

**Central Bank of Iraq
Statistics & Research Department
Balance of Payments & Foreign Trade**

**Annual Report
Iraqi Balance of Payments
(2023)**



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List of Key Concepts of Balance of Payments

First: Current Account: The current account records flow of goods and services, primary income, and secondary income between residents and non-residents.

1. **Trade Balance:** It records the differences between exports and imports.
2. **Balance of Services:** It records the differences between exports and imports of services. The types of services classified in this balance are classified according to the type of service provided and not by the provider of the service in close connection with the International Trade in Services Manual and the Balance of Payments Manual.
3. **Primary Income Account:** It shows income flows between residents and non-resident institutional units.
 - A. **Income Generation Account** (in which the generated income through production process is recorded) and includes the compensation of the seasonal workers (less than a year), whose wages are considered income for contributing to the labor input of the production process.
 - B. **Primary Income Allocation Account** (in which Primary income attributable to the institutional units responsible for providing labor, financial assets and natural resources is recorded).
4. **Secondary Income Account:** it shows the current transfers between residents and non-residents to show their role in the process of distributing income between economies, as these secondary income transfers take the form of cash or in kind. They are divided into:
 - A. **Private Transfers:** These transfers include remittances of workers for more than one year, and assistance transferred, whether between individuals or households, regardless of relationship.
 - B. **Official Transfers:** These include taxes on income, wealth, benefits, social contributions, contributions and grants.

Second: Capital Account

The capital account displays credit and debit transfers of non-financial and non-productive fixed assets (such as natural resources, leases, licenses and marketing assets) and capital grants provided by governments and international organizations. This account works with the current account as an item that balances the financial account, as each of the two accounts (current + capital) shows non-financial transactions so their balances represent net lending or non-financial borrowing, while the financial account shows how to finance net lending or borrowing.

Third: Financial Account

This account records transactions involving financial assets and liabilities between residents and non-residents. The total balance of the financial account is called net lending/net borrowing. Net lending is defined as the provision of funds by the economy to the outside world, meaning a rise of assets, while net borrowing is the provision of funds by the rest of the world to the concerned economy, meaning a decline of assets. The total balance of this account must be equal to the total balance of the sum of the balances of (current and capital accounts). The following are the most important components of this account:

- 1. Net Direct Investment:** Foreign direct investment is considered as investment flows of foreign investors that represent about (10%) or more of the company's capital, or about (10%) of the voting power.

This type of investment is conducted to acquire a permanent interest in an enterprise operating in an economy other than the investor's economy; it involves a long-term relationship and reflects a permanent interest and control of a resident entity in one economy in an institution residing in an economy other than that of the foreign investor.

- 2. Portfolio Investment:** Portfolio investment involves transactions in securities and cross-border positions that involve debt bonds or property rights that are not included in direct investment or reserve assets, meaning those that have a less than (10%) voting power. The securities included under the portfolio investment item are characterized by facilitating their trading, allowing their possession by various parties over their lifetime, which represents an opportunity for investors to diversify their investment portfolios and be able to withdraw their investments easily, as well as the high degree of trading liquidity of those financial instruments.

- 3. Other Investments:** Other investments cover other property shares, currency, deposits, loans, insurance schemes, pensions, consolidated guarantees, credits, commercial advances and special drawing rights provisions.

- 4. Reserve Assets:** The reserve assets aspect includes external assets at the disposal of monetary authorities and under their control to meet the financing needs of

5. balance of payments, or intervention in exchange markets to influence the exchange rate of the currency, or other related purposes (such as maintaining confidence in domestic currency) and forming a basis for external borrowing to rely on. The reserve assets must be foreign currency assets and assets that already exist, excluding potential assets.

A. Special Drawing Rights: The Special Drawing Rights (SDRs) are an international reserve asset introduced by the IMF in 1969 to complement the official reserves of member countries. IMF member countries participating in the administration of SDRs can exchange SDRs for any of the freely usable currencies, as these SDRs act as a complement to countries' foreign exchange reserves to support their economies and reduce their dependence on higher-cost domestic or external debt.

B. Monetary Gold: It is gold owned by the monetary authorities and kept in the form of bullions with a purity up to (995 per thousand) and is traded in regulated markets or through bilateral arrangements between central banks.

C. IMF Reserve Position: This position reflects the reserve tranche, meaning the foreign currency amounts that a member country may withdraw from the Fund within a short period, and any indebtedness to the Fund (under a borrowing agreement) in the general resources account is readily available to the member country through purchases from the reserve tranche and is available within a period of time to be agreed upon.

D. Foreign Assets: These include the following:

- Currency and Deposits:** These include deposits with foreign central banks, the Bank for International Settlements and other non-resident deposit receiving companies and deposit agreements in easily recoverable trust fund accounts to settle balance of payments needs.

Securities: It includes title deeds and liquid negotiable debt bonds issued by non-resident entities, including long-term securities (such as US Treasury bills), excluding securities that are not listed for public trading unless they are liquid.

Introduction:

Starting from the keenness of Statistics and Research Department at the Central Bank of Iraq to enhance the policy of disclosure and transparency, aiming to serve several functions, at the top of which is monitoring the key indices of the external sector to identify areas of economic policy needs, the report included two main sections. The first section presents the performance of the main components of the current account, while the second one reviews the most important developments of the capital and financial accounts and the main reasons for the imbalance between the (above-line) transactions of the current and capital accounts and the (below-line) transactions represented by the financial account. This difference is included into net omissions and errors item whose sign determines the imbalance volume of the credit and debit aspects of those transactions.

The transactions of the Iraqi economy with the outside world for 2023 resulted in a surplus of total balance of payments to reach US\$(20078.8) million, as the current account achieved a surplus of US\$(28374.6) million due to trade balance surplus reaching US\$(43196.7) million. As well as the service balance deficit to record US\$ (16524.0) million due to the deficit of (travel, transport and insurance) services and the primary income account achieved a surplus of US\$(973.3) million due to the investment income achieving a surplus of US\$(902.0) million. while the Secondary income account achieved surplus of US\$(728.6) million, as a result of an increase of receipts by US\$(614.6) million. On the other hand, capital transactions for 2023 resulted in a net inflow of US\$(41.2) million dollars and the financial account achieved a surplus of US\$(25988.3) million, as this account appeared with a positive sign as a result of changes in both external financial assets and liabilities.

To achieve balance, equality must be achieved in theory between each of (current and capital) accounts and between the (financial account), The matter that reveals the inequality between them is a set of imbalances that arise in practice because of the inadequacy of source data and means of preparing data. This imbalance is called (net omissions and errors) item that appears in the balance of payments due to not recording the values of debit entries of the current and capital accounts accurately, which involves in large part the inaccuracy of data on imports of goods and services side that requires periodic and continuous reviews because of the importance of this data to reduce this item.

1- The Current Account:

There are two important aspects to be clarified in the current account:

The first part: the current account witnessed a deficit when the country's consumption exceeded its production. This is according to the significant relationship between the country's current account and its capital and financial accounts. The current account includes international trade, net investment income and direct payments, while the financial account describes changes in the international ownership of assets, and the capital account includes all other financial transactions that do not affect the country's economic output ". This relationship is explained in the so-called "trade identity equation", which states, "If the State manages a deficit in its current account, it must balance this deficit with equal flows in the financial account. Moreover, the current account deficit is considered sustainable as long as there are willing international lenders to finance it. If capital inflows into the economy, it often leads to currency depreciation and the economy suffers from sudden shocks. Therefore, the focus is on the current account, which constitutes the largest and most important part of the balance of payments, as it is related to national accounts indicators such as output and national income as their growth provides a comprehensive view of the direction and level of economic growth."

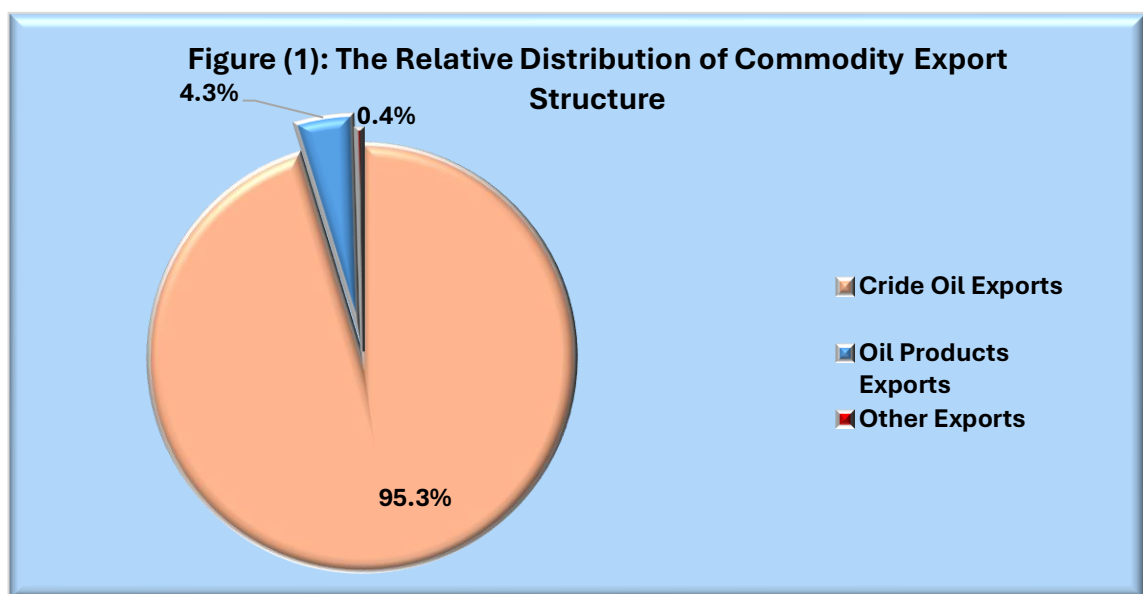
2- The second part:

The current account surplus is no less risky than a deficit. The surplus in gross Domestic Product (GDP) is reflected in the current account, when the country's output exceeds its consumption or savings rates are higher compared to investment rates. Since some countries do not consume all their production that may be (Primary commodity), as with the rentier states, where these oil-exporting countries need to buy this surplus. Consequently, countries with current account surpluses lend their savings in kind to the rest of the world, so that they can buy the surplus output of the lending countries"

The current account for 2023 recorded a surplus of US \$ (28374.6) million, owing to the high balance of trade surplus.

1-1 Balance of Trade: - The balance of trade for 2023 recorded a surplus of US\$(43196.7) million, this surplus attributable to:

1-1-1 Commodity Exports: - the Commodity exports for 2023 recorded an amount US\$ (99149.2) million, as crude oil exports accounted for US\$(94488.5) million and at rate (95.3%) of total commodity exports, including the in-kind value of crude oil paid to foreign oil companies at an amount US\$(13388.2) million. For the exports of petroleum products were valued US\$ (4232.7) million, representing (4.3%) total exports, while other commodity exports accounted for a small proportion of (0.4%) total commodity exports. The greatest part of it was concentrated on (industrial equipment, some primary food and beverages for family consumption). Shows the figure No. (1) the relative distribution of Iraq's commodity export structure for 2023.

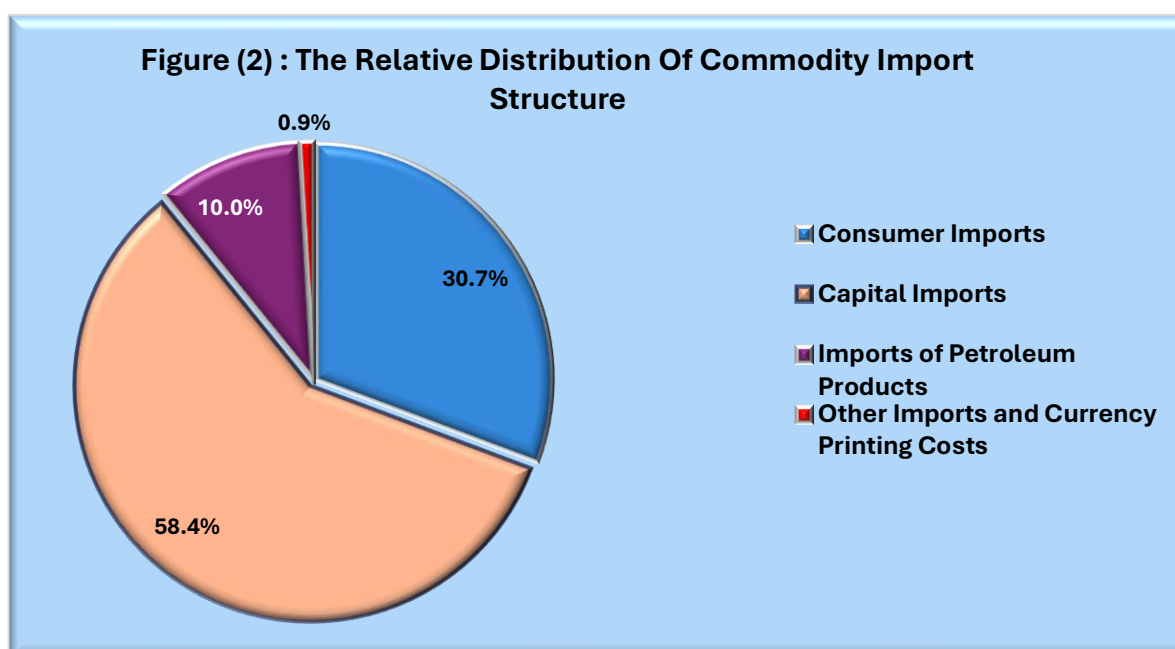


1-1-2 Commodity Imports:

Total commodity imports for 2023 were recorded at US\$(65826.4) million on a CIF basis and US\$ (55952.5) million on a FOB basis. A (15%) discount was applied to the overall import value to account for shipping and insurance expenses, thus changing the terms of sale from Cost, Insurance, and Freight (CIF) to Free on Board (FOB). The primary constituents of imports under the FOB are as follows:

1-1-3 Consumer Imports: Imports for 2023 constituted a relative contribution of 30.7% of total commodity imports based on FOB and valued at US\$17,180.9 million, part of which included ration card imports, medicines and electric energy imports.

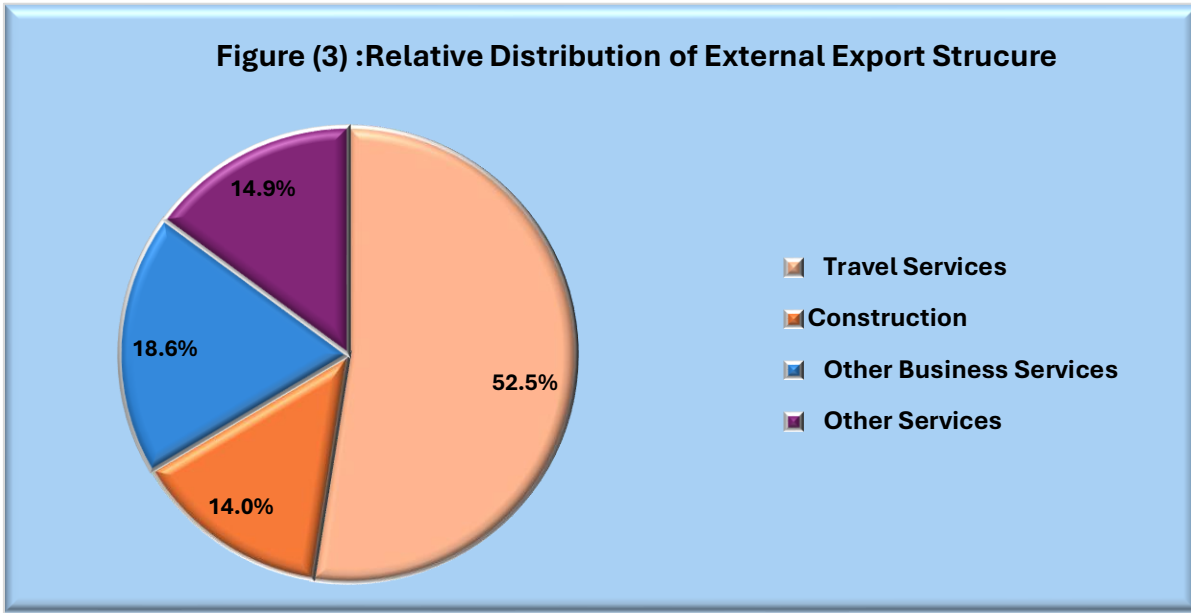
- **Capital Imports:** these imports for 2023 constituted 58.4% of total commodity imports amounted to (32,702.1) US\$ million, part of which included the electricity and security imports.
- **The Government's 2023 Imports of Petroleum products** accounted for a relative contribution of (10%) total commodity imports of US\$ (5569.8) million.
- **Other Government Revenues and Currency Printing Costs** constituted a small contribution for 2023, amounting to (0.9%) of total commodity imports and valued at US\$499.7 million. Figure No. (2) shows the relative distribution of the commodity import structure.



1-2 Balance of Services: The 2023 balance of services recorded a deficit of US\$(16,524.0) million, below is a detailed explanation of the balance of services: -

1-2-1 Services Exports: services exports for 2023 amounted to (8702.7) US\$ million, mainly due to travel services, where constituted a contribution (52.5%) of total services exports, also other business services accounted for a contribution (18.6%) of total services exports. Construction services achieved (14.0%) of total services exports, while other services exports achieved (14.9%). Figure No. (3) shows the relative distribution of service exports structure.

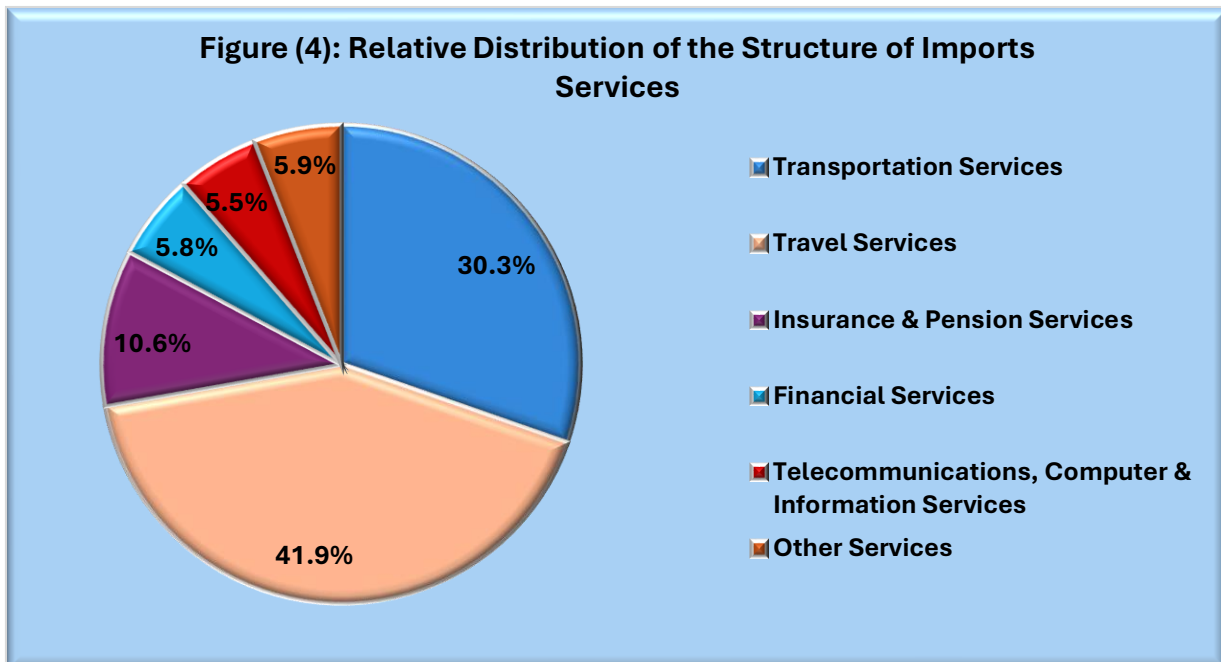
Figure (3) :Relative Distribution of External Export Strucure



1-2-2: Services Imports:

Service imports for the year 2023 amounted to US\$ (25,226.7) Million. Travel services ranked first, contributing (41.9%), followed by transportation services at (30.3%). Insurance services ranked third with a (10.6%) contribution, while financial services contributed (5.8%). Telecommunication services accounted for (5.5%) of total service imports. The remaining services represented (5.9%) of the total Service imports, as shown in Figure No. (4)

Figure (4): Relative Distribution of the Structure of Imports Services



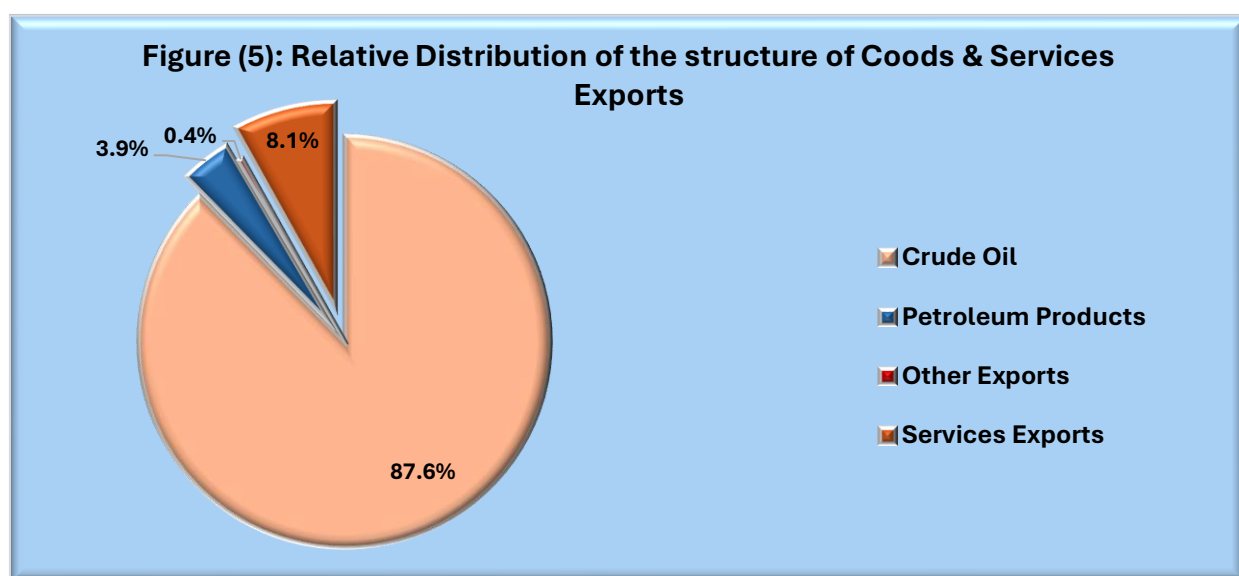
1-3 Balance of Goods and Services:

The balance of commodities and services recorded a surplus of US\$ (26,672.7) Million in 2023. This surplus is due to a net surplus in both goods and export services. The following is an analysis of developments in exports and revenues of goods and services:

1-3-1 Exports of Goods and Services

Iraq's total exports of goods and services recorded a surplus of US\$ (107,851.9) Million. Goods exports accounted for (91.9%) of total exports, while service exports contributed (8.1%).

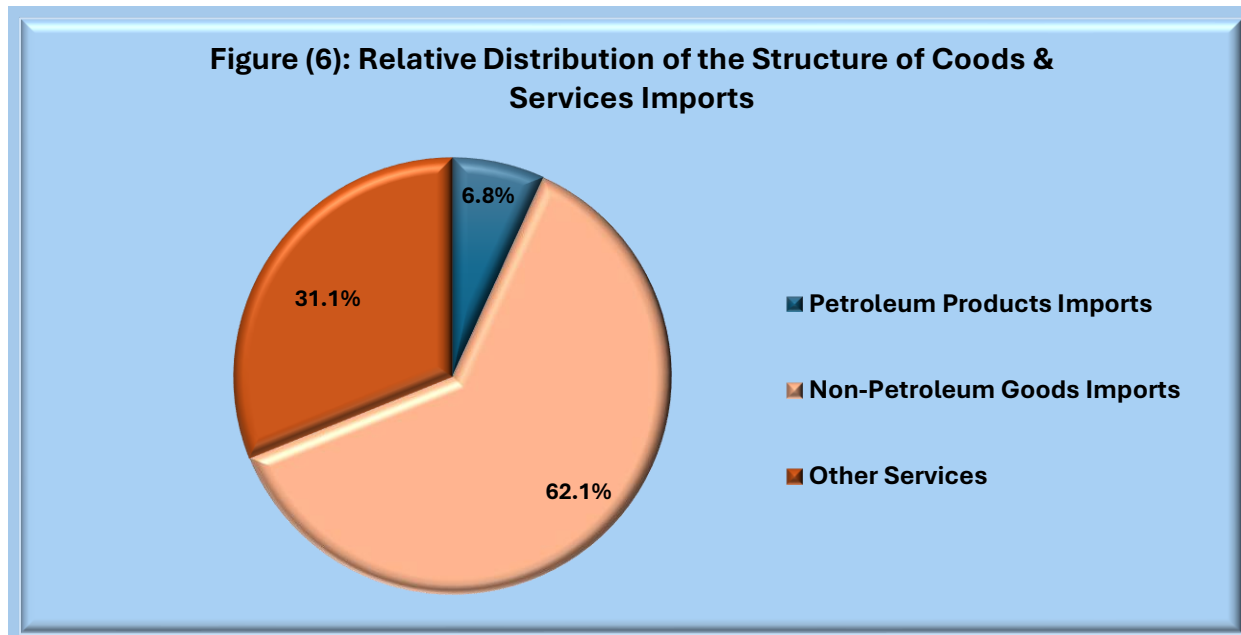
Crude oil and petroleum product exports accounted for (91.5%) of Iraq's total goods and services exports in 2023. Service exports and other exports contributed (8.1%) and (0.4%), respectively, as shown in Figure No. (5).



1-3-2 Imports of Goods & Services

Iraq's total imports of goods and services amounted to US \$ (81,179.2) Million in 2023. Petroleum imports accounted for (6.8%) of total imports, while non-petroleum goods imports and service imports contributed (62.1%) and (31.1%), respectively, as shown in Figure No.

Figure (6): Relative Distribution of the Structure of Goods & Services Imports

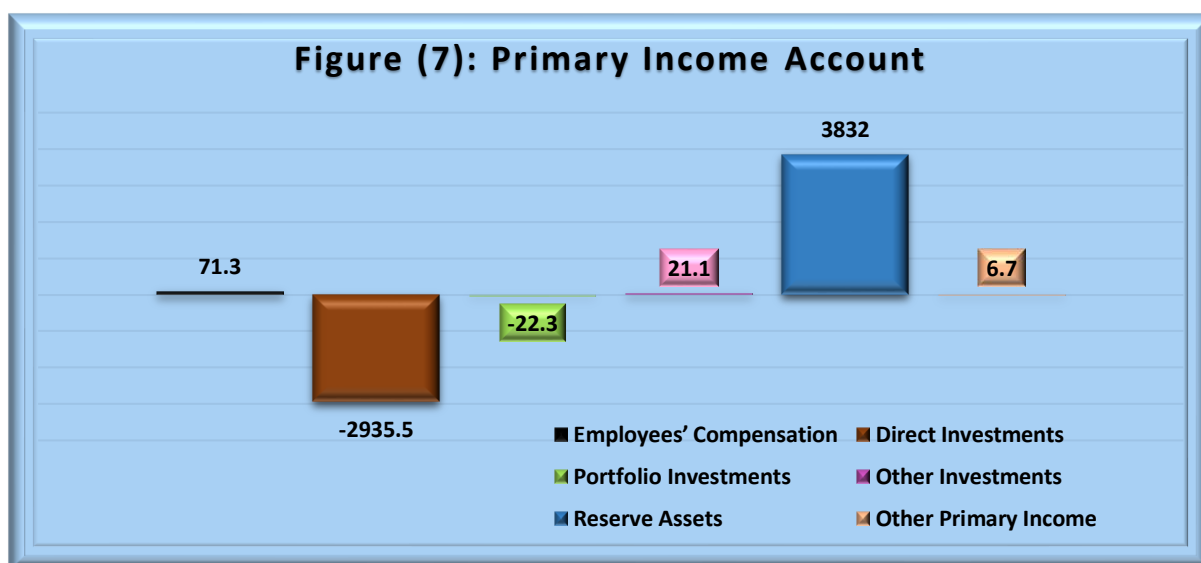


1-4 Primary Income Account:

This account recorded a surplus of US\$ (973.3) Million in 2023. The following is a detailed account of:

- **Compensation of Employees:** it represents the remittances sent by employees working abroad for less than a year. Net compensation of employees achieved a surplus of US\$ (71.3) Million in 2023, with a contribution rate (7.3%).
- **Investment Income:** The net investment income account recorded a surplus of US\$ (902.0) Million, contributing (92.7%). This surplus was primarily due to increased receipts, particularly interest income from investments held by the Central Bank of Iraq and the Ministry of Finance.
- **Direct Investment:** Net direct investment recorded a deficit of US\$ (2,935.5) Million in 2023. This was due to increased payments, primarily remittances of profits from foreign oil companies operating in Iraq abroad by (80%), as well as increased flows of profits from non-oil companies abroad by (20%).
- **Portfolio Investment:** Net portfolio investments recorded a deficit of US\$ (22.3) Million in 2023, due to increased payments of interest on state-owned loans and external government debt securities.
- **Other Investment:** Other investments (which include income from equity holdings and interest) recorded a surplus of US\$ (21.1) Million. This was due to a surplus on the receipts side, resulting from higher interest earned in overnight investments by the Ministry of Finance.

- **Reserve Assets:** Net flows from the returns on reserve assets abroad recorded a surplus of US\$ (3,832.0) Million. This surplus in flows was primarily due to higher interest in foreign currency deposits, foreign treasury bills, and European investments by foreign banks.
- **Other Primary Income:** This account recorded a surplus of US\$ (6.7) Million in 2023, due to higher receipts of rent from the private sector into the interior. Figure No. (7) shows the primary income account.

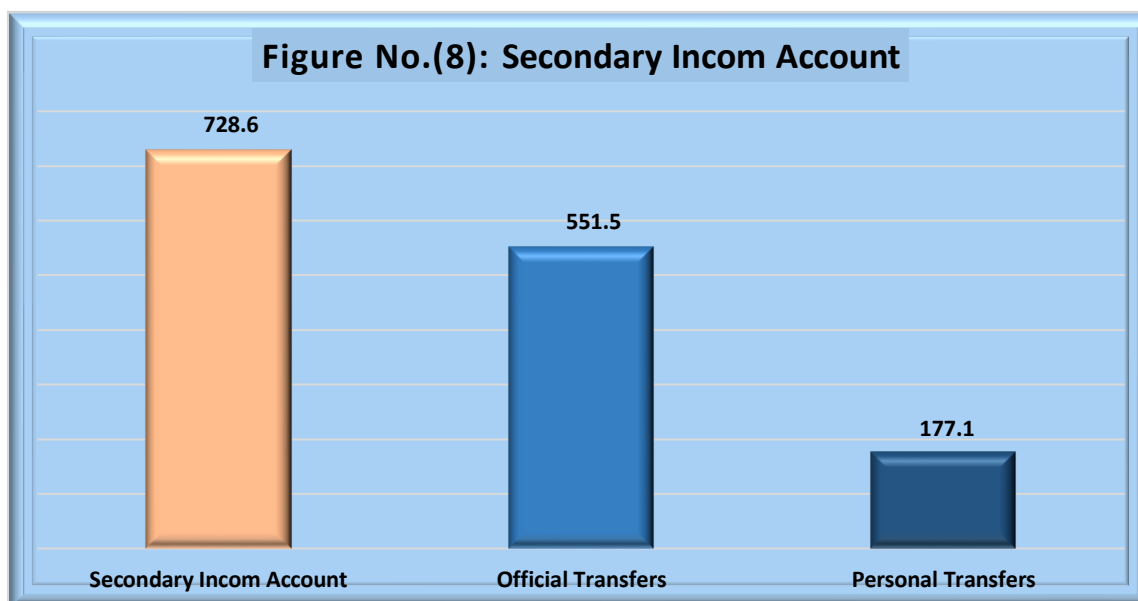


1-5 Secondary Income Account:

The net secondary income account for 2023 recorded a surplus of US\$ (728.6) million, the components of the account are as follows, as shown below in Figure No.8.

1-5-1 Official Transfers (which include government transfers): the net official transfers recorded a surplus of US\$ (551.5) million after achieving the net current transfers to the inside that related to international cooperation an amount of US\$(562.0) million.

1-5-2 Private transfers to the financial and non-financial companies, households and non-profit institutions: The net of these transfers for 2023 recorded a surplus of US\$ (177.1) million after reaching the receipts of personal transfers, including transfers from Iraqis' working abroad for more than a year an amount of US\$ (1071.2) million. Figure No. (8) shows the secondary income account.



2- Capital account:

The net capital account recorded a deficit of US\$ (41.2) million during 2023. This account represents capital transfers resulting from the disposal of fixed assets and capital grants provided by governments and international organizations.

3- Financial account:

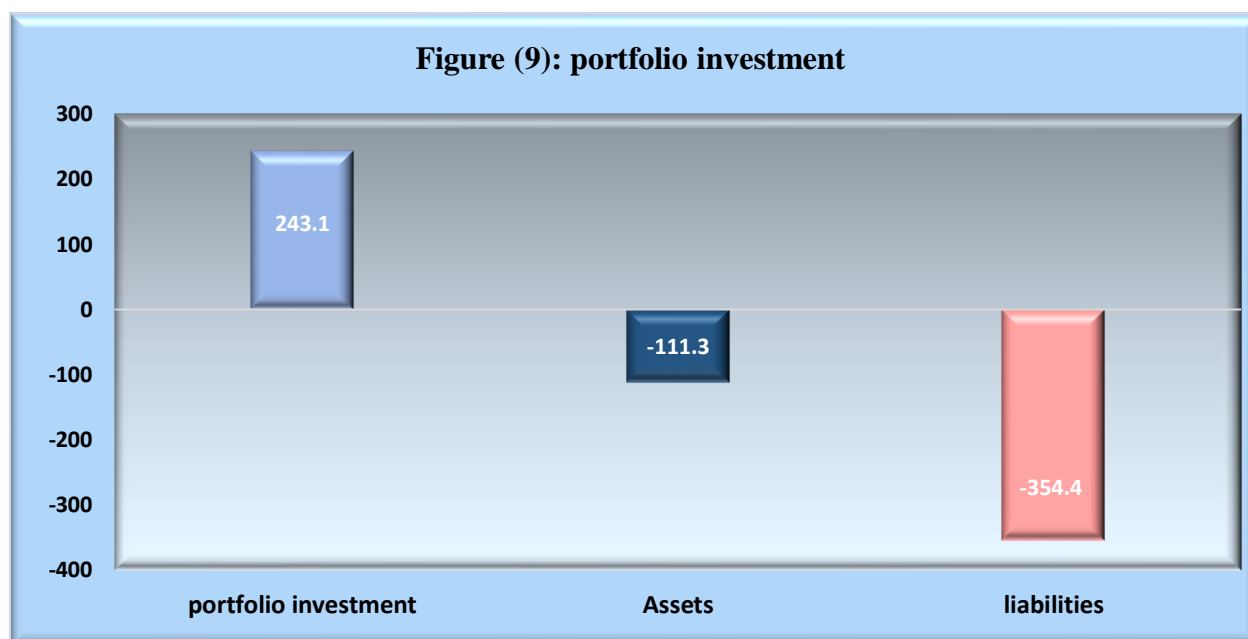
The net flow of the financial account during 2023 reached of US\$ (25988.3) million. This account appeared with a positive sign as a result of the changes that occurred in both external financial assets and liabilities. The following shows the components of this account: -

3-1 Net direct investment: The net of this account achieved a surplus during 2023 of US\$ (5649.7) million, with a contribution rate of (21.7%) as a result of the increase in external financial assets by US\$ (286.2) million, with a decrease in financial liabilities by US\$ (5363.5) million for paying the capital costs of service contracts for oil fields provided by contractors of foreign oil companies operating in Iraq, which are considered as a financial liabilities for Iraq.

The data of the direct foreign investment indicate that the relative contribution of outflows from Iraq amounted to (5.1%), while the relative contribution of inflows to Iraq amounted to (94.9%) of the value of net direct investment.

3-2 Portfolio investment: Portfolio investment flows for 2023 reached US\$ (243.1) million, as the assets side recorded a deficit of US\$ (111.3) million, represented by net invested and reimbursed public investment by the Government, while net

investments by other sectors recorded a surplus of US\$ (12.5) million. The liability side recorded a negative value reached US\$ (354.4) million for 2023, as the government repayments to the International Monetary Fund amounted to US\$ (348.3) million, which represent debt bond repayments. Whereas the private sector investments for 2023 recorded a deficit of US\$ (6.1) million, represented by investments in the Iraq Stock Exchange, as shown in Figure No. (9).



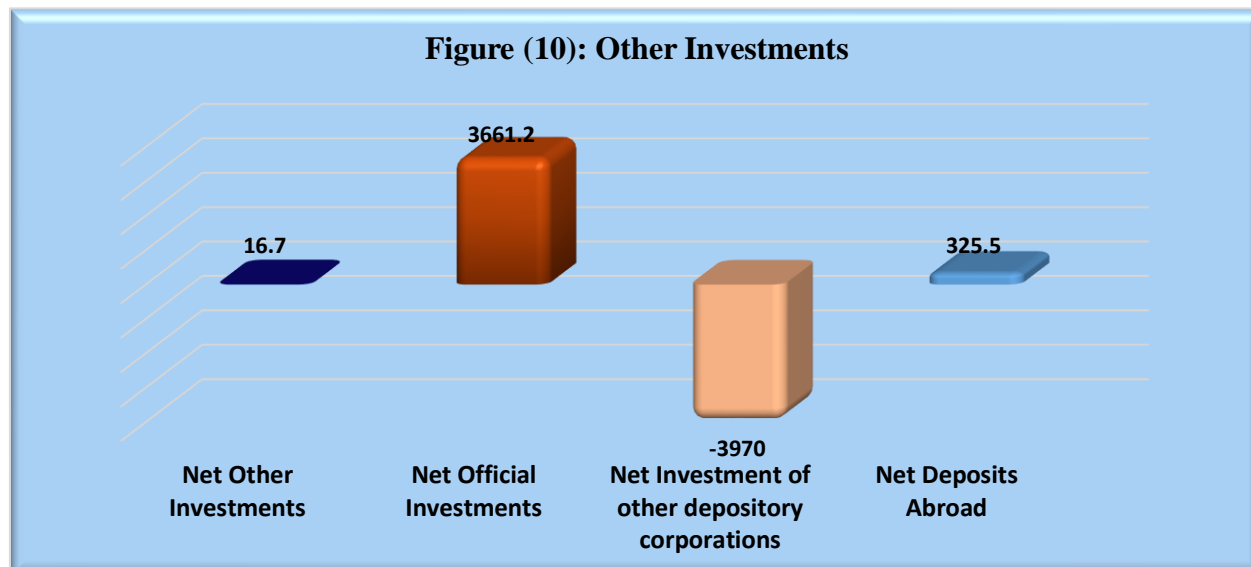
3-3 Other Investments: The flows of this type of investment for 2023 recorded surplus amounting US\$ (16.7) million, which is attributed to the surplus in net official investments and net deposits of residents abroad, as follows:

3-3-1 Net Official Investment: Net investment recorded during 2023 a surplus of US\$ (3661.2) million, this surplus is due to:

- **The Liabilities Side for Official Investment:** it recorded US\$ (-5903.6) million which represents a decrease in our external liabilities, that included (obligations on the government, loans repayments, and withdrawals from loans) with contribution rates of (28.1%, 58.9%, 13%) respectively.
- **As for the Assets Side of Official Investment,** this side recorded a deficit of US\$ (2242.4) million, due to the decrease in the available balance of the government.

3-3-2 Net Investment of other Depository Companies: The net investment of the private sector recorded a deficit of US\$ (3970.0) million for 2023, after the assets recorded a value of US\$ (-3961.7) million, while the liabilities side recorded US\$ (8.3) million.

3-3-3 The Net Deposits of the Private Sector Abroad recorded an increase in the value of the deposits of residents abroad US\$ (325.5) million for 2023. Figure No. (10) shows the item of other investments.



3-4 Reserve Assets

The reserve assets recorded a surplus US\$ (20,078.8) million during 2023. This surplus is due to changes in the components of reserve assets, as follows:

3-4-1 Special Drawing Rights (SDR): Special Drawing Rights recorded a surplus US\$ (105.1) million, this is attributed to the difference in the international assessment of the value of these rights.

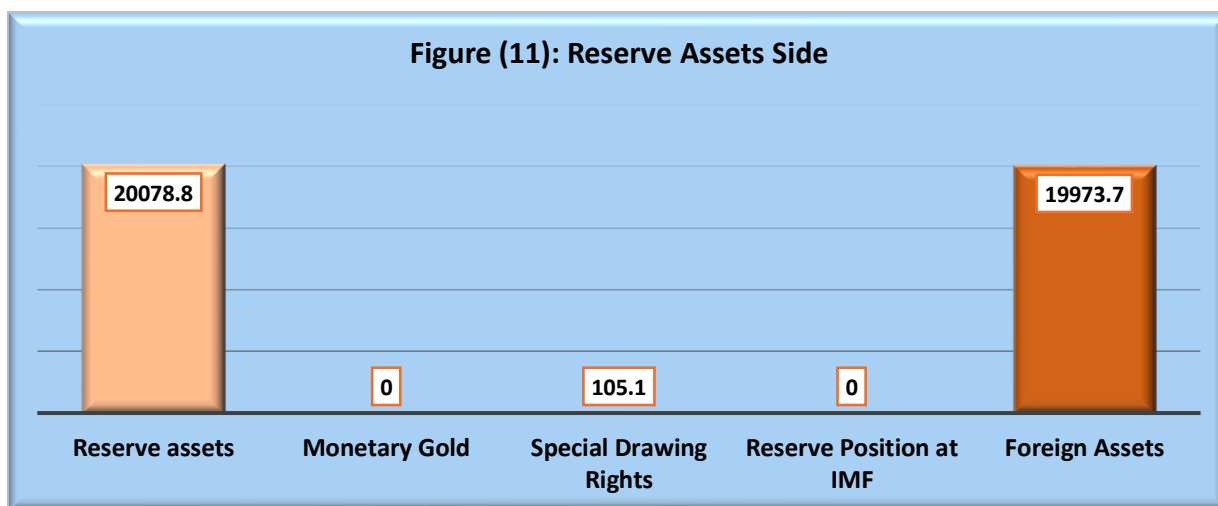
3-4-2 Monetary Gold: The balance of monetary gold within the reserve assets remained virtually unchanged in 2023.

3-4-3 Iraq's Reserve Position at the IMF: Iraq's reserve position at the International Monetary Fund remained virtually unchanged.

3-4-4 Foreign Assets: This type of reserve assets recorded a positive inflow of US\$19,973.7 million during 2023. This notable surplus is attributed to changes in the components of foreign assets, as follows:

- **Currency and Deposits:** recorded a surplus of US\$ (18,833.3) million in 2023. This can be attributed to the increase in currency and deposits held at foreign banks, reaching US\$ (13,778.7) million and at a rate (73.2%) of the total surplus, and an increase in currency and deposits held at monetary authorities, reaching US\$ (5,054.6) million at a rate (26.8%). This rise is due to an increase in overnight investment at foreign banks and current accounts held at foreign banks.

- **Securities:** Securities recorded a value of US\$ (1,140.4) million during 2023. These consist of financial derivatives related to money market instruments, including investments in the Bank for International Settlements, investments in IMF's deposits and securities, Euroclear bonds, and other internationally tradable financial derivatives. Securities contributed (5.7%) of the inflows to foreign assets. (Refer to Figure No. 11 for an illustration of reserve assets.)



4- Net Errors and Omissions

Despite the conceptual balance in the Balance of Payments (BOP) accounts, in practice, imbalances arise due to shortcomings in source data and means of data compilation. This imbalance is referred to as "Net Errors and Omissions" and it is a common feature of BOP data. This item is derived as a residual value based on the value of net lending or net borrowing. It can also be derived from the following equation:

$$\text{Net Errors and Omissions Item} = \text{Net Financial Account} - (\text{Net Current Account} + \text{Net Capital Account})$$

- A positive value for "Net Errors and Omissions" indicates a significant underestimate of credit entries in the Current and Capital accounts.
- And /or a significantly overestimate value of debit entries in the Current and Capital accounts.
- And /or an overestimate value of the net increase in assets in the financial account.
- And/or a significantly underestimate value of the net increase in liabilities in the financial account.

(These trends are reversed when the value of "Net Errors and Omissions" is negative).

The Iraqi balance of payments for 2023 showed "Net Errors and Omissions item" with negative sign rating of US\$ (-2,345.1) million. This can be attributed to the above two paragraphs (a and d) which namely an overestimate of credit entries in the current account and an overestimate of the net increase in liabilities in the financial account. Figure No. (12) illustrates "Net Errors and Omissions item."

Table Representing Credit and Debit Entries in the Main Accounts of the Balance of Payments			
	2023		
	Credit	Debit	Net
Current Account	114217.4	85842.8	28374.6
Capital Account	0.2	41.4	-41.2
Financial Account	14375.1	-11613.2	25988.3
Net Errors and Omissions			-2345.1

