



# IRAQ

July 2025

## 2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND INFORMATIONAL ANNEX

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Iraq, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on May 13, 2025, with the officials of Iraq on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 11, 2025.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

### Selected Issues

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**International Monetary Fund**  
**Washington, D.C.**



## IMF Executive Board Concludes 2025 Article IV Consultation with Iraq

### FOR IMMEDIATE RELEASE

**Washington, DC – July 9, 2025:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Iraq and considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis<sup>2</sup>.

- Iraq has managed to uphold domestic stability despite regional turmoil and global uncertainty. At the same time, the non-oil economy slowed down in 2024 following a very strong growth in 2023. Inflation has remained subdued amid weaker demand. Financing constraints and lower oil revenues are expected to constrain fiscal spending, taking an additional toll on economic activity.
- Against a baseline of low oil prices, fiscal deficits and external accounts are projected to deteriorate further over the medium term unless significant reforms are undertaken to increase non-oil revenues, control the public wage bill, and boost non-oil growth potential through an ambitious structural reform agenda.

### Executive Board Assessment

Iraq's economy is facing considerable headwinds. Iraq's non-oil sector growth slowed from 13.8 percent in 2023 to an estimated 2.5 percent in 2024, impacted by reduced public investment, a weaker trade balance, and financing constraints that led to the accumulation of arrears. Going forward, financing constraints, subdued investment and constrained growth potential are expected to weigh on growth and intensify preexisting fragilities.

The large fiscal expansion in recent years has increased Iraq's vulnerabilities, which are further exacerbated by the recent decline in oil prices. As spending expanded and non-oil revenues stagnated, the oil price required to balance the budget increased to around \$84 in 2024, up from \$54 in 2020. The financing constraints that emerged in 2024 are expected to worsen this year in light of the oil price drop. Furthermore, risks of sovereign debt stress have risen, calling for urgent policy action.

A sizable fiscal adjustment is needed to mitigate macro-fiscal risks, contain liquidity risks and stabilize debt in the medium term. In the very short term, the authorities should review current and capital spending plans for 2025 and limit or postpone all non-essential expenditure.

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

<sup>2</sup> The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

There is also scope to boost non-oil revenues through increases in excises and custom duties. Over the medium term, stabilizing debt would require an additional fiscal consolidation of 1–1.5 percent of non-oil GDP per year.

On the revenue side, besides strengthening tax administration, there is scope to increase customs duties and excise taxes, reform personal income tax including by limiting exemptions, and introducing a general sales tax in the medium term. On the spending side, comprehensive public wage bill reforms through limiting mandatory hiring and adopting an attrition rule would yield significant savings. Recent efforts to better target the public distribution system are welcome, but there is scope to further improve targeting and eventually shift to cash-based social safety nets. Finally, it is urgent to reform the public pension system by raising the retirement age and reducing both the accrual and replacement rates.

Implementing the proposed reforms could generate fiscal space for increased non-oil capital spending. Crucial non-oil capital expenditures should be protected given the need to expand investment in trade and transportation infrastructure to promote economic diversification; and modernize the electricity sector and develop natural gas resources, which are crucial for enhancing energy security and decreasing reliance on gas imports. Additionally, improving procurement, public financial management, and addressing corruption would boost the effectiveness of any new public investments.

Further efforts are needed to absorb the remaining excess liquidity and improve monetary policy transmission. This could be achieved by increasing the issuance of CB-bills, focusing on short-term instruments piloted by the policy rate, adjusting bid size limits, and refining liquidity forecasting tools.

Efforts to strengthen the domestic financial system should continue and accelerate. The CBI should be commended for the successful transition to the new trade finance system now fully managed by commercial banks through their CBRs, contributing to a reduction in the spread between the official and parallel market exchange rates.

While initial reforms of state-owned banks are promising, a comprehensive restructuring plan addressing nonperforming loans and capital shortfalls is necessary, along with improvements in corporate governance and digital infrastructure. Furthermore, the CBI has started to explore reform options to strengthen the private banking sector. Priority areas are the ownership structure, business model sustainability, regulatory requirements, and elements to support mutual confidence between banks and their customers, such as a credit bureau and stronger deposit guarantee scheme. Alongside these efforts, addressing weaknesses in anti-money laundering and counter-terrorism financing remains paramount.

A comprehensive structural reform agenda is vital to unlock growth potential. Estimates suggest that reforms in the labor market, business regulation, financial sector, and governance could double non-oil potential GDP growth in the medium term. Key priorities include enhancing labor force participation, especially among women, by improving education and removing legal barriers, as well as reforming public sector hiring to boost productivity. Improving vocational training programs can align skills with market needs, while simplifying regulations and reducing bureaucratic obstacles will encourage formal economy participation and support private sector development.

Electricity sector reform is also critical given how chronic power shortages and inefficiencies weigh on productivity and economic growth. The authorities are encouraged to speed up their efforts to improve billing and collection. Once collection substantially improves, achieving cost

recovery will also require electricity tariff increases, with carefully calibrated subsidies targeted to low-income users.

These efforts would be supported by further combatting pervasive corruption and addressing governance weaknesses. While progress has been made in implementing the national anti-corruption strategy and improving corruption perception, significant challenges remain. Strengthening accountability in state-owned and private enterprises, complying strictly with EITI standards, enacting a Law on Transparency and Access to Information, aligning legal frameworks with international best practices, and enhancing the independence of NAZAHA are essential measures for effective enforcement and protecting economic rights. It would also enhance the effectiveness of core state functions that are critical to economic activity, such as fiscal governance and financial sector oversight.

Data deficiencies persist. Major data deficiencies in Iraq can significantly undermine the robustness of IMF surveillance by leading to incomplete or inaccurate assessments of the economic situation and possibly jeopardizing effective policy recommendations. Building on the numerous CD Iraq has received, it is essential to focus on the most pressing data gaps and incorporate pilot initiatives into disseminated data in a timely manner.

### Iraq: Selected Economic Indicators, 2024–26

Population: 44.4 million (2024 est.)

Per capita GDP: US\$ 6,183 (2024)

Quota: SDR 1,663.8 million

Poverty rate: 23 percent (2014)

Main products and exports: Crude oil

Key export markets: United States, India, China, South Korea

	2024	2025	2026
	Est.	Proj.	
<b>Output</b>			
Real GDP (% change)	-2.3	3.1	1.4
Non-oil real GDP (% change)	2.5	1.0	1.5
<b>Prices</b>			
Inflation, end of period (%)	2.7	2.9	2.9
<b>Central Government Finances</b>			
Revenues and grants (% of GDP)	39.3	36.9	34.6
Oil revenue (% of GDP)	36.0	33.3	31.0
Expenditure and net lending (% of GDP)	43.5	44.4	43.8
Wages and pensions (% of GDP)	22.0	24.0	24.5
Fiscal balance (% of GDP)	-4.2	-7.5	-9.2
Non-oil primary balance (% of non-oil GDP)	-59.3	-54.2	-51.8
Total government debt (% of GDP)	47.2	47.2	62.3
<b>Money and Credit</b>			
Broad money (% change)	-4.3	9.6	4.9
Credit to the private sector (% change)	14.3	5.4	8.4
<b>Balance of Payments</b>			
Current account (% of GDP)	2.0	0.2	-1.9
Foreign direct investment (% of GDP)	0.0	0.0	0.0
Gross reserves (US\$ billions)	100.3	91.0	79.2
In months of imports	11.1	11.1	9.6
Total external debt (% of GDP)	20.6	20.8	21.0
<b>Exchange Rate</b>			
Exchange rate (dinar per US\$; period average)	1300	1300	1300
REER (% change, end of period) <sup>1/</sup>	...	...	...
<b>Oil and Gas Sector</b>			
Crude oil production (millions of barrels/day)	3.9	4.1	4.1
Crude oil exports (millions of barrels/day)	3.4	3.5	3.5
Average crude oil export price (US\$/barrel)	80.6	65.9	62.0
Crude oil exports (US\$ billions)	99.2	84.2	79.2

Sources: Iraqi authorities; and Fund staff estimates.

1/ Positive means appreciation.



## IRAQ

### STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

June 11, 2025

#### KEY ISSUES

**Context.** Iraq has managed to uphold domestic stability despite regional turmoil. However, rapid expansion of spending and emerging financing constraints led to arrears accumulation in 2024. These challenges are now compounded by declining oil prices in a highly uncertain global environment, further aggravating fiscal and external sustainability risks. At the same time, the country is struggling with lingering structural economic challenges, including high unemployment, excessive state footprint, a weak banking sector, corruption, and an inefficient electricity sector.

**Outlook and risks.** Non-oil GDP growth is projected to further moderate this year and remain lackluster in the medium term absent a more decisive push for structural reforms. The large deterioration of the fiscal position exposes the country to considerable risks of sovereign stress over the medium term, amid the projected decline in foreign exchange reserves.

**Fiscal policy.** In the very short term, the authorities should limit or postpone all nonessential expenditure. Moreover, non-oil revenues can be boosted by adjusting customs duties and increasing excise taxes. Over the medium term, a sizable fiscal consolidation is needed to mitigate macro-fiscal risks and ensure debt sustainability while ensuring to protect the vulnerable. Savings can be attained by containing the outsized public wage bill, mobilizing non-oil revenues, and reforming the public pension system. This should be supported by improved public financial management and an updated debt management strategy. Finally, the authorities should develop a fiscal framework to limit spending during commodity price booms and encourage saving of oil windfalls to build buffers.

**Monetary and financial sector policies.** The CBI should step up efforts to mop up excess liquidity and improve monetary policy transmission. Recent progress on state-owned banks reforms is welcome, but a clearer implementation strategy is needed. Moreover, broader reforms are key to improve governance, digital infrastructure, and bank operations. Addressing AML/CFT deficiencies remains a priority.

**Structural reforms.** Promoting private sector growth and economic diversification is essential for long-term stability and sustainable job creation. A comprehensive structural reform agenda encompassing governance and anti-corruption reforms, credit markets, labor market and business regulations could double non-oil growth potential.

Approved By  
**Taline Koranchelian (MCD)**  
**Jacques Miniane (SPR)**

Discussions were held in Amman during May 4-12, 2025 and Baghdad on May 13, 2025. The team comprised of Jean-Guillaume Poulain (head), Mohamed Jaber (Resident Representative), Filippo Gori, Salem Nechi, and Ahmed Al Zadjali (all MCD), Sergejs Saksonovs (FAD), Khalid Elfayoumi (SPR), Camilo Enciso (LEG), Dina Zahran and Sarah Elawi (local economists). Mr. Fouad Al-Kohlany (OED) participated in all meetings. Dalia Kadissi (MCD) provided research assistance and Tariq Bani Hani and Cecilia Pineda (MCD) assisted from headquarters. The mission met with the Prime Minister, the Minister of Finance, the Governor of the Central Bank of Iraq, senior officials from Ministries of Finance, Labor, Oil, Trade, Electricity, Planning, and the CBI, members of the High Juridical Council, the Federal Supreme Court, the Federal Public Service Council, the Federal Commission on Public Integrity, the National Integrity Commission, the Board of Supreme Audit, as well as representatives from banks.

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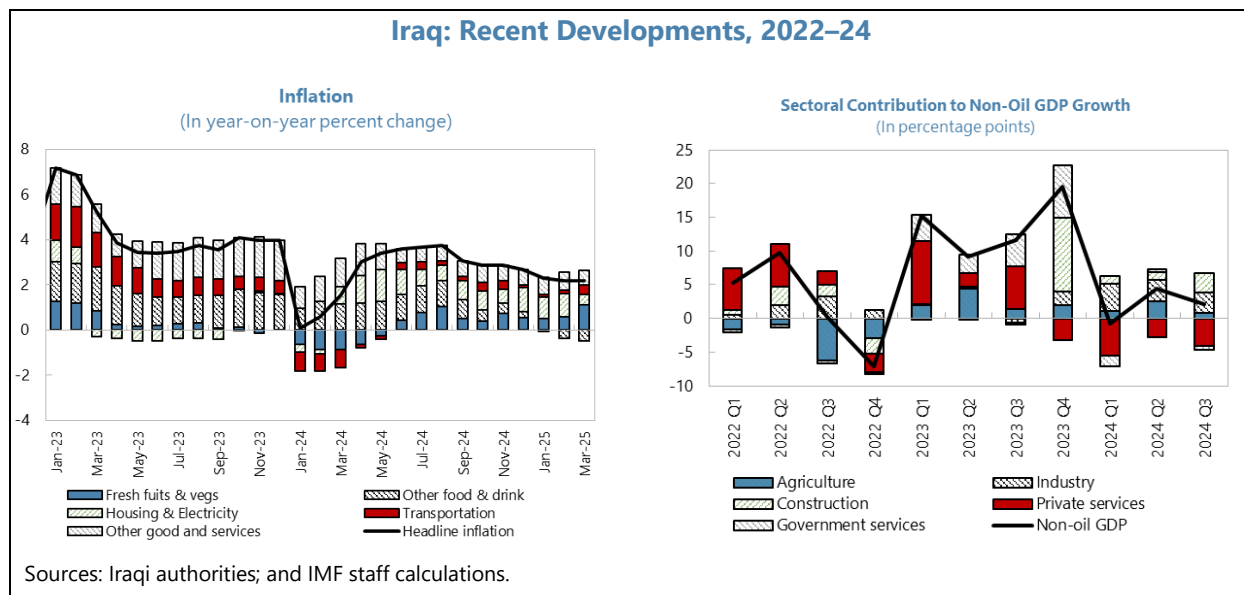
## CONTEXT

1. **Iraq has managed to uphold domestic stability despite regional turmoil and global uncertainty, but the economy is facing considerable headwinds.** Following a very strong growth in 2023, Iraq's non-oil GDP is expected to have considerably moderated in 2024, amid financing constraints that resulted in domestic arrears accumulation. In addition, the drop in oil prices in recent months, by further constraining fiscal spending, will take an additional toll on economic activity.
2. **The structural reform momentum has been generally slow.** The economic recovery since the pandemic has been primarily demand driven, with fiscal policy playing a key role. Challenges remain significant, encompassing dependence on oil, the large state footprint in the economy, lackluster private sector credit growth, an inefficient electricity sector, and significant corruption and governance weaknesses.
3. **The recent decline in oil prices is exacerbating existing vulnerabilities and macro-fiscal risks.** Subdued oil revenues, rigid fiscal spending, and constrained growth potential are expected to worsen the overall fiscal balance, intensifying financing challenges, increasing risks of fiscal distress, and putting pressure on non-oil capital expenditures.

## RECENT DEVELOPMENTS

4. **Non-oil GDP grew at a much slower pace in 2024, amid severe financing constraints.** Following a stronger-than-expected expansion in 2023 (13.8 percent), real non-oil GDP is estimated to have moderated considerably to 2.5 percent in 2024, reflecting possibly the impact of government spending arrears. The slowdown has been driven by a widespread contraction in services, while the agriculture, manufacturing, and construction sectors showed some resilience, supported by the continuous recovery from previous droughts, an expansion in oil refining capacity, and strong household credit growth.
5. **Oil production declined in 2024 due to compensation for overproduction in 2023.** Iraq's oil production fell by 6.2 percent in 2024, reaching 3.86 million barrels per day (mbpd). Meanwhile, crude oil exports declined slightly to 3.4 mbpd. Nevertheless, refining capacity expanded to 1.25 mbpd as new refineries—including Karbala and Baiji—started production, contributing to a 40 percent reduction in fuel imports in 2024, as the country substituted imported with domestically produced refined oil products.
6. **Inflation remains subdued, driven by weaker demand and the Central Bank of Iraq (CBI) liquidity absorption operations.** Following the temporary suspension of liquidity absorption operations by the CBI in June, inflation rebounded to 3.7 percent in July. However, the resumption of issuances of CB bills in November and weaker domestic demand helped ease price pressures in the fourth quarter of 2024, bringing inflation down to 2.7 percent by year-end. Inflation has since

continued its downward trend, reaching 2.2 percent in March, on the account of price drops in seasonal components such as food and beverages.



**7. The fiscal deficit deteriorated sharply in 2024 and was financed largely by arrears accumulation.** The fiscal deficit in 2024 is estimated at 4.2 percent of GDP, up from 1.1 percent in 2023. The increase is largely due to higher spending on wages and pensions.<sup>1</sup> Spending on goods and services also increased reflecting higher energy costs. In line with past staff advice, improvements in the targeting of the Public Distribution System delivered around 0.5 percent of GDP in savings with the remainder achieved from lower transfers to special ministry programs and SOEs. Both oil and non-oil revenues declined compared to 2023, the former due to lower oil production (¶15), while the latter due to lower CIT receipts, which were partially offset by stronger customs revenues. Liquidity constraints have led to the reemergence of significant domestic arrears for close to IDQ 14 trillion (3.8 percent of GDP), notably on purchases of fuel and electricity as well as capital expenditure.<sup>2</sup>

<sup>1</sup> Of the 2.9 percent of GDP increase in wages and pensions compared to 2023, 2 percent of GDP are due to increase in wages and pensions paid to the Kurdistan Regional Government pursuant to a Supreme Court decision.

<sup>2</sup> The significant accumulation of deposits in the text table reflects the increase in balances of a segregated account where proceeds for oil sales to China are deposited. These funds can only be used to finance specially designated capital spending projects and are not available for financing the general budget deficit.

Iraq: 2023-2024 Central Government Fiscal Accounts								
	(trillion IQD)				(percent GDP)			
	2023	2024	Difference	2024 A4 Forecast	2023	2024	Difference	2024 A4 Forecast
<b>Revenue</b>	<b>142.6</b>	<b>140.4</b>	<b>-2.3</b>	<b>138.5</b>	<b>40.0</b>	<b>39.3</b>	<b>-0.7</b>	<b>40.1</b>
Oil	129.8	128.7	-1.1	126.8	36.4	36.0	-0.4	36.7
Non-oil	12.9	11.7	-1.2	11.7	3.6	3.3	-0.3	3.4
<b>Expenditure</b>	<b>146.7</b>	<b>155.4</b>	<b>8.7</b>	<b>164.8</b>	<b>41.2</b>	<b>43.5</b>	<b>2.4</b>	<b>47.7</b>
Current	120.0	126.6	6.6	137.5	33.7	35.5	1.8	39.8
<i>of which</i>								
Wages	53.2	60.8	7.7	62.8	14.9	17.0	2.1	18.2
Pensions	15.1	17.8	2.7	18.8	4.2	5.0	0.8	5.4
Transfers	34.6	27.5	-7.1	37.1	9.7	7.7	-2.0	10.7
Goods and Services	14.1	17.9	3.8	14.9	4.0	5.0	1.1	4.3
Capital	26.7	28.8	2.0	27.3	7.5	8.1	0.6	7.9
<i>of which</i> Non-oil	14.5	16.4	1.8	15.1	4.1	4.6	0.5	4.4
<b>Overall Balance</b>	<b>-4.1</b>	<b>-15.0</b>	<b>-10.9</b>	<b>-26.3</b>	<b>-1.1</b>	<b>-4.2</b>	<b>-3.1</b>	<b>-7.6</b>
<b>Discrepancy</b>	2.8	0.3	-2.5	0.0	0.8	0.1	-0.7	0.0
<b>Financing</b>	<b>6.8</b>	<b>15.3</b>	<b>8.5</b>	<b>26.3</b>	<b>1.9</b>	<b>4.3</b>	<b>2.4</b>	<b>7.6</b>
External (net)	-0.3	-1.5	-1.3	-2.7	-0.1	-0.4	-0.4	-0.8
Domestic (net)	7.1	16.9	9.7	28.9	2.0	4.7	2.7	8.4
CBI (net)	-2.5	-0.6	1.8	14.9	-0.7	-0.2	0.5	4.3
Banks (net)	4.9	11.8	6.9	6.5	1.4	3.3	1.9	1.9
Arrears (net)	-4.5	13.6	18.1	0.0	-1.3	3.8	5.1	0.0
Deposits (net, + = decrease)	9.2	-7.8	-17.0	7.6	2.6	-2.2	-4.8	2.2
Memo: Nominal GDP	356.4	357.0		345.7				
Source: National authorities and Staff estimates								

**8. The current account surplus shrunk in 2024 amid historically high imports.** The current account surplus decreased to 2 percent of GDP in 2024, down from 7.5 percent in 2023. With exports revenues nearly unchanged, this decline was driven by a near US\$20 billion increase in goods imports, reflecting an upsurge in domestic construction activities as well as improvements in trade finance and in the imports recording system. The current account surplus, was more than offset by over US\$18 billion of net financial outflows, driven primarily by cost recovery payments to international oil companies (near US\$ 6 billion and equivalent to 7 percent of oil production), a US\$7 billion decline in net asset repatriation by residents, and US\$6 billion of errors and omissions. After factoring in US\$2 billion of positive valuation gains, CBI reserves stood at around US\$ 100 billion at the end of 2024, around US\$ 11 billion less than in December 2023, covering over 11 months of goods imports. The external sector assessment indicates that the external position is broadly in line with fundamentals and desirable policies; however, considerations for intergenerational equity would call for a significantly higher current account surplus (Annex II).

## OUTLOOK AND RISKS

**9. Non-oil growth is projected to remain subdued in 2025 and over the medium term, amid a challenging global environment, a mild consolidation, and perduring financing constraints.** Non-oil GDP growth is forecasted at 1 percent in 2025, as the impact of falling oil prices and financing constraints weigh on government spending and consumer sentiment. Medium term growth is projected to slowly converge toward conservative estimates of potential, as a mild fiscal adjustment - mostly relying on public investment curbs - and lack of progress in structural reforms weigh on the outlook. With the gradual unwinding of voluntary production cuts started in April, oil GDP is projected to expand by 5 percent in 2025. A gradual increase in oil GDP growth is

expected from 2026 onward, as production cuts unwind and Iraq's oil capacity expands, supporting a recovery in output and contributing to overall economic growth.

**10. Amid a sizable decline in oil export revenues, the current account balance is projected to worsen until 2026 and gradually improve thereafter, with pressure on reserves continuing.**

The projected 22 percent decline in oil prices in 2025 will likely put pressure on the trade balance, although partially offset by a projected moderation in the historically high import volumes of 2023–24. Increasing oil export revenues after 2026 are expected to contribute positively to the medium-term trade and current account balance (but less than was expected before the oil price decline), as the country's oil export capacity expands. However, the overall CA is expected to remain weak on account of a growing imports bill and a chronically large services deficit. With negative CA flows and net financial outflows, the decline in CBI reserves is expected to continue, bringing reserves down to \$54 billion by 2030 (around 5 months of imports).

**11. The balance of risks is tilted to the downside (Annex III).** Iraq remains highly exposed to the oil price volatility and to OPEC+ production decisions. A larger fall in oil prices or new OPEC+ production cuts could further worsen fiscal dynamics and accelerate the erosion of external buffers (Box 1). A resurgence of regional conflicts could expose Iraq to new uncertainties or renewed security concerns. The inability to replace the electricity imported from Iran may increase power shortages, adversely impacting productivity and non-oil growth. Iraq's large exposure to climate change renders the country susceptible to natural disasters and aridification, with potentially large socio-economic consequences.

### Authorities' Views

**12. The authorities acknowledge that the outlook remains challenging in the short term, particularly given heightened risks of a further decline in oil prices, which could weigh on fiscal and external balances.** However, they remain cautiously optimistic about the medium-term prospects, underscoring ongoing efforts to expand oil production capacity, which would help enable a gradual resumption of capital expenditures. In parallel, they view the strengthening of the financial sector—through the restructuring of state-owned banks and reforms aimed at modernizing private banks—as likely to support higher credit provision to the private sector and economic diversification.

## POLICY DISCUSSIONS

*Iraq's current policies expose the country to significant macro-fiscal risks and exacerbate its vulnerability to oil price declines. Timely fiscal adjustment is critical to preserve macroeconomic stability and ensure debt sustainability in the medium run. This should include reducing the wage bill and boosting non-oil tax revenues, while safeguarding investment and social spending. In parallel, structural reforms that encourage private sector development, including labor market enhancements, the overhaul of state-owned banks, and sustained actions to tackle corruption, are needed to boost potential growth and alleviate pressure on the state to absorb new entrants in the labor force, thereby fostering growth potential and supporting fiscal sustainability.*

## A. Fiscal Policy

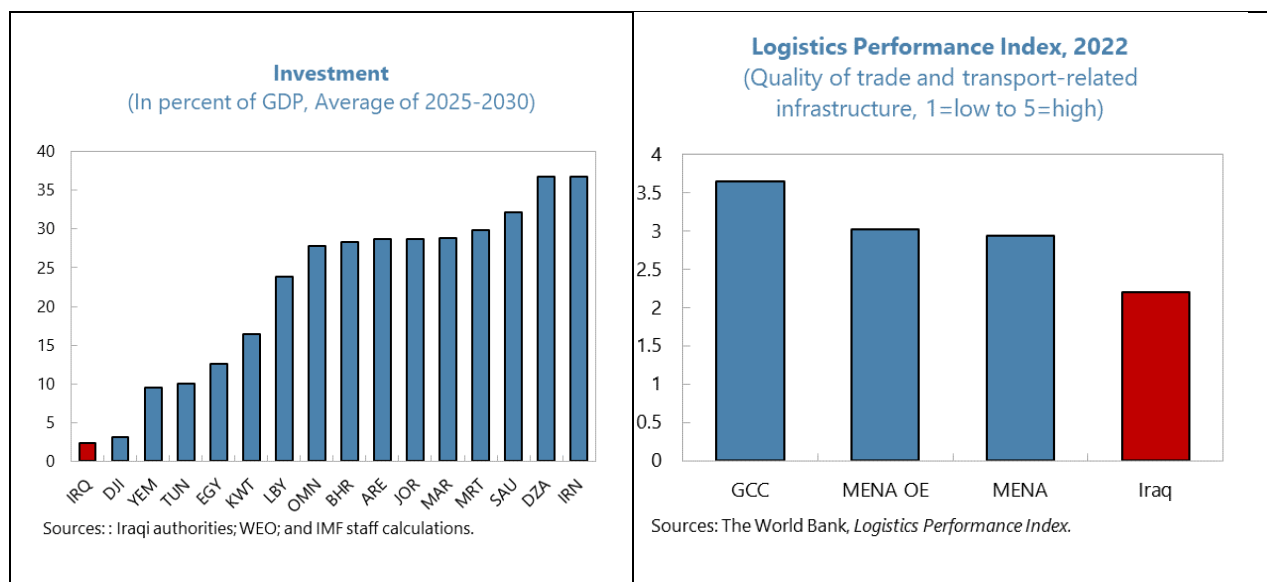
**13. Fiscal deficits are projected to remain elevated over the medium-term due to rigid current spending and declining oil revenues, while financing pressures create additional challenges.** Oil revenues are expected to decline until 2026 on account of falling export prices, before a small recovery, reflecting higher export volumes. The share of salaries and pensions in total expenditure is projected to increase to 54 percent by 2030. Staff assumes full effects of hirings in late 2024 to materialize in 2025 and continued hiring in the medical sector and public sector salary growth (in line with CPI) over the medium term. Most other expenditures are projected to stay constant in real terms, although pension spending is expected to increase as a share of GDP over the medium term, due to the expected need for public support of the State Pension Fund (¶19). At the same time, the non-oil tax base remains extremely low compared to regional peers<sup>3</sup> and oil revenues will continue to hover at more than 90 percent of government revenue through 2030.

Iraq: Medium-Term Central Government Fiscal Accounts							
(percent GDP)							
	2024	2025	2026	2027	2028	2029	2030
<b>Revenue</b>	<b>39.3</b>	<b>36.9</b>	<b>34.6</b>	<b>35.0</b>	<b>35.2</b>	<b>35.1</b>	<b>34.8</b>
Oil	36.0	33.3	31.0	31.5	31.7	31.7	31.5
Non-oil 1/	3.3	3.6	3.7	3.5	3.5	3.4	3.3
<b>Expenditure</b>	<b>43.5</b>	<b>44.4</b>	<b>43.8</b>	<b>43.4</b>	<b>43.0</b>	<b>42.6</b>	<b>42.1</b>
Current	35.5	38.6	38.8	38.4	37.8	37.2	36.6
Salary	17.0	18.6	19.0	18.6	18.2	17.9	17.5
Transfers	7.7	8.3	8.3	8.0	7.8	7.6	7.5
Pensions	5.0	5.4	5.5	5.8	5.7	5.5	5.4
Goods and services	5.0	4.7	4.5	4.4	4.3	4.2	4.1
Interest	0.7	1.6	1.6	1.7	1.8	2.0	2.1
Capital	8.1	5.8	5.0	4.9	5.2	5.4	5.6
Non-oil	4.6	2.0	1.2	1.1	1.4	1.7	1.9
Oil	3.5	3.8	3.8	3.8	3.8	3.7	3.7
<b>Overall Balance</b>	<b>-4.2</b>	<b>-7.5</b>	<b>-9.2</b>	<b>-8.3</b>	<b>-7.8</b>	<b>-7.5</b>	<b>-7.3</b>
<b>Financing</b>	<b>4.3</b>	<b>7.5</b>	<b>9.2</b>	<b>8.3</b>	<b>7.8</b>	<b>7.5</b>	<b>7.3</b>
Net domestic	6.1	7.6	9.0	8.7	7.6	7.5	7.4
of which CBI	-0.2	0.9	7.4	7.2	5.8	5.8	5.7
Net external	-1.8	-0.1	0.2	-0.4	0.2	-0.1	-0.1
Memo: Non-oil primary							
balance 1/	-59.3	-54.2	-51.8	-51.4	-50.8	-50.1	-49.3
Government debt	47.2	54.3	62.3	66.9	71.1	74.5	77.6
1/ Projections excludes non-oil revenue transfers from KRG							
2/ Percent of non-oil GDP							

**14. Absent concrete plans to rein in the public wage bill or mobilize non-oil revenues, the projected moderate tightening in the fiscal stance will not be enough to contain the increase in debt.** Although non-oil primary balance as a share of non-oil GDP is projected to improve by around 5 percentage points over 2025-30 reflecting subdued spending growth (Table 4), government debt is expected to increase by around 23 percentage points of GDP over the medium term, and gross financing needs would remain elevated. As a result, the DSA points to high risks of sovereign distress (Annex IV). In addition, given current spending rigidities, expenditure restraint will likely have to rely on lower capital spending, with an adverse impact on growth.<sup>4</sup>

<sup>3</sup> See [2024 Article IV Selected Issues paper](#) which estimated a gap between potential and actual tax revenues in Iraq of around 15 percent of non-oil GDP.

<sup>4</sup> Capital spending disbursements in the first three months of 2025 have been used to cover arrears accumulated in 2024 with no new capital spending projects approved.



**15. The decline in oil prices in 2025 makes the policy response even more urgent.** In this context, staff recommended cutting or postponing all non-essential expenditure for 2025, and faster progress on non-oil revenue mobilization (¶16). Monetary financing of the deficit should be avoided as it could fuel inflation, drain FX reserves, and weaken the CBI's balance sheet (¶25) and should rather be seen as a last resort measure (Box 1). Instead, the authorities should prioritize financing from other domestic or external sources.

**16. Furthermore, staff recommended a fiscal adjustment aimed at stabilizing public debt to GDP while protecting the vulnerable and containing the scale back in capital spending.** Staff analysis suggests that this would require additional measures of around 5.8 percent of non-oil GDP during 2026-30 (between 1 and 1.5 percent of non-oil GDP per year). Further reductions in the deficit would be needed to eliminate monetary financing and rebuild fiscal buffers to guard against considerable downside risks. Social spending should be protected in any fiscal adjustment, but the authorities should continue their efforts to improve targeting of the public distribution system and explore ways to gradually shift the social safety net towards greater use of cash benefits. Specific policy measures<sup>5</sup> include:

- **Revenue mobilization.** Staff suggested revenue measures yielding at least 2.7 percent of GDP (around half of the necessary adjustment). Priority measures to increase revenue in the near-term include: (i) modifying customs duties and/or increasing or introducing excise taxes and (ii) implementing a personal income tax (PIT) reform in stages, starting from broadening the tax base by consolidating tax-free allowances followed by an adjustment of tax brackets and rates.

<sup>5</sup> Both revenue mobilization and expenditure restraint can be supported by IMF Capacity Development (CD). IMF CD experts have developed detailed medium-term roadmaps for revenue and customs administration reforms, supporting non-oil revenue mobilization. CD is also available to develop wage bill reform proposals.

Additional measures such as the possible introduction of a general sales tax, should yield at least 0.7 percent of non-oil GDP over the medium term, though their ultimate yield could be higher.

- Current expenditure restraint.** On the expenditure side, controlling public sector hiring remains a key priority. Therefore, focusing on capping and subsequently eliminating mandatory public sector hiring and implementing a comprehensive wage bill reform remains a priority. An attrition rule (for example, with only one new hire replacing two retirees) for some parts of the public sector could save at least 2.7 percent of non-oil GDP by 2030, and could be complemented by improving payroll management to reduce ghost workers and public pension reform (¶19).

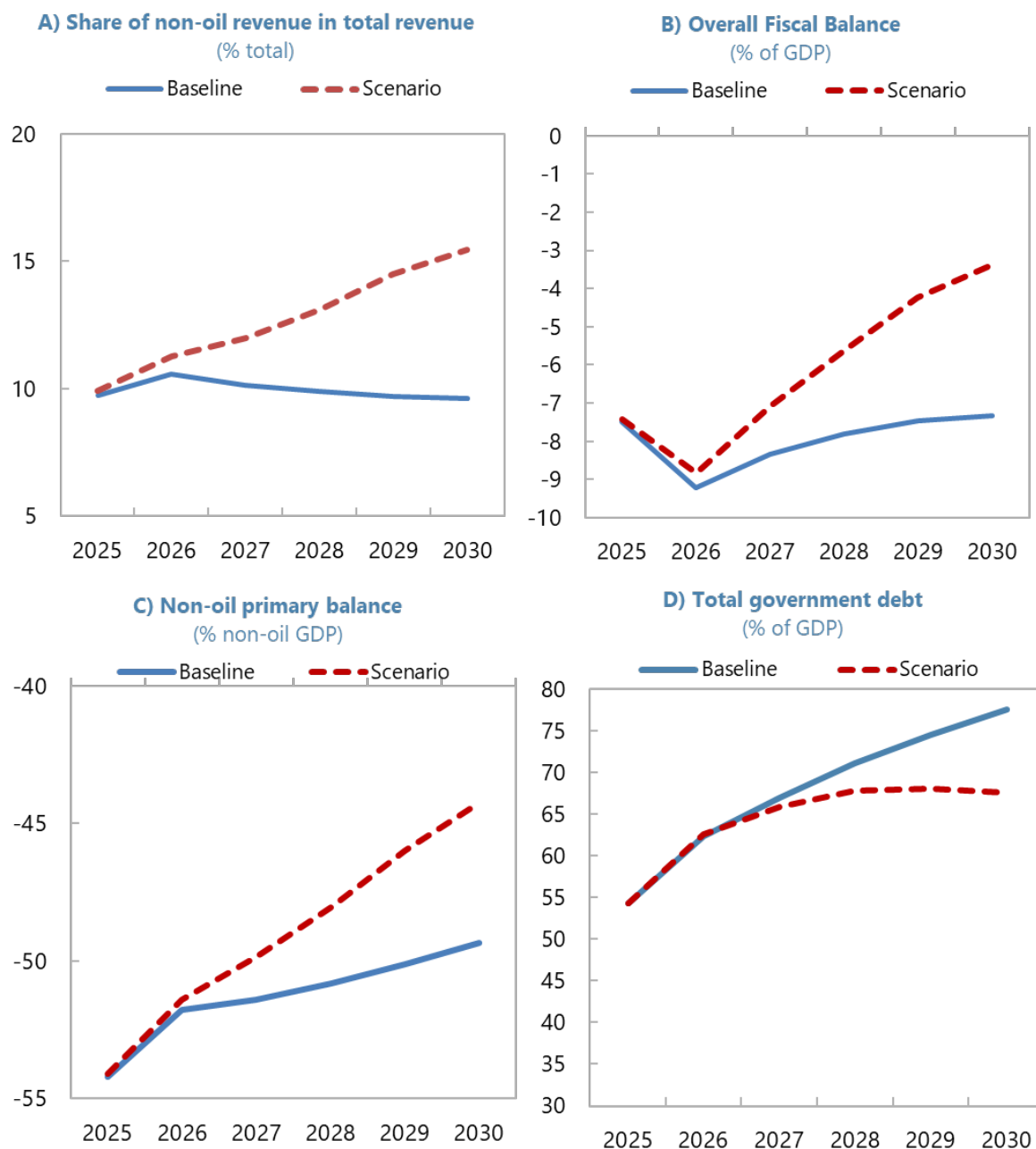
Iraq: Adjustment Measures' Suggested Policy Yields (percent non-oil GDP)	
Policy Measures	Yield Range 1/
<i>Revenue</i>	
Payroll tax reform	1.5 - 1.8
Excise taxes and / or customs duties	0.5 - 1
Gradually introducing a GST or VAT	0.7 - 2.3
<i>Expenditure</i>	
Implementing attrition rule and caps on mandatory hiring	2.7 - 3
Improving social safety net targeting	0.4 - 0.5
<b>Total Policy Measures</b>	<b>5.8 - 8.6</b>
1/ Cumulative over 2025 to 2030 Source: Staff estimates	

**17. The proposed adjustment would reduce macro-fiscal vulnerabilities and help improve Iraq's infrastructure.** Around two-thirds of the savings would be used to reduce the overall deficit, stabilize public debt albeit only by 2030, while one third would support an increase in non-oil investment by around 20 percent relative to the baseline. Priority areas for additional investment could be trade and transportation infrastructure, where Iraq underperforms regional peers. This is especially important in light of the government's ambition to develop new trade corridors, such as the Iraq Development Road. Moreover, large investments are needed to upgrade the electricity generation and distribution infrastructure (estimated by the authorities to be over US\$ 31 bn) and develop Iraq's natural gas reserves, which could generate significant returns and increase energy security, including by reducing reliance on gas imports from Iran. The effectiveness of non-oil investment would be enhanced with measures to improve procurement, PFM and public investment management, with tackling corruption being the main priority (¶34).

**18. A reform of Iraq's public pension system will be necessary to decrease the medium-term fiscal burden and mitigate labor market distortions.** Some estimates suggest that in the absence of a reform, the State Pension Fund could face depletion by the end of 2027, potentially requiring increasing budgetary support starting from around 0.5 percent of GDP annually (IMF, 2024). Leveraging insights from joint IMF-WB-ILO work on pension reform, and the 2017 Draft Retirement and Social Security Law for Workers, the authorities should implement a public pension reform aimed at aligning its benefits and rules with the private sector. It should focus on key parametric adjustments, including an increase in the retirement age, a reduction in the accrual rate, and the calculation methodology for public pension benefits.



### Iraq: Baseline and Illustrative Adjustment Scenarios, 2025–30



Notes: This illustrative scenario is calculated assuming revenues to increase by 0.5 of non-oil GDP per year between 2027 and 2029 from the PIT reform, and an additional 0.3 of non-oil GDP per year between 2025 and 2026 from custom duties reform. Other MTRS measures can yield an additional 0.2 of non-oil GDP per year from 2027 onward. Moreover, the scenario assumes about 0.6 percent of non-oil GDP spending cuts per year, mainly from the wage bill reform, between 2026–30. The scenario also assumes a cumulative increase of non-oil investment of 1.9 percent of non-oil GDP. The fiscal drag on GDP associated with the spending measures (excluding the growth impact of the additional investment spending) is about 0.2 percent per year from 2026 to 2030.

Sources: Iraqi authorities; and IMF staff calculations.



**19. The authorities should strengthen their medium-term fiscal framework, improve their public financial management, and adopt a new debt management strategy.** Although the adoption of the 3-year budget in 2023 had some elements of a medium-term fiscal framework and helped provide policy continuity, there was considerable budget under-execution of outsized spending allocations and a mismatch between projected deficits and identified financing sources. Financing and implementation capacity constraints became binding, and arrears reemerged as the authorities largely refrained from monetary financing. Improving the budget process will require the Ministry of Finance to bolster its ability to formulate budgets based on a realistic assessment of financing availability and implementation capacity, oversee the activities of line ministries and public enterprises, and implement corrective measures when necessary. This includes to properly record arrears and develop a repayment plan. Moreover, the authorities should develop a medium-term debt management strategy that clearly assesses the role, risks and costs of different financing options, to support a shift in the budget financing mix away from the CBI.

**20. The authorities should also adopt a rule-based fiscal framework that makes fiscal policy less pro-cyclical.** The introduction of a fiscal rule (e.g. targeting a steady rate for the improvement of non-oil primary balance) could help limit spending during commodity price booms, encourage saving of any oil revenue windfalls to build buffers for downside risks. More reliable statistics, macro-fiscal forecasting, and stronger PFM, supported by Fund capacity development efforts, as well as durable political consensus would be key prerequisites for an effective design and implementation of a fiscal rule.

### **Authorities' Views**

**21. The authorities broadly shared staff assessment of medium-term challenges but focused primarily on overcoming immediate liquidity issues.** They were determined to contain spending primarily by pausing all new capital spending projects. Accessing money from dormant tax escrow accounts could also alleviate immediate liquidity pressures. The authorities agreed with the need to raise non-oil revenue and contain wage bill spending. They expected revenue gains from broadening the income tax base (by including allowances in civil servants' taxable income), and possibly increasing some excises. Revenue gains would crucially depend on progress with digitalization and tax administration reform. Discussions are also underway on ways to mitigate the impact of mandatory hiring laws. The National Board of Pensions prepared technical proposals for a parametric reform of the pension system that would help improve the sustainability of the system (by modifying the benefits rather than contributions).

### Box 1. Downside Scenario - Implications of a Further Drop in Oil Prices

**In a downside scenario with steeper declines in oil prices, the deterioration of fiscal and external balances would accelerate.** Consistent with Scenario A in Box 1.1 of the April 2025 World Economic Outlook, with global GDP 1.3 percent and 1.9 percent below the baseline forecast for 2025 and 2026, we construct a downside scenario in which oil prices would drop further, to \$57 per barrel in 2025 and 2026 compared with a baseline forecast of \$65.9 and \$62 respectively. As a result, the overall deficit would widen around 11.5 percent of GDP for 2025 and 2026. Larger arrear accumulation and further contraction in capital expenditures would weigh on non-oil growth. Decreased oil revenues would also have an impact on the current account, projected to turn into a deficit of 4.3 percent in 2025 and 4.6 percent in 2026, leading to a faster decline in gross international reserves, expected to be almost US\$12 billion (2 months of imports) and over US\$30 billion lower than in the baseline.

**The significant deterioration in the fiscal balance would require fiscal savings and additional revenues but would render monetary financing unavoidable.** As crisis management measures to control the wage bill, the authorities could seek to introduce ceilings on wages and allowances by grade. Limiting eligibility for the food rationing program to only those included in the social security database could yield savings. On the revenue front, ad-hoc levies on items like mobile phone cards, cars or airline tickets could likely be introduced quickly, as they have existed in the past, but they will not be an adequate substitute for a comprehensive payroll tax reform, which would need to be accelerated. Eventually the authorities would need to weigh the trade-off between growth costs of spending arrears and macroeconomic costs of monetary financing to cover the 2 to 4 percent of GDP increase in the overall deficit.

**The authorities would need to be vigilant against inflationary impacts of monetary financing.** Given the weak monetary transmission mechanism—further measures to contain inflation could include communicating a clear strategy

toward fiscal consolidation to maintain market confidence and assert the temporariness of monetary financing, ramping up sterilization efforts to mop up liquidity.

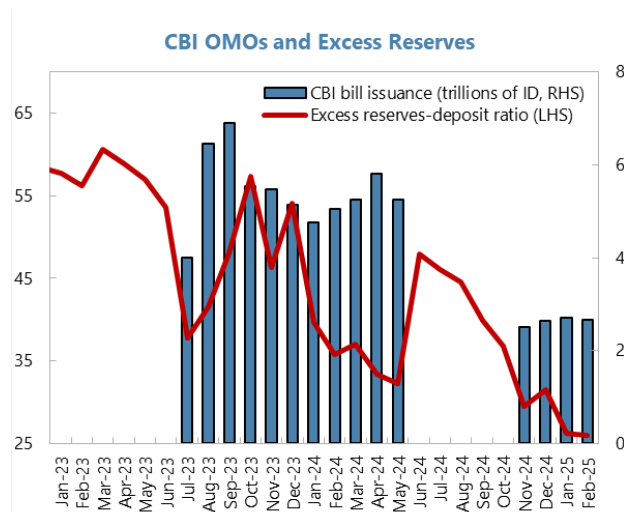
Iraq: Impact of Further Oil Price Declines

	2025		2026	
	Baseline	Adverse	Adverse	Baseline
Non-oil GDP Growth (percent)	1	0	1.5	0.5
Overall fiscal balance (percent GDP)	-7.5	-11.6	-9.2	-11.5
Current account balance (percent of GDP)	0.2	-4.3	-1.9	-4.6
Gross international reserves (US\$ bn)	91.0	79.13	92.2	61.4

Source: Staff estimates

## B. Monetary and Financial Sector Policies

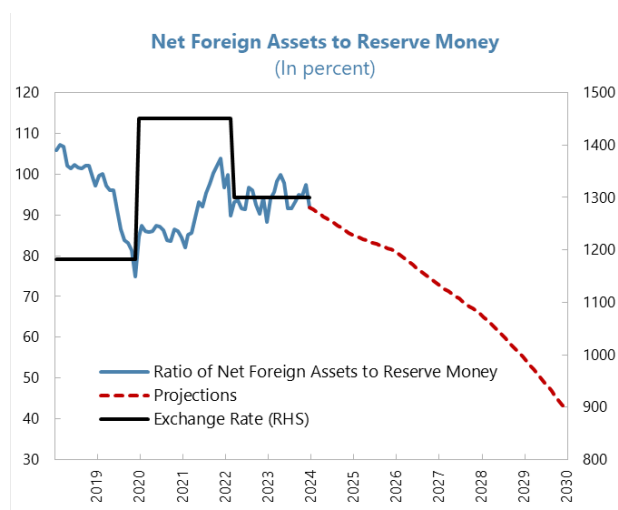
**22. Excess bank reserves, although declining, remain elevated.** In June 2024, the excess reserves-to-deposits ratio peaked at 48 percent, driven by the central bank's decision to pause open market operations (OMOs). In the following months, the ratio declined as SOBs were allowed to use part of their reserves to purchase discounted Treasury-bills. The CBI subsequently restarted OMOs in November 2024, with two maturities, 14-day and 182-day. In addition, new restrictions were introduced on banks' participation in OMOs, limiting investment to 50 percent of a bank's private sector deposits and capping participation in a single auction at ID 500 bn. By



February this year, excess liquidity was down to around 31 percent, a level that can still weaken the transmission of monetary policy, making interest rate adjustments less effective in influencing credit conditions and inflation.

**23. Further efforts are needed to mop up excess liquidity in order to improve monetary policy transmission.** Excess liquidity has been hampering the transmission of monetary policy, as evidenced by the absence of reaction of deposit and lending rates to changes to the policy rate. The CBI should increase issuances, focusing on CB bills at the short maturity (14-day) issued at the policy rate, and it should revise size limits on individual banks' bids. Enhancing the CBI's framework for liquidity forecasting (by improving the predictability and frequency of OMOs) should also be accelerated, building on recent Fund TA.

**24. In addition, the CBI should avoid financing the deficit to maintain price stability, safeguard its balance sheet and preserve credibility.** Monetary financing can weaken the central bank's balance sheet: as the central bank purchases government securities to finance fiscal deficits, it injects local currency liquidity into the system, often without a corresponding increase in foreign reserves. Over time, this will jeopardize the balance between FX assets and local currency liabilities (text chart), especially in the context of limited sterilization capacity. Caution is also needed against other practices that expand the monetary base without a corresponding increase in foreign exchange reserves or market-based sterilization, including allowing SOBs in 2024 to use their required reserves to purchase discounted treasury bills.

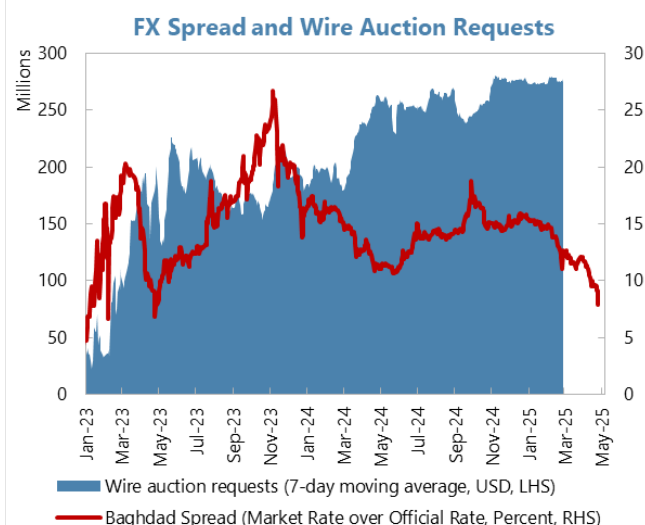


**25. Recent progress on state-owned banks reforms is welcome, but a clearer implementation strategy is needed.** Iraq's two largest SOBs are undercapitalized due to large legacy assets, have poor corporate governance, weak accounting and risk management practices, and their market dominance has been a barrier to the emergence of stronger private banks. The authorities formulated a restructuring plan which includes the establishment of a new entity, Rafidain First, that will have minority government ownership following the transfer of assets and liabilities from Rafidain Bank. Meanwhile, Rafidain Bank would continue to be state-owned and largely focus on managing government accounts. Subsequently, Al-Rasheed Bank would be merged with Rafidain. While the plan represents a step in the right direction, clarifications are still needed concerning the modalities for transfer of assets and liabilities between the old and new bank, the treatment of non-performing loans, and financing sources for recapitalization. Reforms should also aim to enhance corporate governance, improve operational capacity, and develop banking digital infrastructure. Furthermore, with the help of an international consulting firm, the CBI has started to

explore reform options to strengthen the private banking sector.<sup>6</sup> Efforts should encompass ownership structure, business model sustainability, regulatory requirements, but also critical elements to support mutual confidence between banks and their customers, such as a credit bureau and stronger deposit guarantee scheme.

**26. Trade finance is now fully processed by commercial banks through their correspondent banking relationships (CBRs), with the CBI focusing on its supervisory role.**

Since January 2025, all legitimate international transactions are being processed by commercial banks, with the CBI replenishing their balances at CBRs at a weekly frequency in line with FX demand, and subsequently auditing the banks to ensure allocated funds were utilized in line with AML/CFT regulations. This successful transition to the new system has supported the recent decline in the spread between official and unofficial parallel market exchange rate, attracting more clients to the banking sector. Further reducing the spread could be achieved by promoting the use of Iraqi dinars in domestic transactions, including for car and real estate transactions, and improve border customs checks to reduce smuggling and informal trade. To support private banks expanding their CBR networks – including in non-USD currencies – the CBI should continue to strengthen its regulatory framework, enhance risk-based supervision – notably on AML/CFT, and foster closer collaboration with global financial institutions.



**27. Relatedly, enhancing the effectiveness of the AML/CFT framework would support these efforts.** Iraq adopted a five-year strategy action plan to address the deficiencies identified in its 2024 MENAFATF's mutual evaluation. The ongoing update of the National Risk Assessment should be an opportunity to develop the understanding of ML/TF risks, including threats posed by cross border cash smuggling. CBI should also strengthen the understanding of ML/TF risks of financial activities under its purview, so as to support a more effective supervision thereof.

### Authorities' Views

**28. The authorities broadly agreed with staff's assessment and recommendations.** The CBI is currently reviewing its liquidity management framework and is considering increasing the issuance of the 14-day instrument at the policy rate to further absorb excess liquidity. The CBI asserted that the transition to the new trade finance system was smooth and contributed to increase the number

<sup>6</sup> The capital adequacy ratio of banks remains significantly above minimum requirements. However, this is primarily due to the low risk-weights on exposure to the public sector and very low levels of corporate lending. At the same time, the ratio of nonperforming loans remained elevated, at around 16 percent.

of bank customers, helping narrow the spread between official and parallel exchange rates. The authorities reaffirmed their commitment to restructuring the two largest state-owned banks, acknowledging the challenges involved, and emphasized their ongoing efforts to modernizing the private banking sector. Finally, they remain committed to implementing the recommended actions highlighted in the MENAFATF mutual evaluation.

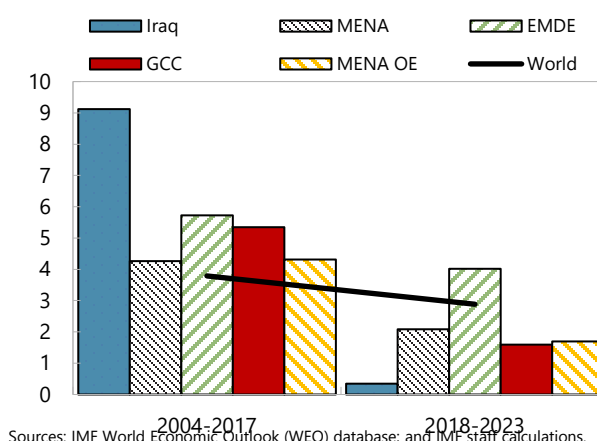
## C. Structural Policies

**29. Iraq's potential growth is low, reflecting lingering structural economic challenges.** After expanding at a relatively sustained pace in the aftermath of the 2003 war on the back of a large, investment-driven reconstruction effort, Iraq's GDP growth has slowed, hindered by instability, insufficient investment, and low productivity. Staff estimates that the current non-oil GDP growth potential ranges between 3 and 4 percent, mostly driven by demographics. However, stronger growth is needed to deliver better socioeconomic outcomes in the face of growing demographic pressures (IMF, 2024).

**30. A well-balanced structural reform package can significantly improve Iraq's growth potential.** Closing structural gaps

between Iraq and the rest of MENA (excluding GCC countries) can lead to substantial medium-term economic gains, helping the country to face ongoing socio-economic challenges. Estimates of the growth impact of structural reforms suggest that enhancing governance could result in almost a 2.5 percent increase in GDP per year, while improving the regulatory quality can boost output by a further 0.2 percent per year (See Selected Issues Paper on "The Role of Structural Reforms in Boosting Medium term non-oil Growth"). Reforms improving the efficiency of credit markets can yield a 1.8 percent GDP increase per year over the medium term, while labor market reforms could enhance employment by 1.5 percent, lessening current labor market challenges. Overall, the combined effect of a highly ambitious reform package comprising improved governance, business and financial market regulation - even if unlikely able of delivering strictly additive growth enhancements - could nonetheless double Iraq's growth potential over the medium term.

**Average Real GDP Growth**  
(In percent)



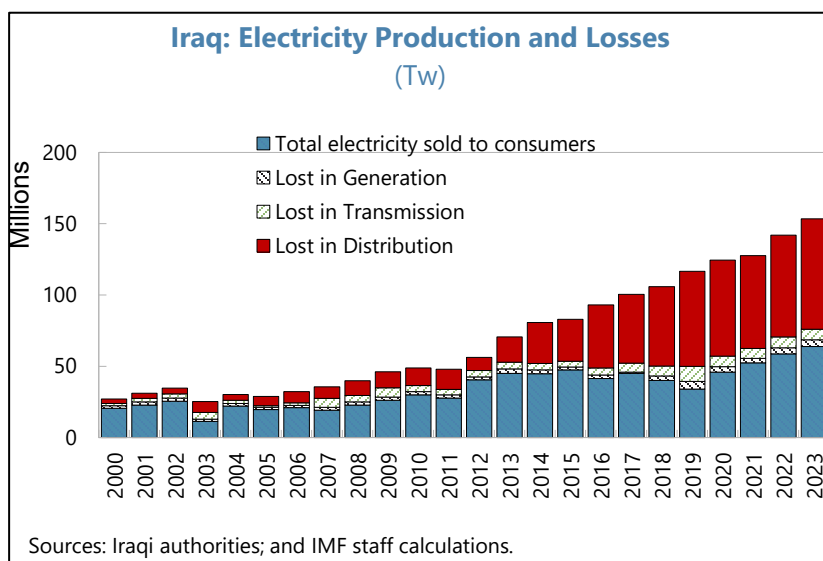
**31. Labor market reform and regulatory improvements are key priorities.** The public sector's extensive size and generous benefits create a high reservation wage, which is financially unsustainable, distorts the education system, and contributes to overall low level of productivity. To address these issues and tackle high unemployment and low labor force participation, comprehensive labor market reforms are needed. Key initial actions include policies to enhance labor market matching including by improving vocational training; and enacting a new civil service law to replace multiple existing public sector employment laws with transparent, unified rules for merit-based hiring, salary adjustments, and promotions, thereby increasing productivity of public employment and reducing private sector reservation wages. With female labor force participation not exceeding 20 percent at any age group and almost non-existent at education levels lower than a university degree, policy efforts should specifically decrease the gender participation gap. To this end it is important to increase female education attainment by removing restrictions on women's work and mobility, including current laws imposing limits to working hours and professions. Finally, to increase private sector dynamism and job creation, efforts should focus on streamlining business and labor regulations, enforcing business registration, and revisiting tax procedures to reduce bureaucratic impediments.

**32. In parallel, SOE reforms should accelerate.** SOEs face significant efficiency, transparency, and accountability challenges. A reform of the sector should include (i) conducting comprehensive financial audits to evaluate SOE health and create restructuring plans to reduce inefficiencies and debt; (ii) establishing transparent governance with independent boards to enhance accountability and reduce political interference; and (iii) fostering competition by promoting private sector development and divesting from non-strategic SOEs.

**33. Fixing the electricity sector is key to reduce its fiscal burden, increase productivity and economic growth, and strengthen electricity security.** The electricity sector is plagued by

inefficiencies and high service costs. As a result, financial losses in the sector are large, with close to ID 16 trillion in operating expenses in 2022 and only around ID 2 trillion in revenues collected for electricity sold, most of it from public entities. To reduce losses and increase revenues, the Ministry of Electricity has started installing smart meters, introduced a subscription fee, and streamlined payment processes. These measures are commendable, but the deployment of smart meters

has been slow, and the revenue generating capacity of the electricity service fee is hindered by poor collection. The authorities should strengthen their framework for bills collection and enforcement.



Moreover, the Investment Commission should promptly authorize contracts with private providers for electricity distribution, to speed up improvement to the distribution network that can significantly decrease losses. Finally, achieving full cost recovery will require a significant increase in collection followed by tariff increases, with limited cross subsidization to support low-income users.

**34. Taking additional steps to fight systemic and severe corruption is critical for growth.**

Iraq has achieved sustained improvements in the Corruption Perception Index, improving its score from 16 in 2013 to 26 in 2024. However, a third of Iraqis assess corruption as the most important challenge facing the country and governance weaknesses affect key sectors: tax customs, licensing and concessions, procurement, banking oversight, and extractive industries—particularly in the oil and electricity sectors, facilitating corruption and rent-seeking. Weak institutions and deficiencies in the rule of law facilitate corruption. To support growth, the authorities should improve anti-corruption legal and institutional frameworks, enact an updated anti-corruption strategy, which prioritizes macro-critical vulnerabilities, revamp corruption offences to align them with obligations under UNCAC, revamp enforcement, and strengthen integrity in procurement and management of oil and electricity SOEs. The government should enact a Law on Transparency and Access to Information and fully implement the 2019 Standard of the Extractives Industries Transparency Initiative (EITI). The asset and interest declaration regime must ensure the publication of declarations of top-level officials and improve enforcement. Safeguards are needed to enhance the independence of the Federal Commission of Integrity (NAZAHA) (Annex VII).

**35. Staff urged the authorities to intensify efforts to improve data collection and dissemination, which currently exhibit significant deficiencies that impede effective surveillance.**

The challenges are particularly pronounced in the external sector and national accounts statistics, thereby complicating the assessment of economic and financial developments as well as the formulation of appropriate policies. The authorities have been proactively collaborating with the Fund to seek technical assistance aimed at rectifying these critical data shortcomings.

## **Authorities' Views**

**36. The authorities concurred that boosting non-oil growth through private sector development remains a priority.**

They highlighted some the recent progress to foster diversification of energy imports, including plans to establish grid connections with GCC countries. However, despite ongoing efforts, they acknowledged that progress in achieving cost recovery for the electricity sector remains slow. The authorities expressed their commitment to prevent and tackle corruption, noting efforts are significant on all fronts, especially on enforcement, digitization of public financial management, and strengthening audits and enforcement. They also emphasized that judicial independence has been strengthened and is protected by existing legal frameworks. The statistical agency (COSIT) acknowledged weaknesses in National Accounts data and highlighted the need for more resources and better training management.



## STAFF APPRAISAL

**37. Iraq's economy is facing considerable headwinds.** Iraq's non-oil sector growth slowed from 13.8 percent in 2023 to an estimated 2.5 percent in 2024, impacted by reduced public investment, a weaker trade balance, and financing constraints that led to the accumulation of arrears. Going forward, financing constraints, subdued investment and constrained growth potential are expected to weigh on growth and intensify preexisting fragilities.

**38. The large fiscal expansion in recent years has increased Iraq's vulnerabilities, which are further exacerbated by the recent decline in oil prices.** As spending expanded and non-oil revenues stagnated, the oil price required to balance the budget increased to around \$84 in 2024, up from \$54 in 2020. The financing constraints that emerged in 2024 are expected to worsen this year in light of the oil price drop. Furthermore, risks of sovereign debt stress have risen, calling for urgent policy action.

**39. A sizable fiscal adjustment is needed to mitigate macro-fiscal risks, contain liquidity risks and stabilize debt in the medium term.** In the very short term, the authorities should review current and capital spending plans for 2025 and limit or postpone all non-essential expenditure. There is also scope to boost non-oil revenues through increases in excises and custom duties. Over the medium term, stabilizing debt would require an additional fiscal consolidation of 1-1.5 percent of non-oil GDP per year. On the revenue side, besides strengthening tax administration, there is scope to increase customs duties and excise taxes, reform personal income tax including by limiting exemptions, and introducing a general sales tax in the medium term. On the spending side, comprehensive public wage bill reforms through limiting mandatory hiring and adopting an attrition rule would yield significant savings. Recent efforts to better target the public distribution system are welcome, but there is scope to further improve targeting and eventually shift to cash-based social safety nets. Finally, it is urgent to reform the public pension system by raising the retirement age and reducing both the accrual and replacement rates.

**40. Implementing the proposed reforms could generate fiscal space for increased non-oil capital spending.** Crucial non-oil capital expenditures should be protected given the need to expand investment in trade and transportation infrastructure to promote economic diversification; and modernize the electricity sector and develop natural gas resources, which are crucial for enhancing energy security and decreasing reliance on gas imports. Additionally, improving procurement, public financial management, and addressing corruption would boost the effectiveness of any new public investments.

**41. Further efforts are needed to absorb the remaining excess liquidity and improve monetary policy transmission.** This could be achieved by increasing the issuance of CB-bills, focusing on short-term instruments piloted by the policy rate, adjusting bid size limits, and refining liquidity forecasting tools.

**42. Efforts to strengthen the domestic financial system should continue and accelerate.** The CBI should be commended for the successful transition to the new trade finance system now



fully managed by commercial banks through their CBRs, contributing to a reduction in the spread between the official and parallel market exchange rates. While initial reforms of state-owned banks are promising, a comprehensive restructuring plan addressing nonperforming loans and capital shortfalls is necessary, along with improvements in corporate governance and digital infrastructure. Furthermore, the CBI has started to explore reform options to strengthen the private banking sector. Priority areas are the ownership structure, business model sustainability, regulatory requirements, and elements to support mutual confidence between banks and their customers, such as a credit bureau and stronger deposit guarantee scheme. Alongside these efforts, addressing weaknesses in anti-money laundering and counter-terrorism financing remains paramount.

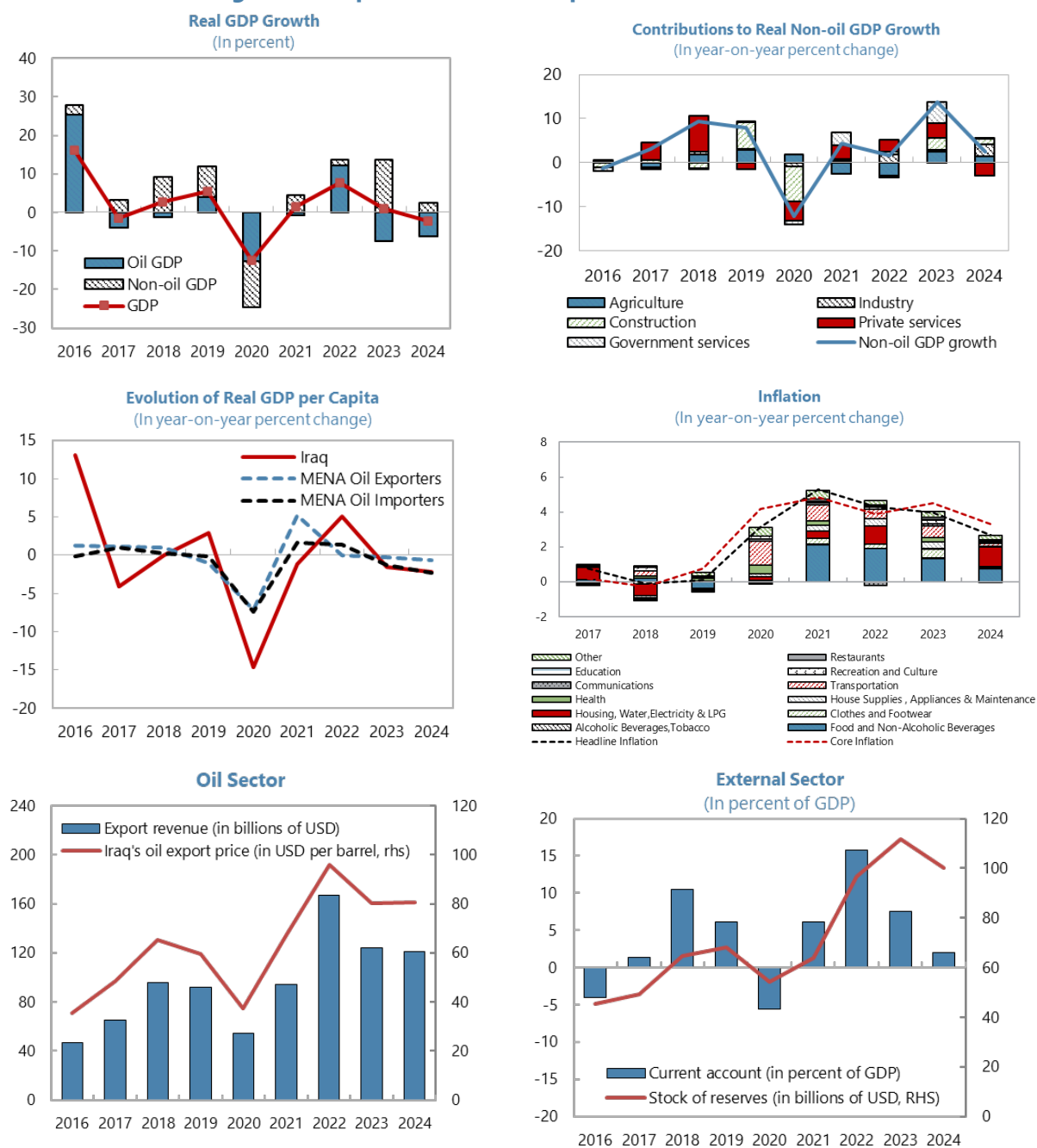
**43. A comprehensive structural reform agenda is vital to unlock growth potential.**

Estimates suggest that reforms in the labor market, business regulation, financial sector, and governance could double non-oil potential GDP growth in the medium term. Key priorities include enhancing labor force participation, especially among women, by improving education and removing legal barriers, as well as reforming public sector hiring to boost productivity. Improving vocational training programs can align skills with market needs, while simplifying regulations and reducing bureaucratic obstacles will encourage formal economy participation and support private sector development. Electricity sector reform is also critical given how chronic power shortages and inefficiencies weigh on productivity and economic growth. The authorities are encouraged to speed up their efforts to improve billing and collection. Once collection substantially improves, achieving cost recovery will also require electricity tariff increases, with carefully calibrated subsidies targeted to low-income users.

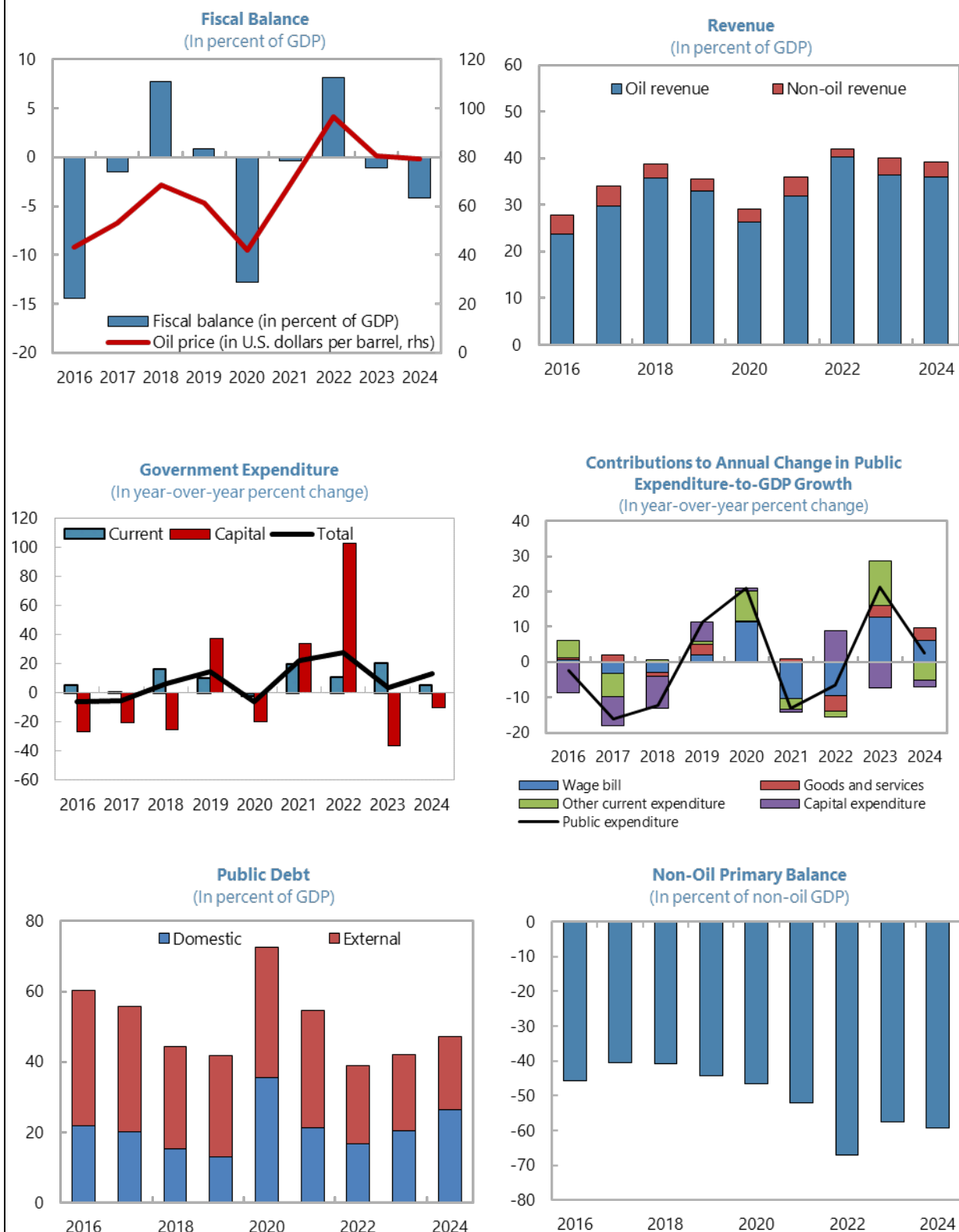
**44. These efforts would be supported by further combating pervasive corruption and addressing governance weaknesses.** While progress has been made in implementing the national anti-corruption strategy and improving corruption perception, significant challenges remain. Strengthening accountability in state-owned and private enterprises, complying strictly with EITI standards, enacting a Law on Transparency and Access to Information, aligning legal frameworks with international best practices, and enhancing the independence of NAZHA are essential measures for effective enforcement and protecting economic rights. It would also enhance the effectiveness of core state functions that are critical to economic activity, such as fiscal governance and financial sector oversight.

**45. Data deficiencies persist.** Major data deficiencies in Iraq can significantly undermine the robustness of IMF surveillance by leading to incomplete or inaccurate assessments of the economic situation and possibly jeopardizing effective policy recommendations. Building on the numerous CD Iraq has received, it is essential to focus on the most pressing data gaps and incorporate pilot initiatives into disseminated data in a timely manner.

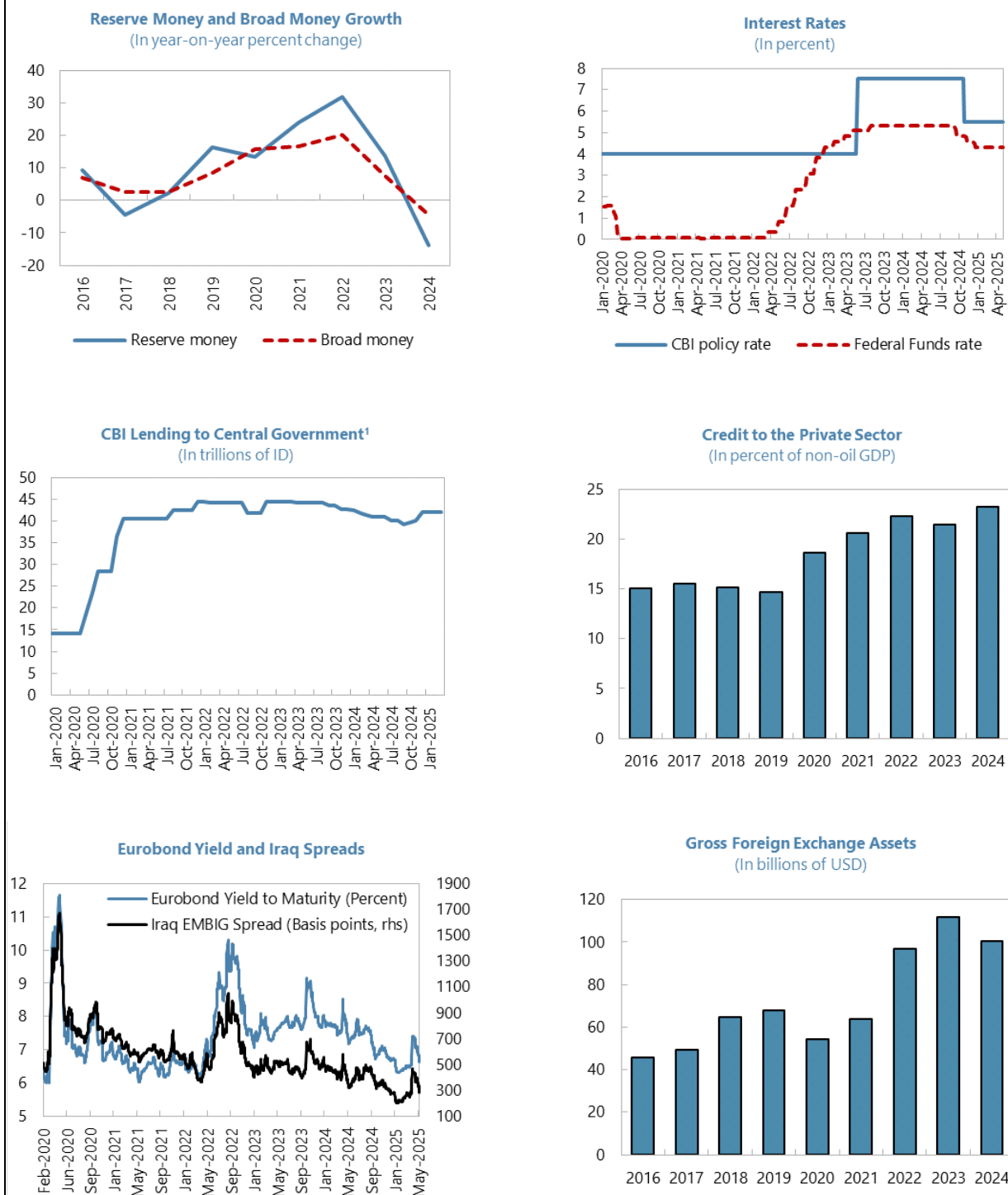
**46. It is proposed that the next Article IV consultation with Iraq take place on the standard 12-month cycle.**

**Figure 1. Iraq: Economic Developments, 2016–2024**

Sources: Iraqi authorities; and IMF staff calculations.

**Figure 2. Iraq: Fiscal and Debt, 2016–2024**

Sources: Iraqi authorities; WEO; and IMF staff calculations.

**Figure 3. Iraq: Monetary and Financial Sector Indicators**

Sources: Iraqi authorities; Bloomberg LP; and IMF staff calculations.

<sup>1/</sup> Holdings of discounted treasury bills and government bonds.

Figure 4. Iraq: Social Indicators



Sources: IMF Expenditure Assessment Tool; International Labour Organization; Transparency International, *Corruption Perception Index*; and IMF staff calculations.

Table 1. Iraq: Selected Economic and Financial Indicators, 2021-30

	2021	2022	2023	Est.	Projections					
				2024	2025	2026	2027	2028	2029	2030
Economic growth and prices										
Real GDP (percentage change)	1.4	7.7	0.9	-2.3	3.1	1.4	5.4	3.9	4.1	4.1
Non-oil real GDP (percentage change)	4.4	1.7	13.8	2.5	1.0	1.5	2.5	2.5	3.0	3.0
GDP deflator (percentage change)	38.6	26.9	-15.5	2.6	-6.3	-0.1	1.4	2.2	2.3	2.2
GDP per capita (US\$)	5,117	6,818	6,251	6,183	5,826	5,757	6,007	6,228	6,479	6,737
GDP (in ID trillion)	305.6	417.7	356.4	357.0	344.7	349.0	373.0	396.0	421.7	448.5
Non-oil GDP (in ID trillion)	165.3	177.9	206.9	217.7	225.6	235.6	249.6	264.7	282.1	300.6
GDP (in US\$ billion) <sup>1/</sup>	210.8	288.1	270.8	274.6	265.2	268.5	287.0	304.6	324.4	345.0
Oil production (mbpd)	3.97	4.45	4.12	3.86	4.05	4.10	4.43	4.65	4.89	5.13
Oil exports (mbpd)	3.44	3.71	3.47	3.37	3.50	3.50	3.77	3.98	4.19	4.38
Iraq oil export prices (US\$ pb) <sup>2/</sup>	67.1	95.8	80.4	80.6	65.9	62.0	62.4	63.3	64.1	64.6
Consumer price inflation (percentage change; end of period)	5.3	4.3	4.0	2.7	2.9	2.9	3.4	3.4	3.5	3.6
Consumer price inflation (percentage change; average)	6.0	5.0	4.4	2.6	2.6	2.9	3.4	3.4	3.5	3.6
National Accounts (in percent of GDP)										
Gross domestic investment	14.1	16.0	13.3	13.9	12.2	11.5	11.4	11.5	11.7	11.8
<i>Of which: public</i>	6.8	10.0	7.5	8.1	5.8	5.0	4.9	5.2	5.4	5.6
Gross domestic consumption	78.4	68.2	79.8	84.8	87.7	90.6	89.9	89.1	88.3	87.7
<i>Of which: public</i>	18.5	15.1	20.8	23.4	24.6	24.8	24.2	23.8	23.3	22.9
Gross national savings	20.2	31.8	20.9	16.0	12.3	9.6	10.1	10.8	11.4	11.9
<i>Of which: public</i>	5.0	18.0	7.0	3.7	-2.8	-5.3	-4.6	-3.8	-3.2	-1.7
Saving - Investment balance	6.1	15.8	7.5	2.0	0.2	-1.9	-1.3	-0.7	-0.3	0.1
Public Finance (in percent of GDP)										
Government revenue and grants	36.0	42.0	40.0	39.3	36.9	34.6	35.0	35.2	35.1	34.8
Government oil revenue	31.9	40.3	36.4	36.0	33.3	31.0	31.5	31.7	31.7	31.5
Government non-oil revenue	4.0	1.7	3.6	3.3	3.6	3.7	3.5	3.5	3.4	3.3
Expenditure, of which:	36.3	33.9	41.2	43.5	44.4	43.8	43.4	43.0	42.6	42.1
Current expenditure	29.6	23.9	33.7	35.5	38.6	38.8	38.4	37.8	37.2	36.6
Capital expenditure	6.8	10.0	7.5	8.1	5.8	5.0	4.9	5.2	5.4	5.6
Overall fiscal balance (including grants)	-0.4	8.1	-1.1	-4.2	-7.5	-9.2	-8.3	-7.8	-7.5	-7.3
Non-oil primary fiscal balance (percent of non-oil GDP)	-52.1	-67.1	-57.7	-59.3	-54.2	-51.8	-51.4	-50.8	-50.1	-49.3
Memorandum items										
Total government debt (in percent of GDP) <sup>3/</sup>	54.7	39.0	42.1	47.2	54.3	62.3	66.9	71.1	74.5	77.6
Total government debt (in US\$ billion) <sup>4/</sup>	115.3	112.3	115.4	129.5	144.1	167.4	192.1	216.7	241.7	267.7
External government debt (in percent of GDP)	33.3	22.3	21.4	20.6	20.8	21.0	20.1	19.6	19.2	18.4
External government debt (in US\$ billion)	70.1	64.2	58.7	56.6	55.2	56.4	57.7	59.8	62.2	63.6
Monetary indicators										
Reserve money (percentage change)	23.9	31.9	13.7	-13.8	3.6	1.2	0.9	0.9	1.5	3.4
Broad money (percentage change)	16.7	20.3	7.5	-4.3	9.6	4.9	6.6	6.3	7.0	8.3
Credit to the private sector (in percent of non-oil GDP)	20.6	22.3	21.5	23.3	23.7	24.6	25.4	26.6	27.7	29.0
External sector (in percent of GDP)										
Current account	6.1	15.8	7.5	2.0	0.2	-1.9	-1.3	-0.7	-0.3	0.1
Trade balance	12.6	20.3	13.0	7.5	5.7	3.5	3.9	4.4	4.7	5.0
Exports of goods	34.7	41.0	36.6	37.4	33.7	31.4	31.9	32.0	32.1	31.8
Imports of goods	22.0	20.6	23.6	29.9	28.1	28.0	27.9	27.6	27.4	26.8
Gross reserves (in US\$ billion)	63.8	96.6	111.7	100.3	91.0	79.2	69.7	63.4	57.8	54.0
Total GIR (in months of imports of goods and services)	12.3	14.2	15.0	11.1	11.1	9.6	8.0	7.0	6.1	5.5
Reserves (as a percentage of ARA metric)	291.3	358.1	442.1	392.0	372.8	329.9	280.8	247.9	219.3	199.2
Exchange rate (dinar per US\$; period average)	1,450	1,450	1,316	1,300	...	...	...	...	...	...
Real effective exchange rate (percent change, end of period) <sup>5/</sup>	-15.7	5.0	13.7	3.8	...	...	...	...	...	...

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ Converted from GDP in local currency using the period-average exchange rate (1191 in 2020).

2/ Negative price differential of about \$0.19 per barrel compared to the average petroleum spot price (average of Brent, West Texas and Dubai oil prices) in 2024 - 2030.

3/ Includes arrears. The debt stock includes legacy arrears to non-Paris Club creditors on which the authorities have requested (but not yet obtained) Paris-Club comparable relief.

4/ Converted from the total government debt in local currency using the end-of-period exchange rate (1450 in 2021).

5/ Positive means appreciation.

**Table 2. Iraq: Central Government Fiscal Accounts, 2021–30**  
(In trillions of Iraqi dinars; unless otherwise indicated)

	2021	2022	2023	Est.	Projections					
				2024	2025	2026	2027	2028	2029	2030
Revenues and grants	109.9	175.6	142.6	140.4	127.2	120.9	130.7	139.2	148.1	156.2
Revenues	109.9	175.6	142.6	140.4	127.2	120.9	130.7	139.2	148.1	156.2
Oil	97.5	168.5	129.8	128.7	114.8	108.1	117.4	125.5	133.7	141.2
Crude oil export revenues	94.5	167.3	124.0	121.3	109.5	102.9	111.8	119.5	127.4	134.5
Oil product export revenues	0.8	0.0	3.7	4.0	2.0	2.0	2.2	2.3	2.4	2.5
Transfers from oil-related public enterprises	1.4	0.4	1.5	2.3	2.2	2.1	2.3	2.4	2.6	2.7
Tax on oil company profits	0.9	0.7	0.7	1.2	1.2	1.1	1.2	1.3	1.4	1.4
Non-oil	12.3	7.1	12.9	11.7	12.4	12.8	13.2	13.7	14.3	15.0
Tax revenues	3.7	3.2	5.8	4.8	5.1	5.3	5.6	5.9	6.2	6.6
Direct taxes	2.4	2.0	4.8	2.8	3.0	3.1	3.3	3.5	3.7	4.0
Indirect taxes	1.3	1.1	1.0	2.1	2.1	2.1	2.3	2.4	2.5	2.7
Non-tax revenues	8.7	3.9	7.1	6.8	7.3	7.5	7.6	7.8	8.1	8.4
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	111.0	141.8	146.7	155.4	153.0	153.0	161.8	170.2	179.5	189.0
Current expenditures	90.3	99.9	120.0	126.6	132.9	135.5	143.4	149.7	156.7	164.1
Salary and pension	57.6	57.4	68.2	78.7	82.6	85.6	90.9	94.7	98.6	102.8
Salary	42.9	44.2	53.2	60.8	64.0	66.4	69.2	72.2	75.3	78.6
Pensions	14.7	13.2	15.1	17.8	18.6	19.2	21.7	22.5	23.3	24.2
Goods and services	12.2	11.8	14.1	17.9	16.1	15.6	16.3	17.0	17.7	18.4
Transfers	16.1	28.6	34.6	27.5	28.6	28.9	29.9	31.0	32.1	33.5
o/w to SOEs	2.0	4.0	2.0	2.0	2.2	2.3	2.4	2.4	2.5	2.6
Interest payments	1.5	2.1	3.0	2.5	5.6	5.4	6.2	7.1	8.2	9.3
War reparations <sup>1/</sup>	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment expenditures	20.7	41.8	26.7	28.8	20.1	17.5	18.4	20.5	22.9	24.9
Non-oil investment expenditures	12.6	28.5	14.5	16.4	7.1	4.4	4.2	5.5	7.2	8.5
Oil investment expenditures	8.1	13.3	12.2	12.4	13.0	13.2	14.2	14.9	15.7	16.5
Fiscal balance	-1.2	33.8	-4.1	-15.0	-25.8	-32.2	-31.1	-31.0	-31.5	-32.9
Statistical discrepancy	8.5	5.2	2.8	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-9.6	28.7	-6.8	-15.3	-25.8	-32.2	-31.1	-31.0	-31.5	-32.9
Net Acquisition of Financial Assets	1.9	19.5	-9.2	7.8	-6.8	-1.9	0.0	0.0	0.0	0.0
Change in domestic deposits	-1.5	17.9	-11.1	3.1	-3.0	0.0	0.0	0.0	0.0	0.0
Change in foreign assets	3.4	1.6	1.9	4.7	-3.8	-1.9	0.0	0.0	0.0	0.0
Net Incurrence of Liabilities	11.5	-9.2	-2.4	23.2	19.0	30.2	31.1	31.0	31.5	32.9
External	5.2	-8.5	-0.3	-1.5	-4.3	-1.1	-1.4	0.9	-0.3	-0.4
Borrowing	11.8	0.7	2.4	2.2	0.5	3.8	3.8	3.8	1.3	1.3
Repayment	6.6	9.2	2.7	3.7	4.8	4.8	5.2	2.9	1.6	1.7
Domestic	6.3	-0.7	-2.1	24.7	23.2	31.3	32.5	30.1	31.8	33.3
Borrowing	7.5	1.1	8.0	30.7	43.6	57.4	66.1	67.4	76.7	84.7
CBI	4.0	0.0	0.0	2.9	7.6	30.9	35.1	34.9	39.7	44.7
Banks	2.0	0.0	8.0	14.2	21.0	26.5	31.0	32.5	37.0	40.0
Arrears	1.5	1.1	0.0	13.6	15.0	0.0	0.0	0.0	0.0	0.0
Repayment	1.2	1.8	10.1	6.0	20.3	26.1	33.5	37.2	44.9	51.4
CBI	0.2	0.2	2.5	3.5	4.4	5.2	8.3	11.8	15.3	19.2
Banks	0.5	1.7	3.1	2.5	15.9	20.9	24.2	24.5	28.6	31.2
Arrears	0.5	0.0	4.5	0.0	0.0	0.0	1.0	1.0	1.0	1.0

Sources: Iraqi authorities; and Fund staff estimates and projections.

<sup>1/</sup> Five percent of oil exports as mandated by U.N. Security Council Resolution 1483 to finance war reparations to Kuwait.

**Table 3. Iraq: Central Government Fiscal Accounts, 2021–30**  
(In percent of GDP)

	2021	2022	2023	Est.	Projections					
				2024	2025	2026	2027	2028	2029	2030
Revenues and grants	36.0	42.0	40.0	39.3	36.9	34.6	35.0	35.2	35.1	34.8
Revenues	36.0	42.0	40.0	39.3	36.9	34.6	35.0	35.2	35.1	34.8
Oil	31.9	40.3	36.4	36.0	33.3	31.0	31.5	31.7	31.7	31.5
Crude oil export revenues	30.9	40.1	34.8	34.0	31.7	29.5	30.0	30.2	30.2	30.0
Oil product export revenues	0.3	0.0	1.0	1.1	0.6	0.6	0.6	0.6	0.6	0.6
Transfers from oil-related public enterprises	0.4	0.1	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Tax on oil company profits	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Non-oil	4.0	1.7	3.6	3.3	3.6	3.7	3.5	3.5	3.4	3.3
Tax revenues	1.2	0.8	1.6	1.4	1.5	1.5	1.5	1.5	1.5	1.5
Direct taxes	0.8	0.5	1.3	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Indirect taxes	0.4	0.3	0.3	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Non-tax revenues	2.8	0.9	2.0	1.9	2.1	2.1	2.0	2.0	1.9	1.9
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	36.3	33.9	41.2	43.5	44.4	43.8	43.4	43.0	42.6	42.1
Current expenditures	29.6	23.9	33.7	35.5	38.6	38.8	38.4	37.8	37.2	36.6
Salary and pension	18.8	13.7	19.2	22.0	24.0	24.5	24.4	23.9	23.4	22.9
Salary	14.0	10.6	14.9	17.0	18.6	19.0	18.6	18.2	17.9	17.5
Pensions	4.8	3.2	4.2	5.0	5.4	5.5	5.8	5.7	5.5	5.4
Goods and services	4.0	2.8	4.0	5.0	4.7	4.5	4.4	4.3	4.2	4.1
Transfers	5.3	6.8	9.7	7.7	8.3	8.3	8.0	7.8	7.6	7.5
o/w to SOEs	0.7	0.9	0.6	0.6	0.6	0.7	0.6	0.6	0.6	0.6
Interest payments	0.5	0.5	0.9	0.7	1.6	1.6	1.7	1.8	2.0	2.1
War reparations <sup>1/</sup>	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment expenditures	6.8	10.0	7.5	8.1	5.8	5.0	4.9	5.2	5.4	5.6
Non-oil investment expenditures	4.1	6.8	4.1	4.6	2.0	1.2	1.1	1.4	1.7	1.9
Oil investment expenditures	2.6	3.2	3.4	3.5	3.8	3.8	3.8	3.8	3.7	3.7
Fiscal balance	-0.4	8.1	-1.1	-4.2	-7.5	-9.2	-8.3	-7.8	-7.5	-7.3
Statistical discrepancy	2.8	1.2	0.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-3.1	6.9	-1.9	-4.3	-7.5	-9.2	-8.3	-7.8	-7.5	-7.3
Net Acquisition of Financial Assets	0.6	4.7	-2.6	2.2	-2.0	-0.5	0.0	0.0	0.0	0.0
Change in domestic deposits	-0.5	4.3	-3.1	0.9	-0.9	0.0	0.0	0.0	0.0	0.0
Change in foreign assets	1.1	0.4	0.5	1.3	-1.1	-0.5	0.0	0.0	0.0	0.0
Net Incurrence of Liabilities	3.8	-2.2	-0.7	6.5	5.5	8.7	8.3	7.8	7.5	7.3
External	1.7	-2.0	-0.1	-0.4	-1.2	-0.3	-0.4	0.2	-0.1	-0.1
Borrowing	3.9	0.2	0.7	0.6	0.1	1.1	1.0	0.9	0.3	0.3
Repayment	2.2	2.2	0.8	1.0	1.4	1.4	1.4	0.7	0.4	0.4
Domestic	2.1	-0.2	-0.6	6.9	6.7	9.0	8.7	7.6	7.5	7.4
Borrowing	2.5	0.3	2.2	8.6	12.6	16.4	17.7	17.0	18.2	18.9
CBI	1.3	0.0	0.0	0.8	2.2	8.8	9.4	8.8	9.4	10.0
Banks	0.7	0.0	2.2	4.0	6.1	7.6	8.3	8.2	8.8	8.9
Arrears	0.5	0.3	0.0	3.8	4.4	0.0	0.0	0.0	0.0	0.0
Repayment	0.4	0.4	2.8	1.7	5.9	7.5	9.0	9.4	10.6	11.5
CBI	0.1	0.0	0.7	1.0	1.3	1.5	2.2	3.0	3.6	4.3
Banks	0.2	0.4	0.9	0.7	4.6	6.0	6.5	6.2	6.8	7.0
Arrears	0.2	0.0	1.3	0.0	0.0	0.0	0.3	0.3	0.2	0.2

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ Five percent of oil exports as mandated by U.N. Security Council Resolution 1483 to finance war reparations to Kuwait.



**Table 4. Iraq: Central Government Fiscal Accounts, 2021–30**  
(In percent of non-oil GDP)

	2021	2022	2023	Est.	Projections					
				2024	2025	2026	2027	2028	2029	2030
Non-oil Revenues	7.5	4.0	6.2	5.4	5.5	5.4	5.3	5.2	5.1	5.0
Tax revenues	2.2	1.8	2.8	2.2	2.3	2.2	2.2	2.2	2.2	2.2
Direct taxes	1.4	1.1	2.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Indirect taxes	0.8	0.6	0.5	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Non-tax revenues	5.3	2.2	3.4	3.1	3.2	3.2	3.1	3.0	2.9	2.8
Non-oil Expenditures	62.3	72.2	65.0	65.7	62.1	59.4	59.1	58.7	58.1	57.4
Current expenditures	54.7	56.2	58.0	58.2	58.9	57.5	57.4	56.6	55.5	54.6
Salary and pension	34.8	32.3	33.0	36.1	36.6	36.3	36.4	35.8	35.0	34.2
Salary	26.0	24.8	25.7	27.9	28.4	28.2	27.7	27.3	26.7	26.2
Pensions	8.9	7.4	7.3	8.2	8.3	8.1	8.7	8.5	8.3	8.0
Goods and services	7.4	6.6	6.8	8.2	7.2	6.6	6.5	6.4	6.3	6.1
Transfers	9.7	16.1	16.7	12.6	12.7	12.3	12.0	11.7	11.4	11.2
o/w to SOEs	1.2	2.2	1.0	0.9	1.0	1.0	0.9	0.9	0.9	0.9
Interest payments	0.9	1.2	1.5	1.2	2.5	2.3	2.5	2.7	2.9	3.1
War reparations <sup>1/</sup>	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil investment expenditures	7.6	16.0	7.0	7.5	3.1	1.8	1.7	2.1	2.6	2.8
Non-oil fiscal balance	-54.8	-68.2	-58.8	-60.3	-56.6	-54.0	-53.8	-53.5	-53.0	-52.4
Non-oil primary fiscal balance	-52.1	-67.1	-57.7	-59.3	-54.2	-51.8	-51.4	-50.8	-50.1	-49.3
Statistical discrepancy	0.0	2.9	1.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items										
Non-oil primary fiscal balance (percent of GDP)	-28.2	-28.6	-33.5	-36.2	-35.5	-34.9	-34.4	-34.0	-33.5	-33.1

Sources: Iraqi authorities; and Fund staff estimates and projections.

<sup>1/</sup> Five percent of oil exports as mandated by U.N. Security Council Resolution 1483 to finance war reparations to Kuwait.

**Table 5. Iraq: Balance of Payments, 2021–30**  
(In billions of U.S. dollars; unless otherwise indicated)

	2021	2022	2023	Est.		Projections				
				2024	2025	2026	2027	2028	2029	2030
Current account	13.5	43.5	20.7	5.8	0.5	-5.2	-3.8	-2.2	-1.0	0.4
(in percent of GDP)	6.4	15.1	7.7	2.1	0.2	-1.9	-1.3	-0.7	-0.3	0.1
Trade balance	26.6	58.6	35.2	20.6	15.0	9.3	11.3	13.5	15.3	17.1
(In percent of GDP)	12.6	20.3	13.0	7.5	5.7	3.5	3.9	4.4	4.7	5.0
Exports	73.1	118.0	99.1	102.8	89.5	84.4	91.4	97.6	104.0	109.7
Crude oil <sup>1/</sup>	72.8	117.9	98.7	98.4	86.6	81.6	88.7	94.8	101.1	106.8
Other exports	0.3	0.2	0.4	4.4	2.8	2.7	2.8	2.8	2.9	2.9
Imports	46.5	59.5	63.9	82.2	74.5	75.1	80.2	84.2	88.7	92.6
Private sector imports	37.5	44.6	48.5	70.6	63.3	64.9	68.8	72.2	76.0	79.9
Government imports	8.9	14.8	15.4	11.7	11.2	10.2	11.4	12.0	12.7	12.7
Services, net	-10.8	-13.2	-16.5	-17.2	-14.7	-14.8	-15.1	-15.2	-15.3	-15.4
Receipts	5.2	9.0	8.7	8.5	9.0	9.1	9.3	9.6	9.9	10.3
Payments	16.0	22.2	25.2	25.7	23.7	24.0	24.4	24.8	25.2	25.7
Primary income, net	-2.1	-0.9	1.0	1.7	0.3	0.6	0.3	-0.2	-0.7	-1.1
o/w interest returns on CBI reserves	0.5	1.4	4.5	4.6	4.1	3.7	3.2	2.8	2.6	2.4
o/w dividends to IOCs and interest payment on foreign debt	2.5	2.4	3.6	2.9	3.8	3.2	3.0	3.1	3.3	3.5
Secondary income, net	-0.3	-0.9	1.0	0.7	-0.1	-0.2	-0.3	-0.3	-0.3	-0.2
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account (net outflows +)	13.3	42.1	18.0	-0.6	0.5	-5.1	-3.8	-2.2	-0.9	0.5
FDI, net	2.8	2.3	5.6	7.1	8.6	9.1	9.1	9.7	9.8	9.7
Portfolio investment, net	-0.3	-0.1	0.2	-1.3	-0.2	-2.3	-2.2	-2.5	-0.7	-0.7
Other investment <sup>1</sup> , net	0.0	16.5	-8.0	6.7	1.3	0.0	-1.2	-3.1	-4.4	-4.8
Official, net	9.4	18.7	3.7	4.8	4.8	5.0	5.3	4.0	3.2	3.3
Private, net <sup>2/</sup>	-9.4	-2.2	-11.6	1.9	-3.5	-5.0	-6.6	-7.1	-7.6	-8.1
Gross International Reserves (increase +, excl. valuation effects)	10.8	23.3	20.1	-13.0	-9.2	-11.9	-9.5	-6.3	-5.6	-3.8
Gross International Reserves (increase +, incl. valuation effects)	9.4	32.8	15.1	-11.5	-9.2	-11.9	-9.5	-6.3	-5.6	-3.8
Errors and omissions	0.4	-3.3	-2.3	-6.0	0.0	0.0	0.0	0.0	0.0	0.0
(in percent of GDP)	0.2	-1.1	-0.9	-2.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items										
GIR (end of period)	63.8	96.6	111.7	100.3	91.0	79.2	69.7	63.4	57.8	54.0
GIR (in months of imports of goods and services)	12.3	14.2	15.0	11.1	11.1	9.6	8.0	7.0	6.1	5.5
Reserves (as a percentage of ARA metric)	291.3	358.1	442.1	392.0	372.8	329.9	280.8	247.9	219.3	199.2
GDP	210.8	288.1	270.8	274.6	265.2	268.5	287.0	304.6	324.4	345.0
Of which: Non-oil GDP	114.0	122.7	157.2	167.5	173.5	181.2	192.0	203.6	217.0	231.3

Sources: Iraqi authorities; and Fund staff estimates and projections.

1/ includes KRG exports revenues

2/ includes net FX flows in the informal and parallel markets.

**Table 6. Iraq: Monetary Survey, 2021–30**  
(In billions of Iraqi dinars; unless otherwise indicated)

	2021	2022	2023	2024	Projections					
					2025	2026	2027	2028	2029	2030
Net foreign assets	121,205	182,641	178,135	166,814	151,194	132,533	117,295	106,462	96,862	89,818
Of which: CBI	93,089	140,638	145,639	130,811	118,791	103,371	91,048	82,840	75,603	70,685
Net domestic assets	18,532	-14,513	2,673	6,152	38,362	66,266	94,620	118,784	144,230	171,378
Domestic claims	59,129	30,437	45,830	67,059	102,314	133,416	165,127	192,816	221,964	252,999
Net claims on general government	29,599	-1,506	9,428	24,635	34,310	70,808	112,623	155,528	203,594	257,142
Claims on general government	72,562	76,035	77,680	87,738	100,412	136,910	178,725	221,631	269,696	323,245
less: Liabilities to general government	-42,963	-77,541	-68,252	-63,103	-66,103	-66,103	-66,103	-66,103	-66,103	-66,103
Claims on other sectors	29,530	31,943	36,402	42,424	68,005	62,608	52,504	37,288	18,370	-4,143
Other Item Net (OIN)	-40,598	-44,950	-43,157	-60,907	-63,952	-67,150	-70,507	-74,033	-77,734	-81,621
Broad money	139,737	168,128	180,808	172,966	189,556	198,799	211,915	225,245	241,092	261,197
Currency outside banks	71,526	82,032	94,621	93,337	98,046	102,333	104,605	106,805	109,755	111,673
Transferable deposits	48,418	64,456	65,697	58,622	66,376	69,971	77,836	85,909	95,264	108,456
Other deposits	19,793	21,640	20,489	21,008	25,134	26,495	29,474	32,531	36,073	41,068
Memorandum items										
Broad money (percentage growth)	16.7	20.3	7.5	-4.3	9.6	4.9	6.6	6.3	7.0	8.3
Broad money (in percent of GDP)	45.7	40.3	50.7	48.5	55.0	57.0	56.8	56.9	57.2	58.2
M2 velocity (based on non-oil GDP)	1.2	1.1	1.1	1.3	1.2	1.2	1.2	1.2	1.2	1.2
Credit to the private sector (percentage growth)	18.5	16.8	11.7	14.3	5.4	8.4	9.1	11.1	11.3	11.3
Credit to the private sector (in percent of non-oil GDP)	20.6	22.3	21.5	23.3	23.7	24.6	25.4	26.6	27.7	29.0

Sources: Iraqi authorities; and Fund staff estimates and projections.

**Table 7. Iraq: Central Bank Balance Sheet, 2021–30**  
(In billions of Iraqi dinars; unless otherwise indicated)

	2021	2022	2023	2024	Projections					
					2025	2026	2027	2028	2029	2030
Net foreign assets	93,089	140,638	145,639	130,811	118,791	103,371	91,048	82,840	75,603	70,685
Foreign assets	93,093	140,642	145,762	130,839	118,819	103,398	91,076	82,868	75,630	70,712
Official reserve assets	92,526	140,086	145,257	130,347	118,327	102,907	90,584	82,376	75,139	70,221
Gold	8,169	11,018	12,293	17,834	18,013	18,193	18,375	18,558	18,744	18,931
Other	84,357	129,068	132,964	112,513	100,315	84,714	72,210	63,818	56,395	51,289
SDR holdings and reserve position in the Fund	0	0	0	0	0	0	0	0	0	0
Other foreign assets	568	556	505	491	491	491	491	491	491	491
Foreign liabilities	-5	-5	-123	-28	-28	-28	-28	-28	-28	-28
Net domestic assets	17,049	4,605	19,517	11,508	28,599	45,777	59,477	68,991	78,489	88,653
Domestic assets	48,631	37,016	47,545	49,797	52,929	78,604	105,384	128,470	152,856	178,357
Net claims on general government	42,675	25,536	34,677	36,201	39,333	65,007	91,788	114,874	139,259	164,761
Claims on general government	48,492	49,237	45,208	43,999	47,131	72,806	99,586	122,673	147,058	172,559
Domestic currency deposits	-854	-2,478	-2,642	-4,383	-4,383	-4,383	-4,383	-4,383	-4,383	-4,383
Foreign currency deposits	-4,963	-21,223	-7,889	-3,415	-3,415	-3,415	-3,415	-3,415	-3,415	-3,415
Monetary policy instruments <sup>1/</sup>	-1,105	-1,722	-1,802	-2,594	-4,539	-7,943	-11,914	-17,871	-26,806	-40,209
Other items net	-30,477	-30,689	-26,226	-35,695	-19,791	-9,896	-4,948	-2,474	-1,237	-618
Reserve money	110,137	145,242	165,156	142,319	147,390	149,148	150,525	151,830	154,092	159,338
Currency in circulation	76,562	87,562	101,481	100,543	105,253	108,819	110,896	113,097	116,047	117,964
Bank reserves	33,575	57,681	63,675	41,776	42,138	40,329	39,629	38,734	38,045	41,374
Other liquid liabilities	...	...	...	...	...	...	...	...	...	...
Memorandum items										
Reserve money (annual growth, in percent)	23.9	31.9	13.7	-13.8	3.6	1.2	0.9	0.9	1.5	3.4
Currency in circulation (annual growth, in percent)	15.9	14.4	15.9	-0.9	4.7	3.4	1.9	2.0	2.6	1.7

Sources: Iraqi authorities; and Fund staff estimates and projections.

<sup>1/</sup> This mainly represents the ID standing overnight facilities, US\$ deposits of commercial banks, domestic currency deposits, and CBI bills.

## Annex I. Implementation of the 2024 Article IV Recommendations

Key Recommendations	Status
<b>Fiscal.</b> Stabilizing debt over the medium term through fiscal adjustment, while protecting critical social and capital spending, can be achieved by reducing the outsized public wages and mobilizing additional non-oil revenues. Improving the public financial management through strictly controlled and monitored access to extrabudgetary funds and adhering to the government guarantee framework.	<b>Not Implemented.</b> The authorities have yet to design their medium-term consolidation plan and specific policy measures to better control the wage bill and mobilize non-oil revenue.
<b>Monetary and financial sector.</b> Absorbing the large excess liquidity by ensuring better coordination between fiscal and monetary policies and improving monetary policy transmission. Restructure largest SOBs.	<b>Partially Implemented.</b> Excess liquidity declined as CBI resumed its liquidity operations in November 2024, but it remains at relatively high levels. Plans for SOB restructuring have been laid out, but implementation has not started yet.
<b>Governance.</b> Continue to strengthen AML/CFT framework including in the financial sector. Adopting an updated anti-corruption strategy for the 2025-2030 period, along with designing and enforcing adequate follow-up mechanisms. Enhancing Public procurement framework and business regulations, updating asset declaration and conflict of interest policies, and protecting enforcement officials' independence.	<b>Partially Implemented.</b> To address the deficiencies identified in the MENAFATF report, the authorities are taking steps that include submitting to Parliament an amended AML/CFT law and reassessing sector level risks (¶127). A new anti-corruption strategy for the period 2025-2030 has not been adopted. However, authorities have taken steps to design and adopt the new strategy.
<b>Social safety nets.</b> Expanding targeted social transfers by ensuring PDS target the more vulnerable households. A comprehensive pension reform by setting rules and benefits, aligning public and private pension systems to reduce distortions in the labor market and reduce burden on public sector.	<b>Partially Implemented.</b> The improved targeting of PDS for the most vulnerable households resulted in savings of 0.5 percent of GDP. Pension system reform remains urgent.
<b>Labor markets.</b> Enact legislative reforms to remove gender-based work restrictions and increase equality and protection in the labor market. Reduce costs of formalization, enact legislative reforms to phase-out mandatory hiring in the public sector. Strengthen vocation training and technical and digital skills.	<b>Not Implemented</b>
<b>Electricity Sector.</b> Develop a reform strategy to improve cost recovery, reduce arrears.	<b>Partially Implemented.</b> The Ministry of Electricity has developed a plan to reduce distribution losses and increase revenues, resulting in a 20 percent increase in collection in 2024. However, improvements to the distribution network, including the installation of smart meters, lag behind. Moreover, full cost recovery can only be achieved by increasing the tariff rate and limiting subsidization as, for most consumers, the average tariff remains below service cost.

## Annex II. External Sector Assessment

**Overall Assessment.** The external position of Iraq in 2024 was broadly in line with the level implied by fundamentals and desirable policies, with a current account surplus of 2 percent of GDP. The current account balance is projected to turn into a deficit in 2025 before gradually improving over the medium-term, largely driven by the path of oil export revenues. External buffers remain strong, but, absent policy reforms, they are expected to weaken in the face of the worsening of the current account and growing government financing needs. The overall assessment is subject to data quality issues (Annex V).

**Potential Policy Responses.** Tightening fiscal policy (while protecting critical capital and social spending) and implementing structural reforms will be essential to maintaining sustainable external balances and foreign exchange buffers. These measures can enhance resilience against oil price volatility, support structural transformation amid the global energy transition, and promote intergenerational equity.

### Foreign Assets and Liabilities: Position and Trajectory

**Background.** Iraq's net foreign asset position has been strongly positive on account of large FX reserves and government deposits from oil revenues amidst moderate levels of foreign debt. While information on the foreign assets position of the private sector is unavailable, public sector data suggests NIIP level of more than US\$50 billion at the end of 2024. This level is expected to decline to near US\$10 billion by 2030, absent policy adjustment, as foreign debt increases, and CBI reserves are used up to finance weakening current and financial accounts and growing government financing needs.

**Assessment.** Despite the high level of 2024 public sector NIIP, its downward trajectory raises concerns around the medium-term sustainability of current levels of fiscal spending and associated FX pressures.

2024 (percent GDP)	NIIP: 18	Gross Assets: 38	Debt Assets: NA	Gross Liab.: 20	Debt Liab.: 20
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### Current Account

**Background.** The current account balance (CA) recorded a surplus of 2 percent of GDP in 2024, a significant decline from 2022 and 2023 levels, but broadly in line with the pre-Covid years (2015–19) average balance of 2 percent of GDP. This decline was driven by a near US\$20 billion increase in FX payments for goods imports while export revenues remaining nearly unchanged amidst binding OPEC+ restrictions. While the goods trade surplus reached US\$20.6 billion, the services deficit continued to be significant. Income balances in Iraq remain near 0 on average, as large dividends payments to international oil companies are offset by strong interest returns on the large stock of CBI FX reserves. The CA is expected to turn into a deficit in 2025 and widen in 2026, followed by gradual improvement over the medium-term driven by the recovery in oil prices and expanding production capacity.

	CA model 1/ (in percent of GDP)	REER model
<b>CA-Actual</b>	<b>2.0</b>	
Cyclical contributions (from model) (-)	0.1	
Natural disasters and conflicts (-)	0.6	
<b>Adjusted CA</b>	<b>1.2</b>	
<b>CA Norm</b> (from model) 2/	<b>0.8</b>	
Adjustments to the norm (+)	0.0	
<b>Adjusted CA Norm</b>	<b>0.8</b>	
<b>CA Gap</b>	<b>0.4</b>	<b>0.5</b>
o/w Relative policy gap	-1.2	
Elasticity	-0.3	
<b>REER Gap</b> (in percent)	<b>-1.3</b>	<b>-1.6</b>
1/ Based on the EBA-lite 3.0 methodology		
2/ Cyclically adjusted, including multilateral consistency adjustments.		

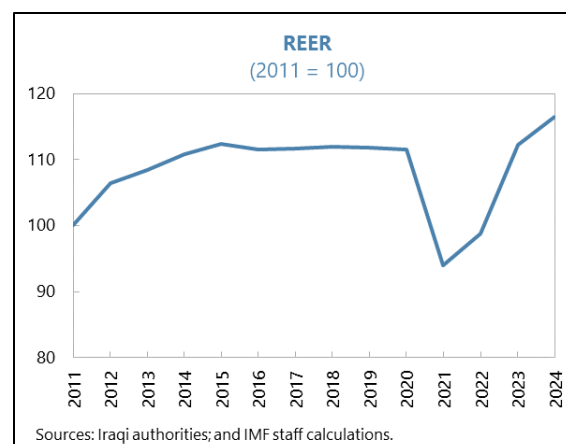
**Assessment.** The CA model assesses the 2024 current account as broadly in line with the level implied by fundamentals and desirable policies, with a CA gap of less than 1 percent. The strong contribution from the fiscal policy gap reflects the need for

consolidation efforts. The consumption module suggests a significantly higher CA norm at 18.2 percent of GDP. While this high norm is driven in part by the stylized design of the module, it points at the significant external balancing efforts needed to secure sufficient savings towards intergenerational equity

## Real Exchange Rate

**Background.** The REER is estimated to have appreciated by 3.8 percent in 2024 mirroring a moderating inflation trend. This follows a 13.7 percent appreciation in 2023 following the revaluation of the fixed exchange rate. Absent fiscal adjustment, appreciation pressures are expected to continue over the medium-term and exert downward pressure on FX reserves and external balances.

**Assessment.** The CA model assess the REER gap to be -1.3 percent, using an estimated -0.3 elasticity, while the REER model suggests -1.6 percent. The higher CA norm from the consumption module suggests the need to limit appreciation pressures coming from the fiscal channel to maintain adequate future savings.



## Capital and Financial Accounts: Flows and Policy Measures

**Background.** The financial account in 2024 recorded an estimated US\$0.6 billion, reflecting over US\$12 billion net financial outflows, more than offset by reserves drawdown. Financial outflows were driven by net FDI outflows (US\$ 7 billion) on account of cost recovery by the international oil companies (near 6-7 percent of oil production), net repayment of government and private sector foreign liabilities (US\$6 billion), and private assets accumulation of US\$2 billion (down from US\$11.6 billion net repatriation in 2023 on the back of changes to filing requirements for FX access and improvements in customs and imports recording systems). Government drawdown of foreign deposits (US\$3.3 billion) helped offset part of the outflows. There are no restrictions to importers' access to FX and the CBI has been working towards streamlining related administrative procedures.

**Assessment.** Stronger monitoring of parallel market volumes is needed to ensure adequate understanding of the informal sector and anticipate related emerging vulnerabilities. Restrictions on private sector access to FX should be lifted as conditions allow with careful sequencing of fiscal and FX reforms.

## FX Intervention and Reserves Level

**Background.** Gross reserves declined to US\$100.3 billion at end-2024 (over 11 months of imports and near 400 percent of the adjusted ARA metric), down by US\$11.5 billion from end-2023, reflecting the sum of US\$5.5 billion from the CA, US\$12.4 billion net financial outflows, and US\$6 billion errors and omissions along with near US\$2 billion valuation effects ). The average of CBI auctions in the FX market exceeded US\$271 million per day, in 2024 relative to US\$234 million historical average. Reserves are expected to continue to decline over the medium term, absent fiscal policy adjustment, to finance growing imports and government financing needs.

**Assessment.** The 2024 gross reserve level is adequate, surpassing the benchmark range of 100–150 percent of the Fund's ARA metric; however, medium-term adequacy will be challenged if growing government financing needs lead to significant depletion of CBI reserves

## Annex III. Risk Assessment Matrix

Source of Risks	Likelihood	Expected Impact on Economy	Policy Response
<b>Global Risks</b>			
<b>Trade policy and investment shocks.</b> Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	<b>High</b>	<b>Medium.</b> Historically, Iraq has relied on Iranian energy imports to meet 30-40 percent of its electricity needs, primarily through natural gas. The recent US decision to end the sanctions waiver allowing these imports could have economics repercussions, potentially leading to increased electricity outages and heightened public dissatisfaction.	Seeking alternative energy sources including gas imports from other countries, expend its domestic production to achieve energy independence and reduce its reliance on external sources, and accelerate its energy transition plan by investing more in renewable energy sources
<b>Commodity price volatility.</b> Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability	<b>Medium</b>	<b>High.</b> A decline in oil prices would lower export revenues, reduce Iraq's fiscal and external balances, and growth. This would also limit the government's ability to sustain its welfare system, exacerbating the risks of political instability and social unrest. A prolonged period of low oil and gas prices could deplete the external buffers that have recently been rebuilt and result in increased indebtedness.	Enhance resilience to oil price shocks through promoting the development of the non-oil private sector and accelerating mobilization of non-oil tax revenues. Strengthen social safety nets to better protect the most vulnerable.
<b>Regional conflict.</b> Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	<b>Medium</b>	<b>High.</b> A broader conflict could disrupt trade, deteriorate domestic security conditions, and reduce investment (including FDI) in Iraq. Moreover, disruption to shipping routes and damage to oil infrastructures can result in oil production losses that could outweigh the impact of potential associated price spikes. On the other hand, a conflict intensification could drive oil prices upwards, resulting in larger oil revenues and external and fiscal buffers.	Strengthen resilience to potential disruptions to oil revenues by speeding up mobilization of non-oil tax revenues and economic diversification.
<b>Deepening geoeconomic fragmentation.</b> Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor	<b>High</b>	<b>High.</b> Geopolitical developments in the Middle East have not had a direct and significant impact on the Iraqi economy so far, but Iraq's trade and financial linkages with affected	Enhance regional integration and global cooperation, diversify the economy beyond oil, and improve the



mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.		countries (Syria, Jordan) and Iran are important. Moreover, political instability, security threats, and regional tensions, as well as external pressures from regional power struggles could disrupt investment (including FDI), trade, and infrastructure development, limiting economic potential. Moreover, significant geopolitical shock could push oil prices higher, leading to increased oil revenues and external and fiscal buffers.	business environment to attract investment.
<b>Domestic Risks</b>			
<b>Renewed political divisions.</b> Iraq's 2025 parliamentary elections are set against a backdrop of escalating domestic challenges that could significantly impact the nation's stability. Political tensions could intensify, exacerbated by regional conflicts and internal power struggles, which can reverse the political stability. the rising geopolitical tensions and ongoing dispute with the KRG over oil revenue sharing, undermining economic reforms.	<b>Medium</b>	<b>High.</b> Political instability, including internal disputes within key alliances and security concerns, could deter both domestic and foreign investment. Investors typically seek stability, and heightened uncertainty around the elections may delay key economic projects, capital inflows, and private sector activity. Moreover, political parties may push for increased public spending to secure voter support, leading to higher fiscal deficits.	Build national consensus on reform priorities. Improving public services and addressing corruption will be critical to diffuse social tensions.
<b>Natural disasters related to climate change.</b> More frequent natural disasters deal severe damage to infrastructure and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium term growth.	<b>Medium</b>	<b>Medium.</b> More frequent heat waves, droughts, sandstorms and the accompanying salination and desertification could reduce long-term growth potential and lead to significant economic dislocations and social unrest.	Build resilience to climate change. Finalize and publish Iraq's national adaptation plan. Ensure availability of fiscal resources over the medium term for investments in climate adaptation.

## Annex IV. Public Sector Debt Sustainability Analysis

Iraq: Risk of Sovereign Stress			
Horizon	Mechanical signal	Final assessment	Comments
<b>Overall</b>	...	<b>High</b>	The overall risk of sovereign stress is high driven in part by a history of elevated volatility incl. extreme past events (aftermath of 2003 war, 2014-15 ISIS). The assessment is subject to high uncertainty from energy prices, fiscal policy reforms, geopolitical tensions and the capacity of the CBI and domestic financial sector to absorb growing medium-term financing needs, and overcome its own balance sheets vulnerabilities.
<b>Near term 1/</b>			
<b>Medium term</b>	<b>High</b>	<b>High</b>	Medium-term risks are high, absent fiscal adjustment, on account of i) high debt burden indicators; ii) elevated uncertainty from geopolitical tensions and oil price volatility, incl. extreme events from the past (aftermath of 2003 war, 2014-15 ISIS); iii) worsening fiscal position under the baseline, given the downward trajectory in oil prices; and iii) diminishing domestic financing buffers amidst growing CBI and financial sector exposure to the sovereign.
Fanchart	<b>High</b>	...	
GFN	<b>High</b>	...	
Stress test	Comm. Prices	...	
<b>Long term</b>	...	<b>High</b>	Long-term risks are high given Iraq's strong dependence on oil revenues and energy transition risks.
<b>Sustainability assessment 1/</b>	Not required for surveillance countries	Not required for surveillance countries	
<b>Debt stabilization in the baseline</b>			No
DSA Summary Assessment			
Iraq's public debt-to-GDP ratio is expected to reach more than 78 percent of GDP by 2030, relative to 47 percent at the end of 2024, with gross financing needs averaging more than 17 percent of GDP over the medium-term. Absent fiscal policy reforms, domestic financing sources are expected to significantly tighten amid growing CBI and domestic banks exposure to the public sector, partly mitigated by Iraq's strong potential for tapping international capital markets, leveraging its high levels of FX			
Source: Fund staff.			
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.			
1/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.			

Figure 1. Iraq: Debt Coverage and Disclosures

										Comments
1. Debt coverage in the DSA: 1/				CG	GG	NFPS	CPS	Other		Not applicable
1a. If central government, are non-central government entities insignificant?									0	
2. Subsectors included in the chosen coverage in (1) above:										
Subsectors captured in the baseline									Inclusion	
CPS	NFPs	GG: expected	CG	1	Budgetary central government				Yes	
				2	Extra budgetary funds (EBFs)				No	
				3	Social security funds (SSFs)				No	
				4	State governments				No	
				5	Local governments				No	
				6	Public nonfinancial corporations				No	
				7	Central bank				No	
				8	Other public financial corporations				No	
3. Instrument coverage:				Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/		
4. Accounting principles:				Basis of recording		Valuation of debt stock				
				Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/		
5. Debt consolidation across sectors:				Consolidated		Non-consolidated				

**Color code:** ■ chosen coverage ■ Missing from recommended coverage ■ Not applicable

#### Reporting on Intra-Government Debt Holdings

		Holder		Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
		Issuer										
CPS	NFPs	GG: expected	GG	1	Budget. central govt							0
				2	Extra-budget. funds							0
				3	Social security funds							0
				4	State govt.							0
				5	Local govt.							0
				6	Nonfin pub. corp.							0
				7	Central bank							0
				8	Oth. pub. fin. corp							0
Total				0	0	0	0	0	0	0	0	

1/ CG=Central government; GG=General government; NFPs=Nonfinancial public sector; PS=Public sector.

2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.

3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.

4/ Includes accrual recording, commitment basis, due for payment, etc.

5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).

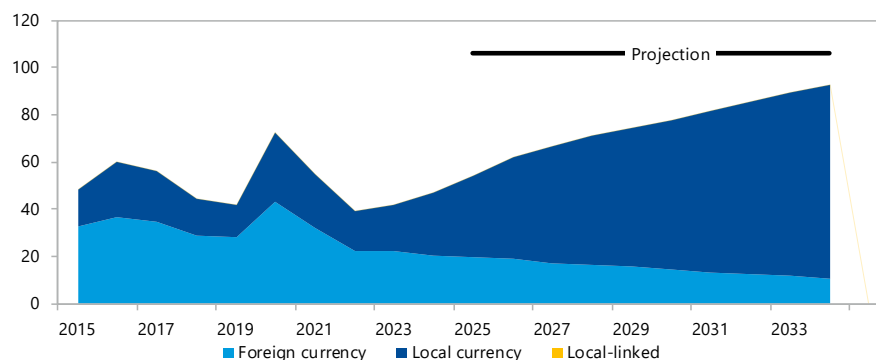
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.

7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The coverage of the SRDSA is for central government only. The authorities do not reported consolidated accounts including EBFs and SSFs. The mission have enquired debt data availability for EBFs and SSFs and are waiting for the authorities' response.

**Figure 2. Iraq: Public Debt Structure Indicators****Debt by Currency**

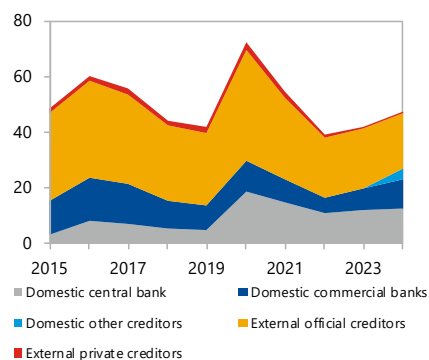
(Percent of GDP)



Note: The perimeter shown is central government.

**Public Debt by Holder**

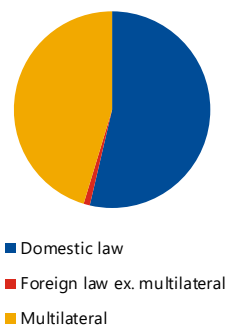
(Percent of GDP)



Note: The perimeter shown is central government.

**Public Debt by Governing Law, 2024**

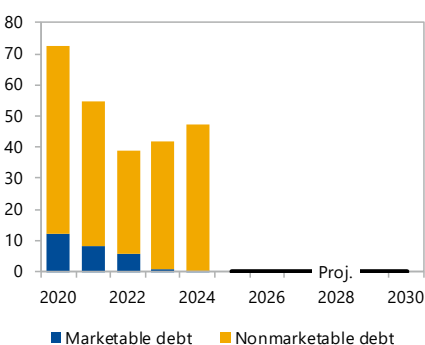
(Percent)



Note: The perimeter shown is central government.

**Debt by Instruments**

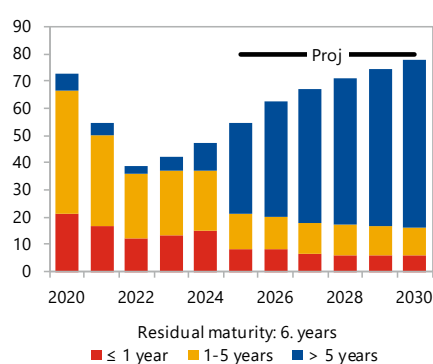
(Percent of GDP)



Note: The perimeter shown is central government.

**Public Debt by Maturity**

(Percent of GDP)



Note: The perimeter shown is central government.

Over the medium term, the baseline assumes increased net financing from domestic banks and some access to foreign bond markets. However, residual financing needs are expected to rise substantially, met by the CBI through the issuance of T-bills, amortized over 10 years—reflecting an implicit assumption of continued rollover.

Figure 3. Iraq: Medium – Term Risk Assessment

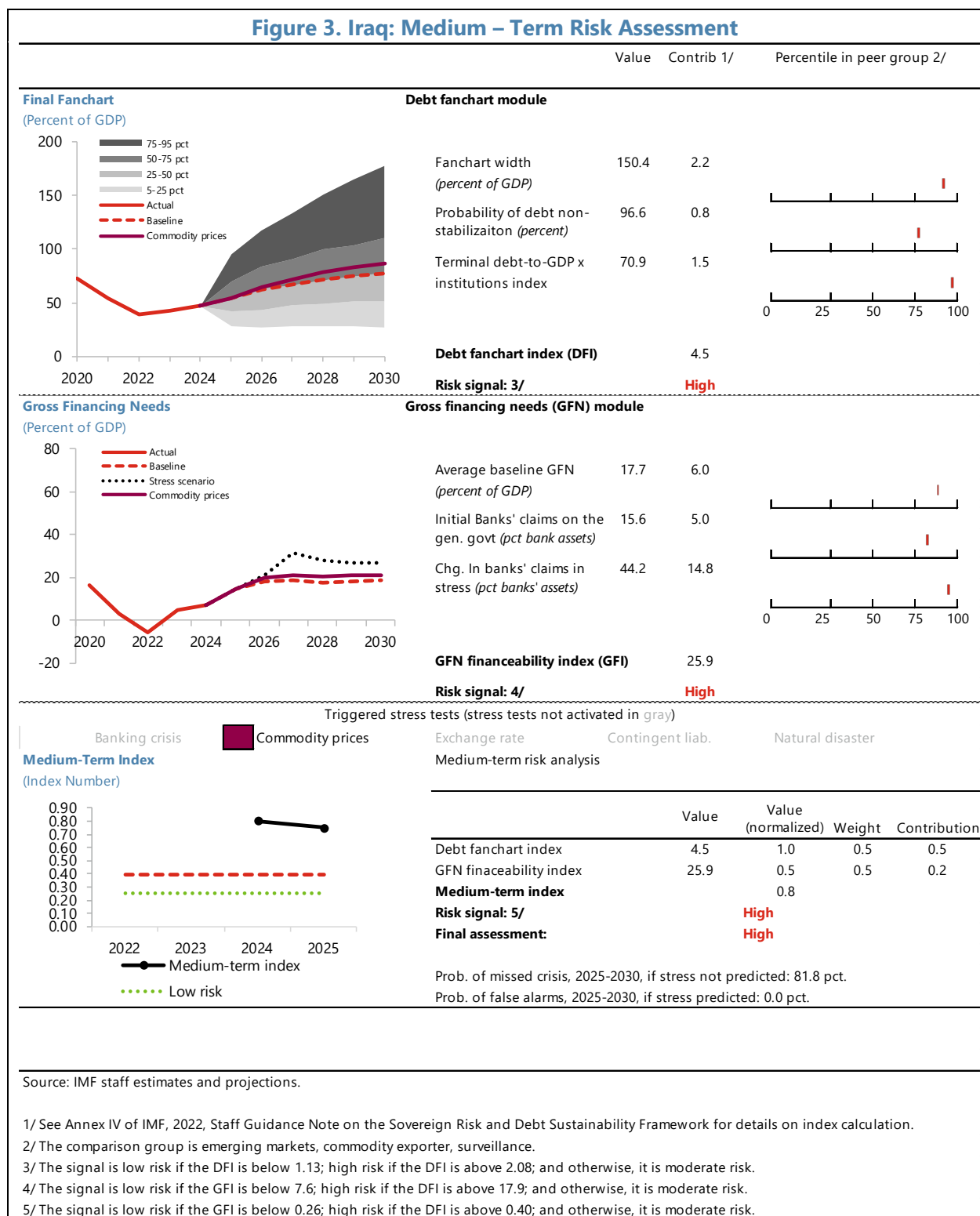
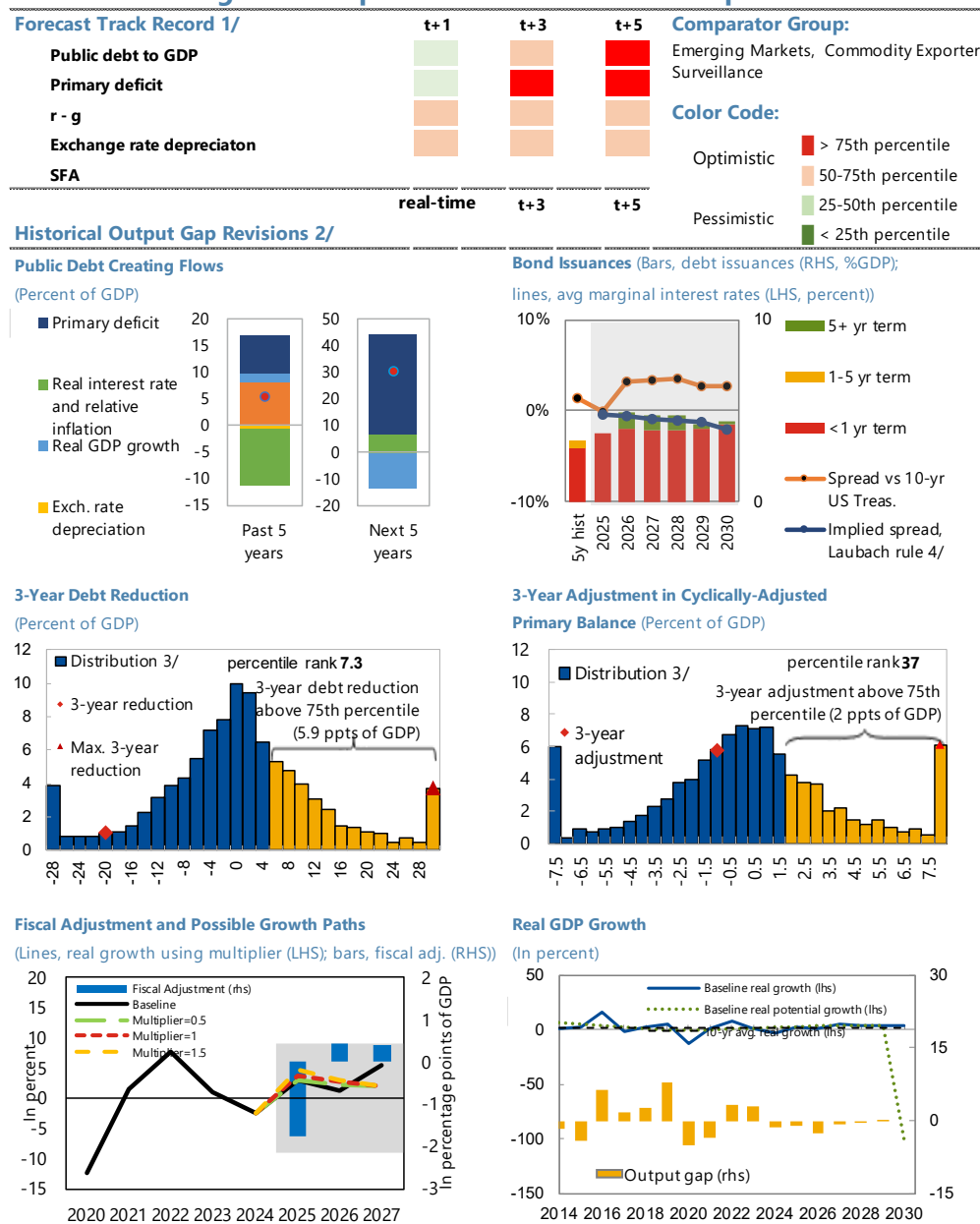


Figure 4. Iraq: Realism of Baseline Assumptions



Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates)

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

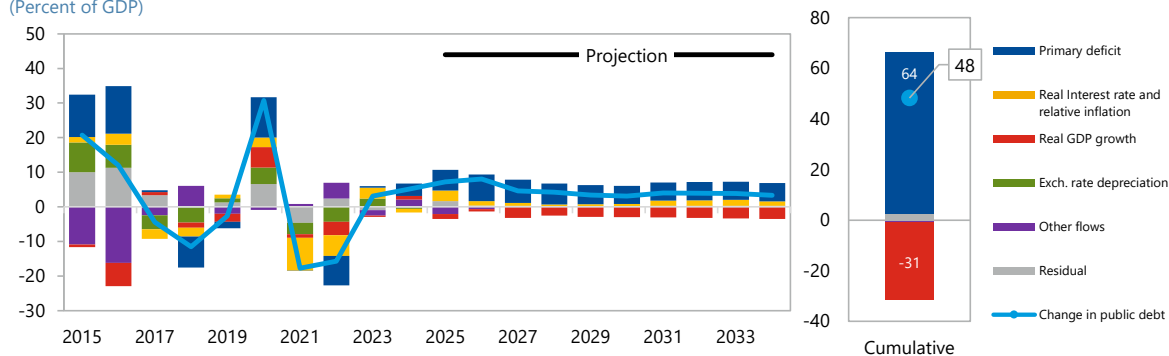
**Table 2. Iraq: Baseline Scenario**

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	47.2	54.3	62.3	66.9	71.1	74.5	77.6	81.6	85.5	89.3	92.6
Change in public debt	5.1	7.2	8.0	4.6	4.2	3.4	3.1	4.0	3.9	3.9	3.3
Contribution of identified flows	5.3	5.5	7.6	4.5	4.2	3.4	3.1	3.8	3.8	3.7	3.2
Primary deficit	3.6	6.0	7.7	6.7	6.1	5.5	5.3	5.3	5.3	5.3	5.3
Noninterest revenues	39.2	36.8	34.5	35.0	35.1	35.1	34.8	34.8	34.8	34.8	34.8
Noninterest expenditures	42.8	42.8	42.3	41.7	41.2	40.6	40.1	40.1	40.1	40.1	40.1
Automatic debt dynamics	-0.3	1.6	0.5	-2.4	-2.0	-2.3	-2.3	-1.6	-1.7	-1.7	-2.2
Real interest rate and relative inflation	-1.0	3.0	1.2	0.8	0.5	0.5	0.6	1.4	1.6	1.7	1.3
Real interest rate	-1.1	4.7	1.6	0.9	0.4	0.4	0.6	1.6	1.7	1.8	1.3
Relative inflation	0.0	-1.7	-0.4	-0.1	0.1	0.1	0.0	-0.1	-0.1	-0.1	0.0
Real growth rate	1.0	-1.4	-0.7	-3.2	-2.5	-2.8	-3.0	-3.1	-3.2	-3.4	-3.5
Real exchange rate	-0.3	...	...	...	...	...	...	...	...	...	...
Other identified flows	2.1	-2.1	-0.6	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	2.2	-2.0	-0.5	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Contribution of residual	-0.3	1.7	0.4	0.1	-0.1	-0.1	0.0	0.1	0.1	0.2	0.1
Gross financing needs	7.3	14.8	18.1	18.4	17.7	18.2	19.0	20.1	21.3	22.5	23.5
of which: debt service	3.8	8.9	10.4	11.8	11.7	12.7	13.7	14.9	16.1	17.3	18.3
Local currency	2.7	7.2	8.8	10.2	10.8	12.2	13.1	14.3	15.5	16.8	17.9
Foreign currency	1.1	1.7	1.6	1.6	0.9	0.6	0.6	0.6	0.5	0.5	0.4
Memo:											
Real GDP growth (percent)	-2.3	3.1	1.4	5.4	3.9	4.1	4.1	4.1	4.1	4.1	4.1
Inflation (GDP deflator; percent)	2.6	-6.3	-0.1	1.4	2.2	2.3	2.2	0.9	0.9	0.9	1.6
Nominal GDP growth (percent)	0.2	-3.4	1.2	6.9	6.2	6.5	6.4	6.4	6.4	6.4	6.4
Effective interest rate (percent)	0.0	3.3	2.9	2.9	2.9	2.9	3.0	3.0	3.1	3.1	3.1

**Contribution to Change in Public Debt**

(Percent of GDP)



## Annex V. Data Issues

1. Iraq: Data Adequacy Assessment for Surveillance Data Adequacy Assessment Rating 1/							
D							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	D	B	D	D	B	C	D
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	C	B	D	D	B		
Granularity 3/	D		C	D	B		
			C		B		
Consistency			D	D		C	
Frequency and Timeliness	D	A	D	C	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see <i>IMF Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						



## 1. Iraq: Data Adequacy Assessment for Surveillance

### Data Adequacy Assessment Rating 1/ (concluded)

**Rationale for staff assessment.** Data provision to the Fund has serious shortcomings that significantly hamper surveillance. The Central Statistics Organization (CSO) compiles quarterly and annual GDP by production at current and constant prices. However, frequent significant revisions -often with substantial delays- pose a challenge and represent a major issue for forecasting economic indicators and raise questions about data quality. The lack of regular, reliable and comprehensive source data for some industries and for GDP by expenditure undermine the quality of the national accounts. The CSO compiles and disseminates monthly CPI data, however the CPI covers only the urban areas in all governorates. Moreover, technical challenges persist, affecting quality and causing delays in data release in some cases. The CPI weights are being updated, sourced from the 2022 Household Social and Economic Survey (HSES). Government finance statistics have serious shortcomings in terms of coverage (e.g. lack of data on pension funds and KRG), expenditure by functions of the government, and reconciliation of above and below-the-line numbers. Consistent reporting of the stock and transactions in assets and liabilities are limited. Monetary and Financial data are reported by the CBI but with delays with monthly frequency. The CBI compiles and reports quarterly and annual balance of payments data, however the international investment position (IIP) has not been reported since 2016 (and refers to the 2014 data point). Moreover, the CBI does not report data on non-bank institutions, which limits the comprehensive analysis of the financial sector. External trade data has serious timeliness and quality shortcomings due to persisting weaknesses in the inter-institutional data sharing, the absence of reliable customs data, and inadequate source data provision for transactions of the international oil companies. Coverage of private sector imports are constrained since only goods that are paid for through the Iraqi banking system are captured, thus excluding imports through external payment arrangements. The external trade statistics omits the Kurdistan region and no estimates for smuggling are made.

**Changes since the last Article IV consultation.** There have been limited changes since the 2024 Article IV Consultations. Given that the CBI does not provide data on non-financial institutions, the rate for monetary and financial statistics is downgraded.

**Corrective actions and capacity development priorities.** METAC has conducted several missions in 2024 to improve national accounts, price statistics, financial and monetary statistics, and external sector statistics. METAC is helping the CSO to develop a set of supply and use tables to improve the methodology and coverage of GDP. METAC is also assisting the CSO to update the weights for the CPI using rapid response survey data, while the new HSES is underway. When the data from the HSES is available, METAC plans to assist the CSO to do the more comprehensive updating of the weights. METAC is also currently providing assistance to improve customs data, including the implementation of the Automated System for Customs Data (ASYCUDA), which will improve the reporting of external trade statistics. These initiatives are in pilot phases and have not yet been incorporated into the latest disseminated data. Remote 2024 STA balance of payments mission validated key data sources and statistical techniques and suggested way forward. Additionally, METAC has recently conducted its first diagnostic mission under the newly established GFS and PSDS workstream. The mission assessed the current conditions and the need for future technical assistance under METAC work program to help improve the compilation and dissemination of fiscal and debt statistics.

**Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff.** Given limitations with regional coverage of oil production, Staff adjusts oil production data using OPEC reports. The limitations with the import data also require Staff to use mirror data from Comtrade to estimate imports, while also making an adjustment for smuggling.

**Other data gaps.** Granular and regularly provided labor market data is limited.

## 2. Iraq: Data Standards Initiatives

Iraq participates in the Enhanced General Data Dissemination System (e-GDDS) and first posted its metadata in December 2009 but is yet to disseminate the data recommended under the e-GDDS.

## 3. Iraq: Table of Common Indicators Required for Surveillance As of May 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data <sup>6</sup>	Frequency of Reporting <sup>6</sup>	Expected Frequency <sup>6,7</sup>	Iraq <sup>8</sup>	Expected Timeliness <sup>6,7</sup>	Iraq <sup>8</sup>
Exchange Rates	Apr-25	May-25	D	D	D	D	...	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	Jan-25	Apr-25	M	M	M	M	1M	2M
Reserve/Base Money	Jan-25	Apr-25	M	M	M	M	2M	1M
Broad Money	Jan-25	Apr-25	M	M	M	M	1Q	2M
Central Bank Balance Sheet	Jan-25	Apr-25	M	M	M	M	2M	1M
Consolidated Balance Sheet of the Banking System	Jan-25	Apr-25	Q	Q	M	M	1Q	2M
Interest Rates <sup>2</sup>	Apr-25	Apr-25	M	M	M	M	...	1M
Consumer Price Index	Mar-25	May-25	M	M	M	M	2M	10D
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> –General Government <sup>4</sup>	NA	NA	NA	NA	A	A	3Q	...
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> –Central Government	Nov-24	Mar-25	M	M	Q	M	1Q	5M
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	Dec-24	Feb-25	A	A	Q	M, A	2Q	2-3M

### 3. Iraq: Table of Common Indicators Required for Surveillance As of May 2025 (concluded)

External Current Account Balance	Sep-23	Dec-24	Q	Q	Q	A	1Q	9-15M
Exports and Imports of Goods and Services	Sep-23	Dec-24	Q	Q	M	A	12W	9M
GDP/GNP	Dec-24	Apr-25	Q	Q	Q	A	1Q	10M
Gross External Debt	NA	NA	NA	NA	Q	Q	2Q	...
International Investment Position	NA	NA	NA	NA	A	A	3Q	...

<sup>1</sup> Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

<sup>2</sup> Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

<sup>7</sup> Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

<sup>8</sup> Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

## Annex VI. Improving Governance and Reducing Corruption

**1. Ongoing efforts to address governance and corruption weaknesses are welcome.** Steps have been taken to address shortcomings, which have contributed to recent improvements in international corruption perception indices. Accordingly, Iraq's score on Transparency International's Corruption Perceptions Index (CPI) rose from 16 in 2013 to 26 in 2024. Audits conducted by the Bureau of Supreme Audit (BSA), along with initiatives to strengthen public financial management and digitize corruption-prone processes, have played a key role in these gains.

**2. However, weak governance and pervasive corruption continue to significantly affect key state functions.** A third of Iraqis continue to identify corruption as the most pressing challenge facing the country.<sup>1</sup> Further, gaps remain on fiscal governance, financial sector oversight, the rule of law and AML/CFT, facilitated by deficiencies in data collection, lack of transparency, and insufficient accountability. The National Risk Assessment considers corruption as posing one of the two highest threat of money laundering in Iraq.<sup>2</sup>

**3. Corruption vulnerabilities are particularly acute in public spending and the oil and electricity sectors.**<sup>3</sup> The political agreements adopted post-2003, which initially were designed to ensure communal stability through power distribution, have been seen as fostering the exploitation of state institutions for personal and partisan gain, undermining credibility and integrity of government and obstructing reform efforts.<sup>4</sup> Furthermore, Iraq's economy is heavily reliant on oil, which has made the sector a focal point for corrupt practices. Government contracts, especially in the oil industry, have been affected by favoritism and embezzlement.<sup>5</sup> The electricity sector is also characterized by significant corruption vulnerabilities, which have hampered the country's capacity to develop a self-sufficient energy grid and have in occasion led to corruption investigations.<sup>6</sup>

### Anti-Corruption and Transparency Frameworks

**4. Improving policy and legal frameworks is critical to fight corruption effectively and recover assets lost.** Iraq has not updated its National Anti-corruption Strategy after the expiry of the previous one in 2024. Iraq's Penal Code No. 111 of 1969 addresses corruption-related offenses, primarily focusing on bribery involving public officials. Articles 307 to 314 criminalize the act of

<sup>1</sup> [Iraq-Country-Report-EN.pdf](#) P.4. 24 percent of respondents mentioned the economic situation, 10 percent mentioned public services, 9 percent instability, 9 percent foreign interference, and 8 percent terrorism.

<sup>2</sup> [MER-Iraq.pdf.coredownload.inline.pdf](#) p.41. para 139.

<sup>3</sup> [Iraq: overview of corruption and anti-corruption](#) Iraq: overview of corruption and anti-corruption U4, 2013. P.5. Also, for a more recent assessment on corruption vulnerabilities in the oil sector, review *Elite Capture and Corruption in Iraq: A Case Study of the Oil Sector*, Ali A. Allawi, Carnegie Endowment for International Peace, 2019. Also: [Overview-of-corruption-and-anti-corruption-in-Iraq 2021 PR final.pdf](#)

<sup>4</sup> U4. Iraq: Overview of Corruption and Anti-Corruption. April, 2013. [iraq-overview-of-corruption-and-anti-corruption-2020.pdf](#) For more recent assessment on corruption vulnerabilities in the oil, gas and electricity sectors, review the National Integrity and Anti-Corruption Strategy 2021-2024 ([StrategyNCIEnglish.pdf](#)) according to which the strategy was designed "Focusing on the exceptionally important corruption files starting from oil smuggling, the border crossings issues, the suspended investment projects, trespassing on the public and private possession."

<sup>5</sup> [Overview-of-corruption-and-anti-corruption-in-Iraq 2021 PR final.pdf](#)

<sup>6</sup> [UNDP IQ TM First Report English F.pdf](#) 2023. P.24. Also: [UNDP Unveils Comprehensive Report on Grand Corruption Cases in Kurdistan Region | United Nations Development Programme](#)

offering or accepting gifts or benefits to influence official duties. However, the current legal framework exhibits significant gaps. Notably, the Penal Code lacks adequate provisions addressing offenses like trading in influence, illicit enrichment, and private sector bribery.<sup>7</sup> The Penal Code should therefore be reformed to encompass a comprehensive range of missing corruption offenses, providing clear definitions and appropriate penalties for each, and aligning them with the United Nations Convention Against Corruption (UNCAC).

**5. A draft law on Right of Access to Information Law was filed with Parliament in 2024, but has not yet been approved.** Further, the draft law suffers from significant shortcomings, including vague exceptions for the disclosure of information and inadequate oversight mechanisms, which have raised concerns from civil society and other stakeholders. Adopting changes to align the draft law with best practices and ensuring swift enactment of the law should be a priority.

**6. The asset and interest declaration regime remains weak and poorly enforced.** Top-level public officials are legally required to submit asset declarations, but compliance is inconsistent, and enforcement mechanisms are inadequate.<sup>8</sup> The Federal Integrity Commission (NAZAHA), tasked with overseeing these declarations, lacks the necessary autonomy and resources to perform effective audits and enforce compliance. Enhancing NAZAHA's capacity and ensuring the publication of asset declarations are critical steps toward increasing transparency and accountability.

**7. The Extractive Industries Transparency Initiative (EITI) should be fully implemented.** While Iraq has made commitments to enhance transparency in the extractive sector, challenges remain in fully adhering to EITI standards, particularly concerning the timely publication of beneficial ownership data and comprehensive reporting on state-owned enterprise transactions. Accelerating the implementation of the 2019 EITI Standard is essential to improve governance in the oil and gas sectors.<sup>9</sup>

**8. Institutional safeguards are required to protect the independence of oversight bodies.** NAZAHA and the Bureau of Supreme Audit (BSA) face insufficient operational autonomy but have shown important results in identifying corruption instances. The current appointment mechanism for the head of NAZAHA presents significant shortcomings. The process relies solely on nomination by the Prime Minister, with limited transparency and no formal requirement for a competitive or merit-based selection procedure. While parliamentary approval is required, in practice, this step offers limited insulation from political influence. The absence of clear legal safeguards governing dismissal further exacerbates the vulnerability of NAZAHA's leadership. Strengthening the appointment framework—through an open, competitive process involving independent oversight—would be a critical step toward reinforcing NAZAHA's credibility and effectiveness.

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<sup>7</sup> [UNDP IQ TM First Report English F.pdf](#) P.29.

<sup>8</sup> [Iraq: 2024 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Iraq in: IMF Staff Country Reports Volume 2024 Issue 128 \(2024\)](#)

<sup>9</sup> [Iraq 2024 Validation Report | EITI](#)

## Rule of Law

**9. Rule of law challenges affect property rights and contract enforcement.** Public confidence in the judiciary is low, with 42 percent of Iraqis expressing significant trust in the legal system, while 44 percent report having no trust at all, well below the regional average.<sup>10</sup> While Iraq's legal framework nominally protects property rights, enforcement is hampered by outdated procedures, limited digitalization, a lack of transparency in property registries, institutional capacity constraints and competing land governance regimes.<sup>11</sup> These deficiencies complicate property transactions and undermine investor confidence. Recent efforts to accelerate E-land governance in Iraq are welcome.<sup>12</sup>

**10. Judicial independence remains fragile creating significant risks for the adequate protection of property rights and contract enforcement.** Despite constitutional provisions asserting the judiciary's independence, in practice, judges often face external pressures and challenges related to internal clashes of high courts withing the judiciary.<sup>13</sup> Concerns also exist regarding political interference, particularly in high-profile or sensitive cases due to political or economic implications. The absence of robust mechanisms to protect judges from such pressures compromises their ability to adjudicate justice impartially. Strengthening judicial independence requires implementing measures such as secure tenure, transparent appointment and promotion processes, and effective protections against intimidation and undue influence.

<sup>10</sup> [Iraq-Country-Report-EN.pdf](#) p.16.

<sup>11</sup> [Iraq - Context and Land Governance | Land Portal](#) November 2023.

<sup>12</sup> [Transitioning to E-land Governance in Iraq | United Nations in Iraq](#)

<sup>13</sup> [Iraq's Judiciary: Problems of Unrestricted Independence](#)

**Recommendations**

<b>Topic</b>	<b>Recommendation</b>	<b>Leading Agencies</b>
Transparency	<ol style="list-style-type: none"> <li>1. Strengthen oversight over the extractive sector by fully implementing the EITI Standard, publishing contracts, and disclosing beneficial ownership data.</li> <li>2. Reform the asset and interest declaration regime, ensuring digital submission, public access, and risk-based audits of top officials' declarations.</li> <li>3. Align draft law on Access to Information with best practice (e.g. the Model Law on Access to Information of the Organization of American States; Model Law on Access to Information in Africa 2013) and enact promptly.</li> </ol>	<p>Ministry of Oil</p> <p>NAZAHA</p> <p>NAZAHA and Ministry of Communications</p>
Anti-corruption Policy Instrument	<ol style="list-style-type: none"> <li>4. Adopt an updated National Anti-corruption Strategy, with clear goals, follow up instruments, and a coordinating body.</li> </ol>	NAZAHA
Institutional Arrangement	<ol style="list-style-type: none"> <li>5. Bolster the independence of NAZAHA through legal and institutional reforms, particularly to ensure a merit-based selection process, with strong vetting protocols conducted by credible anti-corruption experts with international experience.</li> </ol>	NAZAHA, BSA, Ministry of Justice
Rule of Law	<ol style="list-style-type: none"> <li>6. Enhance contract enforcement and property rights protection by digitizing registries, improving access to legal information, and ensuring due process.</li> <li>7. Accelerate the put in place of an E-Land management platform.</li> </ol>	Ministry of Justice (General Directorate of Land Registry and Cadastre (GDLRC))
Legal frameworks	<ol style="list-style-type: none"> <li>8. Reform the Penal Code or adopt dedicated anti-corruption legislation, clearly defining or revamping all corruption-related offenses, including trading in influence, obstruction of justice, private-sector corruption, and illicit enrichment.</li> </ol>	Ministry of Justice

## Annex VII. An Empirical Characterization of the Expenditure Multiplier for Iraq

The fiscal multiplier is a critical concept for understanding the impact of government spending and taxation on economic activity, particularly in the context of Iraq. As Iraq navigates fiscal challenges, including pro-cyclical fiscal spending and growing sustainability risks, analyzing the fiscal multiplier would help to assess the interlinkages between fiscal consolidation and non-oil real economic growth. The discussion in this Annex explores the magnitude of the spending multiplier, by assessing the effect of fiscal spending on non-oil GDP growth, while assuming taxes to remain unchanged. Let us consider the following model:

$$g_t^{noil} = \gamma_0 + \gamma_1 exp_t^{exoil} + \eta_t \quad (1)$$

Where  $g_t^{noil}$  is non-oil GDP growth at time  $t$ , and  $exp_t^{exoil}$  is real fiscal spending growth at time  $t$ , excluding oil-related investment spending.

Traditionally, the econometric estimation of the spending multiplier in a model similar to (1) is hampered by identification issues. To the extent that an economy engages in countercyclical fiscal policy, a simple OLS estimation of the impact of fiscal spending on growth is biased and inconsistent, due to the so-called simultaneous equation bias, as fiscal spending and growth mutually influence each other (while fiscal spending improves growth, policymakers tend to increase spending when the economy slows down).

However, in the case of Iraq tight linkages between spending and oil price cycles offer an empirical strategy to solve this identification problem with instrumental variables. For a correct identification of Equation (1) therefore we use an instrumental variable (IV) approach, instrumenting non-oil fiscal spending ( $exp_t^{exoil}$ ) with international oil prices  $z_t$ . The instrumental variable estimation of Equation (1) requires that  $\widehat{exp_t^{exoil}} = E(\widehat{bz}_t)$ . To the extent international oil prices are exogenous to Iraq's fiscal spending (excluding oil-related investment), and the exclusion restriction  $E(\widehat{exp_t^{exoil}}, \eta_t) = 0$  is verified, Model (1) is correctly identified. Estimation is performed using yearly frequency from 2000 to 2023, level variables are in log, growth rates are computed as log differences. The instrument is defined as the log difference of the international spot oil price. The spending multiplier is significant at 5 percent significance level, the p-value associated with the first-stage F Statistics is 1.75percent.

Results for the GMM estimation of the IV model above yield

$$g_t^{noil} = \begin{pmatrix} .028 \\ (.021) \end{pmatrix} + \begin{pmatrix} .423 \\ (.219) \end{pmatrix} exp_t^{exoil} \quad (2)$$

Where standard errors are in parathesis under coefficient estimates. Estimation results suggest an expenditure multiplier of around 0.42, so that a 1 percent increase in fiscal spending is associated with a coincident 0.42 percent increase in non-oil GDP. This estimate suggests that the adjustment effort presented in this report could be associated with an overall fiscal drag of around 0.9 percent on GDP growth over 5 years, excluding the growth-enhancing impact of the additional investment.





# IRAQ

June 11, 2025

## STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Middle East and Central Asia Department  
(In consultation with other departments)

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## FUND RELATIONS

(As of April 7, 2025)

**Membership Status:** Joined December 27, 1945; Article XIV

### General Resources Account

	SDR Million	Percent of Quota
Quota	1,663.80	100.00
Fund Holdings of Currency	1,373.86	82.57
Reserve Tranche Position	289.95	17.43

### SDR Department

	SDR Million	Percent of Quota
Net Cumulative Allocation	2,729.17	100.00
Holdings	141.89	5.20

**Outstanding Purchases and Loans: None**

### Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	July 07, 2016	July 06, 2019	3,831.00	1,494.20
Stand-By	Feb 24, 2010	Feb 23, 2013	2,376.80	1,069.56
Stand-By	Dec 19, 2007	Mar 18, 2009	475.36	0.00

### Projected Payment to the Fund

(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2025	2026	2027	2028	2029
Principal					
Charges/Interest	59.20	77.58	77.58	77.61	77.54
Total	<b>59.20</b>	<b>77.58</b>	<b>77.58</b>	<b>77.61</b>	<b>77.54</b>

**Implementation of HIPC Initiative:** Not Applicable

**Implementation of Multilateral Debt Relief Initiative (MDRI):** Not Applicable

## **Implementation of Catastrophe Containment and Relief (CCR): Not Applicable**

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

## **Safeguards Assessments**

The most recent safeguards assessment of the Central Bank of Iraq (CBI) was completed in April 2016. It concluded that the CBI continues to face capacity constraints in its operations, as well as a difficult security situation on the ground. In line with the IMF safeguards assessment's recommendations the Governing Council of the CBI approved a new charter for the Audit Committee prohibiting CBI executive representation on the committee. Also, the Parliament has approved amendments to the Law on the Central Bank of Iraq to strengthen CBI governance and the internal control framework. However, progress in strengthening the capacity of internal audit and financial reporting has been slow.

## **Exchange Rate Arrangement**

Iraq's de jure and de facto exchange rate arrangements are classified as a conventional peg arrangement. The Central Bank Law gives the Board of the Central Bank of Iraq (CBI) the authority to formulate exchange rate policy. Effective February 8, 2023, the official exchange rate was set at ID 1,320 according to the closing prices of the daily bulletin of gold & main currencies published on the CBI website ([www.cbi.iq](http://www.cbi.iq)).

There has been a change to Iraq's exchange system since the last Article IV Consultation. Iraq continues to avail itself of the transitional arrangements under Article XIV, Section 2 but no longer maintains any restrictions under this provision. Iraq does not maintain any current account exchange restrictions or MCPs. Starting January 2025, all international transactions have been routed through commercial banks via their correspondent banking relationships (CBRs). The Central Bank of Iraq (CBI) replenishes these balances weekly based on foreign exchange demand and conducts audits to ensure that the allocated funds are used in compliance with AML/CFT regulations. Private banks are also encouraged to broaden their CBR networks, particularly with non-U.S. financial institutions.

## **Article IV Consultation**

The last Article IV consultation was concluded on May 13, 2024. The staff report ([IMF Country Report No. 2024/128](#)) was published on May 16, 2024, and is available on the internet.

## **Resident Representative**

Mr. Mohamed Jaber has been the Resident Representative for Iraq, based in Amman since July 2024.

Iraq: Technical Assistance, 2016–25		
Department	Date	Purpose
FAD	March 2016	Public financial management law
	August 2016	Implementing a commitment controls system (METAC)
	February 2017	Revenue administration: tax policy
	February 2017	PFM: commitment controls, cash management, treasury single account (METAC)
	March 2017	Advice on a modern LTO/Tax administration
	July 2017	Seminar on commitment control system
	January 2018	Assist in the development of an IT System
	February 2018	Commitment controls, cash management and TSA (FAD-METAC)
	March 2018	Improved integration of asset and liability management framework
	April 2018	Follow-up on establishment and functioning of large taxpayer office
	July 2018	Follow-up on Treasury Single Account and Cash Flow Management Unit (METAC)
	July 2018	Budget classification and chart of accounts (METAC)
	August 2018	Implementation plan for new sales taxes (METAC)
	March 2019	Budget classification and chart of accounts (METAC)
	June 2019	Managing guarantees and extra-budgetary funds (METAC)
	December 2020	Operationalizing the guarantee framework (METAC)
	April 2021	Customs valuation, rules of origin and tariff classification of goods (METAC)
	August 2021	Audit and verification for Large Taxpayers Department (METAC)
	September 2021	Expenditure control (METAC)
	November 2021	Cash forecasting (METAC)
	December 2021	Audit and verification for industry sectors in Large Taxpayers Department (METAC)
	February 2022	Program and performance budgeting (METAC)
	April 2022	Annual cash forecasting (METAC)
	August 2022	Modernizing the organizational structure of HQ and regional offices (METAC)
	September 2022	Participation in World Bank TADAT assessment (METAC)
	May 2023	Assess Readiness of the General Commission for Taxes in Applying the Self-Assessment System (METAC)
	July 2023	Follow-up Mission on Modernizing the Organizational Structure of the HQ and the Regional offices (METAC)
	October 2023	Design Necessary Legislative Amendments to Support Implementation of the Self-Assessment (METAC)

Iraq: Technical Assistance, 2016–25 (Continued)		
	November 2023	Customs Law Review and Legal Drafting Mission (with METAC and LEG)
	December 2023	Support General Commission of Taxes to Develop Medium-term Reform Plan (METAC)
	February 2024	Customs Law: Draft and Review Risk Management Regulations (with METAC and LEG)
	April 2024	Completing the New Organizational Model of the General Commission of Taxes (METAC).
	May 2024	Support Iraq Customs on its Law Review (with METAC and LEG)
	July 2024	Review and Redesign of the Self-Assessment Implementation Mechanism (METAC)
	July 2024	TSA Workshop 1
	October 2024	Customs Law-implementing Regulations (with METAC and LEG)
	December 2024	Review and Redesign Tax Forms (METAC)
	January 2025	Review Large Taxpayers Criteria (METAC)
	January 2025	TSA Workshop 2
LEG	January 2016	Anti-money laundering activities
	March 2016	Cross-border financial flows
	June 2016	AML/CFT: Review of the framework to implement targeted financial sanctions
	December 2016	UNODC seminar on Strengthening the Legal Regime Against Terrorism in Iraq
	December 2016	Program TA in Central Bank Law
	December 2017	Review of AML/CFT law and integration of internal comments
	January 2018	Review of the "AML/CFT Regulations for Dealers in Precious Metals and Stones"
	January 2018	Review of the "Process for Implementing Targeted Financial Sanctions"
	June 2019	Guarantees and extra-budgetary funds management
	March 2023	AML/CFT
MCM	March 2016	Seminar on foreign exchange regimes and controls (Joint LEG/MCM)
	September 2016	Reserve management workshop
	November 2016	Regulations on capital adequacy and liquidity (METAC)
	March 2017	Regulations on credit risk (METAC)
	March 2017	Banking supervision: upgrade CBI prudential regulations (METAC)
	April 2017	Banking supervision (METAC)
	June 2017	Improving regulatory framework (METAC)
	February 2018	Improving regulatory framework—follow-up (METAC)
	September 2018	Regulatory framework of internal audit (METAC)
	November 2018	Training on dealing with weak banks (METAC)

Iraq: Technical Assistance, 2016–25 (Continued)		
	November 2018	Forecasting and Policy Analysis System (FPAS)
	September 2019	Implementation of Basel III (METAC)
	January 2020	Basel II & III capital adequacy requirements (METAC)
	June 2020	Basel II & III capital adequacy requirements (METAC)
	July 2021	Risk Management Regulation
	October 2021	Regulation and Supervision of E-Money Institutions
	March 2022	Regulation and Supervision
	August 2022	Capital Framework for Islamic Banks
	March 2023	Central Bank Liquidity Instruments (METAC)
	April 2023	Financial Supervision and Regulation of Commercial Banks (METAC)
	October 2023	Central Bank Operations: Domestic Interbank Market (METAC)
	March 2024	Supervision and Regulation of Islamic Banks
	April 2024	Enhancing Regulatory Reporting for Islamic Banks (METAC)
	June 2024	Internal Capital Adequacy Assessment Process (ICAAP) Regulation Development (METAC)
	November 2024	Monetary Operations and Liquidity Monitoring (METAC)
	December 2024	Supervisory Review Process (METAC)
	January 2025	Supervisory Review Process (SRP)/Development of the Risk Matrix (METAC)
	February 2025	Supervisory Review Process (SRP)/Development of the Risk Matrix Follow-up (METAC)
STA	January 2016	National accounts statistics (METAC)
	March 2016	Government finance statistics
	March 2016	External sector statistics
	April 2016	Financial stability indicators
	January 2017	National accounts (METAC)
	January 2017	External sector statistics (METAC)
	February 2017	Price statistics (METAC)
	August 2017	National accounts (METAC)
	April 2018	External sector statistics (METAC)
	August 2018	National accounts (METAC)
	October 2018	Price statistics (METAC-EDDI2)
	December 2018	Government finance statistics
	December 2018	FSI: Financial soundness indicators
	July 2019	Consumer price index and producer price index (METAC)
	September 2019	External sector statistics (METAC)
	February 2020	FSI: Financial soundness indicators
	February 2020	National accounts (METAC)
	July 2020	Producer price index (METAC)
	September 2020	Consumer price index and producer price index

	<b>Iraq: Technical Assistance, 2016–25 (Concluded)</b>	
	October 2020	National accounts (METAC)
	December 2020	Producer price index
	June 2021	Improvement of annual national accounts
	December 2021	External sector statistics
	December 2021	Government finance statistics
	February 2022	Supply and use tables
	June 2022	Producer Price Index and Residential Property Price Index
	October 2022	Consumer Price Index (METAC)
	February 2023	Supply and use tables (METAC)
	March 2023	Consumer Price Index (METAC)
	July 2023	Supply and use tables (METAC)
	August 2023	Residential Property Price Statistics
	November 2023	Consumer Price Index (METAC)
	March 2024	Consumer price index improvement (with METAC)
	November 2024	External sector statistics
	January 2025	Expand GFS and PSDS coverage (with METAC)
	April 2025	Producer price index (with METAC)
ICD	March 2022	Macroeconomic Frameworks
	November 2022	
	April 2023	
	November 2023	
	June 2024	

## RELATIONS WITH THE WORLD BANK GROUP

(As of April 8, 2025)

The activities of the World Bank Group in Iraq can be found at:

[World Bank: Projects \(worldbank.org\)](https://worldbank.org/projects/iraq)