

Iraq

Capacity Development Activities in Fiscal Year 2024

Central Bank Operations (October 15-18)

At the request of the Central Bank of Iraq (CBI), METAC provided a four-day TA mission on domestic liquidity management and on developing an interbank market in domestic currency. The CBI has made significant progress since the initial TA mission in March 2023 in adopting an active domestic liquidity management to support the exchange rate peg. The mission reiterated the outstanding recommendations on domestic liquidity management and provided advice for fine-tuning, among others, to support OMO implementation that would encourage interbank activity. There is currently no interbank market in Iraq and the mission provided recommendations on the preconditions and basic features to kickstart an interbank market.

Financial Supervision and Regulation (September 18-22; April 14-18)

The mission conducted a workshop with the objectives to (i) build the capacity of the CBI supervisors to effectively monitor, supervise and regulate the Domestic Systemically Important Banks (D-SIB) and (ii) review the framework recently developed by the CBI to deal with D-SIBs. The workshop presented the concepts, the principles, the framework, the assessment methodology relating to D-SIBs and the supervisory measures recommended by the Basel Committee on Banking Supervision (BCBS) guidelines and best international practices. It also focused on how to supervise State-Owned Banks (SOB) and the challenges faced in dealing with these banks. This is highly relevant to the CBI banking system given that most of the D-SIBs are SOBs. The mission proposed enhancements to the framework with respect to classifying D-SIBs in line with BCBS guidance and experience of other jurisdictions.

A remote mission assisted the Central Bank of Iraq (CBI) in enhancing its supervisory reporting for Islamic banks and building the capacity of its supervisors. The mission helped (i) amending the Financial Position (FP) & Income Statement (IS) of Islamic banks reported to CBI for supervisory purposes; (ii) developing reporting guidelines related to these statements; (iii) reviewing the existing supervisory templates and developed additional ones to supplement the revised FP and IS; (iv) providing a comprehensive capacity building training on the components of the amended FP, IS and templates and their use in supervision; and (v) providing an overview of relevant AAOIFI accounting standards while highlighting the similarities and differences with IFRS standards where applicable. The goal of the mission was the development of a well-structured reporting for Islamic Banks, which helps in building a coherent database. Such a database is an essential element for enhancing risk-based supervision and understanding Islamic banks' risk profiles.

Macroeconomic Frameworks (December 10-15)

With the help of TA provided by METAC and IMF headquarters (HQ), the Central Bank of Iraq (CBI) developed and operated a Macro-Framework Foundation Tool (MFT) to promote and bolster policy formulation. As a result, CBI is now well-versed to obtain timely and quality forecasts for internal and external sectors and levels of foreign reserves in response to various economic shocks including shocks to oil prices and other internal and external shocks. The tool is expected to enhance formulating monetary policies by gauging the impact of different shocks on economic sectors and, ultimately, safeguarding an appropriate level of net foreign assets.

Public Financial Management (June 13-15; March 6-9)

Jointly with the World Bank, METAC conducted a workshop in Amman/Jordan to design a roadmap for Treasury Single Account (TSA) implementation. The event gathered 30 participants from key stakeholders including the Ministry of Finance (MoF), Central Bank of Iraq (CBI), and six State-owned banks (SOBs). Participants developed an initial roadmap for TSA implementation, which will be overseen by the newly formed “TSA higher committee”. A census of more than 12’000 bank accounts has recently started and will continue in the coming months. A limitation for an efficient TSA will be the still limited roll-out of the recently procured core banking system. It is anticipated that development partner support, including from METAC, is required along key steps of the roadmap. The German development corporation Gesellschaft für Internationale Zusammenarbeit (GIZ) participated in the workshop as observer.

The METAC mission conducted a workshop in Amman/Jordan to follow-up on the implementation of a Treasury Single Account (TSA). The event gathered 37 participants that represent the operational committee from key stakeholders including the Ministry of Finance (MoF), Central Bank of Iraq (CBI), and six State-owned banks (SOBs). Participants discussed main progress and challenges and updated the roadmap for TSA implementation. The government aims to accelerate the process to better control public expenditures. A census of more than 12’000 bank accounts has recently started and will continue in the coming months. A limitation for an efficient TSA is the still limited roll-out of the recently procured core banking system. The roadmap includes specific steps to be implemented during the next few months to address main challenges.

Revenue Administration (May 14-20; July 16-20; October 16-November 16; November 6-16; December 4-15; January 5-February 29; March 26-April 30)

An offsite capacity development mission (to Amman, Jordan) supported the Iraqi General Commission for Taxes (GCT) in assessing its readiness to apply the self-assessment system. Guidance was provided on the key features of self-assessment and on necessary steps towards the transition to a self-assessment system. An action plan for transitioning to a self-assessment system was also presented to the GCT.

An offsite capacity development (CD) mission assisted the Iraq General Commission of Taxes (GCT) on good practice in organizational design to modernize the organizational

structure of GCT headquarter and regional offices. The mission addressed the importance of autonomy in public administration and advised to what extent an autonomous or semi-autonomous organizational structure would be beneficial for GCT. The mission developed with the Iraqi delegation a hybrid functional-based organizational structure, which will be reviewed by and discussed with the Ministry of Finance.

This joint METAC and IMF Legal Department (LEG) desk review assignment supported the General Commission of Taxes (GCT) of Iraq in (i) reviewing the current legal framework for tax procedures related to the self-assessment (SA) system; (ii) identifying, designing,, and drafting necessary legislative amendments to the Income Tax Law to support implementation of the SA; and (iii) reviewing the amendments with designated GCT officials to address questions or comments. This mission is deemed critical as the current income tax law only provides for administrative assessment and thus presents an obstacle for the effective transition to the SA system.

This mission was conducted offsite in Amman, Jordan, in collaboration with the IMF's Legal Department (LEG). The mission (i) reviewed the current law of 1984 and the draft amendments prepared by the Iraqi authorities to identify gaps against international standards; (ii) suggested amendments to the customs law with respect to the implementation of risk management, authorized economic operators, post-clearance audits, and customs valuation. The mission also assisted the General Authority of Customs (GAC) to draft a function-based organization for GAC, and (iii) identified further CD needs in this area.

This joint HQ and METAC offsite mission to Turkey supported the General Commission of Taxes (GCT) of Iraq in developing a medium-term reform plan. The operational environment of the GCT has informed specific design criteria, leading to the identification of six core reform areas: (i) establishing a reliable taxpayer base; (ii) improving core functions through implementation of the self-assessment system; (iii) focusing on large taxpayers' compliance; (iv) organizational design and workforce planning; (v) transitioning to a digital environment; and (vi) reform governance, as foundations of the plan. These were translated into specific and sequenced initiatives categorized for the short and medium term. It was recommended that all reforms should undergo a pilot phase within the Large Taxpayers Office and be accompanied by a corresponding restructuring of the workforce and by a simplified reform governance structure to manage the proposed plan. An integrated FAD/METAC mid-term capacity development plan was also developed and is currently under review by the GCT.

METAC provided a remote CD activity spread over eight weeks in continued support to the development of amendments to the Iraq Customs Law. METAC, in cooperation with IMF LEG, worked with the Iraq Customs Legal Working Group to advise on the content of amendments to the Customs Law and on determining timelines for the amendments to be finalized and submitted. This was achieved through multiple online meetings over the course of the period. The stretching of the remote CD delivery period allowed for internal

discussion, comment, drafting and translation of the proposed amendments. Following consolidation of the amendments drafted in this remote mission, it is envisaged that an off-site mission will take place before the end of FY24 to assist in the finalization of the drafts.

A remote mission assisted the Iraqi General Commission of Taxes (GCT) on transitioning to a new hybrid functional-based organizational structure. The mission advised the GCT on a more detailed preliminary structure for both HQ and the Large Taxpayers Office (LTO); developed high-level mandates for the basic core tax functions; and initiated discussions regarding the configuration of the new field office structure. Working sessions were scheduled throughout the remote mission to discuss: (1) METAC's previous proposal on a high-level organizational structure that was developed during October 2023; (2) the current GCT's HQ, LTO and Field Offices existing departments and sections; (3) possible restructuring of these sections; and (4) the advice on the mandates of the main core tax functions. Engaged in a productive dialogue, officials recognized the necessity of restructuring to facilitate a more modern approach to work.

Real Sector Statistics (July 2-12; August 13-17; November 26-28; February 25-March 7)

Following up on the mission held in February 2023, METAC assisted the Central Statistical Organization (CSO) of Iraq to progress significantly in the production of 2018 Supply and Use Tables (SUTs). The July 2023 mission helped with balancing the supply and use of all products and move the compilation exercise into the final validation and dissemination phase.

METAC assisted the Central Statistics Organization of Iraq to improve the residential property price indexes (RPPIs). The mission advised on applying hedonic regression techniques rather than stratification methods, which require significant effort and result in many unreported strata in the survey. Training was provided on using online listings, including how to collate and tidy them, how to analyze them, and how to calculate the resulting RPPIs.

METAC assisted the Central Statistics Organization (CSO) of Iraq in creating an experimental CPI compilation system based on chained short-term relatives and geometric means in Excel. The new compilation system was tested on real data from August 2023, and the results compared to those generated by the current system. CSO plans to introduce the new compilation system in early 2024.

METAC assisted the Iraqi Central Statistics Organization (CSO) with implementing a new CPI compilation system based on chained short-term relatives and geometric means in Excel, and partially updating the index weights. This new compilation system and updated index weights was introduced by the end of March 2024.