ID 8.9 trillion (6.3 percent of non-oil GDP) in **non-oil revenue**, compared to ID 10.5 trillion (7.0 percent of non-oil GDP) in the 2017 fiscal program at the first SBA review based on the draft 2017 budget sent to parliament; the downward revision of the non-oil revenue is due to Parliament's decision to impose a lower 3.8 percent levy on salary and pensions to finance the war effort and humanitarian assistance to the internally displaced population than the 4.8 percent proposed by the government, and the downward revision of non-tax revenue by Parliament from ID 3.5 to 2.3 trillion. To counter the fall in non-oil revenue compared to the objective at the first review, the government will implement a new tax on internet services, which should yield ID 0.2 trillion in 2017.

- reduce **non-oil primary expenditure** to ID 76.9 trillion (54.2 percent of non-oil GDP) compared to ID 78.4 trillion (52.5 percent of non-oil GDP) in the 2017 fiscal program at the first SBA review based on the draft 2017 budget sent to parliament; this reduction will be achieved mostly by the following measures:

    - increase the **wage bill** to ID 36.3 trillion, slightly higher than ID 35.8 trillion in the 2017 budget in light of the higher-than-budgeted outcome in 2016; to reduce the pressure on the wage bill, the government will implement natural attrition: it will only replace one in five staff retiring, thereby setting the total number of civil servants and military personnel (approximately 2.9 million of whom about 900,000 are military and security personnel at end-2016) on an annual reduction path by 50,000 staff or close to 2 percent.

    - increase **pension payments** paid by the Ministry of Finance to ID 11.3 trillion (ID 10.3 trillion in the 2017 budget) considering the higher-than-budgeted outcome in 2016; in the medium term, the government will cap them at that level by natural attrition[10] and the enforcement of the existing rules preventing collection of multiple pensions or collecting pensions without minimum contribution period or below legal pensionable age.

    - reduce **goods and services** to ID 6.4 trillion (ID 7.3 trillion in the 2017 budget); this envelope will include a credit of ID 1.0 trillion for the purchase of gas from the Basra Gas Company (BGC, ¶37); this still leaves a sizeable increase for goods and services compared to the level executed in 2016, adjusted for KRG (ID 5.5 trillion).

    - reduce **transfers** to ID 12.8 trillion (ID 13.3 trillion in the 2017 budget); this will require a decrease compared to the level executed in 2016 (ID 13.2 trillion) but will still allow an

[10] 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.

increase in transfers to IDPs, the food distribution system and the social safety net compared to 2016.

- reduce **non-oil investment expenditure** to ID 10.2 trillion (ID 11.7 trillion in the 2017 budget), out of which ID 4.5 trillion financed by project loans. This amount will include ID 0.2 trillion to finance investment by the BGC (¶37) and ID 1.5 trillion for the Ministry of Electricity, out of which ID 1.0 trillion will be financed by project loans. Since this amount is significantly lower than the country's needs, it will need to be allocated in priority to projects already started. The instructions to implement the supplementary budget will include the list of all investment projects corresponding to the total number and amount proposed in the supplementary budget; they will be sent to spending units soon after parliamentary approval of the supplementary budget.

31. The 2017 supplementary draft budget will also:

- slightly increase the **transfer to KRG** from ID 11.6 to 12.0 trillion, in line with the revised non-sovereign expenditure in the supplementary budget;
- keep **oil investment expenditure** at ID 13.7 trillion, out of which ID 11.6 trillion ($9.8 billion) is for the IOCs;
- include an allocation of ID 7.4 trillion for the **repayment of arrears**, out of which ID 3.2 trillion is for external arrears, and ID 4.2 trillion for domestic arrears (Tables 5 and 6, ¶20).
- increase the ceiling on all **state guarantees** by $0.188 million (0.2 trillion). The government will inform parliament of the ID 42.6 trillion debt and (mostly) service-payment guarantees that it issued in previous years (¶20) and will request authorization for an additional ceiling of $0.188 million for debt guarantees, in addition to the $0.5 billion already authorized in the 2017 budget. In the meantime, the government will keep the total value of guarantees contracted since February 23, 2017 below $0.5 billion, until Parliament approves the 2017 supplementary budget.

32. **To finance** the non-oil primary fiscal deficit (ID 67.8 trillion), interest payments (ID 2.8 trillion) and oil investment expenditure (ID 13.7 trillion), the government will have recourse to **oil revenue** (ID 72.9 trillion), external financing (ID 7.2 trillion), and domestic financing (ID 4.2 trillion):

- The **external financing** will be covered by loans from the IMF under the SBA ($1.6 billion), the World Bank under a Development Policy Loan to be disbursed in December 2017 ($1.0 billion), a U.S. guaranteed bond ($1.0 billion, issued in January 2017, ¶13), a Eurobond issuance ($1 billion), a budget support loan by Japanese International Cooperation Agency (JICA, $267 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 ($883 million), China ($833 million), Export Credit Agencies ($755 million), JICA ($380 million), the World Bank ($205 million), Germany ($190 million), Italy ($134 million), United Kingdom Exim Bank ($100 million), the Islamic Development Bank ($50 million), and Japan Bank for International Cooperation (JBIC, $50 million).

- The **domestic financing** will be covered mainly by the issuance of Treasury bills that will be refinanced by commercial banks at the discount window of the CBI (ID 4.5 trillion).

33. While the supplementary budget is being prepared, the Prime Minister, as Acting Finance Minister, has issued a budget circular to preemptively limit all spending units' budgetary envelope in line with the draft supplementary budget to be introduced to Parliament and reduce the monthly release of funds by the Ministry of Finance to spending units accordingly. The Economic Reform Unit in the Prime Minister's Office together with the BSA will monitor budget execution monthly and report to the Council of Ministers about it with the same frequency.

34. 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 and a gradual reduction of the existing stock of outstanding arrears to IOCs to $500 million starting in September 2017 (¶16). It will conduct regular inventories of domestic arrears to ensure that new domestic arrears do not accumulate. It will steadily pay down existing domestic arrears after proper audit and at a pace compatible with the country's financing capacity (¶38, second bullet).

Fiscal Program in 2018

35. In the 2018 budget, the government will prepare measures to reduce the non-oil primary deficit on an accrual basis by ID 2.3 trillion (4.4 percent of non-oil GDP) compared to the draft supplementary budget for 2017. The government will prepare measures, which will be for finalization during the third review. Such measures could include:

- Levy low ad-valorem or specific taxes on a few additional products or services beyond those already taken in the 2017 supplementary budget, as recommended by an FAD technical assistance mission in February 2017, with a view to increasing indirect taxes by ID 1 trillion in 2018 (¶36).

- Reform the corporate income tax by eliminating some tax holidays and introducing a minimum tax on turnover.

- Decrease budgetary transfers to the electricity sector by ID 1 trillion in 2018; this could be achieved by taking specific measures to improve the collection rate or increasing tariffs.

- Cap non-wage remuneration (allowances, supplements, etc.) at ID 350,000 ($296) a month for all civilian civil servants, which could yield savings of about ID 0.5 trillion, or about 3 percent of the civilian wage bill, and would be shouldered by the highest paid quarter of the civil servants.

- Continue to replace only one in five retiring civil servants, which should yield savings of ID 0.6 trillion in 2018.

- Stop allocating new non-contributory pensions, or finance them within the budget allocation for pensions paid by the budget in 2017.

E. Revenue Reforms

36. 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 post the audit reports on its external website within six months after the end of each audited semester (SB, Table 2).

- **Implement measures to increase non-oil tax revenue** in line with the recommendations of the diagnostics of the tax and customs codes provided by a technical assistance mission of the IMF Fiscal Affairs Department in February 2017. The mission highlighted that the most promising avenue to raise non-oil tax revenue in Iraq in the short run would be to levy low ad-valorem or specific taxes on a few products or services relatively easy to tax, such as telecom and hotel services, private vehicles, sugar-sweetened drinks, cigarettes and other tobacco products, and alcoholic beverages. The government commits to prepare a sales and excise tax law in line with these recommendations and to send them for approval to parliament (proposed SB for the third SBA review). Another low-hanging fruit would be to reduce the number of tariffs in the Customs Code from currently more than 10 (ranging from 0 to 80 percent) to a maximum of three positive rates not exceeding 30 percent. The government commits to introduce changes in the Customs Code in line with these recommendations (proposed SB for the third SBA review).

- **Implement measures to improve 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 on Trade and Development (UNCTAD). The Tax Administration will expand the existing Large Tax Payers Unit to implement a Large Taxpayers' Office (for large taxpayers including "high wealth individuals") that will administer all national-level domestic taxes with the technical assistance of the IMF Middle East Technical Assistance Center (METAC) by end-August 2017. The Customs Administration has contacted several specialized companies to implement pre-shipment inspections. It will, by end-August 2017, propose a strategy to implement a computerized information system in its administration (for example the ASYCUDA information system developed by UNCTAD).

F. Expenditure Reforms

37. To streamline expenditure to ensure spending priorities are met, 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 (¶30–34):
  - 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 (SBs for the third and fourth SBA reviews);
  - implementing **legislative changes** to contain the evolution of government and SOE employees' wages and non-contributory pensions paid by the Treasury. As a first step, the government will compile an inventory of all the laws and regulations governing these wages and pensions. As a second step, the Ministry of Finance will carry out technical work for potential legislative changes to reduce spending on wages, non-contributory pensions and transfers, considering the selected issues paper on creating fiscal space for more inclusive growth discussed with IMF staff on the 2017 Article IV consultation. Legislative changes to that end will be discussed during the fourth SBA review (proposed SB for the fourth SBA review, Table 2);
  - adopting, by end-December 2017, **revised parameters of the public pension system** proposed by the World Bank.[11]
- **Reform the electricity sector** by a combination of the following measures:
  - **Include sufficient transfers to the Ministry of Electricity in the budget to reach production targets without accumulating arrears**. In 2017, after the tariff reduction decided by the government in January (¶14), the deficit of the electricity sector with all inputs valued at market price is estimated at ID 11.7 trillion (5.2 percent of GDP). The cash deficit is estimated to be ID 3.8 trillion (1.7 percent of GDP), because the Ministry of Electricity will get fuel from the Ministry of Oil for free, an effective subsidy of 3.5 percent of GDP. This cash deficit will be more than fully covered by the allocations for the Ministry of Electricity included in the 2017 budget (Table 4). The need for additional budgetary transfer in 2017 will be reviewed, and the need for budgetary transfer in 2018, will be assessed, in the

[11] 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).

context of the third SBA review. The Ministry of Electricity will prepare proposals to reduce its cash deficit by ID 1 trillion compared to the level programmed for 2017.

- **Progressively reduce budgetary transfers by increasing the collection rates and reducing the production costs**. In 2017, the Ministry of Electricity expects to collect ID 16 per KW produced while the production cost, with the fuel provided by the Ministry of Oil valued at zero, will be ID 39 per KW (Table 4).[12] The Ministry of Electricity plans to progressively close this difference by 2020 by increasing the collection rate, and reducing the production cost, while at the same time increasing electricity production by about 15 percent a year. The expansion plans of the electricity sector in 2018 will be reviewed during the third review, considering Iraq's financing capacity.

- **Capture flared gas and use it for electricity production**, which, according to the World Bank, could yield about ID 1.4 trillion ($1.2 billion, or 1.0 percent of non-oil GDP) in budget savings per year (through reduction of production costs and freeing more crude oil for exports) with an upfront investment of $0.5 billion starting in 2017.[13] To that end, the Ministry of Oil will: pay all its outstanding arrears from 2017 ($137 million); pay its estimated remaining gas purchase from BGC in 2017 amounting to $0.9 billion within the contractual period (30 days after billing); and pay $200 million for capital expenditure in the 2017 budget. To improve the payment performance of the Ministry of Oil to BGC, it is proposed to align the definition of arrears to BGC in the SBA to the contractual payment terms starting in September 2017 (TMU, ¶9).

- **Reform the social transfers to ensure they reach the needy**.[14] The Ministry of Labor and Social Affairs (MOLSA) is setting up a Proxy Means Testing (PMT) database 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 the available budget. This same database could be utilized by other programs (i.e., PDS) to target their assistance (cash or in-kind) to 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. Thus, they are structurally loss-making and 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 on key financial and economic statistics of the SOEs. With the assistance of the World Bank, the government has started to set up a database to monitor the fiscal risks of

[12] With that fuel valued at market prices, the production cost will be ID 122 per KW (Table 4).

[13] 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.

[14] 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.

non-financial SOEs. Out of 136 SOEs for which some information is available, only 15 seemed to have made profit in 2015. Building on this information, the government will elaborate measures to restructure the non-financial SOEs during future reviews of the SBA.

G. Public Financial Management Reforms

38. 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, end-June 2016 and end-September 2016 in compliance with the IMF Government Finance Statistics Manual 2014 (GFSM 2014). It will publish quarterly fiscal reporting tables in compliance with the IMF GFSM 2014 with a six-month lag on the external website of the Ministry of Finance starting on September 30, 2017.

- **Survey, audit and pay domestic arrears**:

    - The government will carry out **quarterly surveys of arrears** by systematically recording in detail and monitoring the existing unpaid obligations on a regular basis. It will, by end-August 2017, complete a survey of all arrears of the central government, i.e., payment due for more than 90 days, until at least end-June 2017, including: (i) current spending (salaries, pensions, goods and services and transfers), managed by the Ministry of Finance; (ii) non-oil investments managed by the Ministry of Planning; and (iii) spending managed by the Ministry of Oil. The Ministry of Finance will elaborate a consolidated table on all these arrears for the included ministries (proposed SB for the third SBA review). At end-December 2016, the government identified arrears in an amount of ID 11.1 trillion (¶19), out of which ID 7.5 trillion were domestic arrears and ID 3.6 trillion ($3.0 billion) were external arrears.

    - Based on each of these surveys, the government will prepare plans for the **orderly payment of the arrears, following an independent audit of domestic arrears by the BSA** and a repayment schedule in line with the government's financing capacity. The domestic arrears, of which the documentation is weaker than foreign arrears, will be paid after their validation by the BSA. So far, the BSA has validated ID 2.0 trillion of arrears to farmers and ID 1.363 trillion of arrears to domestic contractors. The government plans to pay ID 6.0 trillion of domestic arrears in 2017, out of which ID 3.2 trillion to contractors and ID 2.7 trillion to other creditors, mostly farmers (Tables 5-6). In 2018, it plans to pay the balance of domestic arrears, i.e. ID 1.5 trillion to contractors. The external arrears will be paid in kind (oil) to IOCs (except BGC) and in cash to others per the following timetable: ID 3.2 trillion ($2.7 billion) in 2017, ID 0.2 trillion ($0.2 billion) in 2018, and ID 0.2 trillion ($0.2 billion) in 2019.

    - The government will observe a **ceiling on the stock of domestic arrears** as surveyed by the Ministry of Finance (IT, Table 1). This will include both the domestic arrears on investment surveyed by the Ministry of Planning and the domestic arrears on current spending monitored by the Ministry of Finance. This IT will be upgraded to a PC on zero accumulation of domestic arrears as soon as the government has developed the ability to reliably monitor and prevent them.

- **Design and implement a commitment control system for budget execution**, in line with IMF technical assistance recommendations.[15] To avoid emergence of new arrears, the immediate focus will include:
  - Ministry of Finance to update the Financial and Accounting Manual to require all spending units to: (i) capture all invoices into an accounting ledger ("journal"), after adequate verification by the internal audit unit; and (ii) to report monthly on the payables to the Accounting Department as part of the trial balance report (prior action, Table 2);
  - updating the trial balance report to add data on accounts payable as per the model provided in Appendix 1 of the recent IMF Fiscal Affairs Technical Assistance report;
  - introducing a simple form to be used by spending units to report to the Ministry of Finance (Accounting) on budget execution, including budget encumbrance;
  - Ministry of Finance to produce a report on all recurrent and investment commitments (by project) in coordination with the Ministry of Planning as at end-August 2017 (SB postponed to the fourth review, Table 2); and
  - ensuring that commitment control functionality is designed in the Integrated Financial Management Information System (IFMIS).
- **Develop cash management** by implementing the following measures:
  - Ministry of Finance to establish a Cash Flow Management Unit (CMU) in the Accounting Department, with responsibility for developing cash flow forecasts extending at least three months ahead (by end-August 2017); and
  - Ministry of Finance to establish a Cash Flow Management Committee (CMC), chaired by the Deputy Minister, with responsibility to review recent developments, to review the latest cash flow forecasts prepared by the CMU, and to decide on anticipatory action (by end-August 2017).

[15] IMF, Fiscal Affairs Department; Republic of Iraq—Strengthening commitment controls and cash management; Racheeda Boukezia, Jacques Charaoui, Csaba Feher, Janis Platais, and Mike Williams; February 2017, forthcoming.

- **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;
    - the Ministry of Finance constituted a working group comprising representatives of the Ministry of Finance, CBI, 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;
    - the Ministry of Finance, with the CBI and state-owned banks, will explore the feasibility of reducing the time lag between cash transfers to spending unit bank accounts and payments; more frequent sweeping of spending units and revenue agencies bank account balances; and centralizing some large payments; and
    - the Ministry of Finance will identify options for further developing the TSA by making use of core banking systems and subsequently the IFMIS (initial review of options by end December 2017).
- **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 website, and will sign the contract with the selected IFMIS vendor by end-August 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 (ongoing and new projects with a minimum cost of US$10 million), having a feasibility study made through cost-benefit analysis and expenditure efficiency;[16]

   - 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-October 2017); 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).

- **Strengthen Debt Management.** The capacity of the Public Debt Directorate will be strengthened with technical assistance support from the Japan International Cooperation Agency (JICA), one of the largest bilateral and concessional lenders to Iraq. The Debt Directorate conducted a survey of all guarantees issued by the government (SB, Table 2; ¶20). Going forward, the Ministry of Finance will start the regular publication of a quarterly public debt bulletin, including guarantees.

- **Strengthen State Guarantees' Approval**. The Council of Ministers adopted the following procedures for approval of state guarantees (prior action, Table 2):

   - A committee will be established by a cabinet decree that is composed of two representatives of the Prime Minister's office, the head of the legal department of the Secretariat of the Council of Ministers, a representative of the Ministry of Finance, and a representative of the Ministry of Planning.

   - By July 30 of each year, each of the ministries and spending units will submit a list of guarantee requests to finance projects for the following year to the committee for its approval. These projects will need to have been included first in Iraq's Development Management System (IDMS) of the Ministry of Planning.

   - The Committee will, after consultation with each ministry, propose its priority list of guarantees, and a ceiling on all guarantees compatible with debt sustainability, for approval, first by the Prime Minister and then by the Council of Ministers. The IMF will provide the Ministry of Finance and the Central Bank of Iraq with the debt sustainability model that it uses.

   - Once the cabinet approves it, the final priority list will be submitted to parliament in the annual draft budget with a note on each guarantee, including the underlying project, the

[16] Available at the following link.

amount of the guarantee, and the financing parties. The draft budget law will also contain a ceiling on all guarantees.

- In accordance with Iraq's Financial Management Law, the Ministry of Finance will only sign guarantees within the ceiling in the budget law approved by Parliament.

H. Anti-Corruption Measures

39. To combat corruption, the government will implement the following measures:

- The Council of Ministers—after review by the Shura Council— will approve and forward to parliament by end-September 2017 draft **amendments to the 2011 law establishing the Commission on Integrity to strengthen its governance, accountability, oversight, and independence, and providing 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; 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[17] declaration regime for senior public officials, their family members and associates, and a requirement to publish their asset declaration. The parliament will adopt the draft law by October 2017.

- In line with UNCAC requirements, the Council of Ministers will adopt and forward to the parliament by September 2017 **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 September 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.

- On August 11, 2016, the Iraqi government signed a memorandum of understanding with the United Nations Development Program (UNDP), pursuant to which the UNDP will be providing assistance to the Iraqi government in the following areas. First, the UNDP is providing staff to support the Iraqi government in the investigation of significant cases of corruption, in particular relating to financial transactions involving the transfer of money out of Iraq. The assistance also involves providing advice on how to trace and return such financial assets once found. Second, the UNDP is providing assistance on legislation to the various bodies involved in investigating

[17] Assets held in Iraq and abroad, legally and beneficially owned.

corruption, such as the Bureau of Supreme Audit, the Inspector Generals and the National Integrity Commission. In particular, the goal of this assistance is to make the various bodies more independent and robust. Third, the UNDP is providing staff to assist in capacity building and assistance on public relations in relation to corruption matters. Finally, the UNDP is assisting Iraq in its attempts at improving its international rankings and international perceptions on corruption in Iraq.

I. Banking Supervision

40. As of January 2017, there were 65 banks operating in Iraq: including 7 state-owned banks (SOB), of which one is an Islamic bank; 39 Iraqi private banks, of which 15 are Islamic banks; and 19 foreign banks, of which four 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 financial statements for the year ended December 31, 2014 per international standards, in cooperation with the Executive Committee for the restructuring of these banks and the World Bank. The audits should be completed by end-August 2017. As a second step, the Ministry of Finance will, by end-February 2018, elaborate a restructuring plan for these two banks, in cooperation with the Executive Committee for the restructuring of these banks and the World Bank, considering the results of the 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;
- 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: at end-December 2016, 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
- implementing the international bank account number (IBAN) system in Iraq in 2017.

43. Building on the safeguards assessment conducted by the IMF in December 2015, the government will continue to strengthen the legal framework of the CBI to provide for independent oversight of the CBI's operations. The Governing Council of the CBI approved a new charter for the Audit Committee prohibiting Central Bank of Iraq executive representation on the committee (SB, Table 2). The Council of Ministers approved and introduced 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 was 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 have been 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 for on-lending to small and medium-sized enterprises (SME, ID 1 trillion) and agriculture or infrastructure projects (ID 5 trillion), the latter with state guarantee. So far the CBI has disbursed ID 21.2 billion for the former and 0.5 trillion for the latter. The CBI plans to cap its disbursements at ID 1.3 trillion in 2017 and to assess the need for its continuation by year-end considering the fiscal risks for the government.

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, and disrupt terrorist funding, thereby reducing the threat of terrorism.

- 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 March 2017, the CBI Governor issued AML/CFT instructions for financial institutions (SB, Table 2). In May 2017, the Iraq Securities Commission (ISC) issued AML/CFT instructions for brokerage companies.

- As a second step, the CBI and Iraqi Insurance Diwan (IID) will issue, by end-September 2017, AML/CFT instructions for exchange and insurance companies, respectively, with customer due diligence and suspicious transactions' reporting requirements in line with the FATF standard. By end-December 2017, the CBI and the Financial Intelligence Unit (AML Bureau) will issue guidance to all reporting entities covered by the AML/CFT Law regarding the implementation of preventive measures including enhanced due diligence.

- As a third step, the CBI will develop its supervisory capacity to enhance the compliance by these entities with AML/CFT obligations. In this respect, it will develop ML/TF risk profiles for banks by end-March 2018, review its allocation of resources for AML/CFT supervision of banks accordingly by end-June 2018, and start implementing the AML/CFT onsite inspection procedures for banks on a risk sensitive basis by end-October 2018. By end-December 2017, the CBI, the IID, and the ISC will develop and implement on-site examination procedures for exchange, insurance and brokerage companies respectively. By end-June 2018, the CBI, IID and ISC will develop ML/TF risk profiles for exchange, insurance and brokerage companies respectively.

- The AML Bureau will develop, by end-October 2017, a draft regulation clarifying its governance and operations for strengthened operational autonomy and effective implementation of its mandate as per the AML/CFT Law. By end-December 2017, the AML Bureau will submit this draft regulation to the Council of Ministers, through the AML/CFT Council, for approval. The Council of Ministers will approve the FIU regulation by March 2018.

- The AML/CFT Council issued, in August 2016, controls on the declaration of cross border cash transportation, including declaration forms. By end-November 2017, the Customs Administration will report to the AML/CFT Council and start publishing on the AML Bureau website, on a quarterly basis, statistical information reflecting the implementation of these controls, including the number of currency and bearer negotiable instruments suspicious reports received and analyzed by the AML Bureau, value of falsely-declared and non-declared cross-border currency and bearer negotiable instruments seized and confiscated.

Program Modalities and Monitoring

46. 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, gross official foreign exchange reserves, the non-accumulation of new external arrears, and three ITs on social spending, the stock of outstanding domestic arrears, and the stock of outstanding obligations to IOCs (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. Considering the revised fiscal program in 2017 (¶¶30–34), the government also supports staff's proposal to modify the level of the PCs on the gross international reserves of the CBI, the net domestic assets of the CBI, the non-oil primary balance and the gross public debt at end-December 2017. Considering the difficulty to reduce to zero the obligations to IOCs due for more than three months because of the minimum size of oil shipments, the government proposes to raise the ceiling on arrears to IOCs to $500 million, starting in September 2017 (¶16). The government also supports staff's proposal to monitor these obligations as an IT rather than a PC starting in September 2017 and commits to clarify the nature of these obligations by the time of the third review for program monitoring purposes. The government also proposes to set PCs at end-June and end-December 2018. 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 fourth review). Since their implementation requires more time than anticipated, the government requests the postponement of two SBs for the second review (amendments to the law establishing the Integrity Commission, report on expenditure commitments) to, respectively, the third and fourth reviews and one SB (audit of the pensioner payroll) from the third to the fourth review.

47. The third review will take place on or after October 15, 2017, and the fourth review on or after April 15, 2018.

Table 1. Iraq: Performance Criteria and Indicative Targets Under the Stand-By Arrangement , 2016–18 [1/]

(In billions of Iraqi dinars, unless otherwise indicated)

	2016								2017												2018			
	Sep				Dec				Mar				Jun			Sep		Dec			Mar	Jun	Sep	Dec
	Prog. 2/	Adj. Target	Prel. Est.	Status	Prog. 3/	Adj. Target	Est.	Status	Prog. 3/	Adj. Target	Est.	Status	Prog. 3/	Est.	Status	Prog. 3/	Rev. Prog.	Prog. 3/	Rev. Prog.		Prog.	Prog.	Prog.	Prog.
Performance Criteria 4/																								
Gross international reserves of the CBI (floor; eop stock, in millions of U.S. dollars)	34,910	38,636	47,805	Met	43,043	46,590	45,226	Not Met	40,882	39,882	47,039	Met	38,532			36,560	39,829	38,546	41,396		38,628	37,160	36,026	40,771
Net domestic assets of the CBI (ceiling; eop stock)	17,200	12,803	6,238	Met	11,051	6,865	8,987	Not Met	13,040	14,220	7,444	Met	15,961			18,534	17,671	16,250	16,897		20,617	23,043	24,961	19,743
Central government non-oil primary balance (floor) 5/	(49,145)	(42,345)	(35,617)	Met	(61,944)	(53,918)	(58,077)	Not Met	(17,095)	(12,719)	(12,091)	Met	(34,716)			(51,602)	(51,343)	(69,131)	(73,778)		(16,538)	(33,076)	(49,393)	(67,157)
Gross public debt (domestic and foreign) (in billions of ID; ceiling; eop stock)	142,208	135,408	127,940	Met	130,639	130,483	135,475	Not Met	135,571	135,229	135,931	Not Met	140,364			143,891	145,182	147,809	149,887		151,130	154,544	156,633	159,788
New external arrears on existing / rescheduled debt and new borrowing (in millions of U.S. dollars; ceiling) 5/ 6/	0		0.5	Not Met	0		0	Met	0		2.5	Not Met	0	157.0	Not Met	0	0	0	0		0	0	0	0
Stock of outstanding arrears to international oil companies (in millions of U.S. dollars; ceiling)	0		2,138	Not Met	0		1,227	Not Met	0		447	Not Met	0	500	Not Met	0		0						
Indicative Target																								
Social spending (floor) 5/ 7/	12,619		10,954	Not Met	18,228		20,093	Met	4,493				8,986			13,480	15,635	17,973	20,846		5,212	10,423	15,635	20,846
Stock of outstanding domestic arrears (ceiling) 8/	7,500				4,491		4,723	Not Met	4,491		4,723	Not Met	4,491			4,491	3,557	4,491	1,446		1,446	1,446	1,446	(0)
Stock of outstanding obligations to international oil companies (in millions of U.S. dollars; ceiling)																	500		500		500	500	500	500
Memorandum item:																								
Transfer of the central government to the Kurdistan Regional Government 5/	6,841		0		8,480		0		2,898		0		5,798			8,702	8,569	11,606	11,993		2,984	5,971	8,959	11,945
Total revenue from KRG					8,324		0		2,555		0		2,818			3,061	7,984	3,285	10,855		2,744	5,508	8,288	11,056
oil export revenue through SOMO					7,808		0		2,366		0		2,440			2,494	7,450	2,529	10,143		2,516	5,052	7,603	10,143
non-oil revenue transfers to Federal government					516		0		189		0		378			567	534	756	712		228	456	685	913
Total foreign financing and international contributions to fill the financing gap	(4,152)		246		(1,653)		2,533		1,924		220		2,776			3,677	3,809	9,123	7,181		(50)	1,111	2,553	10,847
External Financing 5/	(5,660)		(504)		(4,875)		(673)		1,392		(962)		1,039			1,940	844	4,043	2,090		(50)	(100)	1,342	2,783
International contributions to fill the financing gap 5/	1,508		749		3,222		3,206		532		1,182		1,737			1,738	2,965	5,080	5,091		…	1,211	1,211	8,064
Iraq oil export price (US$ / barrel, average for the quarter)	37.5		33.6		45.3		43.1		40.4		46.3		41.7			42.6	45.1	43.2	45.5		45.7	45.5	45.3	45.1
Oil export revenue 5/	36,041		32,961		57,557		44,671		16,130		15,357		32,949			50,325	52,761	67,950	71,833		18,698	37,543	56,502	75,380
Expenditure financed by project loans 5/	443		312		2,398		2,336		1,746		267		1,746			3,000	2,689	4,254	4,504		457	914	2,863	4,811

Source: Iraqi Authorities, and Fund Staff estimates and projections

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

2/ IMF Country Report number 16/225: Iraq Staff Report for the Three-year Stand-by Arrangement Request.

3/ IMF Country Report number 16/379: Iraq Staff Report for the First Review of the Stand-by Arrangement.

4/ The test dates for performance criteria are end-June and end-December 2017 and end-June and December 2018; all variables for other test dates are indicative targets.

5/ Cumulative from January 1.

6/ Continuous.

7/ See Table 3 for more details.

8/ The scope of this indicative target is limited to domestic arrears on non-oil investment monitored by the Ministry of Planning until June 2017. Starting in July 2017, it includes all domestic arrears.

Table 2. Iraq: Prior Actions and Structural Benchmarks Under the Stand-By Arrangement, 2017

Measures	Scheduled review by which the measure will be completed	Macroeconomic justification	Status
Prior action			
Approval by Parliament of a supplementary 2017 budget in line with ¶¶29-32 of the MEFP for the SBA 2nd review.		Maintain macroeconomic stability	Met
Ministry of Finance to update the Financial and Accounting Manual to require all spending units to: i) capture all invoices into an accounting ledger ("journal"), after adequate verification by the internal audit unit; and ii) to report monthly on the payables to the Accounting Department as part of the trial balance report.		Strengthen expenditure control.	Met
Approval by the Council of Ministers of procedures for approval of state guarantees in line with ¶38 of the MEFP for the 2nd SBA review.		Strengthen fiscal discipline.	Met
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 managed by the Ministry of Planning; and (iii) spending managed by the Ministry of Oil. The Ministry of Finance will elaborate a consolidated table on all these arrears for the included ministries.	2nd review	Improve fiscal transparency.	Met
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.	Met
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.	Met
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.	Met
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.	Met
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.	Met
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.	Met
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.	Met

Table 2. Iraq: Prior Actions and Structural Benchmarks Under the Stand-By Arrangement, 2017 (concluded)

Measures	Scheduled review by which the measure will be completed	Macroeconomic justification	Status
Structural benchmarks			
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.	Not met. Postponed to the 3rd review.
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.	Not met. Postponed to the 4th review.
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.	Met
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.	Met
Completion by the Board of Supreme Audit of an audit of the central government wage earner payroll to identify ghost wage earners, i.e. people who perceive wages without legal or regulatory justification.	3rd review	Decrease current expenditure.	
Completion by the Board of Supreme Audit of an audit of the government pensioner payroll to identify ghost pensioners, i.e. people who perceive pensions without legal or regulatory justification.	3rd review	Decrease current expenditure.	Postponed to 4th review
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-June 2017, 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.	3rd review	Improve fiscal transparency.	
External audit of the gross international reserves and the net domestic assets of the Central Bank of Iraq at end-July 2017 as defined in ¶¶6-7 of the TMU.	3rd review	Strengthen safeguards assessment.	
External audit of the total public debt at end-July 2017 as defined in ¶11 of the TMU, excluding arrears and external debt from the pre-2003 regime for which only partial documentation is available.	3rd review	Strengthen debt management.	
Approval by the Council of Ministers and introduction to parliament of a sales and excise tax law in line with ¶36. second bullet of the MEFP.	3rd review	Increase non-oil revenue.	
Approval by the Council of Ministers of amendments to the Customs Code in line with ¶36. second bullet of the MEFP.	3rd review	Increase non-oil revenue.	
Study by the Ministry of Finance of potential legislative changes to reduce spending on wages, non-contributory pensions and transfers.	4th review	Decrease current expenditure.	

Source: Iraqi authorities.

Table 3. Iraq: Social Spending[1/]

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

	2016		2017						2018			
	Dec-16		Mar-17	Jun-17	Sep-17		Dec-17		Mar-18	Jun-18	Sep-18	Dec-18
	Prog. 2/	Est.	Prog. 2/	Prog. 2/	Prog. 2/	Rev. Prog.	Prog. 2/	Rev. Prog.	Prog.	Prog.	Prog.	Prog.
Total Social spending (floor)	18,228	20,093	4,493	8,986	13,480	15,635	17,973	20,846	5,212	10,423	15,635	20,846
Social Safety Net	1,800	1,069	494	988	1,482	1,645	1,976	2,194	548	1,097	1,645	2,194
Public Distribution System (PDS - food subsidies)	1,485	1,204	381	762	1,143	1,270	1,524	1,693	423	847	1,270	1,693
Wheat and rice subsidy	1,080	2,803	342	684	1,027	1,141	1,369	1,521	380	761	1,141	1,521
Assistance and subsidy to Iraqi refugees	0	0	-	-	-	278	-	370	93	185	278	370
Assistance and subsidy to internally displaced persons	900	608	308	617	925	590	1,234	787	197	394	590	787
Farmer subsidies	405	462	110	221	331	367	441	489	122	245	367	489
Reconstruction cost				-	-	152	-	202	51	101	152	202
Health Ministry and Environment Ministry- wages	2,520	2,846	615	1,230	1,845	2,049	2,460	2,732	683	1,366	2,049	2,732
Higher Education Ministry - wages	2,070	2,148	492	984	1,476	1,640	1,968	2,187	547	1,094	1,640	2,187
Lower Education Ministry - wages	6,300	7,304	1,456	2,912	4,369	4,853	5,825	6,471	1,618	3,236	4,853	6,471
Health Ministry and Environment Ministry- goods and services	1,350	1,402	222	445	667	688	889	917	229	459	688	917
Higher Education Ministry - goods and services	99	67	17	34	52	186	69	247	62	124	186	247
Lower Education Ministry - goods and services	219	180	56	109	164	777	219	1,036	259	518	777	1,036

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

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

2/ IMF Country Report number 16/379: Iraq Staff Report for the First Review of the Stand-by Arrangement.

Table 4. Iraq: Revenue and Expenditure of the Ministry of Electricity (MoE)
(In billions of Iraqi dinars)

	2017		
	MoE budget	Transfer from Ministry of Finance (MoF)	
		Initial Budget	Supplementary Budget (additional allocation)
Electricity tariff collection	1,506	750	
Expenditure	13,249	2,370	
Wages	1,015	403	
Goods and services	10,358	980	
Cost of fuel and other (cash)	2,410	980	
Basra Gas Company (BGC) - Gas	1,030	980	
Gas from Iran	339	-	
Imported fuel	250	-	
Imported electricity	614	-	
Independent Power Producers fees	177	-	
Fuel from Ministry of Oil (MoO, non-cash: value of in-kind subsidy)	7,948	-	
Maintenance	361	144	
Other goods and services	1	-	
Investment expenditure	1,514	843	671
o/w financed by project loans	951	402	550
o/w financed by other means	563	441	122
Total transfer from MoF to MoE		3,120	671
Balance (accrual)	-11,743		
Balance (cash)	-3,795		
Financing	11,743		
Contribution from MoF	5,503		
Fuel subsidy	7,948		
Arrears	-1,712	1,020	692
Financing gap (+)/surplus (-)	4		
Memorandum items			
Production (MWh)	96,360,000		
Tariff (ID/KW; a)	72		
Tariff collected (ID/KW; b) [1/]	16		
Tariff collection rate (a/b)	22%		
Operational cost with fuel from MoO at market price (ID/KW)	122		
Operational cost with fuel from MoO for free (ID/KW)	39		

Source: Iraqi authorities.

1/ Tariff collection divided by production.

Table 5. Arrears on Current Spending [1/]

(In Iraqi dinar, unless otherwise indicated)

Spending Unit	2016	2017
	Stock	Payment
Ministry of Trade	2,509,814,327,354	2,509,814,327,354
Ministry of Electricity (external arrear)	1,535,000,000,000	1,535,000,000,000
Ministry of Education	132,319,000,000	132,319,000,000
Ministry of Agriculture	106,103,734,314	106,103,734,314
Council of Representatives	588,000,000	588,000,000
Ministry of Water resources	452,000,000	452,000,000
Ownership Claims Office	327,000,000	327,000,000
National Security	69,000,000	69,000,000
Ministry of Labor	2,932,000	2,932,000
Total	4,284,675,993,668	4,284,675,993,668
Domestic arrears	2,749,675,993,668	2,749,675,993,668
External arrears	1,535,000,000,000	1,535,000,000,000

Source: Iraqi authorities.

[1/] Domestic arrears, unless otherwise indicated.

Table 6. Iraq: Arrears on Investment Expenditure 1/
(In Iraqi dinar, unless otherwise indicated)

Spending Unit	2016	2017	2018	2019
	Stock	Payment 2/		
Ministry of Oil	2,534,398,241,613			
domestic arrears	1,084,101,289,173			
external arrears (IOCs and BCG)	1,450,296,952,440	1,450,296,952,440		
Regional Development Program	1,605,713,034,739			
Ministry of Electricity	829,099,150,396			
domestic arrears	229,825,150,396			
external arrears (Shanghai)	599,274,000,000	177,300,000,000	210,987,000,000	210,987,000,000
National Investment Committee	468,580,003,543			
Ministry of Housing	340,089,877,917			
Ministry of Public Works	188,046,742,732			
Ministry of Water Resources	175,277,423,750			
Shiite Waqf	135,820,611,925			
Ministry of Health	130,034,335,840			
Ministry of Youth	85,425,304,343			
Ministry of Higher Eduction	81,609,105,949			
Ministry of Industry	80,089,327,545			
Ministry of Transport	26,161,495,530			
Ministry of Justice	19,987,540,327			
Ministry of Communication	17,377,854,249			
Ministry of Trade	9,987,581,294			
Ministry of Agriculture	7,043,916,467			
Christian Waqf	6,183,970,434			
Martyrs Corporation	5,375,966,263			
Ministry of Education	3,900,316,627			
Ministry of Planning	3,529,238,008			
Ministry of Interior	3,249,694,000			
National Security Council	2,578,000,000			
Ministry of Science and Tech	2,094,360,000			
Iraqi News Network	1,909,225,408			
Ministry of Immigrants	1,824,613,325			
Other	1,528,357,000			
Ministry of Culture	1,506,197,708			
Higher Judicial Council	1,289,962,084			
Ministry of Human Rights	1,088,368,488			
Ministry of Labor	708,168,869			
Ministry of Finance	344,902,000			
COM SEC	328,243,000			
Prisoners Corporation	288,888,955			
Securities Commission	240,771,000			
Committee	238,197,945			
Elections Higher Council	66,200,000			
Science Council	44,388,000			
Ministry of Defense	-			
Sunni Waqf	-			
Total	6,773,059,577,273	4,904,961,952,440	1,657,110,624,833	210,987,000,000
Domestic arrears	4,723,488,624,833	3,277,365,000,000	1,446,123,624,833	
External arrears	2,049,570,952,440	1,627,596,952,440	210,987,000,000	210,987,000,000

Source: Iraqi authorities.

1/ Domestic arrears, unless otherwise indicated.

2/ All arrears at end 2016 are expected to be paid over three years, even though this table only shows the repayment schedule for external arrears.

Table 7. Iraq: Cenral Government Fiscal Accounts, 2017–18

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

	2017							2018			
	March		June	Sep.		Dec.		March	June	Sep.	Dec.
	Prog. 1/	Est.	Prog. 1/	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Prog.	Prog.	Prog.	Prog.
Revenues and grants	18.8	17.2	38.4	58.6	59.7	79.1	82.0	21.6	43.4	65.5	87.5
Revenues	18.8	17.2	38.3	58.5	59.6	79.0	81.9	21.6	43.4	65.5	87.5
Oil	16.3	15.4	33.2	50.8	53.4	68.6	72.9	19.0	38.1	57.3	76.5
Non-oil	2.5	1.74	5.0	7.7	6.2	10.5	8.9	2.6	5.3	8.2	11.0
Grants	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Expenditures	23.7	17.6	47.5	71.3	66.7	95.0	93.4	24.7	49.4	74.1	98.8
Current expenditures	17.4	14.1	34.8	52.2	48.8	69.6	69.5	18.6	37.3	55.9	74.5
Salary and pension	11.5	10.6	23.0	34.6	34.4	46.1	47.6	11.6	23.2	34.8	46.4
Salary	8.9	7.8	17.9	26.8	26.0	35.8	36.3	8.8	17.6	26.3	35.1
Pension	2.6	2.8	5.2	7.7	8.4	10.3	11.3	2.8	5.6	8.4	11.3
Goods and services	1.8	1.3	3.7	5.5	4.5	7.3	6.4	1.7	3.4	5.1	6.7
Transfers	3.3	1.3	6.7	10.0	7.7	13.3	12.8	3.3	6.6	9.9	13.3
Social safety net (including PDS)	1.7	0.5	3.4	5.1	3.6	6.8	6.3	1.7	3.4	5.1	6.8
Transfers to SOEs 2/	0.5	0.4	0.9	1.4	1.5	1.9	2.2	0.6	1.1	1.7	2.2
Other transfers	1.2	0.5	2.3	3.5	2.6	4.7	4.3	1.1	2.1	3.2	4.3
Interest payments	0.7	0.9	1.4	2.2	2.2	2.9	2.8	0.7	1.3	2.0	2.7
War reparations 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.4	2.7	4.1	5.4
Investment expenditures	6.4	3.6	12.7	19.1	17.9	25.4	23.9	6.1	12.2	18.2	24.3
Non-oil investment expenditures	2.9	0.6	5.9	8.8	8.1	11.7	10.2	2.5	5.1	7.6	10.1
Oil investment expenditures	3.4	2.9	6.8	10.3	9.8	13.7	13.7	3.5	7.1	10.6	14.2
Balance (including grants)	-4.9	-0.5	-9.1	-12.6	-7.0	-15.9	-11.4	-3.1	-6.0	-8.6	-11.3
Balance (excluding grants)	-4.9	-0.5	-9.2	-12.7	-7.1	-16.0	-11.5	-3.1	-6.0	-8.6	-11.3
Financing	4.9	0.6	9.1	12.6	7.1	15.9	11.4	3.1	6.0	8.6	11.3
External financing	1.9	0.2	2.8	3.7	3.8	9.1	7.2	0.0	1.1	2.6	4.9
Budget Loans	0.5	1.2	1.7	1.7	4.1	6.3	6.3	0.0	1.2	1.2	2.2
International Financial Institutions	0.0	0.0	1.0	1.0	0.9	3.1	3.1	0.0	0.9	0.9	1.9
Bilateral	0.5	0.0	0.8	0.8	0.8	0.8	0.8	0.0	0.3	0.3	0.3
Eurobond	0.0	1.2	0.0	0.0	2.4	2.4	2.4	0.0	0.0	0.0	0.0
Project Loans	1.7	0.3	1.7	3.0	2.7	4.3	4.5	0.5	0.9	2.9	4.8
Amortization	-0.4	-0.4	-0.7	-1.1	-1.0	-1.4	-1.2	-0.5	-1.0	-1.4	-1.9
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
SDR Holding	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Account payables	0.0	0.1	0.0	0.0	0.2	0.0	0.2	0.0	0.1	0.1	0.1
Arrears	0.0	-0.9	0.0	0.0	-2.2	0.0	-2.6	-0.1	-0.1	-0.2	-0.2
Domestic financing	3.0	0.3	6.3	8.9	3.3	6.8	4.2	3.1	4.9	6.1	0.5
Bank financing	3.0	0.3	5.7	8.3	3.0	6.8	6.0	3.1	3.4	4.6	0.5
CBI	1.7	0.1	3.4	5.0	2.4	5.5	4.5	0.1	0.2	0.3	0.4
Loans	1.7	0.1	3.4	5.0	2.4	5.5	4.5	0.1	0.2	0.3	0.4
Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	1.3	0.2	2.3	3.3	0.6	1.3	1.5	3.0	3.2	4.3	0.1
Loans	1.3	0.2	2.3	3.3	0.6	0.9	1.1	3.0	3.2	4.3	0.1
Deposits	0.0	0.0	0.0	0.0	0.0	0.4	0.4	0.0	0.0	0.0	0.0
Non-bank financing	0.0	0.0	1.3	1.3	4.2	1.3	4.2	0.0	1.4	1.4	1.4
Account payables	0.0	0.0	0.0	0.0	-1.8	0.0	-1.8	0.0	0.0	0.0	0.0
Arrears	0.0	0.0	-0.6	-0.6	-2.1	-1.3	-4.2	0.0	0.0	0.0	-1.4
Financing gap:	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.9
Memorandum items:											
Security-related expenditure (military and police equipment and salaries)	4.3	3.9	8.6	13.0	12.7	17.3	17.6	4.3	8.5	12.8	17.1
Social spending	5.0	5.2	10.0	15.0	15.6	20.0	20.8	5.2	10.4	15.6	20.8
Transfer to KRG	2.9	2.3	5.8	8.7	8.6	11.6	12.0	3.0	6.0	9.0	11.9
Non-oil primary expenditure	19.6	13.8	39.2	58.8	54.7	78.4	76.9	19.1	38.3	57.4	76.5
Non-oil primary fiscal balance, accrual basis	-17.1	-12.1	-34.1	-51.0	-48.4	-67.8	-67.8	-16.5	-33.0	-49.2	-65.5
Non-oil primary fiscal balance, cash basis 4/	-17.1	-12.1	-34.7	-51.6	-51.3	-69.1	-73.8	-16.5	-33.1	-49.4	-67.2

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

1/ IMF Country Report number 16/379: Iraq Staff Report for the First Review of the Stand-by Arrangement.

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 subtracting the spending financed by arrears' accumulation during that period, and adding the payment of arrears from previous years.

Table 8. Iraq: Balance of Payments, 2017–18

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

	2017							2018			
	March		June	Sep.		Dec.		March	June	Sep.	Dec.
	Prog. 1/	Est.	Prog. 1/	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Prog.	Prog.	Prog.	Prog.
Trade balance	-0.9	3.8	-1.3	-1.1	0.0	-0.8	1.4	0.8	1.7	2.7	3.7
(In percent of GDP)											
Exports	13.8	15.7	28.1	42.9	46.6	57.9	62.4	16.1	32.3	48.7	64.9
Crude oil 1/	13.6	15.6	27.9	42.6	46.3	57.5	62.0	16.0	32.1	48.3	64.4
Other exports	0.1	0.1	0.2	0.3	0.3	0.4	0.4	0.1	0.2	0.4	0.5
Imports	-14.7	-12.0	-29.3	-44.0	-46.6	-58.7	-61.0	-15.3	-30.6	-45.9	-61.3
Private sector imports	-10.2	-8.3	-20.5	-30.7	-32.5	-41.0	-42.5	-10.6	-21.3	-31.9	-42.6
Government imports	-4.4	-3.6	-8.9	-13.3	-14.1	-17.7	-18.5	-4.7	-9.3	-14.0	-18.7
Services, net	-3.1	-2.6	-6.1	-9.2	-10.0	-12.3	-13.1	-3.1	-6.1	-9.2	-12.3
Receipts	1.6	1.3	3.3	4.9	4.9	6.5	6.5	1.8	3.6	5.4	7.2
Payments	-4.7	-3.8	-9.4	-14.1	-15.0	-18.8	-19.6	-4.9	-9.7	-14.6	-19.5
Income, net	-0.3	-0.4	-0.6	-0.9	-1.3	-1.2	-1.8	-0.5	-1.0	-1.6	-2.1
Transfers, net	0.3	0.3	0.7	1.0	1.0	1.2	1.2	-0.7	-1.5	-2.2	-3.0
Private, net	0.1	0.1	0.2	0.3	0.3	0.4	0.4	0.1	0.3	0.4	0.5
Official, net	0.2	0.2	0.5	0.7	0.7	0.8	0.8	-0.9	-1.7	-2.6	-3.5
Current account	-4.0	1.0	-7.3	-10.3	-10.4	-13.1	-12.3	-3.5	-6.9	-10.2	-13.6
(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
Financial account	1.9	1.5	2.8	3.8	6.7	8.6	10.5	0.9	2.9	5.1	8.2
Direct and portfolio investment (net) 2/	0.1	0.4	0.3	0.4	1.3	0.5	1.8	0.5	1.1	1.6	2.2
Other capital, net	1.7	1.0	2.6	3.4	5.4	8.1	8.7	0.4	1.8	3.5	6.0
Official, net	1.6	0.9	2.3	3.1	4.9	7.6	8.1	0.0	1.0	2.2	4.4
Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	1.6	0.9	2.3	3.1	4.9	7.6	8.1	0.0	1.0	2.2	4.4
Disbursements 3/	1.9	1.2	2.9	4.0	5.8	8.9	9.1	0.4	1.8	3.4	5.9
Amortization	-0.3	-0.4	-0.6	-0.9	-0.9	-1.3	-1.0	-0.4	-0.8	-1.2	-1.5
Private, net	0.1	0.1	0.2	0.3	0.4	0.4	0.6	0.4	0.8	1.2	1.6
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
Overall balance	-2.2	2.5	-4.5	-6.5	-3.7	-4.5	-1.8	-2.6	-4.0	-5.2	-5.4
(In percent of GDP)											
Financing	2.2	-2.5	4.5	6.5	3.7	4.5	1.8	2.6	4.0	5.2	5.4
Development Fund for Iraq (increase -)	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 -)	2.2	-1.8	4.5	6.5	5.4	4.5	3.8	2.8	4.2	5.4	0.6
Fund credit (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.2	-0.2	-0.2
Change in arrears (negative = decrease)	0.0	-0.8	0.0	0.0	-1.9	0.0	-2.2	0.0	-0.1	-0.1	-0.2
Change in accounts payables (negative = decrease)	0.0	0.1	0.0	0.0	0.2	0.0	0.1	0.0	0.0	0.1	0.1
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0
Memorandum items:											
Gross International Reserves (end of period)	40.9	47.0	38.5	36.6	39.8	38.5	41.4	38.6	37.2	36.0	40.8

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

1/ IMF Country Report number 16/379: Iraq Staff Report for the First Review of the Stand-by Arrangement.

2/ Includes planned issuances of Eurobonds in 2017.

3/ Includes prospective disbursements from the IMF, WB and other donors.

Table 9. Iraq: Monetary Survey, 2017–18
(In trillions of Iraqi dinars, unless otherwise indicated)

	2017							2018			
	Mar.		Jun.	Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
	Prog. 1/	Est.	Prog. 1/	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Prog.	Prog.	Prog.	Prog.
Net foreign assets	56,091	61,741	55,052	54,359	58,083	52,973	55,156	54,930	54,780	54,680	54,480
Of which: CBI	43,863	51,229	41,084	38,754	42,706	41,101	44,608	41,336	39,601	38,261	43,967
Net domestic assets	32,909	28,429	34,448	37,141	35,075	39,917	39,594	40,739	42,152	43,440	44,881
Domestic claims	42,617	36,514	47,041	49,989	43,810	49,117	47,679	51,956	54,506	56,194	52,966
Net claims on general government	14,330	10,273	18,271	20,897	17,022	19,381	20,453	23,571	25,349	26,522	22,264
Claims on general government	44,706	40,782	48,647	51,273	47,531	49,341	50,398	53,516	55,293	56,466	52,209
less: Liabilities to general government	-30,376	-30,509	-30,376	-30,376	-30,509	-29,960	-29,945	-29,945	-29,945	-29,945	-29,945
Claims on other sectors	28,287	26,241	28,770	29,092	26,788	29,736	27,226	28,385	29,157	29,672	30,702
Other Item Net (OIN)	-9,708	-8,085	-12,593	-12,848	-8,735	-9,200	-8,085	-11,217	-12,354	-12,754	-8,085
Broad money	89,000	90,170	89,500	91,500	93,158	92,890	94,750	95,669	96,932	98,120	99,361
Currency outside banks	34,121	40,225	33,616	33,460	41,104	33,201	41,835	42,132	42,588	42,969	43,292
Transferable deposits	38,490	35,253	39,195	40,707	36,093	41,864	36,690	37,122	37,681	38,240	38,877
Other deposits	16,389	14,691	16,689	17,333	15,961	17,825	16,225	16,416	16,663	16,910	17,192

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

1/ IMF Country Report number 16/379: Iraq Staff Report for the First Review of the Stand-by Arrangement.

Table 10. Iraq: Central Bank Balance Sheet, 2017–18
(In trillions of Iraqi dinars, unless otherwise indicated)

	2017							2018			
	March		June	Sep.		Dec.		March	June	Sep.	Dec.
	Prog. 1/	Est.	Prog. 1/	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.	Prog.	Prog.	Prog.	Prog.
Net foreign assets	43,863	51,229	41,084	38,754	42,706	41,101	44,608	41,336	39,601	38,261	43,967
Foreign assets	48,689	55,961	45,910	43,580	47,438	45,928	49,283	46,012	44,277	42,936	48,545
Official reserve assets	48,323	55,600	45,544	43,214	47,077	45,562	48,930	45,658	43,923	42,582	48,191
Gold	3,994	4,242	4,073	4,151	4,194	4,229	4,273	4,358	4,444	4,529	4,615
Other	43,069	50,880	40,212	37,803	42,401	40,073	44,174	40,817	38,997	37,571	43,094
SDR holdings and reserve position in the Fund	1,260	479	1,260	1,260	482	1,260	482	482	482	482	482
Other foreign assets	366	361	366	366	361	366	354	354	354	354	354
Foreign liabilities	-4,826	-4,732	-4,826	-4,826	-4,732	-4,826	-4,675	-4,675	-4,675	-4,675	-4,578
Net domestic assets	14,752	9,267	17,673	20,246	19,495	17,962	18,699	22,420	24,846	26,763	21,546
Domestic assets	19,530	13,333	21,167	22,797	18,638	23,305	21,588	21,715	21,807	21,909	21,853
Net claims on general government	19,435	13,228	21,072	22,702	18,529	23,210	21,480	21,607	21,698	21,801	21,745
Loans to central government	2,729	2,356	2,729	2,729	2,356	2,729	2,356	2,356	2,356	2,356	2,356
Holdings of discounted treasury bills	20,572	17,179	22,209	23,839	19,422	24,347	21,710	21,837	21,928	22,030	21,975
Other claims	0	0	0	0	0	0	0	0	0	0	0
Domestic currency deposits	-1,066	-1,629	-1,066	-1,066	-1,114	-1,066	-451	-451	-451	-451	-451
Foreign currency deposits	-2,800	-4,676	-2,800	-2,800	-2,135	-2,800	-2,135	-2,135	-2,135	-2,135	-2,135
Monetary policy instruments 2/	-6,490	-7,233	-5,206	-4,263	-2,937	-7,055	-6,683	-3,090	-755	1,060	-4,102
Other items net	1,712	3,168	1,712	1,712	3,795	1,712	3,795	3,795	3,795	3,795	3,795
Reserve money	58,615	60,497	58,757	59,000	62,201	59,063	63,307	63,756	64,447	65,024	65,513
Currency in circulation	41,687	44,118	41,678	41,598	45,225	41,414	46,297	46,652	47,222	47,678	48,029
Bank reserves	16,928	16,379	17,079	17,402	16,977	17,649	17,011	17,104	17,225	17,346	17,484
Memorandum items											
Gross foreign exchange assets (in millions of U.S. dollars) 3/	40,882	47,039	38,532	36,560	39,829	38,546	41,396	38,628	37,160	36,026	40,771

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

1/ IMF Country Report number 16/379: Iraq Staff Report for the First Review of the 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 September 2017–December 2018 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 July 23, 2017, 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 continuous ceiling on new external payments arrears on any existing, rescheduled and new debt of the central government and/or the CBI; and

(v) 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.

(iii) a ceiling on the stock of outstanding arrears to international oil companies (IOCs);

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 calculated at the program exchange rates. Reserve money includes currency in circulation, and the CBI liabilities to (i) commercial banks (i.e. other depository corporations), (ii) other private sector, and (iii) state and local government. For this SBA, net foreign assets of the CBI are defined as the difference between the difference between*:* (i) the sum of gross international reserves as defined ¶6 and other foreign assets, and (ii) 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 and for purposes of this SBA, foreign liabilities exclude SDR allocation.

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, transfers from oil-related state-owned enterprises, and tax revenue on oil companies). Non-oil primary expenditure is defined as total expenditure, including off-budget spending approved by government decree, excluding (i) interest payments on domestic and external debt; and (ii) all oil-related spending (including war reparations). Non-oil primary expenditure measured on a cash basis excludes spending financed by the accumulation of arrears and includes the payment of arrears on such spending accumulated in previous years.

9. **Obligations 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. Obligations outstanding to the Basra Gas Company are defined as bills validated by the Ministry of Oil and due for more than 30 days after their invoice.

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 several 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 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.

- For purposes of this performance criterion, external payment arrears do not include obligations outstanding to IOCs as defined in paragraph 9 of this TMU.[1]

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.

[1] This reflects understandings reached with the authorities at the start of the arrangement, which are now being made explicit in the definition.

- 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 to the internally displaced, farmer subsidies, reconstruction, and wage expenditure and goods and services of the health, environment and the higher and lower education ministries. 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** is the value of unpaid bills to domestic creditors for more than 90 days after their invoice, as measured by the regular surveys of the Ministry of Finance.

C. Adjustors

14. The floor on the central government non-oil primary balance will be adjusted if the actual amount of the transfer of the central government to the KRG net of the non-oil revenue from KRG is less than the programmed amount. In that case, the floor on the central government non-oil primary balance will be adjusted upwards by the absolute amount of the difference.

15. The ceiling on the total public debt will be adjusted if the fiscal balance of all the KRG- related flows is lower than programmed. In that case, the ceiling on total public debt will be adjusted downwards by the absolute amount of the difference. The fiscal balance of the KRG-related flows is defined as the oil revenue from KRG, plus the non-oil revenue from KRG, less the transfer of the central government to the KRG.

16. 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.

17. 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.

18. 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.

19. 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.

20. 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.

21. The floor on social spending will be adjusted downward if the actual amount of the transfer of the central government to the KRG for social spending is less than the programmed amount. In that case, the floor will be adjusted downwards, by the absolute amount of the difference.

D. Provision of Information to the Fund Staff

22. 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, 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 July 2017 and at the end of each semester thereafter 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 July 2017 and at the end of each semester thereafter 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 monthly;

    b) transfers to and from the KRG reported monthly;

    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, as documented by the survey of the Ministry of Finance, defined in ¶13;

e) payments and/or arrears in payments to international oil companies as defined in ¶9 on quarterly 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 monthly 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 quarterly 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 monthly no more than eight weeks after the end of the reference month.

Public Debt

- Stock of public debt as defined in ¶11 quarterly with the audited value at end-July 2017, end-December 2017, end-June 2018, and end-December 2018 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

23. 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

24. 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.