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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PRESENT ECONOMIC POSITION

AND

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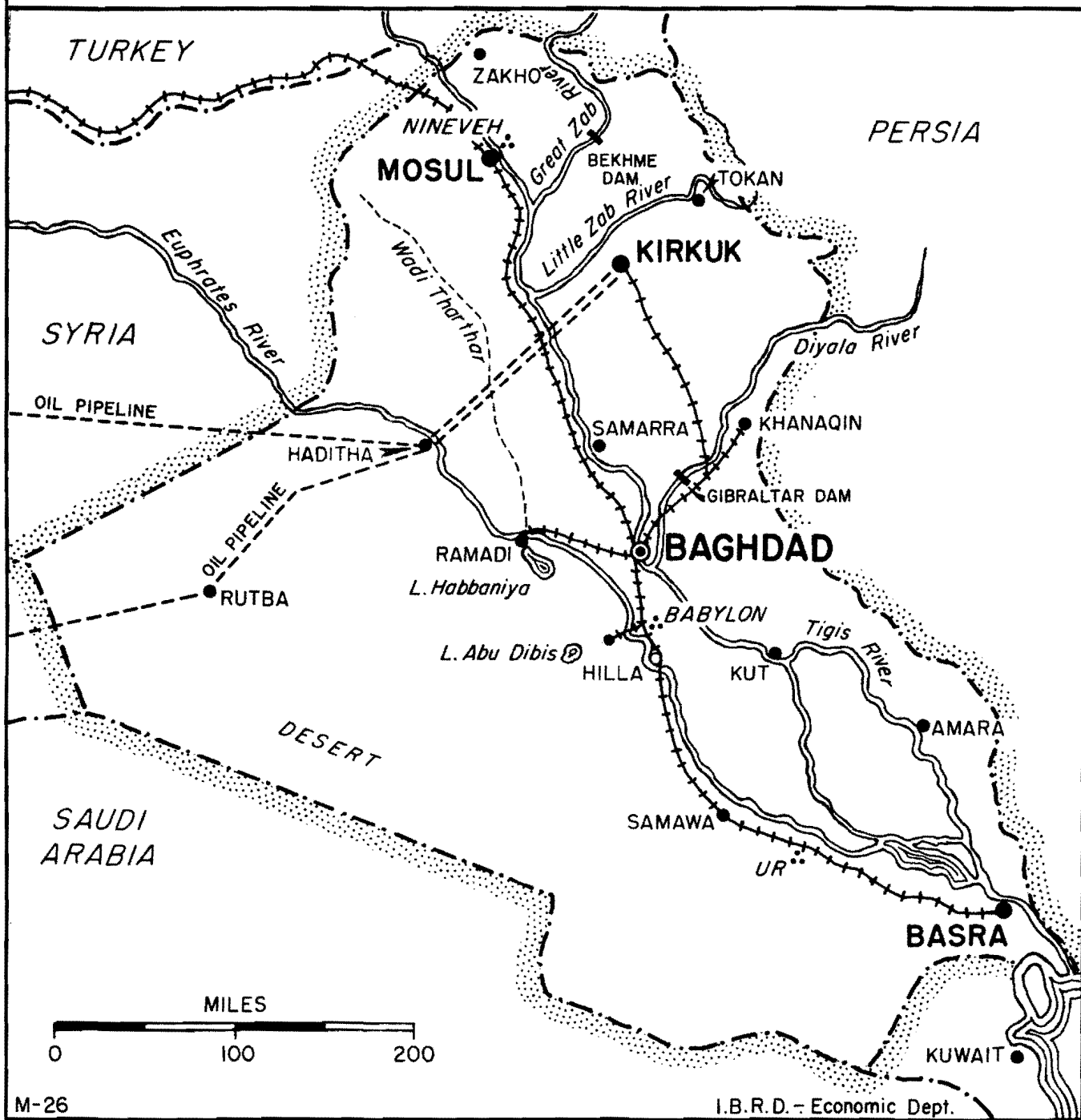
IRAQ

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Economic Department

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IRAQ



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I. IRAQ AS A CREDIT RISK -- SUMMARY AND CONCLUSIONS

1. Iraq is, potentially, one of the wealthiest countries in the Middle East: it has more cultivable land than its people can till, more water than they can effectively use, and royalties from its oil resources which may grow from a postwar peak of 2.5 million pounds sterling in 1947 to 28.9 million in 1954.^{1/}

2. The country is still, predominantly, an agricultural one. Over 80 per cent of its population of less than 5 million are engaged in agriculture -- yet only one-fifth of its total cultivable area is, at present, under cultivation; cultivable land is, therefore, plentiful and the possibilities for further agricultural production and exports are considerable. The main obstacles to immediate development are lack of irrigation and drainage facilities and a threatening shortage of farm labor.

3. The full development of Iraq's large agricultural potential depends, primarily, upon irrigation. This, in turn, is predicated upon the control of the country's rivers, the Tigris and Euphrates and their tributaries. Although water is relatively abundant in Iraq, its proper use has barely begun. Destructive floods still recur every few years and irrigation, even in the fertile area between the twin rivers, is less developed today than it appears to have been centuries ago. The Iraqi Government estimates that, through its two main proposed flood control projects alone it could effect a saving of over half a million dinars a year, the sum now spent annually, on the average, for flood control and relief measures.

^{1/} Since oil royalties are payable on a gold basis, the amount of 20.1 million pre-devaluation pounds originally anticipated by 1954 is now expected to be increased to 28.9 million.

4. The third major natural resource of Iraq is oil. Since the middle 30's, when output increased sharply, Iraq has become a substantial oil producer. The oil field at Kirkuk, where the bulk of the output is obtained, is said to be the largest in the world; its production is limited only by the availability of transport (pipeline) facilities.

5. At present, two 12-inch pipelines extend from the Kirkuk field to the Mediterranean; one reaches the sea at Haifa, in Israel, the other at Tripoli, in the Lebanon. An additional 16-inch line has been laid along each of these two routes; a 30-inch line running from Kirkuk to Banias in Syria is expected to be available by the end of 1953. With these five lines in full operation, production is expected to increase from 4.7 million tons in 1947 to over 25 million in 1954 and to continue at that rate for at least 40 years before the Kirkuk field is likely to show signs of exhaustion.

6. Although its natural resources are plentiful and its longer range economic future is, therefore, promising, Iraq's present economic and financial position is a rather difficult one. The rapid expansion of imports during the first postwar year, a result of the need to replace and modernize capital equipment and to provide consumers' goods of which the country had been deprived during the war, led to a progressively widening gap in Iraq's trade balance and to a rapid depletion of sterling credits accumulated in London during the war years. In 1947 an exceedingly poor harvest due to a very bad drought and locust infestation resulted in an embargo on food exports and in temporary, but costly, imports of grain. The resulting strain upon the country's finances and balance of payments position was intensified when, in the spring of 1948, active hostilities against Israel began, the oil pipeline to Haifa was closed by Iraq and receipts from oil royalties were, as a result, cut in half.

7. During the first part of 1949, the beginning of a fall in the prices of Iraqi exports and a gradual decline in domestic trade -- said to be in part the result of a number of arrests for pro-Zionist activities among members of the Jewish commercial community and of its consequent desire for extreme liquidity -- contributed to inject into Iraqi business sentiment a decided note of caution. When the Bank's mission left Iraq, the country was undergoing a recession in business activity, acute credit stringency, and a period of growing difficulty for the government to meet its current obligations. Certain signs of improvement existed, such as the good harvest predicted for 1949, some relaxation in anti-Jewish feeling following the Palestine armistice, and the government's apparently determined attempts to increase revenues, control expenditures, and limit imports. On the whole, however, money was still tight, sterling balances were falling, and a general lack of confidence in the immediate future appeared to pervade the country's business classes.

8. Is a loan to Iraq justified under such circumstances?

As the detailed analysis presented in this report indicates, a number of the difficulties just described are due principally to a succession of fortuitous circumstances which are not likely to be repeated and the effects of which will, in all probability, be corrected within the next few years. The current unbalance in the government's budget, due in large part to an unfunded debt for capital development works undertaken by the Iraqi railroads, should be eliminated without undue difficulty if appropriate corrective measures of which the Iraqi government is fully aware, are promptly adopted. Since the general outlook for the country's main exports is favorable, the recent substantial trade deficit, a result mainly of the temporary but considerable expansion of imports after the war and of the curtailment of exports as a result of the bad 1947 harvest, should be narrowed down to manageable

proportions if the government's present policy of controlled imports is pursued with determination and firmness.

9. In essence, Iraq's present economic difficulties are due, not to inherent economic weaknesses, a correction of which might prove to be long and difficult, but, mainly, to a fortuitous combination of circumstances the effects of which can be corrected with comparative ease provided an informed and determined effort to do so is made. The main remedies are of an administrative nature: it is upon the Iraqi Government's wisdom in framing certain remedial policies and upon its determination and courage in carrying them through that an early solution of the country's difficulties mainly depends.^{1/}

10. The condition of Iraq's domestic finances and of its balances of payments will, in all probability, continue to be difficult during the coming year, or possibly -- depending upon the speed and effectiveness of the government's remedial action -- during the next two or three years; the longer range outlook for both is, however, decidedly favorable.

11. Even with the pipelines to Haifa closed, a growing annual income, greatly augmented, in terms of 'current' sterling, by the recent devaluation of the pound, will flow to the Iraqi Government from oil royalties. Although it is impossible, because of the political difficulties involved, to predict with any certainty when the piping of oil to Haifa may be resumed, it seems unlikely that the Iraqi Government will continue to maintain its present costly attitude much beyond the coming year. With the reopening of Haifa, the availability of new pipeline facilities, and the renegotiation, at

^{1/} Although a good start has been made, a definite forecast as to the ultimate effectiveness of the government's remedial action is difficult at this time. Though well intentioned, the administrative apparatus of the Iraqi Government is still weak and in need of much expert advice and assistance. The Government is ready to seek and to use both, but only time will tell whether it will be able to apply the suggested remedies with the required firmness.

materially increased royalty rates, of the concession agreements now in force, that income is expected to be very considerably increased. If, as is likely, the present royalty rate is increased from 4 to 6 shillings (gold) per ton, as a result of negotiations currently underway, the expected annual income to the Iraqi Government will, in 1954 and the years following, exceed the sum of 28.9 million pounds sterling per annum, a sum larger than the Iraqi Government's total ordinary annual expenditures as reported in its current budget.^{1/}

12. If the oil companies' programs of plant expansion in Iraq proceed according to present plans, and there is no reason to think they should not, their local expenditures, too, are likely to be materially increased, thus contributing an important strengthening element to the Iraqi balance of payments. Moreover, as the country's agricultural production expands as a result of more intensive cultivation and the extension of cultivation to newly irrigated lands, Iraqi exports, for which a continuing demand appears assured, will undoubtedly grow, and, in time, grow quite significantly. The outlook for Iraqi exports to hard currency areas too is favorable, and present income from them, amounting to about \$6 million per annum, is likely to be increased, particularly after the recent devaluations of the pound and the Iraqi dinar.

13. A development loan of moderate size to aid the Iraqi Government in undertaking some of its flood control and irrigation projects, appears, therefore, possible and advisable at this time. In view of Iraq's present and, possibly, for the next few years, continuing financial difficulties, the effectiveness of the loan and its repayment prospects would, however, be

^{1/} The basic assumption, of course, is full operation of available production and transport facilities. Since, at the Kirkuk field, production takes place under very favorable conditions and at comparatively low cost, the rate of output is unlikely to be affected by a possible decline in the price of oil.

greatly enhanced if its amount were such that:

- (a) Income from oil royalties would assure availability of the local currency required for all projects for which the loan is made and, ultimately, repayment of the loan itself;
- (b) Service and repayment of the dollar portion of the loan would be assured either by an understanding as to sterling convertibility arrived at with the U.K. Government or by a firm allocation for repayment purposes of a sufficient share of Iraq's future direct dollar earnings.

II. THE BASES OF ECONOMIC DEVELOPMENT

1. Land and Water

Significance to the Economy

14. Iraq is, predominantly, an agricultural country. Over four-fifths of its active population are engaged in agriculture: with the exception of oil, its main exports consist of agricultural products. Yet, of a total cultivable area of 12,000,000 hectares, only about 2,400,000 or one-fifth, are cultivated. Iraq's agricultural potential is, therefore, considerable -- it is, in fact, larger than that of any other Middle Eastern country.^{1/}

15. Although cultivable land is plentiful, several obstacles must be overcome before the country's agricultural potential can be fully developed. Extension of the cultivated area depends mainly upon irrigation -- for the expansion of which, in turn, capital for the construction of the necessary irrigation works is essential. As irrigation and cultivation are extended, additional labor is required; the country's present, incipient shortage of farm labor must therefore be remedied either through immigration or through

^{1/} In 1948 the distribution of cultivable land in Iraq was as follows:
(in millions of hectares)

	<u>Rainfall Zone</u>	<u>Irrigation Zone</u>	<u>Total</u>
Cultivable land	4.0 million ^{a/}	8.0 million	12.0 million
Now cultivated	0.65 "	1.75 " ^{b/}	2.4 "

^{a/} Includes 1.8 million hectares covered by forests.

^{b/} Includes 0.9 million hectares under lift irrigation for which pumping machinery is badly needed.

Source: Prepared from data furnished the IERD Mission by the Iraqi Directorate General of Agriculture.

the progressive mechanization of agricultural processes,^{1/} Finally, for a more effective and intensive utilization of the land generally, the weaknesses inherent in the present, traditional system of land tenure must be corrected.

16. As the following discussion will show, a significant beginning has been made in the solution of each of these problems: the Iraqi government appears to be fully aware of their importance and prepared to devote to their solution a growing measure of administrative effort and financial support.

Land Utilization and Irrigation

17. The total cultivable area of Iraq falls into two zones, the rainfall zone and the irrigation zone. The former includes the lands in the country's northern mountainous region where rainfall in an average year is sufficient to yield a single crop without irrigation. The irrigation zone comprises mainly the southern alluvial plain in the valley of the Tigris and Euphrates. Although the land in that valley is very fertile, rainfall, averaging only about six inches per year, is inadequate to produce satisfactory crops. Cultivation, therefore, depends mainly upon irrigation.

18. Irrigation is, however, in turn predicated upon the control of the country's rivers, the Tigris and Euphrates and their tributaries. Although water is relatively abundant in Iraq, its proper use has barely begun. Destructive floods still recur every few years, and irrigation, even in the fertile area between the twin rivers, is less developed today than it appears

^{1/} While steps are currently being taken by the Iraqi Government to encourage mechanized farming, immigration constitutes, at this moment, a difficult political problem. Prospective immigrants are, at present, largely Palestine refugees to whose admission Arab countries are still generally opposed.

to have been centuries ago.^{1/} There are, in fact, at present no comprehensive flood control or irrigation systems in Iraq. Of the twin rivers, each has an irrigation barrage, but both barrages are situated along the river's lower course and command a relatively small area of cultivation. Such irrigation as exists takes place mainly under the so-called method of "basin irrigation", under which the land is divided into basins flooded during the annual rise of the rivers. When the water recedes the crop is planted on the sediment left. Under this system only one crop a year is obtained since the land remains fallow while waiting for the next flood.^{2/}

19. Plans for a comprehensive system of flood control and irrigation have long been studied by the Iraqi Government. As a result of the several years' work of its Irrigation Development Commission, which presented its final report last June, two main projects have emerged, for the partial financing of which Iraq has applied to the Bank for assistance.

20. The first, the Habbaniyah scheme, on which work was begun some years ago, consists mainly of a barrage on and a channel from the Euphrates to Lake Habbaniyah, situated in a natural depression near the upper course of the river. During the flood season, the river's flood waters would be led through the channel to Habbaniyah Lake where they could be stored and when needed, used for irrigation.

^{1/} The flow of the country's rivers varies very widely -- that of the Euphrates from 2500 cubic meters per second during the flood period (December-May) to 220 cubic meters in the summer; that of the Tigris similarly from 3,000 to 300 cubic meters. Cultivation on the fertile lands along the two rivers is therefore constantly threatened with floods in the spring and with drought in the summer.

^{2/} Although both winter and summer crops are generally grown, the land does not produce two crops a year but only either a winter or summer crop. In winter cultivation, moreover, the practice prevails of letting half the land lie fallow each year. The area actually cultivated is, therefore, only half of that to which water could be made accessible if sufficient quantities of it were available.

21. The second scheme, the Wadi Tharthar project, envisages the construction of a barrage on the Tigris and of a channel through which the flood waters of the river could be made to flow into the Wadi Tharthar, a natural depression not far from the river. The depression would thus be gradually converted into a lake, the water of which could be used for irrigation when needed, or returned to the Tigris in periods of low water flow.

22. According to the estimate of the Iraqi Irrigation Commission, these two projects and several smaller ones described in greater detail in the Appendix to this paper, would bring a total area of over 9 million acres under adequate irrigation and would permit the almost total elimination of floods on both of Iraq's main rivers.

Land Tenure

23. Iraqi laws governing land tenure are extremely complex and trace their origin to the old Ottoman legislative code. Fundamentally, Iraqi law regards all land as belonging to the State; land held in full private ownership, over which the State has no proprietary rights, is the exception rather than the rule. Legal ownership of the land is generally retained by the State and state lands are then leased to prospective cultivators under a variety of lease arrangements. In the northern part of the country, smaller lease holders predominate, while in the central and southern regions large owners (sheikhs) own or lease from the State vast tracts of land, sub-leasing them to share tenants through a series of intermediary leases. The fellah (peasant) who actually cultivates the soil, does so in most cases not as a proprietor, but as a -- generally very poor -- share tenant and has, therefore, little interest or inducement in improving the land. To remedy the difficulty, the government is now endeavouring to encourage small holdings on the new lands which are gradually being opened to agriculture through irrigation. On the

whole, however, the prevailing system of land tenure constitutes an obstacle to agricultural development and an overhauling and modernization of it giving the small farmer more direct access to the land would undoubtedly contribute significantly to the general effectiveness of Iraqi agriculture.

Agricultural Techniques and Mechanization

24. Agricultural methods and techniques followed by Iraqi farmers are, on the whole, primitive; the most simple farming implements are used widely and only a beginning has been made in the application of scientific farming methods. Although widespread use of agricultural machinery would increase output and relieve the threatening shortage of farm labor, mechanization of agriculture has barely begun. In 1948 there were, reportedly, only 450 tractors, 150 threshing machines and 100 cultivators in the whole country.

25. The Iraqi Government is, however, fully aware of the importance of the widespread adoption and use of agricultural machinery and of modern farming methods and its Directorate General of Agriculture is earnestly endeavouring to improve the situation. Recently a ten-year plan for mechanized farming was devised which would entail the importation of 2500 tractors, 1500 modern plows, 700 disc harrows and several hundred units of other agricultural machinery; an Agricultural Machinery and Equipment Service Bill, recently approved by the Iraqi Parliament, gives the government a monopoly over the importation, sale and distribution of farm machinery and equipment and provides for the active promotion of mechanization in agriculture through the establishment of training courses, work shops and spare parts stores throughout the country.

26. In addition to its efforts to increase mechanization, the Directorate General of Agriculture maintains a national agricultural experiment center near Baghdad in which experimental work in agronomy, entomology, plant pathology, animal husbandry, etc., is carried on. A number of branch stations and

nurseries are maintained in most of the country's provinces with the objective of increasing the knowledge and use of modern agricultural techniques and methods in rural areas. Although the government's program for the extension of scientific methods to agriculture is still at its beginning, the personnel in charge of the program is competent and devoted. Gratifying results have already been achieved and increasing progress is expected as additional numbers of trained young Iraqi agriculturists become available for service at the government's central experiment station and at its branch stations throughout the country.

Agricultural Output

27. The principal crops produced in Iraq are barley, wheat, rice and dates. Crops of lesser importance are maize, millet, cotton and tobacco. During, and immediately after, the war, Iraqi's agricultural production was greatly encouraged by the high prices of agricultural products prevailing as a result of world wide food shortages; in 1946 crops were thus generally above the prewar level. In 1947, however, because of a severe drought and locust infestation, Iraq experienced one of the worst crop failures in its history, and output of some of its main crops was reduced to quantities varying from two-thirds to one-half of normal.

28. Generally, average annual production of barley, the country's main crop, attains about 600,000 metric tons; that of wheat about 400,000 tons; that of dates from 250,000 to 300,000 tons. With three-quarters of the world's date palms within its borders, Iraq is the most important date growing country in the world.

29. Livestock plays a part of increasing importance in the Iraqi economy: sheep, goats and cattle are raised in large numbers and their export represents a growing share of the country's total sales abroad.

30. Normally Iraq is almost fully self-sufficient in foodstuffs with considerable export surpluses of barley, wheat and dates. In a normal year over 200,000 tons of barley, 50,000 tons of wheat, and 200,000 tons of dates, are exported. Because of the exceptionally poor harvest in 1947, however, in that and the following year, substantial quantities of wheat and rice had to be imported, while a temporary embargo was placed on the exportation of barley and wheat. As for livestock, in 1947/48, 69,000 sheep, 22,000 goats, and 15,000 head of cattle, were exported to such neighbouring countries as Syria, the Lebanon and Egypt.

31. On the whole there can be little doubt that, as irrigation is extended and the country's crop area thus enlarged and yields are raised through the more and more widespread adoption of improved farming methods, a significant increase will occur both in the output of Iraqi agriculture and in the country's exports of agricultural products.

2. Oil

Reserves and Production

32. The third major natural resource which Iraq possesses, besides land and water, is oil. The country's proven oil reserves are estimated at 5,000 million barrels or at over 7 per cent of the world's total; potential reserves are considered to be even larger.

33. Since the middle thirties, when output increased sharply, Iraq has become a substantial oil producer. After the opening of a first pipeline to the Mediterranean in 1934 production increased, from a total of 700,000 tons in that year, to 3.6 million tons in 1935 and to a postwar peak of 4.7 million tons in 1947. The country's current production, the bulk of which is obtained at the oil field of Kirkuk, reputed to be the world's largest, is limited only by existing transport (pipeline) capacity.

34. At present, two 12-inch pipelines, each with a capacity of 2 million tons per annum, extend from the Kirkuk field to the Mediterranean; one reaches the sea at Haifa, in Palestine, the other at Tripoli, in the Lebanon. Two additional 16-inch lines, each with an annual capacity of 4 million tons, have been laid along the same routes; the new line to Tripoli has already begun operations. A 30-inch line, with a maximum capacity of 16 million tons per annum, running from Kirkuk to Banias in Syria, is expected to be available by the end of 1953.^{1/} With these five lines in full operation, production is expected to increase from 4.7 million tons in 1947 to over 25 million in 1954 and to continue at that rate for at least 40 years before the Kirkuk field is likely to show signs of exhaustion.^{2/} This rate of production is, moreover, unlikely to be affected by a possible fall in the price of oil, since production at Kirkuk takes place under very favorable conditions and at comparatively low cost.

35. In addition to the production at Kirkuk, about 2.5 million tons per annum are expected from the Mosul and Basrah fields; by 1954 the country's total production should, therefore, exceed 27 million tons a year.

36. The production figures just quoted are, of course, based upon the assumption of full and uninterrupted operation of all available pipelines. The refusal, since May 1948, of the Iraqi Government to permit the piping of oil to the port of Haifa because of its unwillingness "to aid the Israeli economy through Iraqi oil" has resulted in the temporary closing of the 12-inch pipeline to Haifa and in the suspension of work on the 16-inch pipeline, which had, however, been almost entirely completed. Because of the political difficulties involved, it is impossible to predict with any certainty when

^{1/} According to information supplied by the IPC a satisfactory agreement as to transit rights for this line has already been reached with the Syrian Government.

^{2/} Statement to the IBRD Mission by the manager of the Kirkuk oil fields.

the piping of oil to Haifa may be resumed; it seems unlikely, however, that the Iraqi Government will continue to maintain its present costly attitude much beyond the coming year.

Concession Agreements

37. There are at present four oil companies operating under concessions in Iraq:

38. The Iraq Petroleum Company (IPC). This firm, the most important oil operator in Iraq, is owned by British, Dutch, French and American interests, ownership being divided as follows:

- 23.75 per cent -- Anglo-Iranian Oil Company
- 23.75 per cent -- Royal Dutch Shell
- 23.75 per cent -- Compagnie Francaise des Petroles
- 23.75 per cent -- Near East Development Corporation (in turn owned jointly by the Standard Oil Company of New Jersey and Socony-Vacuum)
- 5 per cent -- Mr. Gulbenkian, the person who assisted in securing the original concession.

39. The company's concession area comprises 35,000 square miles to the east of the Tigris and includes the Kirkuk structure which furnishes the bulk of Iraqi production. The company is at present engaged in prospecting work to discover new fields, for it is believed that other important structures may exist in the company's concession area.

40. In 1948 its output was 3.0 million tons, having declined to that figure (largely as a result of the closing of the Haifa pipeline) from 4.3 million tons in 1947.

41. The Mosul Petroleum Company. This company, previously known as the British Oil Development Company, is now a subsidiary of the I.P.C. It was granted a concession in 1932 over an area of 43,000 square miles west of the Tigris in the Mosul and Baghdad provinces. The company operates two small structures in its concession area; the potentiality of both is low and both present rather difficult production problems. Output is therefore limited

and is not expected to increase very materially in the foreseeable future.

42. In 1948 production amounted to 9,000 tons, having fallen to that figure from 32,000 tons in 1939.

43. Khanaqin Oil Company. This company was formed in 1925 to acquire and operate the concession held by the Anglo-Iranian Oil Company on an area of 750 square miles along the Iranian frontier. The company operates two small structures with limited potentiality in that area; production from them is used entirely by the company's refinery near Khanaqin, the entire output of which is sold for local consumption. In 1948 the company's total production amounted to 367,000 tons.

44. The Basrah Petroleum Company. This company is also a subsidiary of the I.P.C. and has a concession for the exploitation of all lands south of the province of Baghdad. Recent drilling in the Basrah area has proven the presence of good marketable oil in several structures; the extent of these, however, has not yet been determined. No production has as yet begun but the company is engaged in drilling and development and plans to begin production before 1952.

Receipts from Oil Royalties

45. Under their concession agreements, all four oil companies pay the Iraqi Government an annual royalty of 4 shillings (gold) per ton on all oil produced. The companies are exempt from all taxes (state or municipal) and customs duties. In return for these exemptions, the companies pay the government £ 60,000 (gold) on the first four million tons of oil exported and £ 20,000 (gold) on each subsequent million tons.

46. Not having started production on any significant scale, the Mosul and Basrah Petroleum Companies are still paying the Iraqi Government annual sums of £365,000 and £ 405,000 respectively as "dead rent". As output becomes significant the two companies are to pay the government, in addition to a royalty of 4 shillings (gold) per ton on all oil produced, a 20 per cent share of their output in kind, free of any charge.

47. As the following table shows, even with the pipelines to Haifa closed, a considerable annual income flows to the Iraqi Government from oil royalties. With the reopening of Haifa, the availability of new pipeline facilities, and the renegotiation, at materially increased royalty rates, of the concession agreements now in force, that income is expected to be very considerably increased. Annual oil royalties accruing to the Iraqi Government are likely to grow (when the Haifa line is reopened) from a postwar peak of 2.5 million pounds sterling in 1947 to over 19.3 million (post devaluation) pounds in 1954. If the present royalty rate is increased from 4 to 6 shillings (gold) per ton, as a result of negotiations currently underway, the expected annual income to the government may, in 1954 and the years, following, exceed the substantial sum of 28.9 million pounds sterling per annum.

Income from Oil Royalties
Expected to Flow to the Government of Iraq^{1/}

Year	At present royalty rates					Grand Total	Grand Total at Increased Rates ^{2/}
	From Pipelines to Tripoli Only	Banias (30" line)	From Produc. at Mosul & Basrah	Total	From Pipelines to Haifa (if opened)		
<u>In "pre devaluation" pounds sterling</u>							
1949	.9 ^{3/}	-	.8	1.7	.4 ^{3/}	2.1	3.2
1950	2.4 ^{4/}	-	.8	3.2	2.4 ^{4/}	5.6	8.4
1951	2.7	-	.8	3.5	2.7	6.2	9.3
1952	2.7	-	1.8	4.5	2.7	7.2	10.8
1953	2.7	-	2.3	5.0	2.7	7.7	11.6
1954	2.7	5.2	2.8	10.7	2.7	13.4	20.1
<u>In "post devaluation" pounds sterling</u>							
1949	1.3 ^{3/}	-	1.1	2.4	.6 ^{3/}	3.0	4.6
1950	3.5 ^{4/}	-	1.1	4.6	3.5 ^{4/}	8.1	12.1
1951	3.9	-	1.1	5.0	3.9	8.9	13.4
1952	3.9	-	2.6	6.5	3.9	10.3	15.5
1953	3.9	-	3.3	7.2	3.9	11.1	16.7
1954	3.9	7.5	4.0	15.4	3.9	19.3	28.9

^{1/} Maximum income anticipated assuming full use of production and transport facilities as stated.

^{2/} Assuming an increase in royalty rates of from 4 to 6 shillings (gold) per ton.

^{3/} 12-inch pipeline only. For Haifa estimate is from August to end of the year.

^{4/} 12 and 16 inch lines.

Sources: Based on data obtained from the Iraqi Government and checked with the Iraq Petroleum Company.

Domestic Refining Capacity

48. The only refinery of any importance now existing in Iraq is the Alwand refinery operated by the Khanaqin Oil Company, which has a capacity of 2 million barrels a year, equal to about two-thirds of the country's total requirement of refined oil products. A substantial part of the refined products required for domestic consumption is therefore imported -- largely from the refinery which the Anglo-Iranian Petroleum Company operates at Abadan, on Iranian territory, close to the Iraqi border.

49. The Iraqi Government has been planning for some time to construct a refinery large enough to provide for the country's total needs. Up to now, however, the project, for which financial assistance is also being sought from the Bank, has not passed the preliminary planning stage.^{1/}

3. Industry and Transport

Industrial Resources

50. Although, as a result of the shortage of manufactures prevailing during the war, a number of industrial concerns were established in Iraq, the country still has, apart from oil, no industries of much consequence. Such industrial establishments as do exist are generally small; among the most important are several wool spinning and weaving mills, several tanneries, soap factories, breweries, cigarette factories, and flour mills. The erection of a sizeable cotton textile factory, and of a cement plant with a 600 ton daily capacity on which work is already well advanced, are at present under way.

^{1/} According to information just received, it appears doubtful that the government will press its plan for this refinery since the Anglo-Iranian Oil Company, the parent of the Khanaqin Oil Company, has recently decided to double the capacity of the Alwand refinery and, at a later date, to erect a small refining plant at Basrah. Total investment required to meet Iraq's increasing need for refined oil products in this manner is considerably less than that required for the erection of the projected government refinery at Baghdad.

51. For the rest, local handicraftsmen and artisans still supply the needs not met by imports or the output of domestic manufactures. However, as Iraqi agriculture develops and growing oil royalties make fresh investment funds available, it is likely that a gradual expansion will occur in Iraqi industry -- notably that concerned with the processing of agricultural products and of other domestically available materials.^{1/}

Transport Facilities

52. Despite the construction of roads and railroads by military authorities to meet their needs during two world wars, transport facilities in Iraq are still, generally speaking, poor. There are about 1,000 miles of state-owned railroads of which over 300 are standard gauge and the remainder one meter gauge. A meter gauge line extends from Basrah on the Persian Gulf to Baghdad, a second line from Baghdad to Kirkuk and Irbil in Northern Iraq, a total of about 650 miles. After the completion of the combined rail and highway bridge over the Tigris at Baghdad, now under construction, these two lines will form a continuous system linking Basrah in the south with Kirkuk in the north.

53. The standard gauge line extends from Baghdad via Mosul in the north to the Turkish frontier. Thus Baghdad is linked with Turkey and with European railway networks.

54. During the war there was a heavy freight traffic owing to the movement of troops and stores, and of lend-lease supplies to Russia. In 1944, freight traffic reached a peak of 567 million ton miles, compared with 188 million in 1938. In 1946 traffic was still twice that of prewar years.

^{1/} Besides oil, no mineral products of any importance have, as yet, been found in Iraq. Asphalt, salt and coal are produced in small quantities; recently, iron and copper ores were discovered in the northern part of the country, but although the deposits appear promising, their full extent has not yet been determined.

55. To replace outworn equipment and to improve and expand their facilities generally, the Iraqi State Railways have, during the past several years, pursued a rather ambitious program of rehabilitation and development described more fully in the Appendix to this paper. At the present moment, however, continuation of that program is threatened by an acute shortage of funds; to meet past obligations and the cost of completing the program private London banking interests and IBERD have both been approached for financial assistance.

Roads

56. There are few permanent hard-topped all-weather roads in Iraq. However, owing to the climate of the country, most roads and tracks are useable during the greater part of the year. The main motor roads connect Baghdad with Mosul, Kirkuk and Irbil in the north and with Basrah in the south. There are about 1,700 miles of improved roads and about 5,000 miles of earth roads. In 1947 there were registered in Iraq, 7400 cars, 5100 trucks and 1000 motorcycles, a very considerable increase over 1942 when the corresponding figures were 4500, 1900 and 80.

57. The main development project in road transport is the construction of modern highways to link the capital with the country's more important cities. In addition to the construction of new roads, an important problem is the maintenance of those already in use. Paved roads are badly in need of strengthening and resurfacing to meet the requirements of present-day traffic; owing to the shortage of funds in the past few years, work has, however, on the whole, been extremely limited.^{1/}

Shipping and Ports

58. Waterways form an important part of the Iraqi transportation system. Basrah, the only seaport, lies 85 miles north of the Persian Gulf and is

^{1/} Iraq's paved roads are largely military roads originally built to sub-standard specifications; they are therefore badly in need of strengthening and rebuilding.

reached by large ocean-going vessels through the Shatt-El-Arab river formed by the junction of the Euphrates and Tigris. The Shatt-El-Arab and Tigris provide an all season navigable waterway from Basrah to Baghdad for vessels of 4 foot draught. Owing to the considerable dispersion of its waters, the Euphrates does not afford a comparable through route, although it is navigable in many sections. Basrah, the only Iraqi port for sea-going vessels, handles about 90 per cent of Iraqi foreign trade (exclusive of oil). In 1947-48, 275 vessels entered the port with a gross tonnage of 1,600,000 tons.

Air Transport

59. Since the war air transport in and through Iraq has increased considerably. Iraqi Airways, government owned, and operated through the Iraqi Railways Administration, are serving a growing traffic among Iraqi's principal cities and with some of the neighbouring countries. A number of foreign air lines have frequent scheduled flights through the Baghdad and Basrah airports to almost every part of the world.

III. PRESENT FINANCIAL POSITION

1. Currency, Credit and Prices

Currency

60. The currency unit of Iraq is the Iraqi Dinar. Introduced in 1932, after the termination of the British mandate, it replaced the Indian currency which had been in circulation since the first World War. Indian currency was repatriated and the sterling thus acquired kept as a cover for the new Iraqi currency. From 1932 until July 1, 1949, when control of the currency passed to the newly established National Bank, the country's currency was managed by the Iraqi Currency Board in London. According to the provisions of the Iraqi currency law, the Board was obliged to redeem Iraqi Dinars on demand at the rate of one £ sterling for each dinar and to issue dinars against receipt of sterling in London at the same rate plus a commission charge of 1/8 of one per cent. The Board consisted of five members of which two were appointed by the government of Iraq, two were elected by the three British Banks with branches in Iraq,^{1/} and one was appointed by the governor of the Bank of England. The Chairman was appointed by the Iraqi Government from among the five members.

61. On July 1, 1949 control of the currency passed from the Currency Board to the National Bank of Iraq, which had been established in 1947. At that time, a law amending the Iraqi Currency Law of 1931 was passed providing that the National Bank would be required to maintain a currency reserve "composed of gold and foreign currencies and securities at a ratio of not less than 70 per cent and of Iraqi government securities at a ratio not exceeding 30 per cent."

^{1/} The Eastern and Ottoman Banks and the Imperial Bank of Iran.
(The Ottoman Bank is an Anglo-French institution whose Baghdad branch is managed by British Officials.)

62. It is thus possible for the National Bank of Iraq to depart from the 100 per cent currency reserve system under which the Currency Board has operated and to substitute short term government paper up to 30 per cent of the total note issue. Although the power exists, the National Bank is, however, at present unlikely to use it to any very significant extent for the tradition of a 100 per cent currency backing is still strong within the country and a material departure from it would, in all probability, call forth considerable criticism at this time.^{1/}

63. At the end of April 1949, the latest date for which detailed data are available, the Currency Board's reserves compared with the total volume of currency in circulation as shown in the table on the following page.

64. As these figures indicate, if the value of silver in Iraqi coins is counted as a reserve, there was still, on April 30, 1949, a 100 per cent reserve available against Iraq's total currency in circulation. Ever since the purchase, in 1948, by the Currency Board of ID 4.8 million Iraqi Treasury bills, however, it has been barely possible for the Board to maintain the required 100 per cent cover; in 1947, before that purchase, the Board's reserves in long term sterling securities alone had exceeded by over ID 2 million the total needed to provide the required 100 per cent reserve.

^{1/} It is expected that it will take a number of months to effect the transfer of all accounts and assets from the Currency Board to the National Bank and that a Bank of England expert will come to Iraq this fall to advise in the organization of the Bank's functions in the currency field.

Iraqi Currency in Circulation and Currency Board Assets, 1947-49

(In thousand Iraqi Dinars)

	<u>December 31,</u> <u>1947</u>	<u>December 31,</u> <u>1948</u>	<u>April 30,</u> <u>1949</u>
<u>Total Currency Circulation:</u>	<u>35,247</u>	<u>34,725</u>	<u>34,577^{1/}</u>
Notes	33,963	33,541	33,389
Coin	1,284	1,184	1,188
<u>Currency Board Assets</u>			
Sterling long term securities:			
At face value	37,694	32,739	32,739
At mean market price	38,103	33,529	33,441
At cost	37,986	32,974	32,974
Current and fixed deposits	971	935	726
Accrued interest	80	85	30
Value of silver in coins in stock (less 10%)	109	140	139
Value of silver in coins in circulation (less 10%)	542	537	540
Iraqi securities:			
Face value	-	4,870	4,870

^{1/} Total currency in circulation amounted to ID 34.6 million at the end of May, and to 35.5 million at the end of June, 1949.

Source: Prepared from data furnished the IBERD Mission by the National Bank of Iraq. Figure for June, 1949 from the International Monetary Fund's International Financial Statistics.

65. Since practically all of Iraq's currency reserve is held in sterling securities Iraq had virtually no choice but to follow the United Kingdom in the recent devaluation of the pound. Iraq's announcement to that effect was, in fact, almost simultaneous with that of Britain. Devaluation of the pound has thus caused no change in the formal relationship between the two currencies: Iraq dinars are convertible into British pounds at par, and vice versa, as was the case before the devaluation.

Credit

66. As it extends its operations, and as soon as the new law for the control of banking which gives it important new powers is passed by the Parliament, the National Bank of Iraq will be the center of the country's banking and credit system. Although important, its function will, however, on the whole be comparatively simple for the financial system of Iraq is still, in the main, an uncomplicated one. There are no organized security or commercial paper markets in Iraq -- the investment and credit needs of the business community are met by three government banks, the Rafidain, the Agricultural and the Industrial Banks, serving commerce, agriculture and industry, respectively, by three British commercial banks (the Ottoman^{1/} and Eastern Banks and the Imperial Bank of Iran) and by three relatively small Iraqi Banks. In addition there is the "Bazaar" -- the still flourishing business of individual money lenders who make funds available to small borrowers at high rates. British banks are mainly concerned with the financing of foreign trade. They usually keep their reserves and investments in foreign -- mainly sterling -- securities and have thus far shown little interest in financing local agricultural or industrial development.

67. It is mainly to bring about the investment of a larger proportion of Iraqi funds within Iraq, that the new law for the "Control of Banking" now before the Parliament, was drafted. The draft limits the proportion of Bank deposits to be invested abroad to 50 per cent of the total, prohibits investments by banks in foreign equities, and stipulates that from 10 to 15 per cent of all deposits must be kept on reserve at the National Bank, thus

^{1/} Although under British management in Iraq, the Ottoman Bank is an Anglo-French institution.

making of that bank the country's Central Reserve Bank and enabling it, by appropriate changes in the reserve ratio, to exercise a certain measure of control over the total volume of bank credit.

68. In April 1949 total deposits in all banks in Iraq amounted to ID 16.3 million; of these, 12.7 million were demand deposits, 1.4 million time deposits and 2.3 million savings deposits. As these figures indicate, the volume of saving via bank deposits is comparatively small in Iraq; hoarding of gold and of currency is still, especially in rural areas, the favorite method of keeping idle funds.^{1/}

Prices

69. As in most countries, the war caused significant changes in the Iraqi price level. During the first year and a half of it, the rise in domestic prices was limited and Iraqi exports went mainly to their prewar markets; following the collapse of France, Italy's entry into the war, and the consequent closing of the eastern Mediterranean, however, severe limitations came to be placed upon the country's foreign trade which soon resulted in a sharp increase in the prices of imported goods. Toward the end of 1941 the arrival of British troops occasioned a sharp reduction of domestic supplies and a further price rise. In subsequent months the inflationary trend was accelerated by the increasingly large expenditures of the British Army in Iraq (financed by the issue of Iraqi dinars against £ sterling credits in London), the growing scarcity of imported commodities, and the high prices obtainable

^{1/} An interesting indication of the propensity of the Iraqi public to hoard currency is given by the figures for note circulation by types of notes outstanding. These figures show that while during the past two years the circulation of notes in smaller denominations and the total currency in circulation declined (the latter from 39.8 million ID in January 1947 to 34.6 million in May 1949), the volume of 100 dinar notes rose from 8.1 to 9.0 million during the same period.

for Iraq's exports of grain. To check inflation, the Iraqi Government passed certain anti-hoarding laws and fixed the prices of important staple commodities. However, since no measures were taken to draw off surplus purchasing power through taxation, the floating of loans, or the encouragement of savings, the Government's anti-inflationary efforts had only a very limited effect. Toward the end of 1943 wholesale prices and the cost of living stood at 6 times their prewar level and a corresponding rise had occurred in currency circulation and bank deposits. In 1944, because of a good harvest, a decrease in the export price of grain, and a determined effort on the part of the Government to check speculation, inflationary trends fell off slightly; when the war ended in 1945 the wholesale price index stood at 503 and that of the cost of living at 584 (1939 = 100). Although both indexes declined in 1946 they rose again in 1947 and 1948, mainly because of a very bad harvest in the former year and the outbreak of war in Palestine in the latter, attaining peaks of 657 and 763 respectively in April 1948.

70. Since then the beginning of a fall in the prices of Iraqi exports -- a part of the general postwar price recession -- an increasing credit stringency and a consequent gradual slackening of domestic trade have produced material declines in both prices and the cost of living; the index of the former stood at 487 in April, and that of the latter, at 559 in May, 1949. After reaching a peak of 56.3 million dinars in 1944, the country's total media of payment (currency in circulation and demand deposits), declined to 47.3 million at the end of April of this year. As in other countries, postwar inflation has thus given place, in Iraq also, to postwar deflation and business recession.

71. The recent devaluation of the Iraqi dinar will very probably halt any further price decline and lead, instead, to a gradual price increase.

Prices of goods imported from hard currency countries will be immediately affected: the action of other prices will depend, in large measure, upon the course of prices on British markets and on those of the sterling area generally. Since no price controls of any consequence exist in Iraq, it is not unlikely that a general price rise of from 10 to 20 per cent on the average will take place during the months to come.

2. Budget

General Financial Position

72. Before the war Iraq's financial position was, on the whole, sound: the government's ordinary budget showed small surpluses, the public debt was small and increasing oil royalties, generally credited to a separate public works budget, made possible the financing of such projects as railway improvements and the beginning of certain flood control and irrigation schemes. In 1938, to meet part of the cost of these works, a loan for £ 1 million, the first foreign loan to be floated by the Iraqi Government, was successfully placed, the proceeds being used mainly for railroad modernization and expansion. In 1939, again to meet the costs of the capital works program, a further loan of £ 1 million was obtained from the Iraq Petroleum Company as a non-interest bearing advance against oil royalties.

73. During the war years, greatly increased revenues and lower expenditures, mainly because of the enforced limitations on its capital works program, enabled the Iraqi Government to show a series of budget surpluses; by the end of the conflict a surplus of over 4 million dinars had been accumulated.^{1/}

^{1/} While during the war years the government's financial accounts showed substantial surpluses and its first foreign loan of £ 1 million was paid off, non-interest bearing advances for £ 3.5 million were, however, obtained against oil royalties to meet the government's current requirements. As the discussion of the Iraqi public debt which follows will show, a large part of this indebtedness is still outstanding.

74. During the first postwar year the government's accounts were in balance. In 1947-48 and the two years following, however, deficits occurred, resulting in a generally embarrassed financial position and in a growing difficulty for the government to obtain the funds required for its operations. Although the ordinary government budget for the current financial year (April 1, 1949 to March 31, 1950) is balanced, the government's total expenditures (including those for capital works and state-owned enterprises accounted for in separate budgets) are expected to exceed revenues by a substantial margin; as a result, at the present moment governmental funds are scarce and the government is forced, by its own admission, to engage in a rather precarious financial "hand to mouth" existence.^{1/}

Structure of the Iraqi Budget

75. For an informed evaluation of Iraq's present financial position and an estimate of its probable future a clear understanding of the structure of the country's budget and of the main types of income and outgo is essential.

76. The Iraqi Government's total expenditures and revenues include three main categories:

- (1) Those of the ordinary budget;
- (2) Those of the separate capital works budget;
- (3) Those of four government-owned enterprises: the Iraqi State Railways, the Port of Basrah, the Fao Bar Dredging Scheme, and the Iraqi Currency Board.

77. The first category, the government's ordinary budget, includes ordinary governmental revenues and expenditures: on the revenue side, customs

^{1/} For a detailed statistical account of the course of Iraqi finances before, during and after the last war, see Tables 12 to 22 in the Statistical Appendix to this report. The tables show annual revenues and expenditures of the Iraqi Government by principal categories for the financial years from 1935-36 to 1949-50.

receipts, which amount to the unusually large share of from 30 to 40 per cent of the total, the proceeds of a turnover tax on agricultural produce and revenues from the tobacco monopoly, and the proceeds of the income tax, paid by members of the professions and of commerce and industry, but not by land owners, the country's wealthiest group. On the expenditure side, the most important single item is that of "emergency expenditure", representing over 20 per cent of the total, which includes mainly cost of living allowances to government employees and, in 1948 and 1949, the extraordinary expenditures resulting from the war in Palestine. Other large items are the expenditures for defense, police, and education, absorbing 20, 10 and 10 per cent of the total, respectively.

78. The government's separate capital works budget includes, on the revenue side, income from oil royalties and earnings of the Iraqi Currency Board, and on the expenditure side the cost of such public works as roads, bridges, telegraph and telephone installations, construction of public buildings and the cost of certain irrigation works.

79. Of the budgets of the four government-owned enterprises, by far the most important is that of the Iraqi State Railways. While the railways' operating budget generally shows a slight surplus, expenditures on capital account were, in postwar years, not covered by any budgeted revenue but constituted a charge which the government was forced, in the main, to meet through borrowing.

80. Financial accounts for the Iraqi Currency Board, the Port of Basrah, and the Fao Bar Dredging Scheme show almost uninterrupted surpluses; a slight deficit is, however, foreseen for both of the latter for the current financial year. Because of the transfer of the Currency Board to the National Bank of Iraq last July, only very limited revenues appear in the Board's current

budget, while continuing expenditures, covering the liquidation period, result in a deficit, the first to be recorded during the past 15 years.

Reasons for Present Financial Difficulties

81. If the balances of the Iraqi Government's ordinary and capital works budgets and those of the four government owned and controlled enterprises are combined, the following over-all financial position for the four years 1946-50 is obtained:

Budget Position (Balances) of the Iraqi Government
(In millions of Iraqi Dinars)

<u>Years</u>	<u>Ordinary Budget</u>	<u>Capital Works Budget</u>	<u>Railroad Budget 1/</u>	<u>Other Special Budgets 2/</u>	<u>Total Govnt. Budget</u>
1946/47 ^{3/}	+ .3	- .7	- .6	+1.0	0.0
1947/48 ^{3/}	-1.8	+1.2	-1.5	+ .6	-1.5
1948/49 ^{4/}	-1.4	-1.0	-2.4	- .7	-5.5
1949/50 ^{4/}	0.0	- .6	-2.4	-1.3	-4.3

1/ Includes both operating and capital works expenditures, the deficit shown being due to the latter.

2/ Port of Basrah, Fao Bar Dredging Scheme, Iraqi Currency Board.

3/ Actual income and expenditure.

4/ Budget estimates.

Source: Prepared from data obtained by the IBRD Mission from the Iraqi Ministry of Finance.

82. An analysis of these figures indicates clearly the main causes for the present state of unbalance in the Iraqi Government's finances and the principal reasons for the current lack of readily available funds.

83. As the table shows, there was a rather substantial deficit in the government's ordinary budget from 1947 to 1949. The main reasons for it were the unusually severe crop failure in 1947 which forced the government to purchase wheat abroad and resell it to domestic consumers at lower prices, a concurrent rise in general prices and the cost of living, which found expressio:

in higher cost of living allowances to government employees, and, finally, the outbreak of the war in Palestine which resulted in a material increase in the government's emergency expenditures .

84. The main cause for the recent deficits in the capital works budget lies in the substantial decrease in income from oil royalties which occurred as a result of the closing of the pipeline to Haifa after the beginning of hostilities against Israel; as a result of that closing, income from oil royalties was, in fact, cut in half.

85. The largest single unbalancing element in the Iraqi Government's over-all accounts and the main cause for its current financial difficulties, however, is the substantial deficit which appears in the accounts of the state-owned Iraqi railways.

86. As the detailed data in Appendix Table 15 indicate, while the railroad's operating accounts showed small annual surpluses, large deficits were caused by the recent, sizeable expenditures on capital works for which no adequate income had been provided. In fact, while plans made for the railroads' capital works expenditures were approved by the government and the beginning of the works in question authorized, no special budgetary provision was made to cover their cost. Part of the resulting deficits have already been met through government borrowing; the bulk of the outstanding claims, over ID 2 million, however, still remains uncovered and represents a debt for which creditors are currently pressing to be repaid. It is not surprising that, under the circumstances, the Iraqi Government should find itself hard pressed for funds.

Outlook for the Future

87. What are the remedies for these difficulties and what is the outlook for the country's finances? The first step is, obviously, the funding of the

present floating railroad debt and the reduction of the railroad's capital works program to a size commensurate with the funds which can, under present circumstances, be provided for the purpose. Since Iraq's total public debt is small, an increase of it for the purpose of funding outstanding railroad obligations and of providing some further funds for capital improvements seems feasible.

88. Once the railroad debt is funded the problem arises of how to eliminate the deficits in the government's capital works budget and the accounts of the other three government owned agencies. Added income from oil royalties will eliminate the deficit in the capital works budget if expenditures are properly controlled.^{1/} The deficit of the Iraqi Currency Board is clearly a result of the current disestablishment of that Board and will not recur; deficits shown by the Port of Basrah Authority and the Fao Bar Dredging Scheme should be met by using accumulated reserves (which in the case of the Port Authority are known to be substantial) or by limiting the scope of the works to be undertaken until adequate funds are available.

89. The paramount problem which remains is that of the position of the government's ordinary budget. As Appendix Table 13 shows, ordinary revenues and expenditures of the Iraqi Government have, on the whole, been fairly well balanced in the past. Surpluses have alternated with deficits, which have amounted, on the average, to less than 10 per cent of total expenditures. The ordinary budget for the current financial year (April 1, 1949 to March 31, 1950) which was approved by the Iraqi Parliament this spring, shows

^{1/} It should be noted, in this connection, that no forward commitments beyond the end of the present fiscal year (March 31, 1950) exist at this time in Iraq's capital works budget. Oil royalty income is, therefore, available for local currency expenditures on projects which the Bank might finance and for such other purposes as the Iraqi Government may determine.

neither surplus nor deficit but a balance at ID 25 million.

90. Will that balance be achieved? The outlook is not, at present, a promising one. The IBRD mission's stay in Iraq was too short to permit a detailed study of the various categories of income and expenditure and the preparation of reliable estimates on the probable future course of each; sufficient information, however, was obtained to make possible certain general observations and tentative conclusions.

91. Budget estimates for this year's income^{1/} are slightly larger than those for last year because of the larger income expected from the increase in customs duties (10 per cent on the average), in the agricultural turnover tax (from 10 to 12 $\frac{1}{2}$ per cent), and in the property, gasoline and stamp taxes, enacted by the Iraqi Parliament last spring. Estimates for current expenditures are lower, mainly because of the savings which the government hopes to realize through the far-reaching reform of the Civil Service now underway.

92. On their face the government's latest figures do not appear to be out of line with similar figures for the recent past. If hostilities in Palestine are not renewed, the budgeted item of ID 1 million for war expenditures in Palestine might even be found to constitute a hidden reserve which may neutralize, at least in part, the effects of certain over-estimates in revenue. If the additional tax legislation now before Parliament, for the enactment of which the government is pressing (new death duties and increased income, motor car, and radio taxes and court fees) is actually passed, the government's income may be further increased.

93. In a careful appraisal of the government's income estimates,

^{1/} According to a statement made by the Finance Minister to the Iraqi Parliament, current estimates of both income and expenditure were based upon actual income and outgo during the first ten months of the preceding fiscal year.

however, serious doubts arise in connection with the item which is by far the most important, i.e. customs revenue. It does, in fact, appear improbable that, although customs duties were recently raised, and although the rise in import prices likely to follow upon the recent devaluation of the Iraqi dinar will result in increased income from ad valorem duties, customs revenues generally should, as the current budget foresees, be larger than those for the preceding year. In 1948 Iraq's imports were higher than they had ever been before. This year their volume is likely to be considerably lower, because of the restrictions currently placed upon imports in an attempt to correct the large deficit in the country's trade balance, and also because of the generally reduced volume of business expected during the current recession in commercial activity.

94. If, as it is very likely to do, the volume of imports falls, income from customs revenues is likely to fall with it. Any hidden reserves provided for in the budget would, under the circumstances, very probably be insufficient to absorb the effects of the decline and, unless expenditures are drastically cut, a renewed and possibly substantial deficit may result. No current data on the volume of imports or on customs collections are available: it is not improbable, however, that lagging customs collections which, in the current budget represent over 40 per cent of total revenues, may be one of the principal causes for the government's current, apparently acute shortage of funds.

95. If, as a result of the anticipated fall in custom collections and of the possible rise in certain expenditures following upon the recent currency devaluation, the government's ordinary accounts for the current year should show a deficit, more domestic borrowing will have to be resorted to. Although Iraq's total public debt is small and could be further increased without undue strain upon the country's economy, domestic flotation of additional bond issues or sale of additional Treasury bills will be found to be difficult in view of

the current tight condition of the Iraqi money market and the general scarcity of investible funds. The government may therefore be forced to have recourse to the opportunities for additional financing provided by the new banking laws which require investment within Iraq of a stated proportion of commercial bank deposits and permit the central bank to invest 30 per cent of its currency reserves in Iraqi Government obligations.

96. On the whole, although an attempt is being made to ease the present financial strain through an increase in taxation and a reduction in expenditures, the government's financial position is likely to remain difficult unless large debts, such as that of the railroads, are funded, unless revenues for the capital works budget are increased through increased income from oil royalties, and unless a thorough, long overdue reform in the country's tax system and a judicious pruning of expenditures are carried out. Under Iraq's rather primitive tax structure no taxes at all are now levied on landowners, by far the wealthiest class in the population. Although taxation of land-holders is difficult, not only in Iraq but throughout the Middle East, because of the strong political power which they wield, it does not seem unlikely that a really determined effort to make them bear at least some part of the state's expenses might yield helpful results. Similarly, a thorough overhauling of the Civil Service and of the costly armed and police forces, including a determined elimination of unnecessary functions and posts, would, in all probability, yield a saving much larger than that currently anticipated.

97. Generally speaking, there is nothing which is technically impossible, or even very difficult, to remedy in Iraq's current financial malady -- what is needed is determination on the government's part to study the situation thoroughly; preferably with the assistance of impartial foreign experts, and to apply with determination the rather obvious remedies which are likely to be prescribed.

3. Public Debt

98. Iraq's public debt is comparatively small and its burden on the country's economy is not a material one. As Appendix Table 22 shows, it consists of two domestic medium term issues (5 and 10 years) floated in 1947 and 1948 at 3 and $3\frac{1}{2}$ per cent for a total of ID 2 million; of two domestic long term (20 year) issues floated in 1945 and 1948 at 4 per cent for a total of ID 4 million; and of short term $2\frac{1}{2}$ per cent Treasury bills issued in 1948 and 1949 for a total of ID 5.1 million of which 3 million are held by the Iraqi Currency Board and 2 million by the Rafidain and various other Iraqi Banks. In addition, there are: an unfunded non-interest bearing debt of about 2 million pounds sterling owed to the British Government for war surplus material, against which, however, Iraq claims an almost equivalent credit for custom duties on wartime imports and for railroad transport services rendered during the war, outstanding non-interest bearing advances of 4.2 million pounds sterling against oil royalties, repayable at a rate not to exceed £ 900,000 per annum, and various debts currently owed by the Iraqi railroads to suppliers of material for their development program for a total of about ID 2.2 million.^{1/}

99. As the foregoing enumeration shows, there is no funded Iraqi external debt represented by bonds quoted on any exchange -- no external measure of Iraq's credit represented by such bond quotations therefore exists. Last June, Baghdad quotations for domestic bonds of ID 100 par value were ID 96 for the 5-year, 3 per cent issue and ID 94.5 for the longer term, $3\frac{1}{2}$ per cent issue.

^{1/} It is understood that in 1948 the British Government extended to Iraq a non-interest bearing credit of about 2 million ID for the purchase of surplus arms. The precise value of deliveries made has, however, not been determined as yet, and no details are known as to conditions of repayment.

4. Foreign Trade and Balance of Payments

Total Trade and Balance of Trade

100. The outstanding feature in Iraq's foreign trade is the continuing deficit in the country's commercial balance. As Appendix Table 23 shows, ever since before the war Iraq has constantly imported more than it has exported: imports have consisted largely of manufactured articles, while exports have been confined, in the main, to agricultural products. The trade deficit has, until recently, been made up principally by income from oil royalties and the oil companies' local expenditures; during the last three years, however, a greatly enlarged trade deficit had to be met mainly by a decrease in Iraq's credit balances abroad.

101. When the war ended Iraq was in need of a variety of capital and consumer goods. Its small industrial plant, outworn and, in part, outmoded, needed replacement and expansion; its railroads, placed under severe strain and taxed to capacity during the war, required rehabilitation; the need for agricultural equipment, which had remained unfilled during the war, had to be satisfied; a variety of consumer goods, for which the country had, traditionally, relied upon imports, had to be provided. As a consequence, Iraqi merchants, impatient to fill the large backlog of orders which had accumulated during the war, expanded their foreign purchases rapidly. The result was that the value of Iraq's imports grew from ID 18.9 million in 1945 to 28.4 million in 1946 -- the trade deficit expanding at the same time, from ID 8.9 to 15.3 million. In 1947 and 1948 the results of an exceptionally bad harvest which made necessary the importation of foreign grain led to a further increase in the adverse trade balance which grew from ID 15.3 million in 1946 to ID 36.9 million in 1948. Because of an embargo placed on grain exports as a result of the poor harvest during the preceding year, exports declined from ID 14.7

million in 1947 to the exceptionally low figure of 8.5 million in 1948.^{1/}

Composition and Direction of Iraqi Trade

102. As Appendix Tables 24 to 27 show, Iraq's chief imports are cotton and woolen textiles, machinery and equipment, and chemicals: sugar, tea and soap are also significant. On the export side grains (mainly barley) normally account for nearly one-half, and dates, of which Iraq is the world's principal supplier, for about one-third of the total. Raw wool, hides and skins, and live animals follow, generally in the order named.

103. Since Iraq exports mainly cereals and raw materials in exchange for manufactured goods, the bulk of the country's trade is with industrial countries. Before the war over 60 per cent of Iraq's total imports came from four such countries -- the United Kingdom, the United States, Germany and Japan -- and over 55 per cent of her exports went to them. Of the four, the United Kingdom, with about one-fourth of Iraq's total trade, was by far the most important. In 1948 almost one-half of Iraq's total imports came from the

^{1/} In considering Iraq's trade statistics, it must be remembered that, since in Iraq oil is produced and exported under special concession and royalty agreements, the proceeds of all oil exports remain at the disposal of the exporting oil companies and only royalty payments agreed upon in the concession agreements are made to the government. Oil exports as such do, therefore, yield no income to Iraq and are, consequently, not included in Iraq's ordinary trade statistics. Imports made by oil companies, for which no payments are made by Iraq are, however, included in the country's ordinary imports, the reason given for this procedure being that such imports are not large enough to distort ordinary commercial import figures materially. For completely accurate trade data, adjustments would also have to be made for the fact that, before 1946 when c.i.f. values began to be used, import values were computed on the basis of the higher prices which imports brought on the local market. Pre-1946 import data would thus have to be adjusted downward, possibly in some cases by as much as 20 per cent; export figures, on the other hand, would need to be raised somewhat to compensate for exports which failed to be properly recorded. In 1946, however, statistical procedures were revised and improved, and for that and the years following, recorded trade data reflect with increasing accuracy the actual course of trade values measured in conventional terms.

United Kingdom while less than one-sixth of her exports went there. In the same year, other leading suppliers were the United States, Italy, Iran and India; other principal markets were India, the United States, Syria and Lebanon and Egypt.

104. Although not recorded in Iraqi trade statistics, it is known that before the war Iraq's oil went almost exclusively to Europe, France being by far the largest market; after the war, Iraqi oil went mainly to the United Kingdom, via the pipeline terminal at Haifa (for details see Appendix Table 30).

Trade and Tariff Policy

105. During the war imports into Iraq were controlled by the British Middle East Supply Center and by a system of Iraqi import licenses. When the war ended, the Supply Center was dissolved and the Iraqi licensing system was relaxed considerably until the only imports requiring license were those from scarce currency countries and the few commodities then still subject to international allocation. When, in August 1947, the Anglo-Iraqi Agreement governing the release of Iraq's accumulated sterling balances was concluded, it was realized that to prevent too rapid a depletion of these balances, some control of imports from the sterling area would have to be reintroduced. As a result, imports were classified according to their essentiality and for goods considered to be essential, such as cotton textiles, building materials, paper, tires, etc., a system of general import licenses with over-all annual allocations of exchange was established. For less essential goods such as silk piece goods, cigarettes, alcoholic beverages, etc. and for all imports from hard currency countries, special licenses were required. In practice, "essential" commodities originating in soft currency countries were imported quite freely, the only real restrictions being placed on the importation of luxuries and of goods originating in hard currency countries. The result of

this rather liberal system of import control and of the large imports of grain which followed the bad harvest of 1947 was the large expansion of imports and of the trade deficit described above and a progressive depletion of the country's foreign exchange balances. To check this trend, in September, 1948 all imports, including those from non-scarce currency countries, were subjected to license, Iraqi authorities refraining, for a time, from issuing any licenses at all except for goods already arrived at Iraqi customs and for goods to be paid for with dollar balances until then left unused. Although it is too early to assess the full result of these measures, a lowering of import totals is known to have taken place during the latter part of 1948 and the first months of 1949 -- a trend which is likely to continue throughout the current year.

106. While the government is, on the one hand, endeavoring to control imports, it is, on the other, seeking to stimulate exports. A particularly noteworthy effort in that direction is the recent endeavor of the Iraqi Date Association to improve the grading and packing, and consequently the foreign, and particularly the U.S., sales of its product.

107. As the earlier discussion of Iraq's public finances has shown, the main objective of Iraqi tariff policy is that of raising revenue: its most important other goals are the encouragement of domestic production, both agricultural and industrial, and reduction in the consumption of imported luxuries. Originally similar to the old Ottoman tariff which levied an ad valorem duty of 11 per cent on practically all imports, the Iraqi tariff law was completely revised and modernized in 1933. The new law which, though extensively amended, is still in force, provides exemption from duty for all kinds of machinery used in agriculture, construction work and in many types of industry, and for comparatively high duties on foreign manufactures,

similar in type to goods produced locally.^{1/} Generally, Iraqi duties are low on raw materials, somewhat higher on semi-manufactured articles and highest on finished goods. Raw wool, for example, pays 8 per cent ad valorem, carded or combed wool 15 per cent, and woolen manufactures 25 per cent. Export duties are practically non-existent with the important exception of dates on which an export duty of 1 per cent ad valorem is levied for revenue purposes.

Terms of Trade

108. Although no reliable indexes of export and import prices exist and a precise computation of Iraq's terms of trade is therefore impracticable, an examination of such price data as are available indicates that during postwar years the terms of trade have become gradually more unfavorable to Iraq. Import prices, which rose considerably after the war, have been declining but at a lesser rate than the prices for agricultural products which constitute the bulk of the country's exports.

Balance of Payments

109. Detailed data on the principal items of the Iraqi balance of payments for the three last prewar years show that before the war the country's considerable trade deficit was made up, without special difficulty, by income received from oil royalties, expenditures of British forces in Iraq, local expenditures by oil companies and such 'invisibles' as port dues and commissions, tourist expenditures, etc. (See Appendix Table 31)

110. A precise statistical description of Iraq's balance of payments position for the war years is difficult because of the lack of a number of significant data for that period. There is, however, no doubt that during the war Iraq's international financial position was considerably strengthened.

^{1/} On sweets, for example, an ad valorem duty of 75 per cent is levied, and on imported shoes, a specific duty, corresponding, before the recent currency devaluation, to \$2.40 per pair.

Although the trade deficit continued and was enlarged toward the end of the war, income from port dues and transit trade, and especially that from oil royalties and British military expenditures within the country was very considerably enlarged. The result was, on the one hand, an expansion of domestic currency and bank deposits and a corresponding rise in prices, and on the other, the accumulation of very substantial bank balances abroad. Iraqi sterling deposits in London, in fact, rose from about £ 7 million before the war to 69 million in December 1945.

111. After the end of the war Iraq's international financial position has been progressively and considerably weakened. As the table on the following page indicates, in 1946 a rapidly growing import surplus was financed mainly by the foreign exchange provided by British military expenditures in Iraq, receipts from oil royalties, imports and local expenditures by oil companies and such 'invisibles' as tourist expenditures, port dues, etc. When, during 1947 and 1948, largely because of the bad harvest in the former year and the consequent, substantial importation of foodstuffs and embargo on grain exports, the trade deficit had assumed unprecedented proportions, payment for the excess of imports was made mainly by drawings against the country's accumulated sterling balances abroad.

112. Because of the large drawings made against them, Iraq's sterling balances have, of late, been very materially reduced; it is therefore now becoming imperative for the Iraqi Government to limit imports so as to bring the trade deficit back to manageable proportions. As the preceding discussion has shown, a serious attempt to do this is currently being made through the stringent import license system already described. As a result of the government's efforts, during the early part of this year, imports have shown a declining tendency; Iraq's leading exports, on the other hand -- mainly barley,

wheat and dates — are expected to increase materially both as a result of the recent lifting of the embargo on barley exports, and of the good crops expected during 1949.

Summary of Iraq's Balance of Payments, 1946-48 ^{1/}

(In millions of Iraqi Dinars)

	<u>1946</u>		<u>1947</u>		<u>1948</u>	
	Payments	Receipts	Payments	Receipts	Payments	Receipts
Imports	28.4		40.1		45.5	
Exports		13.2		14.7		8.5
Net income from:						
Port dues, etc.		1.1		.8		.8
Emigrants & tourists		1.4		.4	.4	
U.K. military expenditures		2.7		2.2		2.5
Net value of:						
Oil royalties		2.2		2.2		1.7
Oil company imports		2.0		4.1		8.4
Local oil company expenditures		2.1		5.5		5.0
Decrease in Iraqi balances abroad		1.9		8.3		13.5
Totals	<u>28.4</u>	<u>26.6</u>	<u>40.1</u>	<u>38.2</u>	<u>45.9</u>	<u>40.4</u>
Omitted items, adjustments, errors, etc.	-	1.8	-	2.0	-	5.5
	<u>28.4</u>	<u>28.4</u>	<u>40.1</u>	<u>40.2</u>	<u>45.9</u>	<u>45.9</u>

^{1/} To achieve clarity in the presentation of essentials, a number of smaller items have been omitted in this table.

Source: Prepared from the detailed data on the Iraqi balance of payments, furnished the IBRD Mission by the Iraqi Government, contained in Appendix Table 31.

113. The prospect for the coming year thus looks encouraging. A reduction in the quantity of imports and a significant increase in that of exports, might, if no major changes occur in other items of the international balance, materially reduce and possibly eliminate the need for a further drain upon sterling balances held abroad.

114. Although the significant reduction and possible elimination of this drain is a possibility, it is, however, too early to say with assurance what effect currency devaluation and the measures undertaken by the Iraqi Government to control imports will actually have upon the country's trade balance. Though well intentioned, the administrative apparatus of the Iraqi Government is, on the whole, still weak and at the mercy of rather frequent changes in government personalities and policies; the possibility therefore always exists that measures adopted and passed by one cabinet may be reversed or materially modified by another. Because of the accompanying increase in prices, currency devaluation will very probably result in an increase in import values over those which would otherwise have prevailed -- but, for the same reason, export values, too, will grow. As a result of the cheapening of Iraqi currency, increased sales in hard currency areas may possibly, on balance, contribute to a narrowing of the trade deficit.

115. Although much improved over 1947-48, during this and possibly the coming year, Iraq's balance of payments position is, on the whole, likely to continue to be a rather difficult one. The longer range outlook for the country's international accounts does, however, appear to be favorable. The reopening of Haifa and the completion of the new 30-inch pipeline to Baniyas in 1954 are certain to bring a substantial increase in foreign exchange earnings from oil royalties. Local expenditures of oil companies are also likely to be increased if the companies' programs of plant expansion proceed

according to schedule. Iraqi exports, for which a good demand is likely to continue, are expected to grow as agricultural production is expanded as a result of more intensive and effective cultivation and the extension of cultivation to newly irrigated land. If, therefore, present import controls are continued, and imports, especially of non-essentials, are kept within bounds while a vigorous effort is made to enlarge the market for Iraqi exports, there appears to be little reason to believe that over the longer term Iraq should not be able to overcome successfully the difficulties which confront its international payments position at the present time.

5. Foreign Exchange Position

116. Before the war, Iraqi dinars were freely convertible into dollars and other currencies. Under legislation passed by the Iraqi Government, exchange control was introduced in November 1941. As a member of the sterling area, Iraq is obliged to surrender to the sterling area pool all scarce currencies earned; in return the Iraqi Government obtains from the pool the currencies which it requires.

117. Under the original Iraqi exchange control law and its later amendments, foreign exchange transactions may be effected only through the medium of banks licensed by the Iraqi Ministry of Finance to deal in foreign exchange under the conditions laid down by the Exchange Control Committee, established under the Iraqi Exchange Control Law. Actual control operations are carried out by a Controller of Foreign Exchange in accordance with authority delegated to him by the Committee.

118. Iraqi exchange control regulations apply to all foreign trade and 'invisible' transactions. Foreign exchange resulting from exports must be surrendered to a licensed dealer under an undertaking previously given by

the exporter; all imports are subject to licenses granted by the Directorate General of Imports, foreign exchange for them being granted only upon surrender of the exchange control copy of the particular import license.

119. As the discussion in the preceding sections of this report has shown, because of the heavy demand for imports after the war and the absence of adequate import controls before September 1948, the substantial foreign exchange balances accumulated by Iraq during the war were sharply reduced in postwar years. Their position since 1946 is shown below (in million pounds sterling):

	<u>December 31,</u> <u>1946</u>	<u>December 31,</u> <u>1947</u>	<u>December 31,</u> <u>1948</u>
Sterling owned by:			
Currency Board	43.0	39.0	33.9
Private Banks	20.6	18.3	10.4
Government Departments	2.4	1.1	.8
Other foreign currency balances	<u>1.3</u>	<u>.6</u>	<u>.4</u>
Total	67.3	59.0	45.5
Reduction from previous year	-	8.3	13.5

Source: Prepared from data obtained by the IERD Mission from the Iraqi Government.

120. Since Iraq is a part of the sterling area the use of her sterling balances is subject to agreement with the United Kingdom. In August, 1947, Iraq and the United Kingdom concluded a financial agreement for a period of five years (July 15, 1947 to July 15, 1952) under which about one-half of all of Iraq's official sterling balances (those of the Government, the Currency Board and Iraqi Banks) amounting, at that time, to about 60 million pounds, were to be released, while the other half was to remain 'blocked' in a so-called No. 2 Account. The sterling thus released and any earned in

current transactions after July 15, 1947 were to be credited to a No. 1 (free) Account at the Bank of England and were to be freely useable for payments "in any currency area."

121. Under the terms of the agreement the sterling balances to be released amounted to over 30 million pounds. Of this, 15 million were to be released during the coming five years (1947-52) at the rate of 4 million pounds annually for the first two years and at the rate of one-third of the remainder over the next three years. In addition, 2 million were to be released as a working balance for the banks, 5 million as a special provision for the transition period, 5.2 million to cover outstanding contracts, and 4.2 million to cover the repayment of advances made by the Iraq Petroleum Company to the Government of Iraq which are still outstanding.

122. Owing to the exceptional balance of payments difficulties experienced by the Iraqi Government last year which caused a significant depletion of Iraqi free balances, discussions are currently taking place with the British Government with a view to the release of further amounts from Iraq's blocked balances.

123. As to hard, or scarce currency, during the war the United Kingdom undertook through annual agreements ending in 1944, to provide Iraq with sufficient hard currency to meet its essential requirements in scarce currency areas. During the postwar period a similar procedure was followed. The first postwar agreement, with its extensions, provided Iraq with scarce currency totalling \$36.75 million for the period between January 1, 1945 and July 15, 1947, in addition to about \$.7 million for commitments entered into before January 1, 1945.

124. As was said above, the British-Iraqi agreement on sterling balances stipulated that as from July 15, 1947, sterling accumulated in the No. 1

Account should be freely available for payments in any currency area. However, the foreign exchange difficulties experienced by the United Kingdom which led to postponement of sterling convertibility, also forced Britain to request postponement of the British-Iraqi agreement providing for free convertibility of No. 1 Account balances. A new agreement between Iraq and Great Britain had to be entered into to make possible Iraqi payments to scarce currency areas. A supplementary financial agreement between the two countries was thus concluded in November 1947 which provided that during the period from July 15, 1947 to June 30, 1948, convertibility of free sterling into hard currencies should be restricted to a total of 4 million dollars for payments in Belgium and 17.4 million dollars for payments in other scarce currency areas

125. In mid-1948 a new Anglo-Iraqi financial agreement was reached regarding hard currency releases for the year from July 1, 1948 to June 30, 1949. Through this agreement, \$22 million were made available for expenditures in scarce currency areas, including Belgium, and about \$3 million for expenditures in Sweden. A renewal of this agreement, provisionally extended in the meantime, is now being negotiated.

126. On the whole then, all Iraqi earnings of hard currency must now be turned into the sterling area exchange pool; the amount of hard currency to be placed at Iraq's disposal by that pool is determined annually by agreement between the British and Iraqi Governments. Thus far a larger amount than Iraq herself had earned and, as it turned out, than she was able to use, was made available to her.

127. It is not unlikely that so long as Iraq remains a part of the sterling area she will be provided with hard currency in amounts not too far below those obtained up to now. If she should leave the sterling area, the Iraqi Government could negotiate with the United Kingdom Government to

obtain the equivalent of the dollars accruing to the sterling pool from the sale of Iraqi oil for dollars, as well as the dollars accruing as a result of American investments in Iraq's oil projects which flow mainly through the British controlled but partly American owned Iraq Petroleum Company. The dollars now received from sales of Iraqi oil and from investments in Iraqi oil companies by their American part owners, are, in fact, the main reason for the generous dollar allowance now made to Iraq by the sterling area pool. In addition to such dollar receipts Iraq would have her own direct earnings of hard currency arising from exports of her dates, wool, etc. to hard currency countries.

128. The volume and direction of these exports during the last three years are shown in the following table (in thousands of Iraqi Dinars):

<u>Iraqi Exports to Hard Currency Area</u>	<u>1938</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>
U.S.A.	354	1,171	640	1,037
Japan	556	-	-	-
Belgium	122	354	337	2
Germany	162	-	40	446
Canada	44	192	152	62
Total	1,238	1,717	1,169	1,547

Source: Based upon data obtained by the IBRD Mission from the Iraqi Government

129. As these figures indicate, in 1948 Iraq earned ID 1.5 million or 6 million dollars from her exports to hard currency countries. In actual fact her exports to such countries, particularly to the United States, were considerably larger than the amounts shown by Iraqi statistics; this is indicated by United States trade data for the same years shown in the following table:

<u>United States Imports from Iraq</u>	<u>1938</u>	<u>1947</u>	<u>1948</u>
	In Thousands of Dollars		
Fruits, nuts and preparations (mainly dates)	1,496	1,831	2,498
Wool and hair	700	2,676	5,883
Meat products	584	617	511
Leather, furs, hides and skins	205	566	555
Petroleum products	..	..	1,534
Miscellaneous	210	619	152
	<u>3,195</u>	<u>6,309</u>	<u>11,133</u>
Total			

Source: U.S. Trade Reports

130. The discrepancy in the trade totals is explained, in part, by the exclusion of petroleum exports from Iraqi trade statistics, and for most of the remainder, in all probability, by the flow of Iraqi commodities to the U.S. via certain intermediary Middle Eastern trading centers such as Beirut. Unless stricter trade controls are imposed by the Iraqi Government, enabling Iraqi exchange control authorities to secure the exchange arising from such transactions, a probably important source of additional direct dollar earnings may remain untapped.

131. Since the prospects for Iraqi exports to hard currency countries generally, appear favorable, especially in view of the recent currency devaluation which will make Iraqi goods less expensive in the markets of such countries, sufficient exchange is believed to be available to Iraq for the service of any moderate sized hard currency loan which the country might receive. Since, however, Iraqi imports from hard currency countries have

generally exceeded exports to them by a wide margin^{1/} -- thus far amply covered by the hard currency allocations made to Iraq by the sterling area pool -- it is suggested that to reduce the risk inherent in a hard currency loan, service of such a loan be assured either by an understanding as to sterling convertibility arrived at with the U.K. Government, or by a firm allocation of a sufficient share of Iraq's future direct dollar earnings to purposes of debt repayment.

^{1/} The course of Iraq's trade with principal hard currency countries was as follows: (in thousands of Iraqi Dinars)

	<u>1938</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>
Iraqi imports from hard currency area	3,407	2,480	4,764	5,639
Iraqi exports to hard currency area	<u>1,238</u>	<u>1,717</u>	<u>1,169</u>	<u>1,547</u>
Trade deficit	2,169	763	3,595	4,092

Source: Based upon data obtained by the IBRD Mission from the Iraqi Government.

APPENDIX

I. SOCIAL AND POLITICAL BACKGROUND

Physical Characteristics

Iraq lies largely within the valley of the twin rivers, the Euphrates and Tigris. Its area of 175,000 square miles is somewhat larger than that of the state of California. Geographically it includes highlands to the north and northeast with mountain ranges up to 14,000 feet, a central plain, represented largely by the valley of its two main rivers, and a vast desert area to the south and southeast, almost equal in extent to one-half of the country's total surface. The Iraqi climate is of the continental type characterized by a wide range of temperatures, shortness of the transitional seasons, scanty rainfall and low humidity. In the mountain regions of the north, summers are hot and dry and winters moist and cold; immediately to the south and west there is a belt of dry, Mediterranean climate; further south from Baghdad to the Persian Gulf and into the Arabian and Syrian deserts, a hot, dry, desert climate prevails, with maximum summer temperatures frequently exceeding 120° F.

Population and Social Structure

The salient fact about the population of Iraq is that it is small in relation to the size of the country and the extent of available cultivable land; while other Middle Eastern countries, notably Egypt, are overpopulated, Iraq has a problem of threatening population deficiency.

In 1947 the country's total population stood at 4.8 million, with a rate of annual natural increase estimated at between 12 and 17 per 1000 or at about one and one-half per cent per annum; average population density was 10.6 persons per square kilometer, and density on the cultivable land, 52 persons per square kilometer -- a figure which is much lower than that for any other settled area in the Middle East.

The Iraqi population is mainly rural and in part nomadic; the three main cities account for only 15 per cent of the total (Baghdad, 349 thousand, Mosul, 203 thousand, Basrah, 93 thousand inhabitants).

Ethnically, the population consists mostly of Arabs (over 80 per cent of the total), Kurds (about 15 per cent) and of small groups of Iranians, Turks and others. Of the total population, over 93 per cent are Moslem, about 3 per cent Christian and 3 per cent Jews.

Arabic is the official and most widely used language. Kurdish, Turkish, and Persian are employed by the respective minorities; English is the most widely used western tongue.

Government and Politics

Iraq is a very young country. Before the first World War, it was a part of the Ottoman Empire; in 1921 it became an independent kingdom and in 1922 it was recognized by Great Britain, which assumed a mandate for it on behalf of the League of Nations. On June 30, 1930, the United Kingdom concluded a treaty of alliance with it; the mandate was terminated, and on October 3, 1932, Iraq was admitted to membership in the League of Nations as a sovereign state.

Today, Iraq is a constitutional, hereditary monarchy with a parliamentary form of government. The King, the supreme head of the state, promulgates all laws and supervises their execution. Legislative power is vested in a Parliament composed of two houses -- a Senate of 20 members appointed by the King, and a Chamber of 115 Deputies elected by electoral votes at the rate of one for every 20,000 male Iraqi subjects. Executive power is exercised by the King through the Cabinet. The King selects and appoints the Prime Minister and on the Prime Minister's recommendation, the other members of the Cabinet. The Cabinet is responsible to the Chamber of Deputies, its life being dependent upon a vote of confidence by the Chamber.

Largely because of the prevailing high rate of illiteracy and the nomad character of part of the population, there is little direct participation in political activity by the mass of the Iraqi people. There are no strong political parties but, rather, a series of comparatively small political groups the leaders of which alternate in power as members of the frequently changing Iraqi cabinets. The administrative apparatus of the Government, not unaffected by the frequent changes in government personalities and policies, is capable of much improvement; the appointment, in growing numbers, of able and well trained young Iraqis to responsible Government posts is, however, a hopeful sign which augurs well for the future of Iraq's Government service.

II. DEVELOPMENT PLANS

Introduction

Iraq has, at this time, no integrated development program. There are, however, a number of individual development projects, in various stages of technical readiness, which the Iraqi Government is seeking to undertake or on which work has already begun. These projects fall into four main categories:

Flood control and irrigation
Agricultural mechanization
Transport development
Domestic oil refining

For the most part, plans for individual projects within each group have been prepared independently by the governmental agencies immediately concerned; although the draft of a law for the establishment of an Iraqi Development Board has been submitted to Parliament, no such Board has as yet been formed; there has consequently thus far been no overall coordination of the various existing development projects within the framework of a broader national development plan.

The scope of Iraqi development projects as they exist at present, is indicated by the following table which summarizes the estimated costs of the schemes under more or less active consideration at the present time: (at pre-devaluation rates)

Flood Control and Irrigation

	<u>Iraqi Dinars</u>
Projects on the Euphrates:	
Habbaniyah flood control and water storage project	3,375,000 ^{1/}
Hillah irrigation project	11,020,000
Projects on the Tigris and its Tributaries:	
Wadi Tharthar flood control, water storage and hydroelectric projects	16,000,000
Tigris basin irrigation projects	18,315,000
Tigris basin dam construction projects:	
Gibraltar dam & power plant	3,500,500
Bekhme Dam	12,000,000
Damir Dam	3,500,000
Dokan Dam	<u>3,120,000</u>
	22,120,500
Drainage projects on presently irrigated land	<u>8,160,000</u>
Total	78,990,500 ^{2/}

^{1/} Of this amount ID 700,000 have already been expended on the work thus far undertaken.

^{2/} This total is somewhat smaller than that of ID 85,000,000 arrived at in the recent report of the Iraqi Irrigation Development Commission because some of the more remote and hypothetical projects considered by the Commission have been omitted in the foregoing enumeration.

Transport Development

Construction of roads and bridges	15,800,000	
Railroad rehabilitation & development	<u>10,178,000</u>	
Total		25,978,000

Agricultural Mechanization

Farm machinery project	5,000,000	
Grain silo project	<u>1,750,000</u>	
Total		6,750,000

Domestic Oil Refining

Oil refinery project		<u>5,000,000</u>
Grand Total		ID 116,718,500

A more detailed description of the projects listed in the foregoing table is given in the pages which follow.

Flood Control and Irrigation

As a result of the recommendations made to the Iraqi Government last June in a detailed report prepared by the government-sponsored Irrigation Development Commission, a body which spent over two years studying the technical merits of a variety of flood control, water storage and irrigation projects, the following are now under active consideration by the Iraqi Government: 1/

Projects on the Euphrates

Habbaniyah Flood Control and Water Storage Project, Stage I.

The Habbaniyah project is a combined flood control and storage scheme on the Euphrates river which utilizes Habbaniyah Lake, a desert depression near the right bank of the Euphrates, southeast of the town of Ramadi. A flood control and storage project using Habbaniyah Lake was first proposed in 1911 and work was started by the Turkish Government in 1913. World War I caused suspension of the work; it was resumed in 1939 only to be suspended again during the last war. By 1939, however, a regulator and escape channel from Habbaniyah Lake had been completed. It is the function of these to

1/ For a more detailed discussion of these projects, see Report on the Control of the Rivers of Iraq and the Utilization of Their Waters, by the Irrigation Development Commission, F.F. Haigh, C.I.E., M.I.C.E., President, Baghdad, June, 1949; and Flood Control and Irrigation Projects in Iraq, Report by General Glen E. Edgerton, IBRD Engineering Consultant, Washington, September 1949.

permit an escape of excess waters from Habbaniyah Lake into another depression 30 miles to the south, when, during very high flood periods, the levees of the river are cut to permit the flood waters to flow into the lake.

Present plans for the Habbaniyah project call for the building of a barrage (diversion dam) on the Euphrates at Warrar, permitting diversion of the river's water into Habbaniyah Lake through an inlet channel also to be newly constructed. The project further provides for an outlet channel and regulator from Habbaniyah Lake and for the construction of appropriate levees at low points in the rim of the lake. Work on the inlet and outlet channels and the regulator is now proceeding; the outlet regulator is practically completed, but work on the channels is slow because of shortage of funds. On the river barrage or levees no work has as yet been undertaken.

The cost of these works, which would permit the use of the lake for flood control and storage to a maximum elevation of 49.5 meters above sea level and which are described as Habbaniyah Project, Stage I, is estimated by the Irrigation Development Commission at ID 2,700,000. Of this, works for ID 2,000,000 still remain to be undertaken. Of the latter sum, the equivalent of ID 300,000 is required in pounds sterling.

Habbaniyah Project, Stage II.

After the completion of the works described under Stage I, plans contemplate the raising of the maximum storage level in Habbaniyah Lake to an elevation of 51.0 meters above sea level. The cost of the construction of appropriate facilities to achieve this is estimated at an additional ID 675,000; the total cost for works still to be undertaken is, therefore, ID 2,675,000 for both stages of the Habbaniyah project. When completed, the project is expected to permit the control of floods on the Euphrates and the extension of irrigation to 2,400,000 masharas of new land.^{1/}

Hillah Irrigation Project

This is a comprehensive plan for irrigation development along the left bank of the Euphrates, as far east as the natural drainage line between the Euphrates and Tigris. The total cost of the plan is estimated at over ID 11 million; the project is believed to permit the irrigation of about 4 million masharas of new land.

The proposed work is, however, to be undertaken over a series of years in accordance with the funds made available for it each year. The first step now proposed is an increase in the capacity of the already existing Hillah canal and the relocation of one of its main branches. The cost of this project is estimated at ID 1,020,000, approximately half of which should be available in foreign exchange; of the part supplied in foreign exchange, at least one-third should be in U.S. dollars. Cultivation of 360,000 masharas of new land is to be made possible by this project.

^{1/} 1 mashara = 0.25 hectare = 0.62 acres.

Projects on the Tigris and Its Tributaries

Wadi Tharthar Flood Control Project

The Wadi Tharthar is a semi-desert water course and valley partly below sea level lying between the Euphrates and Tigris Rivers. The bottom of the Tharthar depression, about 60 km. northwest of Baghdad, is about 3 meters below sea level. The Wadi Tharthar project contemplates the diversion into that depression of the flood waters of the Tigris through a diversion dam on the river and a channel leading from the river to the depression. After completion of the project the flow of the Tigris could be maintained at any desired volume, river floods being thus completely eliminated. Through an outlet channel, flood waters stored in the Wadi Tharthar could be returned to the Tigris in periods of low water flow. The total cost of the project, including provision for the generating of hydroelectric power, is estimated at about ID 16 million.

Since the execution of the entire project would require a number of years, only the flood control elements of it are recommended for construction in the immediate future. The estimated cost of the flood control project as such, consisting mainly of a barrage on the Tigris and an inlet channel and regulator into the Wadi Tharthar, is ID 9 million.

Irrigation Projects

Although no detailed plans have been prepared as yet, a number of irrigation works on the Tigris and its principal affluents have been projected by the Irrigation Development Commission. The principal ones and their estimated costs are listed below.

	<u>Estimated Cost ID</u>
Lesser Zab extension	5,285,000
Ishaqi area	1,020,000
Diala & Nahrwan area	5,595,000
Lower Tigris areas	<u>6,415,000</u>
Total	18,315,000

Dam Construction Projects

The following are the principal projects for the construction of dams for water storage and possible later hydroelectric development in the upper valley of the Tigris considered by the Irrigation Commission:

Gibraltar Dam. Construction of this dam would permit regulation of the flow of the Diala River, an affluent of the Tigris, and thus aid materially in controlling floods on that river. It would also permit use of stored water for irrigation purposes and for production of hydro-electric power. The estimated cost of the project, exclusive of power development, is ID 2,574,000. The proposed power installation of 30,000 kws. would cost an additional ID 926,500; the water provided would suffice for the irrigation of 1,200,000 masharas of new land.

The Bekhme Dam. The site of this dam is on the greater Zab, an affluent of the Tigris. Its cost would be about ID 12 million, a figure which, however, is thought to be too high for favorable consideration at present.

The Damir Dam. The site of this dam is on the Adhim River, an affluent of the Tigris. Its cost is estimated at ID 3,500,000. Because of the rather irregular flow of the Adhim River, the project is, however, not one of high priority.

The Dokan Dam, on the lesser Zab River, would cost about ID 3,120,000; it is the only one among the dams studied which is thought to warrant consideration for construction in the near future.

The Fatha Dam. The site of this dam is on the Tigris itself and would permit construction of a very large reservoir. The cost of the project, however, appears excessive at present, making the project impracticable in the near future.

Drainage Projects

Experience has demonstrated that irrigated lands in the twin river valley tend to become water logged and saline in time. To remedy these conditions, drainage is necessary. Although no specific drainage projects have been proposed by the Irrigation Commission for execution in the immediate future, it is foreseen that a number of such projects will become necessary in time. Estimated cost of drainage projects on presently irrigated land is ID 8,160,000.

Transport Development

Road Transport

Transport facilities in Iraq are still, generally speaking, poor. There are very few modern hard-topped all weather roads in the country; the main development project in road transport, consequently, is the construction of modern highways to link up the capital with the country's more important cities. Of first importance is the construction of a modern trunk road from Baghdad to Basrah via Kut and Amara, a project not only required for the development of the rich agricultural area which lies along this route but also to provide for quick vehicular traffic between the capital and the port of Basrah. The project second in importance is the reconstruction of the Baghdad to Kirkuk road to connect that important industrial city with the capital and to provide, at the same time, a direct line of communication by road between the port of Basrah in the south and the frontiers of Persia and Syria in the north.

In addition to the construction of new roads, an important problem in Iraq is the satisfactory maintenance of those already in use. Paved roads are badly in need of strengthening and resurfacing and in some cases regrading and realigning to meet the requirements of present day traffic. Owing to shortage of funds during the past few years, work has been restricted mainly to surface dressing and renewal of defective culverts.

Earth roads, which form the major part of the highway system of the country, can only be relied upon as a channel of communication as long as the weather remains dry. During wet weather, they become impassable, particularly in the "salt areas" in the south, and therefore disrupt communications, a case in point being the present road from Baghdad to Basrah via Kut and Amara. Present maintenance allotments are devoted entirely to regrading the surface of these roads from time to time and to the renewal of defective culverts, the funds available being generally insufficient for really effective maintenance. The cost of a comprehensive road and bridge building program which the Iraqi government has prepared has been estimated at ID 15,800,000.

Railroad Transport

All Iraqi railways are owned by the State and operated by the Iraqi Railway Administration, a semi-autonomous agency of the government under the Ministry of Communications and Works. There are about a thousand miles of railroad in the country: of these over 300 are standard gauge and the remainder one-meter gauge. A meter gauge line extends from Basrah to Baghdad and a second line from Baghdad to Kirkuk. After the completion of the combined rail and highway bridge over the Tigris at Baghdad, these two lines will form a continuous system linking Basrah in the south with Kirkuk in the north.

The standard gauge line extends from Baghdad via Mosul to the Syrian and Turkish frontier, thus linking Baghdad with European rail networks.

Generally speaking, rolling stock, including motive power, is inadequate in number of units to meet current requirements. Both cars and locomotives, furthermore, are in poor condition and replacements and additions are needed at an early date. Buildings, too, are mostly inadequate and much replacement is in order. To meet these requirements, the Iraqi state railways have, during the past several years, pursued a rather ambitious program of rehabilitation and development, the main features of which, still to be completed at the present time, are as follows:

<u>Description</u>	<u>Estimated Cost</u> (In Iraqi Dinars)
Completion of the Tigris bridge required to link the northern and southern meter gauge railroads at Baghdad	1,182,000
Completion of line from Kirkuk to Irbil	1,200,000
New layout and terminal station at Baghdad west	3,850,000
New locomotives, cars and coaches	1,555,000
Laborers quarters at Shalchiyah	396,000
Euphrates river bridge at Mussayeb	345,000

Machinery and equipment for Shalchiyah shops	244,000
Extension of Shalchiyah shops	115,000
Realignment of Basrah main line -- Baghdad west to Hor Rijab	250,000
Several new station buildings, yard layouts and staff quarters	<u>290,000</u>
Total	9,427,000
Several smaller, less urgent projects	<u>751,000</u>
Grand Total	10,178,000

Agricultural Mechanization

Farm Machinery Project

To relieve an incipient shortage of farm labor and increase efficiency in cultivation, the Directorate General of Agriculture in the Iraqi Ministry of Economy has recently worked out a ten-year scheme for the mechanization of farming covering an area of 500,000 hectares. The Directorate General expects that as a result of its scheme, the yield of wheat per hectare will be increased by from 50 to 60 kilos, and the increase in production for the project as a whole will therefore be considerable.

The requirements of the project over the next ten years are as follows:

	<u>Total No.</u>	<u>Value in Dinars</u>
Tractors	2,500	1,750,000
Ploughs	1,500	187,500
Disc harrows	700	52,500
Seed drills	100	15,000
Combines	550	687,500
Threshers	150	900,000
Cultivators	500	<u>32,000</u>
Total		2,820,000
Spare parts - 20%		<u>564,000</u>
Total		3,384,000
Repair equipment, work shops, etc.		300,000
Soil conservation and drainage machinery (tractors, graders, etc.) and spare parts for these		<u>1,000,000</u>
Total cost of entire scheme		<u><u>4,684,000</u></u>

To finance the project, the Directorate General of Agriculture plans to seek a 20-year loan of 5 million dinars, a large part of which would be required in foreign exchange.

Grain Silo Project

In the expectation that the early construction of a grain silo at Basrah will greatly facilitate the storage, grading, cleaning and handling of bulk grain as well as its transportation by rail, river and sea, the Iraqi Grain Board is studying plans for the erection of a structure of 40,000 tons capacity. Estimated cost is £S 1,750,000 to be raised through an IBRD or other loan for that amount.

Domestic Oil Refining

Oil Refinery Project

Under its concession agreement with the Iraq Petroleum Company, the Iraqi Government is entitled to buy from the company crude oil needed to satisfy domestic requirements at the lowest price at which the company is then selling such oil -- which, since IPC oil is sold to its constituent parent companies, means nearly at cost price. The government's agreements with the Mosul and Basrah Petroleum Companies provides that 20% of their output is to be placed at the disposal of the government free of any charge. The Iraqi government is thus in the position to obtain crude oil at very advantageous conditions. In view of this, the fact that erection of a refinery in Iraq would permit the elimination of imports of petroleum products, which in 1948 amounted to £S 1,643,000, and that petroleum products could then be sold in the domestic market at lower prices than those now prevailing, and the further mechanization of Iraqi agriculture and transport could thus be encouraged, the Iraqi Government is, at present, considering the advisability of the erection of a one million ton domestic refinery. Several preliminary engineering studies for such a plant have been made and its total cost is estimated at \$20,130,000. Although the project has been studied for some time and an approach for its financing has been made to the Bank, final plans have, however, thus far not been completed.

STATISTICAL TABLES

Table 1

Iraq: Area under Main Crops and Average Yield Per Hectare, 1947/48

	<u>Area</u> <u>(In hectares)</u>	<u>Average Yield</u> <u>(Kilos per hectare)</u>
<u>Main Crops</u>		
Wheat	490,000	800
Barley	744,000	1,000
Rice	212,000	1,400
Millet	30,000	1,000
Sesame	30,000	500
Maize	20,000	800
Tobacco	4,000	1,600
Cotton	4,000	1,000
<u>Other Crops</u>		
Vetch	4,000	1,000
Flax	600	800
Mash	5,000	800
Potato	500	8,000
Alfalfa	2,000	32,000

Dates

Total number of palms - 35 million
Total yield - 270,000 tons (annual average for last
10 years)

Source: Based on data furnished the IBRD Mission by the Iraqi
Directorate General of Agriculture.

Table 2

Iraq: Production of Principal Crops, 1938-48

(In metric tons)

<u>Year</u>	<u>Wheat</u>	<u>Barley</u>
1937/38	453,381	764,886
1938/39	482,124	824,908
1939/40	491,610	824,187
1940/41	514,568	825,057
1941/42	532,415	858,715
1942/43	479,924	899,000
1943/44	332,284	742,807
1944/45	357,579	790,422
1945/46	370,000	895,395
1946/47	235,454	500,000
1947/48	301,000	570,000
1948/49	450,000	750,000

	<u>Rice - unhusked</u>	<u>Dates</u>
1938	229,315	260,000
1939	248,423	250,000
1940	215,465	270,000
1941	196,295	265,000
1942	182,167	260,000
1943	241,461	300,000
1944	269,673	150,000
1945	328,523	280,000
1946	356,272	295,000
1947	193,000	301,000
1948	350,000	290,000 ^{1/}

Note: The 1949 rice crop is expected to be above average as 7,000 hectares have been plowed for planting. (Rice land is not usually plowed in Iraq.) Total production of tobacco is around 6 million kilos.

^{1/} Preliminary estimate.

Source: Data furnished the IBRD Mission by the Iraqi Directorate General of Agriculture.

Table 3

Oil Production in Iraq, by Companies and Total, 1934-48

(Thousand Metric Tons)

<u>Year</u>	<u>Iraq Petroleum Co.</u>	<u>Mosul Petroleum Co.</u>	<u>Khanaqin Oil Co.</u>	<u>Total</u>
1934	618	-	93	712
1935	3,558	-	95	3,653
1936	3,894	-	99	3,994
1937	4,113	-	118	4,231
1938	4,138	-	126	4,264
1939	3,788	33	143	3,963
1940	2,325	24	165	2,514
1941	1,362	21	183	1,566
1942	2,267	26	301	2,595
1943	3,321	15	236	3,572
1944	3,898	6	243	4,146
1945	4,315	12	279	4,607
1946	4,370	14	295	4,680
1947	4,354	9	339	4,702
1948	3,050	9	367	3,426

Source: Prepared from data furnished the IBRD Mission by the Iraqi Government.

Table 4

Oil Royalties, Dead Rent and Other Payments
Received Annually by the Government of Iraq, 1937-48

(Thousand Pounds Sterling)

<u>Year</u>	<u>Iraq Petroleum Co.</u>	<u>Khanaqin Oil Co.</u>	<u>Mosul Petroleum Co.</u>	<u>Basrah Petroleum Co.</u>	<u>Total</u>
1937	1,347	36	300	300	1,983
1938	1,308	41	328	300	1,977
1939	1,263	52	319	300	1,934
1940	824	61	359	354	1,598
1941	712	67	358	397	1,534
1942	712	112	358	397	1,579
1943	1,016	86	358	397	1,857
1944	1,381	88	358	397	2,224
1945	1,451	105	358	397	2,311
1946	1,586	111	367	408	2,472
1947	1,573	129	367	408	2,477
1948	1,101	140	365	408	2,014

Source: Prepared from data furnished the IBRD Mission by the Iraqi Government.

Table 5

Output of Refined Oil Products in Iraq, 1937-48 1/

(Millions of Imperial Gallons)

<u>Year</u>	<u>Motor Gasoline</u>	<u>Kerosene</u>	<u>Gas Oil</u>	<u>Fuel Oil</u>	<u>Total</u>
1937	6.0	5.2	0.1	17.5	28.8
1938	6.4	5.6	0.5	18.3	30.8
1939	6.9	6.5	0.7	19.5	33.6
1940	7.8	6.8	0.8	23.0	38.4
1941	14.1	7.8	0.9	24.7	47.5
1942	20.5	10.8	2.6	48.5	82.4
1943	27.8	10.6	3.6	49.5	91.5
1944	14.3	11.3	2.3	42.3	70.2
1945	12.3	13.8	2.8	40.7	69.6
1946	12.4	16.0	1.8	42.5	72.7
1947	16.8	17.2	3.0	52.1	89.1
1948	19.4	19.1	4.4	53.1	96.0

1/ Produced at the refinery of the Khanaqin Oil Company.

Source: Prepared from data furnished the IERD Mission by the Iraqi Government.

Table 6

Sales of Refined Oil Products in Iraq, 1937-48

(Millions of Imperial Gallons)

<u>Year</u>	<u>Aviation Gasoline</u>	<u>Motor Gasoline</u>	<u>Kerosene</u>	<u>Fuel Oil</u>	<u>Gas Oil</u>	<u>Total</u>
1937	1.3	7.4	7.0	34.5	.7	51.0
1938	1.6	7.7	7.7	30.2	.9	48.1
1939	1.8	8.4	8.6	32.0	1.0	51.7
1940	1.2	9.2	8.6	34.5	1.0	54.4
1941	.4	9.1	8.4	33.4	.7	52.0
1942	.3	5.7	9.7	50.4	.6	69.6
1943	.4	8.5	11.3	57.4	.9	78.3
1944	.6	9.1	13.5	58.9	1.2	83.2
1945	1.4	10.3	16.9	61.6	1.7	91.9
1946	1.8	15.3	20.3	61.7	2.4	101.4
1947	2.4	16.8	21.7	74.4	3.7	119.0
1948	3.1	24.6	24.8	77.8	5.9	136.3

Source: Prepared from Data furnished the IBRD Mission by the Iraqi Government.

Table 7

Labor Force Employed by Iraqi Oil Companies, 1939-48

<u>Year</u>	<u>Iraqis</u>	<u>Foreign</u>	<u>Total</u>
1939	4,105	259	4,364
1940	3,347	188	3,535
1941	3,137	140	3,277
1942	3,194	165	3,359
1943	3,804	158	3,962
1944	4,311	236	4,547
1945	5,486	256	5,742
1946	12,753	500	13,257
1947	13,900	656	14,556
1948	13,463	778	14,241

Source: Data furnished the IBRD Mission by the Iraqi Government.

Table 8

Railway Freight Traffic in Iraq

<u>Year</u>	<u>Millions of Ton Kilometers</u>
1937/38	302
1938/39	296
1939/40	n. a.
1940/41	250
1941/42	409
1942/43	814
1943/44	912
1944/45	651
1945/46	521
1946/47	600
1947/48	557

Sources: Iraq: Statistical Abstract, 1939/40, 1944-46; Iraqi State Railways, Report on the Administration of the Railways, 1947/48.

Table 9

Tonnage of Imports and Exports
Flowing Through the Port of Basrah, 1938-48

(In thousand metric tons)

<u>Year</u>	<u>Imports</u>	<u>Exports</u>
1938	375	444
1939	317	487
1940	294	385
1941	189	203
1942	939	135
1943	961	222
1944	562	633
1945	434	647
1946	438	601
1947	530	682
1948	642	710

Source: Based on data furnished the IBRD Mission
by the Iraqi Government.

Table 10

Media of Payment, 1938-1949

(Millions of Iraqi Dinars)

	<u>Currency^{a/}</u>	<u>Demand Deposits^{b/}</u>	<u>Total</u>
End of			
1938	4.6	1.2	5.8
1939	5.9	1.2	7.1
1940	6.5	1.7	8.2
1941	11.0	6.0	17.0
1942	21.9	6.4	28.3
1943	35.4	12.8	48.2
1944	40.8	15.5	56.3
1945	41.5	13.3	54.8
1946	39.8	13.6	53.4
1947	35.2	12.7	47.9
1948	34.7	12.5	47.2
1949			
January	34.5	12.6	47.1
February	34.3	12.0	46.3
March	34.5	11.9	46.4
April	34.6	12.7	47.3
May	34.6		
June	35.5		

^{a/} Notes and coin in circulation.^{b/} Commercial banks.Source: Based on data furnished the IBRD Mission by the Iraqi Government.

Table 11

Price and Cost of Living Indexes, 1939-49^{1/}

<u>Average of</u>	<u>General Wholesale Price Index (Baghdad)</u>	<u>Cost of Living Index for Unskilled Laborers in Baghdad</u>
1939	100	100
1940	138	-
1941	179	-
1942	383	-
1943	590	-
1944	534	-
1945	503	584
1946	482	567
1947	522	601
1948	558	673
1949		
January	505	594
February	499	590
March	489	584
April	487	575
May		559

^{1/} Base year: 1939 (December 1938-August, 1939)

Source: Based on data furnished the IBRD Mission by the Iraqi Government.

Table 12

Total Revenues and Expenditures of the Iraqi Government,
1935/36 to 1949/50 ^{1/}

(Millions of Iraqi Dinars)

<u>Year</u>	<u>Revenue</u>	<u>Expenditure</u>	<u>Balance</u>
1935/36	6.5	6.9	- .4
1936/37	7.3	8.4	-1.1
1937/38	8.5	10.1	-1.6
1938/39	9.4	10.6	-1.2
1939/40	10.7	10.6	+ .1
1940/41	11.4	11.5	- .1
1941/42	13.6	11.1	+2.5
1942/43	19.9	15.3	+4.6
1943/44	25.5	21.0	+4.5
1944/45	25.1	24.0	+1.1
1945/46	26.7	26.8	- .1
1946/47	31.4	31.4	0
1947/48	33.0	34.5	-1.5
1948/49 ^{2/}	35.1	40.6	-5.5
1949/50 ^{2/}	33.4	37.7	-4.3

^{1/} Including Capital Works Programme, State Railroads, the Port of Basrah, Fao Bar Dredging Scheme and Iraqi Currency Board.

^{2/} Budget estimates.

Source: Prepared from data furnished the IERD Mission by the Iraqi Government.

Table 13

Ordinary Revenues and Expenditures of the Iraqi Government
1935/36 to 1949/50 1/

(Millions of Iraqi Dinars)

<u>Year</u>	<u>Revenue</u>	<u>Expenditure</u>	<u>Balance</u>
1935/36	4.8	4.4	+ .4
1936/37	5.4	4.8	+ .6
1937/38	6.2	5.1	+ 1.1
1938/39	5.8	5.6	+ .2
1939/40	6.1	6.4	- .3
1940/41	6.8	7.2	- .4
1941/42	7.0	7.7	- .7
1942/43	11.6	10.6	+ 1.0
1943/44	14.4	13.7	+ .7
1944/45	16.1	17.1	- 1.0
1945/46	17.3	19.8	- 2.5
1946/47	22.7	22.4	+ .3
1947/48	21.2	23.0	- 1.8
1948/49 ^{2/}	24.6	26.0	- 1.4
1949/50 ^{2/}	25.0	25.0	0

1/ Exclusive of Capital Works Programme, State Railroads, Port of Basrah, Fao Bar Dredging Scheme and Iraqi Currency Board.

2/ Budget estimates.

Source: Prepared from data furnished the IBRD Mission by the Iraqi Government.

Table 14

Revenues and Expenditures of the Iraqi Government's
Capital Works Program, 1935/36 to 1949/50

(Millions of Iraqi Dinars)

<u>Year</u>	<u>Revenue</u> ^{1/}	<u>Expenditure</u>	<u>Balance</u>
1935/36	.6	1.2	- .6
1936/37	.6	2.4	- 1.8
1937/38	.7	2.4	- 1.7
1938/39	2.0	2.5	- .5
1939/40	3.1	2.2	+ .9
1940/41	2.9	2.7	+ .2
1941/42	3.2	1.0	+ 2.2
1942/43	2.2	1.0	+ 1.2
1943/44	3.7	1.7	+ 2.0
1944/45	2.2	1.9	+ .3
1945/46	2.9	1.5	+ 1.4
1946/47	2.4	3.1	- .7
1947/48	4.8	3.6	+ 1.2
1948/49 ^{2/}	3.6	4.6	- 1.0
1949/50 ^{2/}	2.2	2.8	- .6

^{1/} Largely oil royalties.

^{2/} Budget estimates.

Source: Prepared from data furnished the IBRD Mission by the Iraqi Government.

Table 15

Revenues and Expenditures of the Iraqi State Railways, 1935/36 to 1949/50

(Millions of Iraqi Dinars)

<u>Year</u>	<u>Revenue</u>	<u>Expenditure</u>			<u>Balance</u>
		<u>Ordinary</u>	<u>Capital Works</u>	<u>Total</u>	
1935/36	0.5	.5	.04	.5	0
1936/37	.6	.5	.02	.5	/ .1
1937/38	.7	.7	1.1	1.8	- 1.1
1938/39	.7	.8	1.0	1.8	- 1.1
1939/40	.8	.7	.6	1.3	- .5
1940/41	1.0	.8	.2	1.0	0
1941/42	2.2	1.4	.2	1.6	/ .6
1942/43	4.3	2.3	.2	2.5	/ 1.8
1943/44	5.1	3.8	.1	3.9	/ 1.2
1944/45	4.1	3.1	.1	3.2	/ .9
1945/46	3.8	3.2	.4	3.6	/ .2
1946/47	3.4	3.2	.8	4.0	- .6
1947/48	3.8	3.5	1.8	5.3	- 1.5
1948/49 ^{1/}	3.8	3.6	2.6	6.2	- 2.4
1949/50 ^{1/}	3.7	3.6	2.5	6.1	- 2.4

^{1/} Budget estimates.

Source: Prepared from data furnished the IBRD Mission by the Iraqi Government.

Table 16

Revenues and Expenditures of the Port of Basrah, 1935/36 to 1949/50

(Millions of Iraqi Dinars)

<u>Year</u>	<u>Revenue</u>	<u>Expenditure</u>			<u>Balance</u>
		Ordinary	Capital Works	Total	
1935/36	.29	.27	.12	.39	- .10
1936/37	.35	.29	.07	.36	- .01
1937/38	.43	.35	.04	.39	+ .04
1938/39	.44	.37	.02	.39	+ .05
1939/40	.42	.37	.02	.39	+ .03
1940/41	.39	.36	.02	.38	+ .01
1941/42	.77	.48	.01	.49	+ .28
1942/43	1.11	.71	.04	.75	+ .36
1943/44	1.19	.90	.03	.93	+ .26
1944/45	1.19	.93	.04	.97	+ .22
1945/46	1.15	1.05	.09	1.14	+ .01
1946/47	1.25	1.13	.10	1.23	+ .02
1947/48	1.51	1.27	.22	1.49	+ .02
1948/49 ^{1/}	1.62	1.61	.40	2.01	- .39
1949/50 ^{1/}	1.60	1.54	.60	2.14	- .54

^{1/} Budget estimates.

Source: Prepared from data furnished the IBRD Mission by the Iraqi Government.

Table 17

Revenues and Expenditures of the Fao Bar Dredging Scheme, 1935/36 to 1949/50

(Millions of Iraqi Dinars)

<u>Year</u>	<u>Revenue</u>	<u>Expenditure</u>			<u>Balance</u>
		<u>Ordinary</u>	<u>Capital Works</u>	<u>Total</u>	
1935/36	.20	.19	.03	.22	- .02
1936/37	.23	.14	.08	.22	+ .01
1937/38	.29	.17	.13	.30	- .01
1938/39	.25	.21	.04	.25	0
1939/40	.24	.10	.14	.24	0
1940/41	.23	.19	.04	.23	0
1941/42	.26	.25	a/	.25	+ .01
1942/43	.44	.34	.01	.35	+ .09
1943/44	.51	.39	.01	.40	+ .11
1944/45	.69	.45	a/	.45	+ .24
1945/46	.74	.49	.04	.53	+ .21
1946/47	.70	.48	.05	.53	+ .17
1947/48	.76	.55	.07	.62	+ .14
1948/49 ^{1/}	.82	.70	.60	1.30	- .48
1949/50 ^{1/}	.82	.67	.48	1.15	- .33

a/ Less than 10,000 Iraqi dinars.

^{1/} Budget estimates.

Source: Prepared from data furnished the IBRD Mission by the Iraqi Government.

Table 18

Revenues and Expenditures of the Iraqi Currency Board,
1935/36 to 1949/50

(Millions of Iraqi Dinars)

<u>Year</u>	<u>Revenue</u>	<u>Expenditure</u>	<u>Balance</u>
1935/36	.11	.08	‡ .03
1936/37	.12	.11	‡ .01
1937/38	.14	.14	0
1938/39	.16	.09	‡ .07
1939/40	.13	.07	‡ .06
1940/41	.16	.08	‡ .08
1941/42	.17	.09	‡ .08
1942/43	.23	.17	‡ .06
1943/44	.60	.35	‡ .25
1944/45	.81	.35	‡ .46
1945/46	.85	.14	‡ .71
1946/47	.90	.11	‡ .79
1947/48	.85	.54	‡ .31
1948/49 ^{1/}	.70	.54	‡ .16
1949/50 ^{1/}	.04	.52	- .48

^{1/} Budget estimates.

Source: Prepared from data furnished the IERD Mission by the Iraqi Government.

Table 19

Ordinary Revenues of the Iraqi Government by Main Categories,
1938-39, 1945-46 to 1949-50

<u>Years</u>	<u>Custom and Excise</u>	<u>Turnover Tax on Agricultural Produce</u>	<u>Tobacco Monopoly</u>	<u>Income Tax</u>	<u>Others</u>	<u>Total</u>
(Millions of Iraqi Dinars)						
1938/39	3.3	.9	2/	.3	1.3	5.8
1945/46	4.7	3.8	1.2	1.9	5.7	17.3
1946/47	7.2	4.4	3.5	1.8	5.9	22.7
1947/48	8.9	3.6	1.9	1.8	5.1	21.2
1948/49 ^{1/}	9.6	4.5	3.2	2.0	5.3	24.6
1949/50 ^{1/}	10.5	4.4	2.8	2.1	5.2	25.0
(Per Cent of Total)						
1938/39	56.2	15.9	-	5.4	22.5	100.0
1945/46	27.0	21.7	7.1	11.2	33.0	100.0
1946/47	31.6	19.4	15.4	7.7	25.9	100.0
1947/48	41.8	17.0	8.8	8.5	23.9	100.0
1948/49 ^{1/}	38.9	18.2	13.1	8.1	21.7	100.0
1949/50 ^{1/}	42.0	17.7	11.2	8.4	20.7	100.0

^{1/} Budget estimates.

^{2/} Instituted in 1941.

Source: Prepared from data furnished the IBERD Mission by the Iraqi Government.

Table 20

Ordinary Expenditures of the Iraqi Government by Main Categories,
1938/39, 1945/46 to 1949/50

<u>Years</u>	<u>Defense</u>	<u>Emergency Expenditures</u> ^{1/}	<u>Education</u>	<u>Police</u>	<u>Agriculture</u>	<u>Others</u>	<u>Total</u>
<u>Millions of Iraqi Dinars</u>							
1938/39	1.6	-	.7	.7	.1	2.5	5.6
1945/46	5.4	3.8	1.6	2.1	.5	6.4	19.8
1946/47	5.3	4.0	1.7	2.6	.6	8.2	22.4
1947/48	4.4	4.2	2.2	2.6	.9	8.8	23.0
1948/49 ^{2/}	5.5	5.7	2.6	2.0	1.1	9.1	26.0
1949/50 ^{2/}	5.6	5.8	2.2	2.0	.7	8.6	25.0
<u>Per Cent of Total</u>							
1938/39	28.6	-	12.7	11.9	1.1	45.7	100.0
1945/46	27.1	19.0	8.1	10.6	2.6	32.6	100.0
1946/47	23.5	18.0	7.7	11.5	2.8	36.5	100.0
1947/48	19.0	18.5	9.4	11.2	3.8	38.1	100.0
1948/49 ^{2/}	21.2	22.1	9.9	7.7	4.2	34.9	100.0
1949/50 ^{2/}	22.5	23.2	8.9	8.0	3.0	34.4	100.0

^{1/} Includes, from 1945 to 1947, only the cost of living allowances to Government employees; in 1948 also ID 750,000, and in 1949, ID 1,250,000, for extraordinary expenditures in connection with the war in Palestine,

^{2/} Budget estimates.

Source: Prepared from data furnished the IERD Mission by the Iraqi Government.

Table 21

Ordinary Budgeted Revenues and Expenditures
Of the Iraqi Government, by Departments 1947/48 to 1949/50

<u>Ministries and Departments</u>	<u>Allotments</u> 1947/48 <u>ID</u>	<u>Allotments</u> 1948/49 <u>ID</u>	<u>Allotments</u> 1949/50 <u>ID</u>
<u>Summary of Expenditures</u>			
Pensions and grants-in-aid	355,300	385,700	388,100
Civil List	90,695	91,290	87,440
Parliament	154,375	105,820	108,980
Comptroller General of Accounts	14,130	14,780	14,630
Council of Ministers	50,664	30,334	32,284
Ministry of Foreign Affairs	891,150	715,740	696,350
Ministry of Finance	1,669,661	1,441,366	1,151,960
Customs and Excise	490,480	448,300	468,030
Ministry of Interior	1,042,905	929,825	863,200
Police Department	2,302,150	1,994,150	2,000,000
Ministry of Social Affairs	2,068,080	1,837,975	1,900,000
Ministry of Defence	5,332,370	5,492,900	5,500,000
Ministry of Justice	325,600	325,600	295,900
Department of Tapu & Land Settlement	283,600	278,100	223,200
Ministry of Education	2,277,600	2,567,100	2,164,600
Ministry of Economics	380,200	486,070	329,830
Agriculture & Veterinary Departments	1,051,290	1,177,990	826,470
Directorate of Tobacco Monopoly	65,200	64,700	46,300
Ministry of Communications & Works	214,370	187,810	256,980
Public Works Department	642,000	594,000	593,846
Irrigation Department	273,500	293,500	260,000
Posts & Telegraphs Department	657,080	673,450	624,220
Emergency Expenditure	4,000,000	5,732,500	6,067,680
Local Administration in Liwas	400,000	100,000	100,000
Total	<u>25,032,400</u>	<u>25,969,000</u>	<u>25,000,000</u>

Summary of Revenues

Taxation on Agricultural & Natural			
Produce, Animals & Rents of			
Government Properties	4,000,000	4,472,100	4,419,100
Property tax, Income Tax & Stamp Duty	2,765,050	2,919,050	3,183,330
Miscellaneous Revenues	1,358,000	787,600	786,300
Customs and Excise	8,500,000	9,562,500	10,500,000
Posts and Telegraphs	872,000	1,077,600	1,084,600
Departmental Receipts	3,738,850	5,761,720	5,026,670
Supply Receipts	376,000	-	-
Total	<u>21,610,000</u>	<u>24,580,570</u>	<u>25,000,000</u>

Source: Prepared from data furnished the IBRD Mission by the Iraqi Government.

Table 22

Public Debt of Iraq, May, 1949

1. Long and medium term loans (issued in Iraqi Dinars)

<u>Amount</u>	<u>Date of Issue</u>	<u>Interest</u>	<u>Term</u>	<u>Maturity</u>
ID 1,000,000	Jan. 1, 1945	4%	20 yrs.	Dec. 31, 1964
1,000,000	Oct. 1, 1947	3%	5 yrs.	Sept. 30, 1952
1,000,000	Jan. 1, 1948	3 $\frac{1}{2}$ %	10 yrs.	Dec. 31, 1957
<u>3,000,000</u>	April 1, 1948	4%	20 yrs.	March 31, 1968
ID <u>6,000,000</u>				

2. Treasury Bills (Issued in Iraqi Dinars - 1 year maturities)

ID 3,000,000	1948-49	2 $\frac{1}{2}$ %	Held by Currency Board
1,000,000	1948-49	2 $\frac{1}{2}$ %	Held by Rafidain Bank
1,100,000	1948-49	2 $\frac{1}{2}$ %	Held by Eastern, Ottoman, Iran and Arab Banks
ID <u>5,100,000</u>			

3. Amounts advanced by Oil Companies*

£ 1,000,000 in 1939	)	Of which repaid:	
1,000,000 in 1940	)	1/1/1946	£ 116,202
1,000,000 in 1941	)	1/1/1947	£ 144,060
1,000,000 in 1943	)	1/1/1948	£ 126,602
<u>500,000 in 1945</u>)		
£ <u>4,500,000</u>		Total	£ <u>386,864</u>

* Repayable at a rate not to exceed £ 900,000 per annum.

4. Debt to United Kingdom Government for war surplus material

About £ 2,000,000 unfunded, non-interest bearing debt. Against this debt, however, Iraq claims an almost equivalent credit for customs duties on wartime imports and for railroad transport services rendered during the war.

5. Debts owed by Iraqi State Railroads to suppliers of materials for their development program

About ID 2,200,000 - payable partly in £ sterling.

Note: As the foregoing enumeration shows, Iraq has no funded external debt.

Source: Prepared from data furnished the IBRD Mission by the Iraqi Government.

Table 23

Iraq: Total Foreign Trade, 1936-48^{a/}

(Millions of Iraqi Dinars)

<u>Year</u>	<u>Imports^{b/}</u>	<u>Exports^{c/}</u>	<u>Balance</u>
1936	7.2	3.5	- 3.7
1937	9.6	5.6	- 4.0
1938	9.4	3.7	- 5.7
1939	8.2	3.7	- 4.5
1940	8.7	4.1	- 4.6
1941	6.8	4.2	- 2.6
1942	12.2	4.7	- 7.5
1943	15.6	9.4	- 6.2
1944	14.3	9.5	- 4.8
1945	18.9	10.0	- 8.9
1946	28.4	13.1	-15.3
1947	40.0	14.7	-25.3
1948	45.5	8.6	-36.9

a/ Excluding bullion and coins.

b/ For home consumption.

c/ Excluding exports of oil by oil companies.

Sources: Government of Iraq, Statistical Abstract, 1946, and data furnished the IBRD Mission by the Iraqi Government.

Table 24

Main Iraqi Exports by Value, 1938, 1946-48

(In millions of Iraqi Dinars)

	<u>1938</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>
Grains, pulses, flour	1.2	5.7	6.9	0.4
Dates	.9	4.4	4.7	4.7
Raw cotton	.2	-	0.4	.1
Raw wool	.4	1.0	.4	1.0
Hides and skins	.2	.4	.2	0.3
Live animals	.2	.5	.6	0.2
Other exports	.6	1.1	1.5	1.9
<u>Totals^{a/}</u>	<u>3.7</u>	<u>13.1</u>	<u>14.7</u>	<u>8.6</u>

^{a/} Excluding exports of oil by oil companies.

Sources: Iraqi Statistical Abstract, 1939 and 1946, and data furnished the IBRD Mission by the Iraqi Government.

Table 25

Main Iraqi Exports, by Quantity, 1938, 1946-48

(Thousands of Metric Tons)

	<u>1938</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>
Grains, pulses, flour	259	275	299	13
Dates	186	208	216	214
Raw cotton	4	<u>a/</u>	2	1
Raw wool	5	7	3	7
Hides and skins	2	1	1	3

a/ Less than 1,000 metric tons.

Sources: Iraqi Statistical Abstract, 1939 and 1946, and data furnished the IBRD Mission by the Iraqi Government.

Table 26

Main Iraqi Imports, by Value, 1938, 1946-48

(Millions of Iraqi Dinars)

	<u>1938</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>
Cotton piecegoods	.8	4.3	6.5	7.3
Rayon & woolen piecegoods	.6	1.3	2.0	1.7
Iron and steel	1.1	2.6	4.8	5.0
Boilers, machinery, etc.	1.0	1.7	2.9	4.1
Electrical machinery and apparatus	.3	.6	1.2	1.9
Chemical & pharmaceutical products	.1	.8	.8	.8
Automotive vehicles & parts	.4	.6	1.7	2.2
Tea	.3	.4	2.3	2.1
Sugar	.5	1.8	1.7	3.7
Clothing	.3	1.1	1.3	0.8
Soap	.1	.7	.5	.8
Timber	.3	.5	1.0	.6
Others	3.6	12.0	13.3	14.5
Total	<u>9.4</u>	<u>28.4</u>	<u>40.0</u>	<u>45.5</u>

Sources: Iraqi Statistical Abstract, 1939 and 1946, and data furnished the IBRD Mission by the Iraqi Government.

Table 27

Main Iraqi Imports, by Quantity, 1938, 1946-48

(Thousands of metric tons)

	<u>1938</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>
Cotton piecegoods (millions sq. meters)	50	42	47	56
Iron and Steel	52	62	119	92
Tea	3	2	6	6
Sugar	44	37	29	40
Soap	3	5	4	3

Source: Iraqi Statistical Abstract, 1939 and 1946, and data
furnished the IBRD Mission by the Iraqi Government.

Table 28

Iraq: Exports to Principal Markets, 1938, 1946-48

(Millions of Iraqi Dinars)

	<u>1938</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>
United Kingdom	.9	1.3	2.1	1.3
United States	.6	1.2	.6	1.0
Germany	.2	-	-	.4
Japan	.4	-	-	-
India	.3	2.6	3.5	1.5
Iran	.1	.3	.3	.3
Syria and Lebanon	.2 ^{b/}	1.0	.5	.6
Palestine & Transjordan	.2	.6	.7	.4
Egypt	.1	.7	.5	.6
Other countries	.7	5.4	6.5	2.5
Total ^{a/}	<u>3.7</u>	<u>13.1</u>	<u>14.7</u>	<u>8.6</u>

a/ Excluding exports of oil by oil companies.

b/ Syria only.

Sources: Iraqi Statistical Abstract, 1939 and 1946, and data furnished the IBRD Mission by the Iraqi Government.

Table 29

Iraq: Imports from Principal Suppliers, 1938, 1946-48

(Millions of Iraqi Dinars)

	<u>1938</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>
United Kingdom	2.8	12.4	17.5	19.8
United States	.8	2.2	3.3	3.6
Germany	.7	b/	b/	0.3
Japan	1.4	-	-	b/
France	0.1	0.1	0.6	0.7
Italy	0.4	0.4	0.2	2.9
India	.6	4.1	5.1	1.7
Iran	.4	2.3	1.7	2.0
Syria & Lebanon	.2 ^{a/}	1.9	2.2	1.7
Palestine & Transjordan	b/	0.2	b/	b/
Egypt	.1	.2	.2	0.3
Other Countries	1.9	4.6	9.2	12.5
	<hr/>	<hr/>	<hr/>	<hr/>
Total	9.4	28.4	40.0	45.5
	<hr/>	<hr/>	<hr/>	<hr/>

a/ Syria only.

b/ Less than ID 50,000.

Sources: Iraqi Statistical Abstract, 1939 and 1946 and data furnished the IBRD Mission by the Iraqi Government.

Table 30

Oil Exports by the Iraq Petroleum Company, 1937-48

<u>Year</u>	<u>Value^{a/}</u> (Millions of Iraqi dinars)	<u>Volume</u> (Millions of tons)	<u>Oil Exports to Main Markets, by Volume</u> (Thousands of tons)			
			U.K.	Italy	France	Palestine & Transjordan
1937	10.2	4.1	504	137	3,135	5
1938	10.3	4.2	545	185	3,094	19
1939	9.4	3.8	459	129	2,936	93
1940	5.8	2.4	343	46	1,452	894
1941	3.4	1.4	-	-	-	1,192
1942	5.6	2.2	-	-	-	2,056
1943	8.2	3.3	-	-	-	2,224
1944	9.7	3.9	-	-	-	2,869
1945	10.7	4.4	-	-	194	3,997
1946	10.8	4.4	-	-	1,018	3,170
1947	14.0	4.4	-	-	1,072	3,028
1948	11.2	3.1	716	20	882	813

a/ Estimates.

Sources: International Monetary Fund, International Financial Statistics, June 1949, and data furnished the IBRD Mission by the Iraqi Government.

Table 31

Iraqi Balance of Payments

Annual Average for the Financial Years 1936-37 to 1938-39

	<u>Receipts</u> <u>ID 000</u>	<u>Payments</u> <u>ID 000</u>
<u>I. Current Transactions</u>		
Goods, including silver	4,360	8,790
Adjustment for undervaluation of exports	222	-
Contraband	74	129
Interest on government loans	-	81
Currency Board profit	52	-
Profit on direct capital investment	115	428
Port dues, commission and transit	527	-
Telegraph and telephone	31	55
Remittances by emigrants and pensions	10	124
Tourists	454	274
Students & charitable & scientific missions	34	56
Diplomatic expenditures	82	63
Military expenditures	605	-
Oil royalties	1,298	-
	<u>7,864</u>	<u>10,000</u>
<u>II. Capital Items</u>		
Public loans	333	37
Local expenditures by oil companies	494	-
Value of imports by oil companies	682	-
	<u>1,509</u>	<u>37</u>
<u>III. Gold and Short-Term Capital Movements</u>		
Gold coin and bullion	133	43
Increase in short term capital in Iraq	35	-
Increase in short term capital abroad	117	-
	<u>285</u>	<u>43</u>
<u>IV. Other Private Capital Transactions, Errors and Omissions</u>		
	422	-
	<u>10,080</u>	<u>10,080</u>

Source: Prepared from data furnished the IBERD Mission by the Iraqi Government.

Table 32

Iraqi Balance of Payments, 1946-48

	<u>1946</u>		<u>1947</u>		<u>1948</u>	
	Payments	Receipts	Payments	Receipts	Payments	Receipts
I. <u>Commodity Trade</u>						
Trade returns	28.4	13.2	40.1	14.7	45.5	8.5
Adjustments for over- valuation of imports and undervaluation of exports	-4.8	1.2	-0.9	1.4	-0.9	0.5
Sale of surplus stores	1.7		2.9		0.6	
Contraband	1.3	1.3	1.3	1.0	0.5	1.0
Total	26.6	15.7	43.4	17.1	45.7	10.0
<u>Commodity Trade Deficit</u>		10.9		26.3		35.7
II. <u>Other Current Items</u>						
Interest-Currency Board	-	1.0	-	1.0	-	0.8
Interest-Private Investment	0.2	0.4	0.2	0.3	0.2	0.3
Profits-Private	0.8	0.1	0.7	0.1	0.7	-
Port dues, transport, commissions	0.1	1.2	0.4	1.2	0.4	1.2
Telegraph & telephone	0.1	0.1	0.2	0.1	0.2	0.1
Remittances by emigrants, pensions & tourists	3.7	5.1	2.7	3.1	2.0 ^{1/}	1.6 ^{1/}
Cultural, educational & charitable expenditure	0.1	0.3	0.5	0.3	0.5	0.3
Diplomatic expenditure	0.1	0.5	0.2	0.5	0.2	0.5
Military and other government expenditure	0.3	3.0	0.4	2.6		2.5 ^{2/}
Oil royalties	-	2.2	-	2.2	-	1.7
Other	0.1	-	0.6	-		
Total 'Invisibles'	5.5	13.9	5.9	11.4	4.2	9.0
Surplus	8.4		5.5		4.8	
<u>Total: Current Transactions</u>	<u>32.1</u>	<u>29.6</u>	<u>49.3</u>	<u>28.5</u>	<u>49.9</u>	<u>19.0</u>
Deficit		2.5		20.8		30.9

Iraqi Balance of Payments, 1946-48 (Continued)

	<u>1946</u>		<u>1947</u>		<u>1948</u>	
	Payments	Receipts	Payments	Receipts	Payments	Receipts
III. <u>Capital Transactions</u>						
Long-term govt. investment	0.3	-	0.1	-	-	0.0
Value of oil company imports and reexports	0.4	2.4	0.9	5.0	0.9	9.3
Local exp. by oil co.'s		2.1		5.5		5.0 ^{1/}
Oil co. advances & repayments		0.5		0.1		0.1
Other direct private investment		(Not available)				
Total Capital Transactions	0.7	5.0	1.1	10.5	1.0	14.3
Balance	4.3		9.4		13.3	
IV. <u>Gold and short-term capital</u>						
Gold coin and bullion	3.1	1.6	1.2	0.8	-	-
Foreign currency notes	3.4	1.9	0.6	0.3	-	-
Increase in foreign balances in Iraq	0.2	-	-	0.4	0.2	
Decrease in Iraqi balances abroad	-	1.9		8.2		13.5
Total	6.7	5.4	1.8	9.7	0.2	13.5
Balance		-1.3	7.9		13.3	
V. <u>Summary</u>						
Commodity Trade		-10.9		-26.3		-35.7
'Invisibles'		8.4		5.5		4.8
Total Current Transactions		-2.5		-20.8		-30.9
Long term capital investment		4.3		9.4		13.3
Gold and foreign exchange		-1.3		7.9		13.3
Direct capital investment, errors and omissions		-0.5		3.5		4.3

^{1/} Estimates based on known number of tourists in Iraq and Iraqi tourists abroad.

^{2/} These figures are rough estimates.

Source: Prepared from data furnished the IBRD Mission by the Iraqi Government.