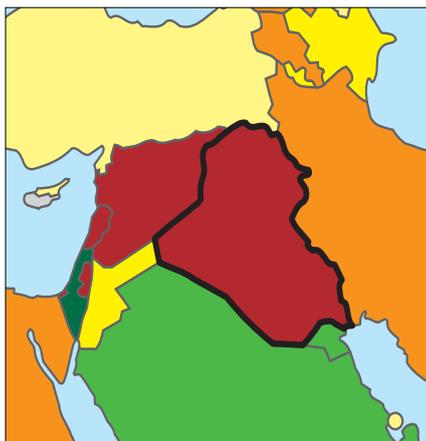




The country risk categories are on a scale of 0 to 7.

The lower the number, the better the credit rating.



CONTACT

Country analyst: Victor Carstenius
Tel. 08-788 00 65
email: victor.carstenius@ekn.se

BASIC FACTS

Population	37 million
GDP (nominal)	USD 167 billion
GDP/capita	4,631 USD

COUNTRY CLASSIFICATION HISTORY



Source: EKN

IS has been defeated, but divisions remain

The Iraqi economy has been seriously damaged. This is due in part to the occupation of parts of the country by the IS terrorist organisation, but is also the result of the fact that the price of oil, which is the country's only export commodity, has declined by 50 per cent since 2014. The war on IS and the drop in oil prices has weakened growth, worsened the state of the public finances and the balance of payments, and eroded the country's international reserves. This negative trend saw a partial turnaround in the course of 2017, because IS is on the verge of being driven out of Iraq. The state has adjusted to lower oil prices, and the country has received external financial support.

Payment risks remain substantial. 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. Growth prospects are weak, and the economy is totally dependent on oil. Iraq is at the bottom of the list of the world's countries in terms of corruption, institutional development and the business environment. Despite these difficulties, EKN has continued to provide guarantees for exports to Iraq, with positive experience. The number of new transactions is limited.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

STRENGTHS

- + Significant oil and gas reserves.
- + Ongoing IMF programme.
- + Iraq's external debt and debt service are still low.

WEAKNESSES

- Poor security situation and the risk of terrorist attacks.
- One of the world's most oil-dependent economies.
- Weak business environment and extensive corruption.

SWEDISH EXPORTS TO IRAQ (MSEK)

Iraq	MSEK
2016	2,059
2015	2,053
2014	2,260
2013	2,224
2012	1,891

Source: The National Board of Trade

EKN'S EXPOSURE

	MSEK
Guarantees	616
Offers	1,147

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 the Iraqi government as well as the country's banks and companies. 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 began to issue guarantees on Iraq in 2009. Since then, EKN has provided guarantees with a total value of SEK 2.3 billion in 31 transactions. The primary sectors are telecommunications and transport. In several transactions, only political risk was covered. Payment experience has been good since 2009. Temporary delays have occasionally occurred, but there have been no indemnifications. EKN's claims on Iraq date from the 1980s and amount to approximately SEK 400 million. The claims are governed by a Paris Club agreement that is being paid according to plan.

WHAT MIGHT CAUSE A CHANGE IN THE COVER POLICY?

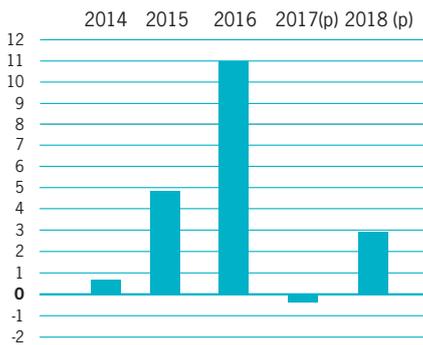
THE EASING OF RESTRICTIONS, IN THE EVENT OF:

- Completed IMF programme and implemented economic reforms.
- An improved business environment and banking sector would allow for expanded underwriting of guarantees in transactions involving companies and banks as counterparties.

THE TIGHTENING OF RESTRICTIONS, IN THE EVENT OF:

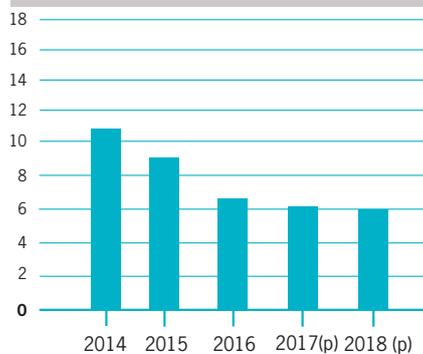
- New unrest that threatens Baghdad and the oil-rich southern provinces.
- Cancelled IMF programme that halts capital inflow and slows reforms.

GDP GROWTH (% PER ANNUM)



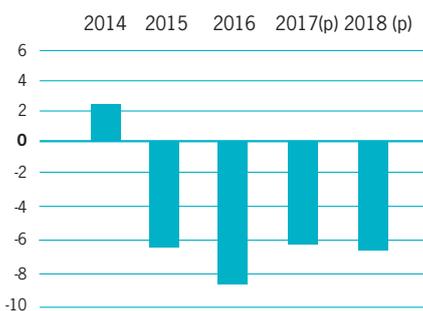
Source: IMF WEO 2017

INTERNATIONAL RESERVE (MONTHS OF IMPORT)



Source: IMF Article IV 2017

CURRENT ACCOUNT (% OF GDP)



Source: IMF Article IV 2017

COUNTRY ANALYSIS

BACKGROUND

The political and economic situation in Iraq has deteriorated since 2014, due to the invasion of the country by the terrorist organisation IS and the decline in oil prices. The Iraqi army has largely managed to expel IS, but sectarian and ethnic tensions continue to undermine stability in the country. It is likely that IS will continue to carry out terror attacks. Other Sunni groups may also come to rebel against the country's Shia-dominated leadership. The relationship between the central government in Baghdad and the autonomous region of Kurdistan remains tense, especially in the wake of Kurdistan's territorial expansion during the war with IS and the independence referendum of September 2017. Moreover, Iraq has entered an election cycle; both regional and national elections are planned for 2018. This has already sparked tensions.

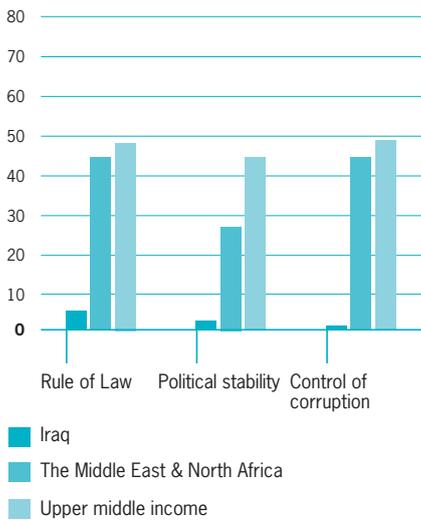
Iraq's oil reserve is the fifth largest in the world, and the country has significant gas reserves. Oil production has grown at a rapid pace, and Iraq is now OPEC's second largest oil exporter. However, low oil prices have reduced oil revenues and increased the vulnerability of public finances and the balance of payments. Iraq entered into an IMF programme in 2016; this benefits the country's economic stability and capital inflow. The IMF programme allows for loans of more than five billion USD over three years and creates potential for additional funding from other countries and lenders. The Iraqi government has strong incentives to comply with the IMF's reform programme, but there is a considerable risk that the implementation of the programme will fail. The IMF has already loosened some of the programme's requirements for accepting loan payments, and in light of the upcoming elections (which are likely to delay economic austerity measures), it will probably need to do so again.

THE MOST RECENT DEVELOPMENTS

Due to increased oil production, economic growth was eleven per cent in 2016. Growth slowed sharply in 2017, and fewer investments in the oil sector and economic austerity measures may cause the economy to enter a recession. Further tightening is needed next year in order to meet the conditions of the IMF programme. The private sector continues to be hampered by the poor security situation, ruined infrastructure and a lack of access to electricity.

In just a few years, large budget deficits have caused the government debt to balloon to over 60 per cent of GDP. Thanks to slightly higher and more stable oil prices and reduced public spending, the negative trend has reversed since 2016. The Iraqi government has addressed the low oil prices by drawing funds from its international reserves and the oil fund, increasing borrowing in the banking sector, and postponing investments. Individual ministries are still in payment arrears. It was possible to pay off a large portion of the arrears in 2016, but according to the payment schedule, it will be 2019 before all the arrears are paid. In transactions with public buyers, EKN accepts only the Iraqi Ministry of Finance or the Central Bank of Iraq as counterparties.

BUSINESS ENVIRONMENT



Ranking from 0 (worst) to 100 (best)

Source: The World Bank

Iraq's external debt and debt service are still low. A large portion of the debt is owed to the Arab Gulf states, which funded Iraq's war with Iran in the 1980s. Iraq has not yet had to pay off this debt. Iraq's international reserves have diminished in recent years due to the financing of the growing current account deficit. Nonetheless, its international reserves are still considerable. They are currently equivalent to six months of import needs, and are expected to stabilize at the current level.

The Central Bank of Iraq has managed to maintain the Iraqi dinar's fixed exchange rate against the US dollar. The Central Bank uses currency controls, arguing that they prevent money laundering and the financing of terrorists. It is likely that these controls are also designed to reduce imports and to ration the supply of foreign currency. The currency controls apply primarily to the private sector and individuals, and they have fuelled currency speculation and created a parallel foreign exchange market. Certain simplifications to the documentation requirements were recently implemented, but delays in foreign payments may still occur.

LONG-TERM DEVELOPMENT

Iraq's production and export of oil will level off in the next few years. Increased oil production would require significant investments, which the government cannot accommodate given the current budget restraints. Oil accounts for 50 per cent of the country's GDP, 90 per cent of state revenues and 95 per cent of exports. Recovery in sectors other than oil and gas will benefit from an improved security situation and will increase growth to around 2 per cent within a few years, which is low for a developing country like Iraq.

As domestic funding opportunities are exhausted, external financing will come to play a greater role in the future. Iraq's external debt is relatively low, and there is room to increase this debt. The domestic banking sector has a limited ability to provide more domestic financing. At the beginning of 2017, Iraq issued an international bond (guaranteed by the United States), and in August 2017 it succeeded in issuing yet another bond, this time without any guarantee.

One of the main challenges in the political sphere will be to ensure that a fragmented Iraq holds together as a country. The political landscape is divided along ethnic, religious and other sectarian lines, which makes it difficult to push through political reforms. If new acts of defiance and rebellion are to be prevented, it will be crucial to ensure that Sunni Muslims in areas previously occupied by IS are cared for and have political representation.

In September 2017, Kurdistan voted for independence in a referendum that the central government in Baghdad described as illegal. In practice, Kurdistan is already politically and economically independent of the rest of Iraq. In the short term, the referendum is not expected to affect relations between Kurdistan and Baghdad to any significant extent, although the risk of conflict over disputed areas cannot be ruled out.

A likely long-term scenario is a completely or nearly independent Kurdistan and a Sunni area in the western and northern parts of the country that remains unstable.

BUSINESS ENVIRONMENT

In the World Bank's assessment of countries' business climates, Iraq is ranked 165th 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.

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.