IRAQ

Iraq remains unranked in the 2023 Index because of the lack of sufficiently reliable data on economic freedom within the country, which faces continuing ethnic and religious tensions. Iraq was last graded in the 2002 Index, receiving an overall score of 15.6.

Iraq’s economic growth is highly volatile, and its ongoing economic reconstruction has been fragile at best. Political instability and pervasive corruption continue to undermine the limited progress that has been achieved. Operating well below potential, the economy lacks effective monetary and fiscal policies. Iraq needs especially to improve security and fully restore the rule of law.

BACKGROUND: Iraq is slowly recovering from a traumatic war against the Islamic State, which seized significant amounts of territory in 2014 and remains a terrorist threat. Populist Shia cleric Muqtada al-Sadr’s party won the most seats in the October 2021 parliamentary elections, but Iran-backed parties blocked him from forming a governing coalition. He then called on his followers to resign their seats, precipitating a political crisis with no end in sight. Iraq’s state-dominated economy is led by the oil sector, which provides approximately 85 percent of government revenue. The economy has been hurt by rampant corruption and war-related damage to infrastructure.

ECONOMIC FREEDOM SCORE

RECENT FREEDOM TREND

NOT GRADED

QUICK FACTS

POPULATION: 41.2 million
GDP (PPP): $440.7 billion
5.9% growth in 2021
5-year compound annual growth –0.5%
$10,702 per capita
UNEMPLOYMENT: 15.0%
INFLATION (CPI): 6.0%
FDI INFLOW: –$2,613.0 million
PUBLIC DEBT: 59.1% of GDP

2021 data unless otherwise noted. Data compiled as of September 2022.
The overall rule of law is weak in Iraq. The country’s property rights score is below the world average; its judicial effectiveness score is below the world average; and its government integrity score is below the world average.

The top individual and corporate tax rates are, respectively, 15 percent and 35 percent. The tax burden equals 2.0 percent of GDP. Three-year government spending and budget balance averages are, respectively, 38.4 percent and –4.3 percent of GDP. Public debt equals 59.1 percent of GDP.

Despite some enhancement of the business environment, significant impediments to entrepreneurial activity persist. Enforcement of commercial regulations is overly bureaucratic and inconsistent. A formal labor market is not fully developed, and most private-sector jobs are short-term and informal. Monetary stability is weak.

Security challenges and institutional shortcomings continue to deter foreign trade and investment. Political instability undermines the economy. Iraq’s cash-based economy lacks the infrastructure of a fully functioning financial system. The banking regulation frameworks are not yet strong enough to deepen financial intermediation.