

International Compact with Iraq

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Mr. Secretary General, Prime Minister Al-Maliki, Deputy Prime Minister Barham Saleh, your excellencies, ladies and gentlemen, it is a great pleasure for me to address this first Annual Review Conference of the International Compact with Iraq. I would like to congratulate Prime Minister Al-Maliki, his government, and its international partners on the achievements that have been made so far toward building a more secure, stable, and prosperous future for the Iraqi people. Many challenges undoubtedly remain. The establishment of the Compact on May 3, 2007 was an important reminder that Iraq's efforts to overcome these challenges has the support of the international community. I am pleased that the Fund has been able play its part in this process.

Briefly, on the recent history of our relationship with Iraq, the Fund began to reengage with Iraq in the summer of 2003. As well as providing extensive technical assistance, the Fund has provided financial support for Iraq's economic programs, with Emergency Post-Conflict Assistance in September 2004, a Stand-By Arrangement in December 2005, and a second Stand-By Arrangement in December 2007. From its inception, the objectives of the

International Compact with Iraq and those of the Fund's two Stand-By Arrangements have been consistent and both are based on the same medium-term macroeconomic framework.

The main objectives of Iraq's Fund-supported economic programs were to: (i) achieve macroeconomic stability; (ii) promote growth; and (iii) begin the process of structural reform. Much has been achieved. These successes are all the more remarkable in view of the very difficult security situation in Iraq. For this, the Iraqi authorities deserve our congratulations.

Let me note a few of the achievements of the past year. First is the impressive reduction in inflation, from 65 percent at the end of 2006 to 5 percent at the end of 2007, a rate at which it has remained so far in 2008. Second is the increase in oil production and exports since the last quarter of 2007. Having remained virtually constant at 1.4 mbpd for four years, oil exports have averaged 1.8 mbpd in the first four months of 2008. Third, explicit fuel subsidies have been all but eliminated. Domestic fuel prices were further increased in 2007, after earlier adjustments in late 2005 and in 2006.

Progress has also continued to be made in structural reforms. The amendments to the new pension law, putting the pension system on a sustainable fiscal footing, were passed in October last year. In the financial sector, audits of the country's two largest state banks (Rafidain and Rasheed banks) are underway, as a first step to developing a restructuring program for the two banks. The Central Bank of Iraq has meanwhile been making progress in improving its accounting and governance structure.

Of course, in highlighting these successes, we must acknowledge that serious challenges remain. First and foremost is the continuing challenge to improve security. In addition, it will be important to maintain a stable macroeconomic environment, strengthen the rule of law, and improve the business climate. This will be crucial for the implementation of investment plans, and for the development of the private sector, which is what will be needed to sustain economic growth and to provide jobs for Iraq's many unemployed. It will be important not to allow the achievements of the past year to be endangered. For example, wages and other current public spending must be kept under control and at levels that the economy can sustain without reigniting inflation.

Looking ahead, discussions on the first review under the current Stand-By Arrangement are scheduled to begin shortly. We hope that these discussions will have a positive outcome, and that the Fund will be able to complete this review. Keeping its IMF-supported program on track will help Iraq to secure its economic reform objectives and achieve long-term debt sustainability. The third and final stage of the Paris Club debt-reduction agreement is scheduled for December 2008, and is contingent on completion of the second and final review of the Stand-By Arrangement. In this context, it remains important to continue to make progress in reaching bilateral debt agreements with Iraq's non-Paris Club creditors. The debt relief is fully justified in order to secure the fiscal space needed to finance Iraq's reconstruction.

The Fund will continue to support the International Compact with Iraq through the medium-term macroeconomic policy framework supported under the Stand-By Arrangement. We will also continue to provide policy advice and technical assistance. Over the course of the past year, the Stand-By Arrangement and the Compact have worked together to help the Iraqi government achieve its economic goals. As these two programs are jointly carried forward, we can expect more successes on the economic front.

In conclusion, we wish the Iraqi authorities much success in further implementing the ambitious work program of the Compact.