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Latest in the Iraqi & Global Energy Markets – Economic Outlook

- Iraq's government debt as a share of its GDP is set to fall to about 47% in 2022 from 66% in 2021 – the biggest fall of any government in the Middle East and North Africa, according to Fitch Ratings. The fall is attributed mainly to higher oil prices, restoring the country's GDP to its pre-CoVid-19 levels. Political tensions constraining public spending are negative for the economy but also help the budgetary surplus.

- Fitch Ratings' B- for Iraq, 6 notches below investment grade, implies that material default risk is present, though there remains a limited margin of safety, with financial commitments currently being met. The rating also signifies that Iraq's capacity for continued payment is vulnerable to deterioration in the business environment.

- In fact, Iraq's falling debt ratio reflects the country's failure to form a government and pass a budget since its October 2021 elections, constraining spending to 2021 levels until an emergency funding bill was passed by parliament on June 6 to allocate US$ 7 B (7% of GDP) for food and energy subsidies and salaries.

- However, if the delay in government formation and the ratification of the 2022 budget continues, it could limit the use of the fiscal windfalls as the ceilings from the 2021 budget are reached, which could potentially diminish economic growth.

- The IMF forecast that Iraq will see the biggest expansion to its economy in the Middle East, with 9.5% growth projected in 2022. According to the World Bank, overall economic growth in 2022 is projected at 8.8% y-o-y, as OPEC+ quotas end and Iraq's production surpasses pre-pandemic levels of 4.6 Mb/d. Iraq's non-oil GDP is projected to converge to its long-term potential growth trend, partly due to an increase in investments that could be financed through higher oil earnings.

Get in Touch

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