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Economic Advisers

Foreign &
Commonwealth
Office

London SW1A 2AH

tel:

fax:

e-mail:

S Collis, Esq
Amman

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Dea Sman

REPORTING ECONOMIC DEVELOPMENTS IN IRAQ

Summary

Request for help in monitoring the Iraqi economy.

Detail

As you will appreciate, there is the sketchiest of information available about Iraqi economic developments other than those monitored directly in the course of the oil-for-food programme. Basic economic indicators - such as non-oil production, wages, prices, employment and public finances - are simply unavailable. Official policy pronouncements, at least as monitored by the BBCMS, are opaque and uninformative. Iraq is one of the few countries in the world which the IMF and World Bank staff are doing no work on. Those of us who try to get some feel for what is going on rely on snippets of information, on anecdote, and on speculation.

We do need to maintain some understanding of economic developments:

- in the short term, to inform our attitude to the oil-for-food arrangements. The expanded arrangements *should* have significant economic consequences: the better we understand these, the more confidently we can address the humanitarian arguments;

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- beyond that, we need to be prepared for the relaxation of sanctions, however remote that may seem, and the normalisation of economic relations. When that happens there will be not only commercial opportunities but important economic policy issues - debt, compensation, IMF and World Bank involvement, perhaps EU economic relations - to be addressed fairly quickly, and information will be at a premium.

I discussed this with Frank Baker before he left MED. We agreed that it is worth trying to get more information on the Iraqi economy, and that Amman is the place to start. It would be useful if you could make a modest effort to pick up economic information both in Amman and in the course of the regular visits to Baghdad to which you are now committed. Impressionistic reporting (as in your useful recent visit report - Amman telno 288), policy discussion, and hard information on developments/statistics would all be valuable. is content with this request.

/ I attach - as a menu rather than a detailed blueprint - a list of suggested topics, which Frank agreed in draft and which has benefited from comments from (MOD).

Please can you let me know if you will be able to help. I have an open mind about *how* you might report back. A quarterly round-up would be one option.

The focus of this request is GoI-controlled Iraq. I am copying this letter to DFID and to Ankara in case the list of topics is relevant to Northern Iraq.

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cc:

Dr McPhail, Ankara

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IRAQI ECONOMY: REPORTING REQUIREMENTS

What we know at present

Hard information, available weekly, on the volume and value of oil exports under oil-for-food, and fairly regular information on the value of supplies brought into the country under this arrangement. Quarterly figures for Iraqi imports and exports, available with quite a few months' delay, broken down by trading partner, derived from partner countries' trade information (example attached).

Information, normally monthly, from Iraqi sources (via SWB or Reuters) on the composition of the ration. Changes give some indication of what is happening to living standards.

Occasional information on the dinar-\$ free market exchange rate.

Some information, intermittently available from FAO and GoI sources, on agricultural production.

What we can speculate about

Oil-for food information allows us to speculate about

- broad trends in consumption of food and other essentials - very rough and ready but important if the size of the programme is changing significantly;
- GDP and GDP/head (requires also guesses about unrecorded imports and the heroic assumption that the ratio of imports to GDP is fairly stable)

What we would like to know about

Living standards - the better the feel we have for these the better we can judge humanitarian conditions and the case for further changes to oil-for-food. We would particularly value country-wide and not just Baghdad-based information. Regular, consistently presented information on the composition and value of the ration is an important starting point under present circumstances; while we can compile basic information on the composition at this end we lack information on prices and on any problems/regional differences in implementation. Any statistical

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information/guesses on the level of wages and salaries (distinguishing between different groups/regions) or on the value of consumer spending would be worth having, though official figures would obviously need to be treated with care. With official distortion likely to be the norm, anecdotal/impressionistic information will remain valuable.

Employment/unemployment and the structure of economic activity - the level of unemployment is again relevant to assessing humanitarian conditions. The structure of employment and economic activity (agriculture/industry/services; public or private; the size of the black/grey market and the prevalence of second jobs) should give some indication of the way in which the broad shape of the economy has changed/is changing: the presumption is that agriculture has held up much better than industry or conventional service activities, though low-level/subsistence service activities have increased. There ought to be some estimates of agricultural production, which are additionally relevant to assessing food availability and the possibility that imports under oil-for-food are permitting diversion of domestic production to other uses. Whether or not formal measures of industrial production are available, an assessment of industrial capacity (ie how far production could pick up if the necessary imported inputs were available) would help judge post-sanctions prospects.

Inflation - conventional figures for consumer prices, if available, will tell a very partial story so long as the controlled-price ration remains of overwhelming importance to most people; but it would be as well to monitor them if possible against the day when the position changes: if budgetary and monetary policy are subordinated to Diwan requirements then control of inflation could emerge as a major problem if and when the ration is abolished. Trends in free market food prices and prices of other basic commodities are of particular interest as an indication of the availability of non-rationed goods.

Trade/capital flows/exchange rate - there is an obvious interest in additional information on trade and capital flows [actual flows rather than the promises of large future flows which are well documented], though information on illicit transactions is likely to be very closely held so long as sanctions remain. The free market exchange rate is worth monitoring, partly as an indicator of sentiment, partly as an indirect indicator of foreign exchange availability [if there are more unrecorded

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export earnings the rate may strengthen], partly for its influence on inflation.

Public finances and monetary policy - the budget should be a major influence on economic activity, but we have no information even on its overall size, never mind its composition. Ideally we would like to know the value of total spending and total revenue; and have an insight into budgetary priorities and the way in which the budget is changing over time. A large swathe of (Diwan/military) spending is presumably going to remain off-budget in any case; any guesses about its scale will be valuable. Some indication of how any deficit is financed would be useful - if the central bank/banking system is required to lend as much as the authorities demand that is an additional reason for fearing inflationary potential.

Structural policies/economic philosophy - including such things as attitudes towards, and measures affecting, the domestic private sector; policies in support of agriculture.

Northern Iraq - economic relations between GoI and Northern Iraq, including trade and currency issues. Conditions in the North.

Attitudes to/planning for the long term - strategy on future oil production: what are the targets and timetable and will the forward attitude towards foreign investment survive? Is any thought being given to economic policy once sanctions are lifted? For instance: what are reconstruction needs; will the IMF/IBRD be invited in; what are official estimates of external debt obligations and is there a strategy for handling them?

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