



## Middle East and North Africa

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### Iraqi Economy Poised for Growth, U.S. Official Says

#### Treasury's Kimmitt outlines progress, challenges ahead for Iraq

This article by U.S. Deputy Treasury Secretary Robert Kimmitt originally appeared in the December 9 edition of *The Wall Street Journal* and is in the public domain. There are no republication restrictions.

#### Iraq's Post-Saddam Economy

By Robert M. Kimmitt

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Only a year-and-a-half after regaining its full sovereignty, Iraq is laying the groundwork for a self-sustaining, market-based economy which can serve as an engine of growth for that nation and for the broader Middle East. While the world's attention has been focused on security and political developments, Iraqi authorities have been working steadily to reverse decades of economic decline -- which under Saddam Hussein was marked by triple-digit inflation, crushing debt and rising poverty. And as President Bush made clear Wednesday, we have a strong stake in helping the Iraqi people succeed in achieving their economic potential.

Iraq already possesses a well-educated population, the world's second-largest proven oil resources and a strong entrepreneurial culture. Building on these advantages, the process for establishing sustained economic growth is well under way: Iraq has a sound and stable currency and inflation is under control. The Iraqi Assembly has this week successfully passed its second budget with an open debate, so that the budget reflects the priorities of the people. Iraq's investment law welcomes foreign capital -- a dramatic change from the Saddam era, when Iraq was essentially closed to legitimate foreign business -- and procedures for creating new businesses have been streamlined. Iraq's trade regime, with a moderate 5 percent tariff, facilitates the importation of goods and services needed for economic expansion. Iraq's exports, largely oil, are expected to increase 7 percent from 2004 to 2005, and a further 40 percent next year.

Iraq's commercial banking and central bank laws, both based on international best practice, lay the foundation for a sound, modern banking system. After 15 years of near-total isolation from the global banking community, modern finance is returning, and foreign and domestic banks are opening new offices. ATMs and credit cards have begun to appear. The Central Bank of Iraq, formerly Saddam's personal coffer, is now independent and transparent.

These steps, along with additional measures already taken or under way, have strengthened the market underpinnings of Iraq's economy and enhanced its prospects for securing a new agreement with the IMF. In addition, there has been close and continuing economic dialogue between U.S. and Iraqi leaders through the Iraq-U.S. Joint Finance and Budget Taskforce in Baghdad, as well as the Joint Committee on Reconstruction and Economic Development, most recently hosted by the Treasury in Washington.

These achievements are translating into measurable progress. Iraq's economy is expected to grow by nearly 4 percent this year and accelerate to nearly 17 percent in 2006. Per capita income should soon exceed \$1,000 -- nearly double the level in 2003. More than 30,000 new businesses have been registered and many have set up shop. Today in Iraq there are more than three million cell phone subscribers. In 2003 there were virtually none. Iraqi students now carry laptops that connect at Internet cafes to the world's Web sites and libraries where before they had to rely on pencils, slide rules and outdated -- often censored -- school

textbooks.

Many challenges remain. The new Iraqi government, to be formed following the national elections on Dec. 15, will need to sustain momentum on the economic front. First, it should implement and enforce its laws with integrity. So far, the Iraqis have done a good job of implementing the sound and transparent procedures reflected in their new banking and investment laws, and this practice must be continued. Second, the new government must reform an extensive system of Saddam-era energy and food subsidies. This will go a long way to combat corruption and free up new resources for other priority expenditures like schools and hospitals. Third, the new government will need to establish a transparent process for securing, allocating and monitoring oil revenues -- effected by constitutional changes if required -- to ensure that the wealth is broadly shared by current and future generations. Fourth, the new government will have to invest in ministerial capacity so that it can provide services and respond to Iraqis nationwide.

The international community has played a critical role in supporting Iraq's economic transition by providing humanitarian assistance, financing for reconstruction and a vast array of technical support -- from monetary policy advice to the implementation of modern payment systems. This support remains vital for the reform efforts and it must be sustained. An immediate priority for Iraq's main creditors in the region should be to forgive its debt. This will allow Iraq the breathing room necessary for further reforms. Countries that have committed to providing reconstruction assistance should also accelerate the delivery of aid to ensure that critical reconstruction priorities are met and the government can deliver essential services.

Just a few years ago, Iraq was a kleptocracy where the ruling elites prospered while food shortages, crushing debt, unemployment and hyperinflation plagued the mass of people. Today, Iraq's leadership is moving the economy in the right direction, despite the challenges of a difficult security environment, and we all stand to gain by supporting their efforts. A free and prosperous Iraq is in everyone's interest: Its citizens will have an increasing stake in the success of their democracy and in preserving stability, thereby draining the influence of radicals and spurring economic activity throughout one of the world's most vital regions.

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