INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/128

IRAQ

May 2024

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR IRAQ

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with Iraq, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 13, 2024 consideration of the staff report that concluded the Article IV consultation with Iraq.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 13, 2024, following discussions that ended on February 29, 2024, with the officials of Iraq on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 10, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Iraq.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2024 Article IV Consultation with Iraq

FOR IMMEDIATE RELEASE

Washington, DC – May 16, 2024: On May 13, 2024, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Iraq and considered and endorsed the staff appraisal.

Domestic stability has improved since the new government took office in October 2022, facilitating the passage of Iraq's first three-year budget, which entailed a large fiscal expansion starting in 2023. This supported the strong recovery in Iraq's non-oil economy after a contraction in 2022, while Iraq was largely unaffected by the ongoing conflict in the region. Domestic inflation declined to 4 percent by end-2023, reflecting lower international food prices, the currency revaluation as of February 2023, and the normalization in trade finance. However, imbalances have worsened due to the large fiscal expansion and lower oil prices.

The ongoing fiscal expansion is expected to boost growth in 2024, at the expense of a further deterioration of fiscal and external accounts and Iraq's vulnerability to oil price fluctuations. Without policy adjustment, the risk of medium-term sovereign debt stress is high and external stability risks could emerge. Key downside risks include much lower oil prices or a spread of the conflict in Gaza and Israel.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the strong economic rebound, declining inflation, and the improved domestic conditions which have resulted in the implementation of the first-ever three-year budget. Noting that risks are tilted to the downside, given regional conflicts and large dependence on volatile oil prices, and that the large fiscal expansion could result in fiscal and external imbalances, Directors underscored the need for sound macroeconomic policies and structural reforms to secure fiscal and debt sustainability, advance economic diversification, and achieve sustainable, inclusive, and private sector-led growth.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Directors emphasized that a gradual, yet sizeable fiscal adjustment is needed to stabilize debt in the medium term and rebuild fiscal buffers. They encouraged the authorities to focus on controlling the public wage bill, phasing out mandatory hiring policies, and mobilizing non-oil revenues, while better targeting social assistance. Directors agreed that prompt implementation of customs and revenue administration reforms, a full implementation of the Treasury Single Account, and a strict control and limit of the use of extrabudgetary funds and government guarantees are key to support fiscal consolidation. Limiting monetary financing and reforming the pension system are also important.

Directors commended the central bank's efforts to tighten monetary policy and enhance its liquidity management framework. Improving coordination between fiscal and monetary operations would help absorb excess liquidity and enhance monetary policy transmission. Directors concurred that accelerating the restructuring of the large state-owned banks is also essential. They encouraged further modernizing the private banking sector, including by facilitating the establishment of correspondent banking relationships, reducing regulatory uncertainties, and promoting efficiency and competitiveness of private banks.

Directors emphasized the need for structural reforms to unlock private sector development. They encouraged leveling the playing field between public and private jobs, boosting female labor force participation, and reforming education and labor laws. Directors agreed that improving governance and combatting corruption are also key and encouraged further strengthening the AML-CFT framework, enhancing public procurement and business regulations, and addressing electricity sector inefficiencies. Directors welcomed the renewed efforts toward WTO accession. They also encouraged the authorities to improve the coverage and timeliness of statistics.

Directors concurred that close engagement with the Fund, including through continued technical assistance, would be useful, and welcomed the authorities' request for a Policy Coordination Instrument.

It is expected that the next Article IV consultation with Iraq will be held on the standard 12-month cycle.

Iraq: Selected Economic Indicators, 2023–25

Population: 455 million (2023 est.)
Quota: SDR 1,663.8 million
Main products and exports: Crude oil
Key export markets: United States, India, China, South Korea

Per capita GDP: US$ 5,591(2023)
Poverty rate: 23 percent (2014)

	2023	2024	2025
	Est.	Proj.	
Output			
Real GDP (% change)	-2.2	1.4	5.3
Non-oil real GDP (% change)	6.0	3.5	3.3
Prices			
Inflation, end of period (%)	4.0	4.0	4.0
Central Government Finances			
Revenues and grants (% of GDP)	42.6	40.1	38.4
Oil revenue (% of GDP)	38.8	36.7	34.9
Expenditure and net lending (% of GDP)	43.9	47.7	47.2
Wages and pensions (% of GDP)	20.2	23.6	23.4
Fiscal balance (% of GDP)	-1.3	-7.6	-8.8
Total government debt (% of GDP)	44.2	48.2	54.6
Money and Credit			
Broad money (% change)	7.5	8.9	9.1
Credit to the private sector (% change)	17.0	10.9	9.3
Balance of Payments			
Current account (% of GDP)	2.6	-3.6	-5.1
Foreign direct investment (% of GDP)	3.2	2.9	2.9
Gross reserves (US$ billions)	112.0	100.5	93.4
In months of imports	11.4	9.7	8.7
Total external debt (% of GDP)	23.1	21.3	19.8
Exchange Rate			
Exchange rate (dinar per US$; period average)	1316	1300	1300
REER (% change, end of period)[1/]	10.0	…	…
Oil and Gas Sector			
Crude oil production (millions of barrels/day)	4.1	4.1	4.4
Crude oil exports (millions of barrels/day)	3.5	3.4	3.7
Average crude oil export price (US$/barrel)	79.2	77.2	72.3
Crude oil exports (US$ billions)	100.2	97.0	97.9

Sources: Iraqi authorities; and Fund staff estimates.
1/ Positive means appreciation.

INTERNATIONAL MONETARY FUND

IRAQ

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

April 10, 2024

KEY ISSUES

Context. Domestic stability has improved since the new government took office in October 2022. This has facilitated the passage of Iraq's first three-year budget, which entailed a large fiscal expansion starting in 2023. The non-oil economy has rebounded strongly in 2023 after stalling in 2022 and was largely unaffected by the ongoing conflict in the region. Nonetheless, Iraq remains highly vulnerable to oil price fluctuations and private sector activity is hindered by the large state footprint—including as an employer of first resort—corruption, red tape, underdeveloped infrastructure, and poor access to credit.

Outlook and risks. The growth momentum is expected to continue in the near term, supported by the ongoing fiscal expansion. Over the medium term, without policy adjustment, the risk of sovereign debt stress is high, and external stability risks could emerge. Key downside risks include lower oil prices or a spread of the regional conflict.

Fiscal policy. A fiscal adjustment is needed to stabilize debt over the medium term while protecting critical social and capital spending. Large savings can be attained from containing the outsized public wage bill and policy measures aimed at mobilizing additional non-oil revenues. This should be supported by further efforts to improve public financial management and contain fiscal risks, including by restricting the use of extrabudgetary funds and strictly adhering to the existing government guarantee framework.

Monetary and financial sector policies. Further efforts, including better coordination between fiscal and monetary policy, are needed to absorb the large excess liquidity and improve monetary policy transmission. Efforts to modernize the financial sector are welcome and should help banks secure correspondent bank relationships. Restructuring the largest state-owned banks remains a key priority.

Structural reforms. Private sector development and economic diversification are crucial to ensure long-term external sustainability and foster private job creation. This requires a comprehensive labor market reform aimed at improving human capital and removing existing distortions and meaningful improvements to the business environment, including by reforming the electricity sector, sustaining the renewed efforts toward WTO accession, and combating corruption.

Approved By
Taline Koranchelian (MCD)
Kristina Kostial (SPR)

Discussions were held in Amman during February 20–29, 2024. The team comprised of Jean-Guillaume Poulain (head), Gazi Shbaikat (Resident Representative), Filippo Gori, Hela Mrabet, Karmen Naidoo, Ling Zhu (all MCD), Sergejs Saksonovs (FAD), and Ghadeer Noufal and Dina Zahran (local economists). Mr. Fouad Al-Kohlany (OED) participated in all meetings. Chen Ke and Camilo Enciso (both LEG) participated in some meetings virtually. Dalia Kadissi (MCD) provided research assistance and Helida Graca and Cecilia Pineda (MCD) assisted from headquarters. The mission met with the Minister of Finance, the Governor of the Central Bank of Iraq, Members of the Parliamentary Finance Committee, the National Integrity Commission and the Board of Supreme Audit, other senior officials from Ministries of Finance, Labor, Oil, Trade, Electricity, Planning, and the CBI, as well as representatives from banks, the private sector and trade unions.

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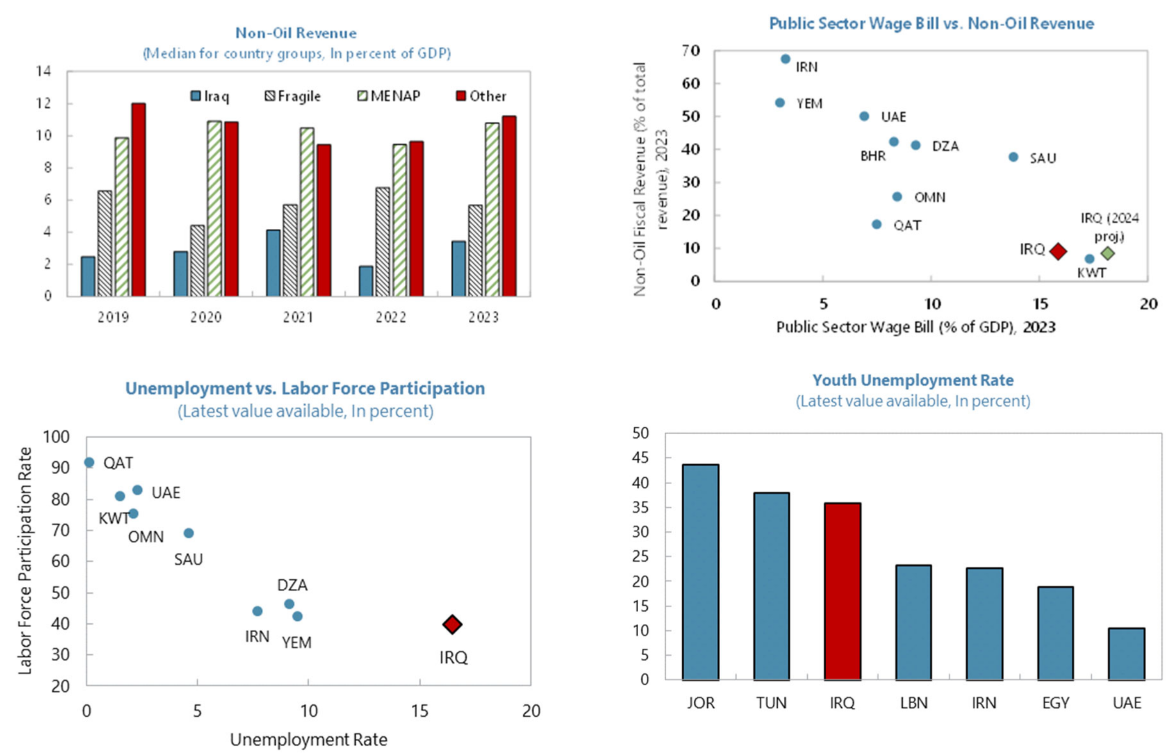
ANNEXES

CONTEXT

1. **Domestic stability has improved, allowing for the approval of a three-year expansionary budget.** In October 2022, a coalition government was established, putting an end to a yearlong impasse that heightened political and social tensions following the 2021 parliamentary elections. The improved stability has boosted domestic sentiment and facilitated the approval of the 2023–25 budget law last summer. This budget is highly expansionary, in part to address the pent-up spending needs stemming from the recurring challenges in passing budget laws in previous years. This first three-year budget also provides fiscal continuity throughout the government current term ending in 2025. In February 2023, the pegged exchange rate was revalued from ID 1,450 to ID 1,300 per USD.

Iraq: Socio-Economic Indicators



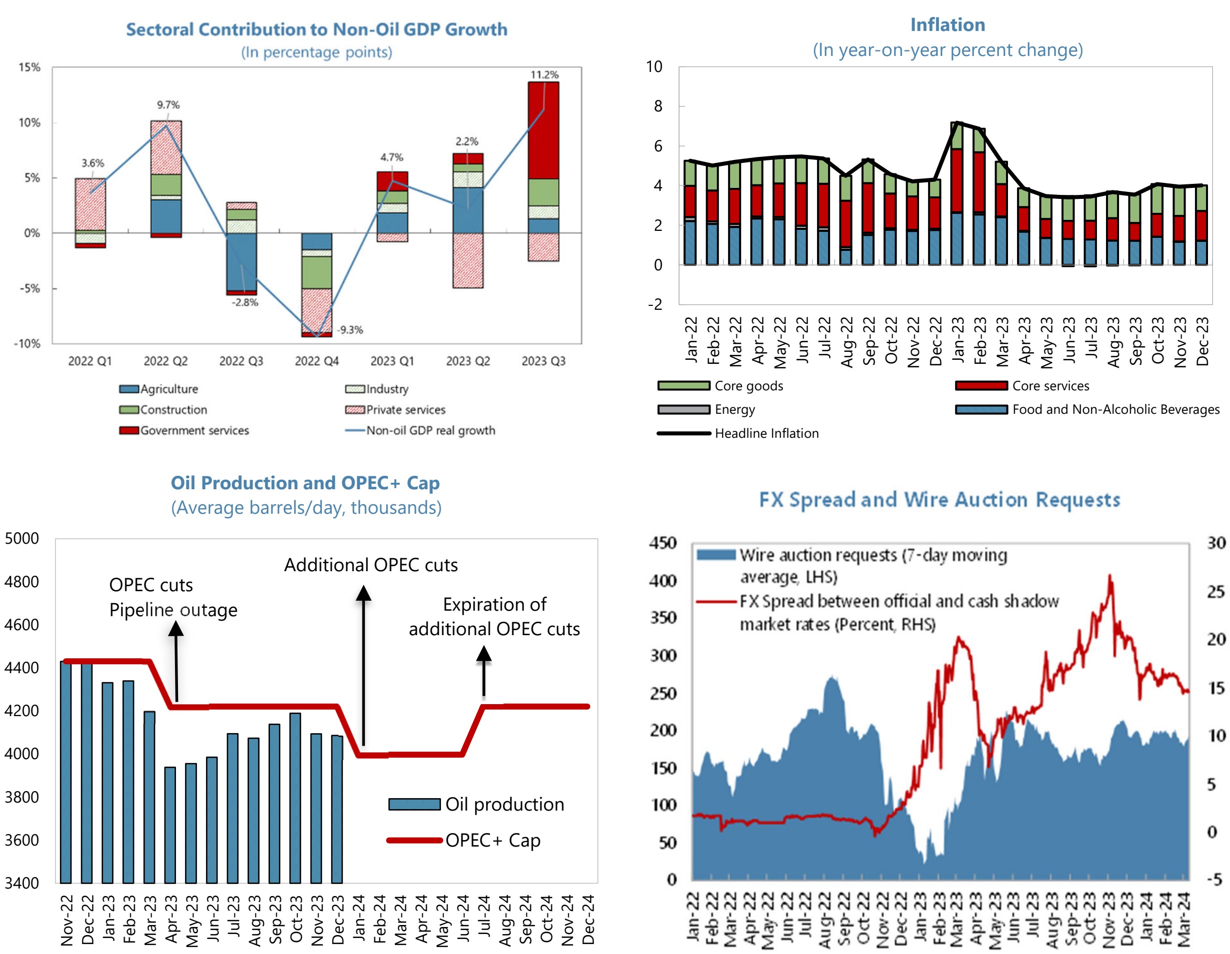
Sources: Iraqi authorities, International Labour Organization, MCD REO, WEO, and IMF staff calculations.

2. **However, Iraq's situation remains fragile.** Despite comprising around 40 percent of total real GDP, the non-oil economy accounts for only a fraction of fiscal revenues and exports, making Iraq highly vulnerable to oil price fluctuations. In addition, the public sector wage bill—under increasing pressure from mandatory hiring policies—remains the highest in the region. This challenge is compounded by a lack of private sector development, hindered by factors including the large state footprint, corruption, red tape, underdeveloped infrastructure, and poor access to credit. Unemployment rates remain elevated and labor participation levels are low, particularly among youth and women. Despite improved domestic stability, much-needed reforms continue to lag in key areas (Annex I).

RECENT DEVELOPMENTS

3. **Non-oil GDP rebounded strongly while inflation receded.** Real non-oil GDP is estimated to have grown by 6 percent in 2023, a significant increase relative to 2022, mainly driven by fiscal expansion, and agricultural, construction, and manufacturing sectors. Headline inflation declined from a high of 7.5 percent in January 2023 to 4 percent by year-end, reflecting lower international food prices, the impact of the currency revaluation, and the normalization of trade finance in the second half of the year. Core inflation also declined, before edging up to 4.5 percent by end-2023, amid higher prices of transportation and household-related goods.

Iraq: Recent Developments, 2022–23



Sources: Iraqi authorities; and IMF staff calculations

4. **However, a decline in oil production weighed on overall growth in 2023.** The outage of the Iraq-Turkey pipeline brought Kurdistan's oil production to a halt in March 2023. Production has since resumed at partial capacity for domestic consumption. Coupled with a 5-percent OPEC+ cut agreed in April 2023, oil output declined by 7.4 percent over the year, resulting in an overall contraction in real GDP of 2.2 percent in 2023.

5. The fiscal balance worsened despite delays in budget execution. The fiscal balance declined from a surplus of 8.9 percent of GDP in 2022 to a deficit of 1.3 percent in 2023 as spending increased by 6.4 percent of GDP of which salaries and pensions accounted for 5.1 percentage points. The deficit is nonetheless lower than the levels envisaged in the 2023–25 budget, owing to:

(i) *Delayed budget implementation.* The budget law implementation only commenced in August due to delayed Parliamentary approval. This constrained non-oil investment budget execution. Current expenditure is also lower than budgeted, mostly reflecting delays in new hiring and lower than expected transfers to the Kurdistan Regional Government (KRG).

Iraq: 2023 Central Government Fiscal Accounts

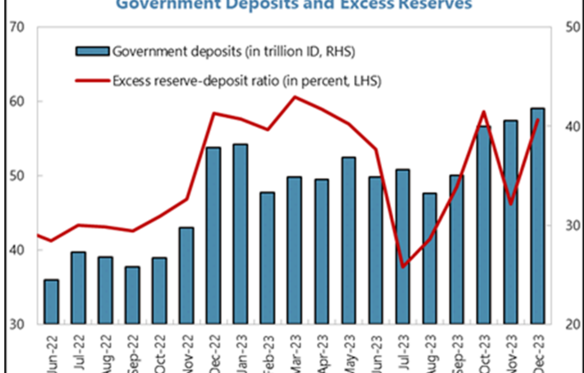
	(trillion ID)			*(percent of GDP)* [1/]		
	Budget	Staff	Difference	Budget	Staff	Difference
Revenues	**134.6**	**142.6**	**8.1**	**40.2**	**42.6**	**2.4**
Oil	117.3	129.8	12.5	35.0	38.8	3.7
Non-oil	17.3	12.9	-4.4	5.2	3.8	-1.3
Expenditures	**186.1**	**146.8**	**-39.2**	**55.6**	**43.9**	**-11.7**
Current	130.6	120.1	-10.5	39.0	35.9	-3.1
of which Wages	59.4	53.2	-6.2	17.7	15.9	-1.9
Capital	55.4	26.7	-28.7	16.5	8.0	-8.6
Oil [2/]	15.8	12.2	-3.6	4.7	3.6	-1.1
Non-oil	39.6	14.5	-25.1	11.8	4.3	-7.5
Overall Balance	**-51.5**	**-4.2**	**47.3**	**-15.4**	**-1.3**	**14.1**

1/ Latest staff projection of nominal GDP.
2/ Oil investments are paid in-kind with oil, and hence unaffected by budget delays.

(ii) *Higher-than-budgeted oil prices*. In 2023, actual oil export prices averaged around USD 79 per barrel—USD 9 higher than the price assumed in the budget.

6. Trade finance has largely normalized after the initial disruptions that followed the introduction a new cross-border payment platform. In November 2022, to enhance AML/CFT controls, the Central Bank of Iraq (CBI) introduced financial beneficiary disclosure requirements for cross border payment requests in the wire auction through a new electronic platform, causing disruptions in trade finance.[1] As compliance to the new platform gradually improved, wire auction requests have recovered to previous levels since mid-2023, ensuring the private sector's access to foreign exchange at official rates for current international transactions. The persisting spread between the official and cash shadow market exchange rates, reflecting residual illicit FX demand—including for trade with countries under sanctions, and currency speculation—is expected to have a minor macroeconomic impact.

Government Deposits and Excess Reserves



Sources: Iraqi authorities; and IMF staff calculations.

7. Excess liquidity has surged. In the past 18 months, the banking system has been flooded with government deposits[2] following large disbursements to spending units first under the

[1] Previously, cross border payments across different traders were bundled and processed through wire auction by the CBI using its corresponding banking relationship with the Federal Reserve Bank of New York.

[2] Most of government deposits are current deposits held by line ministries and governorates in state-owned banks.

2022 Emergency Law for Food Security and Development, and later under the 2023–2025 budget law. Loans to household increased by 21 percent over the first 9 months of 2023 while bank credit to private sector firms remained mostly unchanged over the period.[3]

8. The external position is assessed to be broadly in line with the level implied by fundamentals and desirable policies in 2023 (Annex II). The real effective exchange rate appreciated by 10 percent year-on-year in 2023, reflecting the Feburary revaluation. The current account (CA) balance is estimated at 2.6 percent of GDP in 2023, a large decline relative to the double-digit surplus in 2022—mostly owing to lower oil prices and exports. The External Balance Assessment (EBA-Lite) model assessed the CA gap to be 1 percent of GDP, of which more than half is attributed to the fiscal policy gap.[4] Gross international reserves increased by around USD 15 billion to USD 112 billion at end-2023 (equivalent to 11.4 months of imports or 375 percent of the adjusted ARA metric).

OUTLOOK AND RISKS

9. Growth is projected to rebound in 2024–25, driven by a gradual recovery of oil production and fiscal expansion. Real GDP growth would reach 1.4 percent in 2024 and accelerate to 5.3 percent in 2025 before gradually settling around 3.5 percent over the medium term. The additional OPEC+ voluntary cuts of 5 percent for 2024H1 are expected to hold back the pace of recovery in oil production in 2024, with daily production likely returning to its 2022 level by end-2025. Non-oil GDP, supported by fiscal expansion in the near term, is projected to grow at 3.5 percent in 2024 before stabilizing around 2.5 percent in the medium-term. Inflation is expected to gradually moderate, as global inflationary pressures continue to ease. The current account is expected to shift from a surplus in 2023 to a deficit of 3.6 percent in 2024 and deteriorate further over the medium term. As a result, international reserves are projected to decline significantly, falling to around USD 31 billion by 2029 (equivalent to 85 percent of the adjusted ARA metric).

10. Risks are tilted to the downside (Annex III). Larger declines in oil prices and extended OPEC+ cuts could weigh on growth and fiscal and external accounts. In a scenario of escalation of the conflict in Gaza and Israel, a disruption of shipping routes or damage to oil infrastructures could result in oil production losses that may outweigh the potential impact of associated price spikes. A deterioration in domestic security conditions could lead to a decline in business sentiment and suspension of investment projects.

Authorities' Views

11. The authorities broadly shared staff views of the outlook but see more upside to growth prospects. They stressed that the large fiscal expansion would continue to drive robust non-oil growth and expected oil prices to stay high, at least in the short term. The authorities welcomed the decline in inflation and expected further moderation this year, following the

[3] Household debt is still relatively low at below 10 percent of GDP.

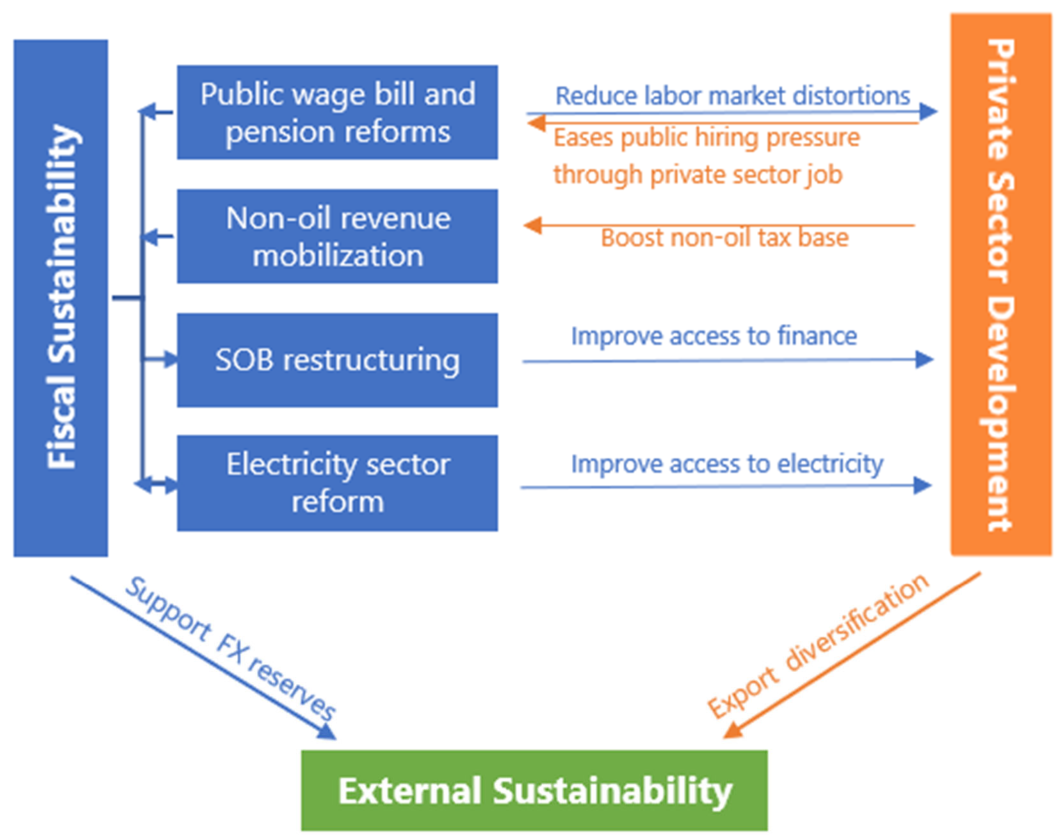
[4] The assessment is subject to significant uncertainty given limitations of Iraq's external sector data (see Annex V).

normalization of the foreign exchange market and the tighter monetary policy. They also noted that international reserves remain adequate.

POLICY DISCUSSIONS

Current policies are significantly increasing Iraq's vulnerability to oil prices. To safeguard macroeconomic stability and sustainability, a fiscal adjustment—focusing on controlling the wage bill and mobilizing non-oil tax revenues while protecting critical social and investment needs—is urgently needed. This should be complemented by accelerating structural reforms to stimulate private sector development, including through labor market reforms, restructuring of state-owned banks, and continued efforts to combat corruption.

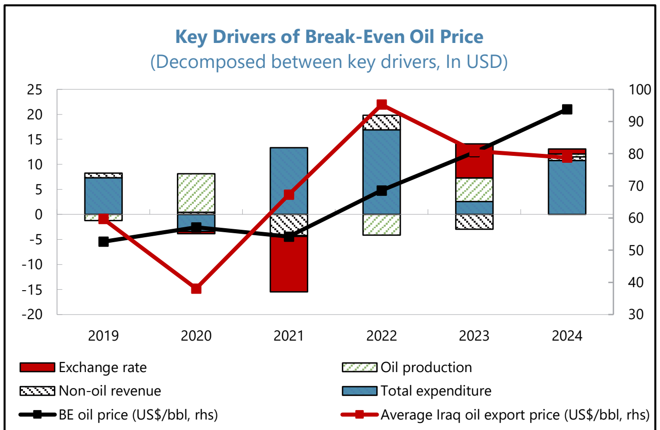
Reinforcing Cycle: Fiscal Sustainability and Private Sector-Led Growth



A. Fiscal Policy

12. **Fiscal position is expected to deteriorate in 2024 and beyond, increasing vulnerabilities.** Although staff assumes only a partial implementation of the non-oil investment budget due to capacity constraints, total government expenditure is still expected to increase by

3.8 percent of GDP in 2024, of which 3.4 percentage points are due to higher salaries and pensions (both including transfers to KRG). The higher spending, combined with the expected decline in oil prices, is projected to widen the deficit to 7.6 percent of GDP in 2024. As oil prices decline further, the overall fiscal deficit is projected to widen further assuming no policy changes, which would force the government to rely on monetary financing. Although non-oil primary deficit should improve—reflecting lack of automatic wage indexation and the clearance of pent-up one-off spending needs—it is expected to remain above its 2021 level and the improvement will be dwarfed by oil revenue losses. The fiscal break-even oil price is expected to reach USD 94 in 2024 compared to USD 54 in 2021 reflecting higher expenditures, lower oil production, and currency revaluation. Government debt is projected to increase from 44 percent of GDP at end-2023 to more than 86 percent by 2029, resulting in a high mechanical risk signal for sovereign stress in the medium term (Annex IV).



Sources: Iraqi authorities; and IMF staff calculations.

13. An ambitious adjustment would be required to stabilize debt in the medium term and rebuild buffers. As an illustrative scenario, a fiscal adjustment that restores the non-oil primary deficit (as a share of non-oil GDP) to the 2021 level by 2029 (a cumulative improvement of 10 percentage points relative to the baseline) would stabilize debt around 60 percent of GDP in the outer years. The adjustment would have to be gradual, reflecting the need to seek political consensus and the amount of technical work required to develop high-quality measures. Should additional spending needs arise, the authorities could respond by cutting capital expenditure through prioritization to keep consolidation on track. A larger adjustment may be needed to rebuild fiscal buffers: an additional effort of 0.5 percent of non-oil GDP per year would bring the Ministry of Finance's (MoF) deposit buffer to ID 40 trillion by 2029 (enough to accommodate a 15 percent decline in oil revenues for two years).

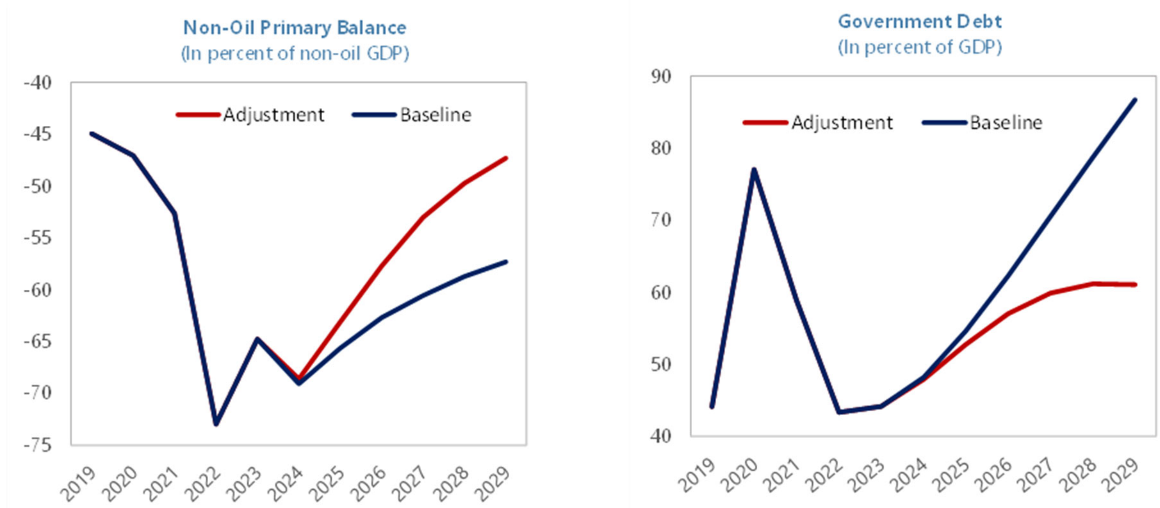
Iraq: Medium-term Central Government Fiscal Accounts

(percent GDP)

	2023	2024	2025	2026	2027	2028	2029
Revenues	**42.6**	**40.1**	**38.4**	**36.6**	**35.2**	**34.2**	**33.5**
Oil	38.8	36.7	34.9	33.2	32.0	31.1	30.5
Non-oil	3.8	3.4	3.5	3.4	3.2	3.1	3.1
Expenditures	**43.9**	**47.7**	**47.2**	**46.9**	**46.7**	**46.4**	**46.2**
Current	35.9	39.8	39.5	39.4	39.4	39.3	39.2
Salary	15.9	18.2	18.0	17.9	17.8	17.5	17.2
Transfers	10.6	10.7	9.5	9.3	9.3	9.3	9.3
Pensions	4.3	5.4	5.4	5.3	5.3	5.2	5.1
Goods and services	4.2	4.3	5.2	5.2	5.2	5.2	5.2
Interest	0.9	1.1	1.3	1.6	1.9	2.1	2.4
Capital	8.0	7.9	7.7	7.5	7.3	7.1	7.0
Non-oil	4.3	4.4	4.2	4.0	3.8	3.6	3.5
Oil	3.6	3.5	3.6	3.6	3.5	3.5	3.4
Overall balance	**-1.3**	**-7.6**	**-8.8**	**-10.3**	**-11.5**	**-12.2**	**-12.6**
Non-oil primary balance	**-35.7**	**-40.1**	**-39.5**	**-38.9**	**-38.4**	**-37.8**	**-37.3**
Non-oil primary balance 1/	**-66.0**	**-70.2**	**-66.8**	**-64.4**	**-63.1**	**-61.8**	**-60.9**

1/ Percent of non-oil GDP

Iraq: Baseline and Illustrative Adjustment Scenarios, 2019–29



Sources: Iraqi authorities; and IMF staff calculations.

14. Fiscal adjustment will need to be achieved with a combination of non-oil revenue mobilization and current expenditure restraints, while protecting capital investment and possibly expanding targeted social transfers. The recommended adjustment is ambitious relative to Iraq's recent past, but broadly in line with some adjustment episodes of other oil exporters.[5] Tentative yield estimates suggest that the following menu of measures could deliver sufficient savings:

- Seeking savings on the ***wage bill*** would have to be the centerpiece of any adjustment strategy. Savings can start with a gradual phase-out of mandatory hiring requirements, which can be followed by an attrition-based strategy to right-size public employment. Given the role of public sector employment in Iraq's social compact and large existing gender employment gaps, such measures would need to be gender balanced and supported with labor market reform to expand private sector employment opportunities (see ¶25).

- Mobilizing additional ***non-oil revenues***—including through removing tax exemptions for profitable state-owned enterprises, a payroll tax reform, and a review of customs duties in the near-term—should be another key pillar of the adjustment. Making payroll taxes more progressive (in line with, for example, the 2021 budget proposal) and taxing public sector allowances—which can be as substantial as salaries—could deliver material revenue increases as personal income taxes are withheld at source. Reviewing customs tariff structure, coupled with a harmonization of customs regulations with the KRG, and introducing new excises (for example, on cigarettes) and sales taxes on luxury items could also contribute to non-oil revenues. A focused technical assistance (TA) on tax policy could help inform and refine the design of these revenue mobilization measures. In parallel, further improvements to revenue and customs administration could also yield additional revenues. The authorities should build on the

[5] See IMF Selected Issues Paper "A Roadmap for Raising Non-Oil Revenues."

commendable progress achieved with the piloting of the ASYCUDA[6] system by expanding its use to other border control points and adjusting customs processes in line with the new system. Over the medium term, introducing a general sales tax or VAT could further boost non-oil revenues.

- Gradually moving towards cost recovery in the ***electricity sector*** could yield additional savings. This could be realized by investing in domestic energy capacity, decreasing the reliance on energy imports, and improving tariff collection and demand management.

- Recent expansions of the already large and untargeted ***universal food subsidy*** (PDS) could be carefully scaled back by targeting the more vulnerable households. Initial targeting can rely on the social registry currently used for direct cash transfer program, as well as the data that is currently being collected by international development partners to take stock of the recipients of the PDS. The savings from reforming the PDS could also be used to expand other targeted social safety net programs.

Iraq: Adjustment Measures' Suggested Policy Yields (percent non-oil GDP)

	Yield Range 1/
Policy Measures	
Implementing attrition rule and caps on mandatory hiring	4 - 7
Payroll tax reform	1.5 - 2.5
Electricity sector reform	0.5 - 2.5
Luxury taxes, review of customs duties	0.5 - 1
Targeting PDS	0 - 2
Introducing a GST or VAT	3.5 +
Total Policy Measures	10 - 18.5 +
Revenue and Customs Administrations Improvements	0.3 - 0.5

1/ Cumulative over the medium term

15. A stronger commitment to fiscal structural reforms, where progress has been very slow, can support these adjustment measures. Near-term efforts to reform customs and revenue administration should focus on implementing a self-assessment system and improving the organization of and expanding the large taxpayer office. Prompt implementation of the Treasury Single Account (TSA)—which has been delayed in part due to a slow rollout of core banking systems (see ¶21)—to improve control over budget execution, including over the unspent funds from investment budget disbursements would help alleviate liquidity constraints. The next steps are to define TSA design options and complete the bank account census. Over the medium term, given Iraq's large capital spending needs, it will be important to improve the governance and efficiency of infrastructure investment projects, which could be informed by a Public Investment Management Assessment.

[6] Automated Systems for Customs Data is a computerized customs-management system that covers most foreign trade procedures. See https://asycuda.org/en/programme/.

16. Ensuring the sustainability of the State Pension Fund (SPF) will be critical to limit potential contingent liabilities. Based on a recent joint study by the Fund, the World Bank and the International Labour Organization[7], absent any reform, the SPF could become insolvent in the medium term and may require budgetary support exceeding 3 percent of GDP annually in the long run.[8] Addressing this fiscal risk will require a comprehensive public pension reform, including both parametric reforms to align pension rules and benefits with international good practice and institutional reforms to improve administrative efficiency. In the near term, the authorities should ensure that line ministries make timely transfers of pension contributions to SPF and work to clear any stock of arrears.

17. The authorities should carefully control the use of extrabudgetary funds and government guarantees and closely monitor their fiscal risks. The authorities have recently established Iraq Fund for Development (with a seed capital of 0.3 percent of GDP) that aims to finance investment projects benefitting economic diversification and human capital development. Staff advised against the use of extrabudgetary funds, stressing their fiscal risks and the fragmentation of fiscal policy. To contain these risks, it is critical to put in place an appropriate governance framework, including governing board independence. The funds' activities should be transparent, with their investment and financing plans included in the annual budget documentation and any borrowing should be done through MoF. The authorities should continue to strictly control and monitor government guarantees, and specify guarantee envelopes in the budget law in accordance with the requirements of Public Financial Management (PFM) law.[9] While no new guarantees have been issued in recent years (all existing guarantees, totaling USD 12.5 billion, were issued before 2017), there is scope to further improve the decision-making process on guarantee issuance, for example, by mandating risk assessment and setting minimum requirements on beneficiaries.[10]

Authorities' Views

18. The authorities noted that financing the budget deficit without resorting to monetary finance will be difficult in 2024. They pointed out that savings could be obtained through stricter controls over spending and returning unspent funds from other government entities to the budget. They agreed that the public sector wage bill is imposing an increasing burden on public finances, but noted that reforms will be politically challenging. The authorities underscored that recent customs administration improvements, further tax collection efforts, and a shift to digital payments could help increase tax revenues. The authorities also noted that they plan to work on reforming state-owned enterprises with a view to increasing profitability and removing state support. The

[7] See IMF, ILO, and World Bank (2024). Towards an Inclusive, Equitable and Sustainable National Pension System in Iraq, IMF Analytical Note 2024/001.

[8] Moreover, the 2023 Social Security Law for Private Sector Workers introduces a government-financed pension contribution, which would also add to the total fiscal cost of pensions.

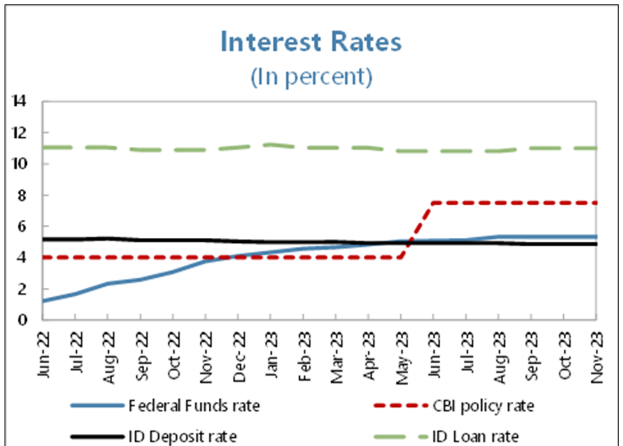
[9] A new PFM law adopted in 2019 requires all government guarantees to be approved by Parliament. This was a corrective measure after the misreporting of the stock of government guaranteed debt during the 2016 SBA.

[10] See IMF Country Report 21/32 for further information.

authorities agreed on the importance of fiscal structural reforms, especially establishing a TSA. They also agreed that it would be important to ensure that the Iraq Fund for Development has appropriate governance framework including the board independence while ensuring transparency of its activities, including by publishing its investment plans in the annual budget, and removing its ability to borrow.

B. Monetary and Financial Sector Policies

19. The recent tightening of monetary policy and improvement to the liquidity management framework are welcome, and further liquidity absorption may be warranted to support monetary policy transmission. In response to the surge in excess liquidity, the CBI raised the policy interest rate from 4 percent to 7.5 percent and scaled back its subsidized lending initiatives in June 2023.[11] Policy rate pass-through has been muted however, hampered by excess liquidity and the lack of market incentives in financial intermediaries, especially at state-owned banks (SOBs). In June 2023, reserve requirements were also raised from 15 percent to 18 percent and a 14-day CBI bill facility was introduced. Following these steps, excess liquidity initially declined, before rising again in August as budget execution ramped up. Further actions will be needed to mop up excess liquidity, including improving the coordination between fiscal and monetary operations toward the price stability goal (Annex VI). In this context, the authorities should urgently prioritize consolidating idle government deposits (see ¶7) in a TSA at the CBI. This sweep of deposits should be executed gradually and carefully, together with a timely implementation of an inter-bank market supported by Fund TA. Consideration could also be given to raising the reserve requirement on government deposits, which would help absorb excess liquidity at SOBs without hampering private banks.



Sources: Central Bank of Iraq (CBI); Haver; and IMF staff calculations.

20. Securing correspondent banking relationships (CBRs) is critical to ensuring a smooth transition to the new trade finance regime. In this context, the authorities should step up efforts to modernize the banking sector to facilitate the establishment of CBRs.

- **New trade finance regime.** Until early 2023, most cross-border payments were cleared by the CBI-Fed channel (see ¶6). Last year, the CBI introduced a second channel wherein the CBI prefunds the overseas dollar accounts of the domestic commercial banks that have CBRs with Citi bank for trade finance. This allowed an increasing share of cross-border payments to be cleared through commercial banks. By 2025, the CBI plans to fully transition to a supervisory role

[11] Since mid-2023, the CBI stopped extending new loans under its direct lending initiatives, except for those to small and medium-sized firms. The total outstanding balance of this subsidized lending program stood at ID 13 trillion (around 4 percent of GDP) at end-2023.

in cross-border payment clearance. To facilitate this transition, the CBI has been assisting commercial banks secure CBRs, including by providing guidance on banking certification and rating in line with best international practice. To date, six banks have established CBRs with US banks, and several more have CBRs with non-US banks. Furthering these efforts is essential to ensure a successful transition to the new trade finance regime.

- **Expansion of digital payments**. Several measures have been taken to enhance digital payments, including expanding the use of point-of-sale machines, mandating the use of electronic payment cards in certain transactions such as fuel purchase, raising the ceilings on ATM and bank card transactions, and reducing bank fees. These efforts are welcome and will help reduce Iraq's reliance on cash and improve financial inclusion, especially for women whose access to financial services might otherwise be constrained due to limited mobility and other impediments (see ¶25).

- **Banking sector consolidation**. Staff welcomed the CBI's recent decision to increase the minimum capital requirement for commercial banks from ID 250 billion to ID 400 billion. Banks—many of which are small—are required to either inject additional capital or submit a plan for merger and acquisition by January 1, 2025. Careful planning and public communication will be critical to achieve the reform's intended goal of improving efficiency and competitiveness of the private banking sector without creating uncertainties around banks' viability.

21. SOB reform efforts should be accelerated. Iraq's two largest SOBs are undercapitalized due to large legacy assets, have poor corporate governance with political interference and directed lending practices, and weak accounting practices due to a slow rollout of core banking systems. The authorities are committed to reforming the two banks and have contracted international accounting firms to conduct asset quality reviews and develop restructuring plans. However, the implementation of core banking systems, certification of past financial statements, and amendments of by-laws to enhance SOB governance continue to lag. Slow progress on SOBs reform is hampering efficient credit allocation and monetary policy transmission.

22. The authorities should continue to strengthen the AML/CFT framework and its effectiveness, including in the banking sector. These efforts should be guided by the priority actions from the Middle East and North America Financial Action Task Force (MENAFATF) Mutual Evaluation that will be concluded in May 2024. Once the key areas for further improvements are identified, seeking further targeted technical assistance (TA) can help support these efforts.

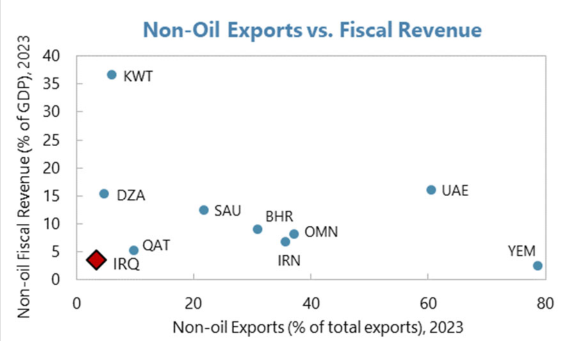
Authorities' Views

23. The authorities intend to continue their efforts to improve domestic liquidity conditions and modernize the banking sector. They shared staff's concerns about the muted pass-through of the policy rate hike, especially at SOBs, and noted excess liquidity is driven by government deposits. The authorities welcomed increased bank participation in CBI bill auctions and noted that a rising share of excess liquidity was being absorbed, especially at Islamic banks. They agreed that an effective TSA remains the key priority to remove excess liquidity from the banking sector and agreed on the need to develop an inter-bank market. They highlighted their aim to attract more banks into CBI bill auctions, enhance timely data collection to assess monetary policy transmission, and improve liquidity forecasting. The authorities noted that their actions led to a more organized and transparent trade finance market, enhanced use of dinars in domestic transactions, and accelerated digitalization of the financial sector. Securing CBRs remains the main challenge as the CBI is set to move away from its role in clearing cross-border transactions. Meanwhile, the authorities reiterated their commitment to restructure the two largest SOBs while acknowledging slow progress in the rollout of core banking systems and certification of past financial statements.

C. Structural Policies

24. Promoting private sector development and advancing economic diversification are key to tackle Iraq's long-term employment and external sustainability challenges.

- Iraq's working age population is projected to grow rapidly, adding around 0.8 million new job market entrants annually over the next decade.[12] Staff estimate non-oil GDP growth would need to reach around 5 percent over the next decade to absorb the growing labor force and reduce the unemployment rate to single digit.



Sources: MCD REO; WEO; and IMF staff calculations.

- Ensuring external sustainability during the global energy transition away from fossil fuels will also require significantly boosting the currently negligible level of non-oil exports (Annex VII). Therefore, any non-oil growth strategy should be underpinned by a large expansion of the tradable non-oil sector.

25. A comprehensive labor market reform is crucial to support private sector development and address mounting labor market pressures. The reform agenda should aim at increasing overall labor force participation by reducing existing distortions and impediments, including those to women's access to private jobs.[13] Adjusting current unsustainable and unproductive public employment policies should be at the center of this reform agenda and is key to facilitate a transition to private sector-led growth. Beyond their large fiscal implications, generous public pay and benefits and mandatory hiring of graduates (particularly in the health sector) impact educational choices and skew investment in private education towards public sector jobs, depriving the private sector of critical technical and vocational skills. To avoid exacerbating unemployment and gender gaps, rightsizing of public employment would need to be gradual and accompanied by upskilling and reskilling the current workforce, especially for females who are largely concentrated in

[12] UN population projections.

[13] Female labor force participation in Iraq is at around 11 percent, much lower compared to the Middle East and North Africa regional average of 27 percent. See also Selected issues Paper "Addressing labor Market Challenges – Areas for Reform."

the public sector, through comprehensive education and labor market reforms. Key elements of such a reform should include:

- **Level the playing field between public and private jobs** to align public sector compensation with performance and productivity, for example, by capping the maximum size of non-wage compensation (allowances) and linking future wage increases to economy-wide productivity gains. This should be part of broader civil service reform that includes completing biometric registration and creating a centralized database of government employees and enhancing the gatekeeper role of the Federal Civil Service Commission in approving hiring decisions including for contractual employees. Further aligning the pension system rules and benefits across the public and private schemes would help reduce distortions in the labor market and promote labor mobility across sectors.

- **Strengthen institutional capacity** to ensure an adequate work environment and labor protection. This would require stronger institutional capacity at the Ministry of Labor to conduct effective labor inspections and active labor market policy management and monitoring. Balancing between protecting workers' rights and maintaining employers' flexibility in attracting the right labor force through hiring and firing regulations is also important, as overly stringent policies could increase the cost of compliance and lead to higher informality and unemployment.

- **Broad educational reforms** to align education curriculum and labor market needs, with a focus on investing in digital and entrepreneurial skills. Iraq needs to make significant and efficient investments to rehabilitate and recover the educational system through additional infrastructures as well as qualified teachers. Additionally, Iraq needs to develop its current technical vocational education system through modernizing the curriculums, increasing outreach and coverage including through partnering with private firms to enhance their training capabilities and better tailor programs with job requirements.

- **Address impediments to female labor participation** by eliminating existing restrictions on female labor mobility including limited work hours, encourage female participation in technical and vocational education and extend their years of schooling, ensuring adequate access to supporting facilities such as childcare and public transport, enhancing their ability to use digital payments and obtain credit through programs targeting female entrepreneurs and business owners, and promoting safe work environments and home businesses.

26. Bold reforms that improve the business environment are also needed. Priorities include fixing the inefficient and unreliable electricity sector, which weighs on public finances and hampers private sector growth. Immediate efforts should focus on designing a long-term strategy aimed at increasing generation while improving cost recovery. Upgrading critical infrastructure, including those related to information and communication technologies, would help support efficiency and productivity gains. The authorities' resumption of WTO accession process, including the completion of the initial market access offers on goods and service, is an encouraging step toward supporting the development of export sectors. Further efforts should continue in this direction.

27. Enhancing governance and preventing and combating corruption remain a top priority. Despite steps being taken in anticorruption, which are reflected in a sustained improvement in Iraq's score in the Corruption Perception Score during the last 10 years (moving from 16 in 2013 to 23 in 2023), corruption in Iraq remains severe and systemic, with high corruption vulnerabilities and governance weaknesses. Against this background:

- Public procurement framework and business regulations should be enhanced, including by adopting best practices for the governance of state-owned companies, particularly in the hydrocarbon and electricity sectors.

- An updated anticorruption strategy should be adopted for the 2025–2030 period after the expiration of the 2021–2024 Anticorruption Strategy. Adequate follow-up mechanisms to the strategy should be designed and enforced.

- The asset declaration and conflict of interests' regimes should be aligned with international best practice, particularly the G20 High Level Principles on Asset Disclosures, including the publication of the declarations of top-level officials. The Integrity Commission (IC) should (i) enhance its technical capacity to monitor the asset declaration regime and hold accountable those that do not meet their legal obligations and (ii) increase efforts to raise awareness on conflicts of interests with citizens and public officials.

- Safeguards are needed to protect the independence of enforcement public officials, particularly in the recruitment process and appointment of the heads of the IC and the Board of Supreme Audit, and measures are needed to protect judges from threats and retaliation.

28. Further progress will be needed to improve data provision, which has serious shortcomings that significantly hamper surveillance (Annex V). These shortcomings relate to low granularity, frequency and timeliness, and coverage of the national accounts data, external sector statistics and some areas of the government finance statistics, stemming from limited technical capacity and digitalization. The IMF (through METAC and STA) is actively engaged in capacity development of the relevant government agencies and ministries, with recent pilot initiatives to improve price statistics expected to be incorporated into disseminated data by end-2024Q1. Continued TA provision is required to address the other shortcomings and ensure the timely incorporation of pilot initiatives to improve data quality into disseminated data.

Authorities' Views

29. The authorities agreed with the need to boost non-oil growth through private sector development. The authorities highlighted the recent progress to support private sector development, including the resumption of the WTO accession process, the integration of Iraq-Jordan electricity grids, and lending initiatives for SMEs. The authorities acknowledged that significant hurdles remain, and that more needs to be done to amend mandatory hiring policies, close the public-private benefit gap through civil service and pension reforms and reduce skills mismatch through education reforms. The authorities acknowledged the current data limitations and have actively requested technical assistance in several key areas, some of which are ongoing.

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30. Ongoing fiscal expansion is expected to support near-term growth at the expense of increasing fiscal and external imbalances. After a strong rebound in 2023, the non-oil growth momentum is expected to continue as the government implements the expansionary 2023–25 budget. However, structural imbalances are expected to deteriorate markedly, with the non-oil primary deficit at its highest since 2013 and the break-even oil price projected to exceed USD 90 in 2024, from USD 54 in 2021. Over the medium term, the expected decline in oil prices could widen fiscal and current account deficits further, putting public debt at high risk of distress and dwindling FX reserves below adequate levels.

31. A fiscal adjustment, focusing on containing the large public wage bill and mobilizing non-oil revenues, is needed to stabilize debt in the medium term. The authorities should implement a gradual yet sizable fiscal consolidation, primarily relying on reducing mandatory public sector hiring. There is a strong case for using the current environment of relatively high oil prices to start the adjustment without delay and therefore avoid the need for a sharper, procyclical adjustment in the future. Mobilizing non-oil revenues, reducing wage bill pressures, and removing inefficient subsidies would allow protecting critical capital investment, possibly expanding targeted social safety net, and rebuilding fiscal buffers. Fiscal adjustment should be supported by prompt implementation of customs and revenue administration reforms in line with the roadmaps proposed by previous TA in these areas. Fully implementing the TSA would help strengthen control over budget execution. The authorities should limit the use of extrabudgetary funds and government guarantees and ensure that they are strictly controlled and monitored. In the medium term, a public pension reform will be needed to ensure sustainability of the SPF and avoid increasing fiscal risks.

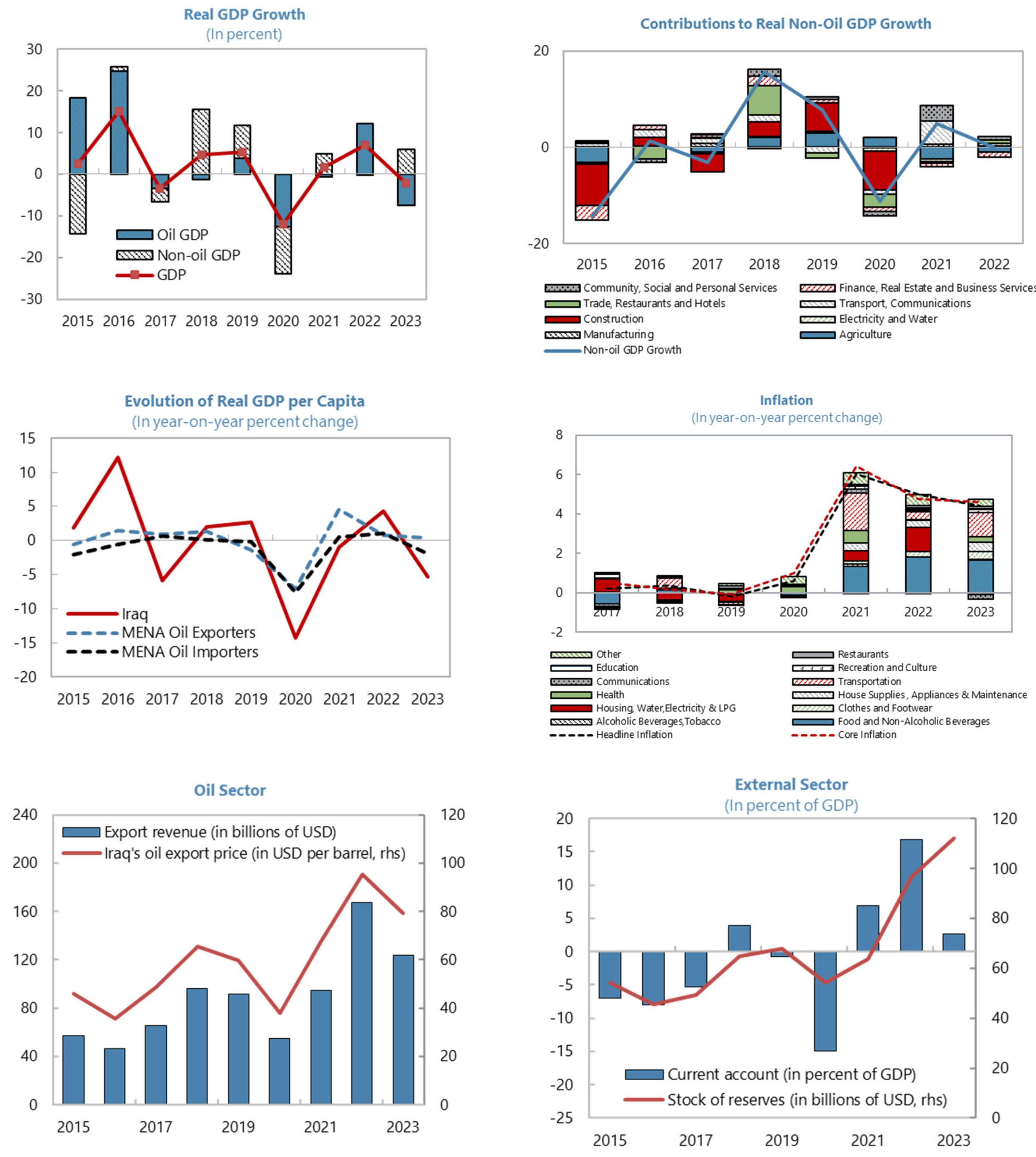
32. Enhancement to liquidity management and modernization of the banking sector should continue, and SOB reform should be accelerated. Absorbing the large excess liquidity, including through improved coordination between monetary and fiscal operations, is key to improve the passthrough from the policy rate adjustments—which the CBI appropriately tightened in mid-2023—to market interest rates. Efforts to modernize the banking sector should aim to facilitate the establishment of CBRs, reduce regulatory uncertainties, and promote efficiency and competitiveness of private banks. Accelerating SOB reform efforts, including implementing core banking system and improving the governance structure, remains a top priority.

33. Structural reforms are needed to achieve sustainable and inclusive private sector-led growth in the medium term. To unlock the full potential of the labor force and encourage private sector employment, leveling the playing field between public and private jobs, including by aligning compensation and pension benefits, extensive reforms encompassing education, labor laws, and enforcement mechanisms are imperative. These should aim at facilitating mobility between public and private jobs, enhancing institutional capacity, aligning educational curricula with labor market needs, and addressing barriers to female labor participation. Additionally, addressing inefficiencies in the electricity sector, upgrading critical infrastructure, and accelerating WTO accession is vital for competitiveness, productivity gains, and private export sector development. In parallel, combating corruption remains a top priority and would require enhancing public procurement and business regulations, revamping asset declaration and conflict of interest regimes, and protecting the independence of enforcement public officials.

34. Staff supports authorities' endeavors to enhance data collection and provision, which have serious shortcomings that significantly hamper surveillance. The challenges are particularly large in the external sector and the national account statistics, complicating the monitoring of economic and financial developments and policy formulation. The authorities have been actively engaging with the Fund on technical assistance to address key data shortcomings.

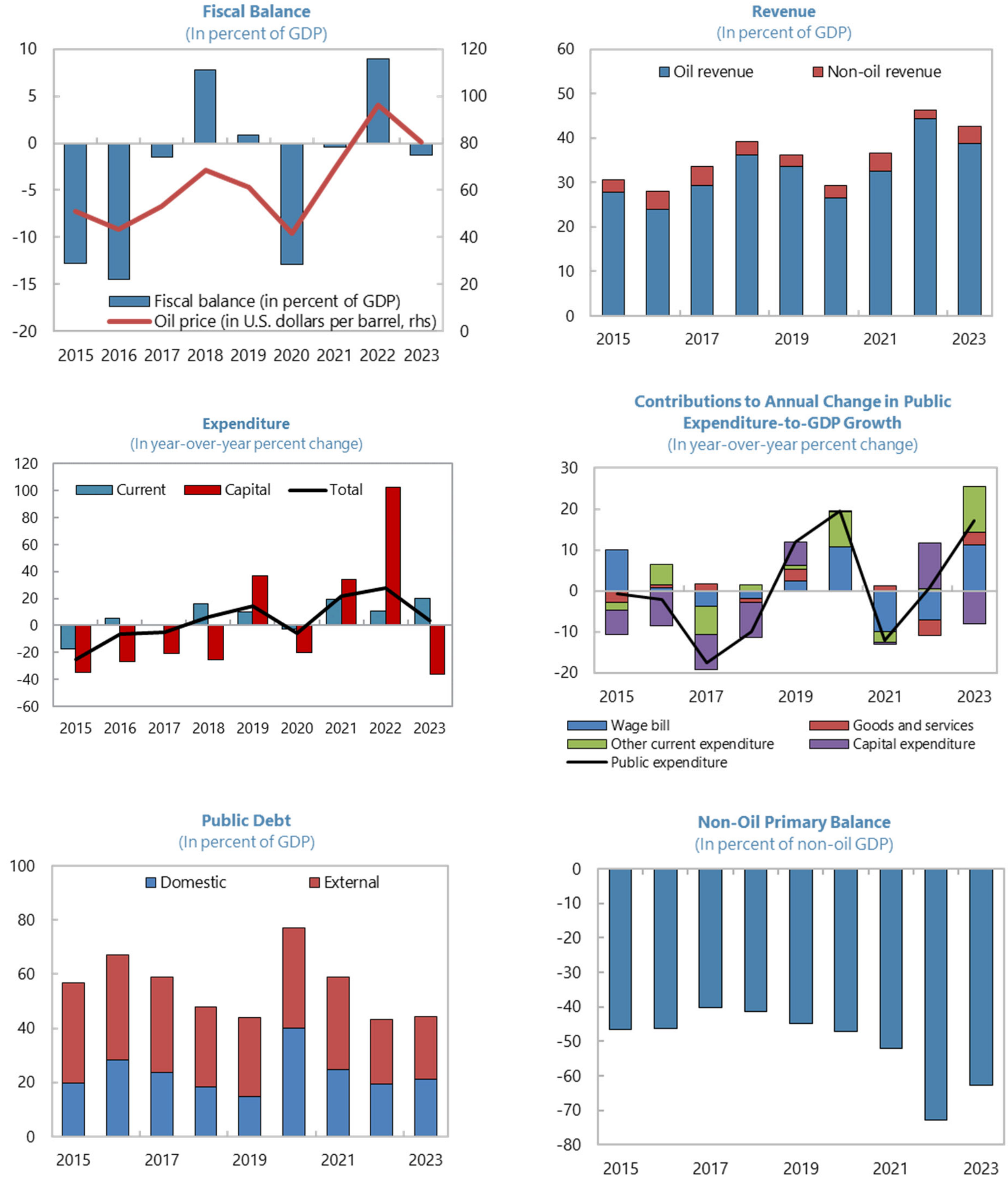
35. It is proposed that the next Article IV consultation with Iraq take place on the standard 12-month cycle.

Figure 1. Iraq: Economic Developments, 2015–23



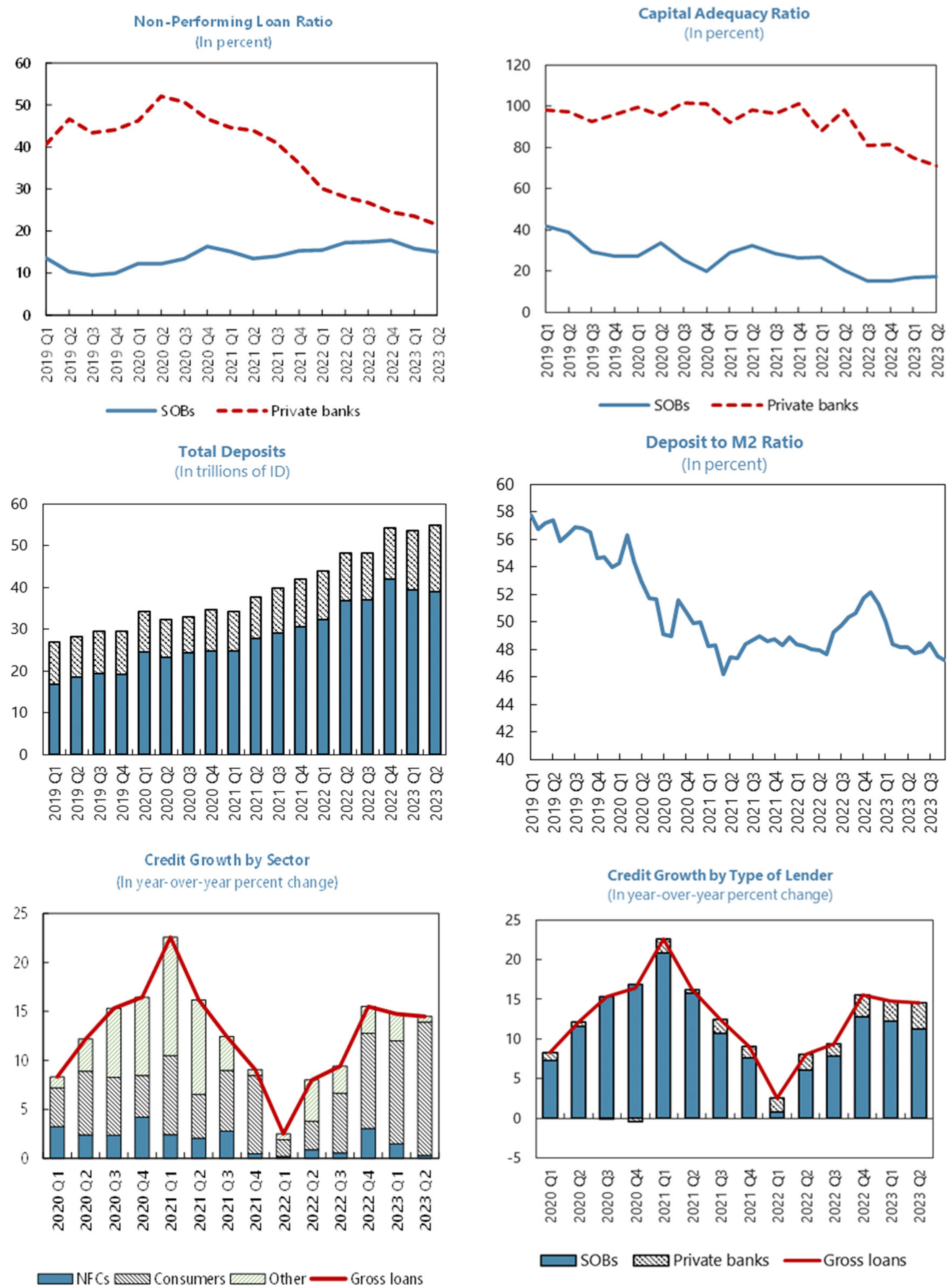
Sources: Iraqi authorities; and IMF staff calculations.

Figure 2. Iraq: Fiscal and Debt, 2015–23



Sources: Iraqi authorities; WEO; and IMF staff calculations.

Figure 3. Iraq: Monetary and Financial Sector Indicators, 2019–23



Sources: Iraqi authorities; and IMF staff calculations

Figure 4. Iraq: Social Indicators

Sources: International Labour Organization, Worldwide Governance Indicators, World Bank Doing Business Indicators, UN World Population Prospects (2019), and IMF staff calculations.

Table 1. Iraq: Selected Economic and Financial Indicators, 2020–29

				Est.	Projections					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Economic growth and prices										
Real GDP (percentage change)	-12.1	1.6	7.0	-2.2	1.4	5.3	3.8	3.6	3.6	3.6
Non-oil real GDP (percentage change)	-11.2	4.9	0.0	6.0	3.5	3.3	3.0	2.5	2.5	2.5
GDP deflator (percentage change)	-10.6	36.4	18.4	-9.7	1.8	-0.4	1.0	1.6	2.1	2.5
GDP per capita (US$)	4,520	5,012	6,187	5,870	5,979	6,111	6,241	6,401	6,599	6,825
GDP (in ID trillion)	216.0	299.2	379.0	334.8	345.7	362.5	379.8	399.7	422.8	448.6
Non-oil GDP (in ID trillion)	152.3	163.6	163.7	184.5	200.8	217.9	235.5	253.3	272.1	292.1
GDP (in US$ billion) 1/	181.4	206.4	261.4	254.4	265.9	278.8	292.1	307.5	325.2	345.1
Oil production (mbpd)	4.00	3.97	4.45	4.12	4.11	4.39	4.58	4.78	4.98	5.20
Oil exports (mbpd)	3.43	3.44	3.71	3.47	3.44	3.71	3.88	3.96	4.13	4.31
Iraq oil export prices (US$ pb) 2/	38.1	67.3	95.3	79.2	77.2	72.3	69.2	67.3	66.4	66.1
Consumer price inflation (percentage change; end of period)	3.2	5.3	4.3	4.0	4.0	4.0	3.8	3.7	3.6	3.5
Consumer price inflation (percentage change; average)	0.6	6.0	5.0	4.4	4.0	4.0	3.8	3.8	3.7	3.6
National Accounts (in percent of GDP)										
Gross domestic investment	16.7	14.3	17.1	13.9	13.8	14.1	14.0	13.8	13.5	13.3
Of which: public	7.1	6.9	11.0	8.0	7.9	7.7	7.5	7.3	7.1	7.0
Gross domestic consumption	96.4	76.3	64.8	82.4	88.7	89.7	91.2	92.0	93.2	93.8
Of which: public	23.0	19.3	16.6	22.1	24.4	25.2	25.1	24.9	24.6	24.3
Gross national savings	1.7	21.2	33.9	16.5	10.2	9.1	7.3	6.4	5.2	4.5
Of which: public	-7.0	5.1	19.8	7.0	0.5	-1.1	-3.0	-4.5	-5.5	-6.2
Saving - Investment balance	-15.0	6.9	16.8	2.6	-3.6	-5.1	-6.7	-7.4	-8.3	-8.8
Public Finance (in percent of GDP)										
Government revenue and grants	29.2	36.7	46.3	42.6	40.1	38.4	36.6	35.2	34.2	33.5
Government oil revenue	26.5	32.6	44.5	38.8	36.7	34.9	33.2	32.0	31.1	30.5
Government non-oil revenue	2.8	4.1	1.9	3.8	3.4	3.5	3.4	3.2	3.1	3.1
Expenditure, of which:	42.2	37.1	37.4	43.9	47.7	47.2	46.9	46.7	46.4	46.1
Current expenditure	35.0	30.2	26.4	35.9	39.8	39.5	39.4	39.4	39.3	39.2
Capital expenditure	7.1	6.9	11.0	8.0	7.9	7.7	7.5	7.3	7.1	7.0
Overall fiscal balance (including grants)	-12.9	-0.4	8.9	-1.3	-7.6	-8.8	-10.3	-11.5	-12.1	-12.6
Non-oil primary fiscal balance, accrual basis (percent of non-oil GDP)	-47.1	-52.1	-73.0	-62.8	-68.1	-64.7	-61.8	-59.8	-57.8	-56.5
Memorandum items										
Total government debt (in percent of GDP) 3/	77.0	58.9	43.3	44.2	48.2	54.6	62.2	70.5	78.6	86.6
Total government debt (in US$ billion) 4/	114.8	121.5	113.3	113.7	128.1	152.2	181.9	216.7	255.8	298.8
External government debt (in percent of GDP)	45.3	34.0	23.8	22.8	21.3	19.8	18.6	17.5	16.6	15.7
External government debt (in US$ billion)	67.4	70.1	62.3	58.7	56.6	55.2	54.5	53.8	53.8	54.3
Monetary indicators										
Reserve money (percentage change)	13.6	23.9	31.9	14.0	11.1	10.1	8.8	9.5	8.8	8.1
Broad money (percentage change)	16.0	16.7	20.3	7.5	8.9	9.1	8.6	9.7	9.1	8.4
Credit to the private sector (in percent of non-oil GDP)	17.6	17.9	18.7	19.4	19.8	20.0	20.1	20.4	20.6	20.8
External sector (in percent of GDP)										
Current account	-15.0	6.9	16.8	2.6	-3.6	-5.1	-6.7	-7.4	-8.3	-8.8
Trade balance	-7.6	14.6	23.1	9.5	3.1	1.8	0.4	-0.3	-1.0	-1.4
Exports of goods	27.7	43.0	51.3	41.1	38.1	36.8	35.3	34.2	33.5	33.0
Imports of goods	-35.3	-28.3	-28.2	-31.6	-35.0	-35.0	-34.8	-34.5	-34.5	-34.5
Gross reserves (in US$ billion)	54.4	63.8	96.6	112.0	100.5	93.4	82.4	68.3	51.2	30.6
Total GIR (in months of imports of goods and services)	8.8	8.0	11.1	11.4	9.7	8.7	7.3	5.8	4.1	2.3
Reserves (as a percentage of adjusted ARA metric)	282.9	277.7	352.1	374.9	331.6	263.0	223.6	187.3	144.8	84.9
Exchange rate (dinar per US$; period average)	1,191	1,450	1,450	1,316	1,300	1,300	1,300	1,300	1,300	1,300
Real effective exchange rate (percent change, end of period) 5/	-10.8	-6.4	-2.3	10.0	…	…	…	…	…	…

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

1/ Converted from GDP in local currency using the period-average exchange rate (1191 in 2020).

2/ Negative price differential of about $1.4 per barrel compared to the average petroleum spot price (average of Brent, West Texas and Dubai oil prices) in 2023 - 2029.

3/ Includes arrears. The debt stock includes legacy arrears to non-Paris Club creditors on which the authorities have requested (but not yet obtained) Paris-Club comparable relief. Implementing comparable terms will substantially reduce debt (e.g. by 15 percent of GDP in 2017). THe 14 percentage points increase in 2020 is partly attributed to a devaluation in mid-December 2020 which led to an upward revision of external debt.

4/ Converted from the total government debt in local currency using the end-of-period exchange rate (1450 in 2020).

5/ Positive means appreciation.

Table 2. Iraq: Central Government Fiscal Accounts, 2020–29
(In trillions of Iraqi dinars, unless otherwise indicated)

				Est.	Projections					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Revenues and grants	63.2	109.9	175.6	142.6	138.5	139.2	139.1	140.9	144.8	150.4
Revenues	63.2	109.9	175.6	142.6	138.5	139.2	139.1	140.9	144.8	150.4
Oil	57.1	97.5	168.5	129.8	126.8	126.5	126.2	127.9	131.6	136.6
Crude oil export revenues	54.9	94.5	167.4	124.0	122.7	122.4	122.0	123.8	127.3	132.3
Oil product export revenues	0.0	0.8	0.0	3.7	2.0	2.0	2.0	2.0	2.0	2.0
Transfers from oil-related public enterprises	1.5	1.4	0.4	1.5	1.4	1.4	1.4	1.4	1.5	1.5
Tax on oil company profits	0.7	0.9	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8
Non-oil	6.0	12.3	7.1	12.9	11.7	12.7	12.9	12.9	13.2	13.8
Tax revenues	4.0	3.7	3.2	5.8	5.2	5.6	5.9	6.3	6.7	7.2
Direct taxes	2.6	2.4	2.0	4.8	3.0	3.2	3.5	3.7	4.0	4.3
Indirect taxes	1.4	1.3	1.1	1.0	2.2	2.3	2.4	2.6	2.7	2.9
Non-tax revenues	2.0	8.7	3.9	7.1	6.4	7.1	7.0	6.6	6.5	6.6
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	91.1	111.0	141.8	146.8	164.8	171.1	178.2	186.7	196.1	207.0
Current expenditures	75.7	90.3	99.9	120.1	137.5	143.0	149.6	157.4	166.1	175.7
Salary and pension	53.4	57.6	57.4	67.6	81.6	85.0	88.5	92.1	95.9	99.8
Salary	40.0	42.9	44.2	53.2	62.8	65.4	68.2	71.0	74.0	77.1
Pensions	13.4	14.7	13.2	14.4	18.8	19.6	20.3	21.1	21.9	22.7
Goods and services	8.6	13.4	11.8	14.1	14.9	18.8	19.8	20.9	22.1	23.5
Transfers	9.7	14.9	28.6	35.4	37.1	34.6	35.4	37.0	39.2	41.7
o/w to SOEs	1.7	2.0	4.0	2.0	2.6	2.7	2.8	2.9	3.0	3.2
Interest payments	2.6	1.5	2.1	3.0	3.9	4.7	5.9	7.4	8.9	10.7
War reparations [1/]	1.3	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment expenditures	15.4	20.7	41.8	26.7	27.3	28.0	28.6	29.3	30.0	31.2
Non-oil investment expenditures	5.9	12.6	28.5	14.5	15.1	15.1	15.0	15.2	15.3	15.9
Oil investment expenditures	9.5	8.1	13.3	12.2	12.2	13.0	13.5	14.1	14.7	15.4
Fiscal balance	-27.9	-1.2	33.8	-4.2	-26.3	-31.9	-39.1	-45.8	-51.3	-56.5
Statistical discrepancy	-0.9	-5.8	-0.4	-2.7	0.0	0.0	0.0	0.0	0.0	0.0
Financing	28.8	7.0	-33.5	6.9	26.3	31.9	39.1	45.8	51.3	56.5
External financing (net)	-0.7	0.6	-11.3	-0.3	-2.7	-1.9	-1.0	-0.9	0.1	0.5
Borrowing	5.3	7.2	-2.2	2.4	1.1	1.2	1.2	1.2	1.2	1.1
Repayment	6.0	6.6	9.2	2.7	3.8	3.0	2.1	2.1	1.1	0.6
Domestic financing (net)	29.6	6.3	-22.1	7.2	28.9	33.7	40.0	46.7	51.2	56.0
Bank financing	24.8	5.3	-1.8	2.4	21.4	33.2	39.5	46.2	50.7	55.4
Borrowing	27.0	6.0	0.0	8.0	31.0	48.6	63.3	84.4	104.2	128.4
CBI	20.8	4.0	0.0	0.0	23.0	40.6	55.3	76.4	96.2	120.4
Commercial banks	6.2	2.0	0.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Repayment	2.2	0.7	1.8	5.6	9.6	15.4	23.8	38.2	53.5	73.0
Arrears (net)	2.8	1.0	1.1	-4.5	0.0	0.0	0.0	0.0	0.0	0.0
Change in deposits held abroad (+ = decrease)	0.0	-1.5	-3.5	-1.9	0.6	0.6	0.6	0.6	0.6	0.6
Change in deposits held domestically (+ = decrease)	1.9	1.5	-17.9	11.2	7.0	0.0	0.0	0.0	0.0	0.0
Memorandum items										
Non-oil primary expenditure, accrual basis	77.7	98.4	126.3	131.6	148.7	153.4	158.7	165.2	172.5	180.9
Adjusted non-oil primary expenditure, accrual (annual real growth, percent) [2/]	-10.3	16.8	17.3	3.2	9.5	0.0	-0.1	0.4	0.8	18.8
Domestic inflation (in percent)	0.6	6.0	5.0	4.4	4.0	4.0	3.8	3.8	3.7	3.6
Non-oil primary fiscal balance, accrual basis	-71.7	-86.1	-119.5	-119.5	-138.7	-143.0	-147.6	-153.4	-159.8	-167.4
Non-oil primary fiscal balance, cash basis [3/]	-67.1	-85.2	-120.9	-117.9	-135.0	-138.7	-143.8	-150.3	-157.2	-165.1

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

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

2/ Adjusted to exclude full year estimates of federal government transfers to the Kurdistan Regional Government.

3/ 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 repayment of arrears from previous years.

Table 3. Iraq: Central Government Fiscal Accounts, 2020–29

(In percent of GDP)

				Est.	Projections					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Revenues and grants	29.2	36.7	46.3	42.6	40.1	38.4	36.6	35.2	34.2	33.5
Revenues	29.2	36.7	46.3	42.6	40.1	38.4	36.6	35.2	34.2	33.5
Oil	26.5	32.6	44.5	38.8	36.7	34.9	33.2	32.0	31.1	30.5
Crude oil export revenues	25.4	31.6	44.2	37.0	35.5	33.8	32.1	31.0	30.1	29.5
Oil product export revenues	0.0	0.3	0.0	1.1	0.6	0.6	0.5	0.5	0.5	0.4
Transfers from oil-related public enterprises	0.7	0.5	0.1	0.4	0.4	0.4	0.4	0.4	0.3	0.3
Tax on oil company profits	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Non-oil	2.8	4.1	1.9	3.8	3.4	3.5	3.4	3.2	3.1	3.1
Tax revenues	1.9	1.2	0.8	1.7	1.5	1.5	1.6	1.6	1.6	1.6
Direct taxes	1.2	0.8	0.5	1.4	0.9	0.9	0.9	0.9	1.0	1.0
Indirect taxes	0.6	0.4	0.3	0.3	0.6	0.6	0.6	0.6	0.6	0.6
Non-tax revenues	0.9	2.9	1.0	2.1	1.9	2.0	1.8	1.7	1.5	1.5
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	42.2	37.1	37.4	43.9	47.7	47.2	46.9	46.7	46.4	46.1
Current expenditures	35.0	30.2	26.4	35.9	39.8	39.5	39.4	39.4	39.3	39.2
Salary and pension	24.7	19.2	15.1	20.2	23.6	23.4	23.3	23.0	22.7	22.2
Salary	18.5	14.3	11.7	15.9	18.2	18.0	17.9	17.8	17.5	17.2
Pensions	6.2	4.9	3.5	4.3	5.4	5.4	5.3	5.3	5.2	5.1
Goods and services	4.0	4.5	3.1	4.2	4.3	5.2	5.2	5.2	5.2	5.2
Transfers	4.5	5.0	7.5	10.6	10.7	9.5	9.3	9.3	9.3	9.3
o/w to SOEs	0.8	0.7	1.0	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Interest payments	1.2	0.5	0.6	0.9	1.1	1.3	1.6	1.8	2.1	2.4
War reparations 1/	0.6	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment expenditures	7.1	6.9	11.0	8.0	7.9	7.7	7.5	7.3	7.1	7.0
Non-oil investment expenditures	2.7	4.2	7.5	4.3	4.4	4.2	4.0	3.8	3.6	3.5
Oil investment expenditures	4.4	2.7	3.5	3.6	3.5	3.6	3.6	3.5	3.5	3.4
Fiscal balance	-12.9	-0.4	8.9	-1.3	-7.6	-8.8	-10.3	-11.5	-12.1	-12.6
Statistical discrepancy	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Financing	13.4	2.3	-8.8	2.1	7.6	8.8	10.3	11.5	12.1	12.6
External financing (net)	-0.3	0.2	-3.0	-0.1	-0.8	-0.5	-0.3	-0.2	0.0	0.1
Borrowing	2.4	2.4	-0.6	0.7	0.3	0.3	0.3	0.3	0.3	0.3
Repayment	2.8	2.2	2.4	0.8	1.1	0.8	0.6	0.5	0.2	0.1
Domestic financing (net)	13.7	2.1	-5.8	2.2	8.4	9.3	10.5	11.7	12.1	12.5
Bank financing	11.5	1.8	-0.5	0.7	6.2	9.2	10.4	11.6	12.0	12.4
Borrowing	12.5	2.0	0.0	2.4	9.0	13.4	16.7	21.1	24.6	28.6
CBI	9.6	1.3	0.0	0.0	6.7	11.2	14.6	19.1	22.7	26.8
Commercial banks	2.9	0.7	0.0	2.4	2.3	2.2	2.1	2.0	1.9	1.8
Repayment	1.0	0.2	0.5	1.7	2.8	4.2	6.3	9.6	12.6	16.3
Arrears (net)	1.3	0.3	0.3	-1.3	0.0	0.0	0.0	0.0	0.0	0.0
Change in deposits held abroad (+ = decrease)	0.0	-0.5	-0.9	-0.6	0.2	0.2	0.1	0.1	0.1	0.1
Change in deposits held domestically (+ = decrease)	0.9	0.5	-4.7	3.3	2.0	0.0	0.0	0.0	0.0	0.0
Memorandum items										
Non-oil primary expenditure, accrual basis (percent of GDP)	36.0	32.9	33.3	39.3	43.0	42.3	41.8	41.3	40.8	40.3
Non-oil primary fiscal balance, accrual basis (percent of GDP)	-33.2	-28.8	-31.5	-35.7	-40.1	-39.5	-38.9	-38.4	-37.8	-37.3
Non-oil primary fiscal balance, cash basis (percent of GDP) 2/	-31.1	-28.5	-31.9	-35.2	-39.1	-38.3	-37.9	-37.6	-37.2	-36.8

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

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

2/ 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 repayment of arrears from previous years.

Table 4. Iraq: Central Government Fiscal Accounts, 2020–29

(In percent of non-oil GDP)

				Est.	Projections					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Non-oil Revenues	4.0	7.5	4.3	7.0	5.8	5.8	5.5	5.1	4.9	4.7
Tax revenues	2.6	2.2	1.9	3.1	2.6	2.6	2.5	2.5	2.5	2.5
Direct taxes	1.7	1.4	1.2	2.6	1.5	1.5	1.5	1.5	1.5	1.5
Indirect taxes	0.9	0.8	0.7	0.5	1.1	1.1	1.0	1.0	1.0	1.0
Non-tax revenues	1.3	5.3	2.4	3.8	3.2	3.2	3.0	2.6	2.4	2.3
Non-oil Expenditures	53.6	62.9	78.5	73.0	76.0	72.6	69.9	68.2	66.7	65.6
Current expenditures	49.7	55.2	61.0	65.1	68.5	65.7	63.5	62.2	61.1	60.2
Salary and pension	35.1	35.2	35.1	36.6	40.6	39.0	37.6	36.4	35.2	34.2
Salary	26.3	26.2	27.0	28.8	31.3	30.0	28.9	28.0	27.2	26.4
Pensions	8.8	9.0	8.1	7.8	9.4	9.0	8.6	8.3	8.0	7.8
Goods and services	5.7	8.2	7.2	7.6	7.4	8.6	8.4	8.3	8.1	8.0
Transfers	6.4	9.1	17.5	19.2	18.5	15.9	15.0	14.6	14.4	14.3
o/w to SOEs	1.1	1.2	2.4	1.1	1.3	1.2	1.2	1.2	1.1	1.1
Interest payments	1.7	0.9	1.3	1.6	1.9	2.2	2.5	2.9	3.3	3.7
War reparations 1/	0.9	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil investment expenditures	3.9	7.7	17.4	7.9	7.5	6.9	6.4	6.0	5.6	5.4
Non-oil fiscal balance	-49.6	-55.4	-74.1	-66.0	-70.2	-66.8	-64.4	-63.1	-61.8	-60.9
Non-oil primary fiscal balance	-47.1	-52.1	-73.0	-62.8	-68.1	-64.7	-61.8	-59.8	-57.8	-56.5
Statistical discrepancy	-1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0
Memorandum items										
Fiscal balance (percent of non-oil GDP)	-18.3	-0.7	20.7	-2.3	-13.1	-14.6	-16.6	-18.1	-18.9	-19.4

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

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

Table 5. Iraq: Balance of Payments, 2020–29
(In billions of U.S. dollars, unless otherwise indicated)

				Est.	Projections					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Trade balance	-13.8	30.2	60.5	24.1	8.3	5.1	1.3	-0.9	-3.3	-5.0
(In percent of GDP)	-7.6	14.6	23.1	9.5	3.1	1.8	0.4	-0.3	-1.0	-1.4
Exports	50.2	88.7	134.0	104.5	101.4	102.6	103.0	105.2	109.0	113.9
Crude oil	47.7	84.4	129.1	100.2	97.0	97.9	98.0	99.9	103.2	107.6
Other exports	2.5	4.3	4.9	4.4	4.5	4.7	5.0	5.3	5.8	6.3
Imports	-64.0	-58.5	-73.6	-80.4	-93.1	-97.5	-101.8	-106.1	-112.2	-118.9
Private sector imports	-48.5	-40.0	-48.1	-51.8	-58.6	-61.4	-64.4	-67.6	-71.7	-75.9
Government imports	-15.6	-18.4	-25.5	-28.7	-34.5	-36.1	-37.4	-38.5	-40.6	-43.0
Services, net	-10.0	-10.8	-13.2	-14.7	-15.1	-15.9	-16.5	-17.2	-18.3	-19.4
Receipts	3.8	5.2	9.0	9.5	9.9	10.4	10.8	11.4	12.0	12.6
Payments	-13.8	-16.0	-22.2	-24.2	-25.0	-26.2	-27.3	-28.6	-30.3	-32.0
Income, net	-3.1	-4.3	-4.4	-3.3	-2.9	-3.8	-4.7	-5.2	-5.7	-6.2
Transfers, net	-0.3	-0.9	1.0	0.4	0.2	0.5	0.3	0.4	0.4	0.4
Private, net	0.0	-0.1	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Official, net	-0.3	-0.9	0.7	0.2	0.0	0.3	0.1	0.2	0.2	0.2
Current account	-27.2	14.2	43.9	6.6	-9.6	-14.1	-19.6	-22.9	-26.9	-30.3
(in percent of GDP)	-15.0	6.9	16.8	2.6	-3.6	-5.1	-6.7	-7.4	-8.3	-8.8
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	3.5	2.9	1.2	8.8	-1.9	7.0	8.6	8.8	9.8	9.6
Direct and portfolio investment (net)	4.8	2.7	6.0	8.1	7.7	8.2	8.6	8.9	9.3	9.8
Other capital, net	-1.3	0.2	-4.8	0.7	-9.6	-1.2	0.0	-0.1	0.5	-0.2
Official, net	-1.8	1.1	-4.8	-4.3	-1.7	-1.2	-1.1	-1.1	-0.5	-0.2
Assets	0.6	-1.0	-2.4	-1.0	0.3	0.3	0.3	0.3	0.3	0.3
Liabilities	-2.3	2.1	-2.4	-3.3	-2.1	-1.6	-1.4	-1.4	-0.9	-0.5
Disbursements	1.0	4.7	0.9	0.2	0.2	0.2	0.2	0.2	-0.1	-0.1
Amortization	-3.3	-2.6	-3.3	-3.6	-2.3	-1.8	-1.6	-1.6	-0.8	-0.5
Private, net	0.5	-0.9	0.0	4.9	-7.9	0.0	1.1	1.0	1.0	0.0
Errors and omissions	9.8	-6.7	-8.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-13.9	10.5	36.2	15.4	-11.5	-7.1	-11.0	-14.1	-17.1	-20.6
(in percent of GDP)	-7.7	5.1	13.8	6.0	-4.3	-2.6	-3.8	-4.6	-5.3	-6.0
Financing	13.9	-10.5	-36.2	-15.4	11.5	7.1	11.0	14.1	17.1	20.6
Development Fund for Iraq (increase -) 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross International Reserves (increase -)	13.6	-9.4	-32.8	-15.4	11.5	7.1	11.0	14.1	17.1	20.6
Fund credit (repayment)	-1.2	-1.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears (negative = decrease)	1.5	-0.1	-3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in payables (negative = decrease)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap (increase -) 2/	0.0	0.0	0.0	0.0	0.0	0.0	-0.4	-0.4	0.0	0.0
Memorandum items										
GIR (end of period)	54.4	63.8	96.6	112.0	100.5	93.4	82.4	68.3	51.2	30.6
GIR (in months of imports of goods and services)	8.8	8.0	11.1	11.4	9.7	8.7	7.3	5.8	4.1	2.3
Reserves (as a percentage of adjusted ARA metric)	282.9	277.7	352.1	374.9	331.6	263.0	223.6	187.3	144.8	84.9
GDP	181.4	206.4	261.4	254.4	265.9	278.8	292.1	307.5	325.2	345.1
Of which: Non-oil GDP	127.9	112.8	112.9	140.2	154.4	167.6	181.1	194.8	209.3	224.7

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

1/ Reflects the transfer of the Development Fund for Iraq from the Federal Reserve Bank of New York to the CBI in May 2014.

2/ Includes unidentified financing only.

Table 6. Iraq: Monetary Survey, 2020–29
(In billions of Iraqi dinars, unless otherwise indicated)

				Est.	Projections					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Net foreign assets	101,154	121,205	182,641	178,396	160,196	148,027	131,132	110,462	86,110	57,382
Of which: CBI	75,223	93,089	140,638	145,896	130,946	121,702	107,440	89,139	66,919	40,111
Net domestic assets	18,620	18,532	-14,513	2,415	36,631	66,616	102,024	145,358	192,965	245,266
Domestic claims	54,561	59,129	30,437	45,926	82,317	114,586	152,393	198,245	248,496	303,574
Net claims on general government	26,403	29,599	-1,506	9,524	38,210	71,709	111,510	158,065	209,137	264,930
Claims on general government	68,112	72,562	76,035	77,680	99,366	132,865	172,666	219,221	270,293	326,086
less: Liabilities to general government	-41,709	-42,963	-77,541	-68,156	-61,156	-61,156	-61,156	-61,156	-61,156	-61,156
Claims on other sectors	28,158	29,530	31,943	36,402	44,107	42,877	40,883	40,180	39,359	38,644
Other Item Net (OIN)	-35,941	-40,598	-44,950	-43,510	-45,686	-47,970	-50,369	-52,887	-55,532	-58,308
Broad money	119,775	139,737	168,128	180,811	196,827	214,643	233,156	255,820	279,075	302,648
Currency outside banks	59,987	71,526	82,032	94,625	102,895	111,243	119,523	130,894	142,390	153,983
Transferable deposits	43,366	48,418	64,456	65,697	68,132	75,000	82,422	90,614	99,143	107,833
Other deposits	16,421	19,793	21,640	20,489	25,799	28,400	31,210	34,312	37,542	40,832
Memorandum items										
Broad money (percentage growth)	16.0	16.7	20.3	7.5	8.9	9.1	8.6	9.7	9.1	8.4
Broad money (in percent of GDP)	55.4	46.7	44.4	54.0	56.9	59.2	61.4	64.0	66.0	67.5
M2 velocity (based on non-oil GDP)	1.3	1.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Credit to the private sector (percentage growth)	18.4	9.0	4.9	17.0	10.9	9.3	9.0	8.8	8.7	8.5
Credit to the private sector (in percent of non-oil GDP)	17.6	17.9	18.7	19.4	19.8	20.0	20.1	20.4	20.6	20.8

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

Table 7. Iraq: Central Bank Balance Sheet, 2020–29
(In billions of Iraqi dinars, unless otherwise indicated)

				Est.	Projections					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Net foreign assets	75,223	93,089	140,638	145,896	130,946	121,702	107,440	89,139	66,919	40,111
Foreign assets	79,497	93,093	140,642	146,252	131,302	122,058	107,795	89,495	67,275	40,466
Official reserve assets	78,902	92,526	140,086	145,747	130,797	121,553	107,290	88,990	66,770	39,961
Gold	8,487	8,169	11,018	12,293	12,415	12,540	12,665	12,792	12,920	13,049
Other	69,807	84,357	129,068	133,454	118,381	109,013	94,625	76,198	53,850	26,912
SDR holdings and reserve position in the Fund	608	0	0	0	0	0	0	0	0	0
Other foreign assets	595	568	556	505	505	505	505	505	505	505
Foreign liabilities	-4,274	-5	-5	-355	-355	-355	-355	-355	-355	-355
Net domestic assets	13,639	17,049	4,605	19,715	53,004	80,791	112,935	152,201	195,616	243,799
Domestic assets	37,570	48,631	37,016	47,644	62,610	89,389	128,627	173,947	223,183	276,608
Net claims on general government	35,335	42,675	25,536	34,773	49,739	76,518	115,756	161,076	210,313	263,737
Claims on general government	42,660	48,492	49,237	45,208	60,174	86,953	126,191	171,511	220,747	274,172
Domestic currency deposits	-2,332	-854	-2,478	-2,641	-2,641	-2,641	-2,641	-2,641	-2,641	-2,641
Foreign currency deposits	-4,993	-4,963	-21,223	-7,793	-7,793	-7,793	-7,793	-7,793	-7,793	-7,793
Monetary policy instruments 1/	-684	-1,105	-1,722	-1,802	-2,030	-760	308	-3,746	-9,568	-14,809
Other items net	-23,247	-30,477	-30,689	-26,126	-7,577	-7,838	-16,000	-18,000	-18,000	-18,000
Reserve money	88,862	110,137	145,242	165,612	183,950	202,493	220,374	241,340	262,535	283,910
Currency in circulation	66,031	76,562	87,562	101,481	115,781	127,452	138,545	151,656	164,859	178,157
Bank reserves	22,830	33,575	57,681	64,131	68,169	75,041	81,829	89,684	97,676	105,753
Other liquid liabilities	…	…	…	…	…	…	…	…	…	…
Memorandum items										
Reserve money (annual growth, in percent)	13.6	23.9	31.9	14.0	11.1	10.1	8.8	9.5	8.8	8.1
Currency in circulation (annual growth, in percent)	27.4	15.9	14.4	15.9	14.1	10.1	8.7	9.5	8.7	8.1
Gross foreign exchange assets (in millions of U.S. dollars)	54,415	63,811	96,611	112,113	100,613	93,502	82,531	68,454	51,361	30,739

Sources: Iraqi authorities; and Fund staff estimates and projections.
1/ This mainly represents the ID standing overnight facilities, US$ deposits of commercial banks, domestic currency deposits, and CBI bills.

Annex I. Implementation of the 2022 Article IV Recommendations

Key Recommendations	Authorities' Response
Fiscal. Refrain from a procyclical spending and build fiscal buffers in the near term. Over the medium term, move toward a sound fiscal framework, supported by a fiscal rule targeting gradual improvement of the non-oil primary fiscal balance. These should be complemented by fiscal structural reforms including upgrading public financial management, mobilizing non-oil revenues, and reducing the oversized government payroll.	**Not implemented.** The 2023–25 budget introduced a large fiscal expansion, leading to a deterioration in the non-oil primary balance and a decline in MoF's deposit buffers through the course of 2023.
Monetary and financial sector. Closely monitor domestic inflationary pressures and tighten domestic financial conditions by phasing out its lending initiatives and raising interest rates and reserve requirements as needed. Restructure large SOBs.	**Mostly implemented.** The CBI raised the policy interest rate and reserve requirements, scaled back its subsidized lending, and introduced a new facility for absorbing excess liquidity. International auditing firms have been contracted to conduct asset quality reviews and develop restructuring plans for the large SOBs.
Governance. Continue improving the AML/CFT framework and broaden anti-corruption efforts, including through strengthening the risk-based AML/CFT supervision and implementing the 2021–24 National Integrity and Anti-Corruption Strategy.	**Partially implemented.** As part of the effort to improve AML/CFT framework, the CBI imposed final beneficiary disclosure requirement on cross-border payments.
Social safety nets. Improving the targeting, coverage, and adequacy of the social safety net, including via downsizing the Public Distribution System (PDS), and enhancing the coverage of the targeted cash transfers and introducing automatic inflation indexation. Conduct a comprehensive reform of the pension system.	**Partially implemented.** The 2023–25 budget law increased allocation for the targeted cash transfer program relative to previous years. However, the budget allocation for the untargeted PDS also increased.
Electricity Sector. Develop a reform strategy to improve cost recovery, reduce arrears, and enhance gas capture.	**Mostly not implemented.** A reform strategy to move toward cost recovery has yet to be designed. However, arrears for Iranian gas and purchase of electricity from domestic power producers have been cleared. Electricity grid integration with Jordan has been completed with operation set to begin in 2024. Gas capture improved following investments to enhance the infrastructure and capacity of Basrah Gas Company.

Annex II. External Sector Assessment

Overall Assessment. *The external position of Iraq in 2023 was broadly in line with the level implied by fundamentals and desirable policies. The external current account balance is projected to deteriorate in 2024 and further worsen over the medium term, underpinned by the projected paths of declining oil prices and rising government spending. The overall assessment is subject to data-related uncertainties (see Annex V).*

Potential Policy Responses. *Maintaining an adequate level of foreign exchange buffers will be important to ensure resilience to oil price fluctuations and mitigate the longer-term risks to sustainability associated with the global energy transition. This requires tightening the fiscal policy stance while safeguarding critical infrastructure and social spending, along with structural reforms to spur private sector-led economic growth and diversification.*

Current Account

Background. The external current account (CA) recorded a surplus of 2.6 percent of GDP in 2023, a significant decline from the double-digit surplus in 2022, but broadly in line with the five-year (2018–22) average balance of 2.4 percent of GDP. This decline mostly reflects a 22-percent decrease in oil exports value, following markedly lower oil prices relative to 2022 and a 7-percent decline in oil export volumes. The gradual decline in the CA balance over the medium term is mainly driven by the projected downward path of oil prices and assumed continuation of the current fiscal policy—both of which are also the key sources of medium-term uncertainties. Due to data limitations, the current account balance is based on staff estimates of imports (see Annex V for data limitations).

Iraq: EBA-lite Model Results, 2023

	CA Model 1/	**REER Model** 1/	**Consumption Model**	**Investment Model**
		(in percent of GDP)		
CA-Actual	**2.6**	**2.6**	**2.6**	**2.6**
Cyclical contributions (from model) (-)	1.0			
Additional temporary/statistical factors (-)				
Natural disasters and conflicts (-)	0.0			
Adjusted CA	**1.6**			
CA Norm (from model) 2/	**0.6**		**14.7**	**0.3**
Adjustments to the norm (-)	0.0			
Adjusted CA Norm	**0.6**			
CA Gap	**1.0**	**0.5**	**-12.1**	**2.3**
o/w Relative policy gap	0.6			
Elasticity	-0.3			
REER Gap (in percent)	**-3.4**	**-1.6**		

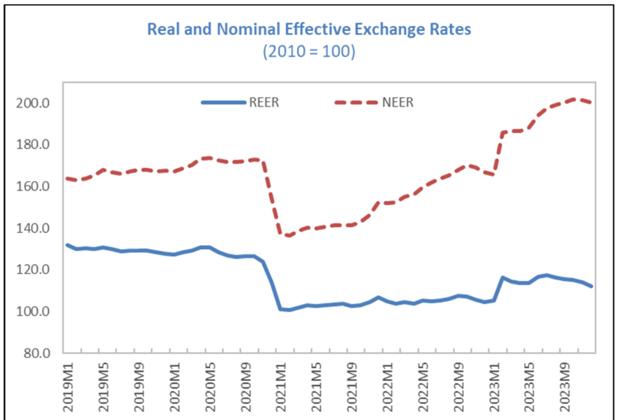
1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Assessment. The CA model assessed the 2023 CA gap to be 1 percent of GDP. Policy gaps are primarily driven by the fiscal gap and would close if fiscal policy were tighter as recommended by staff. The investment needs model points to a smaller CA norm than the CA model, which reflects the large upfront investment needed to boost economic and export diversification.

Real Exchange Rate

Background. The real effective exchange rate (REER) and nominal effective exchange rate (NEER) have appreciated by 10 percent and 20 percent (y-o-y) in 2023, mostly reflecting the impact of the currency revaluation.

Assessment. The estimated 2023 REER gap ranges between -0.5 percent (CA model) and -1.6 percent (REER model), suggesting no material misalignment in the REER. The stabilization of the REER following the 2023 February currency revaluation seems consistent with this assessment.



Source: IMF Information Notice System (INS).

Capital and Financial Accounts: Flows and Policy Measures

Background. The financial account is estimated to have recorded a surplus of USD 8.8 billion (3.5 percent of GDP) in 2023, following a surplus of 0.5 percent of GDP recorded in 2022. This was largely driven by an increase in net private inflows of capital, as well as net investment by international oil companies which increased from USD 7 billion in 2022 to an estimated USD 8.2 billion in 2023. Other direct investments also increased in 2023 and net portfolio outflows more than halved between 2022 and 2023.

Assessment. Iraq's capital account remains relatively closed, with capital flows mainly reflecting the public and private oil sector activities. While the large accumulation of FX reserves (see below) is expected to support the balance of payment needs in the short term, financing pressures may arise over the medium term if oil prices fall and fiscal policy does not adjust accordingly.

FX Intervention and Reserves Level

Background. Gross reserves increased to USD 112 billion at end-2023 (11.4 months of imports or 82 percent of broad money), up from USD 97 billion at end-2022 (11.1 months of imports and 83 percent of broad money). Reserves are expected to remain at adequate levels in the short term.

Assessment. The 2023 gross reserve level is considered adequate, surpassing the benchmark range of 100–150 percent of the Fund's ARA metric (375 percent of the ARA metric adjusted for lower oil prices in 2023, up from 354 percent in 2022). However, the projected decline in oil prices and the continuation of current fiscal policy could lead to reserves falling to USD 30.7 billion by 2029 (85 percent of the adjusted ARA metric). While data on foreign assets and liabilities is limited, Annex VII provides an assessment of the international investment position and long-term external sustainability under various diversification scenarios, taking into account lower international oil prices and global oil demand.

Iraq: Reserve Adequacy Indicators, 2021–29

	2021	2022	2023	2024	2025	2026	2027	2028	2029
			Actual	Projections					
Reserves in USD billion	63.8	96.6	112.0	100.5	93.4	82.4	68.3	51.2	30.6
Reserves in months of imports of goods and services	8.0	11.1	11.4	9.7	8.7	7.3	5.8	4.1	2.3
Reserves in percent of reserve money	84.0	96.4	89.0	73.0	61.0	48.7	37.6	26.1	14.5
Reserves in percent of broad money	66.2	83.3	81.5	66.4	57.0	46.6	35.9	25.0	13.9
Reserves in percent of the adjusted IMF ARA metric 1/ 2/			375	332	263	224	187	145	84.9

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

1/ Reserves within 100–150 percent of the Assessment of Reserve Adequacy (ARA) metric are considered adequate.

2/ The adjusted ARA metric adds a buffer to account for the possibility of lower than projected oil prices.

Annex III. Risk Assessment Matrix

Source of Risks	Likelihood	Expected Impact on Economy	Policy Response
		Global Risks	
Commodity price volatility. Heightened global uncertainties stemming from regional conflicts and climate change can lead to larger and more frequent fluctuations in commodity prices.	**High**	**High.** A decline in oil prices would put pressure on Iraq's fiscal and external positions and limit the government's ability to sustain a generous benefits system, exacerbating the risks of political instability and social unrest. Heightened oil price uncertainty could also discourage new investments in the oil sector, constraining future production. On the upside, sustained or higher oil prices could contribute to larger external surpluses.	Enhance resilience to oil price shocks through wide ranging fiscal reforms. Strengthen social safety nets to better protect the most vulnerable.
Intensification of regional conflict(s). In an escalation of the Israel-Gaza war or broader regional conflicts, shipping routes can be disrupted, oil infrastructures can be damaged, and domestic security condition can further worsen.	**Medium**	**High.** Further deterioration in domestic security conditions can lead to a decline in business sentiment and suspension of investment projects. Disruption to shipping routes and damage to oil infrastructures can result in oil production losses that could outweigh the impact of potential associated price spikes.	Strengthen resilience to potential disruptions to oil revenues by speeding up mobilization of non-oil tax revenues and economic diversification.
Weaker global demand. OPEC+ cuts may be extended if global demand weakens.	**Medium**	**High.** Extended cuts would weigh on growth and fiscal revenues.	Accelerate efforts to diversify the economy away from oil through structural reforms.
		Domestic Risks	
Renewed political divisions. Gains in political stability can be reversed if domestic tensions resurface amid the rising geopolitical tensions and ongoing dispute with the KRG over oil revenue sharing, undermining economic reforms.	**Medium**	**High.** Failure to implement reforms could aggravate underlying vulnerabilities and social tensions which, in turn, could hurt non-oil growth and lead to policy paralysis.	Build national consensus on reform priorities. Improving public services and addressing corruption will be critical to diffuse social tensions.
Natural disasters related to climate change. More frequent natural disasters deal severe damage to infrastructure and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium term growth.	**Medium**	**Medium.** More frequent heat waves, droughts, sandstorms and the accompanying salination and desertification could reduce long-term growth potential and lead to significant economic dislocations and social unrest.	Build resilience to climate change. Finalize and publish Iraq's national adaptation plan. Ensure availability of fiscal resources over the medium term for investments in climate adaptation.

Annex IV. Public Sector Debt Sustainability Analysis

Iraq: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	**High**	In the passive baseline, the overall risk of sovereign stress is high, in line with the medium term assessment. This projection is subject to high uncertainty surrounding oil prices and fiscal policy. For example, higher oil prices or capital expenditure cuts in response to oil price declines could reduce fiscal deficit and lower the debt projection path.
Medium term	**High**	**High**	Medium-term risks are high due to projected persistent medium-term primary deficits, reflecting the projected downard path of oil prices and sustained government expenditure assumed in the passive baseline.
Fanchart	**High**	...	
GFN	**High**	...	
Stress test	Comm. Prices	...	
Long term	...	**High**	Long-term risks are high because of Iraq's high fiscal depdence on oil revenues and energy transition risks.
Sustainability assessment 1/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			No

DSA Summary Access

Iraq's public debt-to-GDP ratio is expected to increase by over 40 percentage points between 2023 and 2029, reflecting sustained primary deficit projected under passive fiscal policy with declining oil prices. This projection is subject to high uncertainties surrounding oil prices and fiscal policy. For example, higher oil prices or capital expenditure cuts could lower the deficit and reduce the increase in debt. Mitigating factors include large government deposits (including ID 42 trillion in demand deposits held at commerical banks, equivalent to around $32 billion) that can be used as an alternative financing source and relatively low rollover risks on legacy external debt (around $40 billion, which has been in arrears since 2004).

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure A.IV.1. Iraq: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					0	
2. Subsectors included in the chosen coverage in (1) above:						

CPS / NFPS / GG: expected / CG		Subsectors captured in the baseline	Inclusion	Comments
CG	1	Budgetary central government	Yes	
CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CG	3	Social security funds (SSFs)	No	
GG: expected	4	State governments	No	
GG: expected	5	Local governments	No	
NFPS	6	Public nonfinancial corporations	No	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated		Non-consolidated	

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

	Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt									0
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.									0
6	Nonfin pub. corp.									0
7	Central bank									0
8	Oth. pub. fin. corp									0
	Total	0	0	0	0	0	0	0	0	0

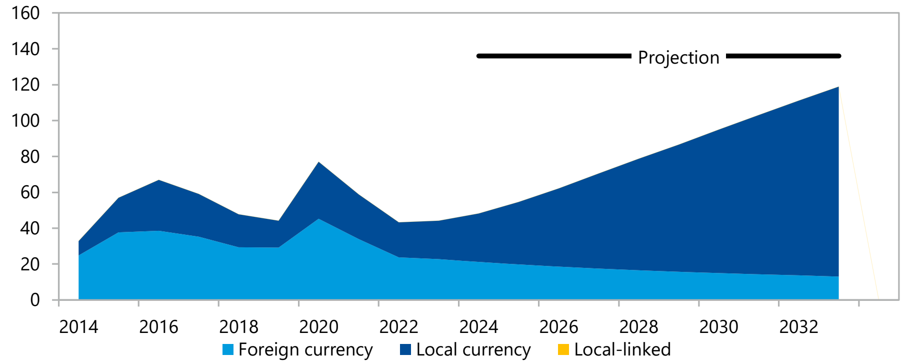
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The coverage of the SRDSA is for central government only. The authorities do not reported consolidated accounts including EBFs and SSFs. The mission have enquired debt data availability for EBFs and SSFs and are waiting for the authorities' response.

Figure A.IV.2. Iraq: Public Debt Structure Indicators

Debt by Currency

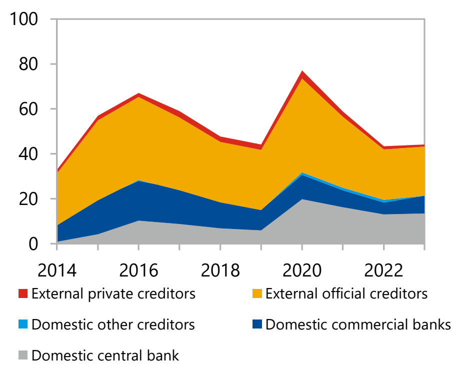
(Percent of GDP)



Note: The perimeter shown is central government.

Public Debt by Holder

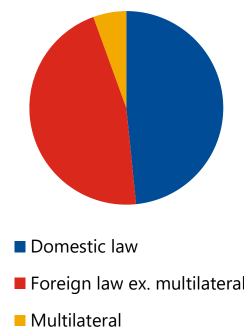
(Percent of GDP)



Note: The perimeter shown is central government.

Public Debt by Governing Law, 2023

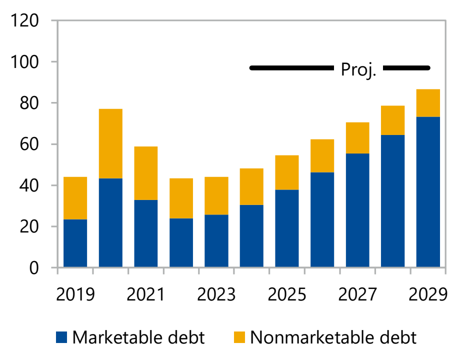
(Percent)



Note: The perimeter shown is central government.

Debt by Instruments

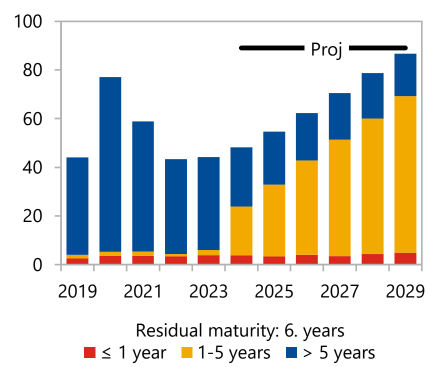
(Percent of GDP)



Note: The perimeter shown is central government.

Public Debt by Maturity

(Percent of GDP)



Note: The perimeter shown is central government.

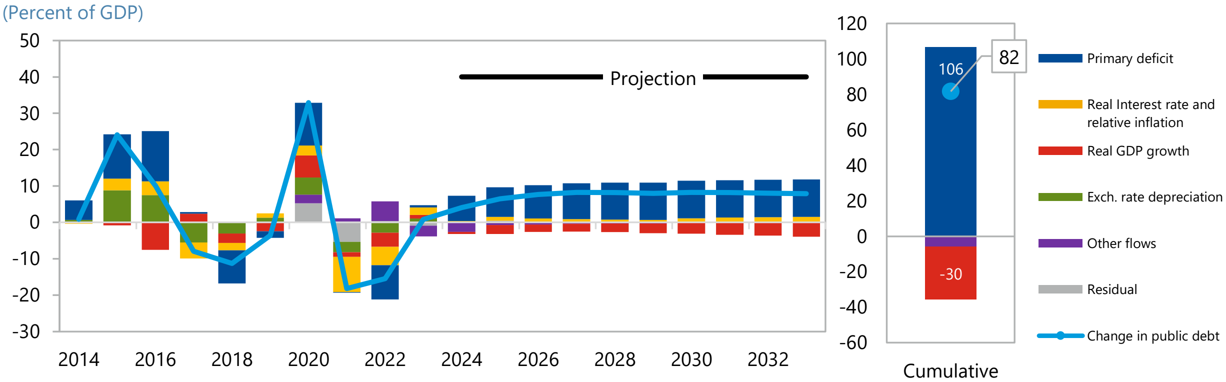
Commentary: In the medium term, deficits are assumed to be mostly financed by the CBI using T-bills (amortized over five years), resulting in higher share of local-currency debt and a relative shortening of maturity. Despite the central bank law prohibits direct lending to the government, monetary financing has been implemented through a triangular operation where T-bills are issued to banks which, in turn, discount them at the central bank.

Table A.IV.1. Iraq: Baseline Scenario

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	44.2	48.2	54.6	62.3	70.5	78.7	86.7	94.9	103.1	111.1	119.0
Change in public debt	0.8	4.0	6.4	7.7	8.2	8.2	8.0	8.3	8.2	8.0	7.8
Contribution of identified flows	1.7	4.0	6.0	7.5	8.2	8.2	8.0	8.3	8.1	8.0	7.8
Primary deficit	0.6	6.9	8.1	9.2	9.9	10.2	10.3	10.3	10.3	10.3	10.3
Noninterest revenues	42.4	39.6	37.8	36.1	35.0	34.1	33.5	33.5	33.5	33.5	33.5
Noninterest expenditures	42.9	46.5	45.9	45.4	44.9	44.3	43.8	43.8	43.8	43.8	43.8
Automatic debt dynamics	4.1	-0.3	-1.4	-1.1	-1.3	-1.7	-2.1	-1.9	-2.0	-2.2	-2.3
Real interest rate and relative inflation	2.2	0.3	1.0	0.9	0.8	0.7	0.6	1.1	1.3	1.4	1.5
Real interest rate	5.7	0.3	1.5	1.1	0.9	0.7	0.6	1.1	1.3	1.4	1.5
Relative inflation	-3.5	-0.1	-0.5	-0.2	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Real growth rate	1.0	-0.6	-2.4	-2.0	-2.1	-2.4	-2.7	-3.0	-3.3	-3.5	-3.8
Real exchange rate	1.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	-3.0	-2.6	-0.8	-0.6	-0.4	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.2	-0.5	-0.6	-0.5	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
Other transactions	-2.8	-2.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Contribution of residual	-0.9	0.1	0.5	0.2	0.0	0.0	-0.1	0.0	0.0	0.1	0.0
Gross financing needs	5.1	11.5	13.9	17.1	21.6	25.1	29.0	33.6	38.5	42.4	46.7
of which: debt service	4.7	5.0	6.4	8.4	11.9	15.0	18.8	23.4	28.3	32.2	36.5
Local currency	3.7	3.6	5.3	7.6	11.2	14.6	18.5	23.1	28.0	31.9	36.2
Foreign currency	1.0	1.4	1.1	0.8	0.7	0.5	0.3	0.3	0.3	0.3	0.3
Memo:											
Real GDP growth (percent)	-2.2	1.4	5.3	3.8	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Inflation (GDP deflator; percent)	-9.7	1.8	-0.4	1.0	1.6	2.1	2.5	1.9	1.9	1.9	2.0
Nominal GDP growth (percent)	-11.7	3.2	4.9	4.8	5.2	5.8	6.1	6.1	6.1	6.1	6.1
Effective interest rate (percent)	1.8	2.6	2.8	3.0	3.1	3.2	3.2	3.3	3.3	3.4	3.4

Contribution to Change in Public Debt

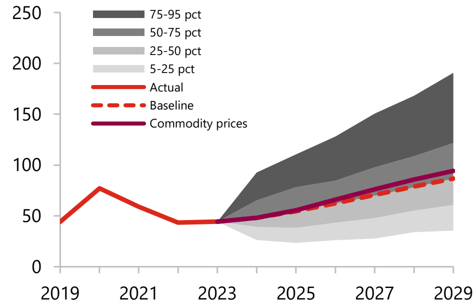
(Percent of GDP)



Commentary: Primary deficit is the key driver of the debt projection over the medium and long term. This projection is subject to signficant uncertainty surrounding oil price projection and budget implementation.

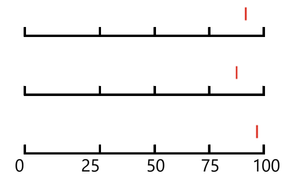
Figure A.IV.3. Iraq: Medium-Term Risk Assessment

Final Fanchart
(Percent of GDP)

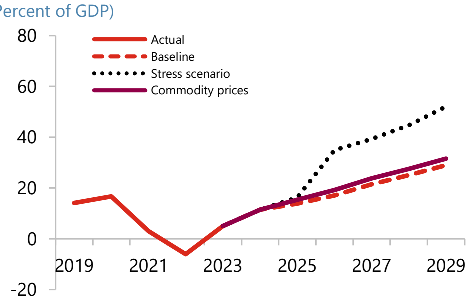


Debt fanchart module

	Value	Contrib 1/	Percentile in peer group 2/
Fanchart width *(percent of GDP)*	155.0	2.3	
Probability of debt non-stabilizaiton *(percent)*	100.0	0.8	
Terminal debt-to-GDP x institutions index	79.0	1.7	
Debt fanchart index (DFI)		4.8	
Risk signal: 3/		**High**	

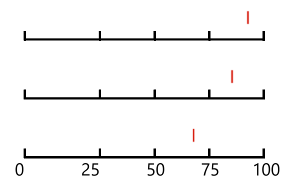


Gross Financing Needs
(Percent of GDP)



Gross financing needs (GFN) module

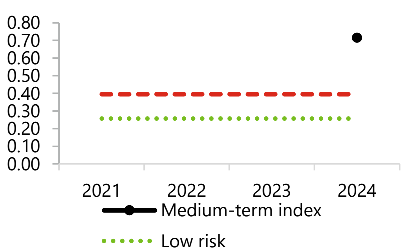
	Value	Contrib 1/
Average baseline GFN *(percent of GDP)*	19.7	6.7
Initial Banks' claims on the gen. govt *(pct bank assets)*	18.1	5.9
Chg. In banks' claims in stress *(pct banks' assets)*	18.8	6.3
GFN financeability index (GFI)		18.9
Risk signal: 4/		**High**



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index
(Index Number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	4.8	1.1	0.5	0.5
GFN finaceability index	18.9	0.4	0.5	0.2
Medium-term index		0.7		
Risk signal: 5/		**High**		
Final assessment:		**High**		

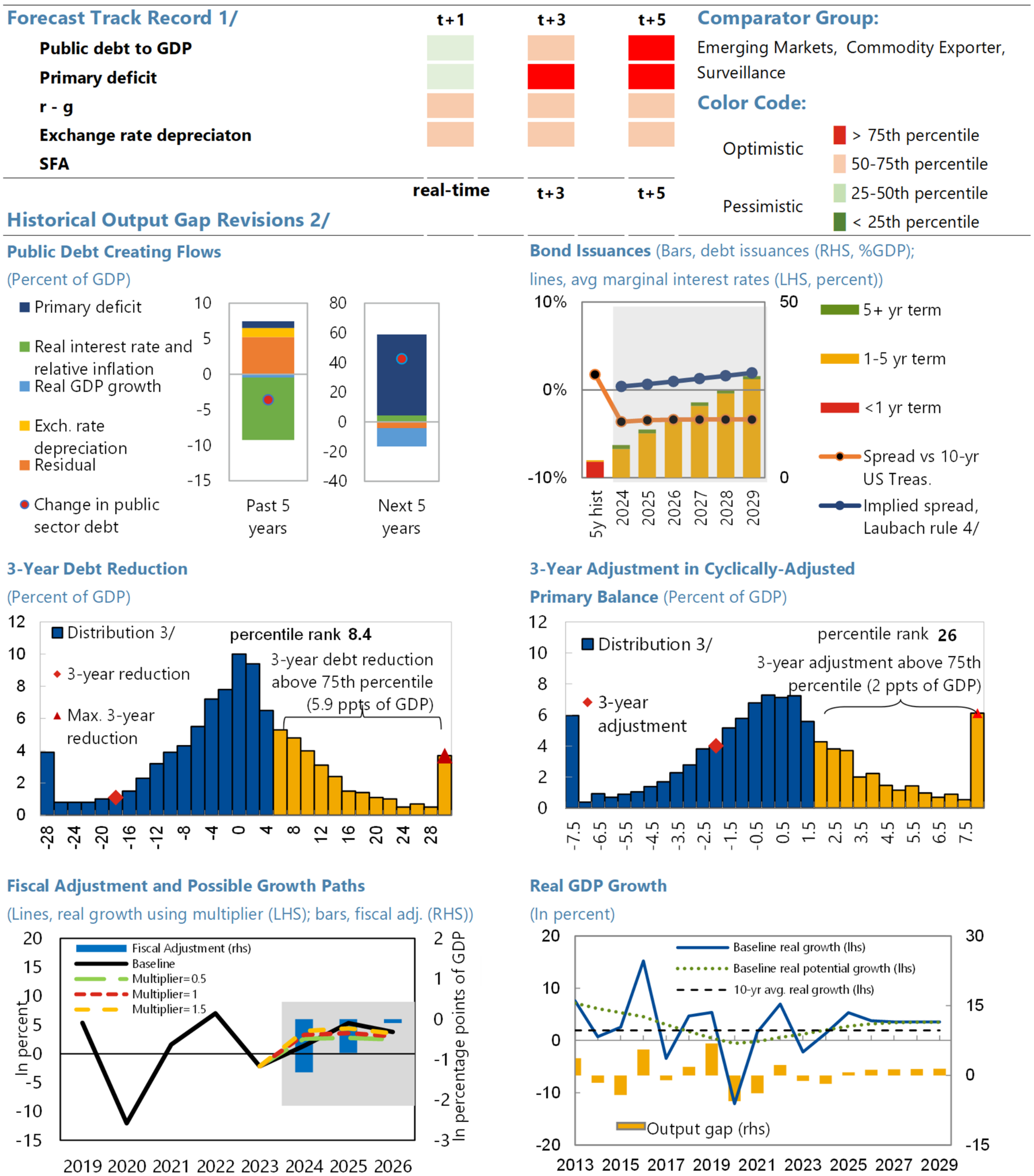
Prob. of missed crisis, 2024-2029, if stress not predicted: 81.8 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 0.0 pct.

Commentary: The probability of debt non-stabilization is assessed as very high. This result is reinforced by the high risk assessment from the GFN Finaceability Module.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure A.IV.4. Iraq: Realism of Baseline Assumptions



Commentary: The realism analysis points to a large projected rise in debt-to-GDP ratios when compared to last three years and other countries. This reflects the large fiscal expansion introduced in the 2023-25 budget law and the assumption that fiscal imbalances are to sustain between 2025-29 in the passive baseline.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

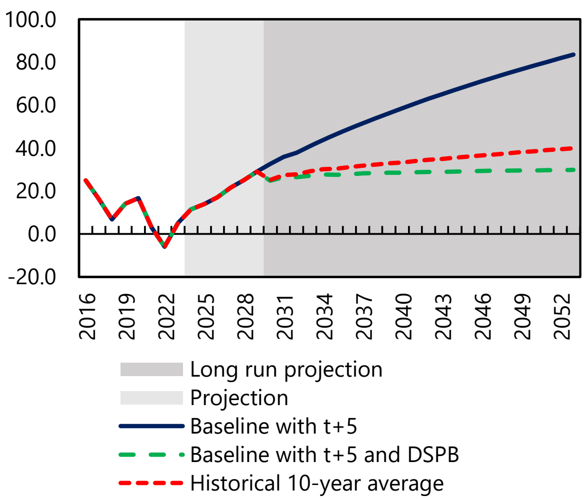
Figure A.IV.5. Iraq: Triggered Modules

Large amortizations	Pensions	**Climate change: Adaptation**	**Natural Resources**
	Health	Climate change: Mitigation	

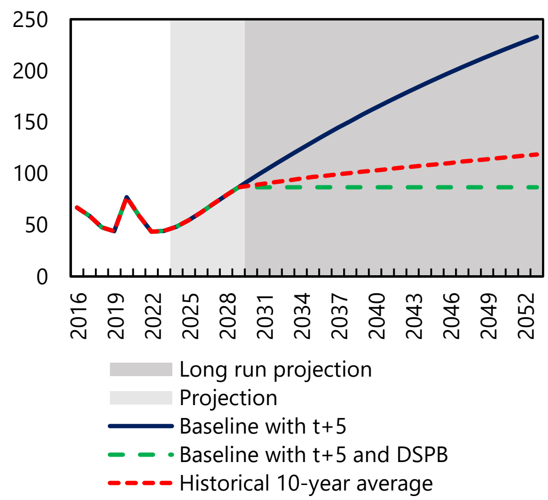
Long-Term Risk Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio

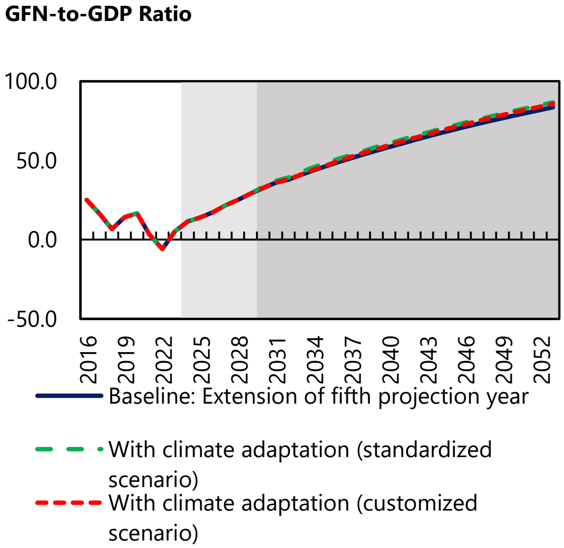


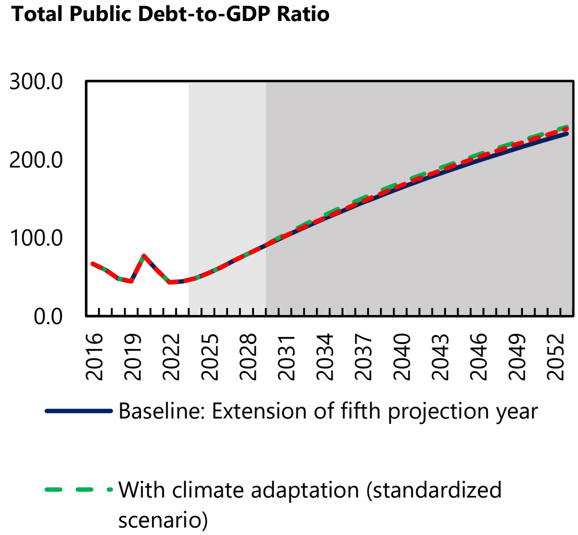
Total Public Debt-to-GDP Ratio



Commentary: Assuming passive fiscal policy, elevated debt service relative to historical standards indicates there are high risks due to large amortizations in the long-run under different alternative baseline scenarios.

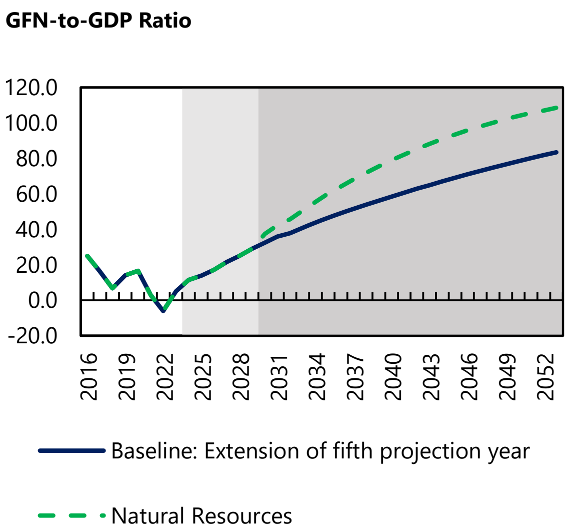
Figure A.IV.6. Iraq: Climate Change: Adaptation

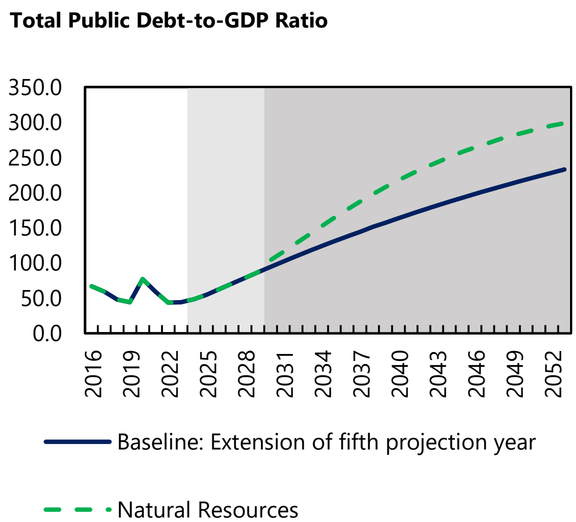




Commentary: Climate adapation spending needs are expected to add to the financing needs and debt over time.

Figure A.IV.7. Iraq: Natural Resources





Commentary: Slowing global oil demand amid energy transition could adversely affect Iraq's oil revenues, putting further pressure on public finance and adding to gross financing needs and public debt.

Annex V. Data Issues

Table A.V.1. Iraq: Assessment of Data Adequacy for Surveillance
Data Adequacy Assessment Rating 1/

D							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	D	B	D	D	B	C	D
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	C	B	D	D	B		
Granularity 3/	D		C	D	B		
			C		A		
Consistency			D	D		C	
Frequency and Timeliness	D	A	D	C	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Table A.V.1. Iraq: Assessment of Data Adequacy for Surveillance Data Adequacy Assessment Rating (Concluded)
Rationale for staff assessment. Data provision to the Fund has serious shortcomings that significantly hamper surveillance. The Central Statistics Organization (CSO) compiles quarterly and annual GDP by production at current and constant prices. The lack of regular, reliable and comprehensive source data for some industries and for GDP by expenditure undermines the quality of the national account statistics. The CSO also compiles and disseminates monthly CPI data, however the CPI covers only the urban areas in all governorates and the CPI weights are outdated—based on the 2012 Household Social and Economic Survey (HSES). Shortcomings also exist in government finance statistics, including expenditure by functions of the government. Consistent reporting of the stock and transactions in international assets and liabilities are limited. The CBI compiles and reports quarterly and annual balance of payments data, however the international investment position has not been reported since 2016 (and refers to the 2014 data point). External trade data has serious shortcomings in timeliness and quality due to the absence of reliable customs data. Coverage of private sector imports are constrained since only transactions through the wire auction are captured, thus excluding imports through alternative payment arrangements. Furthermore, the external trade statistics omit trade activities in the Kurdistan region and no estimates for smuggling are made.
Changes since the last Article IV consultation. There have been limited changes since the 2022 Article IV Consultations.
Corrective actions and capacity development priorities. The IMF's Middle East Regional Technical Assistance Center (METAC) has been leading technical assistance (TA) missions to improve national accounts, price statistics, and external sector statistics. Examples include supporting Iraq's CSO to develop a set of supply and use tables to improve the methodology and coverage of GDP and update the CPI weights based on national accounts estimated for 2019. A complete CPI weight update is expected to take place after the completion of the 2023/2024 Household Expenditure Survey, which is currently being conducted and the new CPI weights are expected to be ready by February 2026. METAC is also currently providing TA to improve customs data, including the implementation of the Automated System for Customs Data, which will improve the reporting of external trade statistics. These initiatives are in pilot phases and have not yet been incorporated into the latest disseminated data. The IMF's Statistics Department has provided training and technical assistance to the Ministry of Finance in the compilation and dissemination of Public Sector Debt Statistics (PSDS) and Government Finance Statistics (GFS) with a focus on functional expenditure. However, further sustained effort is required to improve the coverage and quality of fiscal statistics. These efforts will be supported by METAC which is planning GFS/PSDS TA missions to enhance the quality and coverage of GFS and PSDS under the newly introduced capacity development workstream on GFS.
Use of data and/or estimates different from official statistics in the Article IV consultation. Given limitations with regional coverage of oil production, staff adjust oil production data using OPEC reports. The limitations of the import data also require staff to use mirror data from the UN Comtrade database to estimate imports, while also making an adjustment for smuggling activities.
Other data gaps. Granular and regularly provided labor market data is limited.

Table A.V.2. Iraq: Data Standards Initiatives
Iraq participates in the Enhanced General Data Dissemination System (e-GDDS) and first posted its metadata in December 2009.

Table A.V.3. Iraq: Common Indicators Required for Surveillance
As of March 15, 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[8]	Frequency of Reporting[8]	Expected Frequency[8,9]	Iraq	Expected Timeliness[8,9]	Iraq
Exchange Rates	Mar-24	Mar-24	D	D	D		NA	
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Jan-24	Mar-24	M	M	M		1M	
Reserve/Base Money	Jan-24	Mar-24	M	M	M		2M	
Broad Money	Dec-23	Feb-24	M	M	M		1Q	
Central Bank Balance Sheet	Jan-24	Mar-24	M	M	M		2M	
Consolidated Balance Sheet of the Banking System	Jun-23	Nov-23	Q	Q	M		1Q	
Interest Rates[2]	Feb-24	Feb-24	D	D	M		NA	
Consumer Price Index	Jan-24	Feb-24	M	M	M		2M	
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4,5]	NA	NA	NA	NA	A		3Q	
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Dec-23	Feb-24	M	M	Q		1Q	
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Dec-23	Feb-24	Q	Q	Q		2Q	
External Current Account Balance	Sep-23	Dec-23	Q	Q	Q		1Q	

Table A.V.3. Iraq: Common Indicators Required for Surveillance
As of March 15, 2024 (Concluded)

Exports and Imports of Goods and Services	Sep-23	Dec-23	Q	Q	M	12W
GDP/GNP	Sep-23	Dec-23	Q	Q	Q	1Q
Gross External Debt[7]	Dec-23	Feb-24	Q	Q	Q	2Q
International Investment Position[5]	NA	NA	NA	NA	A	3Q

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Not reported due to capacity constraints.

[6] Including currency and maturity composition.

[7] Only covers public external debt since private sector external debt is not reported.

[8] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("I") irregular; and ("NA") not available.

[9] Recommended frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected.

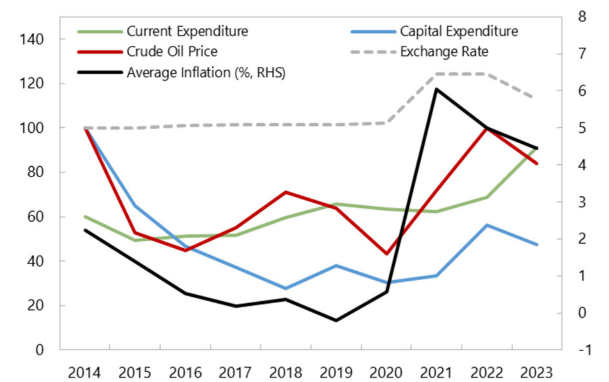
Annex VI. Fiscal and Monetary Policy Coordination

The key monetary policy objective is to maintain price stability. The Central Bank of Iraq aims to achieve this objective under a fixed exchange rate regime, through liquidity management, policy rate setting, and other monetary policy tools including reserve requirements. However, a combination of procyclical fiscal policy, monetary financing, and weak cash management have created challenges to the monetary policy operations. Addressing these challenges will require stronger coordination between fiscal and monetary policies.

A. Challenges of Weak Fiscal and Monetary Policy Coordination

1. **Fiscal policy has been procylical, ampliying the vicissitude of oil price shocks.** With a combination of high oil dependence and the lack of fiscal buffers, government spending has been moving in tandem with oil prices. Spending pressures typically intensify when oil prices are high, leading to increases in current government expenditures such as salaries and pensions. This not only fuels domestic inflation but also worsens structural fiscal imbalances and raises the fiscal break-even oil price. As a result, when oil prices eventually fall, the fiscal balance can quickly deteriorate into a large deficit.

Government Expenditure, Oil Price and Inflation
(Index, 2014=100)

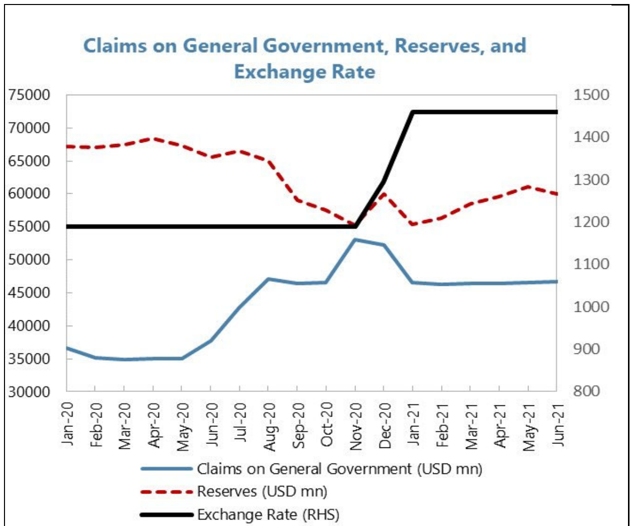


Source: Authorities' data and IMF staff calculations.

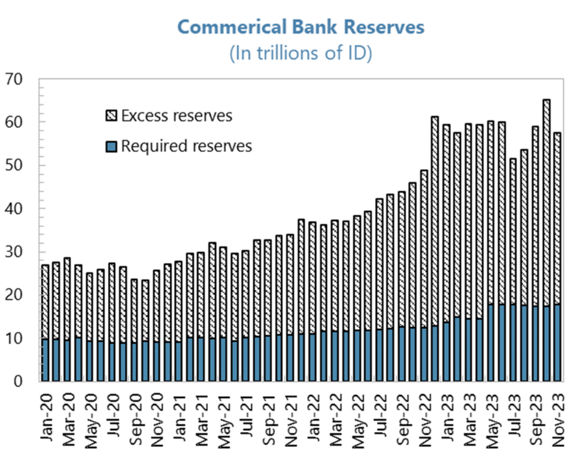
2. **The Iraqi government has repeatedly borrowed from the CBI to finance past budget deficit.** Although direct lending from the CBI to the government is strictly prohibited by the CBI law, domestic financing of budget deficits has often taken the form of purchase of government securities by state-owned banks, which were immediately offloaded to the CBI in the secondary market—a practice known as "triangulation." This indirect lending was particularly large in 2020, reaching ID 26.5 trillion when oil prices plummeted. As of end-2023, the CBI's total claims on central government amounted to ID 45 trillion, exceeding half of the outstanding government domestic debt.

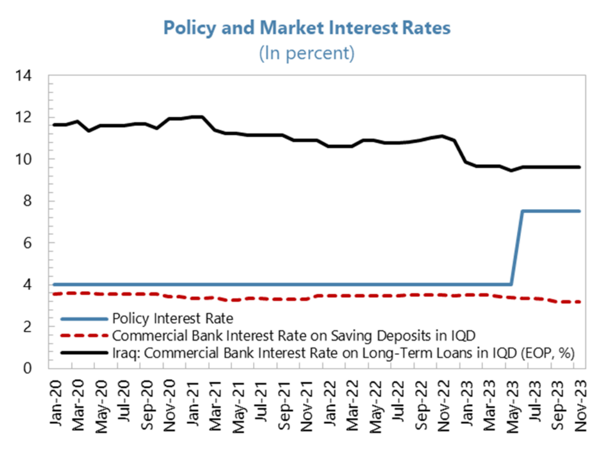
3. **This monetary financing has put pressure on foreign exchange (FX) reserves and the exchange rate peg.** In 2020, the government deficit increased sharply following a drop in oil revenues, most of which ended up being financed by the CBI. The rapid rise in the CBI's claims on the government (an expansion to the CBI's balance sheet) was offset with a 20-percent drop in FX reserves from USD 68 billion at end-2019 to USD 55 billion in November 2020 (a contraction of the CBI' balance sheet). The persistent downward pressure on FX reserves during this period is a reflection of the unsustainable nature of the fiscal deficit and the adverse effects of the monetary finance, which culminated in a 23-percent currency devaluation at end-2020.

4. The inflationary pressures during oil price upswings are aggravated by large excess liquidity, which stems from weak cash management and government deposit accumulations in commercial banks. Like required reserves, excess reserves are non-renumerated. Banks typically hold excess reserves instead of higher-return assets to meet liquidity needs. In Iraq's context, a particularly relevant source of such liquidity needs are the large government demand deposits in commercial banks (mostly held in SOBs), amounting to ID 42 trillion at end-2023. In fact, excess reserves have moved closely in line with government deposits in the banking system, with the correlation coefficient reaching almost 0.98 between January 2022 and December 2023. These large government deposits arise because of weak cash management in budget execution. For example, in December 2022 alone, disbursements from the MoF exceeded ID 27 trillion—including ID 11 trillion for new capital investment projects to the governorates under the emergency law. This was followed by a surge in the excess reserve-deposit ratio from 0.43 in November to 0.56 in December. Similar patterns can be observed in other episodes of large budget execution, which typically happens toward the end the year. This co-movement between budget execution and government deposit reflects poor cash management: instead of being spent, disbursed funds are deposited by spending units and line ministries in their bank accounts to cover their future spending needs.

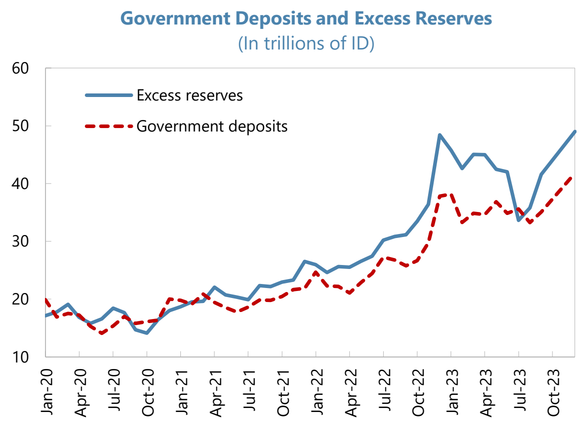


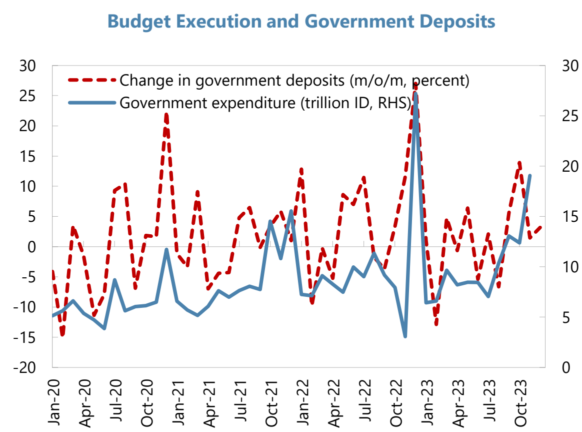
Source: Authorities' data and IMF staff calculations.





Source: Authorities' data and IMF staff calculations.

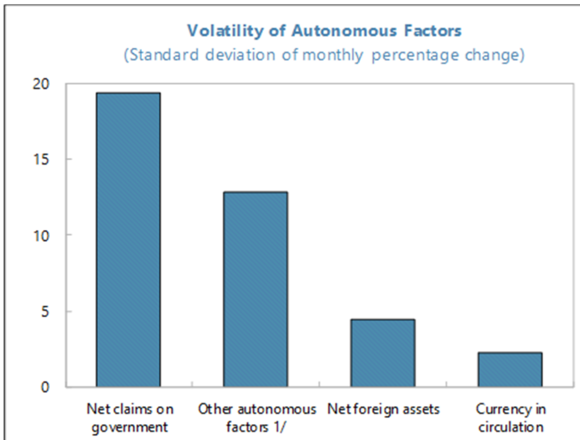




Source: Authorities' data and IMF staff calculations.

5. **Large excess liquidity imposes a significant burden on the central bank's monetary policy operations.** Commercial banks have maintained a significant current account balance at the central bank, reaching ID 67.6 trillion at end-2023. Of this large current account balance, only 28 percent (ID 18.7 trillion) are held as required reserves, and the rest are held as excess reserves. It is well established that large systemic excess liquidity can weaken monetary policy transmission (Saxegaard, 2006 and IMF, 2017). Banks with large excess liquidity are under little to no pressure to raise interest rates to attract deposits. This challenge is compounded in Iraq by the dominance of inefficiently managed state-owned banks (SOBs) that lack market incentives to maximize profits (Mishra and Montiel, 2013). Ensuring effective monetary policy transmission would require mopping up all the excess liquidity in the banking system, which is more than half of the total banking sector deposits, imposing a heavy strain on the central bank's newly established liquidity management framework.[1]

6. **The combination of procyclical fiscal policy and monetary financing has also contributed to liquidity volatility.** Among the four autonomous liquidity factors (see Box A.VI.1)—the determinants of excess reserves that are outside the central bank's direct control—the CBI's net claims on government have been the most volatile factor over the last three years. The large volatility stems from the large fluctuations in both the oil export revenue receipts and budget execution:



Source: Authorities' data and IMF staff calculations.

- CBI's net claims on the government rose when government resorted to monetary financing during low oil prices (for example

[1] The CBI introduced a 14-day Central Bank bills weekly auction in June 2023. This became the main operation of the CBI to absorb liquidity at the policy rate.

in 2020H2) and declined as the government accumulated deposit buffers at the CBI when oil export receipts rebounded strongly in 2022H2.

- CBI's net claims on government also rose in episodes of large budget execution (for example implementation of the emergency law at end-2022), since the MoF disbursed funds to spending units by drawing down on its CBI deposits.

Box A.VI.1. Determinants of Excess Reserves

The central bank's balance sheet can be rearranged into three components: (i) monetary policy instruments; (ii) current accounts (including required reserves and excess reserves); and (iii) autonomous liquidity factors, which are beyond the central bank's policy control.

Based on this analytical decomposition, the uncertainty in excess reserves is driven solely by the autonomous factors, since both monetary policy instruments and required reserves are under central bank's direct control through monetary policy operations and the reserve requirement.

Analytical Balance Sheet of CBI

Assets	Liabilities
i. Monetary policy instruments (MPI)	
	CBI bills
	Other instruments
ii. Autonomous factors (NFA+NCG+OAF-CIC)	
Net foreign assets	Currency in circulation
Net claims on government	
Other autonomous factors	
iii. Current accounts (RR+ER)	
	Required reserves
	Excess reserves

The autonomous factors consist of four components:

- *Net foreign reserves (NFA)* are determined by oil export receipts, foreign direct investment, and FX sales. They tend to rise when oil prices are high and decline when oil prices are low. Exchange rate adjustments can affect NFA through valuation effects.
- *Net claims on government* are the difference between the CBI's holdings of government liabilities (mostly T-bills) and government deposits at the CBI (consisting of two accounts, one in ID and the other one in USD). These tend to rise in months of large budget disbursements or low oil prices.
- *Currency in circulation* is driven by cash demand. They usually rise when economic activities pick up or informal sector expands and fall during economic transactions shift from cash payments to digital payments.
- *Other autonomous factors* include retained earnings, other net domestic assets, and other valuation adjustments.

B. Recommendations to Strengthen Fiscal-Monetary Policy Coordination

7. Strictly limiting the CBI's financing of the projected fiscal deficit would help alleviate potential pressures on FX reserves. With fiscal deficits projected to widen over the medium term, the triangulation operation may seem to be the most affordable borrowing, but it comes with a risk of reigniting pressure on FX reserves and the exchange rate peg experienced in 2020. Therefore, the authorities should seek alternative sources of financing, including external bond issuance. Boosting domestic financing from commercial banks and households could be considered, especially given the large excess liquidity and deposit base. Developing a domestic government debt market can also support financial sector development and reforms.

8. This should be supported by improving debt management capacity. The authorities should update their medium-term debt management strategy (last one dated to 2016[2]) with an aim

[2] https://mof.gov.iq/obs/ar/Documents/Medium%20Term%20Debt%20Management%20Strategy.pdf.

to identify potential funding mixes that would meet the financing needs and balance costs with risks. In this regard, establishing a designated debt management office within the MoF's Debt Department could help facilitate the process of developing and executing such a debt management strategy, achieve its objectives, and possibly developing an efficient market for government securities.

9. **Aligning the fiscal and monetary policy stances would help support the price stability goal.** Decoupling the level of government spending from oil price flucations would prevent aggaravating domestic inflationary pressures. Pursuing such an acylical fiscal policy would allow the build up of fiscal buffers during oil price upswings, which could be used as a stabilization fund to protect critical social and capital spending during oil price downturns.

10. **Stronger cash management by establishing a Treasury Single Account could signficantly reduce excess liquidity and alleviate the burden on the CBI's liquidity management operations.**

- Aligning the budget disbursements with actual spending needs on a monthly basis can reduce and limit the idle cash balances held by spending units in commerical banks, severing the link between budget exeuction, government deposit accumulation, and excess reserves.

- Transfer the unspent budget disbursements from line ministries' accounts with the commerical banks to the MoF's account with the central bank could reduce bulk of the existing excess liquidity in the banking system.[3] The sweep of deposits should be done carefully and gradually to avoid inadvertendly causing liquidity shortage in any bank, supported by inter-bank market development. In this context, SOB reforms will be crucial to reduce their reliance on government deposits.

11. **Timely information sharing between fiscal and monetary authorities is crucial to the success of liquidity forecasting, a key pillar of liquidity management framework.** Central banks' ability to forecast liquidity largely depends on the availability and quality of the time-series data on the autonomous liquidity factors (IMF 2017). Forecasts are usually done daily, with a horizon matching at least the term of the most active liquidity instruments. This means relevant balance sheet data would in principle need to be available daily. In Iraq, given the central role of the MoF in shaping autonomous factors including the CBI's net claims on government and net foreign assets, the CBI would need detailed cash flow information on government's oil receipts, budget disbursement, borrowing, and debt repayment plans.

12. **Finally, ensuring the marketability of the CBI's holding of government debt could help protect the CBI's balance sheet and facilitate development of open market operations**. Most of the government debt held by the CBI were issued informally with debt service subject to budget

[3] This consolidation of cash balances reduces net claims on government on the asset side and excess reserves on the liability side.

cuts, which could have adverse impacts on the CBI's balance sheet.[4] These distortions can be fixed by swapping the non-marketable government debts with government securities issued on a central security depository and protecting the government debt service from future budget cuts by parliament. These changes can also pave the way for the CBI to use the government securities for future open market operations.

[4] For example, government did not pay debt service to the CBI due to budget cut by the parliament in the 2021 budget law.

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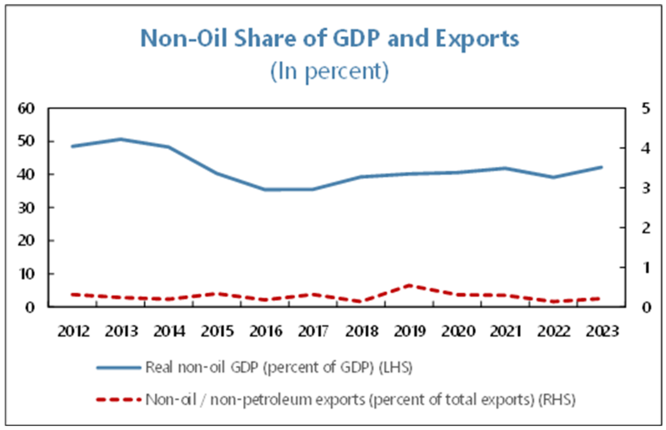
Annex VII. Role of Economic Diversification in Safeguarding Iraq's External Sustainability

1. Despite accounting for around 40 percent of the overall GDP, Iraq's non-oil sector contributes little to exports. Non-oil related exports are negligible, making up less than half a percent of total exports (equivalent to 3 percent of non-oil GDP), a share that has been quite stable over time. Crude oil and other petroleum products have long been the main source of export earnings for Iraq.

2. The persistently low contribution of the non-oil sector to exports is due to the small share of tradeable non-oil sectors. The tradeable non-oil sectors—defined as manufacturing, agriculture, and tourism—have increased little over time, from about 13 percent of non-oil GDP in 2012 to 16 percent in 2023. Non-tradable sectors, which do not contribute to exports but instead are import intensive, continue to dominate non-oil GDP: the public sector contributes just above a quarter of non-oil sector GDP, followed by transport, storage and communication (24 percent) and wholesale and retail trade (18.5 percent).



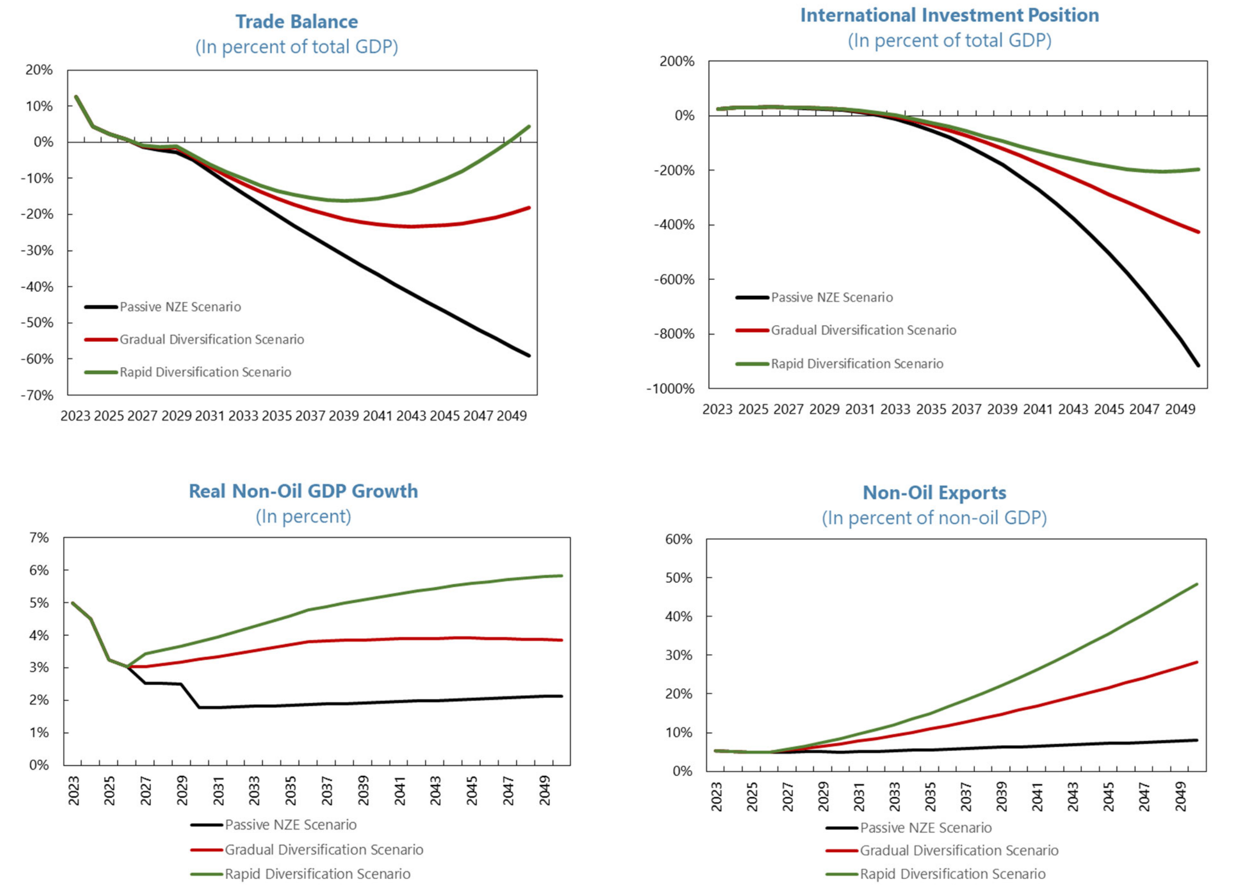
3. Without additional diversification efforts, Iraq's external position is therefore highly vulnerable to global energy transition risks. To illustrate this, we take IEA's net-zero emissions (NZE) scenario of global oil demand and international oil price projection—which assumes NZE goal is achieved in 2050—as given and apply them to Iraq's oil projections. The result is a gradual decline to about 40 percent of its current level and oil prices fall to USD 25 (in USD 2019 prices) by 2050.[1] Then we apply this common oil assumption to three illustrative diversification scenarios that differ by assumptions on the pace of economic diversification:

- ***Passive scenario.*** This scenario assumes business-as-usual, meaning no acceleration of the tradable non-oil sector or export-intensity in Iraq. As a result, the non-oil sector as well as export and import intensities are expected to remain fixed at historical levels.
- ***Accelerated but gradual diversification strategy.*** In this scenario, the tradable non-oil sector is assumed to grow at an accelerated rate relative to the *passive scenario*, with rising export share and falling import share of non-oil GDP.
- ***Rapid diversification strategy.*** This scenario is calibrated to stabilize the net international investment position (NIIP) by 2050, requiring faster non-oil growth and greater export orientation than the second scenario.

[1] Following the assumptions of the International Energy Agency's (IEA) NZE by 2050 scenario.

The simulation results are presented in Figure A.VII.1. These three illustrative diversification scenarios are then replicated under a more benign global oil market scenario where meeting the NZE goal is delayed (to 2070) and projected declines in oil revenues are slowed. The results of the three illustrative scenarios under the delayed NZE are presented in Figure A.VII.2.

Figure A.VII.1. Iraq: Trade Balance, IIP, Non-Oil GDP Growth, and Export Share Under 2050-NZE Across Diversification Scenarios, 2023–50



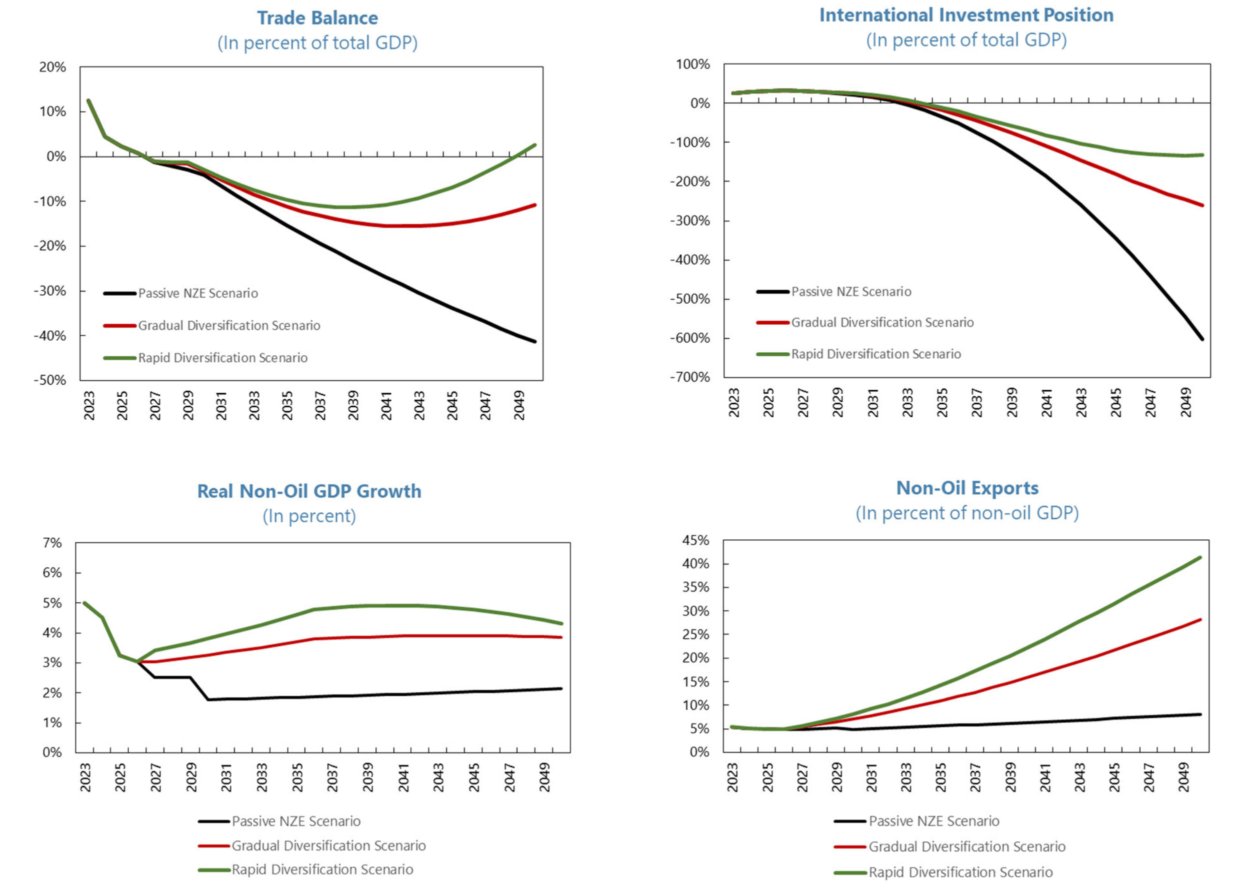
Source: Iraqi authorities; and IMF staff calculations.

Notes: Assumptions underlying the Passive Scenario are: 1) The tradable and non-tradable components of GDP grow at their historical 10-year average. 2) Export and import intensities of the oil and non-oil sectors remain fixed over time.

Assumptions underlying the Gradual Diversification Scenario are: 1) The tradable non-oil sector grows at twice its historical rate from 2027–2036, then gradually slows to one and half times the historical growth by 2050. The non-tradable sector grows at one and a half times its historical rate from 2027–2036 given potential positive spillovers, then gradually slows to the historical growth rate by 2050. 2) The export share of non-oil tradable GDP is expected to gradually double by 2050, and the import share of non-oil GDP to almost halve as domestic production replaces part of imports.

Assumptions underlying the Rapid Diversification Scenario are: 1) The tradable non-oil sector grows at two and a half times its historical rate for the first decade after 2027, thereafter growth tapers to two times the historical rate by 2050. The non-tradable sector grows at one and a half times its historical rate from 2027–2036 given potential positive spillovers, after which gradually slows to the historical growth rate by 2050. 2) The export share of non-oil tradable GDP is expected to increase by 2.75 times the current rate by 2050, and the import share of non-oil GDP to halve as domestic production replaces some part of imports.

Figure A.VII.2. Iraq: Trade Balance, IIP, Non-Oil GDP Growth, and Export Share Under Delayed NZE Targets Across Diversification Scenarios, 2023–50



Source: Iraqi authorities; and IMF staff calculations.

Notes: These estimates assume that the IEA's NZE targets are met in 2070, therefore, slowing the oil price and production declines relative to Figure A.VI.1.

In the Passive Scenario, 1) The tradable and non-tradable components of GDP grow at their historical 10-year average. 2) Export and import intensities of the oil and non-oil sectors remain fixed over time.

In the Gradual Diversification Scenario, 1) The tradable non-oil sector grows at twice its historical rate from 2027–2036, then gradually slows to one and half times the historical growth by 2050. The non-tradable sector grows at one and a half times its historical rate from 2027–2036 given potential positive spillovers, then gradually slows to the historical growth rate by 2050. 2) The export share of non-oil tradable GDP is expected to gradually double by 2050, and the import share of non-oil GDP to almost halve as domestic production replaces part of imports.

In the Rapid Diversification Scenario, 1) The tradable non-oil sector grows at two and a half times its historical rate for the first decade after 2027, thereafter growth tapers to one and a half times the historical rate by 2050. The non-tradable sector grows at one and a half times its historical rate from 2027–2036 given potential positive spillovers, after which gradually slows to the historical growth rate by 2050. 2) The export share of non-oil tradable GDP is expected to increase by 2.5 times the current rate by 2050, and the import share of non-oil GDP to halve as domestic production replaces some part of imports.

4. **Under the passive scenario, Iraq's projected trade balance will continue to deteriorate over time, gradually worsening its external position**. Without additional economic and export diversification efforts, the trade balance is expected to turn negative in 2027 and continue to worsen over time as oil revenues fall, reaching -59 percent of total GDP by 2050 (Figure A.VII.1). The

international investment position (IIP) would become negative in 2033. When assuming a slower transition, where the NZE goal is only met in 2070, Iraq's trade balance would deteriorate to a deficit of 41 percent of GDP by 2050 (Figure A.VII.2). Under this slower transition, the IIP would continue to deteriorate over time, albeit at a slower pace.

5. Accelerating efforts to support tradable non-oil sector development can ensure long-term external sustainability. Under the accelerated but gradual diversification strategy scenario, structural reform efforts are assumed to be significantly ramped up leading to faster growth in the non-oil tradable sector from 2027 onwards (see IMF 2018 for examples of structural reforms that can help boost non-oil exports in oil-exporting countries). This helps arrest the worsening of the trade deficit, which bottoms out in 2044 at 23 percent of total GDP before gradually improving. This is driven by the tradeable sector making up a larger proportion of the non-oil sector by 2050 (49 percent versus 29 percent under the passive scenario) and export intensity of the non-oil sector reaching three and a half times the levels under the passive scenario. The expansion of the tradable sector is also assumed to allow for import substitution, which contributes to improving the trade balance over time. Under the delayed transition, the trade deficit is expected to bottom out in 2043 at 16 percent of GDP before gradually improving (Figure A.VII.2).

6. A more rapid diversification would stabilize the international asset position by 2050. This scenario assumes that structural reform efforts are ramped up more rapidly early on, where the tradable non-oil sector grows at double digit rates for at least the first decade, after which growth is assumed to taper slightly. In this scenario, the trade deficit would peak at 16 percent of total GDP in 2039, after which it begins to improve, reaching a surplus of 4 percent of GDP by 2050. The international investment position then stabilizes and will begin to rebuild from 2050 onwards. If achieving the global energy transition targets are delayed to 2070, the growth rate required to stabilize the international asset position is slightly lower, which is on average about 4.5 percent for overall non-oil growth in the long run (Figure A.VII.2). Under these assumptions, the trade deficit would peak at 11 percent of GDP by 2039, after which it would improve to a 2.6 percent surplus by 2050. As before, the IIP then stabilizes and begins to rebuild.

7. In sum, rapid reform implementation will be key to mitigate the risks associated with global energy transition. The different trajectories of non-oil GDP growth and non-oil export intensity for each scenario are summarized in the bottom panel of Figures A.VII.1 and A.VII.2 and highlight that rapid reform implementation to support non-oil growth and exports remains the most effective way to mitigate the risks associated with the global energy transition, even if the transition takes longer than the targeted 2050 timeframe.

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Statement by Mahmoud Mohieldin, Executive Director for Iraq, Ali Alhosani, Alternate Executive Director for Iraq, and Fouad Al-Kohlany, Advisor for Iraq
May 8, 2024

On behalf of the Iraqi authorities, we extend our sincere appreciation to Mr. Jean-Guillaume Poulain and his team for the constructive policy discussions during the Article IV mission, and for the insightful Article IV Consultation report.

Iraq has shown commendable progress in overcoming the significant effects of two decades of ongoing conflicts, including the devastating war against ISIS, compounded by the global COVID-19 pandemic and ongoing geopolitical tensions. These challenges, though rooted in the past, persistently influence the structure of the Iraqi economy, necessitating the government to focus on stability and social cohesion. This focus is critical as the authorities pursue a gradual and sustained pace of reforms, aimed at maintaining economic stability and addressing the broad needs for growth and reconstruction.

The formation of the new government under Prime Minister Al-Sudani in October 2022 brought an end to a period marked by political stalemates and social unrest, which had previously led to considerable delays in forming the Parliament, selecting the Prime Minister, and passing annual budgets. These delays have led to pent-up demand for public services and delayed legal entitlements, including legally mandated hiring. This has added complexity to current economic challenges and placed significant, unprecedented, and unavoidable pressure on the 2023-2025 budget. Since the establishment of the new government, there has been a demonstrable commitment to advancing economic reforms and enhancing fiscal management, as evidenced by the successful implementation of the first-ever three-year budget, and the authorities' successful efforts to normalize the foreign exchange market which have been key to strengthening the economy, reducing inflationary pressures, and setting the stage for sustainable recovery.

While acknowledging the economic challenges and pressures from successive conflicts and the historical difficulties in passing budgets, the Iraqi government remains steadfast in its commitment to ensuring fiscal and debt sustainability and strengthening the basis for sustainable growth. In pursuit of these objectives, the authorities have officially requested the Fund's support under the Policy Coordination Instrument. This request underscores the authorities' proactive approach to reform. With Fund support, the authorities aim to implement their homegrown reform program, focusing on controlling current expenditure, increasing non-oil revenues, maintaining sustainable debt levels, and stabilizing the currency. The authorities look forward to constructive engagement with the IMF to discuss and agree on the elements of an ambitious yet realistic PCI, drawing on the guidance offered by the Fund's FCS Strategy.

Fiscal Policy:

The approval of the 2023–2025 budget by the government of Iraq represents a strategic shift towards sustainable fiscal management and multi-year planning, breaking with the past practices hampered by periods of instability. This proactive approach not only addresses immediate needs for spending on public services and infrastructure but also lays the groundwork for addressing long-term economic goals amid fluctuating oil prices. The budget sets a conservative oil price estimate at $70 per barrel, which is below the actual prices for 2023 and the World Economic Outlook projections for 2024 and 2025. This conservative oil price estimate, aimed at prudent revenue forecasting, is set against a high fiscal breakeven oil price that the authorities are determined to lower.

Recognizing the importance of fiscal adjustment to stabilize debt levels over the medium term, the government is rigorously evaluating options to narrow the scope of legally mandated hiring as part of its broader strategy to stabilize the public wage bill through targeted reforms. They have also implemented, effective May 1st, a fuel price increase on premium gasoline. Their efforts to reduce reliance on oil revenues include broadening the non-oil revenue base and enhancing public financial management. Measures underway include reforms in tax policies and the revision of customs tariffs to diversify fiscal sources beyond oil dependency.

Looking ahead, Iraq is committed to enhancing its fiscal framework through the implementation of the Integrated Financial Management System and the Treasury Single Account (TSA), which would significantly improve cash flow management and expenditure transparency, thereby optimizing the allocation and use of financial resources, facilitate more effective budget execution, and reduce the potential for fiscal slippages. Governance improvements are under consideration for extra-budgetary funds to ensure further transparency and accountability. They are also working toward enhancing the efficiency of public investment, especially in infrastructure projects crucial for economic stability and growth.

Monetary Policy and Financial Sector:

The Central Bank of Iraq (CBI) has enacted several measures aimed at stabilizing the national currency and controlling inflation. Notably, in June 2023, the CBI raised its policy interest rate from 4 percent to 7.5 percent and increased reserve requirements from 15 percent to 18 percent. These actions were crucial in curbing the inflationary pressures that peaked earlier in the year and have contributed to a more stable economic environment. Additionally, to address excess liquidity in the market—primarily driven by high government deposits following budget disbursements—the coordination between fiscal and monetary policies has been strengthened. Various liquidity absorption mechanisms, including the issuance of CBI bills and more stringent reserve requirements, have been effectively implemented.

In addition to these monetary policy adjustments, the CBI has also focused on strengthening the structural foundations of Iraq’s financial sector. This includes important banking sector reforms such as requiring the gradual increase of minimum capital requirements for commercial banks from ID 250 billion to ID 400 billion by 2025. This regulatory adjustment is designed to bolster the financial stability of the banking sector by ensuring that banks maintain a stronger capital base. Furthermore, the CBI is actively promoting mergers and acquisitions among smaller banks. This initiative aims to consolidate the banking sector to enhance its efficiency and resilience against economic shocks.

Moreover, in response to the need for more robust anti-money laundering and combating the financing of terrorism controls, Iraq has implemented new compliance measures to improve transparency in cross-border financial transactions. This includes the introduction of an electronic platform that mandates financial beneficiary disclosures, thereby strengthening the integrity of financial flows and aligning with international banking standards.

The modernization of Iraq’s banking system, particularly through securing and expanding correspondent banking relationships (CBRs), is crucial for facilitating smoother international trade finance operations. The CBI has been instrumental in assisting local banks in establishing CBRs with major international banks, further integrating Iraq into the global financial system. This not only improves the efficiency of cross-border transactions but also ensures compliance with international banking standards, critical for attracting foreign investment and supporting economic growth.

Efforts to revitalize Iraq’s largest state-owned banks (SOBs) are advancing, addressing significant challenges such as undercapitalization and outdated operational frameworks. SOBs are crucial to national financial stability but have struggled due to extensive legacy assets and inefficiencies. The CBI has responded by enhancing their supervisory role and imposing stringent prudential requirements. Furthermore, international experts have been engaged to conduct thorough asset quality reviews, aiming to resolve the legacy issues effectively. Governance reforms are also underway to enhance transparency and accountability in state-owned banks.

Structural reforms:

Structural reforms are pivotal in transforming Iraq's economic framework. The government is deeply committed to promoting a private sector-led development, and economic diversification as fundamental to reducing our oil dependency. Iraq's commitment to structural reforms is underscored by a comprehensive national development plan aimed at revitalizing and diversifying the economy beyond its traditional reliance on oil revenues. Recognizing the private sector as a cornerstone of economic resilience, the government has introduced policies to bolster private enterprise, including efforts to reduce regulatory barriers and improve the ease of doing business. Iraq’s development plan outlines strategies for diversifying the economy through support of non-oil sectors such as agriculture, manufacturing, and services.

Aiming to accelerate economic growth and improve public services, the government has been actively prioritizing projects that hold high developmental and service value. They have also successfully completed major strategic projects, including the Grand Al-Faw Port and the Karbala Refinery, and have signed contracts on four major projects in oil, gas, and renewable energy sectors. These projects are crucial for enhancing Iraq's infrastructure and industrial capacity. Meeting Iraq's infrastructure, reconstruction, and adaptation needs are also a priority for the government.

The governance, anti-corruption, and transparency efforts continue to be a major focus for the authorities. They have taken steps to streamline bureaucratic processes and improve public sector management, ensuring that Iraq’s governance frameworks are robust and responsive to the needs of its people. The Iraqi government has also made strides in combating financial and administrative corruption, addressing these systemic issues to improve governance and public trust. Significant progress has been made in tracking down and recovering stolen funds, as well as prosecuting the perpetrators of these corruption-related crimes, which are considered critical to restoring integrity within public institutions.

Efforts in alleviating poverty and inequality are being enhanced through targeted social programs aimed at the most vulnerable populations, improving access to education, healthcare, and social services which are essential for reducing poverty levels and improving overall economic equity.

In light of the risks to Iraq's water and food security posed by climate change, the Iraqi government is proactively formulating a comprehensive climate strategy. This strategy aims to mitigate environmental impact and adapt to climate change through measures such as reducing greenhouse gas emissions, adopting modern irrigation techniques, and utilizing renewable energy sources. This includes advancing the adoption of drought and heat-resistant crop varieties and enhancing soil management practices to increase agricultural resilience. Iraq's decarbonization pathway involves a strategic phase-out of liquid fuels in electricity generation and a significant increase in the use of natural gas and renewable energy sources, in alignment with Iraq's commitment to reducing emissions and contributing to meeting the global climate objectives.

Technical Assistance Needs:

The authorities reiterate their utmost appreciation for the Fund’s continued technical assistance, which are crucial to the authorities' efforts. Recent and ongoing technical assistance is supporting the efforts of the authorities in strengthening Public Finance

Management and tax administration, and enhancing monetary policy framework, financial supervision, and AML/CFT practices. The authorities have also requested technical assistance to strengthen areas necessary to support their reforms endeavor, specifically related to further enhancing the tax and customs policy and administration, improving monetary policy transmission and liquidity management, as well as improving the robustness and comprehensiveness of their economic data.