Table 2. Iraq: External Debt Sustainability Framework, 2004–10 1/
(In percent of GDP, unless otherwise indicated)

	Est.	Projections					
	2004	2005	2006	2007	2008	2009	2010
External debt	308.6	154.3	125.2	104.1	93.7	87.8	84.1
Change in external debt (1)	-527.8	-154.3	-29.2	-21.1	-10.4	-5.9	-3.7
Identified external debt-creating flows (2)	-399.7	-62.9	-30.5	-23.8	-12.9	-8.1	-5.5
Current account deficit, excluding interest payments	15.8	3.0	-2.5	-0.8	-0.8	-0.7	-1.2
Deficit in balance of goods and services	23.6	24.4	16.1	0.3	-2.3	-2.8	-3.1
Exports	69.1	69.1	69.2	68.9	69.1	68.0	65.6
Imports	92.7	93.5	85.3	69.1	66.8	65.1	62.5
Net non-debt creating capital inflows (negative) 2/	-42.8	-7.9	-1.8	-1.4	-1.4	-1.6	-1.4
Automatic debt dynamics 3/	-372.6	-58.0	-26.3	-21.6	-10.7	-5.8	-3.0
Contribution from nominal interest rate	21.0	11.3	5.4	4.5	4.1	3.9	3.8
Contribution from real GDP growth	-206.0	-6.1	-12.8	-15.3	-11.7	-8.1	-5.8
Contribution from price and exchange rate changes 4/	-187.6	-63.2	-18.9	-10.8	-3.0	-1.6	-1.0
Residual, incl. change in gross foreign assets (1-2)	-128.1	-91.4	1.3	2.7	2.5	2.2	1.8
Of which: change in official reserves (increase = positive)	26.3	4.3	4.2	2.7	2.9	2.5	1.8
External debt-to-exports ratio (in percent)	446.5	223.4	180.8	151.1	135.7	129.2	128.2
Gross external financing need (in billions of US dollars) 5/	9.3	4.6	1.1	2.0	2.0	2.2	1.9
in percent of GDP	36.1	13.8	2.6	3.7	3.3	3.2	2.6
External debt service in percent of exports 6/	30.3	15.5	7.3	6.5	5.9	5.7	5.8
Debt-stabilizing non-interest current account (positive = surplus) 7/	-543.6	-157.3	-26.7	-20.3	-9.5	-5.2	-2.5
Key macroeconomic assumptions							
Real GDP growth (in percent)	46.5	2.6	10.4	15.5	13.1	9.6	7.1
GDP deflator in U.S. dollars (change in percent)	28.9	25.8	13.9	9.4	3.0	1.8	1.1
Nominal external interest rate (in percent)	4.7	4.7	4.4	4.5	4.6	4.6	4.7
Growth of exports (U.S. dollar terms, in percent)	91.7	28.9	26.1	25.8	16.9	9.7	4.6
Growth of imports (U.S. dollar terms, in percent)	198.3	30.1	14.7	2.5	12.6	8.7	4.0
		Stress Tests for External Debt Ratio					
Limited oil production 8/		154.3	125.2	104.1	97.9	104.8	112.8
Lower oil price in 2006–10 9/		154.3	140.4	124.2	119.2	118.8	120.7
		Stress Tests for External Debt Service-to-Exports Ratio 6/					
Limited oil production 8/		17.3	8.3	6.5	6.2	7.3	10.7
Lower oil price in 2006–10 9/		17.3	9.2	9.3	11.2	14.0	17.9
Memorandum items:							
Real GDP growth under stress scenarios (in percent)							
Limited oil production 8/		2.6	10.4	15.5	10.7	3.3	3.5
Lower oil price in 2006–10 9/		2.6	10.4	15.5	13.1	9.6	7.1
Non-interest current account deficit under stress scenarios (in percent of GDP)							
Limited oil production 8/		3.0	-2.5	-0.9	1.3	6.2	8.6
Lower oil price in 2006–10 9/		3.0	2.6	5.8	5.8	5.9	5.2

Source: Staff estimates and projections.

1/ The process of Iraq's debt reconciliation is ongoing and the IMF has had to base its analysis on information that that may include as yet unreconciled data. Such use of data by the IMF does not amount to a recognition or denial of any particular claims. Further, the assumptions made and scenarios shown in the external debt outlook are for purposes of illustration and discussion only.

2/ Includes net FDI, other net private sector inflows (all assumed to be equity), and use of official assets held abroad.

3/ Derived as [r - g - r(1+ g) + ea(1+r)]/(1+g + r + gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

4/ The contribution from price and exchange rate changes is defined as [-r (1+g) + e a(1+r)]/(1+g+r+g r) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

6/ Debt service is total accrued amount.

7/ Balance that stabilizes the debt ratio at its previous year's level, given assumptions on real GDP growth, nominal interest rate, dollar deflator growth, and

8/ Assumes that oil production reaches its peak by 2008 at 3.0 mbpd.

9/ Assumes that oil price in 2006–10 is US$4.5 lower than in the baseline, equivalent to one standard-deviation shock.

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INTERNATIONAL MONETARY FUND

IRAQ

Iraq—Request for Stand-by Arrangement
Supplementary Information

Prepared by the Middle East and Central Asia Department

Approved by Lorenzo Pérez and Juha Kähkönen

December 21, 2005

1. This supplement provides an update on developments since the issuance of the staff report. The thrust of the staff appraisal remains unchanged.

2. **Staff has received confirmation that the prior action on petroleum product prices was implemented according to schedule and as specified in the Iraqi Memorandum of Economic and Financial Policies** (MEFP)**.**[1] An administrative order was issued on December 11 by the Ministry of Oil instructing the State Oil Marketing Organization to sell petroleum products at the new prices starting December 18. We have been informed that the new prices are now in effect throughout Iraq.

3. **All three elements of the prior action regarding the audit by Ernst & Young (E&Y) of the Central Bank of Iraq (CBI) have been completed.** Staff has received (i) the E&Y assessment of the 2004 audit conducted by the Supreme Board of Audit, (ii) the E&Y procedures review of reserves, currency and lending as of June 2005, and (iii) the E&Y timetable for the 2005 audit.[2] This work will provide input into the staff's ongoing safeguards assessment.

[1] Effective December 18, 2005, nationwide prices (per liter) were raised as follows: regular gasoline to ID100 (from ID20), premium gasoline to ID250 (from ID50), diesel to ID90 (from ID10), and kerosene to ID25 (from ID5). The price of LPG was raised to ID600 (from ID250) per 12kg cylinder. See Table 6 of the Staff Report for further information.

[2] In the safeguards area, as a prior action, Ernst & Young completed (i) a special audit of international reserves for end-June 2005, and (ii) an assessment of the 2004 financial statements as audited by the Board of Supreme Audit. These audits have been extremely helpful in identifying key priorities for strengthening the accounting and control framework of the CBI in the future. Ernst & Young's work on these audits also helped advance the preparation of the audit of the 2005 financial statements, for which a detailed timetable has been agreed, with completion of the audit by May 15, 2006. The audits revealed a number of errors in the data and shortcomings in the quality of accounting information and financial controls at the CBI. To mitigate the risk in respect of reliability of data, as part of the ongoing safeguards assessment, the staff will work with the auditors during their audit of the December 31, 2005 financial statements to ensure that reported data on the reserve position are reliable and to determine whether further measures are necessary during the program.