

## **Iraq**

### **Fiscal Year 2025**

#### **Capacity Development Activities**

##### **Central Bank Operations**

###### *Framework for Domestic Liquidity Management*

METAC assisted the Central Bank of Iraq (CBI) from 28 Nov till 3 Dec 2024 in developing a consistent operational framework for domestic liquidity management under an exchange rate peg. The mission focused on adjusting the implementation and parameters of the currently used monetary policy instruments to fully contribute to achieving the monetary policy objectives. The mission also provided hands-on training to establish a high-frequency monitoring of central bank liquidity, as required by the Policy Coordination Instrument. METAC will continue to follow-up with CBI on the implementation of the central bank liquidity monitoring. Once this target is met, Technical Assistance on liquidity forecasting can be provided.

##### **Financial Supervision and Regulation**

###### *Developing and implementing the Basel Framework Pillar 2 Supervisory Review Process*

To strengthen the Central Bank of Iraq (CBI) supervisors' capacity in Basel Framework Pillar 2 and ensuring banks have sufficient capital and liquidity to support all the risks in their business, a METAC mission met six CBI participants in Amman, Jordan, during 24-28 June. The mission focused on enhancing the CBI supervisors' understanding of the supervisory review process (SRP) and internal capital adequacy assessment process (ICAAP). The mission team presented and discussed the purpose, key components, and regulatory aspects along with implementation strategies.

###### *Implementing the Supervisory Review Process*

This follow-up mission during 8-12 December was designed to enhance the understanding of Supervisory Review Process (SRP), the Internal Capital Adequacy Assessment Process (ICAAP), and off-site supervision. METAC presented essential concepts and methodologies pertinent to off-site supervision and engaged in discussions regarding components, regulatory aspects, and implementation strategies for both ICAAP and SRP. The mission also conducted a thorough examination of the banks' risk assessment systems in collaboration with Central Bank of Iraq (CBI) supervisors to ensure comprehensive coverage of all relevant risks within the country's banking sector.

###### *Implementing the Supervisory Review Process – Follow-up Mission*

METAC conducted another follow-up mission during January 19-23 to deepen the expertise of CBI supervisors regarding the SRP, the risk assessment system, and the ICAAP. As part of this initiative, the mission conducted a comprehensive review of the draft regulations concerning ICAAP, examining its essential components, regulatory aspects, and scope of implementation. Furthermore, METAC collaborated with the CBI team in refining the structure of the risk matrix, ensuring that it comprehensively addresses all relevant risks within the Iraqi banking sector.

###### *Development and implementation of the Basel Framework's Pillar 2 supervisory review process*

In February, METAC supported the Central Bank of Iraq (CBI) in the development and comprehensive implementation of the Basel Framework Pillar 2 supervisory review process. This third follow-up mission focused on regulating the Internal Capital Adequacy Assessment Process for banks, following an initial internal review conducted in the CBI. The mission aimed at further developing the risk matrix and assessing business models from the perspective of off-site supervision.

## **Government Finance Statistics and Public Sector Debt Statistics**

### *Assess the Preparation and Dissemination of Government Finance Statistics*

During 18-23 January in Amman, Jordan, a Government Finance Statistics (GFS) and Public Sector Debt Statistics (PSDS) mission for the Ministry of Finance of Iraq assessed the preparation and dissemination of comprehensive and timely fiscal reports and developed a capacity development plan to enhance the prioritization and dissemination of GFS and PSDS in Iraq. The mission conducted a thorough analysis of GFS and PSDS compilation and dissemination. The authorities expressed interest for support in starting GFS and PSDS compilation in line with international standards. The mission developed a series of recommendations jointly with the authorities. Frequent and sustained METAC CD will be crucial in supporting the authorities going forward.

## **Macroeconomic Frameworks**

### *Improving the Central Bank's Projections by Incorporating High-Frequency Data*

The mission team supported a core team at the Central Bank of Iraq during 9-13 June to incorporate high-frequency data in the Macroeconomic Forecasting Tool (MFT) to ensure the timely updating of the current year's estimates and improve the forecast set. The MFT is a multi-sectoral model that can capture endogenous economic responses of scenarios, such as oil price fluctuations. The baseline projection, alternative scenarios, and formulation of year-on-year forecasts are now based on quarterly forecasts rather than historic figures or personal judgment. The mission team underscored the critical role of developing fiscal policy scenarios and determining an adequate level of foreign reserves buffers.

## **Public Financial Management**

### *Implementing the Treasury Single Account (TSA)*

The third workshop to advance the implementation of the TSA in Iraq was organized by FAD/METAC, in collaboration with the Ministry of Finance of Iraq, during the period July 24-27 in Amman (Jordan). Building on the outcome of the second workshop in March 2024, the event gathered 13 core members from the "TSA Implementation Committee", formed by key stakeholders including the Ministry of Finance (MoF), Central Bank of Iraq (CBI), and four State-owned banks (SOBs). The mission discussed the progress made in the implementation of the TSA roadmap and the key challenges encountered over the past few months. Participants actively engaged in discussions and agreed actions to be implemented until October 2024, including advancing the TSA design and concept note, developing a database for TSA bank accounts, and designing portals for data collection as an interim step while the roll out of the core banking system in the largest two SOBs is completed.

## **Real Sector Statistics**

### *Improving the Producer Price Index*

The mission during April assessed the producer price index (PPI) compiled by the Central Organization Bureau of Statistics and Information Technologies of Iraq, identified areas to improve, and provided guidance to implement a new PPI in line with international recommendations.

## **Revenue Administration**

### *Strengthening the Self-Assessment System to Enable Taxpayers to Fulfill their Tax Obligations.*

Recognizing the importance of shifting the responsibility for calculating tax liability from tax administrations to taxpayers, this mission assisted the Iraqi General Commission of Taxes (GCT) during 13-16 July in strengthening the supportive framework for the Self-Assessment (SA) system. During this off-site mission, the mission team evaluated GCT's existing SA mechanism and identified key improvements. This mission is part of a complex transition to an SA system that would enable most taxpayers to voluntarily fulfill their tax obligations, representing a significant change in the way the tax administration conducts its operations. *The Iraqi delegation presented a token of appreciation for METAC which represents the main historic Iraqi cities:*

### *Draft Implementing Regulations for the Iraq General Authority of Customs Law Review*

A hybrid follow-on mission during 1-20 May for the Iraq General Authority of Customs (GAC) Law Review developed (remotely) and validated (in-person) two draft implementing regulations to be approved by the Director General of GAC: (i) a circular on Post Clearance Audit and (ii) an instruction on temporary exports (and re-imports) of goods. The mission also agreed that 'Customs Valuation' will be the next mission priority.

### *Developing implementing instructions for Customs Valuation*

During 6-10 October, METAC supported Iraq Customs in developing implementing instructions for Customs Valuation. These regulations will be essential to support the adoption of the amended Customs Law relating to Customs Valuation. A week of drafting (remote) was followed up with in-person validation of the document in English and Arabic with the Iraq Customs Legal Working Group during an off-site mission in Dubai, United Arab Emirates.

### *Establishing a Compliance Risk Management Framework*

Supported by a decision from the Council of Ministers, the Iraqi General Commission for Taxes (GCT) is actively implementing a self-assessment system in accordance with previous IMF recommendations. A key element for the successful implementation is the establishment of a compliance risk management framework. A critical step in this process involves capturing and analyzing relevant data from tax forms. In virtual workshops with senior officials during 9-17 December, discussions focused on current practices regarding taxpayer registration and corporate income tax declarations. The mission proposed a unified registration form for all types of entities as the foundational element for establishing the taxpayer register at the GCT. Additionally, a preliminary set of data for a revised corporate income tax declaration was presented.

### *Large Taxpayer Office Classification*

The Large Taxpayer Office (LTO) at the GCT manages a significant number of taxpayers, many of which are either inactive or small, which complicates effective compliance. Furthermore, several companies identified as large taxpayers are managed outside the LTO in various GCT branch offices. The remote

assignment conducted from December 24 to January 25, proposed modifications to the current criteria for classifying large taxpayers at the GCT, which presently focuses mainly on an industry-based approach. It recommended incorporating additional criteria, such as a turnover test and a workforce size test. This change is expected to significantly reduce the LTO population while accounting for approximately 70 percent of tax revenues.

*Support to Draft and Validate an Instruction on Customs Transit*

A hybrid mission during February 3-20 enabled the Iraq General Authority of Customs (GAC) to draft, discuss, and validate an Instruction on Customs Transit for approval by the GAC Director General. A first desk-based phase included drafting the regulation while the second, field-based phase included discussions and validation with the GAC Legal working group.