IRAQ

Iraq is not ranked in the 2020 Index because of the continuing lack of reliable relevant data. Iraqi forces have defeated the Islamic State territorially, but ISIS remains a terrorist threat. The outlook for the country depends mainly on whether the government is able to reduce social unrest, resolve its dispute with the Kurds, and prevent the return of Islamic State influence.

Economic policy priorities include reining in fiscal spending, curbing corruption, improving fiscal management, and strengthening the financial sector. The economy is largely dependent on the oil sector, but production will remain constrained by lack of investment. Combating corruption and reducing government spending will be politically challenging; civil service positions are used to reward loyal political allies. Diversification, the key to Iraq’s long-term economic development, will require a strengthened investment climate to bolster private-sector engagement, which in turn will require an improved security environment and restoration of the rule of law.

BACKGROUND: Iraq is slowly recovering from the traumatic war against the Islamic State, which seized large swaths of territory in western Iraq in 2014 and continues to pose a terrorist threat. Results of the May 2018 parliamentary elections increased the power of populist firebrand and Shia cleric Moqtada al-Sadr, who backed Adil Abdul-Mahdi, the former vice president of Iraq from 2005 to 2011 who became prime minister in October 2018. Iraq’s state-dominated economy is led by the oil sector, which provides approximately 85 percent of government revenue. The war against the Islamic State imposed a high cost on the economy, which also has been hurt by rampant corruption, sluggish oil prices, and war-related damage to infrastructure.
**12 ECONOMIC FREEDOMS | IRAQ**

### RULE OF LAW

<table>
<thead>
<tr>
<th>Freedom</th>
<th>Score (World Average)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Rights</td>
<td>11.2</td>
<td>(—)</td>
</tr>
<tr>
<td>Judicial Effectiveness</td>
<td>43.9</td>
<td>(—)</td>
</tr>
<tr>
<td>Government Integrity</td>
<td>20.8</td>
<td>(—)</td>
</tr>
</tbody>
</table>

Although Iraqis are legally free to own property and establish businesses, property rights and contract enforcement are impaired by corruption and conflict. Commercial jurisprudence is relatively underdeveloped. Corruption and bureaucratic bottlenecks remain significant problems for the judicial system. Corruption is pervasive in procurement, and government officials can engage in corrupt practices with impunity. Bribery, money laundering, nepotism, and misappropriation of public funds are common.

### GOVERNMENT SIZE

<table>
<thead>
<tr>
<th>Component</th>
<th>Score (World Average)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Burden</td>
<td>N/A</td>
<td>(—)</td>
</tr>
<tr>
<td>Government Spending</td>
<td>59.5</td>
<td>(—)</td>
</tr>
<tr>
<td>Fiscal Health</td>
<td>76.6</td>
<td>(—)</td>
</tr>
</tbody>
</table>

Individual and corporate income tax rates are capped at 15 percent. Because of high levels of evasion and lax enforcement, tax revenue as a percentage of GDP is negligible. The overall tax burden equals 2.0 percent of total domestic income. Government spending has amounted to 36.7 percent of the country’s output (GDP) over the past three years, and budget deficits have averaged 3.2 percent of GDP. Public debt is equivalent to 48.4 percent of GDP.

### REGULATORY EFFICIENCY

<table>
<thead>
<tr>
<th>Freedom</th>
<th>Score (World Average)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Freedom</td>
<td>52.6</td>
<td>(—)</td>
</tr>
<tr>
<td>Labor Freedom</td>
<td>44.8</td>
<td>(—)</td>
</tr>
<tr>
<td>Monetary Freedom</td>
<td>76.4</td>
<td>(—)</td>
</tr>
</tbody>
</table>

The continuing lack of security and threat of resurgent extremist groups are impediments to entrepreneurial activity among returning refugees. Many Iraqis who are seeking employment have little choice but to work in the informal sector. Iraq’s 2019 budget increased by 45 percent to fund some of the world’s highest subsidies per capita, which amount to about 40 percent of the country’s GDP.

### OPEN MARKETS

<table>
<thead>
<tr>
<th>Freedom</th>
<th>Score (World Average)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Freedom</td>
<td>N/A</td>
<td>(—)</td>
</tr>
<tr>
<td>Investment Freedom</td>
<td>N/A</td>
<td>(—)</td>
</tr>
<tr>
<td>Financial Freedom</td>
<td>N/A</td>
<td>(—)</td>
</tr>
</tbody>
</table>

Trade flows remain far below potential as broad-based commercial activity is still suppressed. Numerous nontariff barriers add to the cost of trade. Iraq is open to foreign investment in principle, but bureaucratic inertia, policy uncertainty, and security concerns deter investment growth. State banks dominate credit markets, and the largely cash-based economy lacks the infrastructure of a fully functioning modern financial system.