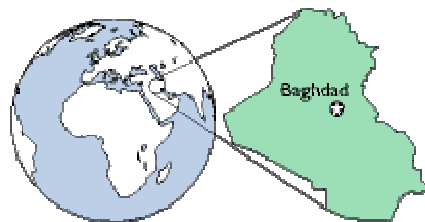


COUNTRY REVIEW

Iraq



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EULER HERMES COUNTRY RISK GRADE: D

**Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.**

COUNTRY PROFILE

Capital city:	Baghdad
GDP:	USD71.5bn (2009e)
Population:	30.7mn (2009e)
GDP per capita:	USD2,300 (2009e)
Currency:	Dinar (IQD)
Form of state:	Republic
Head of government:	PM Nouri al-Maliki (see text) President Jalal Talabani

With porous borders to the west (Syria) and east (Iran), funds and fighters (of varying political agenda) gain access to Iraq and use it as a battle front. Overall, the country **remains highly unstable, subject to terrorist attacks and security is dependent on external forces** (particularly those from the US and UK). A complete withdrawal of foreign troops remains difficult to achieve as the nascent Iraqi army is of limited strength in relation to **armed militia with loyalties to local factions and tribes**. Despite reports that security has improved, which receive some corroboration from the number of returning refugees, **violence between communities and religious groups will continue**.

The presidential role is now largely ceremonial, with executive powers vested in the government, which is currently led by PM Nouri al-Maliki, although there is a growing likelihood of a realignment of politics following parliamentary elections on 7 March. In these, Iyad Allawi's secular Iraqiya coalition narrowly won most parliamentary seats (91), with al-Maliki's State of Law bloc controlling 89. Such a close result suggests that a **political handover will not be smooth** and al-Maliki may yet forge another administration. Whatever the political outcome, the federal government will struggle to impose its will on a country divided into strong political factions, tribal allegiances and religious groups. The Shia and Kurd communities together account for almost 80% of the population, with the previously politically-dominant Sunnis constituting the remainder. There remains a significant **risk that the country will break-up**, particularly if the Kurdistan Regional Government (KRG), which already administers a largely autonomous area, declares unilateral independence. **Iran continues to wield considerable influence**, with unconfirmed reports that it has armed militia within the country, as well as providing support for the domestic Shia community. Despite US objections, Iran will provide significant economic and diplomatic influences going forward.

Oil production is the cornerstone of the economy and, subject to success in limiting terrorist attacks, will increase strongly as Iraq possesses **9.1% of the world's known oil reserves** (behind only Saudi Arabia and Iran). Currently, however, Iraq is only the eleventh-largest producer, with output averaging 2.5mbpd in 2009 and approximating Venezuela's contribution to world supply. The oil and gas sector is performing significantly below potential and only by securing sustainable oil output will the government be able to raise revenues to enable it to press ahead with economic and political reforms. Extensive physical damage to the economy and infrastructure necessitate prioritisation of remedial work on provision and expansion of basic services. The lack of security has a direct and adverse short-term impact on output, but it also deters capital expenditure and foreign investment required to generate longer-term development. Import growth will be high for several years and the external accounts are likely to deteriorate, given the required economic rebuilding. In 2007, Iraq made early repayment of its entire obligations to the IMF (USD470mn) and **the Fund and World Bank both provide financial assistance**, with the former approving a two-year USD3.6bn Stand-By Arrangement in February this year. Despite all its problems, the country has accumulated FX reserves, which currently amount to USD30-50bn, providing a measure of short-term liquidity.

The structural business environment is extremely fragile. Infrastructure, banking services, the judiciary and general governance are not supportive of strong sustainable growth. Properly functioning and centralised institutions have yet to be developed. Plans to overhaul the banking sector have made little progress and financial institutions suffer from poor asset quality and inadequate capitalisation.

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