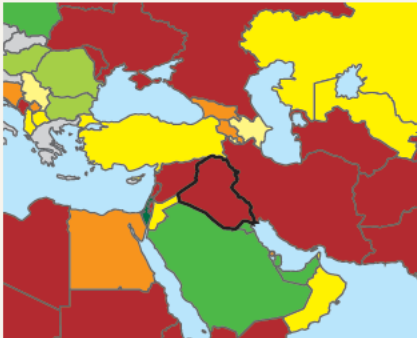


Basic facts (2023)

Population: 42 million

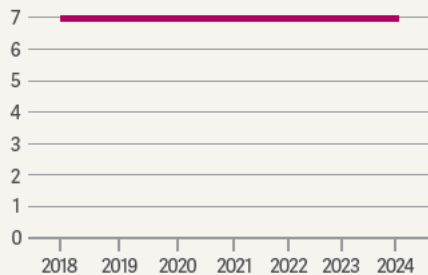
GDP, nominal: USD 261 billion

GDP/capita: USD 6 181



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
- + Relatively large foreign currency reserves

Weaknesses

- Difficult security situation and heightened risk of terror attacks
- Weak business environment, limited private sector, and extensive corruption
- Significant transition risks

Oil-dependent economy

The economic situation in Iraq has been dominated by decades of conflict, social unrest, and volatile oil prices. The strength of the economy is due to extensive natural resources, mainly in the form of the country's oil reserves, which are the fourth largest in the world. In addition, there are significant gas resources, equivalent to around five per cent of the world's reserves, however currently the operational capacity to exploit them is lacking. The economy is driven almost exclusively by the oil sector, which accounts for 90% of central government revenues, 95% of exports and nearly 60% of GDP. As a result of the close link to oil prices, economic development is often volatile, a trend that is also reinforced by the fact that governmental fiscal policy is often pro-cyclical. After many years of international sanctions, conflicts and low investment, the energy sector is currently very underdeveloped compared to its potential. Despite this, Iraq produced 4.4 million barrels of crude oil per day in 2022, making it the second largest producer within OPEC, only following Saudi Arabia. The ambition to expand oil production to 6 million barrels per day has so far been unsuccessful due to low interest from investors. The country's dependence on fossil fuels means that it is highly exposed to transition risks linked to the global phasing-out of fossil fuel energy production.

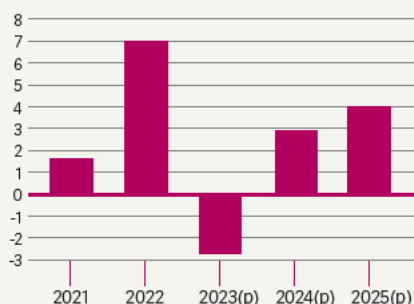
An IMF programme was in place until 2017, initially bringing some improvement in fiscal stability and capital inflows, however institutional capacity remains highly deficient and among the weakest from a regional perspective. The Iraqi central government struggles to maintain control over its territory in competition with a large number of paramilitary organisations, resulting in a weak and complicated regulatory environment with widespread corruption and slow, non-transparent decision-making.

Protracted government formations after the 2018 and 2021 elections are symptoms of the political tensions that continue to dominate the political environment. For a long time, the situation has been marked by Iran's and the United States' struggle for influence over the country. Iraq's role as a theatre for various regional power struggles is expected to remain, given the deep political divisions within the country along religious and cultural lines. Social unrest, foreign interference, and complicated government reshuffles that have characterised the past few years are expected to persist in the coming years. The Iraqi army has succeeded in driving out ISIS, however in the long-term tensions between the government and the Kurdish self-government in the north and other armed groups continue to pose risks to political stability.

Outlook dominated by security situation

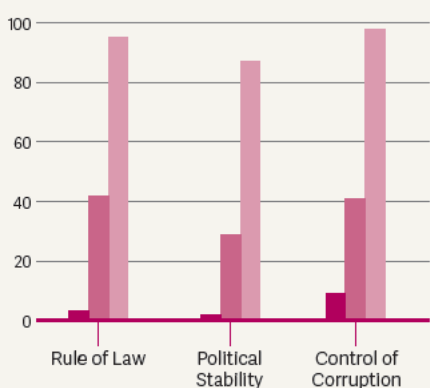
With no major political violence, Iraq have been enjoying a period of relative stability. However, challenges for the Government of Prime Minister Mohammed Shia' Al Sudani are not lacking in light of the ongoing fighting in Gaza between Israel and Hamas (backed by Iran), as well as attacks by militia groups against the US military presence in the country. The current parliamentary support for the Government is expected to be maintained by means of substantial increases in expenditures, at the cost of a weakened fiscal position. Fiscal deficits equivalent to nine per cent of GDP per year are expected over the next five-year period,

Real GDP growth (constant prices, % per annum)



Source: IMFWEQ, Macrobond

Business environment



■ Iraq
■ The Middle East
■ Sweden

Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

Swedish export to Iraq

Year	MSEK
2022	767
2021	700
2020	1 037
2019	764
2018	810

Source: SCB

EKN:s exposure

Category	MSEK
Guarantees	1 189
Offers	68

according to the IMF, which at the same time forecasts a current account deficit of just under seven per cent annually over the same period. However, the starting position is relatively good, with both low central government debt and total external debt of 49% and 23% of GDP, respectively, which provides some margin for a policy shift in a more sustainable direction at a later date.

GDP is expected to contract by 2.7% in 2023 as a result of agreed oil production cuts, while a fiscal stimulus via the adopted fiscal plan for 2023–2025 will boost activity in the non-oil sectors of the economy from 2024. GDP is expected to recover, with growth of 2.9% in 2024 and 4.0% in 2025. Wages and government cash transfers are expected to increase by 40% in the government budget compared to 2021 levels, while major investments have been announced to address the country's extensive infrastructure deficit. Despite public investments, given continued low foreign direct investment and, according to the IMF, a domestic savings rate of 10% of GDP in the coming years, the investment gap will not be closed.

From a longer-term perspective, extreme weather events are expected to increasingly impact countries in the region. The expectation is that Iraq will be among the countries in the world most negatively affected by global warming and climate changes. Threats to health, such as from 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 significant credit risk for the country. The "transition risks" the country faces are substantial. Comprehensive economic reforms are needed for diversification away from oil and the expansion of infrastructure. However, the capacity of the government and public institutions to implement structural reforms remains limited.

Business environment

Undeveloped public institutions, inadequate legislation and a weak business environment mean that in several sectors a risk of interference by governmental authorities exists. In addition to a complicated security situation, the economy suffers from bottlenecks in the power sector and other infrastructure related issues. Years of war and conflict have devastated large parts of Iraq's infrastructure, and the country suffers from major shortages in the supply of power. Destroyed power stations and capacity has resulted in power outages becoming an all too frequent occurrence. The country imports about 40 per cent of its electricity consumption from neighbouring Iran, a dependency that the country has so far failed to break. The private sector continues to be hampered by the poor security situation, weak infrastructure, and the lack of access to electricity.

In the World Bank's Ease of Doing Business Index, Iraq is ranked 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. In Transparency International's Corruption Perceptions Index, Iraq ranks 158 (out of 180 countries). Widespread corruption, a weak regulatory framework, and a poor business environment continue to impede the development of the private sector, job creation, and foreign investments. The World Bank's Worldwide Governance Indicators (WGI) ranks Iraq at the global bottom for various measures relating to public 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's actions are often based on political guidance in its supervisory role vis-à-vis state-owned banks, which control around 80 per cent of the sector's assets and deposits. In addition, the disclosure and verification of financial information is often unreliable or lagging. The obligation to publish audited financial statements on time is not always complied with. In the case of small and short-term export transactions, EKN covers credit risks on a number of banks, but for larger and long-term transactions, only the Trade Bank of Iraq, the country's third-largest bank, is accepted.

EKN:s policy

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

EKN:s commitment and experience

EKN's exposure include export transactions to Iraq in sectors such as power, telecommunications and manufacturing. During the period 2018–2022, EKN issued guarantees for 17 transactions for Swedish companies exporting to Iraq, with a combined value of SEK 3.1 billion. The largest sectors, in terms of amounts, were the power generation and telecom sectors.

EKN began to issue guarantees on Iraq in 2009. Payment experience has been good since. Temporary arrears in payment have occurred in isolated instances. EKN's claims relating to Iraq date from the 1980s and amount to approximately SEK 214 million. The claims are governed by a Paris Club agreement, the payment on which is being made according to plan.