REPUBLIC OF IRAQ

Table 1	2017
Population, million	38.7
GDP, current US$ billion	197.7
GDP per capita, current US$	5115
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 coefficient[a]	29.5
Life expectancy at birth, years[c]	69.6

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 (2015)

Reconstruction is slowly replacing oil production as a driver of growth in the wake of the twin shocks of the ISIS war and oil revenue decline which caused a deep recession in the non-oil economy. OPEC+ production restraint resulted in negative growth in 2017, despite a strong recovery of the non-oil sector. Growth will accelerate in 2018, thanks to a more favorable security environment, but sustaining growth during reconstruction would depend on structural reforms. Poverty reached 22.5 % in 2014 and 10 % of Iraqis remain displaced.

Recent developments

Following the complete liberation from ISIS in December 2017, the Government of Iraq (GoI) is designing a comprehensive reconstruction package linking immediate stabilization to a long-term vision. The recent Iraq Damage and Needs Assessment estimates the reconstruction and recovery needs at US$88 billion. In February 2018, Kuwait hosted a reconstruction and recovery conference which identified pledges amounting to US$30 billion. Supported by the World Bank, the GoI is considering a financing facility to mobilize significant resources from the private sector.

Strong oil production has sustained economic growth in 2015-16, but overall GDP growth is estimated to have turned negative at 0.8 percent in 2017, due to a 3.5 percent reduction in oil production to fulfill OPEC+ agreement and further reduction from areas that returned under the GoI's control. Due to the ISIS war and fiscal consolidation to adjust to lower oil prices, non-oil growth has been negative in 2014-16. At the end of 2017, the cumulative real losses due to the conflict stood at 72 percent of the 2013 GDP and 142 percent of the 2013 non-oil GDP. Improved security situation and initial reconstruction effort have sustained non-oil growth at 4.4 percent in 2017. The pegged exchange rate and subdued demand have kept inflation low at around 0.1 percent in 2017.

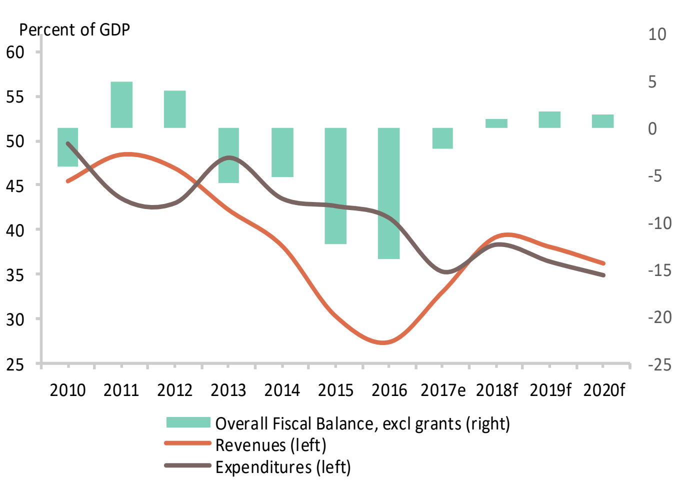
In 2017, the GoI's overall fiscal deficit is estimated to have narrowed to 2.2 percent of GDP due to higher oil prices and measures to contain current expenditures. In 2015-16, low oil prices, higher security and humanitarian outlays and weak controls rapidly deteriorated the fiscal balance, with the adjustment falling mainly on non-oil investment expenditure. KRG expenditure control measures decreased its fiscal deficit by 80 percent from 2014 to 2016, while spending pressures remained high to assist IDPs and refugees from Syria. In October 2017, following a referendum on KRG independence, which was considered illegal by GoI, federal forces regained control of disputed areas controlled by KRG, including oil-rich areas. As a result, KRG lost half of its oil revenue.

The GoI's reform program is supported by a large financing package from bilaterals and multilaterals which avoided a much deeper economic and social crisis that could have been triggered by the large fiscal shock. GoI also tapped the sovereign bond market in August 2017, first independent issuance since 2006, with a US$1 billion bond.

A better fiscal outturn has stabilized public debt in 2017 after large borrowing and issuance of debt guarantees increased the public debt-to-GDP ratio from 32 percent in 2014 to 64.4 percent in 2016. In 2017, the government has made progress to reduce a large stock of guarantees and improve their management.

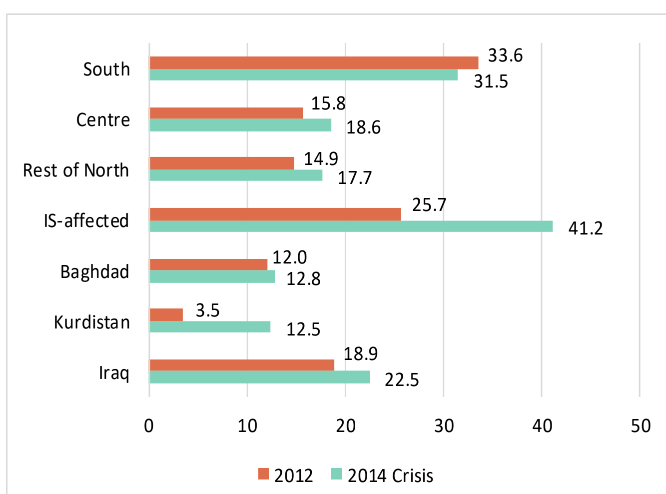
In 2017, the current account is estimated to have returned to a surplus of 0.7 percent of GDP. The strong reserve accumulation in 2010–2013 smoothed the impact

FIGURE 1 Republic of Iraq / Fiscal Accounts (percent of GDP)



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

FIGURE 2 Republic of Iraq / Poverty Head Count Rate (% change)



Sources: World Bank staff microsimulation estimates.

of the fiscal policy adjustment required to maintain external sustainability. Thanks to higher oil prices, international reserves started increasing in 2017, 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 the poverty situation. Labor force participation rate of the youth (ages 15-24) has dropped markedly since the onset of the crisis, from 32.5 percent to 27.4 percent. Unemployment increased particularly for individuals from the poorest households, youth, and those in the prime working age (ages 25-49). Unemployment rate is about twice as high in the governorates most affected by ISIS-related violence and displacement compared to the rest of the country (21.1 percent versus 11.2 percent), especially among the young and the uneducated. Among the three million IDPs, unemployment is 55 percent higher than that of host communities. The Public Distribution System (PDS) provides the only safety net for most poor, and is currently stretched to its limits. Almost all IDPs and residents of ISIS-affected governorates have experienced some form of negative shock and many lost access to food rations through the PDS.

Outlook

Iraq's growth outlook is expected to improve thanks to a more favorable security environment, and the gradual pick up of investment for reconstruction. Overall GDP growth is projected to return positive in 2018 despite the extension of OPEC+ agreement till end-2018 and further increase in 2019 as the agreement expires. From 2020, oil production is expected to increase only marginally, reducing overall growth, as GoI cannot afford to significantly increase investments in the oil sector. Non-oil economic growth is expected to benefit from increased investment for reconstruction, but absent structural reforms, higher non-oil growth would be short-lived. In 2018, a step up of government investment, with a large import component, is expected to stimulate growth over the projection period in agriculture, manufacturing, construction, transport and supporting services. Private sector activity is subsequently projected to pick up, as public investments decreases. Projected fiscal surpluses should be seen in the context of continued oil price volatility and creating fiscal space for financing for reconstruction. The current account deficit is expected to remain limited thanks to higher oil prices. Thanks to fiscal consolidation, public debt is expected to remain sustainable in the medium term.

Risks and challenges

Downside risks include oil price volatility, failure to improve the security environment and failure to implement the expected large fiscal adjustment to contain current expenditure and prioritize investment for reconstruction. In the short-term, escalating political tensions and the probability of terrorist attacks ahead of the elections in mid-May 2018 add further risk to the outlook. The external debt remains highly vulnerable to a reduction in oil prices or a real exchange rate depreciation. Risks are also related to the capacity of the GoI to provide public services and start reconstruction. Effective delivery of basic services and creation of income-generating opportunities, particularly for youths in recently-liberated areas, is also crucial to ameliorate the underlying fragility and prevent another cycle of violence and conflict in the country.

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

	2015	2016	2017 e	2018 f	2019 f	2020 f
Real GDP growth, at constant market prices	4.8	11.0	-0.8	2.5	4.1	1.9
Private Consumption	20.0	13.0	2.1	1.1	3.3	3.5
Government Consumption	29.1	6.3	-1.2	10.4	-3.6	-4.0
Gross Fixed Capital Investment	-2.1	-30.2	-7.8	5.9	-1.7	-2.3
Exports, Goods and Services	28.3	13.1	-0.1	2.2	5.0	1.2
Imports, Goods and Services	11.2	-5.3	0.8	11.2	-1.7	-1.7
Real GDP growth, at constant factor prices	4.8	11.0	-0.8	2.5	4.1	1.9
Agriculture	-49.3	59.6	-3.0	7.0	7.0	7.0
Industry	9.3	18.6	-3.3	2.1	4.2	0.9
Services	2.4	-7.2	5.9	3.0	3.5	3.7
Inflation (Consumer Price Index)	1.4	0.4	0.1	2.0	2.0	2.0
Current Account Balance (% of GDP)	-6.5	-8.6	0.7	-0.2	-0.1	-1.3
Fiscal Balance (% of GDP)	-12.3	-13.9	-2.2	0.9	1.7	1.4
Debt (% of GDP)	55.1	64.3	57.8	55.2	53.5	50.7
Primary Balance (% of GDP)	-11.7	-13.2	-1.0	2.5	3.0	2.6

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