Possibilities of Economic Transformation and Internal-External balance in Iraq

Dr. Ahmed Ibraihi Ali

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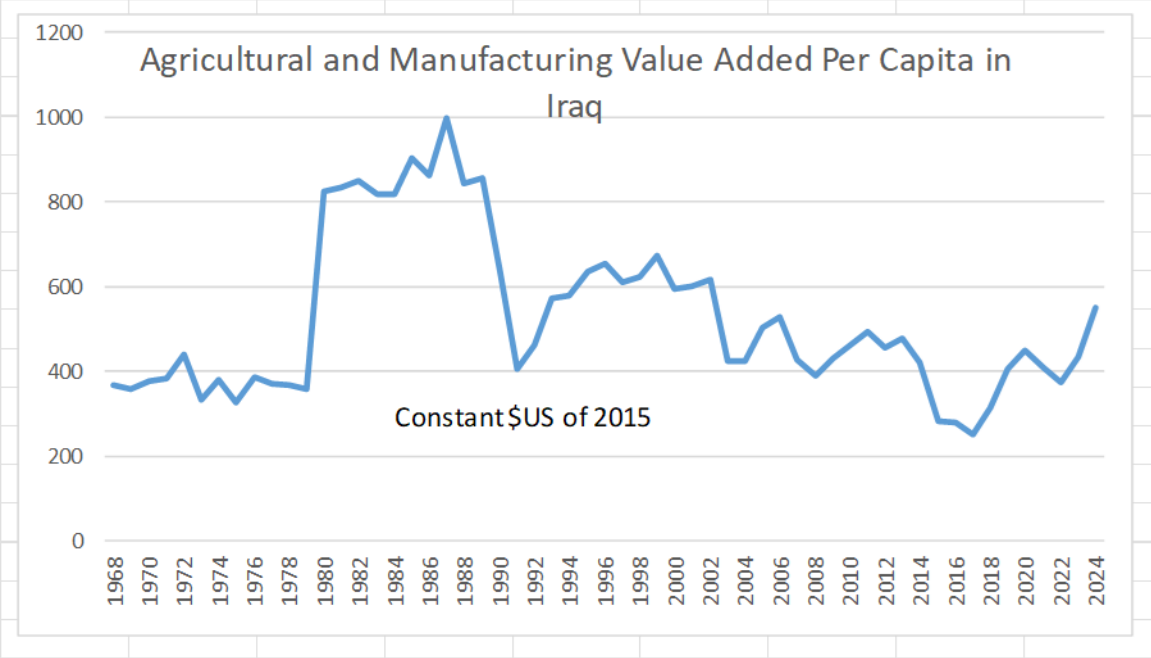
There is a general perception that Iraq's economy has made less progress than it could have in recent decades, this underperformance causes excessive dependence on oil revenue. This paper seeks to review the structure and causal relations underlying the current economic situation in Iraq and possibilities of initiating an economic transformation to a diversified industrializing economy. This is to address the deep roots of the difficulty in liberating the Iraqi economy from dependence on a single volatile resource. Likewise, to consider public finance and the budget within the conditions of internal – external economic balance. The internal balance is generally defined as achieving the economy's potential output, full employment, without creating undue inflationary pressures, and the external balance is defined as achieving a sustainable position in the balance of payments, often focusing on avoiding chronic deficits that lead to unsustainable foreign debt accumulation.

Introduction

The Iraqi economic outlook indicates the necessity of comprehensive reassessment, driven by significant challenges including shrinking of non- oil productive base, limited fiscal space. Also, low level of capital formation, in addition to its high costs, definitely threatens the future of Iraqi Economy. The distortion of the production structure deepened, and insignificant growth achievement in the non- oil economy which has been dominated by services and low productivity activities. Economic analysis of events since 2004 largely support the assertion that Iraq shown a high orientation toward using oil revenues for immediate consumption, and expansionary nonproductive public spending rather than diversified economic development and productive employment of the labor force.

Those holding leadership positions, and their Iraqi and foreign advisors, are required to affirm their commitment to the truth, and the interests of the Iraqi people. The economic management framework that emerged in post – 2003 has maintained and reinforced short – term socio- political compromises to keep the status quo regardless of its future outcome.

Agricultural and Manufacturing Value Added per capita in Iraq

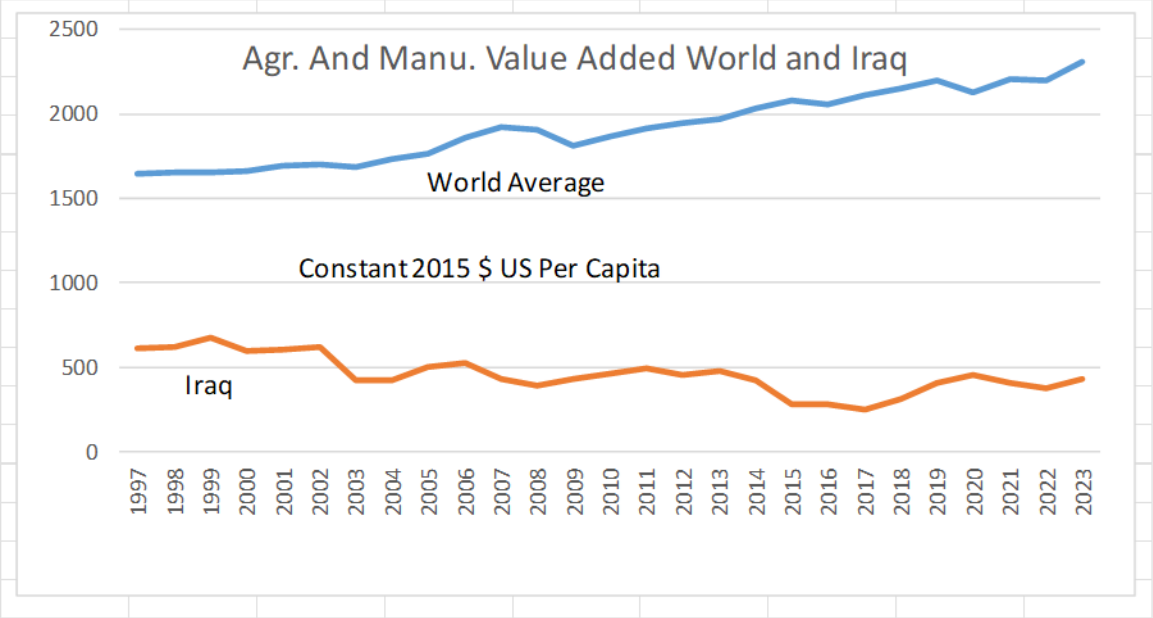


Source of data: World Bank Open Data.

Those circumstances proved costly when economic management was reduced to a competition over budget allocations from oil revenues. The economists preoccupied people and even misled decision-makers with the delusions of fiscal and monetary policies, which are by their nature stabilization policies for a different economy and are not useful, if possible, for rebuilding Iraq's economy. The superficial noise in fiscal and monetary policies was coupled with a clear neglect of the allocation efficiency and management of public spending, and its results in developing infrastructure and productive investment.

The deep – seated economic problems require more than short – term fixes; they need a new comprehensive national economic approach. Intense short – sighted macroeconomic policy discourse can reinforce the ambiguity of central banking and public finance in the public consciousness, rather than deploying social support for deep and accelerated economic development. The prevailing way of thinking could lead Iraq to a balance of payments crisis because its economy is heavily reliant on oil exports, and this dependence makes it vulnerable to oil price fluctuations, and inability to expand oil export beyond the market limitation.

Negative Catchup in Agriculture and Manufacturing sectors



Source of data; world Bank Open data.

To avoid this, Iraq needs to diversify its economy by developing new, stable sources of foreign exchange, particularly through export – led industrialization, and by implementing critical changes to boost non – oil sectors. The Iraqi economy needs a vision to address the capital formation, production, and employment processes of the real economy, rather than the empty talk that people are tired of about financial reforms.

Likewise, there is a need for politically agreed – upon and publicly announced arrangements in the event of a significant drop in oil prices that last for years, rather than resorting to hasty and ill-considered measures. Despite a sharp increase in oil export from approximately $ 50 billion in 2020 to $128 billion in 2022 the public budget position remained as it was before, this means we lack a clear and binding strategy for dealing with a volatile resource, and this behavior carries significant future risks.

The public sector's share in the national economy approximately 63% in terms of GDP, and where the majority of high skilled people of working age are employed. Economic development most likely impossible without at least a proportionate contribution of the public sector in investment, and takes the lead in technological and organizational progress.

Iraq's Economic Transformation

Economic transformation is a long – term process, it can be triggered by events and contextual factors or a result of deliberative action. Shock events which spark changes in economic circumstances leading to economic transformation in several countries have no similar impact in Iraq, as evidenced by the shock of sanctions for thirteen years. Also, the high public expenditure and related aggregate demand failed to incentives the private sector to invest productively in a way that would transform the economy and generate additional foreign currency. These where illusions, like promises of foreign investment in non- oil production sectors like manufacturing, that distracted Iraqis from the realities of the economy.

Also, public spending has failed to achieve full employment, as understood from the mainstream fiscal policy. Unemployment, in Iraq, did not respond to public spending even when it reached exceptional peaks. These facts demonstrate that fiscal policy, in its conventional sense, is contingent upon characteristics that do not exist in Iraq. Therefore, economic management have to work directly within the real economy to discover development opportunities there, and from the real economy, consider public finance, money, credit and what they can offer. Economic transformation in Iraq remains elusive as long as the economic management is preoccupied with the budget instead of the national economy, looks forward to more rentier resources, and the start of the necessary economic transformation process s postponed.

After years of conflict, sanctions, and deterioration, political philosophy in Iraq shifted to one that enhances the role of international companies in oil sector through various contract models. Iraq's dependence on foreign investment and the prominence of international oil economies in oil sector compromise national control. Policy makers are urged to mitigate risks and strengthen economic independence.

Understanding economic processes and the underlying dynamics of transformation requires recognizing it as a continuous, long- term process of structural changes driven primarily by moving labor and resources from lower – to higher – productivity sectors and increasing efficiency within those sectors. The effective governance of the national economy in the course of transformation requires both a strong government and a professional, ethical civil service. The entrepreneurial capabilities of the private and public sectors would positively influence the transformative path. The high educational level of the Iraqi workforce can greatly contribute to the desired transformation, and the transformative sectors in the initial stage benefit from an existing abundant labor force. The economic transformation process in Iraq might need political consensus.

As the main part of the transformative process, the manufacturing sector is critical, and the countries that have continued to sustain economic transformation are those that have invested in their capability to innovate. This process is required to avoid middle income trap, which is a growth stagnation phenomenon, where countries get stuck at a middle-income level, unable to compete with low- wage economies for labor intensive goods or with high- income countries for high –

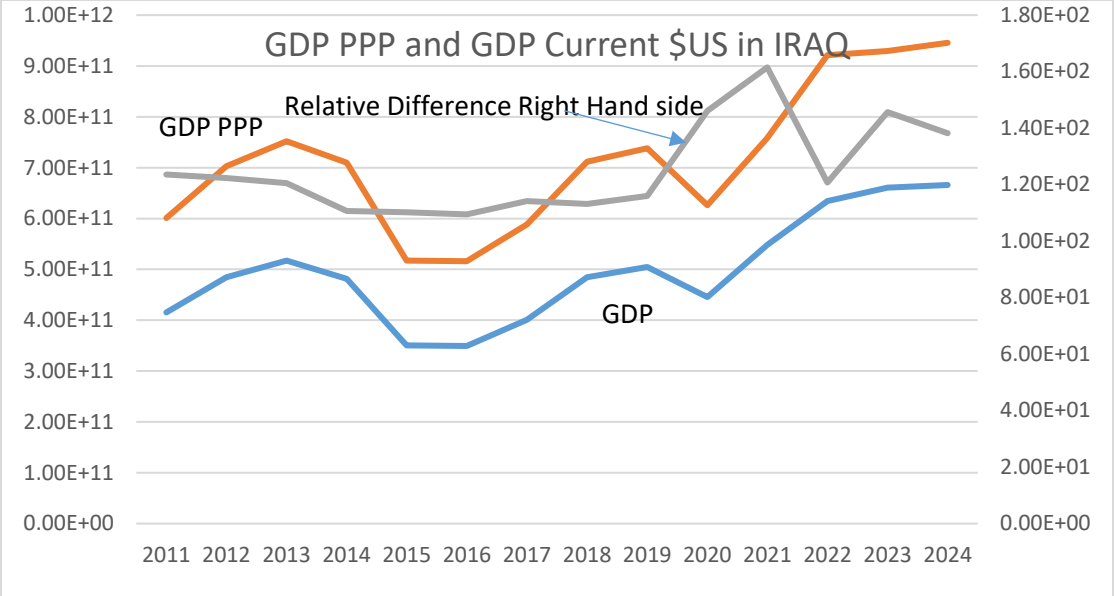
value- added activities. This occurs because as a country's wage rise, it loses its competitive advantage in low- cost production, but it has not yet developed the productivity and innovation needed to compete in more sophisticated markets. Countries in this trap, like Iraq, often experience slow growth, and an increasing informal economy.

Case studies of transformation show that countries initially targeted export – oriented manufacturing through small-scale initiative, later scaled up to the national level. accompanied by a strengthening of government capabilities. In parallel, the foundations for future growth were laid through investments in R&D move into high-technology goods and high-value services. The Iraqi economy has deviated from the typical path of structural changes known in the literature of economic development, from agriculture to manufacturing and then to services. The economy has moved far away, since the seventies of the twentieth century, from the characteristics of a normal economy. The premature shrinking of Iraq's agriculture and manufacturing is linked to a loss of comparative advantage and competitiveness in tradable goods, which has driven growth in non-tradable services sector at the expense of productive sectors. This has occurred alongside other factors, including trade liberalization policies, weak institutions, lack of political commitment to economic development through industrialization, and the official celebration of superficial approaches to economics and vague delusions, have prevented the economy from diversifying and getting trapped in the middle-income trap.

The economy's heavy reliance on oil revenues has created a "rentier" structure, where income from oil has not been effectively channeled into productive sectors like agriculture and manufacturing industry instead, revenues have often been spent on unproductive areas, limiting funds available for development investments. The resulting structural imbalances have led to disproportionate expansion of the services sector, which now contribute significantly to the GDP, at the expense of tradable goods sectors.

The main source of demand for foreign exchange in Iraq has been derived from the income generated by services rather than from investment and production, to finance imports of goods and services, which compensate for the significant shortfall in domestic production of tradable goods, explained by the characteristics of oil dependence and middle-income trap. While openness generally foster economic growth, Iraq's economy has failed to benefit m international trade beyond crude oil, this cannot be sustained forever, therefore a deep transformation of the economy should be started.

Unstable GDP in Iraq



Source of Data: World Bank Open Data.

The potential growth of export markets should be highly considered in formulating an export -led diversification program. Focusing diversification efforts on dynamic and growing markets is a crucial element for ensuring the success and sustainability of an export – led growth strategy, as it directly impacts an economy's ability to achieve long- term stability and high- value returns. Diversifying into markets with high growth potential ensures a robust external demand and new products, which is a key driver of economic growth in an export – led model. Targeting stagnant or saturated markets will yield limited benefits, regardless of how successfully an economy diversifies its product base.

Global trade trends have shown considerable diversity when examined across economic sectors and different type of goods. Since 2010, growth of trade in services significantly outpacing the growth of all categories of merchandise trade. The possibility of developing tradable services in Iraq is limited compared with goods, the manufacturing sector is the core of potential diversification for Iraq, as shown by international experience, because it creates linkages with other sectors. Manufacturing can reduce reliance on oil and providing alternative jobs, but Iraq's sector has faced decline due to foreign goods flooding the market, highlighting the need for changes to support local manufacturing for a more diverse and resilient economy.

the manufacturing sector is considered the core of potential economic diversification for Iraq, as shown by international experience, because it creates linkages with other sectors and can use oil revenues to develop other industries. Historically, manufacturing can reduce reliance on oil by modernizing agriculture and providing alternative jobs, but Iraq's sector has faced decline due to foreign goods flooding the market, highlighting the need for policy changes to support local manufacturing for a more diverse and resilient economy.

Agricultural goods, in global trade, has seen the fastest annual growth rate since 2010 at around 4.7 %, but agricultural trade accounts for about 7 % of global trade as of 2003. Manufacturing goods represent a significant share of global trade totaling about 60% of global trade Regarding the stage of processing , regarding the stage of processing, intermediate goods are the most important category, represent 56 % of total manufacturing exports.

While achieving economic diversification is challenging for resource – rich economies,

Some countries have had some success in developing non- resource sectors, as demonstrated by the table below. Notable examples include Indonesia where it was able to reduce its dependence on the extractive sector by expanding its agriculture and manufacturing sectors, the manufacturing value - added has experienced significant growth. Chile is also referred to, Trinidad and Tobago, and Kyrgyz, among others. The table below demonstrated the experience of diversification measured by the share of Manufacturing exports in total merchandise exports.

Resource – Rich Economies: Difficult Diversification

% of Total Merch. Exports		Azerbaijan	Mongolia	Zambia	Brunei Darussalam	Kazakhstan	Guyana	Gabon
Man EXP	1981				0.03		4.57	4.76
	2002-2004	6.49	26.56	23.09	6.85	15.78	19.73	4.25
	2022-2024	4.04	1.32	12.00	20.57	17.15	0.53	18.55
NRR % of GDP		22.13	20.46	19.80	19.63	19.20	17.85	17.06
% of Total Merch. Exports		**United Arab Emirates**	**Cabo Verde**	**Burundi**	**Bahrain**	**Mozambique**	**Burkina Faso**	
Man EXP	1981				61.44		14.54	
	2002-2004	2.35	90.34	2.42	10.16	6.86	10.63	
	2022-2024	9.26	11.51	12.81	22.50	7.12	3.93	
NRR % of GDP		15.50	14.13	13.64	13.57	13.15	12.55	
% of Total Merch. Exports		**Ghana**	**Central African Republic**	**Kyrgyz Republic**	**Australia**	**Chile**	**Trinidad and Tobago**	
Man EXP	1981	0.63			20.58	7.71	8.25	
	2002-2004	6.34	33.65	22.32	23.64	16.37	32.16	
	2022-2024	6.14	24.21	40.61	8.42	17.22	61.57	
NRR % of GDP		10.53	9.99	8.43	8.40	8.32	8.27	

Source of Data: World Bank Open Data.

Oil-exporting economies like Iraq are vulnerable to frequent oil price shocks, which cause volatile oil revenues and, consequently, dramatic and violent fluctuations in the public finance balance and current account of the balance of payments. This is a characteristic common to countries that export primary commodities, but in Iraq it is more pronounced due to the absolute dependence on oil for foreign currency and almost for public finance. Therefore, starting a serious program for economic transformation has become more necessary and urgent in Iraq than in all other natural resource – rich economies.

Recent studies confirm that resource rich economies, especially those dependent on a single commodity, face significant difficulties in shifting towards non- extractive sectors, based on this additional evidence, diversification in Iraq requires exceptional approach. High commodity prices tend to reinforce specialization in extractive industries and rental sources of income; Iraq's economic initiatives exemplify this tendency more in recent years. This strategy leads to increased

reliance on imports at the expense of domestic production, and deepens the unemployment problem, which fiscal and monetary policies cannot address.

Limited and inefficient investment is expanding Iraq's infrastructure gap, hindering socio-economic development and perpetuating structural challenges. The production motive in Iraq was weak and has become even weaker. This is not limited to the decline of manufacturing and agriculture, but also includes the evident weakness in construction and building activities. In addition to corruption and complicit management, institutional limitation, the construction industry in Iraq is underdeveloped in comparison to global standards and regional neighbors. The lack of national specialized corporations capable of developing sufficient infrastructure is a recognized issue, contributing to project delays, cost overruns, and a substantial gap in urban and rural development.

Internal – External Balance

Persistent current account deficits can be un sustainable in the long run, Net Foreign Asset position is a closely related concept demonstrates the sustainability. The NFA position is the difference between the total value of assets a country's resident and government own abroad and the total value of foreign liabilities. A negative NFA position means the country is a net debtor to the rest of the world. A persistent current account deficit leads to a reduction in NFA, or an accumulation of net foreign liabilities, because the shortfall must be financed by borrowing from abroad or selling domestic assets to foreigners.

An ever – increasing negative NFA position would imply a perpetual growing debt burden relative to income, which is unsustainable. Eventually, foreign creditors would lose confidence in the country's ability to service its debt and would stop lending, or demand much higher interest rates. This loss of financing access would force an adjustment in the current account, leading to a forced external equilibrium.

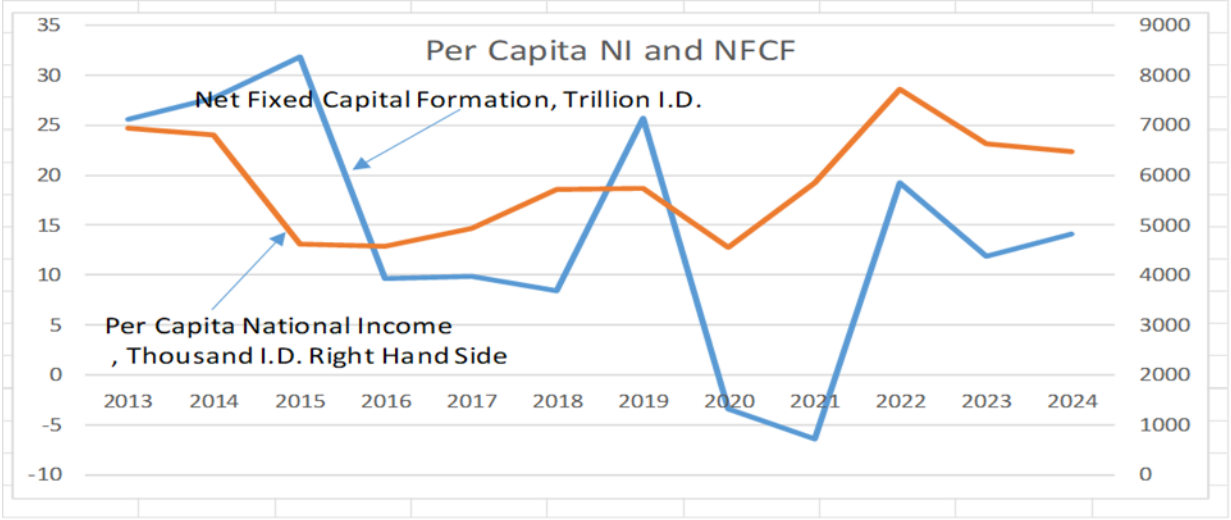
The current account deficit does not automatically coincide with the fiscal deficit. The relationship depends on the financial balance of the private sector, as dedicated by the sectoral balance identity. The national income accounting identity can be rearranged into the sectoral balances, which states that the sum of the balances must equal zero.

$CAB=(S_p-I_p)+(S_g-I_g)$, where CBA is current account balance, S_p is private saving, I_p is private investment, Sg is government saving, I_g is government investment. Let's delve deeper to understand some of the reason behind the decline of capital formation in Iraq. Saving is determined by disposable income and consumption as below:

CAB=$\{(Y_d- C_p)-I_p\} + \{(G_R - G_C)- I_g\}$, where Y_d is private disposable income, C_p is private consumption, G_R is government revenue, G_c is government consumption. Government revenue better be defined in terms of oil exports and taxes to clarify the equilibrium conditions.

CAB=$\{(Y_d- C_p)-I_p\} + \{[(o*E) + T] - G_C)- I_g\}$, where o stands for $ U.S. oil revenue, E stands for exchange rate, and T stands for non- oil government revenue. Maintaining both internal and external balance simultaneously, under the conditions that oil revenue given and exchange rate fixed, requires a negative relationship between consumption and investment. As long as consumption cannot be reduced, the required decrease in aggregate demand will be borne by investment. As a result, the data of Iraq shows weak capital formation and its budget cannot keep pace with development needs.

Net Per capita National Income and Net Fixed Capital Formation



Source of Data: Central Statistics Organization in Iraq.

Expanding fiscal space can provide more resources to sustain the required level of capital formation, but this depends on the ability to overcome the vicious circle between limited non- oil revenue and productive and organizational underdevelopment of non- oil economy. The Graph depicts the small size of net capital formation (gross – depreciation), which is disproportionate to national income, and insufficient to support an acceptable rate of economic growth, given its high population growth.

We adopt a simplifying assumption used in economic analysis that only the public sector can borrow internationally. Also, if the capital and financial accounts are balanced, as the assumption, the current account deficit will be financed by reducing the foreign exchange reserves or by increasing foreign borrowing. A government's fiscal deficit, which is the excess of its total

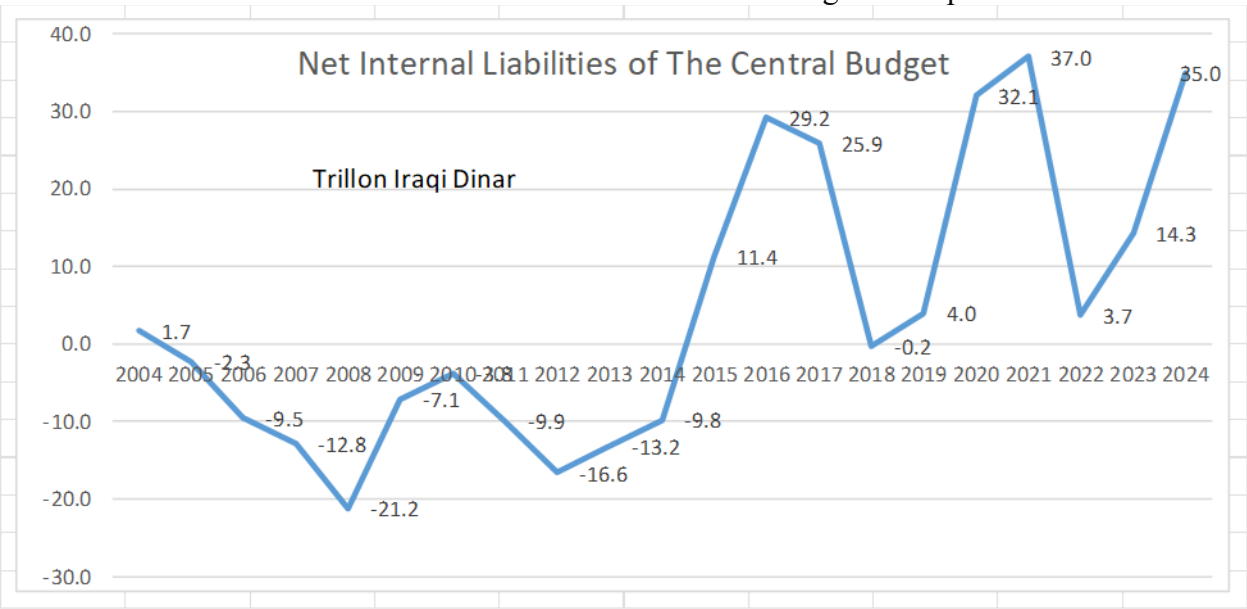
expenditure over its non- borrowing revenue, is commonly financed by a combination of both internal and external borrowing. Based on these assumptions, the following identities can be derived. Internal and external borrowing represented as increasing in the net internal, and external, liabilities of the central budget, Δ(NIL) for internal borrowing, and Δ(NEL) for external borrowing, and Δ(IR) stands for change in international reserves of the central bank.

Budget Deficit= Δ(NIL) + Δ(NEL),

CAB Deficit = Δ(NEL) + Δ(IR) .

The following graphs presents the movement of net internal assets and change in reserves.

Net internal Liabilities of the Central budget in Iraq

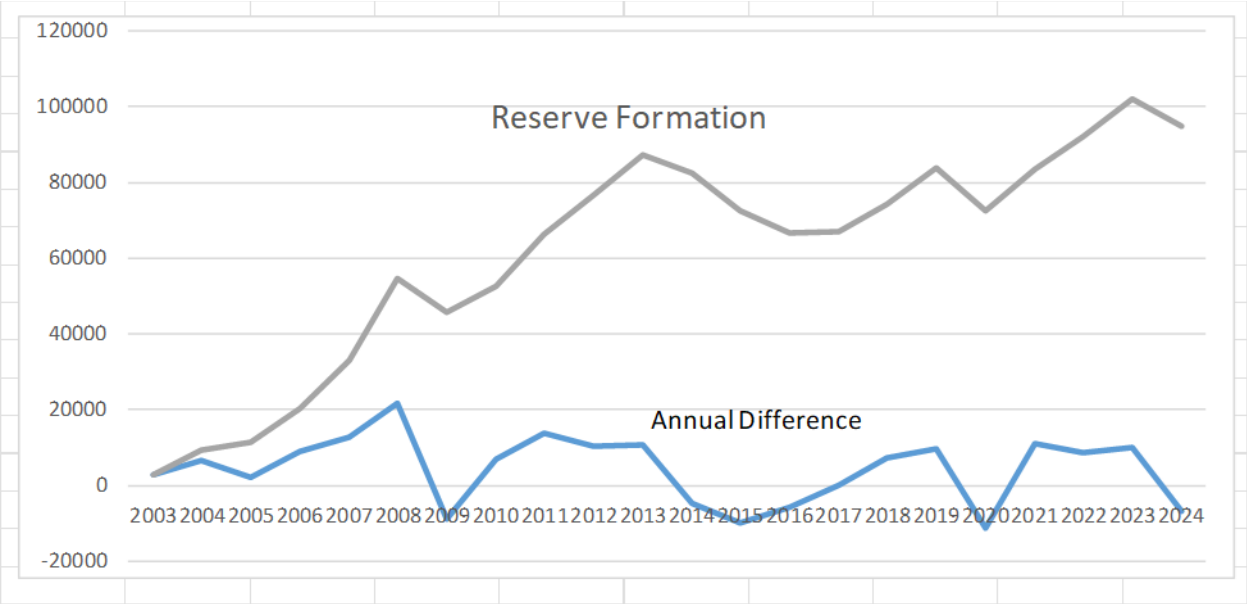


Source of data; CBI.

Iraq's net internal government debt is limited, but government expenditure has a negligible economic effect. High oil revenues have generally kept the debt- to- GDP ratio at a moderate and sustainable level by international standards, but a significant portion of spending is non-productive, which limit its impact on sustainable economic growth.

The change in international reserves of the central bank of Iraq almost represents the current account position as the government's foreign borrowing is minimal. The accumulation of net current account surplus leads to an adequate level of central bank reserves which are the nation's own foreign assets holdings resulting from the surplus rather than being acquired through borrowing.

International Reserves Formation and Change in reserves



Source of Data: World Bank Open Data.

Standard balance of payments constraint models typically limit output growth based on the relationship between a country's exports and imports, focusing on long – run external balance conditions we exclude changes in international reserves and borrowing abroad. Anticipated increases in Iraq's exports are controversial, therefore we cannot justify foreign debt. Arguments against foreign debt often center on the potential for debt service and repayment to reduce the net proceeds of a country's main exports. The cost of interest payments and principal repayment can significantly strain national budget, and diminish the funds available for imports. Although some influential figures in the economic management encouraged the government to borrow, or even using the international reserves, for short – term motives to meet the needs of their offices, regardless of the future of Iraq.

To show how the growth of output could be constrained by exports growth, the current account is broadly simplified by trade balance. In this very simple model exports X considered as given, while imports is a function of GDP (Y), where M stands for Imports value in foreign currency, E represents exchange rate, units of national currency per unit of foreign currency, α as income elasticity of imports, A is a constant. G_X , G_Y , G_E are the growth rates of exports, GDD, and exchange rate.

$M*E=AY^{\alpha}$ ……..(1)

$M= X \rightarrow X=AY^{\alpha}/E \rightarrow Ln(x)= Ln(A) +\alpha Ln(y) -LnE$ …….(2)

therefore

$G_X = \alpha G_Y - G_E \rightarrow G_Y = (G_X + G_E)/\alpha$ …….(3)

In a fixed exchange rate system , national income will determine the demand for imports , therefore the equation (3) reduced to:

$G_Y = G_X/\alpha$ ……(4)

In terms of equation (4) most likely $G_Y < G_X$ as $\alpha > 1$.

This simple model explains the balance of payments constraint on growth presenting an economic theory that a country 'a maximum sustainable long – term growth rate is limited by its ability to maintain balance of payments equilibrium, specifically the current account. The constraint occurs when the demand for imports rises faster than exports, leading to a trade deficit that must be financed through borrowing or other financial inflows. If the latter is unsustainable, the country's growth will be restricted to a rate below its consistent with the growth of exports.

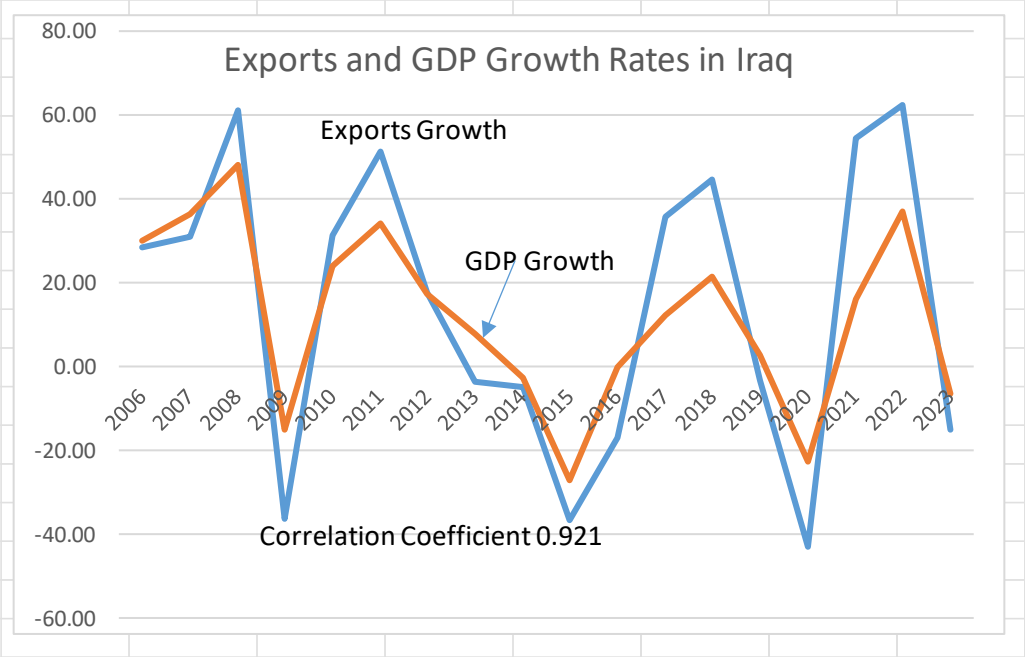
For oil exporters, government spending decisions may have greater impact on the current account than the other economies. On the other hand, oil exporters are price -taker, and due to wide oil price fluctuations, increasing the quantity of oil exports often has only a limited impact on net government revenue and overall economic stability. This is because the price volatility can easily offset or amplify the revenue gains from increased volume.

Iraq's lack of domestic production means it's heavily reliant on imports, so currency devaluation has a limited impact on reducing import volumes. Additionally, developing a non- oil export sector takes time because exchange rate changes need to incentivize long – term investment in tradable goods, which is a slow process. Any balance of payments policy should consider the complex and unique nature of the exchange rate's function in Iraq's oil- dependent, rentier economy. The exchange rate determines the Iraqi Dinar value of U.S. dollar- denominated oil revenues and directly impacts government spending capabilities, which can complicate traditional exchange rate adjustments for external balance.

A devaluation might improve the trade balance in the long run, but it would also instantly increase the dinar value of the government's dollar revenue, potentially leading to a massive increase in domestic nominal effective demand, which can fuel inflation. Conversely, an appreciation might help control inflation by making imports cheaper, but it would reduce the dinar amount of government revenue from oil exports, potentially forcing cuts in public spending, or increasing government debt.

Correlation coefficient between growth rate of exports and GDP growth rate is very high, 0.92, as presented in the graph below. Iraq has not yet hit a formal balance of payments constraint but is highly vulnerable due to its heavy reliance on oil exports. The economy's dependence on oil means that the risk of a balance of payments constraint and subsequent growth decline is significant if exports revenues fall below imports growth rate.

Strong Correlation between Exports and GDP Growth Rates in Iraq



Source of data : World Bank Open Data, GDP and Exports in Current $ U.S.

Empirical analysis of Iraqi potential balance of Payments

This empirical analysis continues the scenarios presented in a previous paper to highlight the balance of payments constraint based on the foreign exchange balance. The investigation serves a preliminary step to understanding the potential size of the deficit. The table (1) presents the annual foreign exchange balance for the period 2004 – 2024. Exports in $ U.S. for the whole period is 1482655.8 million, the government used 571567.8 million, 94864.0 million is held as international reserves, and 816224 million the CBI sales to foreign exchange market. The share of government uses of foreign exchange equals 38.6%, this indicator should be highly considered. Because the share of government uses of foreign exchange is generally more amenable to direct and rapid

adjustment compared to the private sector component, primarily due to the government's ability to implement direct policy measures and controls.

For simplicity, this analysis specifies the demand for foreign exchange based on per capita demand as a function of per capita GDP. The total demand is then calculated by multiplying the per capita average by the total population. While estimating demand for the private and public sectors separately is certainly more accurate, but this requires additional efforts and communication.

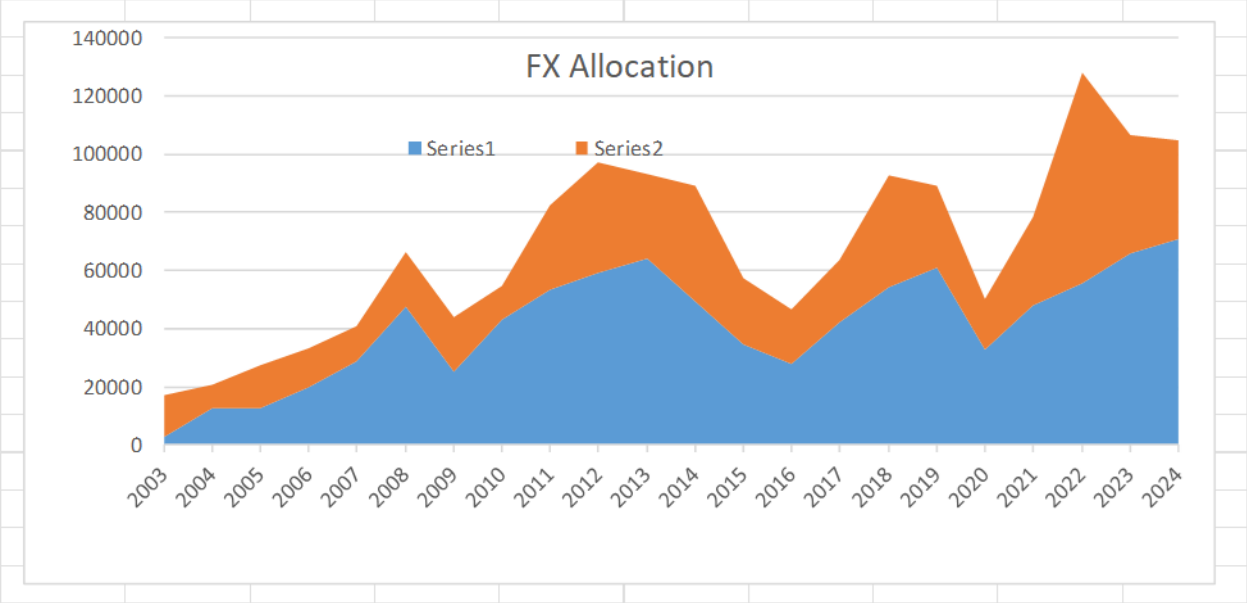
(1) Exports Inflow of Foreign Exchange and its Allocation Million US $

Year	Exports	FX Sales to CBI	FX Gov. Uses	Year	Exports	FX Sales to CBI	FX Gov. Uses
2003	16965.7	2903	14062.7	2014	88949	49529	39420.0
2004	20614.1	12806	7808.1	2015	57560.7	34465	23095.7
2005	27209.3	12605	14604.3	2016	46869.2	27669	19200.2
2006	33245.8	20006	13239.8	2017	63496.9	42372	21124.9
2007	40776.1	28707	12069.1	2018	92771.9	54247	38524.9
2008	66239.3	47508	18731.3	2019	88902.9	60870	28032.9
2009	43993.2	25009	18984.2	2020	50199.9	32750	17449.9
2010	54598.9	43010	11588.9	2021	78260.5	48018	30242.5
2011	82505.4	53511	28994.4	2022	127955.0	55377	72578.0
2012	97029.5	59012	38017.5	2023	106561.0	66023	40538.0
2013	93065.6	64013	29052.6	2024	104886.0	70678	34208.0

Source of Data: CBI

FX Sales to CBI = Sales to Market + Change in International reserve of the CBI.

(2) Foreign Exchange Allocation between Central Bank and Government



Source of Data: table (1)

Series1 : sales to CBI; Series 2: Government USES of FX.

Assumptions: for Scenario 1, Per Capita GDP Growth would be 3% annual. Population Growth 2.5 % annual. Income elasticity of demand for foreign exchange assumed to be only one, i.e. the growth of per capita demand for foreign exchange just equals the growth rate of per capita GDP per capita. The elasticity on world level is about 1.5 in the long run expected to be reduced in the foreseen future , and Iraq will not have been in need for more openness.

The Second Scenario represents the minimum requirements to sustain the per capita level of imports and other payments of 2024. With this scenario the total demand for foreign exchange need to be just equal the Annual population growth anticipated to be 2.5% .

Accumulated Deficit : Scenario ONE 573748.1 Million US $. Scenario TWO 270249.2 Million US $.

Reducing demand of the One scenario by 10% would reduce the deficit to be 399989.1 Million US $.

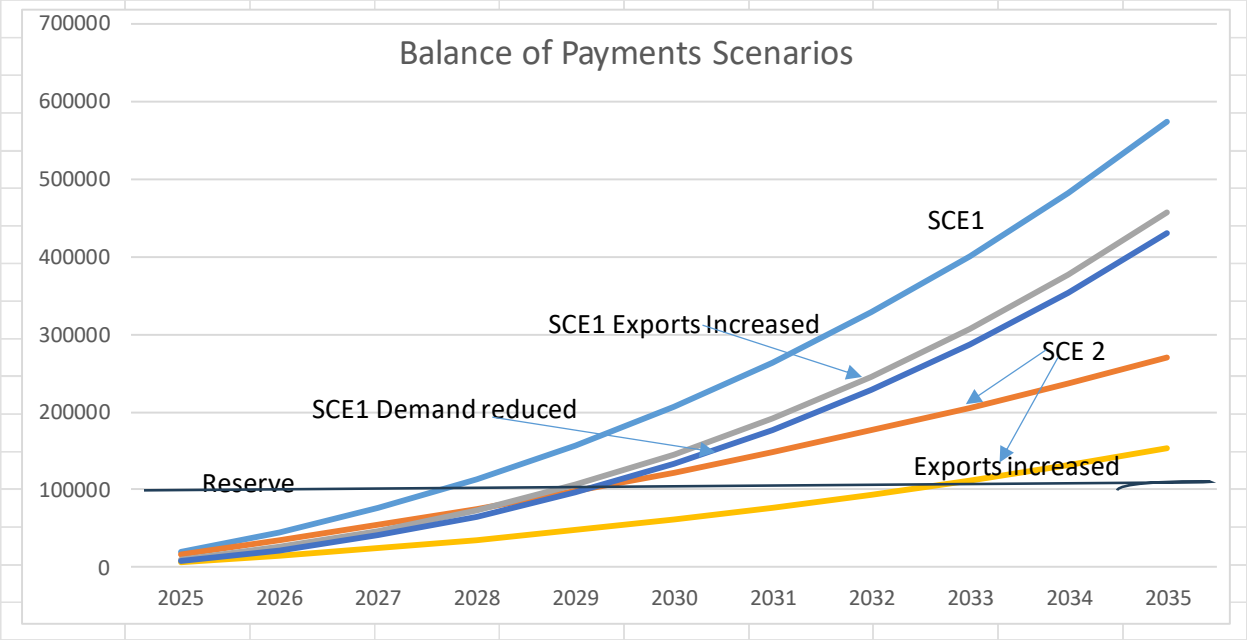
In case of austerity and the demand of scenario TWO would be less by 10 % , the accumulated Deficit would be 126830.2 which is higher than the international reserve of 2024. The most important implication of Implication of the austerity version per capita FX will be reduced. The Price in real term, i. e. the nominal price would be increased by the rate of inflation in USA.

(2) Exports Revenue Million US $

	Year	2025	2026	2027	2028	2029	2030	2031	2032
	74	98057	99539	101043	102570	104120	105694	107291	108913
Price $	65	86131	87433	88754	90095	91457	92839	94242	95667
	55	72880	73982	75100	76235	77387	78556	79743	80949

(3) Demand for Foreign Exchange Million US $

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Scenario 1	118195	124878	131939	139399	147280	155608	164406	173701	183523	193899	204862
Scenario 2	114702	117606	120583	123636	126765	129974	133265	136638	140097	143644	147280



(3) A wishful scenario for potential exports

Year	Exports	Demand	Deficit	Accumulated Deficit	Deficit with reduced demand	Accumulated Deficit
2025	101668	118195	16527	16527	4708	4708
2026	106539	124878	18339	34866	5851	10559
2027	111644	131939	20295	55161	7101	17660
2028	116993	139399	22406	77567	8466	26126
2029	122598	147280	24682	102249	9954	36080
2030	128472	155608	27136	129385	11575	47655
2031	134628	164406	29778	159163	13338	60993
2032	141078	173701	32623	191786	15253	76246
2033	147837	183523	35686	227472	17333	93579
2034	154921	193899	38978	266451	19589	113168
2035	162343	204862	42519	308969	22033	135200

Assumptions: Export Revenue will be growing by 4.68 % annually starting from the level of 2024 based on the average price $ 74 per Barrel . Also. The demand of Scenario 1 reduced by 10 %.

(4) Scenario 2 adjusted

Year	Export	Demand	Deficit	Accumulated Deficit
2025	88835.01	114702	25866.99	25866.99
2026	92998.26	117606	24607.74	50474.73
2027	97356.63	120583	23226.37	73701.1
2028	101919.2	123636	21716.75	95417.86
2029	106695.7	126765	20069.31	115487.2
2030	111696	129974	18278.01	133765.2
2031	116930.6	133265	16334.38	150099.5
2032	122410.6	136638	14227.42	164327
2033	128147.4	140097	11949.65	176276.6
2034	134153	143644	9491.018	185767.6
2035	140440.1	147280	6839.937	192607.6

Assumptions: Export will be growing by 4.68% annually; total demand for foreign exchange as in the scenario 2. The price of oil would be $ 65 per barrel.

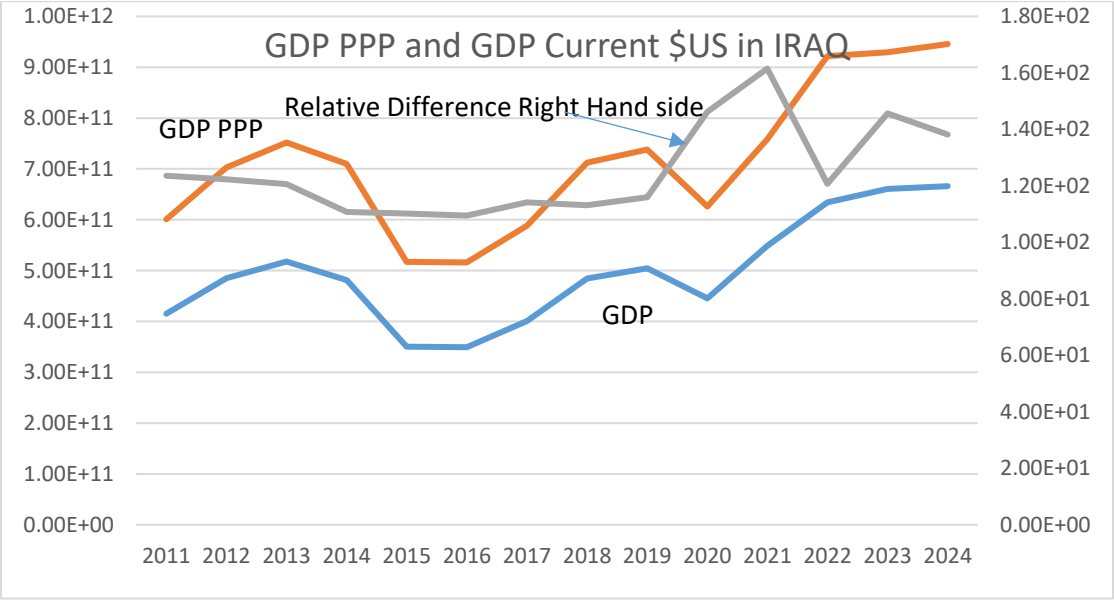
Appendix

Central Bank Foreign Exchange Operations

Year	FX Sales	FX Purchases	Year	FX Sales	FX Purchases
2003	293	2903	2014	54463	49529
2004	6108	12806	2015	44304	34465
2005	10462	12605	2016	33524	27669
2006	11175	20006	2017	42201	42372
2007	15980	28707	2018	47133	54247
2008	25869	47508	2019	51127	60870
2009	33992	25009	2020	44080	32750
2010	36171	43010	2021	37094	48018
2011	39798	53511	2022	46805	55377
2012	48649	59012	2023	56103	66023
2013	53231	64013	2024	77662	70678

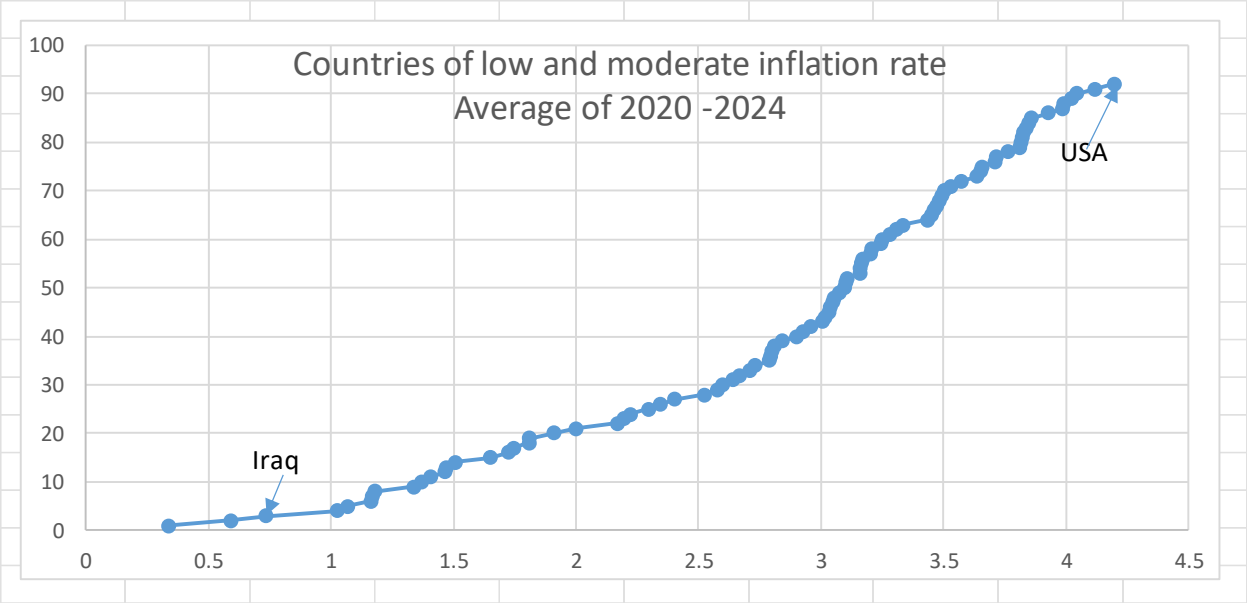
Source of Data: CBI

Nominal GDP PPP and nominal standard GDP in Iraq



Source of Data: world bank Open Data.

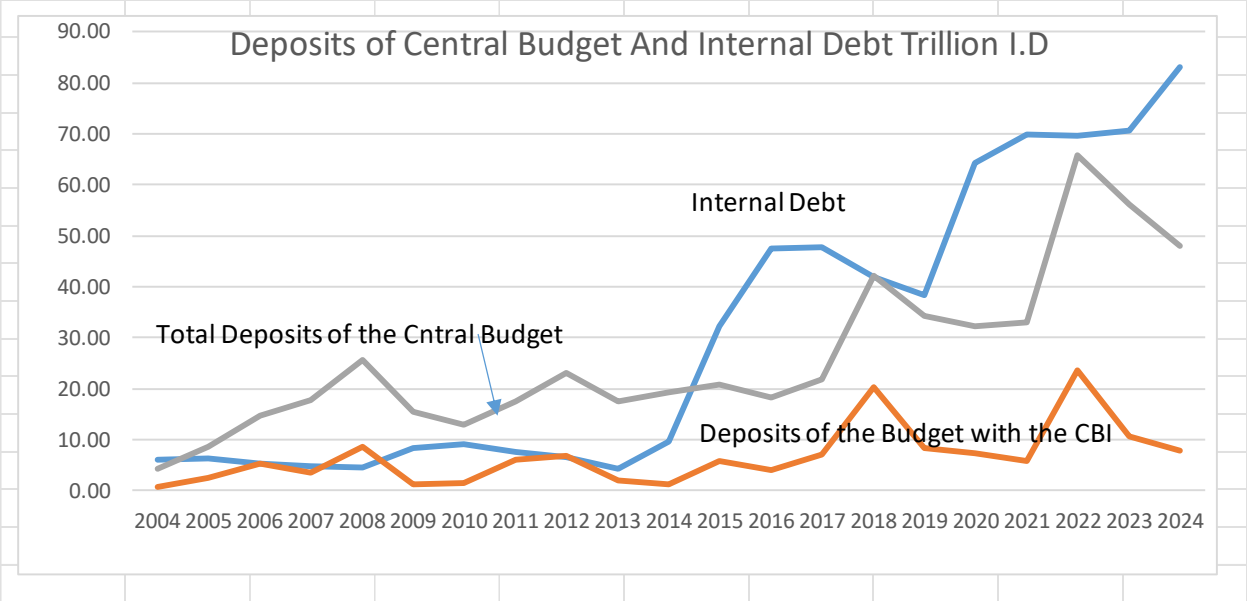
Countries of Low and moderate Inflation Rate m annual Average of 2020- 2024



Source of data: World bank Open Data.

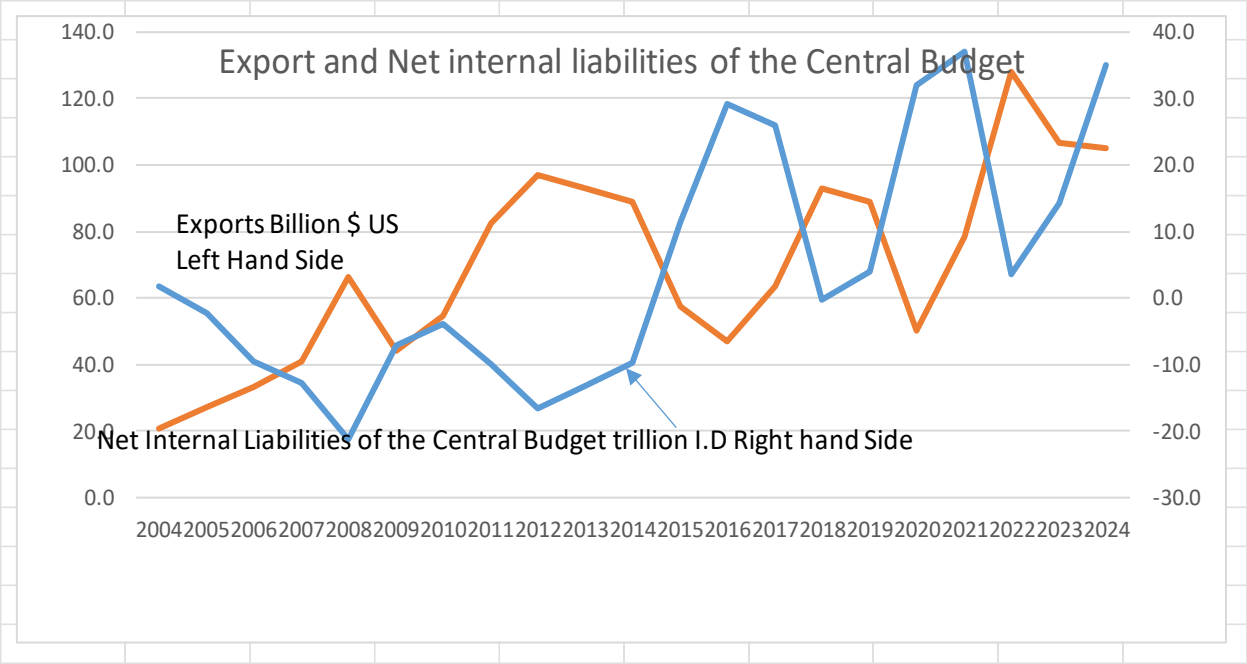
Net Internal Debt of Central Budget in Iraq: Net internal liabilities

of the Central budget in Iraq m trillion Iraqi Dinar



Source of Data: CBI.

Exports and Net internal liabilities of Central Budget in Iraq



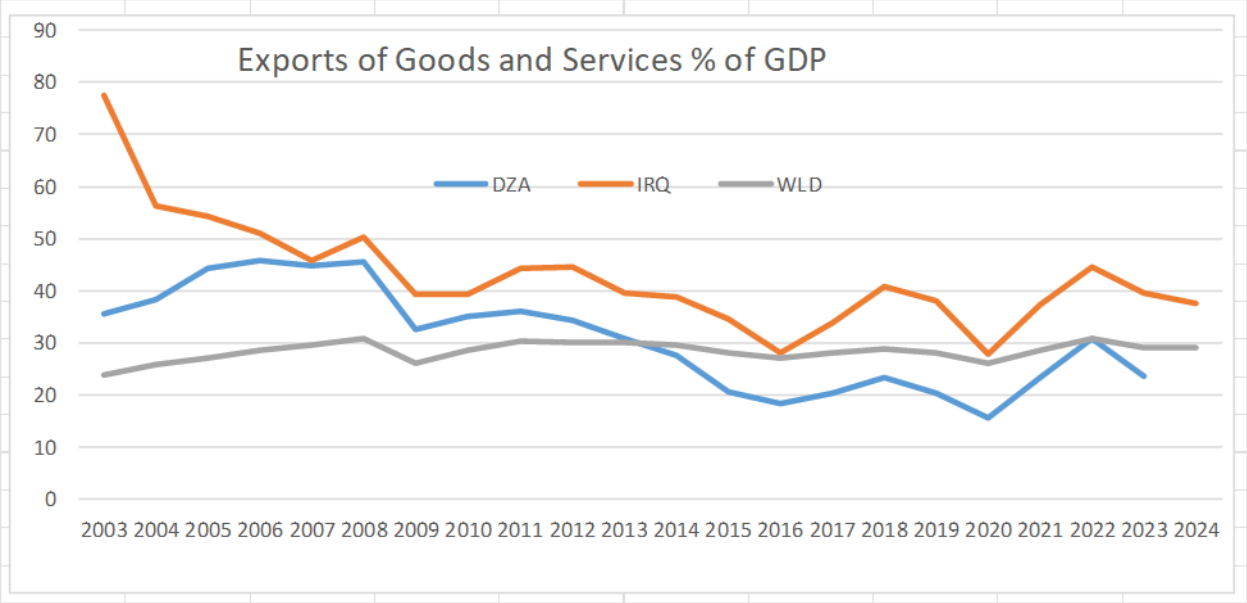
Source of Data: CBI and Worls bank Open Data.

Net fixed Capital formation and Per Capita National Income in Iraq

Year	2013	2014	2015	2016	2017	2018
NFCF, Trillion I.D.	25.56	27.74	31.88	9.64	9.85	8.36
% of NI.	10.4	11.2	18.4	5.5	3.1	3.6
Per Capita NI. Thousand I.D.	6939	6798	4622	4579	4939	5712
Year	2019	2020	2021	2022	2023	2024
NFCF, Trillion I.D.	25.68	-3.41	-6.42	19.23	11.86	14.08
% of NI.	10.9	-1.8	-2.5	5.6	4.0	4.7
Per Capita NI. Thousand I.D.	5729	4543	5857	7727	6633	6465

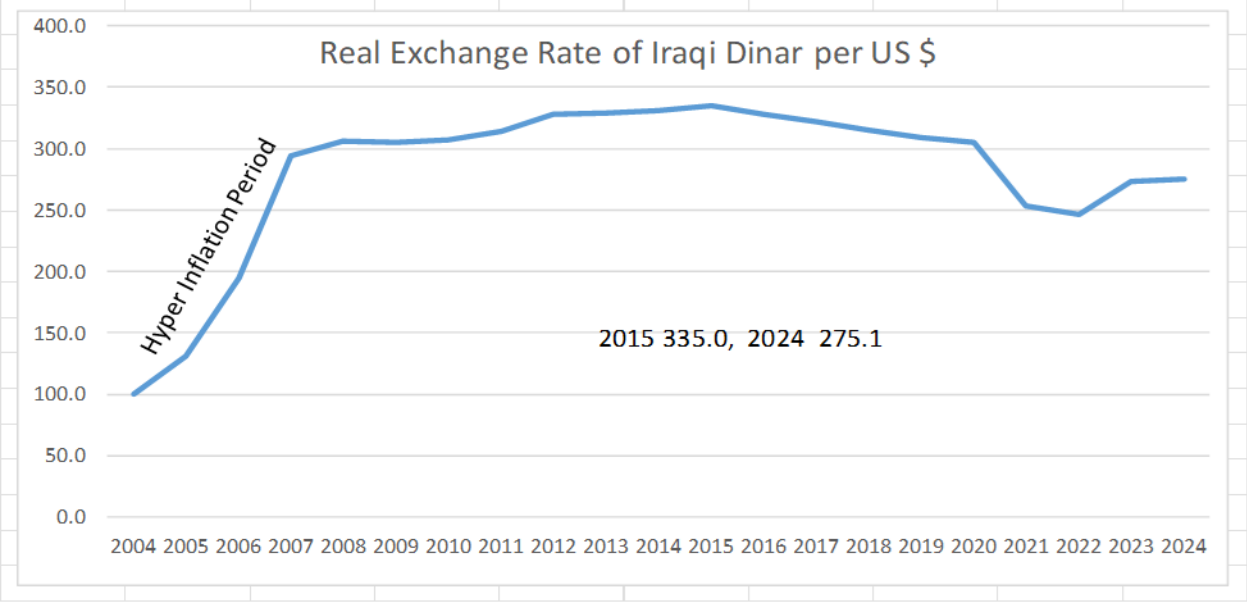
Source of Data: organization of Central Statistics in Iraq.

Exports of Goods and Services % of GDP



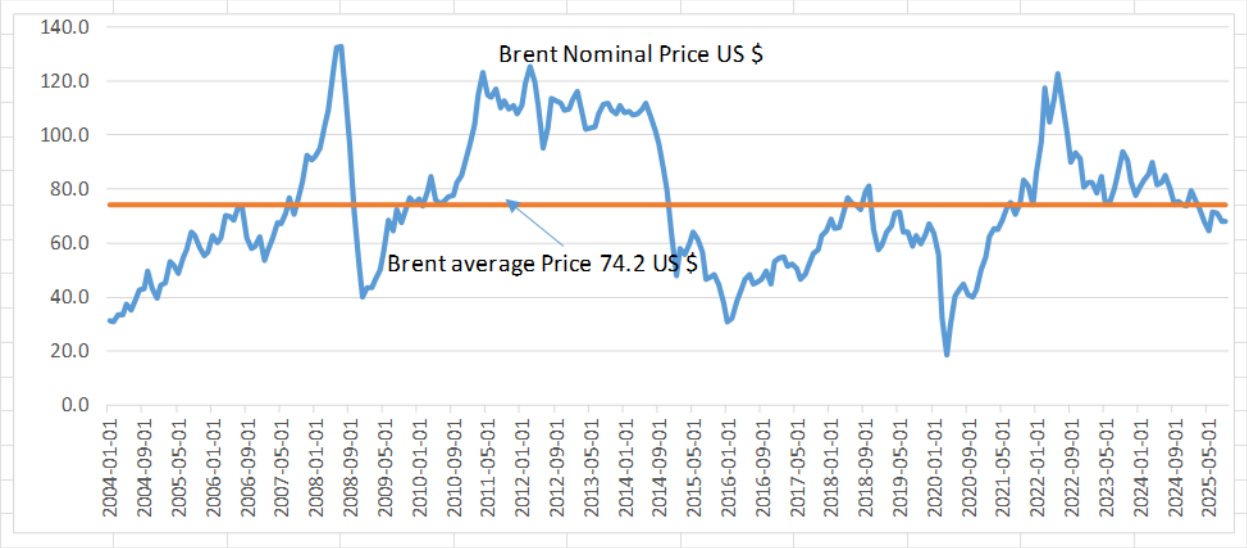
Source of Data: World Bank Open Data. DZA Algeria, WLD World, IRQ Iraq.

Real Exchange rate of Iraqi Dinar Against $ U.S.



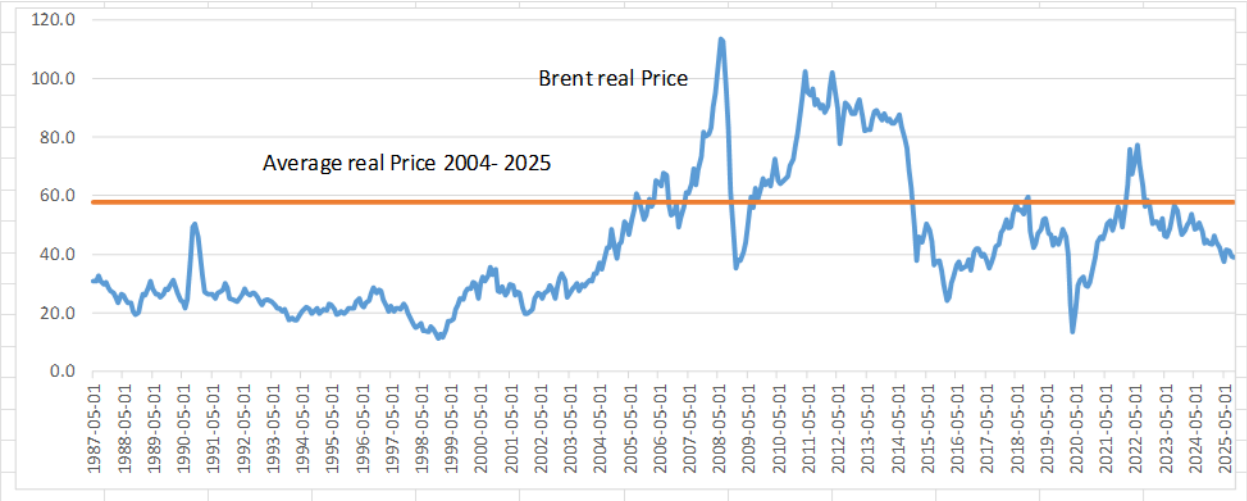
Source of Data: CBI, World Bank Open Data.

Brent Nominal Price $ U.S.



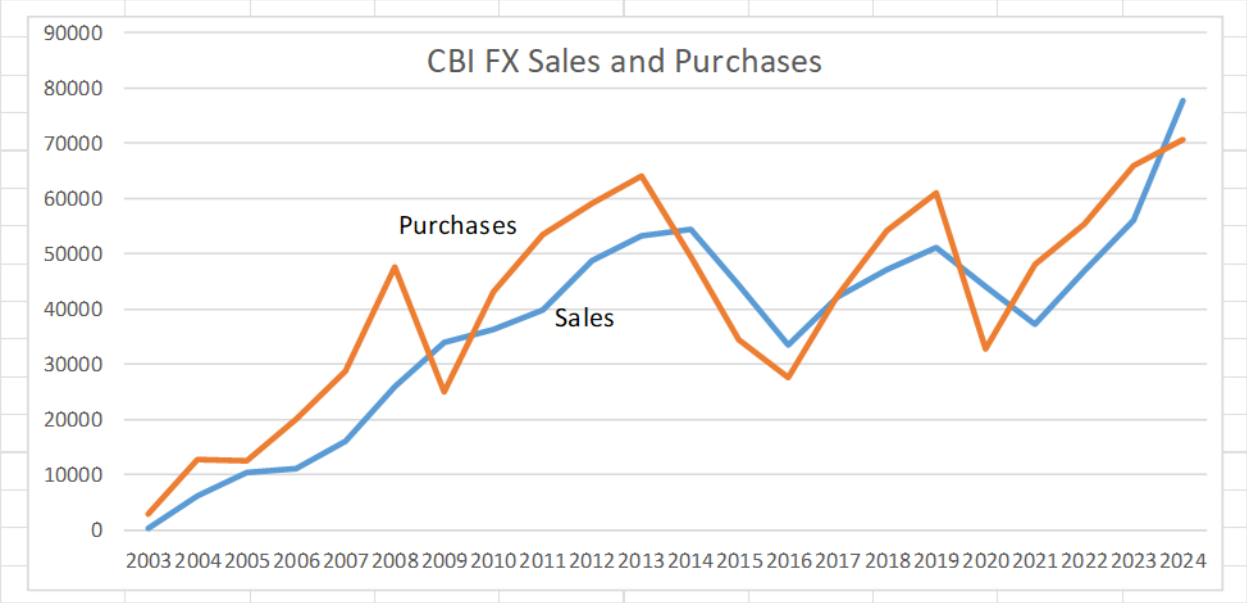
Source of Data: FRED.

Brent Real Price deflated by U. S. CPI



Source of Data: FRED.

Central Bank of Iraq's Foreign exchange operations



Source of Data: CBI.

Source of Data: Fred

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