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June 10, 2025

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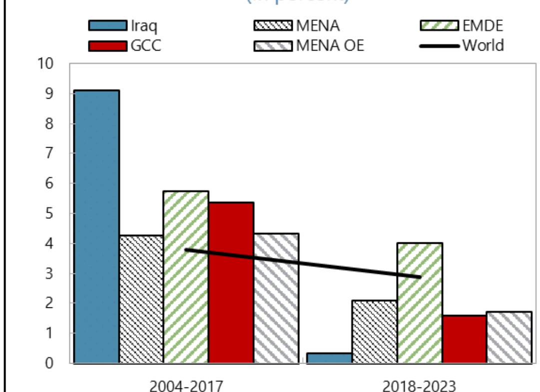
UNLOCKING IRAQ'S ECONOMIC POTENTIAL: THE ROLE OF STRUCTURAL REFORMS IN BOOSTING MEDIUM TERM NON-OIL GROWTH

Iraq's non-oil economic growth has been slow, constrained by low productivity, limited investment and an inefficient use of human capital. Against the background of an excessive dependency on oil, an outsized public sector footprint, a fragile political context, and lingering institutional and governance shortfalls, non-oil medium term growth is expected to remain subdued, at 3-4 percent – mostly driven by demographics. To unlock its potential for sustained growth and prepare the country for growing social challenges in the next decade, Iraq should commit to and implement an ambitious structural reform agenda. Estimates suggest that a comprehensive reform package aimed at improving governance, intensifying the fight against corruption, streamlining labor market and business regulations, and strengthening the banking sector could improve growth by an additional 4 percent over the medium-term.

A. Iraq's Growth Remains Subdued

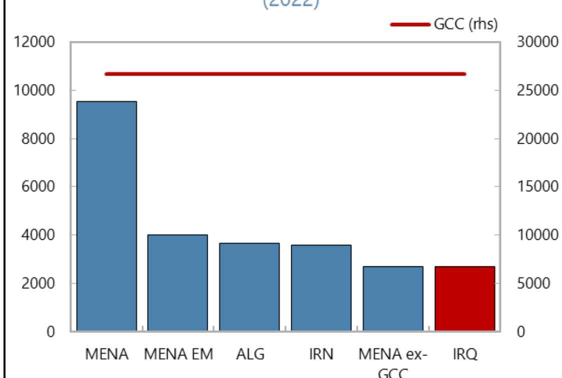
1. Growth has slowed down significantly in the past decade. Following the 2003 war, and despite a period of internal conflicts and sectarian violence - including the fight against ISIS - Iraq's economic growth was strong, supported by debt relief and large reconstruction efforts funded by international donors in the early 2000s. Increased security conditions since 2018 and the formation of a new coalition government in 2022 contributed to a drastic improvement in stability. Yet, the resolution of domestic conflicts has so far failed to translate into tangible growth improvements. Since 2018, on average growth has been almost flat, at 0.3 percent, largely trailing regional and international peers, including other oil exporters in MENA (Figure 1).

Figure 1. Real GDP Growth
(In percent)



Sources: IMF World Economic Outlook (WEO) database; and IMF staff calculations.

Figure 2. Non-Oil GDP Per Capita, USD
(2022)



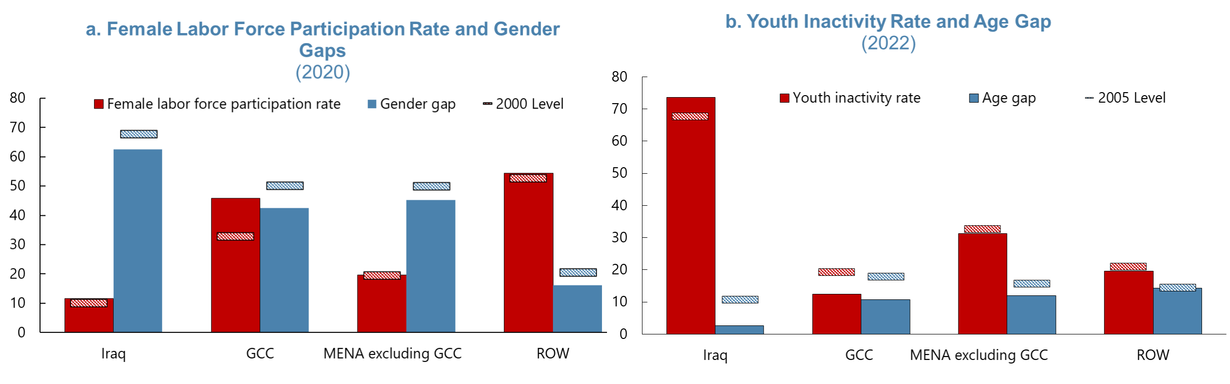
Sources: IMF World Economic Outlook (WEO) database; ILOSTAT; and IMF staff calculations.

2. Lack of overall economic dynamism is associated with low non-oil growth. Limited growth momentum since 2018 is explained in part by relatively subdued oil price growth - against a high reliance of the country on the extractive industry - in part by slow non-oil growth. Non-oil GDP grew on average only at 1.3 percent between 2018 and 2023, against 1.8 percent for MENA and 1.6 percent for MENA excluding Gulf Cooperation Council (GCC) countries (a group that, however, includes several low-income economies). Yet, Iraq's non-oil GDP per capita, at about USD 2,700 in 2022, remains one of the lowest in the MENA region. This figure, similar to that of other MENA ex-GCC countries, remains significantly below the overall MENA average of USD 9,500, and that of other comparable benchmark countries, such as Iran and Algeria (Figure 2).

3. **Slowing growth and associated subdued job creation has heightened social pressure amid increasing working age population**. At the time of the last labor force survey in 2021, the unemployment rate was at 16.6 percent, while in 2022, around 74 percent of young people were neither working nor engaged in education or training. This value is well above the average for the MENA excl. GCC region (31 percent) and that of the rest of the world (under 20 percent). Moreover, youth inactivity has increased over the past two decades, in contrast to the decline seen in the rest of the world. Finally, social disparities are compounded by a gender bias. Around 88 percent of women were not in the labor force in 2022—less than in 2000—against 80 percent in the MENA (excl. GCC) region and 45 percent in the rest of the world. Going forward demographic pressures are expected to increase further. With a working age population growing at 3.5 percent annually, more than 780,000 new entrants are expected in the labor market each year (IMF, 2024).

4. **Larger socio-economic challenges lie ahead.** Going forward, should growth prospects and job creation not improve, the social challenges relating to lack of employment opportunities are expected to increase further, as over 9 million new young Iraqis are expected to reach working age by 2033.[1] Against this background, IMF staff estimates suggest that reducing unemployment to single digits by 2033,[2] would require a growth rate of no less than 5.5 percent annually over the next ten years, against an average growth of 4.3 percent since the 2003 war.[3]

Figure 3. Female Labor Force Participation Rate and Youth Inactivity



Sources: International Labour Organization; World Bank World Development Indicators; and IM F staff calculations.

[1] Estimates based on the number of individuals aged 14 between 2024 and 2032. The expected increase in the working age population if of 7.4 million (UN population data).

[2] For instance, halving the current rate to 8.2 percent.

[3] Assuming an employment elasticity of growth of 0.7 (IMF, 2024).

B. Drivers of Iraq's Growth Potential

5. A growth accounting approach allows breaking down the determinant of Iraq's past growth. We use a growth accounting approach to disentangle the main drivers of Iraq's economic growth over the past two decades (Box 1).

Box 1. A Growth Accounting Exercise for Iraq

We use a growth accounting exercise, to characterize the key drivers of Iraq's growth potential since 2000. Adopting a notation similar to IMF (2024b), we start considering a Cobb-Douglas framework in which potential output (Y_t^*) is expressed as a function of employment (L_t; with α ∈(0,1) being the labor share), capital stock (K_t), and total factor productivity (A_t, TFP):

$$Y_t^* = A_t\, K_t^{1-\alpha} {L_t}^{\alpha}$$

Rewriting this in per-capita terms yields

$$\frac{Y_t^*}{N_t} = A_t \left(\frac{K_t}{L_t}\right)^{\alpha} \frac{L_t}{N_t}$$

Where N_t is total working age population and $\frac{K_t}{L_t}$capital per worker. Taking logs and differentiating with respect to time we obtain

$$\Delta y_t - \Delta n_t = \Delta a_t + \alpha(\Delta k_t - \Delta l_t) + \Delta l_t - \Delta n_t$$

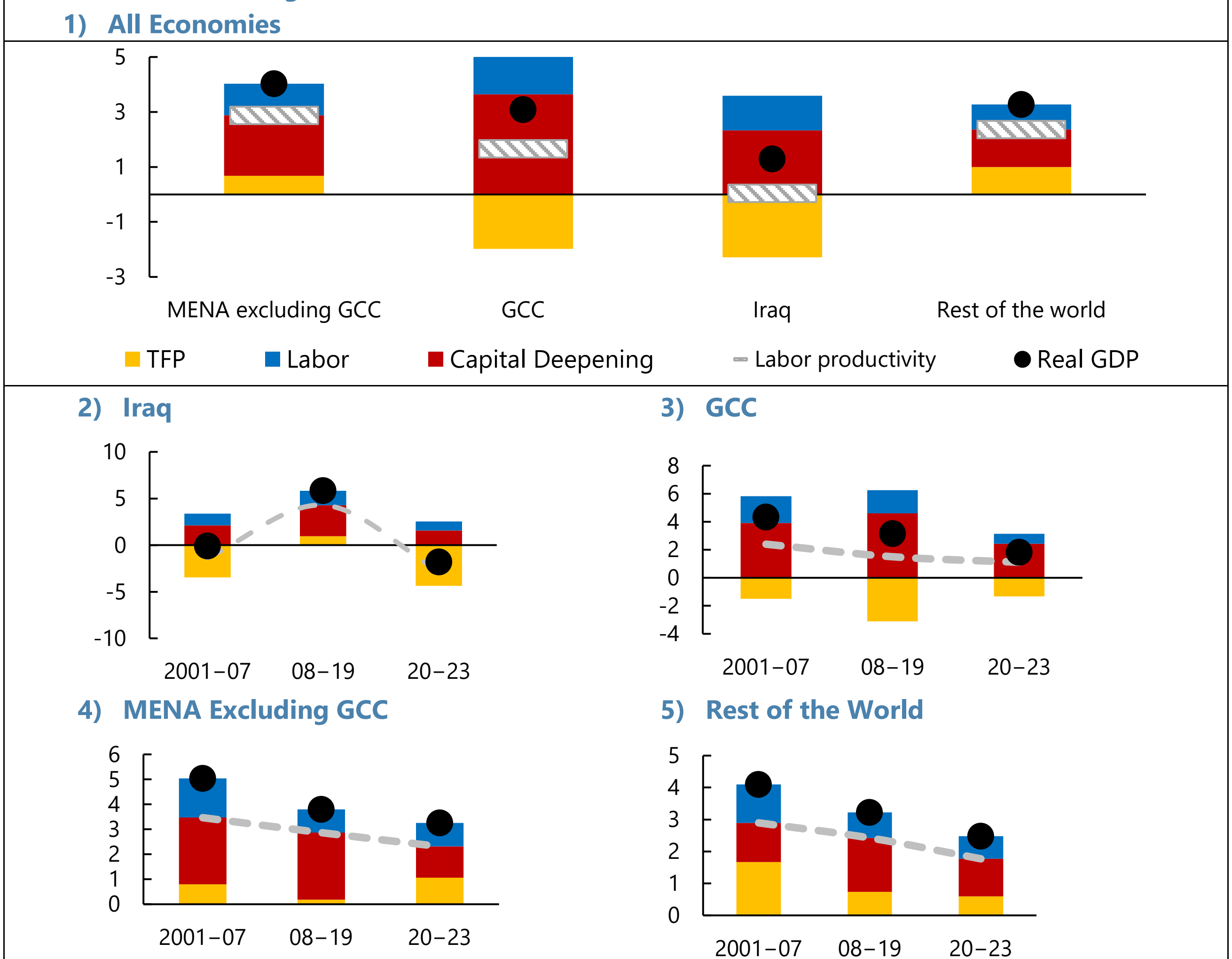
This equation decomposes output per capita growth ($\Delta y_t - \Delta n_t$) in the contribution of capital per worker - capital deepening - $\alpha(\Delta k_t - \Delta l_t)$, the employment ratio (employment over total working age population) $\Delta l_t - \Delta n_t$, and TFP growth Δa_t, measured as residual.

The decomposition is calculated using annual data for the period 2000-2023 and different data sources.1/

1/These are Iraq's statistics office COSIT's national accounts' data, the World Bank WDI and ILO data (for employment and working age population). Capital stock is estimated using Penn Tables' for the period 2000-2019. We extend these estimates over 2020-2022 using COSIT investment data, fixing the depreciation rate at its latest (2019) value for the missing period. In addition, we approximate a factor decomposition for oil and non-oil growth, using the share of oil (resp. non-oil) in labor and investment: For capital input, we use COSIT's gross fixed capital formation by sector to approximate the split of the capital stock into its oil and non-oil capital components. The data is available from 2014 to 2022; oil investment is approximated from government expenditure data in the prior period. For labor input, the ILO LFS survey offers a point estimate of the share of the oil sector in total employment of 0.7 per cent in 2021. In the absence of data covering the full period, we use the share of oil in total investment to approximate changes in this share of the remainder of the period.

6. Capital deepening drove growth in the early 2000s, but remained subdued thereafter. Capital accumulation in the aftermath of the 2003 war, outpaced both regional and global peers, and was supported by large flows of reconstruction-related investment, in both the oil and non-oil sectors (Figure 4). However, its contribution to growth has largely faded overtime, falling to 0.5pp in 2020-23, from 1.8pp in 2008-19 period. The decline in capital accumulation dynamics reflects the impact on investment of a twin shock comprising the war against ISIS and COVID-19 pandemic, and the ensuing fall in oil-prices. As a result, the investment share of GDP tumbled from a peak of 26 percent in 2015, to around 10 percent on average over 2020-2023.

Figure 4. Real GDP Growth and Contributions, 2000-2023



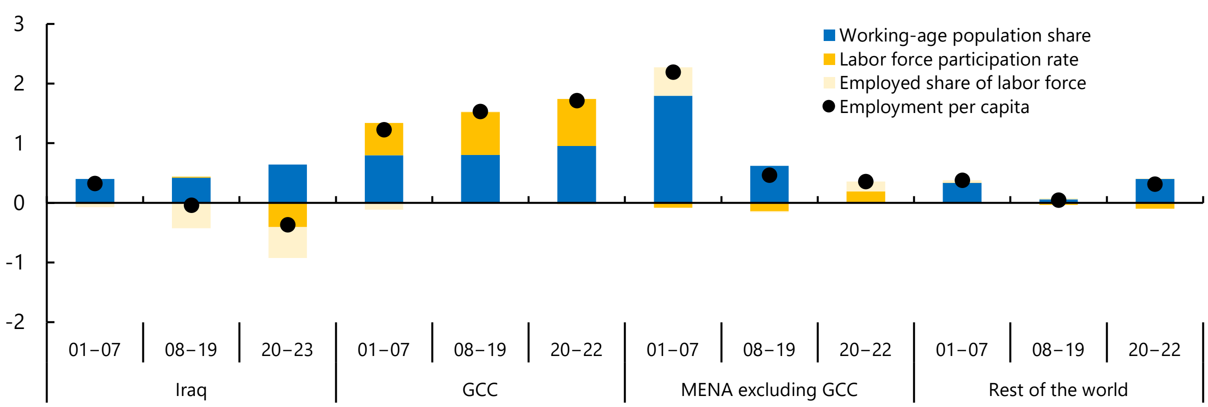
Sources: International Labour Organization; Penn World Table version 10.01; United Nations, World Population Prospects, Iraq's Statistics Office COSIT; and IMF staff calculations.

Note: Countries are weighted using purchasing power in international dollar weights. Contribution figures were obtained through a growth decomposition exercise of real GDP per capita assuming a standard Cobb-Douglas production function. Labor productivity is real GDP per employed worker. Contributions of capital deepening and employment per capita reflect the shares of the respective factor inputs in output and their growth rates. Per capita growth decomposition sample for the world comprises 140 economies. CCA comprises Armenia, Kazakhstan, and the Kyrgyz Republic; GCC comprises Bahrain, Kuwait, Oman, Saudi Arabia, and the United Arab Emirates; MENA comprises Algeria, Bahrain, Djibouti, Egypt, the Islamic Republic of Iran, Jordan, Kuwait, Mauritania, Morocco, Oman, Pakistan, Saudi Arabia, Tunisia, the United Arab Emirates, and Yemen. CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council; MENA = Middle East, North Africa, and Pakistan.

7. The growth contribution of employment has remained muted throughout the period. Employment growth has contributed on average to 1.25 percent of the overall growth of the country since 2001. While broadly in line with regional and global peers, this value is low on the account of the booming demographics that the country experienced over the last 2 decades. The decline mainly reflects high unemployment and low participation, both of which have been worsening over 2001-2023 due to poor labor market institutions and the economy's inability to absorb a growing labor force. In contrast, working-age population growth is on a par with other MENA countries excl. GCC and the rest of the world. Notably, Iraq exhibits more favorable demographics than comparable countries as the share of working-age population has increased over 2001-2023, in contrast to the slowdown seen in the rest of the world (Figure 5).

8. This is largely due to the small size of the private sector and the large reliance of on oil. Subdued labor market performance, reflected in chronically low labor force participation and high unemployment, is explained by the small size of the private sector and the overreliance of the country on the oil industry –which by its capital-intensive nature does not generate sufficient employment, employing only around 0.5 percent of workers, while contributing to about 60 percent of GDP. Over the last two decades, the government has been trying to compensate for subdued job creation by inflating public sector employment, including through mandatory hiring policies. However, such policies failed to offer enough job opportunities to the rising number of job seekers, while resulting in excessive fiscal spending and in a declining of overall labor productivity in the country.

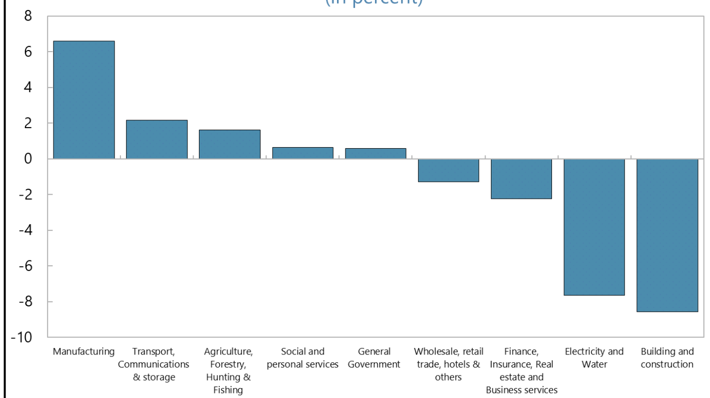
Figure 5. Employment Rate: Contributions to Growth, 2001-2022



Sources: International Labour Organization; United Nations, World Population Prospects; and IMF staff calculations.

9. Labor productivity has been flat in the last two decades. Labor productivity growth has remained close to zero during the last two decades, against an average of 2.3 percent in MENA countries excluding GCC. Differentials in sectoral productivity trajectories across sectors may be a factor explaining overall subdued productivity dynamics for a country. In the case of Iraq, over the period 2014-2021, subdued productivity growth, or even productivity declines, are observable across all sectors, with exclusion of manufacturing, suggesting instead a widespread productivity slowdown. The relative buoyancy of productivity in the manufacturing sector reflects efforts to expand the country refining capacity, that resulted in capturing higher value-added relating to the petroleum product supply chain (Figure 6). However, the manufacturing sector remains small in Iraq, only accounting for about 1.5 of the total value added and 3.5 percent of the non-oil value added in 2021. In contrast, productivity dynamics in the service sector - the major component of non-oil activities – has remained broadly flat over the last decade.

Figure 6. Sectoral Productivity Growth, 2014-2021
(In percent)



Sources: IMF World Economic Outlook (WEO) databas; ILOSTAT; IMF staff calculations.

10. Total factor productivity's (TFP) has been low across sectors. This partly reflects subdued productivity growth in the oil sector, where oil price fluctuations also result in large TFP swings (Figures 7a and 7b). Moreover, after rising by 60 percent between 2004 and 2014, TFP in the non-oil sector has also faltered (Figure 7c), also on the account of capital misallocation, as less productive services activities (such as real estate and the electricity sector) account for around half of total non-oil investment (Figure 8).

Figure 7. TFP Trends and Contributions to Growth in Oil vs. Non-Oil Sectors

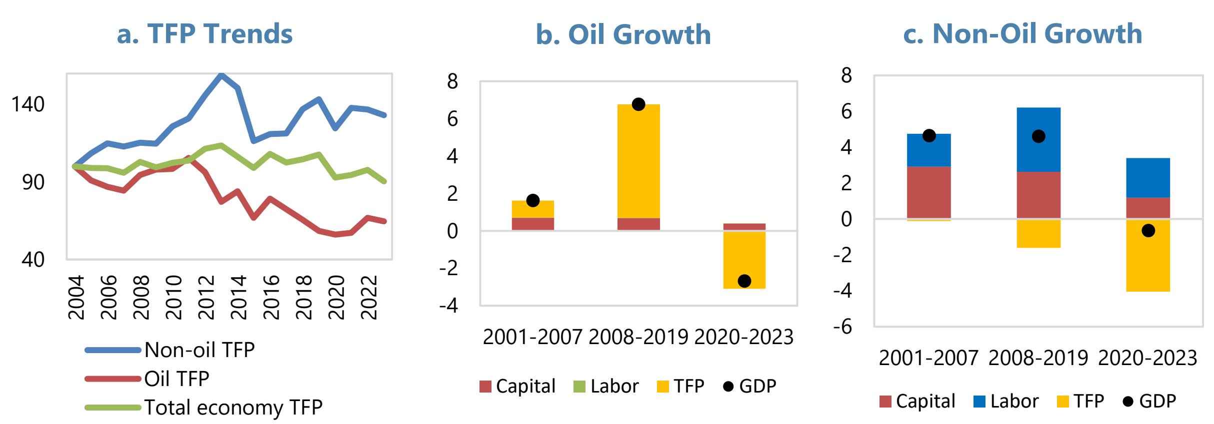
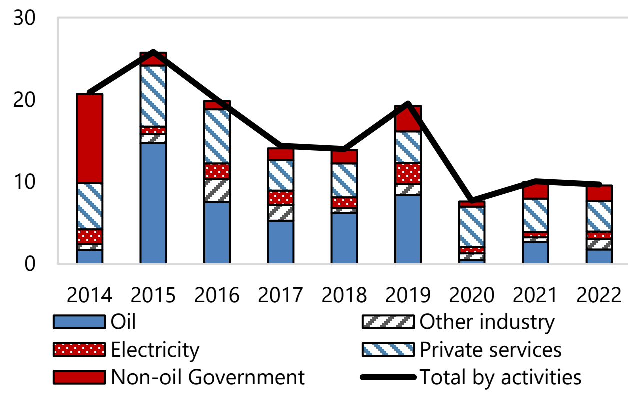


Figure 8. Oil vs. Non-Oil Investment Since 2014
(In percent of GDP)



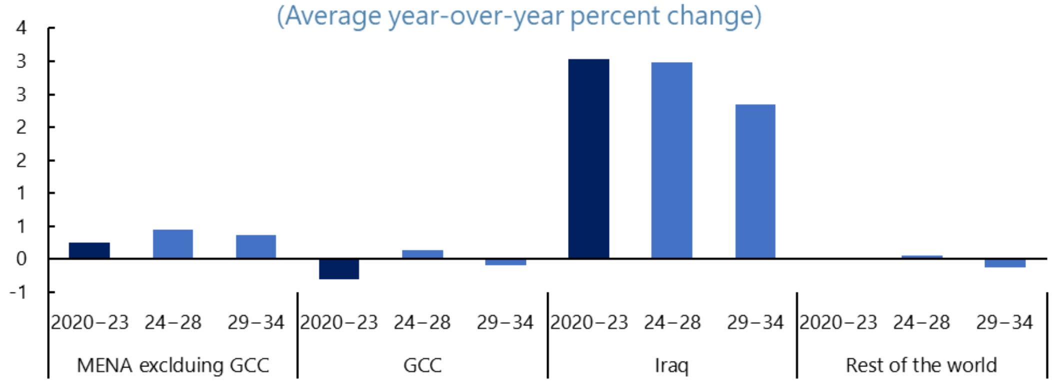
C. Medium-term Growth Prospects Remain Unfavorable

11. Iraq's population growth will continue to drive non-oil potential growth going forward. The United Nations predicts that, over the next five years, Iraq will continue to benefit from a faster increase in the share of working-age population in total population, also when compared to other MENA countries or the rest of the world (Figure 9). Active population growth is projected to average 3 percent in 2024-2028 and 2.3 percent in 2029-2034 and continue to be the main driver of potential growth going forward.

12. Overall medium-term growth is expected to be insufficient to improve income per capital. Assuming the historical contribution of labor productivity to non-oil potential growth (around 0.5 pp) will continue, the baseline estimate for non-oil output potential growth is expected at around 3-4 percent, under a passive policy scenario, with a median estimate of 3.5 percent. Implicitly, this baseline assumes a continuation of insufficient and unproductive investment trends (with labor productivity growth in line with its historical trend of 0.5-1 percent and labor growing at 3 percent, in line with UN population estimates) and no major labor market reforms and limited catch-up in TFP levels to that of other countries in the region.

Figure 9. Actual and Projected Growth in Working-Age Population Shares, 2020–34

(Average year-over-year percent change)

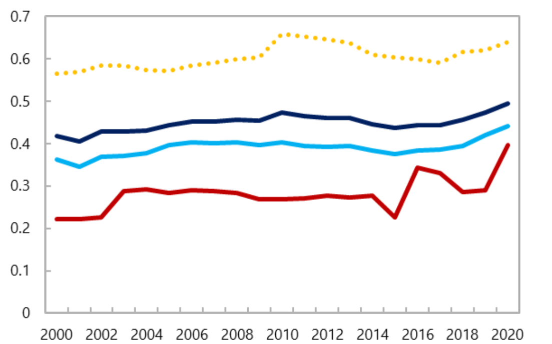


Sources: United Nations World Population Prospects; and IMF staff calculations.

D. Lingering Structural Challenges Hold Back Growth

13. The regional productivity divide in MENA is linked to countries' different reforms paths. Poor productivity outcomes in Iraq are due to a combination of factors, including almost two decades of conflicts and political unrest, poor energy and transportation infrastructure, bureaucratic hurdles and a lack of regulatory clarity, high level of corruption, and overemployment in the public sector, where hiring policies often respond to the logic of a social transfer instead of clear economic needs. Against the backdrop of large structural and regulatory hurdles to growth, albeit improving since 2019, reform momentum has remained sluggish and below regional frontier led by GCC countries (Figure 10). In the region, cross-countries differences in reform momentum are the result of several concomitant factors, including diverging political stability paths and an heterogenous exposure to regional conflicts. However, in the decade prior to the pandemic, those countries in MENA that successfully implemented more ambitious structural reforms programs also enjoyed stronger productivity growth, suggesting a clear positive relationship between non-oil labor productivity growth and positive structural economic change in the region (Figure 11).

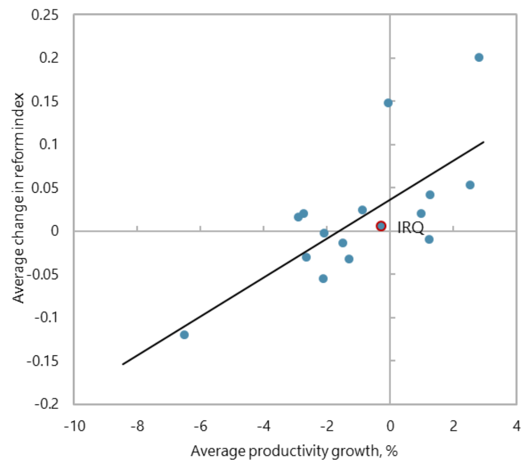
Figure 10. Aggregate Structural Reform Index



Sources: Fraser Institute Economic Freedom database, Gender chapter of the MENA Inclusive Growth book, Regional Economic Outlook for the Middle East and Central Asia, October 2023, chapter 2, and IMF staff calculations.
Note: The Aggregate Reform Index is constructed by taking the simple average of normalized variables from the Fraser and Gender dataset. The variables included are: Judicial independence, gender legal barrier index, labor market regulation, regulatory trade barriers, financial openness, and business regulation.

Figure 11. Structural Reforms and Non-Oil Productivity Growth in MENA

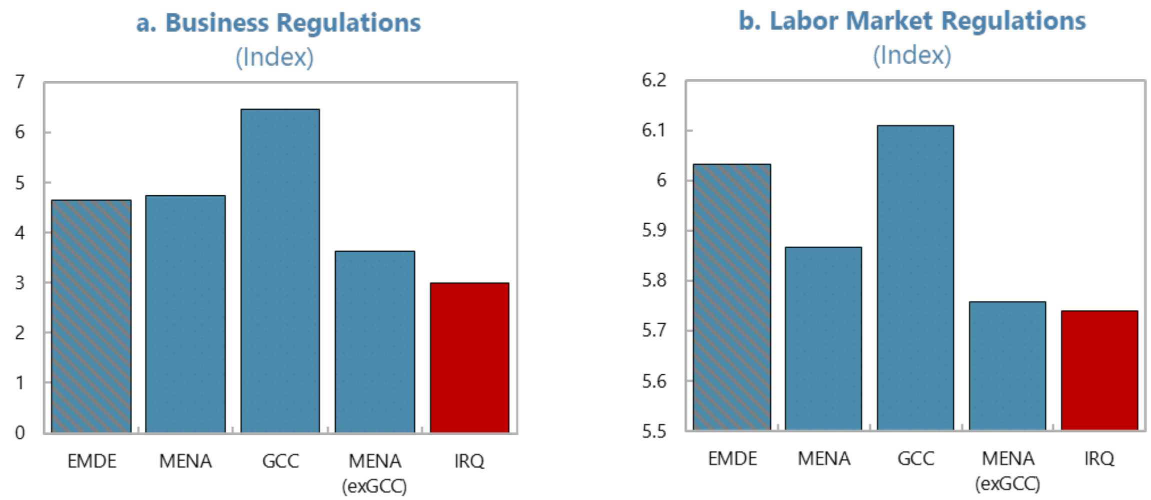
(2009-2019 average)



Sources: : Fraser Institute Economic Freedom database; IMF, Economic Outlook database; and IMF staff calculations.

14. **Poor regulatory frameworks represent a drag to growth**. Good regulatory frameworks foster economic growth by providing stability, protecting property rights, ensuring efficient resource allocation, and encouraging innovation. However, Iraq's regulatory environment is characterized by excessive bureaucracy, and the economy is burdened by corruption and inefficiencies, making it difficult for private businesses to operate effectively and grow. Moreover, complex administrative procedures for starting a business, obtaining permits, and dealing with tax obligations represent a significant cost for private enterprises. As a results, the size of the private sector in the country is small while informality remains high. The Economic Freedom of the World index (EFI) measuring legal systems and business regulations suggest that Iraq fares significantly worse than its MENA peers in the extent regulatory quality support economic freedom, business activity, and market efficiency. leaving Iraq significantly behind the regional frontier across multiple indicators (Figure 12).

Figure 12. Business and Labor Regulations, 2021

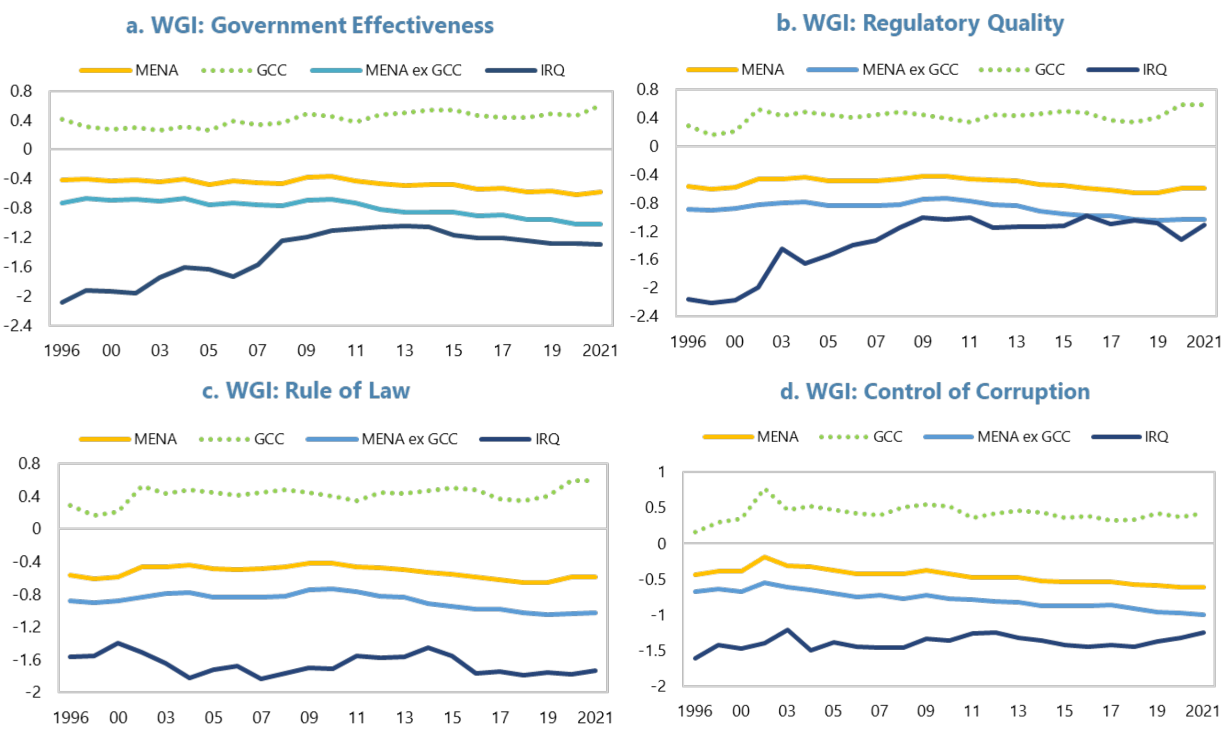


Sources: Fraser Institute, Economic Freedom database; the World Bank Governance Indicators; and IMF staff calculations.
Note: Data for 2021. Each indicator is a simple average of index values of subindicators. The labor market regulations indicator is a simple average of two components: hiring and firing regulations and centralized collective bargaining. The indicator for regulatory quality is the simple average of administrative requisites, impartial public administration and bureaucracy costs. EMDE = emerging market and developing economy; GCC = Gulf Cooperation Council.

15. Fragmented and burdensome labor market regulations contribute to limited economic dynamism. High unemployment and low labor force participation are key social and economic challenges in the country. Iraq's Labor Law includes large provisions for protecting workers' rights and in certain areas, such dismissal of workers, rules seem stringent, for instance, on terminating workers contracts in a private company (IMF, 2024). In other areas, weak enforcement of the law contributes to high informality, leaving workers unprotected and pushing them to seek jobs in the public sector. Against the backdrop of a generally tight labor regulation, the capacity of the Ministry of Labor and Social Affairs (MoLSA) to monitor the labor market is limited, and its ability to guarantee the application of the existing rules wreaked by fragmentation of responsibilities and lack of coordination structures between other ministries (IMF, 2024). Against this background, indicators evaluating the extent to which labor markets in different countries are free from government interference and excessive regulation, suggest that Iraq, in comparison with regional peers, faces excessive regulatory environment in labor markets (Figure 12b).

16. Widespread corruption weights on private sector development. According to World Bank Data, Iraq lags the MENA region in terms of quality of public services, the capacity of the civil service, and the degree of its independence from political pressures. Worldwide Governance Indicators suggest that the country has limited ability to formulate and implement sound policies and regulations that can foster private sector development. Moreover, despite steps in the right direction, including implementation of the 2021–24 National Integrity and Anti-Corruption Strategy, corruption in Iraq remains severe and systemic representing a serious drag for the economic development of the country (Figure 13).

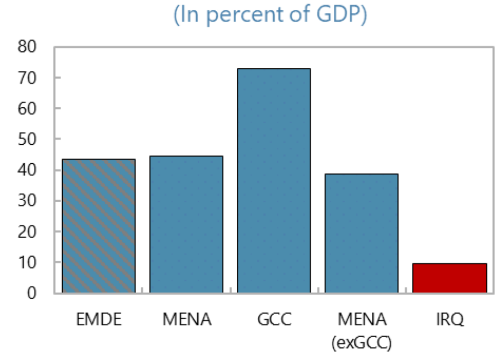
Figure 13. World Governance Indicators



Sources: World Bank Governance Indicators; and IMF Staff calculations.

17. Limited financial development curbs private sector growth. Iraq's banking system reflects an economic structure highly reliant on the public sector, a poor regulatory framework, and the legacy of prolonged conflict and instability. The sector is predominantly controlled by 2 state-owned banks (SOBs) which collectively hold the majority of assets and deposits. Preparatory work for their restructuring is ongoing. Private banks remain small in scale and face challenges such as restricted access to capital, a narrow customer base, and competition from the large

Figure 14. Credit to the Private Sector
(In percent of GDP)



Sources: World Bank, and IMF staff calculations.

SOBs. Against this backdrop, access to credit, often at subsidized rates, is ample for public entities, while remaining constrained for private businesses and individuals. Overall, the country has one of the lowest level private sector credit in the region (Figure 14).

E. Structural Reforms can Foster Iraq's Medium-term Growth

18. Empirical evidence suggests that structural reforms can have sizable positive output and employment effects. Studies focusing on the growth impact of structural reforms for countries in the MENA region (October 2022 Regional Economic Outlook for Middle East and Central Asia) find that major reforms in governance, regulatory quality, credit and labor markets are associated with relatively large output and employment gains in the medium term (Figure 15).[4] These results, obtained for Iraq and a set of countries in the region,[5] represent important benchmarks to assess the impact of structural reforms on the Iraqi economy. Quantitatively:

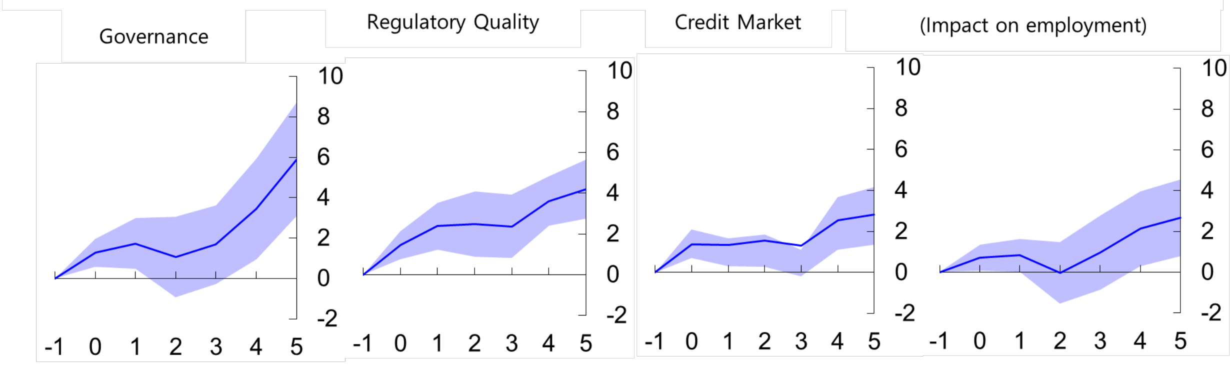
- **Governance and regulatory reforms have large GDP payouts.** Governance-improving reforms can deliver a growth payout of 6 percent after 5 years (Figure 15), while the impact of a reform involving regulatory improvements can increase GDP by about 4 percent. Results for governance sub-indicators (not shown in Figure 15) suggest that the payout could be especially large in countries, such Iraq, where regulatory and governance deficiencies are widespread across different dimensions. Moreover, comprehensive governance and regulatory reforms yield greater benefits than narrower ones, demonstrating the advantages of implementing reforms collectively.

- **Labor and capital market reforms also improve growth and employment.** Reforms in credit markets can lead to a 2.5 percent increase in output over five years. Labor market reforms can enhance labor productivity over the medium term, while having positive impacts on employment quantified in 2.5 percent employment growth 5 years after the reform.

[4] The impact of major structural reforms on key macroeconomic outcomes—output, investment, employment, and labor productivity—was estimated by the authors using the local projection method developed by Jordà (2005). The use of both sub-regions responds to the necessity of having enough variation in the reform indexes considered. The exact quantification of the impact of structural reform is challenging, given reforms efforts across countries are often poorly comparable due to different reform depth and spread. However, the analysis offers a valuable assessment of the reforms' direction, relative magnitude, and significance. Furthermore, while this analysis excludes structural reforms to reduce economic disparities between men and women due to insufficient variation in the reform data, Budina et al. (2023) propose that implementing strategies to address gender disparities in other emerging markets and developing economies (EMDEs) could significantly enhance GDP.

[5] Lack of data and limited variation in key reform indicators does allow country-specific estimates for Iraq. Estimates in the October 2022 Regional Economic Outlook for Middle East and Central Asia are for a sample of countries in the Middle East and Central Asia, include 20 countries in MENA and 6 in the CCA and Pakistan. These include Algeria, Armenia, Azerbaijan, Bahrain, Djibouti, Egypt, Georgia, Islamic Republic of Iran, Iraq, Jordan, Kazakhstan, Kuwait, Kyrgyz, Republic, Lebanon, Libya, Mauritania, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Somalia, Sudan, Tajikistan, Tunisia, United Arab Emirates, and Yemen, based on data availability.

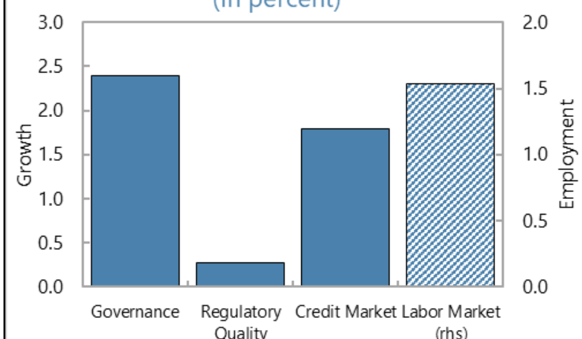
Figure 15. Average Effects of Structural Reforms
(In percent; effect on output unless otherwise specified)



Source: The Regional Economic Outlook: Middle East and Central Asia, Chapter 2: "From Setbacks to Comebacks: Reforms to Build Resilience and Prosperity", IMF, Washington DC.
Notes: the scale of the x-axis is years, where t=0 is the first year of the reform is implemented. The lines denote the response to a major historical reform—defined as two standard deviations of the annual change in the structural reforms index—and the shaded areas denote 90 percent confidence bands. Results are for a panel of countries in the Middle East and Central Asia.

19. Closing Iraq's structural gaps would deliver significant economic gains over the medium term. We use estimates of the impact of structural reform on growth and employment presented in the previous section, to assess the impacts of an ambitious and comprehensive reform program on the Iraqi economy. We calibrate a hypothetical reform effort as close Iraq's gap from MENA excluding GCC countries in a number of structural indicators, such as governance, regulatory quality and labor market regulation.[6] Figure 16 shows growth and employment (for a labor market reform) corresponding to each reform taken in isolation, and 5 years after the reform. An improvement in Iraq governance framework quantified as halving the difference in the corresponding indicator between its regional peers, can deliver large medium term output gains impacts, quantified at about 2.4 percent of GDP annually. This result reflects the extent Iraq lags in governance the rest of MENA and provide a strong rationale for prioritizing reforms aimed at improving the governance framework and reducing corruption. The benefits of reforms are evident beyond governance. Regulatory quality reforms notably have a positive effect on output, leading to a 0.3 percent annually increase after 5 years. This growth is

Figure 16. Impact on Growth and Employment 5 Years after the Reform
(In percent)



Sources: The Regional Economic Outlook: Middle East and Central Asia, Chapter 2: "From Setbacks to Comebacks: Reforms to Build Resilience and Prosperity", IMF, Washington DC; and IMF staff calculations.
Notes: Impacts of a Governance, Regulatory and credit market reforms are assessed on GDP (left hand side axis), impacts of labor market reforms are assessed on employment (right hand side axis). Reform intensities are calibrated to halve the distance of indicators measuring Governance, Regulatory quality, credit market characteristics and labor market regulation, between Iraq and MENA.

[6] Due to data limitation, the 2019-2020 period is taken a reference for the calculation of the Iraq-MENA ex-GCC gap in structural indicators.

fueled by the reforms' ability to encourage investment, with positive impacts seen in the same year as the reforms are implemented, and increasing returns observed in the following year. Credit market reform can result in a GDP boost as well. Improving credit market regulation to reduce the distance between the rest of MENA can deliver around a 1.8 percent output gain after 5 years. Finally, a labor market reform is expected to improve labor market outcomes, by increasing overall employment by about 1.5 percent after 5 years. All together, and assuming no growth synergies among different reforms, a combination of reforms in governance, regulatory quality and credit markets can increase Iraq's growth rate by 4.5 percent annually after 5 years.

20. This should be achieved by implementing a comprehensive structural reform program. Results in the previous section quantify the growth impacts of structural reforms aimed at halving Iraq's structural gaps against the MENA countries in the area of governance, regulation credit and labor markets. While a precise calibration of the reform efforts needed to match the output gains presented in the previous section is challenging, the completion of a number of key structural reforms is expected to reduce significantly the structural gaps separating Iraq from several of its MENA peers. To achieve this objective, Iraq needs to focus on a multipronged reform package attending the objective of shifting the economy towards a more diversified and private sector-driven economic model. Against this backdrop, structural reforms should focus on several key areas:

- **Strengthening governance and fighting corruption are crucial for creating a supportive environment for private sector growth.** Although some progress has been made in recent years, such as the implementation of the 2021–24 National Integrity and Anti-Corruption Strategy, corruption in Iraq remains deeply entrenched and widespread. In this context, an improvement of the governance framework requires the alignment the asset declaration system with international best practices. Furthermore, the anticorruption framework could be enhanced by maintaining the integrity and independence of the Integrity Commission (IC) and improving the transparency and integrity of the public procurement system.

- **The restructuring of state-owned banks (SOBs) can foster the development of the private sector and improve growth.** Strengthening the financial sector can support private sector credit, fostering investment and growth. To this end, the authorities are finalizing a reform strategy entailing a restructuring of the two largest SOBs. The improvement of the function of credit markets also requires the release the draft by-laws concerning SOB corporate governance, and establishing robust supervision, regulation, and governance under the CBI. Other measures include creating an Ownership Policy to clearly define the objectives and goals of government ownership in financial institutions and accelerating the implementation of modern Core Banking System solutions.

- **Improving labor market regulation requires a comprehensive labor market reform.** Low labor force participation represents a significant draft to structural growth in the country, and it burdens Iraq with significant social and economic costs. A comprehensive labor market reform is needed to create equal opportunities for public and private sector employees, at the same time, the enhancement of Technical and Vocational Education and Training (TVET) to curricula to better align with labor market needs can reduce structural unemployment. Finally, authorities should prioritize the passage of a new civil service law and further streamline and simplify labor regulations, enforce business registration, review fees and tax procedures, and reduce bureaucratic obstacles.

F. Conclusions

21. Iraq faces significant structural economic challenges that hinder its long-term growth. Stronger sustainable and inclusive growth in Iraq is hampered by poor governance, widespread corruption, and structural hurdles relating to business environment, and labor and financial markets. Against the backdrop of growing socioeconomic challenges, shifting toward a private sector-led economic model remains a key priority for the improvement of medium-term growth. To do so Iraq needs to address a number of structural economic challenges including those relating to the improvement of the institutional and regulatory framework, the fight against corruption, the improvement of labor market legislation, and the development of the financial sector. Overall, a balanced reform efforts in these areas could improve Iraq’s growth rate by 4.5 percent over the medium term.

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