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Problems of Economics

Original article

**MACROECONOMIC INDICATORS OF IRAQI DEVELOPMENT:
ANALYSIS AND DEVELOPMENT TRENDS**

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Abstract. Building strategic visions for any economy is based on understanding the historical path of this economy and diagnosing the mechanisms of development action in it and the main pillars upon which it is based in implementing the structure of economic activities and the extended roots in drawing the features of the current state of the national economy. This article presents a study of trends in the Iraqi economy, analyzes trends in the development and structure of GDP in industry and agriculture since 2018 and targets for 2022–2023. These indicators are analyzed taking into account the impact of the pandemic. Based on the results of the study, recommendations were made for neutralizing negative factors. According to the authors, for the development of the Iraqi economy, it is necessary to develop industry, chemical and petrochemical industries.

Keywords: national economy, microeconomic indicators, development, Iraq, economic development trends, GDP of the Republic of Iraq, Iraqi industry

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Проблемы экономики

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**МАКРОЭКОНОМИЧЕСКИЕ ПОКАЗАТЕЛИ РАЗВИТИЯ ИРАКА:
АНАЛИЗ И ТЕНДЕНЦИИ РАЗВИТИЯ**

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Аннотация. Исследование развития любой макроэкономической системы необходимо проводить на основе анализа показателей, которые являются индикаторами развития страны. В данной статье представлено исследование тенденций развития экономики Ирака, проведен анализ тенденций и структуры ВВП в разрезе промышленности, сферы услуг и сельского хозяйства начиная с 2018 г. и плановые показатели на 2022–2023 гг. Данные показатели проанализированы с учетом влияния пандемии. По результатам проведенного исследования даны рекомендации по нейтрализации негативных факторов. По мнению авторов, для развития экономики Ирака необходимо развивать электроэнергетику, химическую и нефтехимическую отрасли промышленности.

Ключевые слова: национальная экономика, Ирак, тенденции развития экономики, ВВП республики Ирак, промышленность Ирака

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Iraqi microeconomic facts

Iraq is one of the most oil-dependent countries in the world. Over the last decade, oil revenues have accounted for more than 99% of exports, 85% of the government's budget, and 42% of GDP. This excessive dependence on oil exposes the country to macroeconomic volatility, while budget rigidities restrict fiscal space and any opportunity of counter cyclical policy. As of January 2021, in a country of 40.2 million, Iraq's unemployment rate was more than 10 percentage points higher than its pre-COVID-19 level of 12.7%. Unemployment among the displaced, returnees, women jobseekers, the pre-pandemic self-employed, and informal workers remains elevated.

The economy is gradually recovering from the double oil and COVID-19 shocks of 2020. In the first half of 2021 (H1-21), GDP grew by 0.9% year on year (y/y). The non-oil economy grew by over 21% in H1-21 (y/y), owing to a solid performance in the services sectors as COVID-19 containment measures were eased, aided by a pick-up in the vaccination campaign. This recovery outpaced the slowdown in the oil sector as Iraq adjusted to its OPEC+ quota early in the year.

Changes in Iraqi GDP

Important gains were made in budgetary revenues as average oil export prices trended above US\$64/barrel. Customs and tax administration reforms outlined in the 2021 budget law started paying off, contributing to a 53% surge in domestic revenue mobilization. This was enough to turn the overall fiscal deficit (cash basis) into a small surplus of 0.6% of GDP despite spending rigidities. The current account deficit also turned into a surplus of 4.7% of GDP in Q1-21, hence boosting the official reserves of the central bank. Iraq's economic conditions are gradually improving as international oil markets recover, this recovery is also fraught by major risks posed by structural bottlenecks, including public investment management constraints that have impacted public service delivery, the slow clearance of arrears (especially those related to public wages), and large exposure of state-owned banks and the central bank to the sovereign. These fragilities are aggravated by fragile political conditions, a weak healthcare system, and rampant corruption that continue to trigger unrest across the country.

The economy is forecast to gradually recover on the back of rising oil prices and OPEC+ production quotas, which are planned to be phased out in 2022. Oil GDP will be the main driver of growth in the medium term. Non-oil GDP is forecast to recover but remain under 3% on average in 2021–2023, due to the impact of the COVID-19 Delta variant, compounded by water and electricity shortages which effect agriculture and industries. As a result, the fiscal balance is forecast to remain in surplus in the medium term leading the debt-to-GDP ratio to steadily improve.

We can show changes in Iraqi GDP (millions dollars) as following:

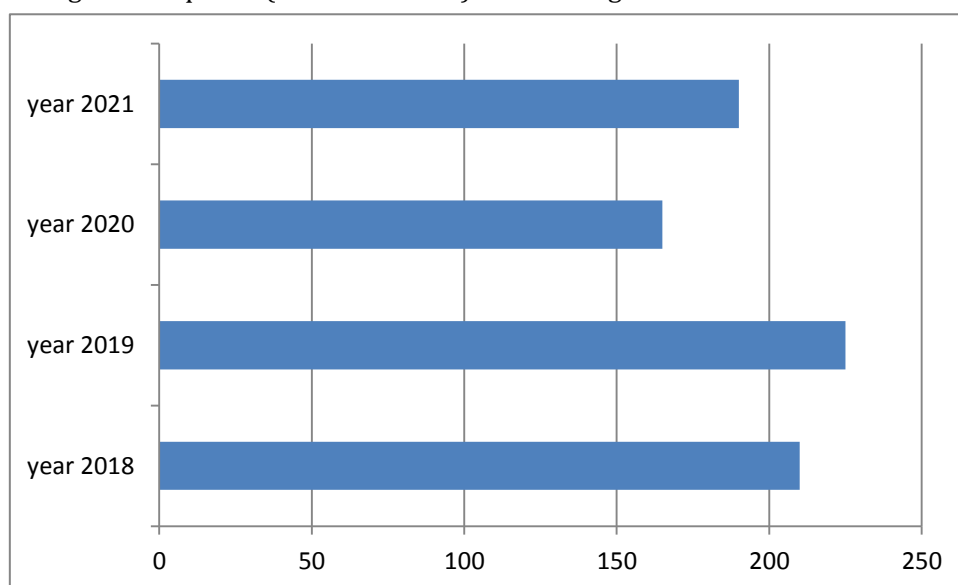


Fig. 1. Iraqi GDP (2018-2021), millions dollars¹

¹ Prepared by researchers in depending on <https://data.worldbank.org/country/IQ>

Iraqi government strategy

Recognizing the severity of the crisis the Iraqi government devised the national reform plan “ white paper “ that sets out a blueprint of reforms to achieve sustainable medium term growth . the 2021 budget proposes measures aimed at boosting domestic revenue mobilization and public financial management , as well as announcing an 18.5 percentage percent devaluation of the (Iraqi dinar) IQD against the USD . the ultimate success of reforms depends on political will and public support to implement the proposed measures and lead the country “Iraq“ out of a long-standing fragility trap. Amid persistently high perception of corruption and weak public service delivery, fiscal consolidation could give rise to social tensions and undermine reform implementation. other priorities include limiting the spread of COVID-19 and ensuring a quick vaccine rollout to manage the economic fallout from the pandemic.

The twin shocks took a heavy toll on Iraq’s economy, with GDP (at factor cost) posting a contraction of 10.4 percent in 2020. Growth was weighed down by depressed global oil demand and adherence to OPEC+ production cuts agreement which led to a 17.6 % contraction in oil GDP. The non-oil economy also underwent at a 9% contraction as COVID-19 induced lockdown battered domestic demand with religious tourism and services sectors suffering from the weak domestic demand and cheaper imported goods kept inflation pressures low with headline and core inflation only edging up to 0.6 % and 1% in 2020. Cuts in oil production exerted severe pressures on government finances, with oil revenues – according for 92% of total revenue in 2019 –falling by over 45.1 % in 2020. The Iraqi government responded through cutting discretionary spending and slashing public investment. To deal with budget rigidities, especially those linked to the public wage bill and pension. Iraqi government deferred the regularization of new entrants and contractual workers to 2021 thus accruing wage arrears. Hence the 1.4 % of GDP fiscal surplus in 2019 turned in to a 4.4% of GDP deficit in 2020, raising gross budgetary financing needs to over 6.5% of GDP also following a restructuring of domestic debt held by state-owned banks and central bank of Iraq “CBI”. This together with the higher value of foreign debt following IDQ devaluation also caused central government debt-to GDP ratio to increase by 21% points to 69,3% in 2020. Lower oil exports led to worsening of the current account balance, which turned from a surplus in 2019 to a 12.9 % of GDP deficit in 2020. With net foreign domestic imports “FDI” flows at only (US\$ 3.2 billion) and limited other borrowing in 2020. Foreign currency reserves fell by almost US\$ 13.6 billion to cover the gap by central bank. This brought reserves coverage to 9.6 months of imports by end 2020 despite a decline in imports.

Table 1¹ – **Iraqi macroeconomic indicators 2018-2023**

Statement	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022 f	Year 2023 f
Real GDP growth (constant market prices)	6.8	2.4	-11.9	1.9	8.4	4.2
Private consumption	2.3	1.5	-9	1.5	8	5.6
Government consumption	17.7	25.2	- 10.6	31.5	2.1	1.1
Gross fixed capital investment	-74.2	-16.2	-40	5	15	10
Exports (goods and services)	9.4	2.7	-15.8	1.1	10.3	5.1
Imports (goods and services)	16.6	28.4	-9.4	15	2	3
Real GDP growth (constant factor prices)	-1.2	4.4	-10.4	1.9	8.4	4.2
Agriculture	12.8	38.8	34.3	14	10	5
Industry	-2.4	3.7	-11.6	2.7	10.2	4
Services	0.7	3.7	-12.2	-1.9	3.6	4.5
Inflation (consumer price index)	0.4	-0.2	0.6	8.5	3.8	3.3
Current account balance (% of GDP)	10.6	6.1	-12.9	-11.3	-5.6	-4.4
Net foreign direct investment (% of GDP)	2.4	1.5	1.9	1.9	1.9	1.8
Fiscal balance (% of GDP)	11.9	1.4	-4.4	-5.4	- 1	-0.6
Debt (% of GDP)	52.4	48.2	69.3	61.1	55.6	52.7
Primary balance (% of GDP)	13.1	2.6	-3.2	- 4	0.9	1.7

¹ Iraqi macroeconomic indicators according to data of world bank April 2021: World bank, report for macroeconomics of Iraq, April 2021 , <https://data.worldbank.org/country/IQ>

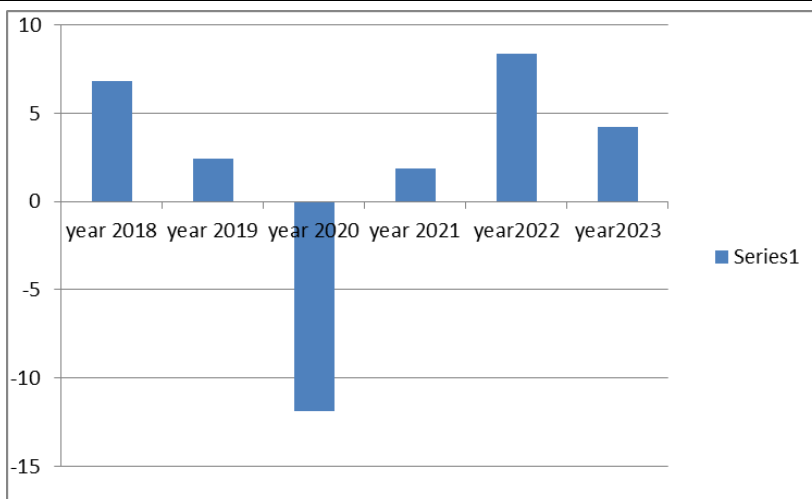


Fig. 2. Iraqi Real GDP growth (constant market prices)¹

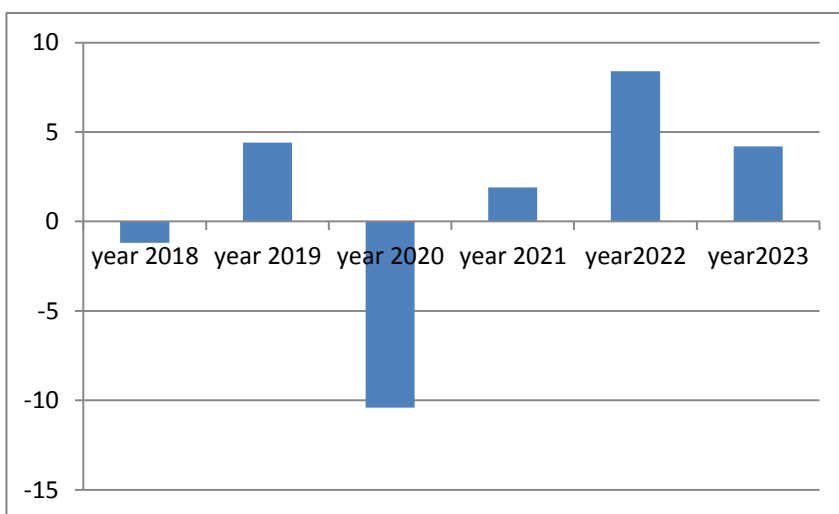


Fig. 3. Iraqi Real GDP growth (constant factor prices)²

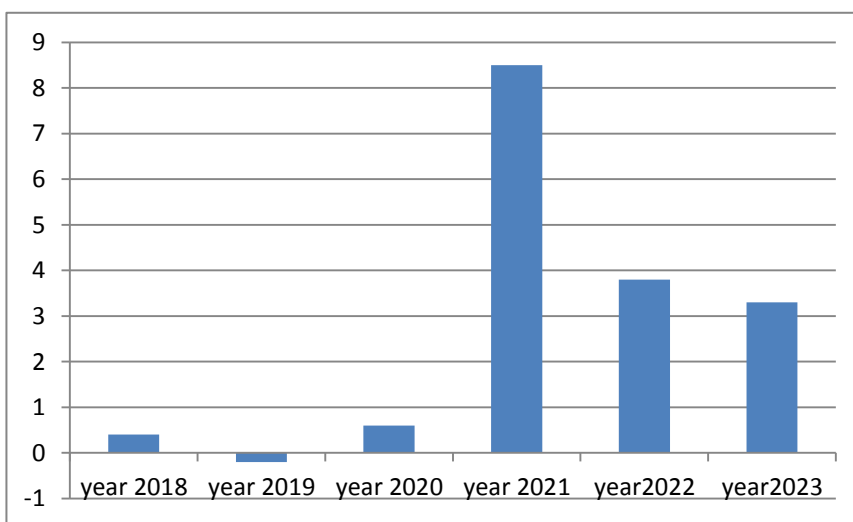


Fig. 4. Iraqi Inflation (consumer price index)³

¹ Prepared by researchers depending on <https://data.worldbank.org/country/IQ>

² Prepared by researchers depending on <https://data.worldbank.org/country/IQ>

³ Prepared by researchers depending on <https://data.worldbank.org/country/IQ>

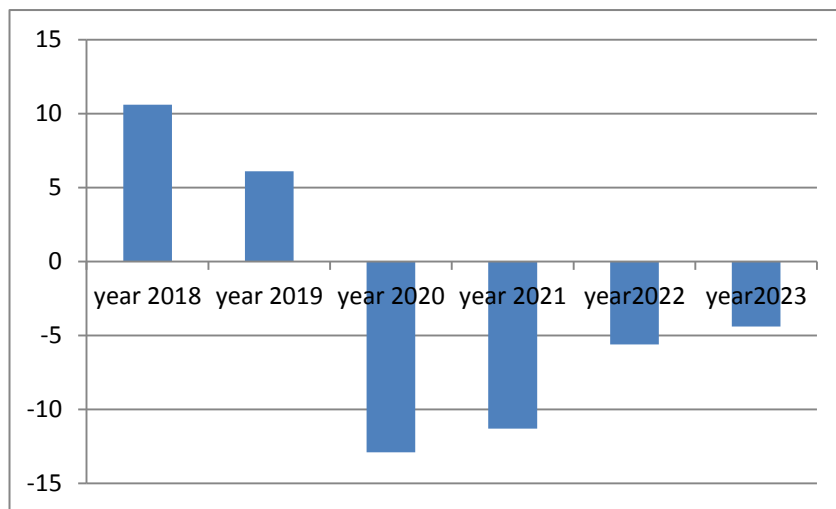


Fig 5. Current account balance (% of GDP)¹

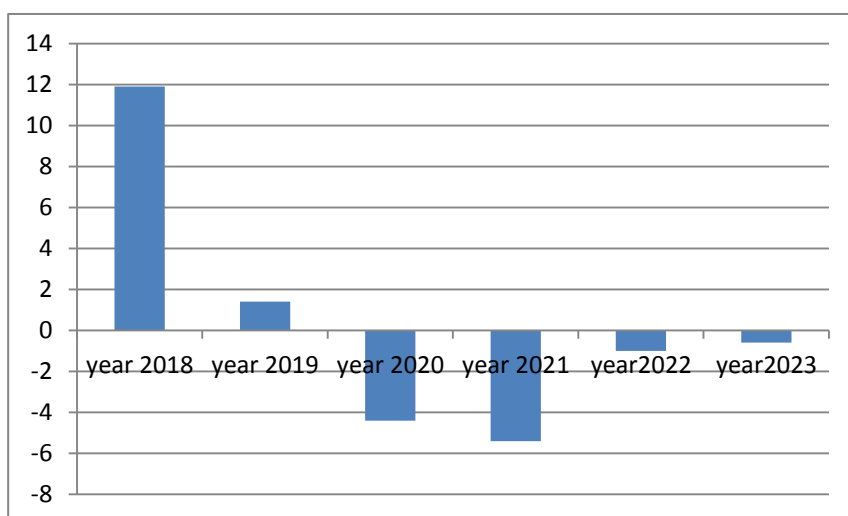


Fig. 6. Fiscal balance (% of GDP)²

Final opinion and suggestions

The economy is forecast to gradually recover on the back of rising oil prices and OPEC+ production quotas. GDP growth is projected to rise to 1.9% in 2021 and 6.3% on the average 2022 and 2023. Delays in covid-19 vaccine led to additional lockdowns, which in turn impact on economic activities. Non-oil GDP is forecast to recover in 2021, Growing up to 5.5% before converging to historical potential GDP growth trend in 2022-2023.

Economic recovery and mass vaccination will gradually reverse the surge in Poverty, projected by 7% to 14% points rise at the national poverty line of 110881 IQD per person monthly. the impact of the shock on the informal sector, dominated by the poor and vulnerable. The currency devaluation is estimated to push inflation to 8.5% in 2021 due to limited capacity for import substitution, this percentage will present an additional pressure on household’s wellbeing and Poverty decrease. Higher oil revenues coupled with the devaluation effect are projected to narrow the fiscal deficit to 5.4% of GDP in 2021. financing needs are forecast to remain elevated compared to pre-covid-19 levels, averaging at USD 13.7 Billion/year in the outlook period.

Iraq can be depending on framework for a digital economy as consisting of:

- digital infrastructure;
- digital financial services;
- digital platforms;

¹ Prepared by researchers in depending on <https://data.worldbank.org/country/IQ>

² Prepared by researchers depending on <https://data.worldbank.org/country/IQ>

- digital skills;
- digital entrepreneurship.

The priority areas for reform in Iraq are governance and enhancing private sector participation in the productive sectors (and diversification), and this could subsequently enhance Iraq's participation in the digital economy. These priority areas of reform cover all five elements of the digital economy framework, and aim to enhance accountability, transparency, and trust. Iraq's transformation, in accordance with the World Bank's initiative, towards developing a digital economy that is flexible and inclusive, requires economic reforms and the adoption of development priorities that provide the infrastructure for the digital economy.

For the development of the Iraqi economy, it is necessary to develop the chemical and petrochemical industries, to modernize the electric power complex. To implement these tasks, it is necessary to develop a strategic plan for the development of industry in the Republic of Iraq. The strategic plan should include a strategy for the development of industry, services, agriculture. To solve the above tasks, when developing a strategic plan, it is necessary to use evidence-based planning methods. According to the author, this method can be a software-product management method.

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