

## Basic facts (2021)

Population: 41 million

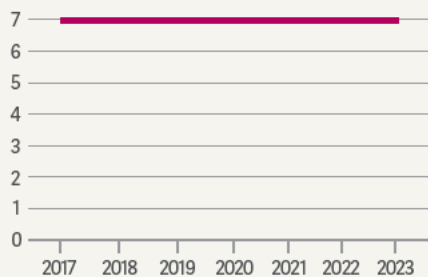
GDP, nominal: USD 206,7 billion

GDP/capita: USD 5 021



The country risk categories are arranged on a scale from 0 to 7. The lower the figure, the better the country's creditworthiness

## Country classification history



Source: EKN

## Strengths

- + Significant oil and gas reserves
- + Financial support from multilateral lenders
- + Relatively large foreign currency reserves

## Weaknesses

- Difficult security situation
- Weak business environment, limited private sector, and widespread corruption
- Vulnerability to declines in oil prices and exposure to carbon transition risks

## Oil continues to dominate the economy

The economic situation in Iraq have been affected by years of conflict, social unrest, and periodically low oil prices. The economy benefits from vast natural resources, the country's oil reserves is the fifth largest in the world. In addition, there are considerable gas resources. The economy is driven almost exclusively by the oil sector, which accounts for 90% of state revenues, 95% of exports and nearly 60% of GDP. Periodically low oil prices between 2014 and 2017 and during the pandemic have put pressure on the economy. An IMF programme was entered in 2016, which had a positive impact on economic stability and capital inflows.

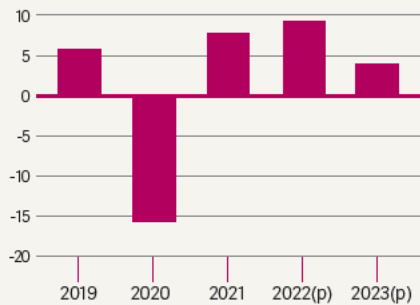
The impact of Russia's invasion of Ukraine, with soaring commodity prices, has had a major effect on the economy. Increased oil-revenues from elevated levels of oil prices have reduced the previously high level of sovereign debt. For instance, the government debt has declined from 84% of GDP in 2020 to 37% in 2022. The IMF forecasts a fiscal surplus of just over 11% of GDP in 2022, compared to a deficit of nearly 13% in 2020. The external position is stable. External debt is low at 33 per cent of GDP in 2021. Foreign exchange reserves are substantial and cover more than nine months of import, providing a buffer in the short to medium term. Iraq needs an oil price of at least USD 60 by 2023 to balance its fiscal finances. New declines in oil prices would force Iraq into fiscal tightening to avoid a balance of payments crisis.

## A persistent difficult security situation

More than a year after the elections, a new government, led by prime minister Mohammed Shia' al-Sudan, has finally been appointed. However, political tensions remain. In contrast to the previous government, the new regime is more Iran-friendly. The political situation is polarized by Iran and the US dispute for influence over the country. Social unrest, foreign political interference and several government formations have had significant influence over the past year. These factors are expected to persist. The Iraqi army has been successful in its efforts to drive the Islamic State out of the country, however ethnic tensions continue to undermine stability in the country. It is likely that IS will continue to carry out terror attacks.

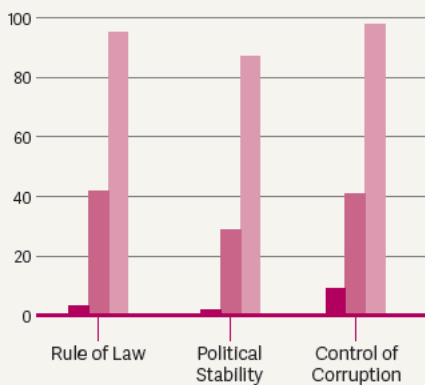
The new government is faced with challenges relating to deteriorating global macroeconomic conditions. Reduced global investment and financing appetite, rising interest rates and persistent inflation will negatively impact Iraq. Since the Central Bank of Iraq devalued the currency in 2021, inflation has been at high levels, and is projected to reach an annual rate of 6.5 per cent for 2022. A higher cost of living is adding to already widespread popular discontent and social unrest. The political turmoil of recent years and the absence of a central government budget have hampered necessary investments. In the short term, growth is expected to be driven by high oil prices, investments, and economic reforms. The Iraqi government has pledged to prioritise anti-corruption efforts to strengthening the country's public institutions, reducing unemployment and electricity and water shortages. The energy sector is underdeveloped and is expected to be the main attraction for foreign investment. Unfortunately, a difficult business environment and security situation continue to deter investors.

### Real GDP growth (constant prices, % per annum)



Source: IMFWEQ, Macrobond

### Business environment



■ Iraq  
■ Middle East & North Africa  
■ Sweden

Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

High levels of corruption and inadequate social and public services put further pressure on the stability of society.

Due to its dependency on oil exports, a difficult security situation and political unrest, it is expected that the country's economic development will be characterised by uncertainty. A high oil price and successful efforts to mobilise external financing would strengthen the country's fiscal sustainability. Failure to implement reforms threatens the economic outlook. In the longer term, extreme climate events are expected to increasingly affect countries in the region. Iraq is estimated to be among the most negatively affected by climate change globally. Physical risks, such as extreme heat and droughts, have increased recently. Water scarcity is widespread, entailing a major need for imports of water. At the same time, the global trend towards increased use of renewable energy poses a credit risk for the country. The carbon transition risk for the country is high. Comprehensive economic reforms are needed for diversification away from oil and the building up of infrastructure. However, the capacity of the government and institutions to implement structural changes is limited.

### Business environment

The World Bank's Ease of Doing Business Index ranks Iraq at number 172 out of 190 countries (2020). The country is placed at the very bottom for the region, due to a problematic and inefficient business climate. Undeveloped institutions, inadequate legislation and a weak business environment mean that in diverse sectors a risk of interference by governmental authorities exists. In addition to the poor security situation, the economy suffers from bottlenecks in the power sector, and infrastructure problems. Years of war and conflict have devastated large parts of Iraq's infrastructure and major shortages in the supply of power are seen. The private sector continues to be hampered by the poor security situation, weak infrastructure, and a lack of access to electricity.

In Transparency International's Corruption Perceptions Index, Iraq ranks 160 out of 180 countries. Widespread corruption, weak regulations, and a poor business environment continue to hamper the development of the private sector, new employment and foreign investment. The World Bank's Governance Indicators (WBI) rank Iraq at the global bottom for various measures relating to institutions and the regulatory environment.

The Iraqi banking sector is underdeveloped and financially weak. Banking regulations provide a working framework for banking supervision through laws and ordinances, but numerous weaknesses remain. The Central Bank is often unable to perform its duties without political interference with respect to the state-owned banks. Therefore, the regulation of these banks remains inefficient. In addition, the disclosure and verification of financial information is often unreliable or lacking. The obligation to publish audited financial statements on time is not always complied with. In the case of smaller and short-term export transactions, EKN covers credit risks on several banks, but for larger and long-term transactions, only the Trade Bank of Iraq, the country's largest bank, is accepted.

### Swedish export to Iraq

|      | MSEK  |
|------|-------|
| 2021 | 700   |
| 2020 | 1 037 |
| 2019 | 764   |
| 2018 | 810   |
| 2017 | 1 270 |

Source: SCB

### EKN:s exposure

|            | MSEK  |
|------------|-------|
| Guarantees | 1 451 |
| Offers     | 3     |

## EKN:s policy

EKN classifies Iraq in country risk category 7 (out of 7), an assessment carried out in cooperation with the OECD. EKN is open to providing guarantees for sovereign risks as well as the country's banks and companies. Payment securities are a requirement to other public purchasers, such as individual government ministries, municipalities, and government agencies. Due to the country's difficult business environment, payment risks on Iraqi companies of more than one year will be subject to a higher premium.

## EKN:s commitment and experience

EKN's guarantees include export transactions to Iraq in sectors such as power, transport, telecom, and manufacturing. During the period 2018–2022, EKN issued guarantees for 16 transactions for Swedish companies exporting to Iraq, with a total value of SEK 3.1 billion. The largest sectors, in terms of amount, were the power and telecom sectors.

EKN began to issue guarantees in Iraq in 2009. Payment experience has been good since 2009. Temporary delays in payment have occurred in isolated instances. EKN's claims relating to Iraq date from the 1980s and amount to approximately SEK 232 million. The claims are governed by a Paris Club agreement, which is being paid according to plan.