Iraq is not ranked in the 2021 *Index* because of the continuing lack of reliable data. Insurgent groups threaten the rule of law to a sizable extent in many areas, and the risk to law-abiding citizens making investment and economic decisions in those places is large. The outlook is uncertain and depends on whether the government can tamp down social unrest and prevent the resurgence of influence by the Islamic State.

To establish the basis for economic freedom, the government’s economic policy priorities should include reining in fiscal spending, curbing corruption, improving fiscal management, and strengthening the financial sector. The key to Iraq’s long-term economic development will be 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.

**IMPACT OF COVID-19:** As of December 1, 2020, 12,306 deaths had been attributed to the pandemic in Iraq, and the economy was forecast to contract by 12.1 percent for the year.

**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. Antigovernment protests led to the resignation of Prime Minister Adil Abdul-Mahdi and the appointment of Mustafa al-Kadhimi as the new prime minister on April 9, 2020. Although early elections have been promised, the next election is scheduled for 2022. 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.
Corruption and conflict undermine the protection of property rights. The politicized and corrupt judiciary is weakened by constant executive interference, tribal and religious forces, and bureaucratic bottlenecks. Deeply institutionalized corruption obstructs economic development and foreign direct investment. Anticorruption efforts are met with resistance and threats. Bribery, money-laundering, nepotism, and misappropriation of public funds are commonplace.

Resurgent extremist groups in some regions pose a threat to businesses. Entrants to the labor market face limited opportunities for employment. Iraq’s 2020 budget accounted for over 40 percent of GDP and included a wide variety of subsidies, including subsidies to unproductive and overpaid state industries.

Iraq is not a member of the World Trade Organization. Security challenges and institutional shortcomings continue to deter foreign trade and investment. Numerous state-owned enterprises distort the economy. Iraq’s cash-based economy lacks the infrastructure of a fully functioning financial system. Despite some progress, the banking regulation frameworks have not been strengthened enough to deepen financial intermediation.