REPUBLIC OF IRAQ

Table 1	2023
Population, million	45.5
GDP, current US$ billion	250.8
GDP per capita, current US$	5512.5
Lower middle-income poverty rate ($3.65)[a]	2.4
Upper middle-income poverty rate ($6.85)[a]	24.7
National poverty rate[a]	18.9
Gini index[a]	29.5
School enrollment, primary (% gross)[b]	103.7
Life expectancy at birth, years[b]	71.3
Total GHG emissions (mtCO2e)	246.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2012), 2017 PPPs.
b/ Most recent WDI value (2022).

As the economy is stagnating due to extended OPEC+ production quotas, an expansionary fiscal stance and strong imports are expected to transform the surpluses of fiscal and external accounts into deficits. Recent large infrastructure projects could help overcome some growth bottlenecks. Risks to the outlook have increased with heightened tensions in the Middle East which are exacerbated by the economy's overreliance on oil.

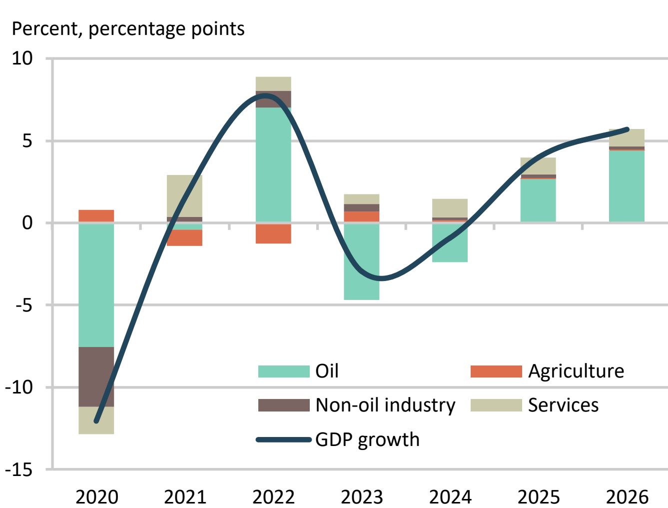
Key conditions and challenges

Iraq's oil-dependent economy is contracting for a second consecutive year due to constrained crude oil production. The contraction in GDP reflects the OPEC+ production agreement from June 2024 that extends initial production cuts until end-2025 and prolongs additional voluntary cuts of 2.2 mbpd by selected countries, including Iraq, until end-November 2024. Oil exports through the oil pipeline in the Kurdistan Region of Iraq have further remained on hold since late March 2023. Expansionary fiscal policy has buoyed non-oil sector activity which has partially offset the contraction in the oil sector. Looser fiscal policy and dependence on volatile oil revenue have raised vulnerabilities to external shocks, amid the risks of spillover from the recent conflict in the Middle East. The 2024 budget law introduces further fiscal easing while the high wage bill and large social transfers of the 2023-2025 budget law have been maintained; this increases fiscal risks and exposure to oil sector developments. The lack of automatic adjustment mechanisms, such as fiscal rules, exposes public finances and the economy to significant fluctuations. The potential spillovers from a widening conflict in the Middle East could worsen pre-existing security and welfare vulnerabilities. Implementing deeper reforms would be key for economic diversification and addressing structural challenges. A series of recent infrastructure projects in the energy and transport sectors can help create jobs, address key growth bottlenecks, and lay the foundations for a more diversified economy. By anchoring these projects in a well-designed medium-term plan, such as elaboration in the National Development Plan (2024-2029) with prioritization, coordination, and accurate budgeting, these projects can achieve more optimal outcomes. Implementation can also be improved with greater oversight mechanisms to ensure minimizing inefficiencies. Crucially, these measures need to be further complemented with policy reforms in key areas including the harmonization of the pension system, rightsizing the wage bill, improving targeting of social transfers, and policies that enable women to participate in the labor force. Banking sector reforms to improve credit intermediation and streamlining legal and administrative procedures for business registration and operations would create a more enabling business environment for private sector-led growth and much needed jobs.

Recent developments

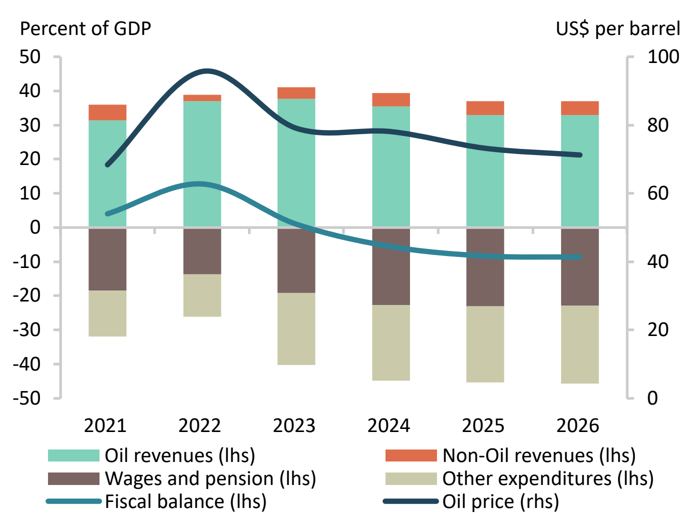
The oil-driven GDP contraction of 2023 has started to moderate in 2024. New OPEC+ production agreements, including Iraq's voluntary cuts and the halting of oil exports from the northern oil pipeline led GDP and oil GDP to contract by 2.9 percent and 7.7 percent, respectively, in 2023. The 5.6 percent y/y bounce back in the non-oil sector partly offset the full impact

FIGURE 1 Republic of Iraq / Real GDP growth and supply-side contributions to real GDP growth



Sources: Iraq's Authority of Statistics and Geographic Information Systems (ASGIS), Central Bank of Iraq, and World Bank staff calculations.

FIGURE 2 Republic of Iraq / Fiscal account outlook



Sources: Ministry of Finance, Ministry of Oil, and World Bank staff calculations.

of the oil sector-induced contraction but was driven by public services growth and improved agricultural production. These growth dynamics have continued into the first quarter of 2024 (Q1-24) where real GDP contracted by 2.4 percent year-on-year (y/y). Inflationary pressures have eased due to lower international food prices, an upward revaluation of the dinar in February 2023, and tighter monetary policy. Recent Central Bank of Iraq (CBI) measures, including raising the policy rate by 3.5 percentage points to 7.5 percent, helped curb inflationary pressures. As a result, headline and core inflation have eased to 2 and 2.4 percent y/y, respectively, in the first half of 2024 (H1-24). Securing FX supply and improved due diligence in CBI auctions helped reduce the gap between the official rate to 13 percent in June 2024 (from over 23 percent in November 2023); the gap, however, remains elevated compared to pre-November 2023 levels. Fluctuations in food prices, driven by global supply-chain and climate shocks, highlight the importance of maintaining nutritional adequacy and eliminating poverty. Higher revenues resulted in a fiscal surplus in H1-24 while rising imports pushed the current account into a deficit. Government revenues, 89 percent coming from oil revenues, increased by 21.4 percent y/y in H1-24 due to higher oil prices and marginally higher export volumes. Efforts on customs automation and streamlining tax procedure have contributed to a 22 percent y/y rise in tax revenues until early August 2024, a significant improvement in non-oil revenue mobilization. Total expenditures rose by 20.3 percent y/y but remained significantly below the planned target. As a result, the fiscal account recorded a surplus of 3.6 percent of GDP (on a cash basis). The current account also registered a deficit of 0.6 percent of GDP in Q1-24 given a surge in imports following the fiscal expansion. These trade dynamics reversed the recent accumulation in official reserves, although reserves have remained sizeable at US$98.5 billion or 10.7 months of imports in Q1-24.

Outlook

Economic prospects in the medium-term are expected to be closely intertwined with global oil demand dynamics and the government's discretionary fiscal policy stance. Over 2024-2026, real GDP growth is expected to recover to an average of 2.9 percent, driven by the oil sector and under the assumption of compliance with the September 2024 OPEC+ agreement in September 2024 until end-2025, and growing production capacity in 2026. Non-oil GDP is forecast to ease with the moderation in government expenditure growth and other growth bottlenecks. Inflation is expected to remain in check partly due to subsidized imports. Even at substantially lower execution relative to the planned budget, the fiscal easing is projected to lead to a widening fiscal deficit and an upward trend in the debt-to-GDP ratio. Rising imports are expected to push the current account to a sustained deficit over the medium term. The recovery in economic growth in tandem with increased fiscal pressures is not expected to translate into sustained poverty reduction and equitable outcomes. Disparities in resource distribution continue to persist, with poverty and limited access to services concentrated in rural and southern governorates of Iraq.

The country is gradually turning a corner from a legacy of fragility and recent conflict towards reconstruction and stability, while risks to the outlook remain. Domestically, the upcoming elections (planned for October 2025) could soften the drive for implementing reforms, while a return of political tensions and factionalism could set back ongoing infrastructure projects and the economy. Domestic revenue-sharing disputes between the federal government and the Kurdistan Regional Government (KRG) could destabilize the KRG economy and could put on hold collaboration on key issues including customs integration. External shocks such as the ongoing conflict in the Middle East and a sharper slowdown in the global economy and oil demand could significantly impact the economic outlook. Climate change shocks further pose significant risks to the agriculture sector and the rural poor.

TABLE 2 Republic of Iraq / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	-0.9	4.7	-2.9	-0.9	4.0	5.7
Private consumption	2.6	2.7	6.0	9.5	2.1	4.0
Government consumption	4.6	15.1	7.6	12.2	1.1	2.0
Gross fixed capital investment	32.2	3.3	13.8	6.8	3.6	4.0
Exports, goods and services	-15.0	7.2	-7.7	-4.1	4.8	7.8
Imports, goods and services	7.7	27.9	11.3	16.0	1.2	3.6
Real GDP growth, at constant factor prices	1.5	7.6	-2.9	-0.9	4.0	5.7
Agriculture	-20.6	-33.3	28.9	5.0	3.0	2.0
Industry	-0.1	12.7	-6.3	-3.4	4.6	7.3
Services	8.4	2.7	1.9	3.5	3.0	3.2
Inflation (consumer price index)	6.0	5.0	4.4	3.7	3.3	3.1
Current account balance (% of GDP)[a]	11.9	19.1	10.4	-1.5	-4.7	-5.3
Net foreign direct investment inflow (% of GDP)[a]	-1.3	-0.8	-2.3	-2.2	-2.2	-2.2
Fiscal balance (% of GDP)[a]	4.0	12.7	0.9	-5.6	-8.4	-8.7
Revenues (% of GDP)	35.9	38.9	41.1	39.3	37.1	37.0
Debt (% of GDP)[a]	58.0	39.5	45.5	50.4	57.3	62.9
Primary balance (% of GDP)[a]	4.4	13.2	1.8	-4.5	-7.0	-7.1
GHG emissions growth (mtCO2e)	2.0	-6.7	4.5	4.0	5.0	6.1
Energy related GHG emissions (% of total)	49.8	48.1	47.3	47.2	47.5	48.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Share of factor cost GDP.