

REPUBLIC OF IRAQ

Recent developments

Table 1 **2018**

Population, million	39.8
GDP, current US\$ billion	226.4
GDP per capita, current US\$	5695
Lower middle-income poverty rate (\$3.2) ^a	17.9
Upper middle-income poverty rate (\$5.5) ^a	57.3
National poverty rate ^b	22.5
Gini index ^a	29.5
Life expectancy at birth, years ^c	69.9

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2012), 2011 PPPs.

(b) Most recent value (2014).

(c) Most recent WDI value (2016).

While the overall economic outlook has improved, due to higher oil prices and improved security conditions, long-standing challenges remain. Post-conflict recovery and increased non-oil investment will remain the main driver of non-oil growth while overall economic growth will pick up noticeably in 2019 due to higher oil production. Despite improved oil prices, increased recurrent spending will constrain fiscal space for reconstruction. Poverty reached 22.5 percent in 2014 and almost 5 percent of Iraqis remain displaced.

Iraq's economy is gradually picking up following the deep economic strains of the last four years. Real GDP is estimated to have grown by 0.6 percent in 2018, thanks to a notable improvement in security conditions and higher oil prices, reversing the contraction of 1.7 percent seen in 2017. The non-oil economy picked up speed and grew at 4 percent, while oil production was slightly less than 2017 in line with the OPEC+ agreement. Recently, the Iraqi economy has received a boost of confidence with the signing of several trade agreements with its neighbors. Reconstruction efforts have been proceeding at a moderate pace. Inflation remained low at 0.4 percent in 2018, but slightly up from 2017, due to higher domestic demand in addition to rising food and transportation costs.

The overall fiscal balance swung from deficit (1.7 percent in 2017) to surplus (6.2 percent) in 2018, but the composition of spending worsened. Non-oil taxation has been well below budgetary projections due to weak compliance and reversal of some policy measures. The composition of spending deteriorated towards current spending, particularly public-sector wages and transfers. Investment spending proceeded at a moderate pace in 2018, but non-oil investment spending continues to be slow and its execution lower than the budgeted amount. The recovery in oil prices has also been conducive to better outcomes on external balance. The current account surplus is estimated to have widened to 4.9 percent

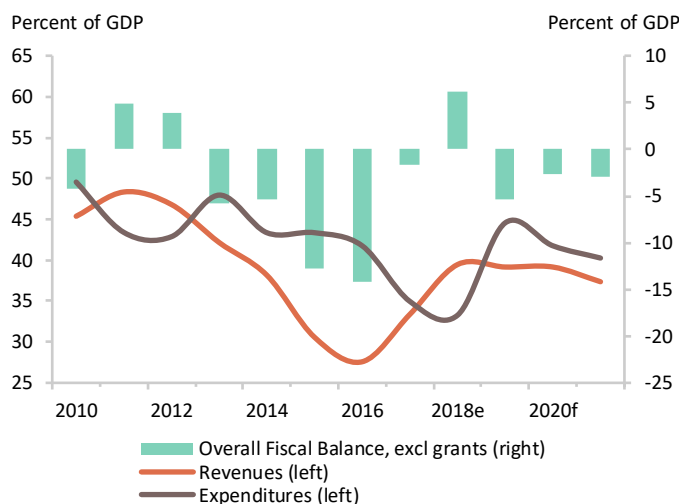
in 2018. Higher oil prices have also supported a steady increase in international reserves from US\$49 billion in 2017 (or 6.9 months of imports), to US\$64 billion (7.8 months) in 2018, rebuilding buffers to external shocks.

Growth and the positive overall fiscal balance in 2018 are estimated to reduce the public debt-to-GDP to 48.4 percent in 2018 from 66 percent in 2016. The government has also adopted a framework to control the issuance of guarantees, which peaked at US\$33 billion (or 20 percent of GDP) in end-2016.

National monetary poverty rate is expected to decline from the 2014 level (22.5 percent) on the back of recent economic growth and improvement in the security situation but will remain unevenly distributed across the country. The standard of living in the conflict-affected areas is possibly still below the 2014 level because of disruptions in the labor market and general economic activity. Internally displaced persons (IDPs) have also likely experienced severe welfare loss through loss of jobs and livelihoods. These conditions have the potential to sustain a low-level but persistent insecurity focused in northern Iraq. There has recently been an improvement in several non-income dimensions of welfare. The multidimensional poverty headcount ratio dropped from 6.8 percent in 2014 to 3.3 percent in 2017/18. Increase in school enrollment, expansion of drinking water provision and sewage disposal services have contributed to the fall in multidimensional poverty.

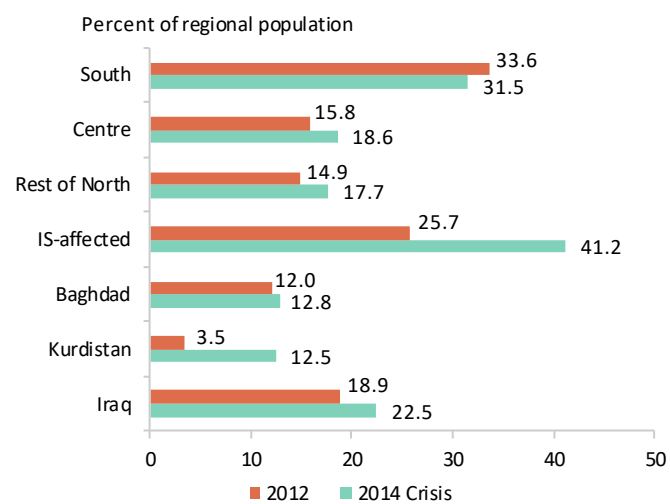
However, labor market outcomes continue to be a concern, especially for women

FIGURE 1 Republic of Iraq / Fiscal accounts



Sources: Ministry of Finance; and World Bank staff projections.

FIGURE 2 Republic of Iraq / Regional poverty head-count rates



Sources: World Bank staff microsimulation estimates.

and youth. At 48.7 percent, the country has one of the lowest labor force participation rates in the world, and in the region especially for women (12 percent) and youth (26 percent). The unemployment rate, which was falling before the ISIS and oil crises hit, has increased beyond the 2012 level to 9.9 percent in 2017/18. Moreover, almost 17 percent of the economically active population is underemployed. Underutilization is particularly high among internally displaced persons, with almost 24 percent of IDPs unemployed or underemployed. The crises have eroded the gradual progress in the women's employment; female unemployment rate rose from 11.3 percent before the crises to 20.7 percent in 2017. Also, more than a fifth of the economically active youth (ages 15 – 24) do not have a job, and more than a fifth of the economically active youth is neither in employment nor in education or training (NEET).

Outlook

The economic outlook has improved due to higher oil prices and improving security situation, but constraints on capital spending will impede a recovery-driven

growth acceleration. Growth is expected to spike to 8.1 percent in 2020 due mainly to higher oil output, with OPEC+ agreement coming to an end in mid-2019. Non-oil growth is expected to remain positive on the back of higher investment needed to rebuild the country's damaged infrastructure network, private consumption and investment. However, the recently approved 2019 budget presents a sizable increase in recurrent spending, and unless there is a significant reorientation in fiscal policy to a comprehensive recovery approach, there will be limited fiscal space to sustain post-war recovery and longer-term development. Higher spending together with easing oil prices will result in a high fiscal deficit projected at 5.4 percent of GDP in 2019 before narrowing down to about 3 percent throughout 2020-2021. Lower oil prices and increased imports will cause the current account balance to turn into deficit, financed partially by international reserves decumulation.

Risks and challenges

Challenges remain due to political risk, oil dependency and the regional situation.

Creating the adequate fiscal space for growth-enhancing programs in human and physical capital will be key for diversification and job creation. Social conditions remain challenging reflecting underinvestment and weak institutional capacity, a gap that becomes glaring for predictable crises such as the seasonal electricity and water problems, especially in Basra. Fiscal institutions have yet to adapt to volatility in oil prices and the risk of procyclical policies remains very high. A decline in oil revenue, without continued structural reforms, and the continuous rise in budget expenditure according to 2019 budget, will lead, sooner or later, to crisis-driven adjustments and stop-go recovery. It could be difficult to finance the deficit in the 2019 budget with domestic resources and there are uncertainties in the availability of external financing especially in frontier market conditions applicable to Iraq. As before, highly suboptimal adjustments in the form of arrears and one-off infrastructure deals could reemerge.

TABLE 2 Republic of Iraq / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	13.6	-1.7	0.6	2.8	8.1	2.3
Private Consumption	10.1	1.0	8.5	-5.9	6.5	3.0
Government Consumption	4.5	3.7	3.3	12.8	2.9	1.6
Gross Fixed Capital Investment	-14.0	-12.7	-7.1	32.2	-8.8	-2.4
Exports, Goods and Services	13.2	-0.2	1.4	2.4	10.1	1.3
Imports, Goods and Services	-7.4	-0.7	20.2	14.5	-0.7	0.2
Real GDP growth, at constant factor prices	13.6	-1.7	0.6	2.8	8.2	2.3
Agriculture	-0.3	-3.9	1.0	5.0	6.6	5.6
Industry	20.3	-3.1	-1.1	1.7	9.8	1.6
Services	0.6	2.1	4.7	5.1	4.8	3.8
Inflation (Consumer Price Index)	0.5	0.1	0.4	2.0	2.0	2.0
Current Account Balance (% of GDP)	-7.8	2.1	4.9	-6.9	-3.6	-3.6
Fiscal Balance (% of GDP)	-14.3	-1.7	6.2	-5.4	-2.6	-2.9
Debt (% of GDP)	66.1	59.6	48.4	51.6	49.2	49.0
Primary Balance (% of GDP)	-13.6	-0.7	7.6	-4.3	-1.0	-0.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.