

REPUBLIC OF IRAQ

**MINISTRY OF PLANNING AND DEVELOPMENT
COOPERATION**

**2010-2014 FIVE YEAR NATIONAL PLAN
TECHNICAL COMMITTEE**

**POLICY PAPER AND THE MACRO-ECONOMIC
INDICATORS ANALYSIS**

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**POLICY COMMITTEE AND MACRO-ECONOMIC INDICATORS
ANALYSIS COMMITTEE**

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Macro and Micro Economic Indicators

1- Gross Domestic Product (GDP)

- a- GDP grew from (53235.4) billion Dinars in 2004 to (155635.5) billion Dinars in 2008 in current prices i.e. at a compound annual growth rate (growth rate) of 30.8% and reached (41607.8) billion Dinars in 1988 and (53205.2) billion Dinars in 2004 and 2008 respectively in fixed prices. The growth rate amounted to 6.3% reflecting high inflationary pressures. Implicit reduction of product amounted to 127.9% in 2004, increased to 292.5% which is a substantial development affecting the living standards of individuals and families.
- b- Contribution of the public sector in the GDP was 60.4% in 2004, increasing to 69.2% in 2007 as a result of the dominance of gross domestic product of crude oil which is a fully State- owned sector. The crude oil contribution in the GDP was 44.3%, as an average for the period 2004-2008. This results in strict control over the market movement and the majority of economic indices by government production and expenditure policies in addition to global oil prices; leading to a weaker role/ contribution of the private sector and the market mechanism in the market recovery.
- c- This status of the oil sector affects the dynamics of other commodity (non- oil), distribution and service activities as well as their roles in the economy.

First: GDP (non- oil) amounted to, (22024.8) billion Dinars in 2004 in constant prices rising to (29798.5) billion Dinars in 2008 with an average annual growth rate of 7.9% which is higher than the overall GDP growth rate as well as higher than the crude oil GDP growth rate of 4.6%.

Second: Goods Sectors share of non-oil GDP amount to 30% in fixed prices while the distributional and service sectors contribution totals 70% indicating that the majority of expenditure financing of distribution and service sectors production is generated from oil as evidenced by contribution of oil imports in expenditure financing in the government general financial budget. This

condition keeps the productive sectors of added value and which drive the production and market in constant recession, and keeps the society in an economic illusion where it appears prosperous while in fact ineffective and unproductive.

2- National income and Average individual Per Capita

The difference between the national income and GDP is the net external transfers (net revenue of production factors from abroad). GDP is the net value of produced goods and services in the country while on the other hand it is the introduction of the production factors that contributes in the productive process; and since there are foreign production elements (capital and labor) operating inside the regional borders and, national production factors operating beyond the borders, then the net transfers is the difference between what is remitted into the country and what is transferred out of the country.

The national income (in current prices) grew at 28.8% during the period 2004-2007 which is close to the gross growth rate.

The average per capita has reached 1728936 Dinars in 2004 and increased to 3328070.5 Dinars in 2007 that is it grew at a growth rate of 24.4%. Since the average per capita is equal to the outcome of dividing the total income to population, and since it is known that the population in Iraq grows at an annual rate of 3% roughly, there is still 1.4% in the growth rate of the average per capita of income unexplained and mostly the population is overestimated in 2007 being based on the Iraq Household Socio-Economic Survey results for 2007. The average individual share of GDP increased from 1961509 billion Dinars in 2004 to 5020514.7 billion Dinars in 2008 in current prices , hence realizing a growth rate of 26.5% while in the fixed prices 2.9% indicating a reduced level of real income per capita.

3- Consumer expenditure and GDP

In order to ascertain real development in individual's living standard we consider the expenditure.

- a. Consumer expenditure (public and private) amounted to 33147.7 million Dinars in 2004 at current prices, increased to 68617.4 million Dinars in 2007 i.e. annual growth rate of 27.4%. In real quantities, average growth rate becomes -9% indicating that the quantities of goods and services obtained from this expenditure were decreasing due to high inflation rates (which we will address below).

- b. From the viewpoint of private consumer expenditure, we note that it has amounted to 19538.8 million Dinars in 2004, increased to 47745.9 million Dinars in 2007. In other words, it has grown at an annual growth rate of 34.7%. In real values (quantities), the rate amounts to (-3.8%) signifying that despite the increased volume of cash expenditure, the quantities have shown substantial reduction.

By connecting this index with the average individual expenditure and average per capita income, we note the following:

First: The average spending per capita in 2007 amounted to 145.8 thousand Dinars/ month while the average income from all sources was 125.8 thousand Dinars/month according to the Iraq Household Socio-Economic Survey in that year, thereby indicating that the individual is suffering an income deficit in spending.

Second: From the perspective of the consumer expenditure (public and private), monthly expenditure on the individual in 2004 is 101.8 thousand Dinars, increasing to 190 thousand Dinars/month.

Third: The average monthly income which represents the poverty line according to the Central Bureau of Statistics estimates was 77 thousand Dinars/month. Upon comparing it with the individual's income and spending rates mentioned above, the gap between both of them and the poverty line is not that significant particularly Gini coefficient (which measures inequality in income distribution) for 2007 was 40%.

- c. A considerable change in the family expenditure structure has taken place over the commodity aggregates. As shown in the following table, expenditure on food items dropped from 61.7% in 1993 to 35.6% in 2007 in favor of the housing, water and fuel groups, and the transportation and communication group. Having reviewed the change in expenditure, we conclude that the prices were the main reason in this shift and not the saturation of demand.

Table No. (1)

Table (of Average Monthly Family Expenditure) on Commodity Totals and Services

Commodity Totals	1988	1993	2007
1-Foodstuff and non-alcoholic drinks	50.2	61.7	35.6
2- Alcohol drinks	1.3	3.6	0.7
3- Clothes and shoes	10.6	10	6.7
4- Residence, Water and Fuel	19.9	13	29
5-Fittings and household fittings and	6.8	4	6.2
6- Health	1.6	1.1	2.1
7- Transport	6.5	5	10.4
8- Communications			2.5
9- Promotion and culture	0.8	0.4	1.4
10- Education			0.9
11- Restaurants and hotels	2.3	1.2	1.1
12- Commodities and miscellaneous services			3.4
Total	100	100	100

4- Gross Fixed Capital Composition

Total fixed capital composition is viewed from a number of angles most notably is that it represents the materialistic side realized from the investment spending and that it is the productive energy to create GDP, therefore, it plays an important role in the production process. Whoever owns it of course shall dominate the realized product by using it.

Total fixed capital composition at the fixed prices amounted to 4328.0 million Dinars in 2004, increased to 32996 million Dinars in 2007, thus achieving a growth rate of 97% annually during this period.

The public sector has contributed by 93% of the total capital composition in 2004, increased to 99.5% in 2007, thus indicating continuity of the public sector's dominance over the economic decision through its possession of the capital or productive energy, thereby the private sector becomes quite absent. The majority of the total fixed capital composition is primarily concentrated in the commodity activities and then the service activities.

5- Foreign Trade

a. Exports

Iraq commodities and services exports amounted to 17810 million Dollars in 2004 from which crude oil exports constituted the rate of 98%, and increased to 39590 million Dollars 95.4% of which were crude oil exports indicating that a minor development has taken place in the non-crude oil exports. Even this simple development came as a result of the development in the oil product exports which increased from 244.3 million Dollars in 2004 to 1564.9 million Dollars in 2007. This is a very serious conclusion in that Iraq will not have an outlet to the external world with the exception of oil exports and imports.

b. Imports

Iraqi imports in 2004 amounted to 21302 million Dollars in which consumer imports formed 28.5%, the capital imports 38.9% increased to 2151.2 million Dollars in 2007 in which the consumer imports constituted 30.2%, whereas the capital imports formed 55.8%. Upon reviewing the detailed import structure we note that the majority of capital imports are non-productive or intermediate commodities therefore, the final consumption pattern is dominant over the Iraqi imports which indicates a noteworthy status namely there is a noteworthy case in that the realized added value inside the territorial borders from which a great percentage is spent abroad thereby impairing the movement of demand and production and makes the local market dependant on abroad in addition to social problems such as unemployment resulting from lack of employment. The Government imports formed 74% in 2004, which has dropped to 44.3% in 2007. In 2004, the government imports concentrated on:

First : Consumer import, at the rate of 29.8% of total government imports

Second : Food for Oil (23%).

Third : Oil products (13.4%)

The drop in 2007 was due to the food imports drop for oil and oil products.

Table (2)

Economic-Social Indicators For the period 2004-2008

Details	Measurement Unit	2004	2007	2008	Rate of Growth 2004-Last Years
Gross local product					
Current Prices	Million Dinar	53235.4	111460.8	155635.5	30.80%
Fixed Prices for (1988)	Million Dinar	41607.8	48123.4	53205.2	6.30%
Function Distribution of Product in Current Prices					
Workers Compensation	Percentage	15.7	19.2		
Operations Surplus	Percentage	84.3	80.8		
Distribution of Gross local product					
Commodity	Million Dinar	26469.8	28292.6	31813.4	4.60%
Crude Oil	Million Dinar	19789.4	20097.6	23702.4	
Commodity w/o Oil	Million Dinar	1680.4	8195.3	8111	
Distribution	Million Dinar	4465.7	4485.2	5561.5	
Services	Million Dinar	10878.5	15562.8	16096	
Gross Total Local Product (w/o oil)	Million Dinar	22024.8	28243.3	29798.5	7.90%
Gross Total Local Product (with oil)	Million Dinar	41814	48340.6	53470.9	6.30%
Natural Income (in current prices)	Million Dinar	46923.3	100164.9		28.80%
Average Per Capita Income (in current prices)	Year / Dinar	1728936	3328070.5		24.40%
Average Individual Share from Local Product	Year / Dinar	1961509	703385.7	5020514.7	26.50%
Average Individual Share from Local Product (in fixed prices)	Year/Dinar	1533.1	1596.4	1721.9	
Population	Thousand Heads	27140	30097	31000	3.40%
Governmental Consumption Expenditure (in current prices)	Million Dinars	13608.9	20871.5		15.30%
Private Consumption Expenditure (in current prices)	Million Dinars	19538.8	47745.9		34.70%
Total Consumption Expenditure	Million Dinars	33147.7	68617.4		27.40%
Gross Capital Composition (Fixed Prices)	Million Dinars	4328	32996.1		
Public Sector (Fixed Prices)	Million Dinars	4023.8	32847.5		
Private Sector (Fixed Prices)	Million Dinars	304.2	148.6		
Commodity (Fixed Prices)	Million Dinars	3614.3	18502.5		
Services (Fixed Prices)	Million Dinars	588.8	13173.6		

EXPORTS			
Commodity and services Exports	Million Dollars	17810	39590
(Crude) Oil Exports	Million Dollars	17455.7	37771.3
Oil Product Exports	Million Dollars	244.3	1564.9
Other Exports	Million Dollars	110	253.8
IMPORTS			
Total Imports	Million Dollars	21302.3	21516.2
Governmental Imports	Million Dollars	15724.7	9531.2
Consumables	Million Dollars	4687.2	3511.5
Capital	Million Dollars	4046.5	3017.1
Food for Oil	Million Dollars	3622	53.2
Oil Products	Million Dollars	2100	1702
Other	Million Dollars	1219	1247.4
Private Sector Imports	Million Dollars	5577.6	11985
Consumables	Million Dollars	1394.4	2996.3
Capitals	Million Dollars	4183.2	8988.7

6- Financial Policy and Public Debt

Iraq budget is considered to be the basic instrument for carrying out the priorities of the Iraqi economy and other economic and human development indicators in addition to directing it in order to achieve growth, raise the per capita income as well as reduce unemployment, being the one that highlights the real financial obligation towards sectors and distribution of expenditures between the various spending aspects. The budget also provides hypothesis on the structure of various financial revenues that may be achieved, in addition to what are the financial and economic changes that should be adopted to achieve and improve the new financing sources.

The financial framework for the past years from 2004-2008 has reflected the priorities and necessary objectives for the short term which concentrated on the following:

- Achieve equilibrium between revenues and expenditures in a way that ensures remedy of the general budget deficit and reduces the public debt burden as well as to keep it within the internationally recognized safe limits.
- Focus on the capacity improvement in the security and national defense, basic environment services especially in the electrical power fields.

- Focus on the projects with tangible and rapid impact in the Iraqi economy during this phase as represented in the oil sector rehabilitation, electricity projects, potable water and social services such as health and education schemes.
- Promote the private sector role and provide the requisites for enabling it to perform its role through creating institutional structures that make available proper climate to the performance of this sector.
- Focus on the development of provinces; improve service delivery therein to ensure employment of the largest possible number of manpower.

As a result of the political development, changes in the economic approach have taken place in general in addition to the ways of preparation and efficiency in the implementation of the budget in particular, and perhaps the most important indicators on the budgets in Iraq during the period 2004-2008 are:

- Despite the ambitious goals set forth for the budgets for implementation, yet such budgets were prepared in accordance with immediate and contingent needs without schematic strategic vision.
- They had inherited expenditure pressures that are difficult to overcome due to being connected with the life of majority of the citizens, e.g. the consequences of the oil for food convention and provision of support to the ration card (general distribution regime/ food basket).
- Structural imbalance in the revenue structure during the dominance of crude oil revenues and recession of other financial resources. This fact is a reflection on the reality of Iraqi economy.
- The government support in different aspects led to the creation of structural flaw in the general spending and increase of waste in the available financial resources.

Through tracking the general revenue developments (Table 3), we note that they had a tangible development during the last five years to increase from 21729.1 billion Dinars in 2004 to 50775.081 billion Dinars in 2008, at a compound annual growth average of about 27.8%.

Oil revenues dominated the total budget revenues at rates ranging between 83.6% and 92.9% of total revenues, whereas the non-oil revenues represented rates ranging between 7.1% - 16.4% of total revenues during the foregoing period.

The reason behind the oil revenue increase is the increase of oil prices globally as the production was fluctuating during the said period.

With regard to the development of the general expenses (as shown in Table No. 4), the government expenditure during the past four years had witnessed escalation trend and this applied to the different general expenditure elements, yet it was dominated by the pattern of current expenditure.

The total general expenditure rose from 33661.6 billion Dinars to 59861.973 billion Dinars or an annual growth rate of 15.4%. The operating expenditures constituted 74%-85% of total general expenditures while the investment expenditures formed 15%-26% of the total expenditures for the same period.

In the light of the developments referred to above at the actual revenues and actual expenditure levels, the deficit has fluctuated up and down during the period to reach 9086.892 billion Dinars in 2008 when it was 11935.5 billion Dinars in 2004 at a low annual growth rate of (-9%) as shown in Table 5.

Table (3)
Gross General Revenues (2004-2008)

(Billion Dinar)

Oil Revenues	2004	2005	2006	2007	2008	Compounded Growth Average %
None Oil Revenues	21262.9	25623	4216.3	91.5-39	42442.2	18.8
Gross General Revenues	466.2	3335.6	3286	2973	8332.9	105.6
Variable Rate	21729.1	28958.6	45392.3	42064.5	57750.081	27.68
	-	34%	57%	7%-	21%	-

Table (4)
Gross Public Expenditures (2004-2008)

(Billion Dinar)

	2004	2005	2006	2007	2008	Compounded Growth Average %
Operating Expenditure	28547.3	28431.1	41691.16	39051.908	44190.746	
Investment Expenditure	5114.3	7550	9272	12675.56	15671.227	
Gross Expenditure	33661.6	35981.1	50963.2	51727.468	59861.973	
Operational Rate to Gross	85%	79%	82%	76%	74%	
Investment Rate to Gross	15%	21%	18%	25%	26%	

Table (5)
(2004-2008) Deficit in Public Budget

(Billion Dinar)

	2004	2005	2006	2007	2008
Deficit	11935.5	7022.5	5570.9	9662.968	9086.892
Variable Rate	-	-41.2	-20.7	73.5	-5.9
Average Compounded Rate	-				-6.58

The major economic challenges facing Iraq and affecting the financial framework of the State include:

- International commitments as represented in the (International Monetary Fund conventions and International Compact).
- Rationalization of the government support and diversion of the holistic subsidies to targeted subsidies.
- Provide the necessary conditions to promote the private sector through (simplifying the government proceedings, activating the investment law, fighting corruption and providing soft loans).
- Capacity building of the ministries and government institutions to ensure a high elasticity budget in order to achieve the established goals and provide the best services to the citizens.
- Gradual withdrawal of the government from the direct management of the economic institutions and provide the necessary infrastructure (such as roads, ports and strategic services)

- New principles of the economic policy that is reflected in getting the government away from the central planning policy and deepening decentralization practices (support governorate councils in managing their affairs).

General Debt

Iraq has started its initial steps by handling indebtedness since the very initial months following the fall of the former regime through positive coping and building with the financial institutions such as the International Monetary Fund, World Bank in addition to the UN institutions.

On 21/2/2004, Paris Club issued its resolution regarding following up and identifying the context of the Iraqi economy future. The resolution addresses part of the huge official debts amounting to more than 120 billion Dollars. Following prolonged talks, an agreement with the International Monetary Fund was reached in July 2004 on the final formula for Debt Sustainable Analysis (DSA). The agreement has granted Iraq the right to obtain reductions on its foreign debts at rate of 80%.

The creditors have been divided into four categories:

- First - Creditor of Paris members
- Second - Creditors from non-members in Paris Club
- Third - Creditors from the Arab Gulf States
- Fourth - Banks and private sector companies

As for the data, the government debts were classified as follows:

- Debts resulting from loans
- Debts resulting from bilateral conventions
- Debts resulting from the issue of bonds
- Debts of private sector from the government guarantees

Iraq has submitted to the IMF a draft letter of intent including the general framework of the economic, financial and monetary policies as well as economic reform programs which constitute a foundation for signing the Emergency Post Conflict Assistance (EPCA) provided by the fund. The agreement creates the necessary conditions required to organize Stand By Arrangement (SBA) and ready made assistance arrangements for 2005.

Agreement Stages

- 1- Reduce 30% of the debts upon signing the agreement with Paris Club provided that the reduction shall be utilized to be deducted from the overdue interests.
- 2- Reduce 30% of the debt upon Iraq's signing the SBA with the IMF during 2005 provided that it will not exceed 31/12/2005.
- 3- Reduce 20% when Iraq completes its obligations under the SBA provided that it does not exceed the end of 2008.
- 4- To provide time limit of 6 years according to the following:
 - No amount shall be paid during the first three years provided the due interests shall be capitalized during the period.
 - A percentage of the interest shall be paid during the following three years and the remaining interests shall be capitalized.
- 5- Interests are calculated over the remainder debts after the reduction of 80% at the prevailing market interest rate .
- 6- Repayment of interests and principal over 24 semi-annual installments

Second Stage

- Signing the Stand by Arrangement between IMF and Iraq

Third Stage (Current)

Iraq has completed work under the Stand by Arrangement agreement which was signed on 23rd December, 2005 to start a new phase of commitment with the Fund as per signing a new agreement to run and manage the Iraqi foreign debts and on the way to establish the third phase which will reduce the Iraqi indebtedness.

Under the foregoing reduction stages, the volume of foreign debt was reduced to 50.201 billion Dollars in 2007 compared with 108.657 billion Dollars in 2004, realizing a reduction by 53%.

That can be noted through the significant variations in the foreign debt structure. For Paris Club countries, a percentage of 68% was recorded to reach 16.477 billion Dollars in 2007 compared to 51.645 billion Dollars in 2004.

For the non Paris Club countries, the highest rate of reduction achieved was 83% where debt dropped from 9.674 billion dollars in 2004 to 1.590 billion Dollars in 2007. At the same time, the commercial debt reduction rate amounted to 82%, which reached 3.285 billion Dollars in 2007 compared to 18.443 billion Dollars in 2004.

At the internal debt balance level, it dropped to 4455.569 million Dinars in 2008 compared to 6379.061 billion Dinars in 2004, realizing a drop of 30.2%.

Thus, Iraq is heading to become within the countries of simple indebtedness.

7- Monetary Sector

Central Bank's Policy

The Iraqi Central Bank's monetary policy has provided stability in the country's monetary system, coped with inflationary waves and activities following the considerable improvement to the Iraqi Dinar exchange rate at a high rate over 40% of its value since 2004 as well as building strong reserves of foreign currency which reached over 44% of the actual GDP and, at the same time, it covers 12 months of importational months. The positive role it accomplished resulted in the interest rate to restore confidence in the Iraqi Dinar and considering it as an attractive source for maintaining the monetary wealth. All such efforts have succeeded in reducing the previous annual inflation rates that exceeded 34% annually three years ago and retreated today to around 7% annually especially when the country was plunged into the dollarization and bargaining besides the development of liquidity alternatives originating from the tangible assets which had performed some of the monetary tasks through acting as the reservoir of value and an instrument of monetary liquidity outside the monetary system. This made the system at its weakest point in the economic history of the country.

The attractive Power of the Iraqi Dinar today, as a strong national currency has become the best instrument in the monetary saving

development, financial mediation and the right and suitable way to address inflationary expectation phenomenon in which assets of the Dinar alternate have become the preferred method of wealth and more co-existing on the inflationary expectations which turned to be similar returns to the interest generated by the inflationary deviations constantly. Thus, that attitude has constituted speculative element in the economy by getting away from the real investment through the circulation of real or material assets which were deemed to be high liquidity and fast profit generator as high implied interest reflected by the inflationary expectations. It is not a banking interest, and this causes the market to be careless towards the productive activity. Thus, the interest rate adopted by the monetary policy has been the counter way for inflation and expectations resulting therefrom so that the real investment activity will regain its correct role beyond the inflationary speculating incubator.

8- Monetary Supply

The monetary supply has made a high record during the nineties due to the conditions of war, economic sanctions and resorting to the inflationary financing method to cover the wide government expenditure that followed the second Gulf war on the way to reconstruction and rehabilitation of entities and economic infrastructure that was highly affected. The policy led to exacerbate monetary inflation rates and the Iraqi economy would enter the hyper-inflation stage. During the period 2001-2008, the monetary supply rose again at a high rate following a period of stability during the period 1997-2000 (Table 7) between 1-1.7 trillion Dinars. The highest increase happened after 2003 when it rose from 5.7 trillion Dinars to around 26.7 trillion (in September) (Table 7). Following the changing of the political system, expanding economic policy was adopted through maximization of government spending in order to address the current spending requirements (operational) , and to pursue growth in the monetary supply and compare it to the variation in the GDP (Table 8) shows a growth in the monetary supply at a compound rate during the period referred to above at 38% compared to 21.1% of GDP at the current prices and 5.6% of GDP at fixed prices. Regarding the structural distribution of the monetary supply constituents , the currency beyond the banks has formed the highest percentage when it reached to 80% of total monetary supply in 2005 and dropped to 65% in 2007 by virtue of the positive impact of the interest rate. The monetary growth at a high level indicates the adoption of expanding policy that has generated inflationary pressures due to superiority of total demand against the local supply which urged the monetary authority to take actions for the implementation thereof .

To determine the variations in the local liquidity by endorsing the monetary supply at its wide concept, i.e. adding the so called semi-monetary and fixed deposits and saving, there is a growth by 28% in the local liquidity despite the variable reduction (semi-monetary) by 9% in 2007, thereby reflecting the responsibility of currency in trading and current deposit volume for the ongoing growth in the local liquidity level. Such growth in the local liquidity is due to the great growth in the net foreign assets from 8.4 trillion Dinars in 2003 to 41.1 trillion Dinars in 2007 due to the positive situation of the oil exports.

9- Interest Rate

The monetary authority has adopted an anti-deflationary policy in the government expenditure (both current and investment) through the established interest rate or what is called the monetary policy interest rate during the following period of 2003, with the aim of containing and restricting inflationary pressures from such expenditures. To that end, the Central Bank has set the interest rate by 6% in 2004 increased later on to 16% in 2006 in order to get the interest rate to a positive level for the borrower in a way that stimulates the banking savings, reduces total expenditure, withdraw the cash surplus and control domestic liquidity. Consequently, the interest rate continued rising to 20% in 2007. During 2008, the monetary authority resorted to successive and rapid reductions to commensurate the decline of the government potential financing especially in the investment field. The interest rate was reduced to 16% then to 14%. It is expected to adopt the interest rate at 11% by March. The reduction procedures are due to the relative success already realized to control the inflation and to stimulate the banking credit especially in the investment fields of the private sector in order to compensate for the shortage in the government spending by the recession and decline of the State's financing powers resulting from the global economic crisis repercussions.

Table (6)

APPROVED Interest Rate by the Central Bank

Year	Interest Rate %
2004	6 %
2005	7 %
2006	16 %
2007	20 %

Source: Central Bank of Iraq, Annual Bulletin 2007

10- Exchange Rate

The local currency (Dinar) has recorded in the nineties a record collapse in its reciprocal value against the Dollar which resulted primarily from over reliance on the inflationary financing method and fading away of foreign reserves. During 2003-2008, the Dinar exchange rate improved when it rose to 1205 Dinar / Dollar in 2008 (September) compared to 1936 Dinar in 2003 , Table 7 . The mentioned improvement is attributed to the positive conditions of the oil export market, surplus growth in the trade balance and to the monetary policy measures in promoting the foreign value of Dinar through the interest rate tools by controlling the local liquidity and the public auctions of foreign currency in order to achieve balance in the foreign monetary market.

11- Balance of Payments

a- Balance of Trade

Table (7) indicates a realized continuous improvement in the balance of payment in both the trade balance and foreign reserves during the last three years as the the trade balance deficit in the years 2003 and 2004 turned to surplus at high growth rates in the subsequent years . The trade surplus rose from (3695.2) million Dollars in 2005 to around (26324.3) million Dollars in 2006 by a growth rate of (612%). Surplus value during the first half of 2008 reached (11548) million Dollars. The large growth in the trade balance is responsible for the promotion of positive situation of the balance of payment during the above mentioned years. The surplus in the trade balance is attributed primarily to the development of the Iraqi oil exports market following the increase of the production and oil international prices as well as decline of payments to the government import services in particular importation of oil by-products.

b- Foreign Reserves

The positive situation of the trade balance has directly reflected in the position of the foreign reserves of the balance of payment which is an index to measure the performance of the foreign sector in the Iraqi economy and its impact on the other overall indexes. Table (7) indicates a positive growth at high rates in the foreign reserves where it reached during the first half of 2008 around (11548) million Dollars with an increase of (164%) and (49%) for the years 2005 and 2006 respectively.

The improvement of the foreign reserves index is due, in addition to the positive status of the trade balance, to foreign aid and grants Iraqi has gained to rehabilitate and recover its economy despite the fact that the volume of these aids and grants was declining during the past two years. The great burden of the oil sector impact in the trade balance and foreign reserves indicates high vulnerability of the balance of payment and Iraqi economy in general against the international economic fluctuations and to the need to conduct necessary corrections in the economy's structure imbalance towards diversification of export sources and contraction of imports and stimulation of foreign capital flows as well as promotion of foreign investment particularly in light of the current economic conditions and decline of the foreign revenue proceeds.

12- Banking Sector

The banking activity of the private sector during the following period of 2003 has recorded a remarkable expansion within the new economic philosophy framework by promoting the private sector in the economic activities and the increased role of the economy's management (Table 9). This indicates the occurrence of realized growth in the number of banks of the private sector and volume of capitals. The number increased from (19) banks to (28) banks including (6) Islamic banks (during 2003-2007) and the volume of capitals increased to (994.2) billion Dinars during the same period. For the government banks, the number of its banks settled at (7) banks During 2004-2007 with an increase in total capitals to reach (215,5) billion Dinars in 2007 compared to (150.5) billion Dinars in 2004. Such increases in the numbers of private banks and volume of capitals are due to the improvement in oil revenues and demand growth expectations on the banking facilities whether for credit or deposit purposes.

As for the bank deposits, the data in Table 9 indicates realization of considerable growth in total deposits at the commercial banks (government and private) during the period 2004-2007 from (8.6) trillion Dinars to (27.7) trillion Dinars by a growth rate of 222%. The government deposits formed (53% - 73%) of the current deposits while the remaining deposits have been distributed between fixed and saving deposits. The bank deposits constituted (24%) of GDP. The great growth in the government deposits is due to the large rise in the investment budget allocations deposited in these banks caused by the low implementation rates of the projects financed under these allocations.

As for the credit activity, there was an escalating trend in 2007 by 30% compared to the previous year. The private sector has accounted for the highest portion of granted credit. As for the loans and advances granted to the private sector, the percentage of total granted credit was unstable and recorded the highest rate in 2004 (56.5%) and the lowest in the subsequent year (39%).

Table (7)
Money Supply

Year	Supply of Money (Billion Dinars)	Exchange Rate (Dinar / Dollar) in Parallel Market	Balance of Trade (Million Dollars)	Position of Balance of Payment (Reserve Assets) (Million Dollars)
1993	86	74	1623,9 (-)	
1994	239	485	961,5 (-)	
1995	705	1674	928,4 (-)	
1996	961	1170	178,2 (-)	
1997	1,038	1471	2702,5	
1998	1,352	1620	2441,9	
1999	1,484	1972	3969,7	
2000	1,728	1930	7734,1	
2001	2,159	1929	---	
2002	3,014	1947	2401,5	
2003	5,774	1936	222,4 (-)	
2004	10,149	1453	3492,3 (-)	
2005	11,399	1472	3695,2	4374,5
2006	15,460	1475	11821,9	7752,4
2007	21,721	1267	26324,3	11342,0

Table (8)
Money Supply and Gross Domestic Product in Current and Fixed Prices for the period (2005-2007)

(Trillion Dinar)

Year	Deposits (1)	Currency Outside Banks(2)	Supply of Money (1)+(2)=(3)	Gross Local Product	
				In Current Prices	In Fixed Prices
2005	2,28	9,11	11,39	73,5	43
2006	4,49	10,96	15,35	95,5	48
2007	7,48	14,23	21,71	107,8	48

Source: Iraqi Central Bank, Directorate General of Statistics & Research, Annual Publication.

Table (9)
Gross Capital and Current Deposits with Governmental and Private Banks for the period 2004-2007
(Trillion Dinars)

Governmental Banks					Private Banks				Total Deposits	Gross Local Product	Rate of Gross Deposits to Gross Local Product (%)
Year	No.	Gross Capital	Deposits with Governmental Banks	Rate of Current Deposits (%)	No.	Gross Capital	Deposits with Private Banks	Rate of Current Deposits (%)			
2004	7	0,150	5,2	99	19	--	3,4	62	8,6	53,2	16
2005	7	0,165	7,1	96	20	--	3,6	53	10,7	73,5	14,5
2006	7	0,180	12,2	97	22	0,663	4,7	57	16,9	95,5	17,6
2007	7	0,215	16,7	99	28	0,994	11,-	73	26,2	107,8	24

Source: Iraqi Central Bank, Annual Publication

Table (10)
Balance of Governmental Credit Granted By Commercial Banks,
Loans and Advances Granted to Private Sector

(Billion Dinars)

Year (1)	Gross (2)	Credit Granted by the Governmental Banking Sector (3)	Rate (2/3) (%) (4)	Granted Credit By The Private Banking (5)	Rate (2/5) (7)	Gross Loan and Advance Granted to the Private Sector	Rate (2/7) (8)
2004	824,6	204,4	24,7	620,2	75,3	0,467	56,5
2005	1717,4	767,2	45	950,2	55	0,666	39
2006	2664,8	783,8	29	1881,0	71	1380	51,7
2007	3459,-	1072	31	2387	69	1823,3	53

13- Prices & Inflation

Inflation means the continuous increase in prices in general. This results in low purchase power to the monetary unit to reflect an imbalance between monetary flows and services and commodities flows .

The economic definition of inflation is an increase in the overall demand over the goods and services at a faster rate than the rate of increase of overall supply level due to different factors, most notably the government expenditure and expansion in money supply.

The inflation is measured by using several indicators such as Consumer Price Index and multiplier effect whether to the GDP or to the capital composition.

The inflation phenomenon in Iraq is deemed to be a special one as it is a legacy of wrong economic policies as well as the wars that Iraq suffered since the eighties of the past century through the economic stanctions period during the nineties. This affected the course of the economic process and contributed to the state of economic instability during the past years.

First: Price Index (Consumer Prices 2004-2008)

Notwithstanding the tight monetary policies and procedures of the Central Bank and the policy designed to fixing the Dinar exchange rate against the Dollar ranging between 1454-1205 during the referred to period, and the volume of financial support provided by the State for the ration cards, the inflation rates tended to rise.

The consumer price index increased by 52.2% in 2008, 30.8% in 2007 and continued to rise in 2008 to reach 24851.2 point recording increase rate of 2.6% compared to 2007.

The instability continued as well as the sharp pricing fluctuations during the abovementioned period where the exchange rate against the Dollar is no more forming the first pressure factor in raising the prices but new factors emerged most notably:

- 1- High rates of public and private consumption and reconstruction expenditure.
- 2- The structural imbalance of the Iraqi economy and the weak production base in addition to the damage that inflicted the infrastructure, looting acts to the State institutions in general following events of 2003.
- 3- Rigidity of the government tax system and the State's adoption of the open door policy for imports which had a significant impact on the retreat of local supply of goods and services and unequal competition with the imported products. The product was suffering from high prices of inputs. Therefore, the high demand in the Iraqi economy resulting from the high government expenditure and salary adjustment of civil servants allocated for imports.

At the level of commodity aggregates part of the records for the consumer prices, the data contained in Table 11 show that the expenditure on foodstuff group during the above period constituted 63.2% of family spending volume, has witnessed an inflation in prices in a way that exceeded (during 2004-2005) the inflation in the general level of prices. Prices also witnessed increase in rates (13,8% and 10,9%) for the years 2007 and 2008 respectively.

Within the other aggregates that have had great pressure on the inflation rate throughout the period of 2004 - 2008 are prices of the fuel and electricity groups which have been highly affected by the removal of subsidies. So that the Iraqi family moved a considerable percentage of its expenditure on the food to this group and the transport group in order to address the spending requirements on these two groups. Results of the household socio-economic survey (2007) have shown that spending on food dropped from 63% in 1993 to 35.6% in 2007.

Table (11)
Inflation Indicators in the Iraqi Economy
(2004-2005)

Years	Index No. of Consumer Prices	Index No. for Foodstuff	Index No. for Fuel and Lighting
2004	8815.6	4544.2	32221.5
2005	12073.8	5558.1	641011.4
2006	18500.8	7271.5	183515.3
Rate of Variation	53.2	29.8	71.7
2007	24205.5	8220.4	341864.1
2008	24851.2	9119.9	247454.9
Rate of Variation	2.6	10.9	21%

Table (12)
Development of Annual Inflation for the Period (2004-2008)
(100 = 1993)

Totals	Weight	2004	2005	2006	2007	2008
Foodstuff	63.2	8.74	22.3	30	14	10.9
Cigarettes and Drinks	3.5	20.22	0.6	16	6	8.9
Fabrics, Clothes and Furniture	9.7	3.33	3.3	20	8	3.1
Fuel and Lighting	3.1	0.39	10	16	7	7.1
Transport & Communication	2.1	34.25	99.1	186	72	21
Medical Services	4.9	12.9	53.6	129	29	1.3
Commodities and Miscellaneous Services	1.5	31.8	6.3	19	11	12.6
Rent	0.5	21.3	24.7	35	29	9.6
Index No.	11.5	69.7	42.4	35	24	14.8
	100	26.9	30.9	53	31	2.9

14- Population, Employment and Unemployment

It is known that the population is growing at an estimated compound annual rate of 2.8% and 3% according to the hypotheses of fertility, population mobility and mortality, yet the approved rate is usually the rate of two successive censuses. According to that principle, the population growth rate was 3% between the census conducted in 1987 and 1997. The household socio- economic survey for 2007 estimated the population at 30097 thousand heads and thus the growth rate becomes 3.2% between 1997 and 2007. Whereas the estimation was derived from the survey sample and in the absence of vital surveys, this estimation may be distorted with some exaggeration.

As far as it is connected with employment and unemployment, we observe through the numbers provided in Table 13 that size of population in the working age has risen to 57 % according to estimates of 2007 compared to 52 % in 1997. On the other hand, the manpower survey conducted in 2006 and the expectations based on it and on the population growth, indicate that the people in the working age will reach 51% in 2008. In any case, whatever the estimates to this group are, the unemployment rate is quite high and must be reduced.

Taking into account the economic recession suffered by the Iraqi economy, the low unemployment rate is due to the accommodation of the civil government sector to a large percentage of the unemployed in addition to what has been accommodated previously by the forces involved in the maintenance of security and due to the emerging marginal sectors that were not existing before 2003. That is from the viewpoint of the effective employment policy that considers what is happening as distortions in the employment process and what is needed is to reconsider the economic structure to achieve actual employment rates.

From the aspect of the population quality in the working age, this should be also attended to as 24% of the contributors in this category are illiterates, 41.2 % read, read and write and 43.1% holders of primary certificate, undoubtedly refers to low employment efficiency.

Table (13)
Employment & Unemployment Indicators

Population: 1000 Heads

Age Categories Year	1997		2007		Unemployment Rate	
	Population	%	Population	%	1997	2007
Less than 14 years	9870	45	11977	40	-	-
15-64 years	11473	52	17122	57	17.6	11.7
65 and more – Unspecified	803	3	998	3	-	-
Total	22146	100	30097	100	-	-