

# PRESS STATEMENT

## IRAQI MINISTER OF FINANCE KAMEL AL-GAILANI

September 21, 2003

Following recent extensive discussions between the Iraqi Governing Council and the Coalition Provisional Authority, I am pleased to announce a series of significant economic and financial reforms. The measures will be implemented in the near future and represent important steps in advancing Iraq's reconstruction efforts.

The reforms will significantly advance efforts to build a free and open market economy in Iraq, promote Iraq's future economic growth, accelerate Iraq's re-entry into the international economy and reintegration with other countries, and the development of domestic Iraqi institutions that are based on international standards and international best practices.

The specific measures concern Iraq's foreign direct investment code, its banking sector, and its tax and tariff regimes. Key features include the following:

### Foreign direct investment

- Allows up to 100% foreign ownership in all sectors except natural resources (real property cannot be owned by foreigners but can be leased up to forty years)
- Permits direct ownership, joint ventures, branches
- Provides for national treatment of all foreign firms
- Permits full and immediate remittance of profits, dividends, interest, and royalties
- Imposes no local product requirements or other such limitations
- There will be no clearing committee for foreign investments

### International bank entry

- Permits foreign banks to enter Iraq as branches, subsidiaries, representative offices, or through joint ventures with local banks
- Permits six foreign banks to purchase up to 100% of local banks within the next five years. After five years there will be no limitation on foreign bank entry.
- There will be a "fast track entry" process for the first two of these six banks – prompt and substantial lending will be a significant criterion in early entry determinations.
- There will be a \$25 million capital requirement for foreign majority-owned subsidiaries, through there is no restriction on where that capital may be invested. There are no specific capital requirements for branches.
- Permits an unlimited number of foreign banks to purchase up to 50% of local banks
- Provides for national treatment of all foreign banks

- Allows foreign banks to accept deposits immediately

#### Commercial banking

- Requires initial capitalization of local banks that is equivalent to \$5 million USD within 18 months
- Will require long-term capitalization consistent with Basle standards
- Establishes strong “fit and proper” licensing criteria
- Sets forth strong qualification requirements for bank managers and boards of directors

#### Taxes

- Continuation of tax holiday through the remainder of 2003 except for the following
  - hotels and restaurants, capital gains on land transfers, an excise tax on petrol consumption, and a stamp duty that applies to the transfer of motor vehicles
- 15% maximum marginal tax rate on individual income starting January 1, 2004
- 15% maximum marginal tax rate on corporate income starting January 1, 2004

#### Tariffs

- Enactment of a flat 5% Reconstruction surcharge on all imports except for humanitarian goods – including food, medicines, clothing, and books – that will be fully exempt from the surcharge

#### Central Banking

- Provides the Iraqi Central Bank with full legal and operational autonomy