IRAQ

The conflict in the Middle East has led to a significant disruption in economic activity and a sizable loss in oil revenues, adding to fiscal and external account strains and raising food security challenges. These challenges along with demographic pressures on the labor market could undermine poverty reduction. Economic prospects hinge on implementation of policy reforms and are subject to significant domestic and conflict risks.

Population[1] million **47.0**	Poverty[2] millions living on less than $8.30/day **12.6**
Life expectancy at birth[3] years **72.3**	School enrollment[4] primary (% gross) **104.6**
GDP[5] current US$, billion **259.8**	GDP per capita[6] current US$ **5526.3**

Sources: WDI, MFMod, and official data. 1/ 2025. 2/ 2023 (2021 PPPs). 3/ 2023. 4/ 2007. 5/ 2025. 6/ 2025.

Key conditions and challenges

Iraq's economy faces renewed pressures, reflecting its large dependence on oil and exposure to the conflict in the Middle East. In 2025, oil accounted for an estimated 53 percent of real GDP, 88 percent of government revenues, and 91 percent of merchandise exports. As a result of the conflict, the blockade of the Strait of Hormuz—through which most of Iraq's oil transits—has significantly reduced export capacity and slowed production.

Iraq faces a significant youth employment challenge. Youth, aged 15–29, account for nearly 29 percent of the total population. This large cohort is entering the labor market at a time when job creation is limited, amid preferences for public-sector employment and a private sector that remains limited in size and absorptive capacity. As a result, Iraq records higher unemployment (13.5 percent) and lower labor force participation rates (38 percent) than the regional average.

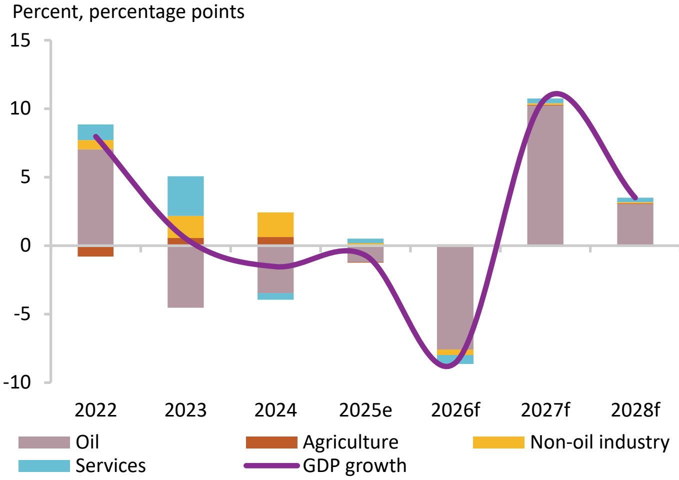
Advancing economic reforms and managing emerging risks will be critical in the medium term. Following the parliamentary elections in November 2025, government formation has faced delays, postponing the approval of a budget law that remains key to address pressing public financial pressures and support economic stability amid higher regional uncertainty.

Recent developments

GDP declined by 2.4 percent year-on-year (y/y) in the first nine months of 2025, driven by a 5.7 percent y/y contraction in oil GDP as oil production was constrained by the Organization of the Petroleum Exporting Countries and its partners (OPEC+) production limits. Non-oil GDP growth also slowed to 1.5 percent y/y due to water and electricity shortages and a liquidity crunch caused by falling oil revenues. Oil production grew steadily in the last quarter of 2025, with the unwinding of OPEC+ quotas and the resumption of oil exports from the Kurdistan Region of Iraq in September 2025.

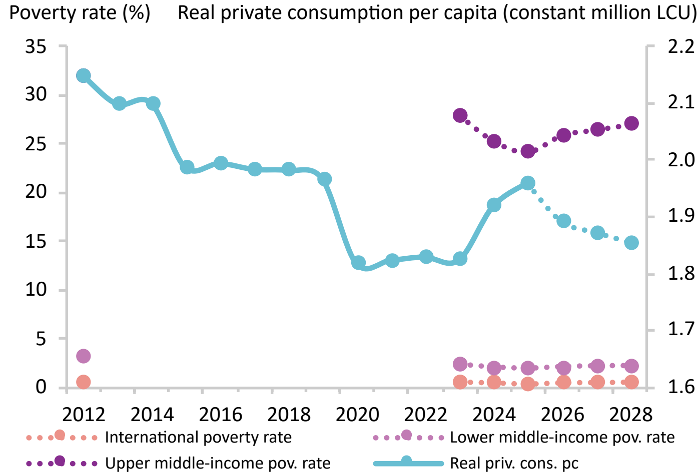
The overall fiscal deficit widened to 2.1 percent of GDP (on a cash basis) in 2025 as oil revenues fell by 11.8 percent y/y in total and despite a significant under execution of planned investments. These fiscal pressures led to delays in processing payments and the accumulation of arrears. On the external side, lower exports pushed the current account balance to a deficit of 0.9 percent

FIGURE 1 / Real GDP growth and supply-side contributions to real GDP growth



Sources: Ministry of Finance, Ministry of Oil, and World Bank.

FIGURE 2 / Actual and projected poverty rates and real private consumption per capita



Source: World Bank. Notes: See footnotes in table on the next page.

of GDP in Jan–Sep 2025, bringing GDP growth to a contraction of 0.7 percent for the year.

The recent conflict in the Middle East severely impacted the economy, primarily through the oil channel. Oil production fell to less than a third (1.3 million barrels per day (mbpd)), resulting in foregone oil revenues of up to US$7 billion in March 2026 and is expected to remain at this level if conditions do not improve. Airspace and border closures, heightened security risks and exacerbated electricity shortages, following the loss of gas imports, add headwinds to non-oil growth. High food import dependence has also raised food security risks amid trade disruptions that could create inflationary pressures. However, sizable Central Bank of Iraq international reserves of US$98.7 billion (covering 11 months of imports) as of February 2026 mitigate short-term current account and foreign exchange pressure risks.

The national poverty rate declined to 17.5 percent in 2023/24 from 18.9 percent in 2012 while inequality remained stable with a Gini coefficient of 0.3.

Outlook

GDP is projected to grow in the medium term in tandem with oil sector developments. Assuming normalization of exports through the Strait of Hormuz by late-2026, oil GDP is expected to contract by 14.6 percent in 2026, recover in 2027, and expand by 2028 returning to the historical average growth of 0.22 mbpd per year. Non-oil activity is projected to weaken due to the impact of conflict and as fiscal stimulus wanes. Average annual GDP growth is forecast to reach 1.9 percent in 2026–2028.

Without deeper reforms to improve expenditure efficiency and mobilize domestic revenues, fiscal pressures are expected to persist in the medium term. Even if Iraq could benefit from the positive oil price shock through gradual recovery of export volumes in 2026 due to conflict and with significantly lower investment spending, large recurrent spending and lower oil revenues are projected to keep the fiscal account in deficit in the medium term, pushing the debt-to-GDP ratio above 68 percent by 2028.

The economic outlook is subject to significant downside risks, primarily stemming from a prolonged disruption of oil exports or potential damage to key infrastructure under a more protracted and intensive regional conflict. Spillover of conflict would also be significant for the non-oil sector, especially if mobility restrictions persist and religious tourism is impacted. Households' access to vital services, such as electricity, might be further constrained, while a longer conflict could increase displacement, exacerbating Iraq's humanitarian needs. Continued bottlenecks in food imports from the southern ports would heighten food security risks given Iraq's high import dependence. Domestically, further delays in government formation could postpone the passing of a budget law, thereby exacerbating liquidity shortages and undermining implementation of key policy reforms.

Recent history and projections	2023	2024	2025e	2026f	2027f	2028f
Real GDP growth, at constant market prices	1.7	-1.5	-0.7	-8.6	10.7	3.5
Private consumption	2.0	7.4	4.3	-1.5	1.0	1.0
Government consumption	3.5	4.2	-5.9	-1.4	-2.8	0.8
Gross fixed capital investment	-8.6	-0.5	-13.4	-10.7	-19.5	-2.0
Exports, goods and services	12.1	-0.1	1.1	-24.7	28.5	6.5
Imports, goods and services	0.5	10.0	2.0	-19.0	4.0	2.0
Real GDP growth, at constant factor prices	0.5	-1.5	-0.7	-8.6	10.7	3.5
Agriculture	19.5	18.5	-1.0	2.0	1.5	1.5
Industry	-4.5	-2.7	-1.7	-13.0	17.7	5.0
Services	9.2	-1.5	1.0	-1.9	0.9	0.9
Employment rate (% of working-age population, 15 years+)	35.9	35.8	36.1	35.5	35.6	35.9
Inflation (consumer price index)	4.4	2.6	0.3	3.0	2.5	2.5
Current account balance (% of GDP)[1]	9.7	0.1	-1.3	-2.1	-3.8	-2.4
Net foreign direct investment inflow (% of GDP)[1]	2.1	2.9	2.9	-2.4	-2.6	-2.5
Fiscal balance (% of GDP)[1]	0.9	-0.1	-2.1	-2.6	-6.1	-4.9
Revenues (% of GDP)	38.4	38.7	36.8	34.9	32.9	33.6
Debt (% of GDP)[1]	42.4	46.3	53.6	57.8	66.2	68.2
Primary balance (% of GDP)[1]	1.6	0.5	-1.6	-1.2	-4.6	-3.3
International poverty rate ($3.00 in 2021 PPP)[2,3]	0.5	0.5	0.4	0.5	0.5	0.5
Lower middle-income poverty rate ($4.20 in 2021 PPP)[2,3]	2.4	2.0	1.9	2.1	2.2	2.2
Upper middle-income poverty rate ($8.30 in 2021 PPP)[2,3]	28.0	25.4	24.2	25.9	26.5	27.0
GHG emissions growth (mtCO2e)	-7.2	-1.2	0.9	-4.8	6.1	3.3

Source: World Bank, Fiscal Policy & Growth Department. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.
1/ Share of factor cost GDP. Primary balance excludes interest received.
2/ Calculations based on 2023-IHSES. Actual data: 2023. Nowcast: 2024-2025. Forecasts are from 2026 to 2028.
3/ Projection using neutral distribution (2023) with pass-through = 0.7 (Low (0.7)) based on private consumption per capita in constant LCU.