

IRAQ



HIGHLIGHTS

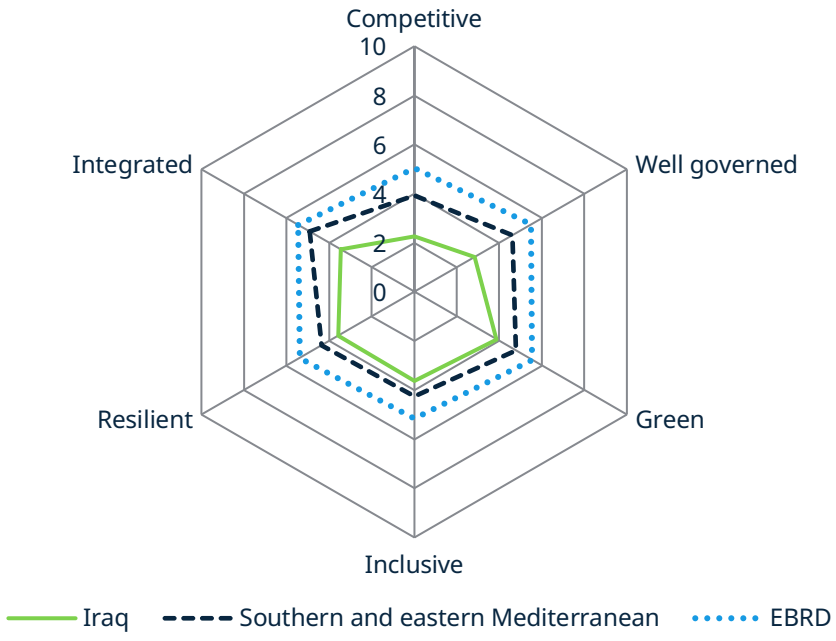
- **The regional war and prolonged government transition have dominated the past year. Elections in November 2025 were followed by six months of political deadlock before a new government took office in May 2026**. At the same time, the regional conflict disrupted commercial traffic through the Strait of Hormuz, sharply reducing oil exports and pushing the economy towards its deepest contraction since the Covid-19 pandemic.
- **Iraq is working to reduce its dependence on the Strait of Hormuz.** The authorities increased oil exports through existing pipelines and links to neighbouring Mediterranean ports, with the expansion of the southern and western pipeline networks advancing to the feasibility and bidding stages. The long-awaited flagship Development Road project connecting Iraq's Grand Faw Port to the Turkish border also regained traction, with construction agreements signed in July 2026.
- **Tax and customs administration reforms progressed.** A new tariff-calculation system took effect in January 2026, and work to broaden the tax base and streamline processes continued, with a draft income tax law in progress and several digitalisation initiatives under way.

For more information about country macroeconomic developments, please consult our latest Regional Economic Prospects report.

KEY PRIORITIES FOR 2027

- **Diversify the economy to reduce Iraq's exposure to oil market shocks.** Serious economic pressure from disrupted energy markets underscores the need to diversify economic activity and sources of foreign-currency income. It is also crucial to improve fiscal sustainability and address employment challenges, given the oil sector's limited capacity to generate jobs.
- **Invest significantly in infrastructure to strengthen energy and water security.** This would include increasing electric grid capacity, scaling up renewable energy investments and reducing gas flaring by directing captured gas towards power generation. In the water sector, it would include rehabilitating networks and investing in desalination and treatment plants to tackle severe water scarcity.
- **Sustain momentum on economic reforms to address informality and strengthen economic inclusion.** Progress on banking sector reforms must be accompanied by concrete steps to improve financial inclusion among small and medium-sized enterprises (SMEs) and underserved groups. Complex business registration processes are a bottleneck for formalising SMEs and could benefit from further digitalisation and streamlining.

ASSESSMENT OF TRANSITION QUALITIES (1-10)



For more on reforms and transition qualities, see Chapter 5 of the Transition Report 2026-27.

KEY REFORMS AND POLICY DEVELOPMENTS[1]

Income tax reforms and revenue digitalisation

- A draft income tax law intended to broaden the tax base was approved by the Council of Ministers in mid-2025 and is now progressing through parliament.

1 From the fourth quarter of 2025 to October 2026.

- Iraq is continuing to digitalise its tax services and in August 2026 launched a new electronic registration platform and unified tax number system for companies and large taxpayers.

Customs automation and tariff reform

- The Automated System for Customs Data, in roll-out since October 2023, became fully operational at federal border crossings in January 2026. A new tariff system took effect alongside it, replacing flat container fees with a more granular tariff system, under which rates rose most on finished consumer goods and luxury items, while duties on some items, such as solar-energy equipment, were cut to encourage uptake.
- By July 2026 electronic invoicing and verification of certificates of origin had become mandatory at all entry points.

Digital government

- An electronic-signature system became fully operational in late 2025, and more than 90 per cent of the population now has a digital ID.

Banking-sector reform

- Steps to restructure the banking sector continued in 2026. For the two largest state-owned banks, the technical and audit work was completed, but a full plan has yet to be published. For private banks, capital requirements are being raised in phases, with an adjusted deadline of the end of 2027.

Climate strategy and governance

- In September 2025 Iraq launched its Nationally Appropriate Mitigation Action Strategy. This builds on its Vision 2030 framework and Nationally Determined Contribution, and sets out measures to reduce gas flaring, improve monitoring, enhance energy efficiency and expand renewable energy.
- In February 2026 Iraq launched its Green Growth Framework, which highlights green taxation, fossil-fuel subsidy reform and renewable energy legislation as the main drivers of change. It also emphasises green finance – including green bonds and climate funds – as well as support for green entrepreneurship and a just transition for women, young people and vulnerable communities.

Renewable energy and water investment

- Iraq is investing in energy diversification through a series of solar energy projects, including a 300 MW plant opened in Karbala and two plants under construction in Basra (1,000 MW) and Babil (225 MW).
- To address water scarcity in southern Iraq, the government is finalising plans for a 37 km transmission network to supply drinking water to inner Basra, alongside plans to begin work on a desalination plant in Basra and a 240 km pipeline to supply water to multiple southern cities.