REPUBLIC OF IRAQ

Table 1	2023
Population, million	45.5
GDP, current US$ billion	285.8
GDP per capita, current US$	6279.7
Lower middle-income poverty rate ($3.65)[a]	2.4
Upper middle-income poverty rate ($6.85)[a]	24.7
National poverty rate[a]	22.5
Gini index[a]	29.5
School enrollment, primary (% gross)[b]	103.7
Life expectancy at birth, years[b]	70.4
Total GHG emissions (mtCO2e)	231.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2012), 2017 PPPs.
b/ WDI for School enrollment (2007); Life expectancy (2021).

Iraq's economy contracted in 2023 due to OPEC+ production cuts that more than off-set a non-oil sector rebound. A sharp fiscal expansion is fueling consumption but weighs on fiscal and external balances, and undermines fiscal sustainability in the medium term. Downside risks to the outlook include oil market volatility, climate change risks, and the impact of heightened geopolitical tensions. The long-term development prospects remain uncertain.

Key conditions and challenges

Iraq's economy, among the world's most oil-dependent, is contracting due to crude oil production cuts and lower global oil prices. GDP contraction reflects the OPEC+ production cuts and the halting of oil exports from the northern oil pipeline since late March 2023, following the International Chamber of Commerce's ruling on a case between Iraq and Türkiye. The economy was kept afloat by the non-oil sector, in part helped by the large 2023 fiscal expansion. Lower oil revenues and significant increase in government expenditures have sharply narrowed the fiscal surplus.

Looser fiscal policy and over dependence on oil have raised vulnerabilities to external shocks, especially considering the risks of spillover from the recent conflict in the Middle East. The 71 percent surge (relative to 2022 outturn) in government spending envisaged in the budget law for 2023 to 2025, driven by a surge in the wage bill and funded by oil revenues, leaves little room for discretionary spending, and fragilizes the goal of stabilizing the economy and consumption smoothing. Iraq's dependence on oil also translates into low labor force participation, exposes households to volatility, and limits the role of jobs in increasing household incomes.

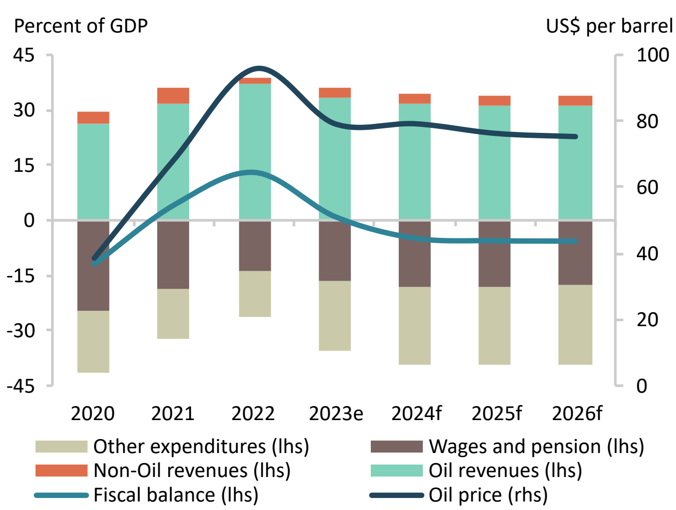
Current reform efforts have to be sustained and deepened to put the economy on a more sustainable path. Reprioritization of expenditures, notably rightsizing the wage bill, better targeting transfers, and a more concerted effort on domestic revenue mobilization, could free up fiscal space for growth-enhancing investment in human and physical capital and improve the long-term fiscal sustainability. Leveraging the oil wealth toward sustainable growth and diversification, reducing the dominance of the public sector, and enhancing the business environment will be essential for economic sustainability and private sector-led growth. Climate change adaptation and mitigation measures can help tackle Iraq's intertwined climate and developmental challenges such as addressing food insecurity and water shortages.

Recent developments

Iraq's economy is contracting due to lower oil production and despite a rebound in the non-oil sector. Following the strong expansion seen in 2022, GDP is estimated to have contracted by 2.5 percent in 2023. Growth was weighed down by OPEC+ production cuts, including Iraq's voluntary cuts, and the halting of oil exports through the Iraq-Türkiye pipeline, which led oil GDP to contract by 7.4 percent. The 5.9 percent y/y bounce back in the non-oil sector reported in the first nine months of 2023 (9M-23), was led by the agriculture sector and non-oil industries that benefitted from CBI lending initiatives, albeit a temporary impact.

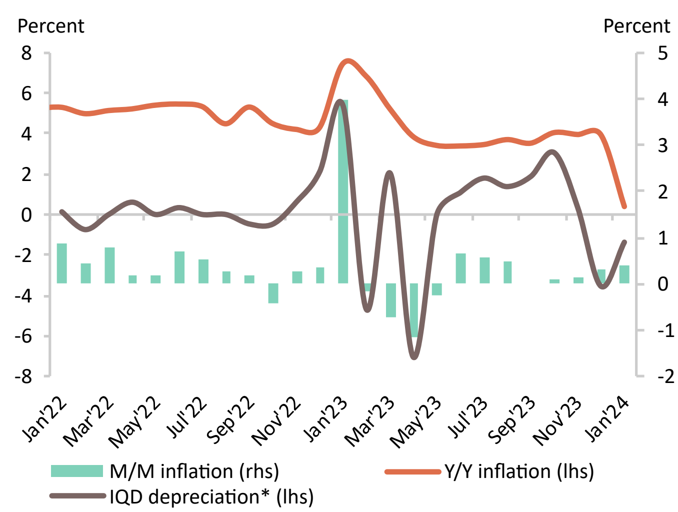
Inflationary pressures have eased in part due to the impact of exchange rate

FIGURE 1 Republic of Iraq / Fiscal account outlook



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

FIGURE 2 Republic of Iraq / Consumer price inflation and the parallel market pressures



Sources: Iraq's Central Statistical Organization, Central Bank of Iraq, media, and World Bank staff calculations. Note: *Positive values represent dinar's depreciation against the dollar in the parallel market.

revaluation in February 2023 and tighter monetary policy. After an initial spike in inflation in January-February 2023, sparked by the depreciation of the Iraqi dinar in the parallel market, the revaluation of the dinar against the dollar up by 11.5 percent in February 2023 and the moderation of global commodity prices helped lower inflation. The Central Bank of Iraq (CBI) raised the policy rate by 3.5 percentage points to 7.5 percent, which further curbed inflation and moderate capital outflows. As a result, headline and core inflation eased to 4.3 and 4.0 percent in 2023 y/y, respectively. CBI measures to manage the volatility in the exchange markets have helped reduce the gap between the official rate to 17 percent in February, which is still elevated due to continued FX demand in the parallel market.

Lower oil revenues and the fiscal expansion have narrowed the fiscal and current account surplus. Government revenues, heavily dependent on oil, declined by 16.1 percent y/y in 2023 due to lower oil prices and despite marginally higher export volumes. Total expenditures increased by 21.8 percent y/y but remained significantly below the budget targets. As a result, the fiscal account recorded a small surplus of 0.8 percent of GDP (cash basis), down from a 12.7 percent of GDP surplus in 2022. The current account surplus almost halved in 9M-23 with lower oil exports and is estimated to have narrowed to 2.1 percent of GDP in 2023 given a surge in imports in the last quarter. The shift in the current account halted the previous years' rapid accumulations of official reserves, although these still remain sizeable, at US$102.7 billion or 12.6 months of imports at end-2023.

Outlook

The economic outlook hinges on global oil market prospects and the implementation of the 3-year budget plans. GDP growth is expected to recover to an average of 4.0 percent in 2024-2026 due to a projected rebound in the oil sector. Growth is forecast to peak in 2025 with the planned expiry of oil production cuts. Despite higher projected oil exports, the fiscal expansion is forecast to more than offset this rebound, leading to double deficits starting in 2024. The growing fiscal pressures are forecast to increase gross financing needs to an average of US$24.2 billion per year in 2024 to 2026, while the public debt burden is projected to increase to over 60 percent of GDP in 2025.

Downside risks to the outlook stem from oil market volatility, spillovers from conflict, and climate change. The recent outbreak of conflict in the Middle East has introduced significant downside risks but also upside risks if global oil prices increase. Iraq's heavy reliance on oil makes it particularly susceptible to oil shocks stemming from the conflict, which could lead to disruptions in the flow of oil exports and price fluctuations. The conflict could significantly impact fiscal and external balances, and worsen household food security and welfare, necessitating coping mechanisms such as dissaving and reducing investments in human capital. Spillovers from a broader conflict are also likely to have adverse humanitarian impacts in Iraq, including civilian casualties and displacement. These developments would reverse gains in poverty reduction made in recent years. Climate change impact and severe weather events such as El Niño, could intensify food security risks and add to public grievances.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	0.1	7.6	-2.5	1.6	6.1	4.2
Private consumption	2.6	3.9	6.5	4.5	4.0	4.0
Government consumption	4.6	2.2	21.8	8.5	4.7	4.7
Gross fixed capital investment	33.6	11.7	11.8	20.4	9.4	8.5
Exports, goods and services	-13.3	9.7	-7.4	-0.2	8.4	5.2
Imports, goods and services	7.7	4.2	22.0	13.7	7.0	7.0
Real GDP growth, at constant factor prices	1.6	7.6	-2.5	1.6	6.1	4.2
Agriculture	-20.6	-33.3	3.0	2.5	2.2	2.2
Industry	-0.7	13.3	-5.9	0.3	8.0	5.0
Services	9.8	1.3	4.2	4.0	2.8	2.8
Inflation (consumer price index)	6.0	5.0	4.3	3.8	3.4	3.2
Current account balance (% of GDP)[a]	12.0	19.1	2.1	-3.7	-4.0	-4.2
Net foreign direct investment inflow (% of GDP)[a]	-1.3	-0.8	-0.8	-0.8	-0.8	-0.8
Fiscal balance (% of GDP)[a]	4.0	12.7	0.8	-5.1	-5.7	-5.8
Revenues (% of GDP)	36.2	38.9	36.1	34.3	33.8	33.6
Debt (% of GDP)[a]	58.8	40.9	45.5	54.2	64.8	72.1
Primary balance (% of GDP)[a]	4.5	13.5	1.3	-4.8	-5.3	-5.1
GHG emissions growth (mtCO2e)	-13.8	-5.2	6.5	7.8	13.4	10.0
Energy related GHG emissions (% of total)	42.3	42.0	42.8	44.5	46.1	48.6

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.