

A State in Collapse: Mapping Iraq's Economic Woes

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Brief Analysis

Poverty, unemployment, and a lack of local industry continue to plague Iraq's economy, and the resulting public unrest could be dangerous.

Attempting to precisely and objectively describe the situation of Iraq, many academics, observers, and analysts who support their country and its highest national interests agree that, in its current form, the country's situation consists of a dilapidated rentier economy and an industrial and agricultural sector that has all but collapsed. It may have already fully collapsed, with the exception of individual efforts by farmers, industrialists, and investors to enter the state through establishing modest projects of little value. There is a frightening increase in poverty levels, especially in central and southern Iraq, accompanied by a population explosion due to a lack of family planning or control of its gradual growth.

Along with major security issues and political inertia—discussed in a [separate article \(https://www.washingtoninstitute.org/policy-analysis/state-collapse-iraqs-security-and-governance-failures\)](https://www.washingtoninstitute.org/policy-analysis/state-collapse-iraqs-security-and-governance-failures)—much of this crisis can be understood through an economic lens. Specialists agree that, in the current situation, there are no economic drivers in Iraq. The only significant economic activity is merely the oil industry, the revenues of which get allocated as operating expenses. In the event of a revenue deficit from oil expenditures, as happens yearly and has happened for a number of years, the government resorts to internal and external borrowing. This has prompted the state to completely stop rebuilding what has been destroyed in previous wars, developing the basic services sector, or launching sustainable development in the period since 2003.

Iraq's economy depends primarily on oil, with oil revenues making up 96% of the real value of the federal budget. Because oil is tied to a global market in which prices constantly fluctuate and are usually unstable, oil has turned the Iraqi economy into a rentier economy. The state, the country's main employer, has approximately 3.26 million employees, which does not include those working on monthly contracts and temporary daily wages. At this point, Iraq's oil revenues can no longer cover its operating expenses; in the 2021 [federal budget \(https://www.moj.gov.iq/upload/pdf/4625.pdf\)](https://www.moj.gov.iq/upload/pdf/4625.pdf), for example, operating expenditures for ministries and provinces were more than 88 trillion dinars, compared to oil revenues of 81 trillion dinars.

There were hopes that the economic White Paper project presented by the Mustafa Al-Kadhimi government—which acknowledged some of the necessary reforms needed to recalibrate the Iraqi economy—could be a starting point to correcting the economic path and beginning necessary reforms. But the paper ended up on a shelf, forgotten or ignored. With elections on the doorstep, political powers found it in their interest to oppose any reforms not coming from themselves alone. As such, yet again, Iraq has lost the opportunity to actually initiate reforms.

Outside of the public sector, Iraq's private economy is also eroding. Iraq was, in its recent past and across its agricultural map, the region's breadbasket. But after a series of wars, Iraq's agricultural sector has gradually declined. Signs of collapse in the agricultural sector have been noted, including recurring [drops in the quantities of water \(https://www.alaraby.co.uk/politics/%D8%A7%D9%84%D8%B9%D8%B1%D8%A7%D9%82-%D8%AA%D8%AD%D8%B1%D9%83%D8%A7%D8%AA-%D9%85%D8%B9-%D8%AF%D9%88%D9%84-%D8%A7%D9%84%D8%AC%D9%88%D8%A7%D8%B1-%D8%A8%D8%B4%D8%A3%D9%86-%D8%A3%D8%B2%D9%85%D8%A9-%D9%85%D9%8A%D8%A7%D9%87-%D8%AF%D8%AC%D9%84%D8%A9-%D9%88%D8%A7%D9%84%D9%81%D8%B1%D8%A7%D8%AA\)](https://www.alaraby.co.uk/politics/%D8%A7%D9%84%D8%B9%D8%B1%D8%A7%D9%82-%D8%AA%D8%AD%D8%B1%D9%83%D8%A7%D8%AA-%D9%85%D8%B9-%D8%AF%D9%88%D9%84-%D8%A7%D9%84%D8%AC%D9%88%D8%A7%D8%B1-%D8%A8%D8%B4%D8%A3%D9%86-%D8%A3%D8%B2%D9%85%D8%A9-%D9%85%D9%8A%D8%A7%D9%87-%D8%AF%D8%AC%D9%84%D8%A9-%D9%88%D8%A7%D9%84%D9%81%D8%B1%D8%A7%D8%AA) flowing from neighboring countries through the Tigris and Euphrates Rivers, the loss of state control over agricultural land, the prevalence of bulldozing orchards to turn them into residential and commercial areas throughout the provinces, and the migration of farmers to the cities to obtain civil and military jobs.

Industry has fared no better than agriculture. The industrial sector, and especially light industries, has collapsed. The latter was impacted prior to 2003 by the effects of wars and a blockade lasting around 13 years. With the loss of control over the borders in the years following the fall of the former regime, different goods and products flowed in at a time of import chaos that has continued until today. While state agencies and their security and military forces limit and control the land and sea border crossings, import regulations lack the economic and financial standards in force globally.

This has consequently eliminated the last remaining Iraqi factories, as they were no longer able to compete with regional or global importers. The subsequent shuttering of factories led to thousands of workers joining Iraq's army of the unemployed.

Likewise, financing is in a similarly dismal situation. The government banking sector has turned into mere shops that distribute salaries or deposit wages and fees, while private banks now focus on competing for what is available on the currency auction of the Central Bank of Iraq, infamous for obscene profits that do not benefit the country's economy. This has hindered the energies and efforts of investors and business leaders to ramp up construction and investment because the profits made from the [currency auction \(https://www.cbi.iq/currency_auction\)](https://www.cbi.iq/currency_auction) mean they have no need to enter into the difficulties and complications of projects and risk their capital. The matter has reached a loss of confidence by depositors in those banks due to the lack of laws protecting their cash deposits. This has caused the financial sector to lose nearly 50 trillion dinars of the money supply in circulation, which is frozen because it is [confined in the homes \(https://alsabaah.iq/35608/%D9%85%D8%B8%D9%87%D8%B1-%D9%85%D8%AD%D9%85%D8%AF-%D8%B5%D8%A7%D9%84%D8%AD-83-%D9%85%D9%86-%D8%A7%D9%84%D9%83%D8%AA%D9%84%D8%A9-%D8%A7%D9%84%D9%86%D9%82%D8%AF%D9%8A%D8%A9-%D8%B4%D8%A8%D9%87-%D9%85%D8%B9%D8%B7%D9%84%D8%A9\)](https://alsabaah.iq/35608/%D9%85%D8%B8%D9%87%D8%B1-%D9%85%D8%AD%D9%85%D8%AF-%D8%B5%D8%A7%D9%84%D8%AD-83-%D9%85%D9%86-%D8%A7%D9%84%D9%83%D8%AA%D9%84%D8%A9-%D8%A7%D9%84%D9%86%D9%82%D8%AF%D9%8A%D8%A9-%D8%B4%D8%A8%D9%87-%D9%85%D8%B9%D8%B7%D9%84%D8%A9) of the depositors, preferable to any risk of capital.

Total Dependence on Oil

Iraq continues to rely on oil as a source of national income. Iraq extracts and sells oil in the global markets, spending the revenue on operating expenses. Often, income is impacted by the rise and fall of oil prices, which are largely headed towards a decline as developed and oil-consuming countries move towards renewable energy.

The Wood Mackenzie Group announced in a [report \(https://www.woodmac.com/press-releases/action-to-achieve-paris-climate-goals-will-upend-oil-and-gas-prices/#:~:text=Price%20fall&text=Consequently%2C%20oil%20prices%20begin%20to,demand%2C%20however%2C%20remains%20resilient.\)](https://www.woodmac.com/press-releases/action-to-achieve-paris-climate-goals-will-upend-oil-and-gas-prices/#:~:text=Price%20fall&text=Consequently%2C%20oil%20prices%20begin%20to,demand%2C%20however%2C%20remains%20resilient.) that demand for oil will begin to sharply decline as of 2023, with the expectation that the price of a barrel of oil will be no more than \$40 starting in 2030, and just \$10 in 2050. Even if these dire predictions do not come true, oil prices certainly seem set to decrease. Major car manufacturers have been turning towards electric-powered cars, with one group even announcing they will stop producing conventional cars starting in 2030. The volume of consumption in the global battery market has reached \$60 billion and is [expected \(https://www.bloomberg.com/news/newsletters/2021-04-16/hyperdrive-daily-big-auto-chases-a-cheaper-battery?utm_medium=social&mpid=socialflow-twitter-business&utm_source=twitter&utm_content=business&utm_campaign=socialflow-organic\)](https://www.bloomberg.com/news/newsletters/2021-04-16/hyperdrive-daily-big-auto-chases-a-cheaper-battery?utm_medium=social&mpid=socialflow-twitter-business&utm_source=twitter&utm_content=business&utm_campaign=socialflow-organic) to reach \$124 billion in 2024.

All these indicators give a worrying warning to oil-exporting countries like Iraq that oil sales—and therefore oil prices—will begin to shrink over the coming few years. If the policies of Iraqi governments continue to ignore this warning and its indicators, then they face only one choice: to declare bankruptcy in the near future. This will happen if they do not move towards diversifying income sources and investing in oil as a raw material for local manufacturing, which could help rein in the chaos of uncontrolled imports.

Population Explosion, Unemployment, and Poverty

However, Iraq is already experiencing an unemployment crisis. The Minister of Planning, Khalid Batal Najim, [said \(https://www.ina.iq/124185--.html\)](https://www.ina.iq/124185--.html) on April 22, 2021 that "Iraq is witnessing large population increases that are not commensurate with the size of resources, especially with the expansion of the youth among population segments." Iraq's population is approaching 40 million people, with an annual increase of one million people. This means that the state's need to build schools and hospitals and create job opportunities for young people increases every year, even as federal budgets continue to lack the resources necessary to keep pace with this population explosion.

Furthermore, the poverty rate in Iraq has reached around 27% percent, according to [statistics \(https://arabic.sputniknews.com/arab_world/202104191048734281-%D8%A7%D8%B1%D8%AA%D9%81%D8%A7%D8%B9-%D9%86%D8%B3%D8%A8%D8%A9-%D9%86%D8%B3%D8%A8%D8%A9-%D8%A7%D9%84%D9%81%D9%82%D8%B1-%D9%81%D9%8A-%D8%A7%D9%84%D8%B9%D8%B1%D8%A7%D9%82-%D8%A5%D9%84%D9%89-27/\)](https://arabic.sputniknews.com/arab_world/202104191048734281-%D8%A7%D8%B1%D8%AA%D9%81%D8%A7%D8%B9-%D9%86%D8%B3%D8%A8%D8%A9-%D8%A7%D9%84%D9%81%D9%82%D8%B1-%D9%81%D9%8A-%D8%A7%D9%84%D8%B9%D8%B1%D8%A7%D9%82-%D8%A5%D9%84%D9%89-27/) from the Ministry of Planning, and 31% according to a [report \(https://www.aljazeera.net/videos/2021/3/20/%D8%A7%D9%84%D8%B9%D8%B1%D8%A7%D9%82-%D8%A7%D8%B1%D8%AA%D9%81%D8%A7%D8%B9-%D9%86%D8%B3%D8%A8%D8%A9-%D8%A7%D9%84%D8%A8%D8%B7%D8%A7%D9%84%D8%A9-%D9%88%D8%A7%D9%84%D9%81%D9%82%D8%B1\)](https://www.aljazeera.net/videos/2021/3/20/%D8%A7%D9%84%D8%B9%D8%B1%D8%A7%D9%82-%D8%A7%D8%B1%D8%AA%D9%81%D8%A7%D8%B9-%D9%86%D8%B3%D8%A8%D8%A9-%D8%A7%D9%84%D8%A8%D8%B7%D8%A7%D9%84%D8%A9-%D9%88%D8%A7%D9%84%D9%81%D9%82%D8%B1) by the World Food Programme (WFP). The former Minister of Labor and Social Affairs, Mohammed Shia' al-Sudani, said that there are more than 1.4 million families receiving social security assistance, on top of more than a million others applying to the Ministry of Labor and Social Affairs to be included in social security. This means a large percentage of Iraqi society lives below the poverty level, and these percentages are continuously increasing.

Unemployment in Iraq is also approaching a continuous increase, and, according to the WFP, it has exceeded [40% \(https://www.aljazeera.net/videos/2021/3/20/%D8%A7%D9%84%D8%B9%D8%B1%D8%A7%D9%82-%D8%A7%D8%B1%D8%AA%D9%81%D8%A7%D8%B9-%D9%86%D8%B3%D8%A8%D8%A9-%D8%A7%D9%84%D8%A8%D8%B7%D8%A7%D9%84%D8%A9-%D9%88%D8%A7%D9%84%D9%81%D9%82%D8%B1\)](https://www.aljazeera.net/videos/2021/3/20/%D8%A7%D9%84%D8%B9%D8%B1%D8%A7%D9%82-%D8%A7%D8%B1%D8%AA%D9%81%D8%A7%D8%B9-%D9%86%D8%B3%D8%A8%D8%A9-%D8%A7%D9%84%D8%A8%D8%B7%D8%A7%D9%84%D8%A9-%D9%88%D8%A7%D9%84%D9%81%D9%82%D8%B1), especially among youth. Every year, more than 180,000 students [graduate \(https://magazine.imn.iq/%D9%85%D9%84%D9%81-%D8%A7%D9%84%D8%B9%D8%AF%D8%AF/180-%D8%A7%D9%84%D9%81-%D8%AE%D8%B1%D9%8A%D8%AC-%D8%B3%D9%86%D9%88%D9%8A%D8%A7-%D9%8A%D9%86%D8%B6%D9%85-%D8%A7%D8%BA%D9%84%D8%A8%D9%87%D9%85-](https://magazine.imn.iq/%D9%85%D9%84%D9%81-%D8%A7%D9%84%D8%B9%D8%AF%D8%AF/180-%D8%A7%D9%84%D9%81-%D8%AE%D8%B1%D9%8A%D8%AC-%D8%B3%D9%86%D9%88%D9%8A%D8%A7-%D9%8A%D9%86%D8%B6%D9%85-%D8%A7%D8%BA%D9%84%D8%A8%D9%87%D9%85-)

[%D8%A7%D9%84%D9%89-%D9%82%D9%88%D8%A7%D8%A6%D9%85-%D8%A7/\)](#) from private and public universities and institutes, with only rare work opportunities available in the public or private sector. Large percentages of the population live under the poverty line, and the armies of unemployed young people do not see much of a future appearing on the horizon.

Today, these economic pressures have become a time bomb. There are already signs of grave consequences in the October demonstration and the demonstrations that followed, where graduates demanding employment in front of the headquarters of various ministries. In the past few weeks, youth's demands for revolution and for boycotting the elections are being renewed, as well as a call for change in the existing political system. It is not unlikely that demonstrations will return in force to threaten the political system and remove the ruling class. Moreover, the country's governance failures—discussed in a [separate article \(https://www.washingtoninstitute.org/policy-analysis/state-collapse-iraqs-security-and-governance-failures\)](https://www.washingtoninstitute.org/policy-analysis/state-collapse-iraqs-security-and-governance-failures)—demonstrate the ways in which corruption and a proliferation of arms have further destabilized Iraq. ❖

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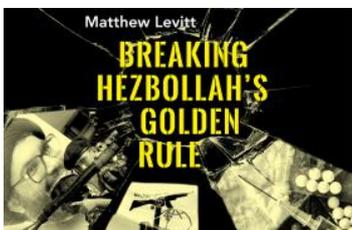
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