
Iraq's Economy Set to Grow by 4.1% in 2025

28-10-2024

Authors

Mahmood Baban

Summary : In its annual report, "World Economic Outlook,"^[1] the International Monetary Fund (IMF) projects a 4.1% GDP growth rate for Iraq in 2025. This forecast aligns with a stable global growth rate of 3.2% across 195 countries, although developing countries, including Iraq, are expected to experience a higher growth trajectory, from a low 0.1% to a notable 4.1%. Although this projection is optimistic, it raises an important question: what factors have led the IMF to foresee such growth for Iraq?

Overview

In its annual report, "[World Economic Outlook](#),"^[1] the International Monetary Fund (IMF) projects a 4.1% GDP growth rate for Iraq in 2025. This forecast aligns with a stable global growth rate of 3.2% across 195 countries, although developing countries, including Iraq, are expected to experience a higher growth trajectory, from a low 0.1% to a notable 4.1%. Although this projection is optimistic, it raises an important question: what factors have led the IMF to foresee such growth for Iraq?

This analysis explores the IMF's rationale, examining four key principles that influence GDP growth to understand the basis of their forecast. By delving into these aspects, we aim to assess whether Iraq's GDP will indeed achieve this level of growth—or, conversely, if it could fall short in 2025.

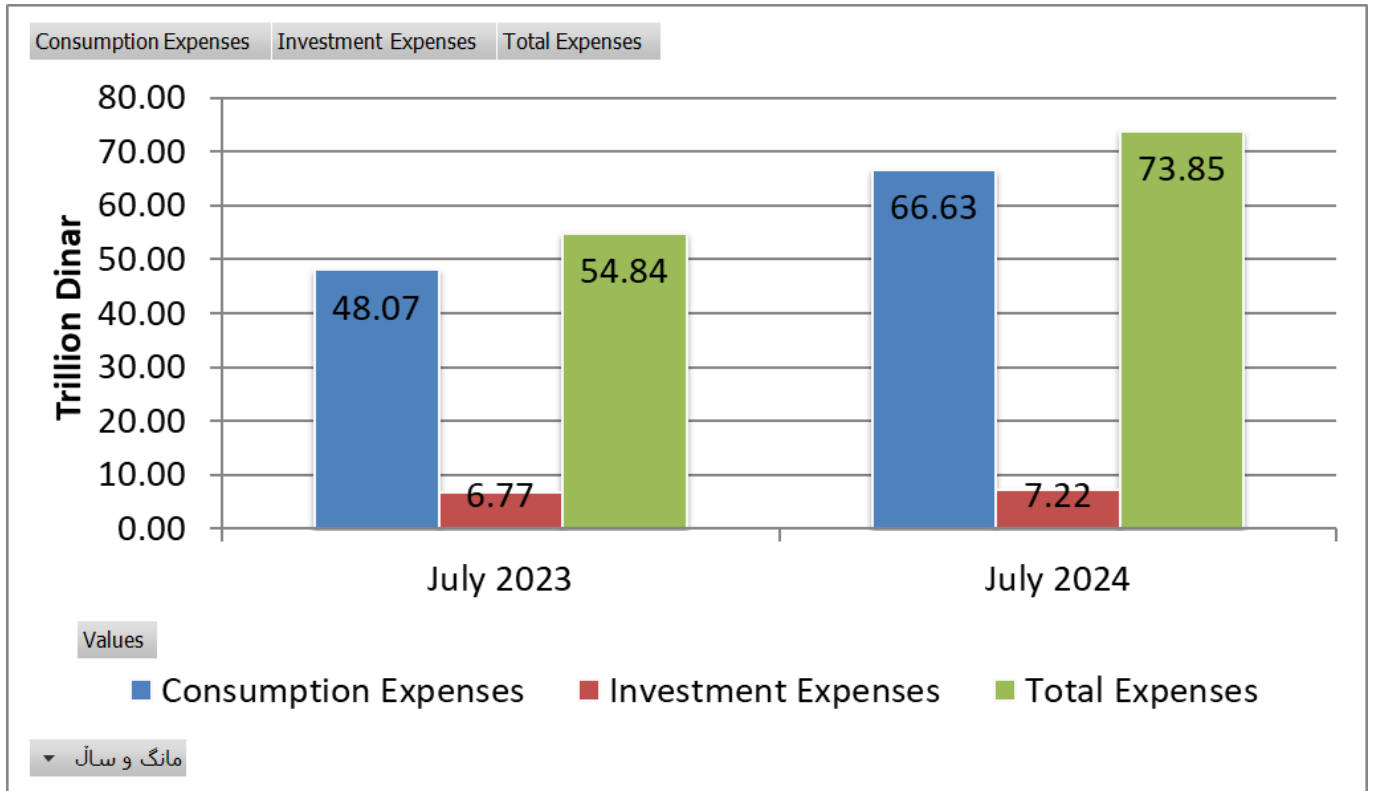
Individual and Government Spending: Purchase of Goods, Services, and Infrastructure Development

In Iraq, expenditures on both consumption and investment have consistently risen each year. This increase indicates higher individual incomes, with approximately 23% of Iraq's population—or [9.5](#) ^[2] million people, excluding the Kurdistan Region—receiving monthly salaries directly from the state. This figure represents one-fourth of the population, marking Iraq as the country with the world's highest proportion of citizens reliant on government salaries. Nearly 75% of Iraq's annual budget is allocated to these payments.

Comparing the total expenditures of the Iraqi Ministry of Finance for the first seven months of this year with the same period in 2023 reveals an increase of over 19 trillion dinars, with further growth anticipated next year. This projected rise is due, in part, to the likelihood of earlier approval of the annual budget, a trend observed in previous years, as initial budget discussions have already begun. This year's expenditure growth has impacted both consumption and investment spending, as illustrated in the first graph.

The primary driver behind the increase in spending is the rise in funds allocated by the government to the 9.5 million Iraqis. For instance, in the first seven months of this year, these expenditures reached 33.53 trillion dinars, up from 25.21 trillion dinars during the same period last year—an increase of 24.8%. This growth reflects a rise in both domestic and foreign expenditures.

Graph 1: Comparison of Iraqi Government Spending on Consumption and Investment in the First Seven Months of 2023 vs. 2024



Source: Iraqi Ministry of Finance, October 25, 2024

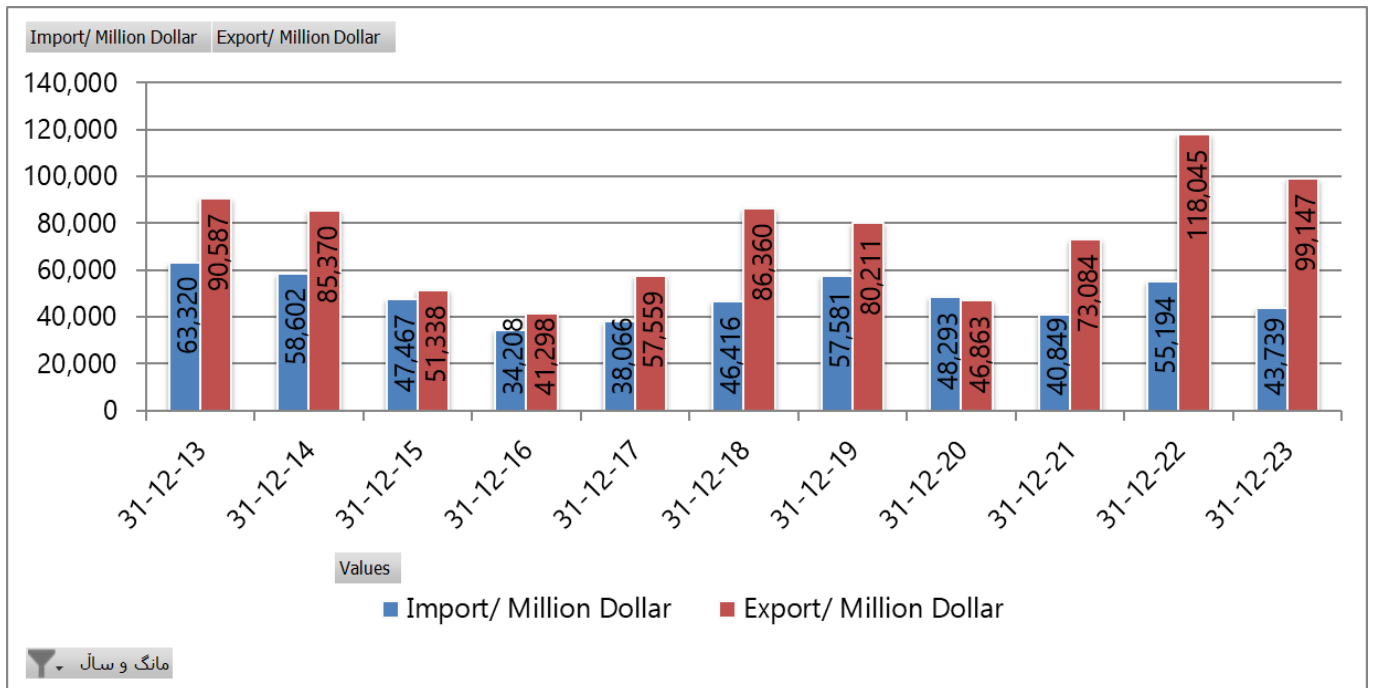
Investment and Net Exports: Catalysts of Economic Growth

Another key factor in determining GDP growth is investment, both domestic and foreign. While foreign direct investment (FDI) in Iraq has declined in recent years, domestic investment spending has risen, as illustrated in the first graph.

Overall, foreign investment in the oil and gas sector since last year after the announcement of the fifth-plus and sixth rounds of Iraqi oil, gas, and joint venture contracts gave a push for "Chinese" foreign investment in Iraq and caused a change in foreign investment in Iraq.

According to the Central Bank of Iraq (CBI), the net export results of goods and services show that total export earnings have been nearly double those of imports. As illustrated in the second graph, total exports of goods and services in 2023 reached \$99.14 billion, while total imports for the same year amounted to \$43.7 billion.

Graph 2: Iraq's Capital in Imports and Exports of Goods and Services (2013_2023) in Millions of Dollars



Source: Central Bank of Iraq, October 26, 2024

Conclusion

According to the [IMF](#), [3] Iraq's economy has remained largely unaffected, both directly and indirectly, by regional conflicts in the Middle East. In contrast, Lebanon has faced significant losses in tourism revenue, and Egypt's economy has been impacted by declining Suez Canal revenues, pushing it toward a financial crisis.

The IMF's optimism for Iraq's economic growth stems from the recently approved budget and Mohammed Shia' al-Sudani government's efforts to reform and enhance economic infrastructure. Key initiatives include the digitalization of the financial system, increased domestic investment, and participation in the SWIFT system in banking, as well as efforts to modernize the banking sector.

Notably, Iraq has prioritized [domestic Petroleum supply](#), [4] resulting in no imports of gas or kerosene in the first half of 2024. Gasoline (petrol) imports amounted to less than \$800 million, a significant reduction from the \$5.2 billion spent on fuel imports in 2022. This shift marks a substantial step toward boosting domestic production and retaining billions of dollars within Iraq's economy.

Ultimately, the IMF's projection is contingent on Iraq remaining unaffected by regional conflicts and successfully implementing its three-year budget, enacting meaningful reforms, encouraging foreign investment, completing infrastructure projects, and generating job opportunities beyond government roles. Additionally, Iraq must work to reduce its domestic and foreign debt, currently over \$60 billion, for the forecast to hold true. However, similar projections have fallen short in the past; for example, the 2022 report [5] predicted that Iraq's growth rate in 2023 would reach 4%, but as shown in this year's report [6], Iraq's GDP growth rate in 2023 was -2.9%, falling short of even zero.

[1] International Monetary Fund. 2024. World Economic Outlook: Policy Pivot, Rising Threats. Washington, DC. October.

ٲهحمهء ءهباآ، 2022-11-23 العراق الأعلى عالميا في عدد موظفي القطاع العام [2]

[3] Jihad Azour, Director, Middle East and Central Asia Department, IMF. 2024/10/24/regional-economic-outlook-middle-east-central-asia-october-2024

[4] شركة تسويق النفط حقوق النشر محفوظة لصالح شركة تسويق النفط لسنة 2024

[5] International Monetary Fund. 2022. World Economic Outlook: Countering the Cost-of-Living Crisis. Washington, DC. October

[6] International Monetary Fund. 2024. World Economic Outlook: Policy Pivot, Rising Threats. Washington, DC. October.