Iraq: Debt Reduction, Aid, and Conditionality

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Abstract

The paper, first, looks at the multifaceted benchmarks that have been included in the various international arrangements with Iraq, post 2003, as conditions for aid and debt reduction. It is noted that for non-Paris Club debt the fulfillment of these benchmarks is only a necessary condition. Bilateral negotiations with non-Paris Club creditors could satisfy a sufficient condition; which, however, have not so far, it seems, resulted in concrete reductions. Then, the size and terms of the outstanding debt during the period 2003-2007 is considered. It emerges that the picture, as of the end of 2007, is not that clear. Two sets of estimates are, therefore, presented within which actual outstanding debt, during the period, could occur. In the last section it is found that in the next vital decade (for the rehabilitation of the economy and rebuilding severely damaged infrastructure) annual servicing of debt (starting in 2011) and war reparations could well eat-up 9 - 21 percent of oil revenues; depending on the size of outstanding debt and future crude oil prices.

I. Introduction[2]

The rise in oil revenues consequent on oil price increases during the 1970s had motivated substantial increase in public spending in all oil producing countries. After consolidating its power base, the new Baath regime, in Iraq, initiated the so-called '*Explosive Development*' strategy which included large scale investment programmes. The main tenets of the strategy, which were embodied in the 1976-1980 Development Plan, were as follows:

1. Developing the industrial sector, within an inward-looking strategy of import substitution, for a wide range of consumer goods on the one hand and military industries on the other.
2. Rehabilitating and expanding the infrastructure and social capital, such as roads, ports, telecommunications, power stations, hospitals, schools, etc.
3. Developing oil and oil related industries, including, oil fields, refineries and petrochemicals.

By the end of the 1970s Iraq was on the way to expand its capacity of crude oil production from 3 to 6 million barrels a day.

I.1 The Iraq-Iran War

The Iraqi expedition in September 1980, that instigated the outbreak of the eight-year Iraq-Iran war, was first thought to last for a short while. Consequently, the newly formulated 1981-1985 Development Plan, a continuation of public investment expansion of the previous Plan, was not shelved. That is to say public spending continued apace after the outbreak of the war.

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[1]A revised version of a paper presented at *the 1st Arab Statistical Conference* organized by *the Arab Institute for Statistical Research and Training,* Amman, Jordan 12-13 November 2007, http://www.aitrs.org/fasc/research/lre16.pdf.

[2] I thank Ahmed Jiyad for his comments on an earlier draft.

As the war progressed, oil exports were heavily disrupted from the exporting facilities in Mina al-Bakr (Gulf), only to be made worse by the stoppage of exports via Syria. Apart from moving crude and products by trucks, export through Turkey, was the only outlet.

With sharply falling oil revenues, continued high spending was first sustained by drawing on foreign exchange reserves which stood, reportedly, at US$35 billion at the outbreak of hostilities. Two years later, however, it became clear that no early end for the war was in sight. In the light of low levels of oil exports and a heavily depleted reserve of foreign exchange, even drastic reduction in public investment and current spending would not make up for the shortage in financial resources, especially foreign exchange. The war efforts, on the one hand, and the requirements to finance usual, albeit reduced, public current expenditures, on the other, necessitated extra financial resources. External borrowing filled in the gap.

I.2 The financial gap and external borrowing

The first ‘creditors’ to finance Iraq’s spending gap were the Gulf countries; mainly Saudi Arabia and to a lesser extent Kuwait. The former was instrumental in financing Iraq during the war years[3]. Other Gulf countries include UAE and Qatar. Other loans were also obtained from various sources that included a legion of countries and commercial creditors.

The Iraq-Kuwait adventure and the ensuing UN sanctions postponed the resolution of the debt incurred before 1991[4]. The postponement itself, incidentally, contributed to the growth of this debt by adding (i.e., capitalizing) accumulated accrued interest for the subsequent period, which later events caused it to extend to 2011 (see below).

The constituents and terms of the debt have not been clear in their sources, grace and repayment periods or rate of interest. As a matter of fact the size of the debt was not well known. External borrowing was neither centralized nor coordinated. It emerged that no single public entity in Iraq had the full picture of the debt size. Therefore, it took much efforts and time to figure out its size and terms. Even now the figures on debt as it stood at the end of 2004 (the time of Paris-Club agreement) have been undergoing revisions (see note i in table T1 below). These revisions are the consequences of many factors. First, new claims spring up, which were not made at the time of Paris-Club agreement. Second, variations in the exchange rate of the US Dollar against other currencies (in which some debt is denominated) entail reevaluation. Third, recalculation and additions emanating from the capitalization of accrued but unpaid interest.

The structure of Iraq’s debt can be classified as follows:
(1) Official debt: debt obtained through guarantees by creditor countries:

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[3] Due to the requirements of financing domestic public spending on the one hand and, to a lesser extent, war efforts in Iraq, on the other, the accumulated current account surplus that was amassed by Saudi Arabia during the 1970s (about $170 billion between 1970 and 1982) was almost depleted during the 1980s and 1990s (where the accumulated current account deficit amounted to $181 billion between 1983 and 1999), see Merza (2001, P.3).
[4] Note, however, that paying for war reparations started after the commencement of the Oil for Food program 1996.

Paris-Club (official) debt[5].
Other official debt
Gulf debt (S. Arabia, Kuwait, Qatar, UAE).
Non-Gulf debt[6].

(2) Commercial Debt; debt owed to private creditors, mainly credit for financing imports.

(3) Multilateral Debt (IMF and the like).

Apart from the Gulf debt, all other types bear interest[7]. Capitalized interest seems to parallel the principal in size for non-Gulf debt. For instance at the time of the Paris-Club agreement (see below) Paris-Club's debt composition was as follows:

Table (T1): Paris-Club Debt 2003

	$ Million
Principal (arrears) as of May 22 2003	19,702
Capitalized Interest up to May 22, 2003	15,007
New debt between May 22 and December 31, 2003	1,302
New Capitalized Interest between May 22 and December 31, 2003	1,147
Outstanding debt as of 31 December 2003	**37,158**

Source:
Paris Club website: http://www.clubdeparis.org/sections/traitements/irak-20041121/downloadFile/TableauDeDetailDeLaDetteDue/irakduen_1.pdf, Accessed 15 Oct 2007.

Notes:

(i) These figures were updated such that outstanding debt was put at $38.9 billion at end-2004. The latter was revised to $42.6 billion.[8]

(ii) In a World Bank's report on international debt tables the following is stated, "*Interest in arrears on long-term debt is defined as interest payment due but not paid, on a cumulative basis. Interest arrears are regarded as short-term debt. Thus an increase in interest arrears will not be recorded as increase in long-term debt outstanding and disbursed*", World Bank (2006, P. xv). It seems, however, that capitalized due interest in the case of Iraqi debt has been considered part of Iraq's long-term outstanding debt.

It is obvious from the table that capitalized interest on May 22, 2003 was about 76 percent of the principal. As for other Non-Gulf debt the ratio differs, depending mainly

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[5] Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, Korea, Russia, Spain, Sweden, Switzerland, UK, USA.

[6] Bulgaria, China, Czech Republic, Hungary, India, Jordan, Morocco, Poland, Romania, Serbia, South Africa, Turkey, and others.

[7] The following quotation, however, refers to one Gulf country claiming interest payments, "*Dow Jones reports that while the Qatari government says it's owed $4 billion by Iraq, Mohamed Moabi, executive manager for economics and planning at Qatar National Bank, said* ***the principal on the loans was only $1 billion****, with the rest representing accrued interest*", http://www.jubileeiraq.org/cgi-bin/mt-search.cgi?Template=jubileeiraq&search=Qatar, Accessed, 11 February 2004.

[8] In November 21, 2004 at the time of the signing of Paris-Club agreement, Paris-Club debt was specified at $37.2 billion at end 2003. In the Press Release for this agreement the debt was specified at $38.9 billion, (both figures as of 31 December 2004). Figures are taken from: http://www.clubdeparis.org/sections/traitements/irak-20041121/viewLanguage/en, Accessed 12 October 2007. This Paris-Club debt at end-2004 was subsequently revised upward. The latest revision puts it at $42.6 billion, IMF (2007, P. 37).

on the interest rate, but one would expect the same order of magnitude as that in the Paris Club debt. The Paris Club interest is thought to have been capitalized at about 5 percent, see section (IV) below.

II. Post-2003 Arrangements

II.1 Madrid donors conference

The Madrid conference convened in October 2003. It was attended by all possible donor countries; mainly OECD, Russia, China, Arab countries, etc. The main objective was to raise funds in aid or concessionary loans to support the reconstruction of Iraq on the one hand and to integrate the country into the world economy, on the other. The Madrid conference established the *International Reconstruction Fund Facility* for Iraq (IRFFI), and set up two trust funds, one administered by the World Bank and the other by the United Nations Development Group (UNDG).

As of July 2007, the US pledge stands at $20.7 billion ($10 billion for Madrid and $10.7 billion for the *International Compact with Iraq*), $18.4 billion of which has been committed (appropriated/obligated) and $15.8 billion disbursed (expended), SIGIR (2007, P. 31, P. 132)**.**

Non-US international donor pledges totaled $18.2 billion – $13.5 billion pledged at the Madrid Conference and $5.0 billion in post-Madrid pledges ($0.7 billion within the *Compact*). Only $4.3 billion, has been committed of the non-US pledges (i.e. out of $18.2 billion), and only $1.4 billion disbursed. Of the original non-US Madrid pledges, $8 billion came from individual countries, and the remainder came from the World Bank and UN. Approximately $10 billion of original non-US Madrid pledges were loans, and the rest were grants from other countries, SIGIR (2007, P. 132)**.**

II.2 Paris Club agreement.

The call for the reduction of Iraqi external debt stemmed from the following considerations:

(i) *The odious debt argument*. Many writers (e.g., Adams 2004, CISDL 2003) used the odious debt argument to demand the writing-off of most Iraq's outstanding debt, especially those held by public creditors. According to the '*international doctrine of odious debt ….debts not used in the public interest are not legally enforceable'*, Adam (2004, P.1). These writers contend that most of the debt incurred during the period 1980-2003 was used by the old regime to support wars, quelling legitimate uprisings or in persecuting opposition groups. Most of the creditors were aware of the regimes' practices. Therefore, the Iraqi people should not be accounted to repay such debt. Detractors, however, argue that some of the debt incurred was to finance ordinary imports that served the population in terms of food, medicine and other necessities; therefore, such debt need to be repaid back.

(ii) *The nature of the Gulf's debt*; an argument has been made that most of this debt was in fact grants[9]. It has also been reported that in its memorandum to the UN Security

[9] Speaking to the US House of Representatives' Appropriations Subcommittee on Foreign Operations, Deputy Secretary of State R. Armitage said '*There's no paper on [Gulf funds to Iraq] because it was given when Iraq was fighting Iran. It was provided as a grant because of the war at the time'*, JubileeIraq, September 25, 2004, http://www.jubileeiraq.org/cgi-bin/mt-search.cgi?Template=jubileeiraq&search=%22Paris%20club%22. Moreover, in a World Bank description

Council in May 1991, about the size of Iraq's external debt, the government of Iraq indicated that most of what is considered debt owed to the Gulf countries was grants rather than loans (Jiyad, 2001).

(iii) The imposition of war reparations (or compensations), themselves consequences of the regime's adventures, makes the burden of debt even harder.

(iv) With long years in war, destructions and UN sanctions the infrastructure and even the social fabric have deteriorated to a point that expected resources will not be enough to sustain the pre 2003 standards of living, let alone those of the 1980s, Merza (2004, 2007).

Bolstered by these considerations and an assessment, by the United Nations and World Bank, of Iraq's financial requirements for reconstruction (UN/World Bank, 2003), the Interim Government of Iraq demanded, in its *Letter of Intent* to the IMF, in September 2004, the writing off of almost all Iraq's debt, '*Iraq will need substantial debt reduction (in the neighborhood of 90% to 95%) to reach external and fiscal viability*', (IMF 2004). The creditors found it expedient, however, to call for the majority of debt to be forgiven, *but only subject to conditions and performance benchmarks to be fulfilled or met by the Iraq government.* This was enshrined in the Paris Club agreement[10] and later in the *International Compact with Iraq*. In another ward the debt reduction (which was set at 80 percent) was conditional on following policies and setting up institutions deemed necessary for realizing 'efficient' economic system based on private initiatives and the market as well as following international standards. The IMF and World Bank were made the watchdogs and advisors that follow-up the attainment of these benchmarks through an agreement; a *Standby agreement*. The Paris club agreement which was finalized at the end of 2004 stipulates, '*On November 21, 2004, the Paris Club agreed to a reduction of Iraq's outstanding debt at end-December 2004 in three stages: 30 percent debt reduction upon the signing of the agreement, combined with interest deferral on the outstanding balance; 30 percent additional debt reduction upon approval of an upper credit tranche arrangement with the IMF (end-2005), and a further 20 percent debt reduction following completion of the IMF's Executive Board's final review of three years of one (or more) upper credit tranche arrangement(s). The agreement also entails a rescheduling of the remaining debt stock with repayments of the debt stock starting in July 2011 and ending in January 2038. In addition, interest payments accrued during 2005–07 are fully capitalized, and those accrued during 2008–10 are partially capitalized*', IMF (2005, P. 50).

It was hoped that this scheme would apply not only to Paris-Club debt but to all official non-Paris Club and commercial debt. However, application of Paris-Club-type

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of the Gulf's debt it is stated that '*the key to resolving the differences with the Gulf States' claims would be tracking down documentation and agreeing how much of it should be treated as loans or grants*', World Bank, November 23, 2004, http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTPROGRAMS/EXTTRADERESEARCH/.

[10] In general, Paris-Club agreements are usually made subject to the implementation of IMF or IMF-type conditionality; see http://www.clubdeparis.org/sections/principes-et-regles/clauses-specifiques/, Accessed 12 Oct, 2007.

reductions to other debt (official or commercial) was to be realized through bilateral negotiations between the creditors and the Iraqi government.

The Paris club arrangement should be seen as an element within a set of arrangements that intend to reshape the Iraqi economy and institutions. This includes, the *Madrid Donors Conference* and aftermath, the continuous IMF/World Bank involvement, the IMF's *Standby Arrangement* and the *International Compact with Iraq*. Even such indirect events as the Baker-Hamilton Report (2006), the Biden Plan/US Senate approval (2006/2007), etc., could be seen as part of this wider set.

II.3 IMF's Standby arrangements

After the Paris Club agreement, Iraq had to apply for a standby arrangement with the IMF. The standby arrangement is a line of credit that the IMF extends with the obligation by the benefiting country to consider the use of this line as precautionary, i.e. in extreme circumstances. In return, the country promises to follow specific policies. At the end of 2005 Iraq was offered such arrangement in exchange for an economic programme that the government submitted earlier. …'*the Iraqi authorities request a Stand-By Arrangement (SBA) in support of a program outlined in the accompanying Memorandum of Economic and Financial Policies. Access is proposed at SDR 475.4 million (40 percent of quota), and the arrangement would cover a fifteen month period through March 2007. The authorities intend to treat the arrangement as precautionary. A key program objective would be to maintain macroeconomic and financial stability, while aiming for sustainable growth over the medium term. Approval of the SBA would also trigger the second stage of (30 percent) debt reduction under the Paris Club agreement*", (IMF 2006, P. 1**).** The Standby arrangement entails periodic follow-up by IMF missions on the implementation of such benchmarks (so-called *Structural Performance Criteria* and *Benchmarks*) as increasing energy prices, phasing out subsidies, restructuring the banking sector, developing monetary tools, implementing fully detailed budget classification, implementing modern payment system etc., see Table (1).

Many reviews were issued in following up with the implementation of these benchmarks. In subsequent reviews it is indicated that some of the benchmarks were implemented; others were postponed. The latest (fifth) review was carried out within the IMF's Article IV Consultation with Iraq in August 2007, IMF (2007).

On December 23, 2007 another standby arrangement was reached between Iraq and the IMF. Iraq was offered another precautionary loan of SDR 475 million (about $744 million) for 15 months (IMF 2008). This arrangement is also tied to the continuation of the implementation of the reform programme as signified by the set benchmarks.

II.4 International Compact with Iraq (COMPACT)

Supported by the United Nations and the World Bank, this Compact[11] is an initiative of the Iraqi government to internationally support a five-year programme. Under the Compact, '*Iraq would undertake economic, political, and security reforms to receive financial and political support from the international community',* Government of Iraq,

[11] The Compact was formally launched on May 3, 2007, by the Iraqi Prime Minister and UN Secretary-General in Sharm el-Sheik, Egypt.

UN, WB (2006a). The Iraqi government, therefore, would be committed to transform Iraq to a market-based economy, fully integrated with the region and the rest of the world and to adopt specific reforms pertaining, *inter alia*, to:

i. realizing a sovereign, unified, federal, democratic Iraq integrated into the region and world community,
ii. fighting corruption,
iii. building effective national institutions, including better public resource management and effective governance based on the rule of law.
iv. subsidy reform,
v. financial sector restructuring,
vi. hydrocarbon legislation,
vii. encouraging the private sector to assume a leading role in investment and in economic activity.
viii. refined agriculture and water management strategy.

The document of the Compact (Government of Iraq, UN, WB 2006a) also includes key priorities, benchmarks, and timelines (see Table 1). These indicators are made the basis of subsequent reviews designed to follow-up, monitor and evaluate the implementation of the Compact's programme by the Iraqi government and by the international donors and creditors. It is worth noting that the fulfillment of the economic goals in the Compact is linked to the IMF-supported Standby Arrangement with Iraq (P. 12).

In return, the international community will commit to supporting Iraq's recovery programme, including a five-year goal of financial self-sufficiency, and the granting of debt relief to Iraq by creditors at least on comparable terms to the Paris Club agreement (P.5). See also SIGIR (2006, P.99), Government of Iraq, UN, WB (2006a, 2006b, 2006c).[12, 13]

III. Economic conditionality: benchmarks and performance criteria

III.1 Meeting the benchmarks: necessary conditions

The Iraqi government and economy have been subjected to many sets of performance criteria, conveniently called 'benchmarks' with specific timelines. Calls for transparency and effective use of the aid resources[14] in the Madrid conference have paved the way for the requirement that Iraq undertakes specific measures, laws, regulations and makes institutional changes in return for aid and debt reduction. Paris Club agreement on debt reduction followed with similar requirements to be incorporated under the auspices of the

[12] '*The IRFFI (The International Reconstruction Fund Facility for Iraq, established by the Madrid Conference in 2003) Donor Committee's Chair is a member of the preparatory group for the Compact. This committee will play an important part in the implementation of the Compac*t', (SIGIR 2006, P. 99).

[13] In the document of the Compact it is mentioned that '*broad reform and investment programmes are elaborated in this document to arrive at measurable mutual commitments that the Government of Iraq and the International Community will implement together*', Government of Iraq, UN, WB (2006a, P.4).

[14] For instance, the European Commission called for, '*A mechanism is also needed to ensure proper liaison and dialogue between the international community, the Iraqi authorities and the Coalition Provisional Authority on budget expenditure priorities and the reconstruction strategy. Transparent and non-discriminatory procedures are needed, in particular concerning public procurement, in the management of both the Development Fund for Iraq and the Trust Fund*', European Commission (2003, P.6).

IMF. The IMF Standby arrangement was, therefore, the first to make such benchmarks. The most detailed benchmarks, however, were set in the *International Compact with Iraq*.

It is obvious that international involvement is a two-way traffic, aid and debt forgiveness in return for the implementation of specific programmes with performance criteria, timelines, follow-ups, and evaluation.

Let us consider the main three sources (sets) of benchmarks aimed at measuring the government's implementation progress (Table 1). The first is the IMF's Standby arrangement, which contains about 12 benchmarks (called *prior actions*, *structural performance criteria* and *structural benchmarks*). These benchmarks were meant to be implemented by the end of 2007. Due to the security situation and slow pace of domestic political agreements, the meeting of some benchmarks, however, was waived until 2008. The second (predominantly political rather than economic) is a set of 18 measures set forth in P.L. 110-28, which was passed by the US Congress on May 25, 2007. Most benchmarks in this set were meant for 2007 and early 2008. Recently it was reported that only 9 out of these 18 were either satisfactory or partially met (SIGIR, 2007, P. 11). The third set, the most detailed, is contained in two appendices to the International Compact with Iraq,[15] the benchmarks of which were scheduled for a four/five-year period 2007-2011/2012, (see Table 1 and Government of Iraq, UN, WB, 2006b, 2006c).[16]

Three questions arise here; first, are these sets compatible? Secondly, given the intertwining of economic, social, political and security entanglements can the government meet the timelines? Third, how beneficial to the economy are their fulfillment?

In answering the first question we have the following observations:

(i) The political benchmarks in the US Congress (P.L. 110-28) and COMPACT are largely compatible as indicated in Table (1), noting that the Congress's benchmarks are predominantly political. Only two of its benchmarks relate to the economy and they are largely compatible with those of the COMPACT's.

(ii) Although there is no one to one correspondence between the benchmarks of the IMF's Standby arrangement and those of the COMPACT's their affinity is clear and it can be said that they are largely compatible, Table (1).

(iii) Therefore, it can be stated that the benchmarks of the three sources are more or less compatible.

As stated above, recently the US Congress found that the government (in full or partially) has met only 9 of its 18 benchmarks. The Standby arrangement reviews (by August 2007, five reviews) found progress in the implementation of some benchmarks

[15] The IMF is responsible for the review and follow-up of the first set of benchmarks, SIGIR (2006, 2007) for the second set and the Government of Iraq (2007) for the third set. SIGIR also refers in its quarterly reports to the indicators on the third set published by the government of Iraq.

[16] There are other (non-binding) benchmarks included in such report as Baker-Hamilton report, 2006 (which was the basis of the 18 measures passed by the US Congress) and semi benchmarks included in (US Senator) Biden Plan, 2006 (which was also passed overwhelmingly by the US Senate; 75 to 25 in September 2007). Such writers as Ali Allawi also recommended benchmarks in his article in the Independent newspaper (January 2007) and touched upon in his book Allawi (2007). The benchmarks included in Biden Pan come close to those recommended by Ali Allawi.

and delay in others. In its report about the implementation of the benchmarks of the Compact, up to mid-2007, the Iraqi government enumerates the steps, measures and procedures taken for each of the benchmarks according to its timeline and the body responsible for implementation; Government of Iraq (2007).

In partially answering the third question, we think that many of the economic benchmarks are necessary and beneficial to the Iraqi economy, mainly:

(1) To rid the Iraqi economy of the inefficiencies and distortions of long years of public sector domination.

(2) To overhaul the existing institutions and set-up new ones which are commensurate with those prevalent in the world especially those related to the rule of law, efficient and impartial judiciary, transparent dispute settlement mechanisms, efficient business licensing, etc.

(3) Restructuring the monetary and financial sector and introducing and implementing modern payment system.

(4) Controlling and consolidating public financing including the use of modern budgetary and monitoring system

(5) Creating a level field for a growth-oriented economic environment.

(6) Combating of corruption in the public sector.

(7) Ridding the subsidy system of profiteering and smuggling.

(8) Etc.

In addition to help creating a level economic, institutional, and infrastructural background, which is necessary to realize a growth-oriented environment, insisting on meeting some of the benchmarks is also beneficial in overcoming the resistance to change of entrenched vested interests, which are the main source of corruption, that have mushroomed during the past four years[17].

In answering question two and part of question three we note that social, political and economic consequences of meeting some of these benchmarks could, however, intertwine to make progress in these fields so difficult that insisting on rigid timelines could be counterproductive, examples:

(i) Rising poverty is accentuating social strife in the country. Although the rise in poverty is mainly a consequence of rising unemployment and losing of incomes and assets due to insecurity, violence and displacement, the phasing out of subsidies, without adequate compensation to the exposed, is a contributing factor. For instance, it has been reported that '*many displaced people do not register for rations*', UNHCR (2007, P. 10). This is synonymous to phasing out subsidy without compensation to the needy, which makes the poverty situation even worse.

(ii) The draft Law of Oil and Gas has created political wrangling. The draft was finalized in February/March 2007 and later approved by the Cabinet. Yet, it has stalled in the Iraqi House of Representatives, due to political disagreements.

[17] Transparency International's *Corruption Perceptions Index* (CPI) 2007 for Iraq is reported at 1.5 out of 10 points. On a measure of increasing corruption, Iraq ranks 178 on a scale that ends at 179; see: http://www.transparency.org/news_room/in_focus/2007/cpi2007/cpi_2007_table, Accessed 4 November 2007.

(iii) Economically, claims have been made in the Kurdish region that the high primary interest rate set by the Iraqi Central Bank (21 percent +; reportedly to combat inflation as well as developing a monetary policy tool) has drained the region of badly needed cash.

III.2 Necessary and sufficient conditions

A curious outcome of multilateral-bilateral agreements with Iraq seems to have emerged. The Paris Club agreement, the International Compact with Iraq and the IMF's Standby agreement all stipulate that Iraq should meet the benchmarks and performance criteria in these agreements. This compliance was deemed necessary to offer debt reduction (and aid). At the same time Iraq was encouraged to enter into bilateral negotiations with the creditors to reduce debt. Compliance with the benchmarks and performance criteria, therefore, seems to be necessary but by no means sufficient to grant debt reductions for Non-Paris-Club official debt or even for the debt owed to Russia; a member of Paris-Club. The sufficient conditions (price) seem to be either granting the creditors economic stake in the lucrative oil deals (e.g. Russia) or making specific domestic political arrangements deemed necessary by the Gulf countries. Apart from goodwill announcements of impending agreements most bilateral negotiations with non-Paris Club public creditors have not yet, it seems, resulted in concrete officially agreed reductions.

IV. The reality of debt reduction

IV.1 Initial stocks and terms of borrowing

In carrying out calculations on debt reduction according to the Paris-Club agreement one faces problems in deciding on the initial size of debt and on the interest rate used to capitalize the accruing unpaid interest up to the beginning of the repayment period (2011). This emanates from the many loans involved, level of interest rate used and the meaning of *partial capitalization* of accruing interest in 2008-2010, mentioned in the Paris Club agreement (section *II.2* above).

Therefore, before the calculation of the reductions an agreed level of debt needs to be specified. This is an empirical problem. The stock of total debt at the beginning of 2003 has been quoted at the time at $120 billion (and is still being quoted as such; see, for instance, footnote 18 below). Recently the stock was put at $131.9 billion at the end 2004 (before the implementation of the Paris Club agreement), IMF (2007, P.37).

IV.2 Actual size of the reductions

Although 'optimistic, statements are plentiful[18], as of the end of 2007 (4 November) the initial hopes that debt would be reduced by 80 percent (more precisely, 60 percent during 2004-2007) across the board have not materialized in full, yet. Moreover, clear picture about the exact amount of the outstanding debt to what country is still not available[19].

[18] In an interview, the governor of the Central Bank of Iraq stated that "*the Iraqi debts were some $120bn... **approximately $70bn have been cancelled**... The rest of these debts are debts to the Arab countries, specifically the Gulf countries. Saudi Arabia has agreed to reduce the debts owed to it by 80%. The other countries are showing amicable stances, and we hope to reach agreement with each of them through bilateral dialogue and negotiation. **If we reach agreements** [boldness added] with the other Arab countries, we will be able to cancel 100 billion dollars of the debts*''. Al-Hayat Newspaper (27 July, 2007).

[19] International debt tables are annually published for about 135 countries (2006) in the World Bank's report titled *Global Development Finance (GDF)*, *Volume II*. GDF for 2006, however, does not contain

One of the authoritative public references (IMF's Article IV Consultation reports) on Iraq's debt stated in August 2007 "*Iraq has received substantial debt reduction from official and private creditors, but the amount of external debt remains large.* ***By assuming*** *[boldness added] that debt reduction comparable to the Paris Club agreement is applied to non-Paris Club creditor's claims, the latest estimates of external debt indicate that the stock of debt was $69 billion (220 percent of GDP) at end- 2005 and $55 billion (111 percent of GDP) at end-2006*", IMF (2007, P. 36). Compare this to the statement that '*Iraq's foreign debt at the end of 2006 is estimated at about $89 billion',* GAO (2007, P.59). The figure of the IMF's report, is, therefore, based on an ***assumption*** made in August 2007 that the treatment of official Non-Paris-Club debt, mainly the Gulf's, has been carried out according to the Paris-Club agreement terms, starting from 2004.

Reality, though, is not that clear. Most Paris Club members seem to be committed to the 80 percent reduction. Russia, however, is sending mixed signals reportedly trying to link its reductions with safeguarding their old agreements on oil with the fallen regime (Jubilee Iraq, August 9, 2007, http://www.jubileeiraq.org/blog/2007_08.html). The other official non-Paris Club debt reductions are also showing difficulty to materialize with the different groups involved. Saudi Arabia is reportedly having agreed to 80 percent reduction so is Kuwait. For Kuwait, however, "*the Kuwaiti government has pledged to forgive 80 percent of Iraq's debt, but the decision is subject to parliamentary approval. Many lawmakers oppose the move, arguing that Iraq also is an oil-rich country and should pay back the money*" (Washington Post, April 24, 2007, http://www.washingtonpost.com/wp-dyn/content/article/2007/04/24/AR2007042401078.html). Other countries are still negotiating with Iraq. By January 2008, and except for the recently reported settlement of the Yugoslavian debt ($2.5 billion), nothing concrete seems to have emerged (IMF, 2008).

Apart from most Paris-Club members' debt, therefore, the only clear picture is that of the treatment and rescheduling of the commercial debt. Commercial debt reduction amounted to US$18.4 Billion in exchange for cash payments (US$ 0.38 Billion) and national bonds (US$ 2.88 Billion) implying an 82.3 percent reduction. The agreement was negotiated directly between the Iraqi Ministry of Finance and the creditors and finalized in April 2006. By July 2006, the exchanged debt increased from $18.4 to $19.7 Billion, Ministry of Finance (2006).

With this mixed picture, we will try to establish a 'range' of possible values. Depending on available sources we can construct the following two estimates of the outstanding debt of Iraq for the period 2004-2007, as two opposite ends of the range. The first is that prepared by the IMF; which ***assumes*** two-stage Paris-Club-agreement-type reduction (the third is assumed to materialize at the end of 2008) across the board for all debt. The other is based on the IMF's figures but assumes that apart from Romania and Poland the first and second stages have not, so far, been applied to Non-Paris-Club official debt or to Russian debt.

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figures on Iraqi debt. Moreover, as of November 1, 2007, the fact that figures on Iraq's debt return blank entries when using the '*World Development Indicators*' or '*Key Development Data & Statistics*' provided in the World Bank's website, suggests that the report of 2007 does not contain data on Iraq's debt, either. GDF provides, *inter alia*, annually 3-page tables for each of the 135 countries. Each set details debt according to source, duration, currency denomination, etc.

Table (T2): Iraq: Outstanding Debt, $ Billion

	Outstanding Debt before Reduction	*Estimate I* (IMF) Two-Stage Paris-Club Reduction for all official debt Plus Private Debt Actual Settlements				*Estimate II* Two-Stage Paris-Club Reduction for Paris Club (excluding Russia) Plus Private Debt Actual Settlements			
	2004	**2004**	**2005**	**2006**	**2007**	**2004**	**2005**	**2006**	**2007**
Paris Club official creditors	**42.6**	**28.4**	**19.2**	**19.9**	**20.7**	**31.9**	**25.5**	**26.5**	**27.5**
Non-Paris Club official creditors	**67.7**	**47.4**	**28.4**	**29.8**	**31.3**	**66.7**	**66.8**	**67.5**	**68.2**
Saudi Arabia	*38.6*	*27.0*	*16.2*	*17.0*	*17.8*	*38.6*	*38.6*	*38.6*	*38.6*
Kuwait	*7.6*	*5.3*	*3.2*	*3.3*	*3.5*	*7.6*	*7.6*	*7.6*	*7.6*
China	*7.9*	*5.5*	*3.3*	*3.5*	*3.6*	*7.9*	*8.3*	*8.6*	*9.0*
UAE & Qatar	*3.0*	*2.1*	*1.3*	*1.3*	*1.4*	*3.0*	*3.0*	*3.0*	*3.0*
Others	*10.6*	*7.4*	*4.5*	*4.7*	*4.9*	*9.6*	*9.3*	*9.7*	*10.0*
Private creditors	**20.7**	**20.7**	**19.5**	**4.0**	**3.0**	**20.7**	**19.5**	**4.0**	**3.0**
Multilateral creditors and others	**0.9**	**1.2**	**1.8**	**1.0**	**1.4**	**1.2**	**1.8**	**1.0**	**1.4**
Total Outstanding Debt	**131.9**	**97.6**	**68.9**	**54.7**	**56.4**	**120.5**	**113.6**	**99.0**	**100.2**

Sources: Tables (2) and (3).
Estimate I is largely that of IMF **(**2007, P. 37**).**
Estimate II: *assumptions made in constructing this estimate are as follows:*

1. *Two-stage- Paris-Club-type reduction (2004-2005) is assumed for:*
   Paris-Club creditors (excluding Russia).
   Romania and Poland.
2. *No debt reduction for: Russia, the Gulf countries and other official creditors.*

At the end of 2007 the actual picture of outstanding debt could be somewhere between the two estimates. This emanates from the situation that even if Saudi Arabia, Russia and some other countries, so far balking on debt reduction, had agreed to reduce debt, they could not have started the reduction before the end of 2007. Therefore, until such reductions are implemented officially with specified timelines, it is prudent to assume the higher figures in *Estimate II*. For instance, the outstanding debt at the end of 2007 is more likely to be closer to the $100.2 billion in *Estimate II* than to the $56.4 billion in *Estimate I,* in the above table (Table T2).

IV.3 Principal and capitalized interest

It is useful to separate the original debt (later, called *arrears*) as it was largely incurred before 1991 and the accumulated interest since then. Unpaid interest is usually added to the principal (i.e. *capitalized)* each time the latter is not repaid in time. We will assume, as before, that the Gulf debt does not bear interest. The evolution of debt and capitalized interest can be traced in the following preliminary, yet revealing table. As in the previous table, two estimates are presented for outstanding debt during the period 2004-2007:

Table (T3): Principal and Capitalized Interest, US$ Billion

End of Period	1991-2004 Before debt reduction	Estimate I: IMF's Figures				Estimate II: Modified IMF's Figures			
		1991-2004 After reduction	2005	2006	2007	1991-2004 After reduction	2005	2006	2007
What remains of the original principal	**96.3**	**73.9**	**49.2**	**33.0**	**32.7**	**96.8**	**92.8**	**74.9**	**73.2**
Paris Club	*24.1*	*16.1*	*8.1*	*7.6*	*7.1*	*19.6*	*14.4*	*13.9*	*13.4*
Gulf	*49.2*	*34.4*	*20.7*	*21.6*	*22.7*	*49.2*	*49.2*	*49.2*	*49.2*
Others	*23.1*	*23.4*	*20.5*	*3.7*	*2.8*	*28.0*	*29.3*	*11.8*	*10.6*
Accumulated capitalized interest	**35.6**	**23.7**	**19.7**	**21.8**	**23.7**	**23.7**	**20.7**	**24.1**	**27.0**
Paris Club	*18.5*	*12.3*	*11.1*	*12.3*	*13.6*	*12.3*	*11.1*	*12.6*	*14.1*
Gulf									
Others	*17.0*	*11.4*	*8.6*	*9.5*	*10.1*	*11.4*	*9.6*	*11.5*	*12.8*
Total outstanding debt	**131.9**	**97.6**	**68.9**	**54.7**	**56.4**	**120.5**	**113.6**	**99.0**	**100.2**
Percentage of capitalized interest to:									
total outstanding debt, %	*27.0*	*24.3*	*28.6*	*39.8*	*42.1*	*19.7*	*18.2*	*24.3*	*26.9*
non-Gulf outstanding debt, %	*43.0*	*37.5*	*40.8*	*65.8*	*70.5*	*33.3*	*32.2*	*48.3*	*52.9*

Source: calculated from Tables (2) and (3).

This table shows the time path of the outstanding debt. Before the Paris Club agreement, at the end of 2004, 27 percent of total debt was accumulated (capitalized) interest on Paris-Club, non-Gulf official and commercial debt. The percentage would jump to 43 percent for non-Gulf debt. This means that capitalized interest was close in size to the whole of non-Gulf debt as it was incurred before 1991.

Depending on the implementation or otherwise of the Paris Club agreement, by the various creditors, to both the arrears and the capitalized interest, the table shows that capitalized interest made between 20-24 percent of outstanding debt at the end of 2004 (after debt reduction). At the end of 2007, capitalized interest made between 27-42 percent of total debt and between 53-71 percent of non-Gulf debt. This implies that capitalized interest was between 1.1 to 2.4 times of what remains of the original non-Gulf principal (arrears).

V. Long-term obligations: servicing debt and war reparations

It is clear that at the end of 2007 outstanding debt stands at between \$56-100 billion. The unpaid balance of reparations (compensations) stood at \$29.9 billion (in August 2007, Table 6). This implies a figure for outstanding obligations of debt and reparations of \$86-130 billion.

In projecting into the future we will assume two subsets (scenarios) of Estimate II above. Scenario 1 assumes that the laggards (including Russia) will reduce their debt by 80 percent in 2008 to ‘catch-up’ with Paris Club members. Scenario 2 assumes that those laggards would not reduce any of their debt. The other Paris Club members, however, would implement the third stage in 2008 in both of these scenarios (see tables 4 and 5).

Accordingly the servicing of debt and war reparations in both of these scenarios during the period 2011-2038 is shown in the following table:

Table (T4): Annual Debt Service and War Reparations, US$ billion

	Scenario 1	**Scenario 2**	***Repayment period***
Outstanding obligations:			
Outstanding debt End-2011	**38.5**	**100.8**	
Outstanding war reparations:			
End-2007	**29.0**	**29.0**	
End-2011	**21.3**	**21.3**	
Annual payments:			
Annual debt service *(principal and interest)*	2.6	6.9	*2011-2038*
Average annual war reparations:	3.2	3.2	*2011-2016*
Total annual payments	**5.8**	**10.1**	*2011-2016*
Average annual oil revenues *(2011-2016)*	**64.1**	**64.1**	
Percentage of oil revenues	*9.1%*	*15.7%*	

Sources: calculated from Tables (4), (5), (6), and (7).

Depending on the level of outstanding debt in 2011, annual debt service payments for the period 2011-2038 would amount to \$2.6, \$6.9 billion in scenarios 1 and 2, respectively (Tables 4 and 5). In addition, 5 percent of all petroleum (crude and products) exports have to be paid annually in war reparations. The latter would depend on the quantity and price of petroleum exports.[20]

If we assume that oil price will remain in the range of 50-60 a barrel (as OPEC, assumes, rather optimistically, in its reference case) crude oil exports would increase from about \$37 billion in 2007 to about \$71 billion in 2016 (Table 7). Average annual revenues for 2011-2016 would amount to about 64 billion. Annual war reparations of 5 percent would make, therefore, an average of more than \$3 billion.

These calculations reflect the fact that annual debt service is a constant payment (in nominal terms), in each scenario, while annual servicing of war reparations depends on the level of oil revenues; the higher the level of oil revenues, the higher the annual payment and the shorter the repayment period of the outstanding reparations. If future oil revenues can be described by the trend shown in table (7) then all reparations (compensations) would have been paid off by 2016. After that date only debt service continues.

During the vital years of 2011-2016, therefore, annual payments of debt service and reparations would cut about 9.1 – 15.7 percent of oil revenues. Furthermore, If oil prices (and hence revenues) fall then annual reparations would fall as well and the

[20] In a 'reference *case'* for price projections up to 2030, OPEC's benchmark crude price is assumed to remain in the \$50–60/barrel range in nominal terms for much of the projection period. '*These price levels are, of course, no more than assumptions, and do not reflect or imply a projection of most likely price paths, or of the desirability of any given price*', OPEC (2007, P. 15). Furthermore, in its reference case scenario, the US Information Energy Agency seems to imply higher (nominal) prices for the period up to 2030, see EIA (2007b) and also EIA (2007a).

repayment period (of reparations) lengthens beyond 2016. The share of annual payment (servicing of debt and reparations) to total oil revenues, however, would rise[21]. For instance, if we choose another time path for the oil price that ends in $30 a barrel in 2015 and thereafter (instead of the one shown in Table 7 that ends in $50 a barrel in 2015 and thereafter) the repayment period of the war reparations would continue to the year 2019 and annual service of debt and reparations would increase to between 11.0 – 20.7 percent (instead of 9.1-15.7 percent) of annual oil revenues during the period 2011-2019.

This is a heavy burden to sustain for long, even if the current prospect of high oil prices continues. This is due to two factors; first the dire situation of the standards of living, of the poverty situation, of the economy and of the infrastructure in Iraq, entails a long time to rectify and put on sustainable path. Secondly, annual payments are either contractual or internationally imposed obligations that cannot be defaulted without adverse international reaction while the prospect of oil prices is only a prospect, which could well change drastically to the worse in the future.

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[21] $\boldsymbol{\Delta\lambda} \approx \boldsymbol{- A\,\Delta\, R/R^2 > 0,\ \ if\ \Delta R<0}$, where $\boldsymbol{\lambda}$ is the share of annual servicing of debt and reparations to total annual oil revenues, $\boldsymbol{A}$ is the fixed annual debt service (principal and interest) and $\boldsymbol{R}$ total oil revenues.

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Tables

Tables in the text, mainly summary tables, are numbered with an attached letter T, e.g. (T-then the number of the table). In the detailed tables that follow (1 to 7) they are labeled with numbers only.

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U.S. Statutory Benchmarks : U.S. P.L. 110-28 Benchmarks 2007/2008	International Compact with Iraq 2007-2012	IMF's Standby-Arrangement 2007/2008
	Goal: Establish a civil service corps on the principles of professionalism, integrity and non-partisanship	
	1. Adopt and implement policies, legislation, regulations, procedures and build institutions of public service management	
	2. Carry out specific actions to improve human resources management practices	
	Section 4.3 – Economic Reform	
	Goals: Create an enabling environment for investment, public and private, domestic and foreign, as a driver for sustainable and diversified economic growth Create the conditions for maximizing the benefits from foreign aid and investment and integration into the global economy	
	Section 4.3.1 - Reforming Subsidies	
	Goal: The Government shall work to phase out inefficient and inequitable universal subsidy programs while ensuring the protection of the vulnerable	Prior Action: Nationwide increase of official domestic price of petroleum products as fo
	1. Phase out universal subsidies (see also 3.1, 4.5 and 4.6.1)	
	Section 4.3.2 - Private Sector Development and Investment promotion	
	Goal: Create an enabling environment for private investment and job creation	
	1. Undertake specific measures to design and implement private sector development policies	
	2. Design and implement policies including legislation and institutions for the Restructuring or SOE's	
	3. Remove key Private sector development constraints	
	Section 4.3.3. – Financial Sector Restructuring	**Prior action:** *No exact correspondence with COMPACT* : Work on audit of Central Bank of Iraq (CBI) according to international accounting and auditing standards to have progressed to an advanced stage. 1/
	stment and to create an environment for investment and growth the Government shall continue its eff	**SPC:** *No exact correspondence with COMPACT* . Final audit of CBI 2005 Financial operations and statements.
	1. Undertake specific measure to restructuring State Owned Banks	**SB:** Full capitalization of CBI to the stipulated ID 100 billion, based on the 2005 audited financial statements and taking into account the restructuring of outstanding claims on the central government that are on the December 31, 2005 balance sheet of
	2. Undertake specific measures to promote private banking	**SPC:** *No exact correspondence with COMPACT* . Avoid administrative measures limiting participation or bids in the CBI's regular auction of foreign exchange other than screening related to anti-money laundering or counter-terrorism.
		SB: Implementation of payment system regulations.
		SB: Commencement of operation of Real Time Gross Settlement system (RTGS) linking headquarters of commercial banks to the CBI.
		SB: Commencement of operation of Real Time Gross Settlement system (RTGS) linking headquarters of commercial banks to the CBI.
	Section 4.3.4 - Regional and International Economic Integration	
	Goal: Reintegrate Iraq into the regional and global economy and deepen international cooperation on the basis of mutual benefit and common interest	
	1. Conclude negotiations on outstanding debts and reparations	
	2. Ratify signed agreements and treaties, undertake specific measures including legislation to implement ratified treaties. Negotiate and sign new ones.	
	4.4 Human Development and Human Security	
	Goal: Protect the citizens, improve their wellbeing and productivity and mobilize Iraq's human capital as the key ingredient for sustainable development (human security and development are keys to achieving social peace, a cornerstone of national unity and economic development)	
	4.4.1.1 Eradicate Extreme Poverty and Promote Area Based Development:	
	Goal: Reduce the number of families living under US$ 0.50/day/individual by one third	
	1. Enact and implement policies and operationalize institution aimed at expanding active social protection measures to reduce poverty and to promote inclusion	
	4.4.1.2. Employment	
	Goals: Build human capital necessary to sustain growth Reduce unemployment by one half and	
	1. Undertake specific measures to promote continuous education for competitive skills and equal opportunities in the labor market	
	2. Undertake specific measures to strengthen social partners' role in expanding employment	
	3. Enact and implement legislation to encourage job creation while protecting livelihoods of the labor force, particularly vulnerable groups	
	4.4.1.3. Education	
	Goals: Invest in people and their abilities to ensure optimal contribution to the economy Achieve significant progress towards: i) full primary completion by 2015; ii) gender parity in education by 2015, iii) Improve adult literacy by 25%, Increase education budget to 5% of GDP	
	1. Achieve universal access to basic education	
	2. Carry out specific activities to promote adult literacy and skills training, early childhood development and life skills training	
	4.4.1.4 Health	
	Goal: Improve health and nutrition of all Iraqis as a cornerstone of welfare and economic development	
	1. Undertake specific measures to improve access to the Primary Health Care system (PHC) and focus on prevention and healthy life style	
	2. Improve administration and emergency management in the health care system	
	4.4.1.5 Environment, Water & Sanitation, Housing	
	Goals: Preserve Iraq's environment and ensure careful exploitation of its natural resources for the	
	1. Improve institutional capacity to administer environment and natural resources conservation programs	
	2. Undertake specific measures to ensure universal access to services (wat/san, housing, etc.)	
	4.4.1.6 Gender	
	Goals: Reduce gender discrimination, increase participation of women in public life and labor market Increase women's participation in politics at decision making levels and their involvement in the democratization process, Protect women from violence and mobilize their potential to promote peace	
	1. Develop and implement legislation and institutional framework to develop social partnership and access for women to public life and to all of society's resources	
	4.4.2 Social Sector Reform and Integration of Vulnerable Populations	
	Goals: Protect the poor and vulnerable groups from the fallout of change and reintegrate them	
	1. Undertake specific measure to strengthen the targeted safety net	
	2. Strengthen financial viability of the pension system	
	3. Design and implement a reform strategy for the pension system	
	4. Undertake specific measures to promote social inclusion of the IDPs, refugees, returnees and other vulnerable groups	
	Section 4.5. Energy (Oil, Gas and Electricity):	

U.S. Statutory Benchmarks : U.S. P.L. 110-28 Benchmarks 2007/2008	International Compact with Iraq 2007-2012	IMF's Standby-Arrangement 2007/2008
Hydrocarbon law implemented. (iii)	**Goal: To develop an energy sector that meets Iraq's energy needs and maximizes the benefits of Iraq's hydrocarbons for all Iraqis**	
	Oil and Gas	
	Goal: Promulgation of a hydrocarbon law and improved oil and gas investment project execution	
	1. Pass and implement a Hydrocarbon Law and Fiscal Regime	
	2. Carry out Investments	
	3. Undertake specific measures to improve monitoring and execution	
	Electricity	
	Goal: An aligned institutional and legal framework supporting efficient rehabilitation of the	
	1. Pass and implement legislation and undertake measures to align the sector's institutional and legal framework with good practice	
	2. Implement an adequately funded sector rehabilitation strategy	
	Section 4.6. Agriculture and Water Management Strategy	
	Goals: To support the development of the agriculture sector to achieve food security,	
	1. Undertake specific measures to rationalize and transition the Public Distribution system to targeting in a way that is integrated with agricultural policies (see also 4.3.1 and 4.4.2)	
	2. Undertake specific measures to liberalize agricultural market	
	3. Replace market distorting input subsidy with market friendly price subsidy	
	4. Increase access to agriculture credit through financial market reforms	
	5. Undertake specific measures to develop an integrated land and water development policy	
	6. Negotiate trans-boundary water agreements with neighboring countries	
$10 billion of Iraq revenues spent on reconstruction. (xvii)	Commitment will ensure that legislation, regulation, systems, and processes are in place that will allow efficient and effective disbursement of budget resources. (5.3)	

Sources:

U.S. Statutory Benchmarks :

SIGIR (2007, P. 11).

The International Compact with Iraq Benchmarks:

1. Government of Iraq, United Nations, World Bank (2006b), (2006c).
2. SIGIR (2007, P. 11).

IMF's Standby Arrangement Benchmarks:

IMF(2006, P. 31).

Table (2): Estimated External Debt Stock, 2004–2008

Estimate I. IMF's Figures

Billions of U.S. $ 1/

End of Year	2003	2004 before debt reduction	2004 after debt reduction	2005	2006	2007	2008
Reduction Percentage, f			*33.3%*	*26.7%*			*20.0%*
Rate of Interest r				*5.0%*	*4.0%*	*4.0%*	*3.0%*
Without the third stage of debt reduction in 2008 (baseline)4/							
Paris Club official creditors		42.6	28.4	19.2	19.9	20.7	**21.4**
Non-Paris Club official creditors2/		67.7	47.4	28.4	29.8	31.3	**32.7**
Saudi Arabia		*38.6*	*27.0*	*16.2*	*17.0*	*17.8*	*18.6*
Kuwait		*7.6*	*5.3*	*3.2*	*3.3*	*3.5*	*3.7*
China		*7.9*	*5.5*	*3.3*	*3.5*	*3.6*	*3.8*
UAE		*1.5*	*1.1*	*0.6*	*0.7*	*0.7*	*0.7*
Qatar		*1.5*	*1.1*	*0.6*	*0.7*	*0.7*	*0.7*
others		*10.6*	*7.4*	*4.5*	*4.7*	*4.9*	*5.1*
Private creditors3/		20.7	20.7	19.5	4.0	3.0	**3.0**
Multilateral creditors and others4/		0.9	1.2	1.8	1.0	1.4	**2.3**
Total debt		**131.9**	**97.6**	**68.9**	**54.7**	**56.4**	**59.4**
	2003	**2004**		**2005**	**2006**	**2007**	**2008**
With the third stage of debt reduction in 2008 5/							**9.6**
Paris Club official creditors		42.6	28.4	19.2	19.9	20.7	**11.9**
Non-Paris Club official creditors 2/		67.7	47.4	28.4	29.8	31.3	**17.9**
Saudi Arabia		*38.6*	*27.0*	*16.2*	*17.0*	*17.8*	***10.2***
Kuwait		*7.6*	*5.3*	*3.2*	*3.3*	*3.5*	***2.0***
China		*7.9*	*5.5*	*3.3*	*3.5*	*3.6*	***2.1***
UAE		*1.5*	*1.1*	*0.6*	*0.7*	*0.7*	***0.4***
Qatar		*1.5*	*1.1*	*0.6*	*0.7*	*0.7*	***0.4***
others		*10.6*	*7.4*	*4.5*	*4.7*	*4.9*	***2.8***
Private creditors3/		20.7	20.7	19.5	4.0	3.0	**1.7**
Multilateral creditors and others 4/		0.9	1.2	1.8	1.0	1.4	**0.8**
Total debt1		**131.9**	**97.6**	**68.9**	**54.7**	**56.4**	**32.3**
Principal and Capitalized Interest		**131.9**	**97.6**	**68.9**	**54.7**	**56.4**	**32.3**
Paris Club		*42.6*	*28.4*	*19.2*	*19.9*	*20.7*	*11.9*
Gulf		*49.2*	*34.4*	*20.7*	*21.6*	*22.7*	*13.0*
Others		*40.1*	*34.7*	*29.1*	*13.1*	*12.9*	*7.4*
Principal		**96.3**		**65.8**	**53.4**	**55.3**	**31.4**
Paris Club	*21.0*	*24.1*		*17.0*	*19.2*	*19.9*	*11.3*
Gulf		*49.2*		*20.7*	*21.6*	*22.7*	*13.0*
Others		*23.1*		*28.1*	*12.6*	*12.6*	*7.2*
Capitalized Interest		**35.6**		**3.1**	**1.3**	**1.1**	**0.9**
Paris Club	*16.2*	*18.5*		*2.1*	*0.8*	*0.8*	*0.6*
Gulf							
Others		*17.0*		*0.9*	*0.5*	*0.3*	*0.2*

Sources:

1. IMF (2007).

2. Some details of 'non-Paris-Club official credit', especially the Gulf debt, are from Allawi (2007, P. 428) and other sources.

Note:

i. For the use of 33.3% and 26.7% for debt reduction in 2004 and 2005, respectively, instead of 30% for each as stipulated by the Paris Club agreement see Appendix.

ii. *On November 21, 2004, the Paris Club agreed to a reduction of Iraq's outstanding debt at end-December 2004 in three stages:* ***30 percent debt reduction upon the signing of the agreement, combined with interest deferral on the outstanding balance; 30 percent additional debt reduction upon approval of an upper credit tranche arrangement with the IMF (end-2005), and a further 20 percent debt reduction*** *following completion of the IMF's Executive Board's final review of three years of one (or more) upper credit tranche arrangement(s). The agreement also entails a rescheduling of the remaining debt stock with repayments of the debt stock starting in July 2011 and ending in January 2038.* ***In addition, interest payments accrued during 2005–07 are fully capitalized, and those accrued during 2008–10 are partially capitalized'*** , (IMF 2005, 50)

iii. For the symbols and figures in the upper shaded area see Appendix.

IMF's Table Original Notes (IMF, 2007, P. 37)**:**

1/ The assumptions made in this table are for purposes of illustration and discussion only. While the process of Iraq's debt reconciliation is ongoing, the IMF has had to base its analysis on information that may include as yet un-reconciled data. Such use of data by the IMF does not amount to a recognition or denial of any particular claims. The estimates of the debt stock may differ from those in the IMF Country Report No. 07/115 to incorporate the latest results of debt reconciliation and settlement.

2/ Assumes debt reduction comparable to the Paris Club agreement in 2004.

3/ Assumes that by end 2007 all debt to private creditors would be settled by debt and cash exchanges.

4/ Includes new debt and arrears related to fuel imports from Turkey in 2006. The projections assume that new debt disbursement is mostly from multilateral creditors and Japan.

5/ Assumes precautionary SBA during 2005–08.

Table (3): Estimated External Debt Stock, 2004–2007
Estimate II. Modified IMF's Figures
Billions of U.S. $

End of Year	2003	2004 before debt reduction	2004 after debt reduction	2005	2006	2007
Reduction Percentage f			*33.3%*	*26.7%*		
Rate of Interest r				*5.0%*	*4.0%*	*4.0%*
		D_0	D^*_0	D_1		
Paris Club official creditors		**42.6**	**31.9**	**25.5**	**26.5**	**27.5**
Russia		*10.5*	*10.5*	*11.0*	*11.5*	*11.9*
The Rest		*32.1*	21.4	*14.4*	*15.0*	*15.6*
Non-Paris Club official creditors		**67.7**	**66.7**	**66.8**	**67.5**	**68.2**
Saudi Arabia		*38.6*	*38.6*	*38.6*	*38.6*	*38.6*
Kuwait		*7.6*	*7.6*	*7.6*	*7.6*	*7.6*
China		*7.9*	*7.9*	*8.3*	*8.6*	*9.0*
UAE & Qatar		*3.0*	*3.0*	*3.0*	*3.0*	*3.0*
Others		*10.6*	*9.6*	*9.3*	*9.7*	*10.0*
Romania & Poland		*3.1*	*2.0*	*1.4*	*1.4*	*1.5*
The Rest		*7.5*	*7.5*	*7.9*	*8.2*	*8.6*
Private creditors3/		**20.7**	**20.7**	**19.5**	**4.0**	**3.0**
Multilateral creditors and others		**0.9**	**1.2**	**1.8**	**1.0**	**1.4**
Total debt		**131.9**	**120.5**	**113.6**	**99.0**	**100.2**
Principal and Capitalized Interest		**131.9**	**120.5**	**113.6**	**99.0**	**100.2**
Paris Club		*42.6*	*31.9*	*25.5*	*26.5*	*27.5*
Gulf		*49.2*	*49.2*	*49.2*	*49.2*	*49.2*
Others		*40.1*	*39.4*	*38.9*	*23.3*	*23.4*
Principal		**96.3**		**109.5**	**96.5**	**98.2**
Paris Club	*21.0*	*24.1*		*23.3*	*25.5*	*26.5*
Gulf		*49.2*		*49.2*	*49.2*	*49.2*
Others		*23.1*		*36.9*	*21.8*	*22.5*
Capitalized Interest		**35.6**		**4.1**	**2.5**	**2.0**
Paris Club	*16.2*	*18.5*		*2.1*	*1.0*	*1.1*
Gulf		0.0				
Others		17.0		*2.0*	*1.5*	*0.9*

Sources:

1. Original claims (Arrears) for Paris Club Debt for End-2003 are from, http://www.clubdeparis.org/sections/traitements/irak-20041121/downloadFile/TableauDeDetailDeLaDetteDue/irakduen_1.pdf, Accessed 15 September 2007. The figures are updated according to the updating of total Paris Club debt as reported in IMF (2007, P37). Capitalized interest in the column titled (2004 before debt reduction) covers the period 1991-2003. At end-2004 in this table all outstanding debt (arrears and capitalized interest up to 2004) are considered part of the principal in that year. From 2005 onward, therefore, capitalized interest refers to interest accruing from 2005 onward.

2. IMF(2007, P. 37).

3. Iraqi Ministry of Finance: **Iraq Announces Results of Commercial Debt Settlement**, April 3, and July 30, 2006.
http://www.eyidro.com/doc/Iraq_Announces_Results_of_Commercial_Debt_Settlement.pdf

4. Allawi (2007). Allawi mentions that debt owed to Saudi Arabia stands at US$39 billion and to Kuwait at US$8 billion and UAE & Qatar at more than $3 billion, P. 428.

Assumptions

1. Three-Stage- Paris-Club-type reduction (of which two carried out in 2004 and 2005, respectively) is assumed for:
   Paris-Club creditors (excluding Russia).
   Romania and Poland.
2. Private debt: actual reduction agreements concluded with the private creditors in 2006.
3. No debt reduction for: Russia, the Gulf countries and other Official creditors.
5. Capitalization of Interest 2004-2008 *(for all debt apart from that of the Gulf, commercial and multilateral), see Appendix.*

Notes:

i '*Romania is the first non-Paris Club country to sign a comparable debt relief agreement with Iraq, cancelling about $760m immediately out of $2.5bn claims, and offering a further $1370m of cancellation conditional on IMF requirements as stipulated by the Paris Club*'
http://www.jubileeiraq.org/blog/2005_08.html Accessed 14 January 2006.

ii. For the symbols and figures in the upper shaded area see Appendix.

Table (4): Outstanding Debt and Debt Service, *Scenario 1*

I. Outstanding Debt, 3-Stage Reduction

Outstanding Debt , *Million US Dollars*

	2004		2005			2008
	Before reduction	After first-stage reduction	After second-stage reduction	2006	2007	After third-stage reduction
Official creditors	***110,300***	***98,579***	***92,257***	***93,979***	***95,770***	***30,026***
Paris club	42,600	31,900	25,470	26,489	27,548	13,555
Gulf	49,200	49,200	49,200	49,200	49,200	9,840
Others	18,500	17,479	17,587	18,290	19,022	6,631
Private and Others *(incl. commercial)*	***21,600***	***21,900***	***21,300***	***5,000***	***4,400***	***5,300***
Total	**131,900**	**120,479**	**113,557**	**98,979**	**100,170**	**35,326**
Reduction Rate		***33.3%***	***26.7%***			***20.0%***
	2005	***2006-2007***	***2008-2009***	***2010***	***2011-2038***	
Interest Rate, i	5.0%	4.0%	3.0%	2.0%	5.0%	
Repayment Period, Years, T					28	
Grace Period, Years, G					1	

Annual Debt Service, Million US Dollars				**After Reduction**
i. From	***2005***	***to***	***2007***	***Capitalised Interest***
ii.From	***2008***	***to***	***2010***	***Partially Captilised Interest***
iii.From	***2011***	***to***	***2038***	***Full Debt Service***

Annuity After Reduction (Principal and Interest) US$ Million, A:

$$A = \frac{i(1+i)^{(T+G)}}{(1+i)^{T}-1} P = \textbf{2,628}$$

II. Debt Service After Reduction: *2011-2038*

Million US Dollars

	OTHER DEBT				
	Outstanding Debt, P(t)	Debt Service			
		Captilised Interest ,	Paid Interest , i*P(t-1)	Principa1 (5) - (3)	Total
	(1)	(2)	(3)	(4)	(5)
2004 Befor Reduction	131,900				
2004 After Reduction	120,479				
2005	113,557	4,090	0	0	**0**
2006	98,979	2,502	0	0	**0**
2007	100,170	1,951	0	0	**0**
2008	35,326	1,487	0	0	**0**
2009	37,131	696	0	0	**0**
2010	39,147	476	0	0	**0**
2011	38,477	0	1,957	670	**2,628**
2012	37,773	0	1,924	704	**2,628**
2013	37,034	0	1,889	739	**2,628**
2014	36,258	0	1,852	776	**2,628**
2015	35,443	0	1,813	815	**2,628**
2037	2,503	0	244	2,383	**2,628**
2038	0	0	125	2,503	**2,628**
2039	0	0	0	0	**0**

Sources: upper panel constructed according to data from table (3).

Notes:

(1) Paris-Club's 3 stages are dated at the end of 2004, 2005 and 2008, respectively.

(2) For the use of 33.3% and 26.7% for debt reduction in 2004 and 2005, respectively, instead of 30% for each as stipulated by the Paris Club agreement see Appendix.

(3) The commercial debt reduction amounted to US$18.4 Billion in return for cash payments (US$ 380 Million) and national bonds (US$ 2880 Million) implying an 82.3% reduction. The agreement was negotiated directly between the Iraqi Ministry of Finance and the creditors and finalized by April 2006. By July 2006, the exchanged debt increased to $19.7 Billion

(4) Assumptions: In the calculations of the two tables, above, the following assumption are made:

i. Two-stage- Paris-Club-type reduction (2004-2005) is assumed for:

- *Paris-Club creditors (excluding Russia).*
- *Romania and Poland.*

ii. Private debt: actual reduction agreements concluded with the private creditors in 2006.

iii. No debt reduction for: Russia, the Gulf countries and other Official creditors during 2004-2007.

iv. In 2008 onward the third stage applies to Paris Club creditors and the sum of reductions in all three stages (i.e. 80%) to all other official creditors including Russia.

v. Capitalization of Interest 2004-2010 *(for all debt apart from that of the Gulf', commercial and multilateral) see Appendix*

Table (5): Outstanding Debt and Debt Service, *Scenario 2*

I. Outstanding Debt, 3-Stage Reduction for Paris-Club (excluding Russia), Romania and Poland only

Iraq/Recent/Debt_Scenario.xls *6/11/07*

Outstanding Debt , *Million US Dollars*

	2004		2005			2008
	Before reduction	**After first-stage reduction**	**After second-stage reduction**	**2006**	**2007**	**After third-stage reduction for Paris club only (excluding**
Official creditors	***110,300***	***98,579***	***92,257***	***93,979***	***95,770***	***92,297***
Paris club	42,600	31,900	25,470	26,489	27,548	22,074
Gulf	49,200	49,200	49,200	49,200	49,200	49,200
Others	18,500	17,479	17,587	18,290	19,022	21,023
Private and Others *(incl. commercial)*	**21,600**	**21,900**	**21,300**	**5,000**	**4,400**	***5,300***
Total	**131,900**	**120,479**	**113,557**	**98,979**	**100,170**	**97,597**
Reduction Rate		***33.3%***	***26.7%***			***20.0%***
	2005	***2006-2007***	***2008-2009***	***2010***	***2011-2038***	
Interest Rate, i	5.0%	4.0%	3.0%	2.0%	5.0%	
Repayment Period, Years, T					28	
Grace Period, Years, G					1	

Annual Debt Service, Million US Dollars				**After Reduction**
i. From	***2005***	***to***	***2007***	***Capitalized Interest***
ii. From	***2008***	***to***	***2010***	***Partially Capitalized Interest***
iii. From	***2011***	***to***	***2038***	***Full Debt Service***

Annuity After Reduction (Principal and Interest) US$ Million, A:

$$A = \frac{i(1+i)^{(T+G)}}{(1+i)^{T} - 1} P = \textbf{6,882}$$

II. Debt Service After Reduction: *2011-2038*

Million US Dollars

	O T H E R D E B T				
	Outstanding	**Debt Service**			
	Debt, P(t)	**Capitalized Interest , i*P(t-1)**	**Paid Interest , i*P(t-1)**	**Principa1 Payments (5) - (3)**	**Total (Annuity)**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**
2004 Before Reduction	131,900				
2004 After Reduction	120,479				
2005	113,557	4,090	0	0	**0**
2006	98,979	2,502	0	0	**0**
2007	100,170	1,951	0	0	**0**
2008	97,597	1,452	0	0	**0**
2009	100,525	1,540	0	0	**0**
2010	102,536	1,067	0	0	**0**
2011	100,780	0	5,127	1,756	**6,882**
2012	98,937	0	5,039	1,843	**6,882**
2013	97,001	0	4,947	1,936	**6,882**
2014	94,969	0	4,850	2,032	**6,882**
2015	92,835	0	4,748	2,134	**6,882**
2037	6,555	0	640	6,243	**6,882**
2038	0	0	328	6,555	**6,882**
2039	0	0	0	0	**0**

Sources: upper panel constructed according to data from table (3).

Notes: see notes in Table (4) apart from the assumptions which become:

Assumptions: In the calculations of the two tables, above, the following assumptions are made:

i. Three-stage- Paris-Club-type reduction (2004-2008) is assumed for:
- *Paris-Club creditors (excluding Russia).*
- *Romania and Poland.*

ii. No debt reduction for: Russia, the Gulf countries and other Official creditors.

iii. Private debt: actual reduction agreements concluded with the private creditors in 2006.

iv. Capitalization of Interest 2004-2010 *(for all debt apart from that of the Gulf', commercial and multilateral)* see Appendix.

Table (6): Iraq, Reparations (compensations), Status of Claims Processing

(As of December 27, 2007)

Iraq\Debt\Paper

Category	No. of claims resolved	Compensation sought by claims resolved	No. of resolved claims awarded compensation	Compensation awarded	Paid	Unpaid Balance
	Thousand	US$ Billion	Thousand	US$ Billion	US$ Billion	US$ Billion
Individuals	**2679.0**	**31.5**	**1539.2**	**11.7**	**11.8**	**-0.1**
"A" Individual Claims: Dislocation	923.2	3.5	852.5	3.1	3.2	0.0
"B" Individual Claims: Injury&Death	5.7	0.0	3.9	0.0	0.0	0.0
"C" Individual Claims: Loss under US$ T 100	1736.3	11.5	672.5	5.2	5.2	0.0
"D" Individual Claims: Loss above US$ T 100	13.9	16.5	10.3	3.3	3.4	0.0
Corporations	**6.6**	**78.7**	**4.0**	**26.3**	**5.9**	**20.4**
"E1" Oil Sector Claims	0.1	44.7	0.1	21.5	1.1	20.3
"E2" Non-Kuwaiti Corporations: Others	2.4	13.7	1.0	0.9	0.9	0.0
"E3" Non-Kuwaiti Corporations: Construction & Engineering	0.4	8.5	0.2	0.4	0.4	0.0
"E4" Kuwaiti Corporations (excluding oil)	3.6	11.8	2.9	3.5	3.4	0.0
Governments & International Organisations	**0.5**	**242.3**	**0.3**	**14.4**	**5.3**	**8.7**
Total	**2686.1**	**352.5**	**1543.6**	**52.4**	**22.9**	**29.0**

Source: http://www2.unog.ch/uncc/status.htm , Accessed 6 January 2008.

Table (7): Iraq, Crude Oil Production and Exports

Iraq\Debt\Paper

		Domestic Consumption of Crude Oil	Crude Oil (million b/d)		Export Price	Revenues from Crude Oil Exports
			Exports	Production	(in nominal terms)	
		(1) Million b/d	(2)	(1) + (2) (3)	(4) US $/bbl	(2) × (4) (5) Billion $
Actual	**2002**	0.48	1.49	1.99	22.8	**12.5**
	2003	0.42	0.96	1.40	25.0	**8.8**
	2004	0.50	1.53	2.05	34.3	**19.1**
	2005	0.51	1.51	2.05	48.3	**26.6**
	2006	0.53	1.49	2.04	57.9	**31.5**
	2007	0.55	1.53	2.11	66.6	**37.3**
Projection	**2008**	0.58	1.92	2.52	69.2	**48.5**
	2009	0.61	2.11	2.75	66.1	**50.8**
	2010	0.64	2.32	2.99	63.1	**53.3**
	2011	0.67	2.57	3.27	60.2	**56.5**
	2012	0.69	2.86	3.57	57.5	**60.1**
	2013	0.71	3.14	3.88	54.9	**62.9**
	2014	0.73	3.46	4.22	52.4	**66.1**
	2015	0.75	3.71	4.50	50.0	**67.8**
	2016	0.78	3.90	4.71	50.0	**71.4**
	2017	0.80	4.05	4.88	50.0	**73.9**
	2018	0.82	4.13	4.99	50.0	**75.3**
	2019	0.85	4.17	5.05	50.0	**76.1**
	2020	0.87	4.20	5.11	50.0	**76.9**
	2036	1.34	4.97	6.37	50.0	**91.0**
	2037	1.38	5.00	6.44	50.0	**91.2**
	2038	1.42	5.02	6.50	50.0	**91.7**

Sources:

2001-2007:

1. Central Bank of Iraq, **Annual Bulletins 2004**, **2005** and **2006**, Central Bank's website, http://www.cbiraq.org/.

2. OPEC, **Annual Statistical Bulletins 2002-2006,** OPEC's website, http://www.opec.org/home/.

3. OPEC: **Monthly Market Reports**, January - December 2003, 2004, 2005, 2006, 2007 and January 2008, OPEC's website, http://www.opec.org/home/.

4. IAMB (2004, 2005).

Projections:

Price projections in the following sources support the kind of price path shown in this table up to 2030 (the last year in their projections):

1. OPEC (2007).
2. EIA (2007).

Note that in its price projection (in a reference case that extends to 2030) OPEC specifies price range of $50-60 a barrel in nominal terms while in its projection EIA, US Energy Information Agency, specifies (also in a reference case that extends to 2030) a wide range of $34-100 a barrel in constant terms (in 2005 dollars) after 2015.

We think, however, that using a nominal price of $50 a barrel for 2015 onward could turn up to be overoptimistic.

Appendix
Debt Equations for the Paris-Club Agreement

Outstanding debt 2004-2011

In this note, equations are formulated, which are, we think, compatible with Paris Club debt reduction scheme.

First define the following symbols:

D_0: outstanding debt in 2004 before first-stage reduction.
D^*_0: outstanding debt in 2004 after first-stage reduction.
D_t: outstanding debt at the end of year t, $t = 1$ *(2005), …, 7 (2011)*
f_t: percentage of reduction in year t, $t = 0$ *(2004), …, 7 (2011).*
r: rate of interest.

The equations of the outstanding debt and accumulated capitalized interest at the end of each year until the start of the repayment period (mid-2011) are as follows:

(1) $f_0 = 30\%$, $f_1 = 30\%$, $f_4 = 20\%$, $f_2 = f_3 = f_5 = f_6 = f_7 = 0.$
(2) $D^*_0 = (1-f_0)\, D_0$, $0 = 2004.$
(3) $D_1 = r\,D_0 + D^*_0 - f_1 D_0$, $1 = 2005.$
(4) $D_t = (1+r)\, D_{t-1} - f_t D_0$, $t = 2(2006), \ldots, 7\ (2011).$

A term N_t can be added to equations (3) and (4) to signify new debt in year t (bearing the same interest rate r) but it is better to abstract from this element here.

Profile of debt reductions 2004-2008

In its calculations for outstanding Iraqi debt it *seems* that the IMF has used the following values for the reductions and rates of interest;

$\boldsymbol{f_0 = 33.3\%}$ *(instead of 30%)*, $\boldsymbol{f_1 = 26.7\%}$ *(instead of 30%),*

$\boldsymbol{f_4 = 20.0\%}$ $(\Sigma f = 80\%)$, $t = 0$ *(2003), …, 4 (2008).*

Values for these parameters are not stated explicitly in the debt table presented in the following IMF document; rather they were inferred after recalculating the table in IMF (2007 P. 37**).**

Russia (a member of Paris-Club) has not agreed so far to implement the agreement. If it decides to comply fully with the agreement in 2008 (i.e. reducing its outstanding debt of 2004 by 80 percent in 2008) we can set the following for the values of f_t in the above equations:

$f_4 = 80\%$, *all other* $f_t = 0.$

Capitalization of interest 2004-2010

In the Paris-Club debt rescheduling agreement it is stated that '…, *interest payments accrued during 2005–07 are fully capitalized, and those accrued during 2008–10 are partially capitalized*', IMF (2005, P. 50). Our recalculation of the figures in IMF's debt table (table 1 in IMF 2007, P. 37), however, implies a slightly different pattern of capitalization. The following rates of interest emerge from our recalculations:

2005: ***5%****,* *2006-2007:* ***4%,*** *2008-2009:* ***3%****,* *2010:* ***2%.***

As we assume that the rate of interest in the Paris Club agreement is about 5 percent the calculated rate in 2005 implies 100 percent capitalization of accrued interest in that year. In contrast, the subsequent calculated rates imply, only 80 percent capitalization $(4\%=80\%\times5\%)$ in 2006-2007, 60 percent $(3\%=60\%\times5\%)$ in 2008-2009 and 40 percent $(2\%=40\%\times5\%)$ in 2010.

Debt service 2011-2038

In the press release for the Paris Club agreement (21 November 2004) standardized schedule (table) was released for the calculation of half annual repayments of the principal starting from 1 July 2011 and ending in 1 January 2038 (http://www.clubdeparis.org/sections/traitements/irak-20041121/viewLanguage/en). The standardized schedule is titled '*Rescheduling Profile Debt Service Reduction Option*'. In this schedule half annual principal repayments (in percentages of the principal) are calculated assuming 5 percent interest rate for the period July 2011-January 2038. Figures (percentages) in this schedule, we think, are derived on the same lines carried out in Tables (4) and (5) of this paper, i.e. first calculating the fixed half annual debt service payment (rather than the fixed annuity, *A*, calculated in Tables 4 and 5). Then the half annual principal repayments (and interest payments) are derived almost exactly as they are derived in Tables (4) and (5).