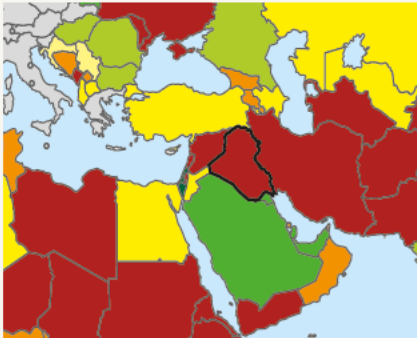


Basic facts (2020)

Population: 40 million

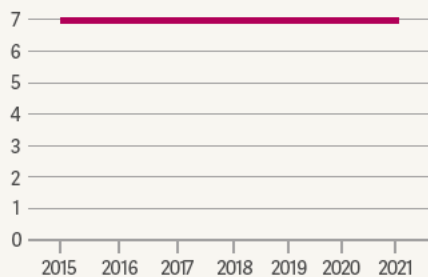
GDP, nominal: USD 167 billion

GDP/capita: USD 4 175



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

Weaknesses

- Weak business environment, limited private sector, and extensive corruption
- Sectarian and ethnic tensions
- Difficult security situation

Oil continues to dominate the economy

Over the past decade, the economic situation in Iraq has deteriorated as a result of years of conflict, social unrest, and periodically low oil prices. Before the pandemic, the country's economy was suffering from structural shortcomings and weaknesses. Iraq is one of the world's most oil-dependent economies. The country's oil reserves are the fifth largest in the world. In addition to this, the country has significant gas reserves. Oil accounts for 90% of fiscal revenues, 95% of the country's export revenues and 65% of GDP. Low oil prices between 2014-2017 and during the pandemic has worsened central government finances and the balance of payments. In 2020, real GDP contracted by 12% reflecting pandemic-related containment measures, collapse in oil prices and cutbacks in oil output as a result of OPEC+ decisions. The authorities addressed the fiscal losses by drawing funds from international reserves and oil funds, increasing the borrowing in the banking sector and loan from the IMF. As a result, the public debt has exaggerated significantly. Increased budget deficits and imbalances have caused the central government debt to rise up to 90% of GDP.

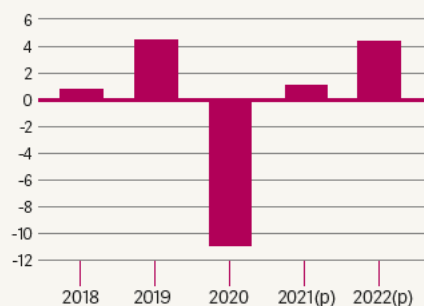
The external debt corresponds to approximately 50% of GDP. A large portion of the debt is to the Gulf states, which funded the war between Iraq and Iran in the 1980s. Iraq has not yet needed to pay off this debt. The debt service ratio thus remains sufficient. Alongside, the external current account deficit of 15 percent of GDP has led to a decline in foreign exchange reserves. However, the country still has a considerable buffer in the medium-term, as international reserves corresponds to eight months of import coverage. In 2020, the Central Bank of Iraq devalued the Iraqi dinar by over 20% against the US dollar to safeguard reserves, ensure external sustainability and new IMF support. The weakening of the currency resulted in sharply increased inflation in 2021 and a reduction in Iraqis' purchasing power, which risks leading to renewed popular dissatisfaction and new civil protest.

In 2016, the country entered an IMF programme which contributed to economic stability and capital inflows. The government is seeking further IMF financing and programs to deal with the budget deficit. However, the IMF advocates a slower disbursement programme linked to reforms and recently noted Baghdad's failure to accurately report its debt and fiscal indicators. Major economic reforms are planned, with the intention to lay groundwork for a new programme, but an agreement between the parties is unlikely to happen during 2021.

Security risks dominate the risk picture

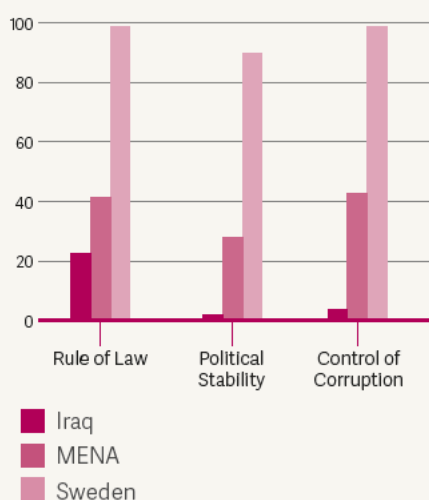
Although the Iraqi army has been successful in its efforts to expel IS, security risks and ethnic tensions continues to undermine stability in the country. The political landscape is divided along ethnic, religious and other sectarian lines. The security situation is unstable in parts of the country, and the risk of terrorist attacks is high. As a result of corruption and deficient societal functions, the political system is fragmented, and popular discontent is a growing concern. The political risks are undermined by tensions between Iran and the US and their struggle for influence over the country. Foreign sovereigns attacks on Iraqi soil continue to deter foreign investors. Risks of social unrest, geopolitical tensions, and insecurity remain elevated and will continue with the parliamentary elections during the autumn.

GDP growth (fixed prices, % per annum)



Source: IMF WEO 2021

Business environment



Ranking from 0 (worst) to 100 (best)

Source: The World Bank

The economy is expected to gradually recover, and the imbalances to narrow, although the outlook remains challenging. Real GDP is projected to return to its pre-pandemic level by 2024. A successful distribution of vaccine is critical for the country's future development. However, due to delayed deliveries within the COVAX initiative, vaccinations are expected to be at a slow pace and to continue into 2022. The risk of continued restrictions is thus expected to remain during the year. Social unrest, foreign political interference and several government reshuffles that have characterised the past year are expected to continue. The most immediate and significant risk stems from potential political constraints and new bouts of social turmoil. The private sector continues to be hampered by the poor security situation, weak infrastructure and inadequate access to electricity.

An increased oil price and successful efforts to mobilise external financing would strengthen the country's fiscal sustainability. To balance its budget, Iraq needs an oil price of a minimum of USD 60. New declines in oil prices would force the authorities to further tighten the fiscal policy, in order to not affect the balance of payments. In the medium term, both government deficits and the current account deficit are projected to decrease as a result of the devaluation, a recovered oil price and financial reforms. Central government debt is projected to peak in 2023 before gradually declining thereafter.

Despite the difficulties, economic growth is expected to benefit from much needed investments and economic reforms. The government has major investment plans for reconstruction in infrastructure, and the development of the energy sector is essential to meet the growing demand for electricity. The risks stem from failures to implement reforms in an election year, which may threaten fiscal sustainability. It could also undermine macroeconomic stability and set government debt on an unsustainable path.

In the long term, the country's economic development is characterised by unrest due to the heavy dependence on oil, a difficult security situation, and political unrest. Continued cooperation with the IMF would contribute to increased capital inflows and stability. This requires additional economic reforms that counter corruption, along with infrastructure development and economic diversification. However, there is uncertainty about the government's capability to implement the changes.

Business environment

In the World Bank's assessment of countries' business climates, Iraq is ranked 172nd out of 190 countries. Undeveloped institutions, inadequate legislation and a weak business environment mean that there is a risk of interference by governmental authorities. In addition to the poor security situation, the economy suffers from bottlenecks in the power sector, infrastructure problems, and widespread corruption. The payment risk on companies is therefore larger than in corresponding countries, and EKN charges a higher premium for payment risks longer than one year on Iraqi companies. In Transparency International's Corruption Perceptions Index, Iraq ranks 160th 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. Years of war and conflict have devastated large parts of Iraq's infrastructure and shortages in the supply of power are common. The World Bank's Governance Indicators (WBI) rank Iraq at the global bottom for various measures relating to institutions and the regulatory environment.

Swedish export to Iraq

	MSEK
2020	1 036
2019	764
2018	810
2017	1 270
2016	2 059

Source: SCB

EKN:s exposure

	MSEK
Guarantees	1 306
Offers	142

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 Trade Bank of Iraq, the country's largest bank, is accepted.

EKN:s policy

EKN classifies Iraq in country risk category 7 out of 7. This assessment is carried out in co-operation with the OECD. EKN is open to providing guarantees on sovereign risks as well as banking and corporate risks. Payment securities are a requirement for risks relating 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 2016–2020, EKN issued guarantees for 16 transactions for Swedish companies exporting to Iraq, with a total value of SEK 2.7 billion. The largest sectors in terms of amount in the flow were the power generation and telecom sectors.

EKN began to issue guarantees on Iraq in 2009. Payment experience has been good since 2009. Temporary delays in payment have occurred in isolated instances. EKN's claims on Iraq date from the 1980s and amount to approximately SEK 270 million. The claims are governed by a Paris Club agreement that is being paid according to plan.