AVRASYA İNCELEMELERİ MERKEZİ
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IRAQ GETS $5.34 BILLION IMF LOAN TO SUPPORT ECONOMIC STABILITY

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The IMF has approved a three-year, $5.34 Billion loan for Iraq focused on implementing economic and financial policies to help the country cope with lower oil prices and ensure debt sustainability.

The loan will be provided under the Stand-By Arrangement facility and also includes measures to protect vulnerable populations □□□□□□□□ in a time of ongoing conflict, which has resulted in over 4 million internally displaced people.

The program builds upon the success of the recent Staff-Monitored Program, which the authorities started in November 2015 to address the double shock of ISIS attacks and the sharp drop in global oil prices, and will help close a financing gap of about $18 Billion.

Speaking to IMF News, Christian Josz, IMF mission chief for Iraq, explains the underlying reasons for the loan and the main goals of the IMF-supported program.

IMF News: Why is Iraq requesting financial assistance from the IMF now?

Josz: Iraq has been hit with a double shock for an extended time period. First, the ISIS insurgency since mid-2014 has created a humanitarian and social crisis that unfolded into millions of internally displaced persons, with destruction to assets and infrastructure leading to disruptions in production and in trade routes. The non-oil economy sharply contracted as a result. Second, the steep fall in global oil prices □□□ which Iraq depends almost entirely for its government revenue □□□□ made the situation worse, culminating in both internal and external imbalances, large and rising budget deficits and increasing public debt, as well as losses in official foreign exchange reserves and some pressure on the Iraqi Dinar.

As a result, the Iraqi authorities approached the IMF with a request for emergency assistance, and we worked with the authorities to provide emergency financing of US$1.2 billion in July 2015 under the Rapid Financing Instrument. However, the intensification of the two shocks thereafter led the authorities to request a longer-term engagement with us that would not only address the fallout from the crisis, but also lay the ground for long-delayed, deep-seated reforms. In this vein, a staff-monitored program (a program with no attached lending) started in November 2015 □□□ the Authorities request □□□ instill the necessary conditions, and build the required capacity and track record to move to the current Stand-By Arrangement.

IMF News: What are the key policy components of Iraq's program and how will it help the country?

Josz: The program is designed with a focus on four key elements: reduce budget spending and restore public finances to a healthy state and stabilize debt; protect spending on the social front to ease the lives of the poorest, internally displaced people and refugees; improve the quality of public spending and prevent accumulation of unpaid debt through improvements in public financial management; and begin the process of restructuring state-owned banks to reduce their dominance in the banking system, thereby mitigating financial sector risks and preserving the sectors stability.

IMF News: How has Iraqs economy been affected by ongoing conflicts and will this hinder the programs implementation?

Josz: On the one hand, the non-oil economy contracted by 19 percent in 2015 and is expected to continue to contract in 2016. On the other hand, the oil sector, thus far spared by the ravages of war, grew by 13 percent in 2015 and by more than 20 percent during the first five months of 2016, helping to support the broader economy, critical budget outlays, and official foreign exchange reserves amid the double shock.

While there are risks to program implementation □□□□□ as the fight against ISIS, subdued global oil prices, and uncertainty around the budget sharing agreement between the federal government and the Kurdistan Regional Government □□□□ policy responses outlined above will help stabilize Iraqs economy.

IMF News: Can you explain the significance of maintaining the Iraqi Dinars peg to the U.S. dollar?

Josz: Iraq has maintained a peg to the U.S. dollar for years, and it has served the Iraqi economy well. The peg helps provide stability amidst a highly uncertain environment, especially with policy capacity weakened by the fight against ISIS. Under current circumstances and given the nature of the shocks, moving towards more exchange rate flexibility would not be warranted for two key reasons.

First, Iraq is predominantly an oil exporter, and devaluing the Dinar would have minimal bearing on the economys overall trade competitiveness. Second, there is a notable degree of import dependence half of Iraqs consumption needs are imported devaluation would immediately trigger a spike in inflation for most food and other consumer goods, which would exacerbate already difficult social tensions. The authorities are committed to maintaining the Iraqi Dinars peg to the U.S. dollar under these circumstances, and we support this view.

IMF News: How will the program help protect the poor and internally displaced populations?

Josz: The program has set a floor on a number of budget items that are considered crucial for social spending, with the objective of protecting the most vulnerable. This covers spending directed towards the social safety net, the public distribution system (subsidies on food items, wheat, rice), agricultural product subsidies, transfers and assistance for internally displaced populations and refugees, and spending for salaries and goods and services by the ministries of health and education.

IMF News: What measures could the Iraqi government take now to lay the basis for private sector-led growth in the future?

Josz: By preserving macroeconomic stability, including debt sustainability, the Iraqi authorities are laying the ground for private sector development. By maintaining fiscal discipline, they will create the fiscal space to pay their suppliers and international oil companies on time, which is essential to maintain financial sector stability and oil production. Furthermore, the authorities can also spur private sector-led growth by restructuring state-owned enterprises the six state-owned banks prioritizing investment projects, such as in the electricity sector, which will help improve infrastructure development.

Kaynak/Source: