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GEOPOLITICAL RISK OBSERVATORY

Iraq

An overview

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May 2026

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GRO Country Profile: Iraq

GRO Country Profiles are neither extensive analysis nor news updates. Instead, they offer a general perspective over areas and issues, trying to provide a series of factors and variables that organizations should monitor to anticipate risks. For in depth analysis or day to day updates you should contact the observatory at strategicchange@luiss.it

Summary

- Iraq is a federal parliamentary republic governed through an informal ethno-sectarian power-sharing system (muhasasa), in which the prime minister is Shia, the president Kurdish, and the speaker of parliament Sunni. Oil accounts for over 90% of state revenue and approximately 90% of exports, generating fiscal vulnerability to energy price fluctuations.
- Iraq occupies a contested strategic position between Iranian, American, and Turkish influence. Iran exercises deep leverage through allied militias embedded in Iraqi state institutions. US coalition forces are undergoing phased withdrawal through 2026.
- Key business challenges include endemic corruption, the absence of a comprehensive federal oil and gas law, and persistent security threats from ISIS remnants and Iran-backed armed groups. Unresolved institutional disputes between Baghdad and the Kurdistan Regional Government over oil revenues and budget transfers add to regulatory uncertainty.

Basic parameters

Indicator	2020	Latest value
GDP (PPP, USD bn)	448.96	739.13 (2026)
Share of income, top 10%	61.48	70.85 (2024)
Share of wealth, top 10% (%)	72.17	72.92 (2024)
Population (mn)	40.15	46.64 (2026)

Population under 14 y.o. (%)	38.49	36.58 (2024)
Population over 65 y.o. (%)	3.36	3.41 (2024)
Urban population (%)	24.28	24.62 (2024)
Unemployment rate (%)	15.8	15.3 (2024)
Youth unemployment 15-24 (%)	34.5	31.7 (2024)
CPI inflation (%)	0.6	2.6 (2024)
Debt-to-GDP (%)	84.3	42.9 (2024)
FDI inflows (USD mn)	- 2896	- 7458.3 (2024)

Sources: GDP PPP; Population (IMF) – Share of income top 10%; share of wealth top 10% (World Inequality Database) – Debt-to-GDP (World Population Review) – Unemployment rate; Youth unemployment rate (modelled ILO estimate – World Bank) – CPI inflation; Urban population; Population over 65 y.o.; Population under 14 y.o. (World Bank) – FDI inflows (UNCTAD).

Historical Context

Iraq was established as a monarchy under British mandate in 1921 and gained independence in 1932. The monarchy fell in 1958. After a decade of instability, the Ba'ath Party seized power in 1968. Saddam Hussein consolidated personal rule by 1979. He launched the Iran-Iraq War (1980-1988) and invaded Kuwait in 1990. The subsequent Gulf War and thirteen years of international sanctions devastated the economy and society.

The US-led invasion in 2003 toppled the Ba'athist regime. The Coalition Provisional Authority dissolved the Iraqi army and implemented sweeping de-Ba'athification dismantling existing state structures without adequate replacements. The 2005 constitution established a federal parliamentary system. Governance was organized around the *muhāsasa ta'ifia*, an informal ethno-sectarian apportionment of state positions among Shia, Sunni, and Kurdish elites. This framework entrenched patronage networks and fuelled endemic corruption. Sectarian violence escalated into civil war between 2006 and 2008.

In June 2014, the Islamic State seized Mosul and large swathes of northern and western Iraq. The Popular Mobilization Forces (PMF), predominantly Shia militias, were formed with Iranian support. They played a decisive role alongside the Iraqi army and the US-led coalition in recapturing territory by December 2017. In October 2019, mass protests (the Tishreen movement) erupted across central and southern Iraq, demanding an end to corruption, unemployment and sectarian governance.

The uprising forced Prime Minister Adel Abdul-Mahdi to resign. Mohammed Shia al-Sudani assumed office in October 2022. Following the November 2025 parliamentary elections, his coalition secured 46 seats, but he withdrew his candidacy in January, deferring to the Coordination Framework's official nomination of Nouri al-Maliki for prime minister. The Coordination Framework is the largest coalition of Shia political parties in the Iraqi parliament. It is widely considered to be closely aligned with Iran.

Months of deadlock ensued, not least due to an explicit US veto, whereby President Trump threatened to withdraw American support for Iraq if Maliki, widely viewed as Iran's direct proxy and blamed for the sectarian governance that enabled ISIS's rise in 2014, returned to office. Eventually, parliament elected Kurdish politician Nizar Amedi as president on 11 April. Amedi tasked Ali al-Zaidi with forming a new government on 28 April 2026. He is a businessman with no prior government experience, who represents a compromise candidate – acceptable to both the US and to the Coordination Framework.

Institutional set-up and structural challenges

Iraq is a federal parliamentary republic. The 2005 constitution distributes power between Baghdad and the Kurdistan Regional Government (KRG), which exercises autonomous authority over three northern governorates. Governance is structured around the *muhāsasa* system, which allocates principal state offices and ministerial portfolios among Shia, Sunni, and Kurdish political blocs. This arrangement guarantees broad elite inclusion but has systematically weakened accountability, entrenched patronage, and recycled the same political class regardless of performance.

The 2024 Fragile States Index published by The Fund for Peace ranked Iraq 31st of 179 countries, where lowest ranks denote greater fragility. The Popular Mobilization Forces – a coalition of predominantly Shia militias of around 200,000 fighters, armed and coordinated by Iran – represent a persistent structural challenge. Although formally integrated into the armed forces since 2016, key factions maintain independent command structures. They control economic assets and operate with impunity. A 2025 parliamentary reform bill sought to subordinate the PMF more firmly to the prime minister's authority. It was withdrawn under pressure, leaving the civil-military boundary unresolved.

The Iraqi economy displays extreme hydrocarbon dependency. Oil provides over 90% of state budget revenue and accounts for approximately 90% of export revenue. The IMF's 2025 Article IV consultation warned that the fiscal breakeven oil price had risen sharply to around \$84 per barrel in 2024, up from \$54 in 2020. This reflects structural pressures from expanding public expenditure and stagnant non-oil revenues. Fiscal deficits and external accounts are projected to deteriorate unless the government raises non-oil revenues and contains the public wage bill. Non-oil GDP growth slowed from 13.8% in 2023 to an estimated 2.5% in 2024, highlighting limited progress toward economic diversification. Sovereign debt stress risks have risen accordingly.

Socially, the Iraqi population is exceptionally young, with over 36% under the age of 14. Youth unemployment stands at approximately 32%, fuelling the grievances that drove the October 2019 Tishreen uprising. This was the largest and longest-lasting anti-government protest movement in Baghdad and southern Iraq since the 2003 invasion. It was a youth-led movement demanding systemic political change, an end to government corruption, better public services, and less foreign interference. Ethno-sectarian and regional cleavages remain pronounced, particularly between Arab Shia and Sunni communities and between Baghdad and the KRG. Recurring disputes over oil revenues, budget transfers, and territorial control periodically destabilise governance.

Externally, Iraq is subject to Iranian, American, and Turkish influence. Iran exercises deep leverage through allied PMF factions, parastatal economic networks, and political parties within the Coordination Framework. The United States and Iraq agreed in August 2024 to a phased withdrawal of coalition forces by the end of 2026. This transition will reshape the domestic security balance. Türkiye conducts military operations in northern Iraq against the Kurdistan Workers' Party (PKK), maintaining a network of forward operating bases.

The collapse of the Assad regime in Syria in late 2024 introduced acute border security pressures. ISIS has exploited post-Assad instability to reactivate recruitment. Syrian government offensives against the Kurdish-led Syrian Democratic Forces triggered the escape of ISIS-linked detainees from al-Hol camp. Between January and February 2026, US forces transferred over 5,700 ISIS detainees from Syria to Iraqi-controlled facilities to prevent further prison breaks. This places additional strain on Iraqi detention infrastructure and counterterrorism capacity.

Forward-looking indicators point to acute fiscal and geopolitical stress. The US-Israeli military campaign against Iran, launched in late February 2026, has caused a severe shock to the Iraqi economy and to its security. Iran's effective closure of the Strait of Hormuz severed Baghdad's primary export route. In addition to that, longer-term structural vulnerabilities include the unresolved status of the PMF and rising sovereign debt stress.

Business implications

Opportunities

Iraq's energy sector remains the primary entry point for foreign capital. Iraq's upstream oil sector benefits from established production-sharing contracts with international operators. The Gas Growth Integrated Project (GGIP), led by TotalEnergies in partnership with Basra Oil Company and QatarEnergy, represents a \$10-13 bn multi-energy initiative that entered full execution in September 2025. The project is in the Basra Governorate of southern Iraq. Southern fields offer relative geographical insulation from northern conflict zones. Beyond hydrocarbons, the Development Road – a 1,200-kilometre corridor - is being built, aiming to reduce Gulf-to-Europe transit times and costs by up to 30%. The northern Ceyhan pipeline route is gaining renewed strategic relevance as an alternative export corridor during the Hormuz crisis.

The 2024-2028 National Development Plan prioritizes renewable energy, telecommunications, pharmaceuticals, and agribusiness. E-payment volumes reached 18 trillion dinars by late 2024, up from 2.6 trillion in January 2023. Over 70 entities applied for digital banking licenses, targeting Iraq's underbanked market where formal financial inclusion remains below 20%. The fintech sector operates independently of oil price volatility and benefits from Iraq's youthful demographic.

Challenges

- **Security challenges:** Iraq faces significant but geographically differentiated security risks. ISIS remnants continue low-level insurgent activity in northern and western governorates, with renewed recruitment following the Assad regime's collapse in Syria. Iran-backed militias operate within state security forces, occasionally attacking coalition assets and exerting coercive control over commercial corridors. Cross-border Turkish operations against PKK positions in northern Kurdistan create localized disruptions. Targeted assassinations and kidnappings of activists and businesspeople persist. Energy installations in southern Iraq benefit from layered security provided by the Energy Police - a special police force tasked with protecting oil and gas infrastructure. However, the Hormuz crisis has introduced supply chain and export disruption risk

across the entire southern production complex. Kurdistan Region’s oil and gas infrastructure faces acute threats. Between 2022 and 2025, Kurdish energy facilities sustained over 150 drone and rocket attacks.

Iraq’s security challenge level is assessed as very high.

- *Regulatory challenges:* Iraq presents substantial regulatory obstacles rooted in legal fragmentation. The absence of a comprehensive federal oil and gas law, pending since 2005, places investment in an uncertain legal framework. After Iraq’s Federal Supreme Court invalidated KRG oil contracts in February 2022, Baghdad’s Karkh Court reversed these rulings in December 2024. Oil exports from Kurdistan resumed in September 2025 after a 30-month suspension. Constitutional disputes over Article 112, concerning the allocation of federal versus regional authority to manage oil resources and sign contracts with international operators, remain unresolved. Bureaucratic procedures are complex and subject to discretionary interpretation. Foreign ownership restrictions apply in several sectors. Currency controls hinder international transactions and profit repatriation. The sanctions architecture is multilayered. The UN maintains a residual arms embargo exempting Iraq’s government but prohibiting transfers to non-state actors. The EU imposes asset freezes under Regulation 1210/2003. US sanctions focus on Iraqi intermediaries facilitating sanction evasion for Iran’s military elite groups.

Iraq’s regulatory challenge level is assessed as very high.

- *Governance challenges:* The *muhasasa* system distributes state resources along ethno-sectarian lines, enabling cronyism and preferential access for politically connected businesses. Judicial independence is structurally compromised. Contract enforcement depends on political relationships rather than legal merit. Intellectual property protections remain weak. Transparency International 2025 Corruption Perceptions Index ranks Iraq 136th of 182 countries. Pervasive public-sector corruption includes bribery, embezzlement, and rigged procurement. Businesses without political connections face systematic disadvantages in accessing contracts and navigating regulatory processes.

Iraq’s governance challenge level is assessed as very high.

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