

Iraq: Growth despite the odds

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- Following a ballot recount which confirmed that Iranian-backed groups suffered major losses in the recent parliamentary elections, violence could ensue in the coming days and weeks.
- The winner of the parliamentary elections, Muqtada al-Sadr, is now vying for a majority. Drawn out negotiations among the various factions are almost inevitable.
- Despite its security and political challenges, Iraq is still forecast to achieve growth both this fiscal year and the next. This is due to demand within its energy sector, particularly from international investors.

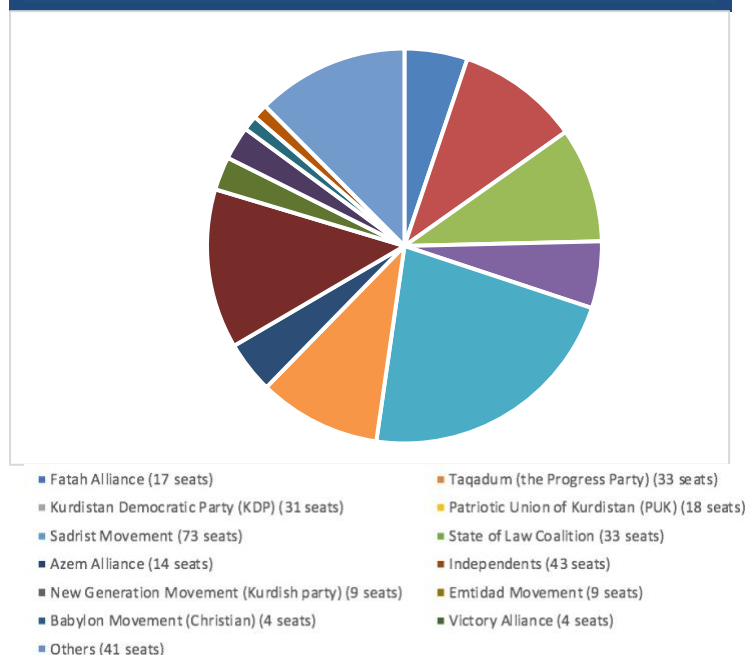
New government faces usual delays

Victory for the Shia cleric Muqtada al-Sadr in the parliamentary elections was confirmed last week after a manual recount of October's votes. Political uncertainty that could unfold in the coming days would add to Iraq's security woes and hamper economic recovery.

- The results from October's elections triggered consternation among the losing parties. Protests intensified last month around the Green Zone in the capital Baghdad.
 - The participants largely comprised supporters of the Iranian-backed Fatah alliance. Despite previously being Iraq's largest parliamentary faction, Fatah lost the most seats in October's elections.
 - Fatah only won 17 of 329 seats, a significant drop from its previous count of 48 seats.
 - Although protests prompted a manual recount of the votes, Fatah's out-turn has not changed.
- Fatah's next moves may upend the security situation in Iraq.
 - The party could either form a coalition with another faction to secure more authority, or call on Iranian-backed militias to catalyse instability.
 - Iranian-backed Popular Mobilisation Forces (PMF) splintered into rogue groups following the death of Abu Mahdi al-Muhandis, their former leader. This trend has prompted an uptick in the number of attacks conducted by underground PMF affiliates throughout Iraq.
 - Violent activity by various Iranian-aligned militias may therefore increase, even if Fatah does not formally endorse such actions.
 - Al-Muhandis was killed during a US drone strike in January 2020. The incident was the highest-level attack against an Iraqi official since the US-led invasion to remove Saddam Hussein in 2003.
 - The security situation is extremely fragile, and the risk of violence will remain high for the time being.
 - Indeed, Prime Minister Mustafa al-Kadhimi was targeted during an assassination attempt only last month.

Iraq macroeconomic indicators ¹					
	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	4.7	5.8	-15.7	3.6	10.5
Crude Oil Production (M bpd)	4.4	4.6	4.0	4.0	4.5
Oil GDP Growth (%)	-1.3	3.8	-12.6	-0.1	12.5
Non-oil GDP Growth (%)	15.6	9.0	-20.2	9.6	7.6
CPI Inflation (%)	0.4	-0.2	0.6	6.4	4.5
Fiscal Balance (% of GDP)	7.8	0.8	-12.8	-1.5	-2.5
C/A Balance (% of GDP)	4.3	0.5	-10.8	6.2	4.0
Total Gov't. Gross Debt (% of GDP)	47.8	45.1	84.2	59.4	55.3
Total Gross Extn'l Debt (% of GDP)	29.4	29.1	48.5	34.0	27.7
Gross Official Reserves (Mos. of Imports)	8.4	11.8	9.2	9.8	9.5
Nominal GDP (USD B)	226.9	234.0	169.5	201.5	226.6
Population (Millions)	38.4	39.3	40.2	41.2	42.0

Figure 1: Parliamentary make-up in Iraq (329 seats)²



- Besides Fatah's losses and al-Sadr's gains (x - y seats), Taqadum (the Progress Party), led by the Speaker of the Council of Representatives Mohamed al-Halbousi, secured 33 seats (from 0 seats). The former prime minister Nouri al-Maliki's State of Law Coalition also won 33 seats (from 25 seats).
- Although al-Sadr secured the most seats, which may herald a huge amount of sway in the next parliament, a coalition bloc could yet be formed in an effort to dilute his influence.
 - While al-Sadr's politics are defined by Iraqi nationalism and anti-interventionist rhetoric (including against perceived Iranian interference), the cleric has been known to contradict his own ideology and is quite tactical when it comes to maintaining a grip on power.
 - On the diplomatic front, al-Sadr has shown a willingness to work with Saudi Arabia and its

¹ Arabia Monitor; IMF.

regional rival Iran, and has made visits to both countries in recent years.

- Lengthy negotiations between the various Iraqi political factions will ensue; the formation of a government could be several months off, as is the selection of a new prime minister.
 - The parliament determines the country's new prime minister. Al-Kadhimi and his cabinet continue to serve as the caretaker government in the interim.

Oil remains key driver

Despite Iraq's insecurity and political uncertainty, economic growth is still forecast to reach 3.6% and 10.5% in 2021 and 2022, respectively; and despite last year's steep 15.7% contraction. The country's increasing oil output is set to support these projected growth levels.

- Iraq's nationwide oil exports rose to 3.27M barrels per day (bpd) in November 2021, compared with 3.1M bpd in October 2021.
 - The increase is consistent with OPEC+ output quotas, with this month's figures accounting for the 170K bpd increase.
 - Iraq's exports are set to increase further next month on the back of December's OPEC+ meeting, at which it was agreed that output levels should reflect the group's monthly supply increments of 400,000 bpd. This comes despite uncertainty surrounding the new Omicron variant.
 - Iraq's exports generated USD 7.59B in November due to oil being sold at an average of USD 77.3 pb; this compares with the USD 7.67B generated in October, when oil was sold at an average of USD 79.27 pb.
- While an exports increase is promising for Iraq, its economic dependence on oil means the country will remain subject to market shocks such as price dips.
- Iraq has solidified its position as the second-largest OPEC producer. It may also look to wield more influence in the group through the submission of a nomination for the post of secretary general.
 - During this month's OPEC administrative meeting, Iraq asked for more time to identify candidates following the nomination of Kuwait's Haitham al-Ghais.
- Foreign investors are flocking to is picking up in Iraq's energy sector.
 - Petronas, a Malaysian oil company, recently opened a new K-123 well at Garraf Field in Iraq's Dhi Qar governorate.
 - 45% of the field is operated by Petronas, with 30% and 25% operated by Japan's Japex Garraf Ltd and Qatar's North Oil Company, respectively.
 - Last month, Russia's PJSC Lukoil Oil Company and Japan's INPEX Corporation filed a proposal for the

Figure 2: Iraq real GDP growth rates (YoY, %)³

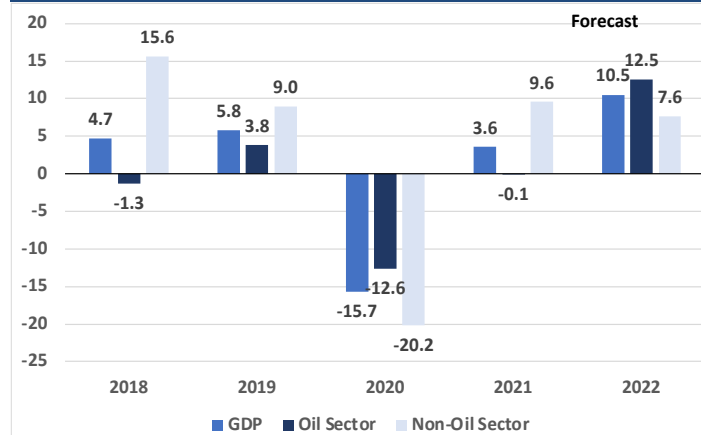
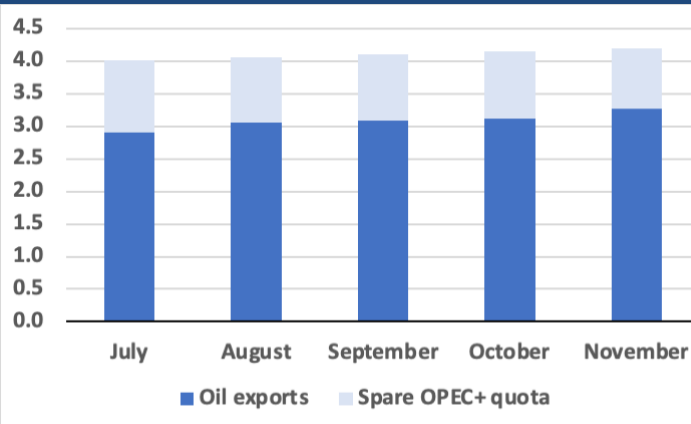


Figure 3: Iraq crude oil exports (M bpd)⁴



development of the Eridu field in Block 10, located 93 miles (150km) to the west of Basra.

- Block 10 covers roughly 2,120 sq miles (5,500 sq km) and is controlled by Iraq's Ministry of Oil. The Eridu field was discovered in 2016.
- Lukoil announced that significant reserves were discovered after a recent exploration mission at the field. The company believes that the field holds between 7B and 12B barrels of oil reserves and may allow for a peak production capacity of almost 250K bpd.
- The US energy corporation Chevron is likely to take over the development of the Nasiriyah oil field in Dhi Qar.
 - The Iraq National Oil Company (INOC) is currently in negotiations with Chevron around the Nasiriyah block, which is forecast to generate around 600K bpd.
- Sustained development and foreign investment supporting oil field infrastructure will place Iraq in a prime position to reach a 8M bpd capacity by 2027.
- With oil GDP still serving as Iraq's main growth driver, ramped up activity in the country's energy sector will help medium- to long-term recovery prospects. Despite the optimism, this situation also leaves Iraq vulnerable to shocks from global energy markets.

² Arabia Monitor; INA.

³ Arabia Monitor; IMF.

⁴ Arabia Monitor; Iraq Ministry of Oil.

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