REPUBLIC OF IRAQ

Table 1	2017
Population, million	38.7
GDP, current US$ billion	192.9
GDP per capita, current US$	4990
Lower middle-income poverty rate ($3.2)[a]	17.9
Upper middle-income poverty rate ($5.5)[a]	57.3
National poverty line[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 WDI value (2014)
(c) Most recent WDI value (2016)

Post-conflict recovery will remain the driving force of the non-oil economy in the coming years while overall economic growth will experience a modest recovery in 2018 before picking up noticeably in 2019 thanks to higher oil production. The durability of the non-oil rebound depends on the quality of the reconstruction process. Higher oil prices will allow space to finance reconstruction, if recurrent spending restraint is maintained. Poverty reached 22.5 percent in 2014 and two million of Iraqis remain displaced.

Recent developments

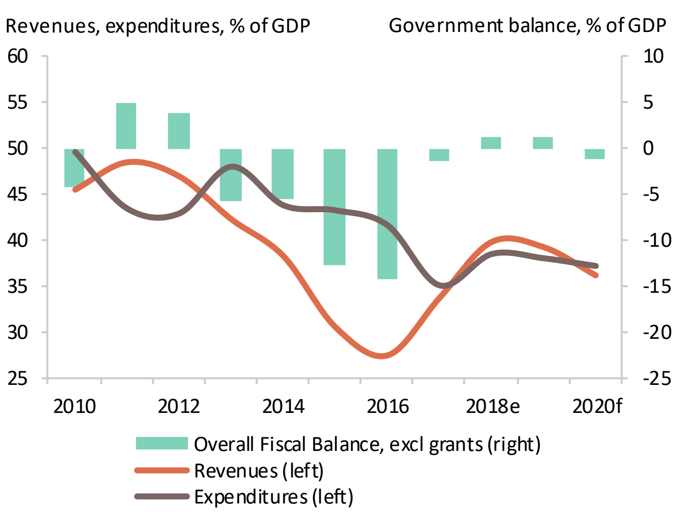
Iraq's economic condition is gradually improving following the deep economic strains of the last three years. The defeat of ISIS in end-2017 now leaves the challenging task of rebuilding the infrastructure and providing services and job opportunities to the population. This is overlaid on the need to address the legacy of past conflict and capacity/maintenance challenges, including in the south, which was the poorest region of the country pre-ISIS (Figure 2). The World Bank estimates the needs of post-ISIS reconstruction at US$88 billion. The government received US$30 billion worth of commitments in the form of loans and guarantees at the International Conference for the Reconstruction of Iraq, which took place in February 2018 in Kuwait. Reconstruction effort may be delayed due to political uncertainty following elections in May 2018.

The rebound of economic growth in 2017 was lower than expected. Iraq maintained oil production in line with OPEC+ agreement. In 2018, overall GDP growth is estimated to return positive at 1.9 percent thanks to a notable improvement in security conditions, higher oil prices, and expected higher public and private investment. Non-oil growth is estimated to show a strong rebound at 5.2 percent this year, underpinned by broad-based growth in agriculture, industry, and services. Inflation was low in 2017 at just 0.1 percent, but increased demand pushed inflation at 1.7 percent in July 2018. Higher domestic demand and increased credit to the economy (albeit from a low level) will likely further increase inflation to average 2.0 percent in 2018.

In 2018, the overall fiscal balance is estimated to post a surplus of 1.2 percent of GDP due mostly to higher oil prices. The plunge in world oil prices in 2015-16, increased security and humanitarian outlays and weak controls led to sharply lower oil revenues and rapidly widened the budget deficit. It narrowed in 2017 due to the pick-up in oil prices and measures adopted to contain current expenditures within the framework of IMF program and World Bank DPL. With oil prices expected to rise, Iraq's government will have ample fiscal space to finance reconstruction, provided that the process of fiscal consolidation continues. Relations with KRG are improving after the rupture related to the independence referendum in 2017; the federal government agreed to resume transfers and KRG total revenue is sufficient to pay salaries and pensions.

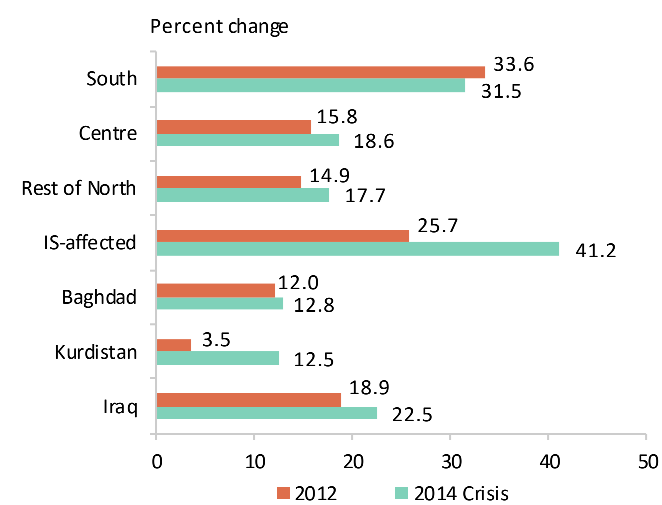
Growth and the budget surplus are estimated to further reduce the public debt-to-GDP ratio from 67.3 percent in 2016 to almost 55 percent. The government also adopted a framework to control the issuance of guarantees, which reached US$33 billion (or 20 percent of GDP) in end-2016 and these guarantees, most related to the electricity sector, are now believed to be under control. In previous years large fiscal deficits have been mainly financed through bilateral and multilateral support, occasional sovereign bond issuance, and indirect monetary financing by the CBI.

FIGURE 1 Republic of Iraq / Fiscal accounts



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

FIGURE 2 Republic of Iraq / Poverty head count rate



Sources: World Bank staff microsimulation estimates.

In 2018, higher oil prices will consolidate the current account surplus at 2.1 percent of GDP and the international reserves would increase to 8 months of imports, rebuilding buffers to external shocks.

The poverty rate increased from 18.9 percent in 2012 to an estimated 22.5 percent in 2014. Recent labor market statistics suggest further deterioration of welfare. The unemployment rate, which was falling before the crises, has climbed back to the 2012 level. Almost a quarter of the working-age population is underutilized, i.e., they are either unemployed or underemployed. Many households are prone to adverse shocks; more than a third of the households has experienced an adverse event since the beginning of the crises and one in six households has experienced some form of food insecurity in the month preceding the survey. The universal food ration (Public Distribution System, PDS) remains the most extensive social assistance program, but people have also turned to friends and relatives and humanitarian agencies for assistance. Internally displaced persons (IDPs) have been buffeted by multiple adverse shocks: they have lost much of their wealth through destruction of assets; they have seen family members die, get sick, or become injured at a higher rate; and they have faced loss of jobs or businesses. These shocks have occurred at a time when their capacity to cope with shocks has been further strained. Fewer IDP adults have a job, so each employed adult in an IDP household supports more than six other household members. Some IDPs have lost access to the PDS. The cumulative impact of these developments on IDPs is visible in several dimensions, including a higher risk of hunger.

Outlook

Overall GDP growth is projected to accelerate to 6.2 percent in 2019 sustained by higher oil production. In the following years, oil production is expected to increase only marginally, reducing overall growth to an average of 2.5 percent until 2023, due to the limited capacity of the GoI to mobilize investment in the oil sector. 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. But sustained non-oil recovery will depend on the transition from an immediate rebound as security improves to implementation of a high-quality investment pipeline with sound financing. Thus, reconstruction will remain an upside risk for growth (rather than in the baseline) given the continued uncertainty about how it will evolve.

Inflation is projected to remain mild at 2 percent in 2019. A more stable security situation will allow for private consumption and investment to pick up, increasing import needs for consumer and capital goods. Largely driven by expected oil prices and reconstruction spending, the fiscal position will remain positive in 2019 but will turn into small deficits by 2020. The current account deficit is expected to remain limited as long as Iraq's oil export prices continue to rise. Thanks to fiscal restraint, public debt is expected to continue to decline and to remain sustainable over the medium term.

Risks and challenges

Challenges remain due to political risk, dependency on oil revenue and the regional situation. Continued political uncertainty following the elections could delay economic recovery in the conflict-affected governorates. Absence of a clear commitment in the 2018 budget on wage bill management and subsidy reduction could weaken the fiscal consolidation and absorb the fiscal space otherwise available for reconstruction. The ISIS threat cannot be considered entirely vanquished unless stabilization is also achieved in Syria. Iraq's capacity to expand oil production and exports remains constrained, further exacerbating risks from a reduction of oil prices. The imposition of sanctions on Iran by the U.S. could curb non-oil trade as Iran is the largest non-oil trade partner of Iraq, and result in higher prices of key commodities.

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

	2015	2016	2017	2018 e	2019 f	2020 f
Real GDP growth, at constant market prices	2.5	13.0	-2.1	1.9	6.2	2.9
Private Consumption	20.0	11.1	0.1	1.5	6.3	4.7
Government Consumption	31.6	3.4	4.0	2.0	-1.8	-1.9
Gross Fixed Capital Investment	-2.1	-15.2	-12.6	18.5	3.5	-1.9
Exports, Goods and Services	28.2	13.2	-0.2	2.2	5.1	1.2
Imports, Goods and Services	11.2	-5.0	-0.9	19.9	3.1	-0.8
Real GDP growth, at constant factor prices	2.5	13.0	-2.1	1.9	6.2	2.9
Agriculture	-36.9	-0.3	-3.9	7.8	8.0	7.9
Industry	7.4	20.3	-3.9	0.4	6.9	1.8
Services	-2.4	-1.2	2.6	5.1	4.6	5.1
Inflation (Consumer Price Index)	1.4	0.4	0.1	2.0	2.0	2.0
Current Account Balance (% of GDP)	-6.5	-9.0	1.2	2.1	-1.2	-3.5
Fiscal Balance (% of GDP)	-12.8	-14.2	-1.4	1.2	1.1	-1.1
Debt (% of GDP)	56.7	67.3	61.8	54.7	52.7	51.7
Primary Balance (% of GDP)	-12.1	-13.5	-0.4	2.8	2.7	0.4

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