

**Embassy of India**  
**Baghdad**  
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**India - Iraq**  
**Annual Economic & Commercial Report – 2022-23**

**India – Iraq Trade Relations**

Iraq is the most significant partner for India’s energy sector. Over the years, Iraq emerged as the largest supplier of crude oil to India. In 2022-23, Iraq became the second largest crude oil supplier after Russia in view of more crude oil imports’ from Russia. The total India – Iraq trade in 2022-23 stood at \$37.08 billion – a slight increase of 8% over \$34.33 billion in 2021-22. The imports from Iraq (almost all was oil barring a few items such as dates) were \$34.38 billion – an increase of 7% over last year’s \$31.927 billion, though in terms of crude oil quantity imported by India was slightly less than the last year’s (50.6 MMT in 2022-23 against 56.5 MMT in 2021-22). The Indian exports in 2022-23 were slightly higher - 12% more than India’s exports in 2021-22 (\$2.696 billion in 2022-23 as against \$2.40 billion in 2021-22).

**A. Trade in goods**

Total Trade between India and Iraq during 2022-23 (April – March)

<b>FY</b>	<b>Export (Apr 22 – Mar 23) (US\$ million)</b>	<b>Import (Apr 22 – Mar 23) (US\$ million)</b>	<b>Total Trade (US\$ million)</b>
FY 2022-23	2,696.72	34,385.50	37,082.22
FY 2021-22	2,403.27	31,927.05	34,330.33
<b>Total %Growth</b>	<b>92.57%</b>		

Source: Government of India – Department of Commerce

**Top 10 items of Imports from India**

Iraq top 10 items of import from India during 2022-23 (April – March)

<b>S. No.</b>	<b>6-digit HS Code</b>	<b>Items</b>	<b>Value (US\$ Million)</b>	<b>% share in total Import</b>	<b>Value in MMT</b>
1	271012	LIGHT OILS AND PREPARATIONS	696.44	25.82	638,608.02
2	100630	SEMI/WHOLLY MILED RICE W/N POLISHED/GLAZED	392.21	14.54	338,024.02
3	170114	SUGARS AND SUGAR CONFECTIONERY OTHER CANE SUGAR	260.52	9.66	519,228.75
4	020230	BONELESS MEAT	226.45	8.39	89,240.80
5	271019	OTHER PETROLEUM OILS AND OILS OBTAINED FROM BITUMINOUS MINERALS ETC	182.43	6.76	146,019.43
6	300490	OTHER MEDICINE PUT UP FOR RETAIL SALE	63.82	2.36	5,199.04

7	690721	CERAMIC FLAGS AND PAVING, HEARTH OR WALL TILES OF A WATER ABSORPTION COEFFICIENT BY WEIGHT NOT EXCEEDING 0.5 PERCENT	60.01	2.22	11,709.69
8	690723	CERAMIC FLAGS AND PAVING, HEARTH OR WALL TILES, OF A WATER ABSORPTION COEFFICIENT BY WEIGHT EXCEEDING 10%	44.51	1.65	12,637.78
9	080390	BANANAS FRSH OR DRIED	38.54	1.42	65,801.34
10	870321	VHCL WTH SPRK-IGNTN INTRNL CMBSTN RCPRCTNGPISTON ENGENE OF CYLNDR CPCTY<=1000CC	29.82	1.10	19.45

Source: Government of India – Department of Commerce

### Top 10 items of Exports to India

Iraq top 10 items of export to India during 2022-23 (April – March)

S. No.	6-digit HS Code	Items	Value (US\$ Million)	% share in total Import	Value in MMT
1	270900	PETROLEUM OILS AND OILS OBTAINED FROM BITUMINOUS MINERALS CRUDE	33,599.57	97.71	50,596,251.56
2	271019	OTHER PETROLEUM OILS AND OILS OBTAINED FROM BITUMINOUS MINERALS ETC	540.73	1.57	972,464.42
3	271320	PETROLEUM BITUMEN	118.64	0.34	262,777.81
4	080410	DATES FRESH OR DRIED	79.47	0.23	217,256.69
5	271119	OTHER IN GASEOUS STATE	19.85	0.05	12,943.21
6	290531	ETHYLENE GLYCOL (ETHANEDIOL)	13.26	0.03	24,351.16
7	250300	SULPHUR OF ALL KND S OTHR THN SUBLIMED SULPHUR PCPTD SULPHUR AND COLLOIDAL SULPHUR	3.98	0.01	12,943.21
8	382319	OTHER INDUSTRIAL MONOCARBOXYLIC FATTY ACID	2.85	0.008	3,045.64
9	410510	TANED/CRUST SKIN OF SHEEP OR LAMB WITHOUT WOOL WHETHER OR NOT SPLIT BUT NOT FURTHER PREPARED. IN WET STATE	2.21	0.006	791.93
10	281512	NAOH IN AQS SOLN (SODA LYE OR LQD SODA)	1.10	0.003	2,940.02

Source: Government of India – Department of Commerce.

## B. Bilateral Hydrocarbon Trade with Iraq

### Bilateral Hydrocarbon trade with Iraq:-

(US\$ million)						
Sr. No.	Items	2018-19	2019-20	2020-21	2021-22	2022-23
1	Crude Import	22265	22764.6	12873.4	26173.14	33599.56
2	POL Import	35.6	909.5	1286.1	1111.3	
3	POL Export	685.6	657.5	44.5	529.88	
4	Total hydrocarbon Trade	22986.2	24331.6	14204	27814.32	34140.3
5	Total Trade	24161.1	25618.3	15786.1	29702.5	37082.22
6	<b>% of Hydrocarbon Trade in Total Trade</b>	<b>95.14%</b>	<b>94.98%</b>	<b>89.98%</b>	<b>93.64%</b>	<b>92.06%</b>

### India's Trade with Iraq in the Hydrocarbon Sector

Since 2017-18 Iraq is the Largest Crude sourcing destination for India. India Imported 43 MMT of crude oil in financial year 2021-22, accounting for 25.7 % of the total crude imports. For current FY (2022-23), India imported 50.6 MMT of crude oil from Iraq, accounting for 21.3% of our total crude oil import.

⇒ **India's crude oil imports from Iraq for the last 4 years:**

Crude Oil (in MMT)				
	2019-20	2020-21	2021-22	2022-23
India's total imports	220.9	188.2	220.03	236.6
Import from Iraq	51.6 <b>(23.3%)</b>	43.0 <b>(22.9%)</b>	56.5 <b>(25.7%)</b>	50.6 <b>(21.3%)</b>

There is no import of LNG from Iraq.

**India's Petroleum Products imports from Iraq for the last 4 years:**

In FY 2020-21, Iraq stood as the 5th largest Petroleum Products sourcing destination for the India accounting for 9.5% of the total imports. For FY (2022), Iraq has become 9th largest POL sourcing destination for India.

Import of Petroleum Products (in MMT)					
	2018-19	2019-20	2020-21	2021-22	2022-23
India's total Imports	32.9	43.9	44.3	59.4	69.4
Imports from Iraq	0.3 <b>(1.5%)</b>	2.7 <b>(6.2%)</b>	4.2 <b>(9.5%)</b>	2.05 <b>(3.45%)</b>	1.26 <b>(1.8%)</b>

⇒ India's Petroleum Products exports to Iraq for the last 4 years:

Export of Petroleum Products (in MMT)					
	2018-19	2019-20	2020-21	2021-22	2022-23
India's total Export	75.1	72.3	66.7	89.0	98.8
Export to Iraq	1.1 (1.5%)	1.1 (1.5%)	0.1 (0.2%)	0.70 (0.8%)	0.97 (0.9%)

#### India's engagement with Iraq in Upstream Sector

- ⇒ OVL has 100% participating interest in Block 8, Iraq (Exploratory Block).
- ⇒ The block was acquired in the year 2000 and is currently under suspension.
- ⇒ OVL has invested US\$ 1.03 million till January 2022.

India's oil imports, by country, 2021-22		
Country	Imports in USD millions	Percentage of India's total oil imports
Iraq	22,142	24.39
Saudi Arabia	16,398	18.07
UAE	9,015	9.93
USA	7,935	8.74
Nigeria	6,806	7.50
Kuwait	5,920	6.52
Mexico	2,815	3.10
Oman	2,718	3.00
Russia	2,127	2.34
Brazil	1,879	2.07
Colombia	1,604	1.77
Egypt	1,470	1.62
Angola	1,192	1.31
Norway	1,101	1.21
Qatar	788	0.87
Rest of the world	6,854	6.64
<b>Total</b>	<b>90,771</b>	<b>100</b>

#### C. Trade in services

Services data of Iraq with India and other countries is not available.

#### D. Analysis of India's Trade Relations with Iraq

Bilateral trade between India and Iraq has a tremendous potential for Indian companies to establish a larger footprint in trade and investment which would facilitate expansion of business ties exponentially. Iraqi economy is gradually emerging out of the turbulent past, where it witnessed external aggression, insurgency, sectarian violence, violent protests, etc.

2. Iraq is the 7th largest trading partner of India with total volume of trade around US\$ 37 billion (FY 2022-23). There is an enormous trade imbalance in bilateral trade. The import from Iraq is largely comprising purchase of crude oil for our energy requirements. The exports from India mainly constitute processed meat, basmati rice, ceramic tiles, pharma products, engineering machinery and tools, tea, spices, fruits, vegetable, other agricultural products, etc.

3. Iraq, at present, is at a critical stage of its revival post regional wars, US invasion, havoc wreaked by the ISIS, sectarian violence, violent protests of 2018-19 which has set it back by decades and its economy lying in shambles. The estimated cost of reconstruction in Iraq is pegged at US\$ 88 billion. India can contribute by way of participating in reconstruction work and investing in infrastructure development projects in Iraq. There is an enormous scope for Indian companies in multiple sectors such as agricultural products, agro-processing industry, building construction, automotive industry, pharmaceutical industry, Information Technology, banking & finance, infrastructure development, railways, transport, agriculture extension technology, conventional as well as renewable energy, gems & jewellery, space technology, etc. Indian companies should take the initiative and shed their reluctance over security scenario in Iraq, thereby creating a niche for themselves in the Iraqi market.

4. With easing of the pandemic at the beginning of 2022, our exports have grown from \$2.40 billion in the year 2021-22 to \$2.69 billion in 2022-23, moreover, all economic indicators are positively inclined and there is a prospect that export growth from India will get accelerated further in 2023-24. To achieve the latent potential of Iraqi market, Indian companies should take the initiative, shed the reluctance / inhibition with regard to security situation in Iraq and make concerted efforts to capture the sizeable market-share in the Iraqi market.

5. The Mission organized several Business Roundtables during the year with local business chambers and apprised them of the prospects and scope of bilateral trade with India. The Mission encouraged the Iraqi traders to visit India and explore the prospective sectors in which business ties could be forged and strengthened.

**E. Trade Promotion/Publicity Activities during 2022-23**

1.	<p><b>workshop organized by Indian Embassy in collaboration with Nama Foundation</b></p> <p>Ambassador's address at a workshop organized by Indian Embassy in collaboration with Nama Foundation for journalists, thinktanks , media personalities, representatives of civil society and academics and professionals. The topic of discussion was peaceful coexistence in India and India's rise as a major power and India-Iraq economic and business partnerships with investment opportunities in each other's country. On the sidelines of Business Round-table organized by Embassy of India, Baghdad for the Iraqi journalists covering trade and commerce segment in Iraqi media, the Embassy showcased variegated exhibits of millets (both processed and unprocessed) to commemorate the International Year of Millets (#IYM2023), as declared by the United Nations. The participants expressed keen interest in the products and indicated to use the same more frequently.</p>
2.	<p><b>Indian pavilion at 11th International Defence Exhibition in Iraq "IQDEX 2023"</b></p> <p>On 4<sup>th</sup> March 2023, Embassy of India, Baghdad 11th International Defense Exhibition, organized by Iraq's National Defense Industries Commission during 04-07 March 2023 in Baghdad International Fairgrounds. The exhibition was attended by a large number of companies from Iraq and abroad, showcasing the progress made in the field of Security, Defense and Military Industries. Various firms from the defence technology and security sector were also participated in the fair. The President of the National Defense Industries Commission, Mohammed Al-Daraji inaugurated the Defense Exhibition. The Indian Embassy participated in this Expo and exhibited product catalogues, company brochures, pamphlets and other publicity material of leading Indian companies in the Security, Defense and Military Industries. Video clips of major Indian companies publicizing their goods and services were also displayed at the Indian stall with a view to disseminate amongst interested Iraqi clientele in the related sector. Iraqi companies expressed keen interest in India's defense products.</p>

3.	<p><b>2nd round of India-Iraq Foreign Office Consultations</b></p> <p>2nd round of India-Iraq Foreign Office Consultations held in Baghdad on 20 February 2023. The Indian side was led by Dr. AUSAF SAYEED, Secretary (CPV &amp; OIA) and the Iraqi side was led by Dr. HISHAM AL ALAWI, Undersecretary for Political Planning Affairs, during the meeting both sides expressed their satisfaction on bilateral trade, which exceed USD 34 billion in 2021-22 and discussed ways and means to further increase and diversify trade from oil and non-oil sectors. Both sides noted the importance of expanding economic partnership and technology engagement. They noted opportunities for investment, particularly in the fields of oil and gas, infrastructure, healthcare, power, transport, agriculture, water management, drugs and pharmaceuticals, ICT, and renewable energy. They urged business community to engage closely for mutual benefit.</p>
4.	<p><b>Business Roundtable at Embassy of India Baghdad</b></p> <p>On 19<sup>th</sup> February 2023, Prominent Iraqi Businessmen attended Business Roundtable chaired by Dr. Ausaf Sayeed, Secretary (CPV &amp; OIA). During the meeting many issues were discussed to stand on the obstacles and to promote exports from India to Iraq.</p>
5.	<p><b>The Voice of the Global South Summit</b></p> <p>At the Voice of the Global South Summit - Energy Ministers' Session on 13 January 2023 organised by India, H.E. Mr Hayan Abdul Ghani, Deputy Prime Minister and Minister of Oil of Republic of Iraq spoke about the energy scenario in the world and Iraq and India-Iraq, in particular.</p>
6.	<p><b>Meeting with Deputy Prime Minister for Energy Affairs and Minister of Oil of Iraq</b></p> <p>On 26<sup>th</sup> December, Ambassador of India called on H.E Mr. Hayan Abdul Ghani, Deputy Prime Minister for Energy Affairs and Minister of Oil, During the meeting, bilateral issues of mutual interest were discussed.</p>
7.	<p><b>Business opportunities in Basra Governorate</b></p> <p>During his visit to Basra Governorate on 19-20 December, Ambassador met the Governor of Basra and interacted with the Basra Chamber of Commerce, Dr. Abbas Kanan Al-Tamimi, DG of Basrah Health Directorate and Union of Contractors. During the meeting, bilateral issues of mutual interest were discussed.</p>
8.	<p><b>Meeting with Minister of Electricity of Iraq</b></p> <p>On 11<sup>th</sup> December, Ambassador of India called on H.E Engineer Ziyad Ali Fadhel, Minister of Electricity, During the meeting, bilateral issues of mutual interest were discussed.</p>
9.	<p><b>BSM organized by Embassy for the visiting business delegation from Trade Promotion Council of India (TPCI).</b></p> <p>On 5<sup>th</sup> December, the Embassy of India, Baghdad organized BSM meeting between TPCI Delegation and Iraqi stakeholders to participate in INDUSFOOD exhibition and the services and opportunities offered to Iraqi traders to promote exports from India to Iraq.</p>
10.	<p><b>BSM / B2B with Baghdad Chamber of Commerce for promoting business relations between India and Iraq</b></p> <p>On 3<sup>rd</sup> November, The Embassy of India organized a BSM / B2B meeting, for the visiting Indian trade delegation and various Iraqi businesses, viz., Baghdad Chamber of Commerce, Iraqi Industry Association and India-Iraq Economic Cooperation Foundation and other stakeholders with a view to promote exports from India to Iraq.</p>
11.	<p><b>50 Indian companies under the umbrella of Federation of Indian Exports Organization (FIEO) participated in 46th edition of Baghdad International Fair (BIF)</b></p> <p>On 1<sup>st</sup> November, 50 Indian companies under the umbrella of Federation of Indian Exports Organization (FIEO) participated in 46th edition of Baghdad International Fair (BIF) on November 1, 2022. The sectors represented by the Indian companies were electricity and power, hardware and tools, construction and equipment, healthcare and</p>

	medical equipment, pharmaceuticals, automobile and automotive parts, agriculture and food processing, electrical and electronic components, marble, granite and ceramics, food and beverages, tea, rice, submersible pumps, household appliances, etc.
12	<b>India Tourism Promotion Campaign by the Embassy of India</b> As part of the tourism promotion campaign undertaken by the Embassy of India, Baghdad, three digital hoardings were engaged for three months from 28 July 2022 – 31 March 2023 from a prominent firm in Baghdad to promote tourism of various states governments in India. These hoardings are located at prominent public squares and malls with maximum footfall in Baghdad.
13	<b>Advertising of banners related to Tourism in India on double decker bus in Baghdad</b> On 20 <sup>th</sup> June, As part of the tourism promotion campaign undertaken by the Embassy of India, Baghdad, advertise banners related to Tourism in India on a double decker bus roaming several places in Baghdad for a period of three months from 20 July 2022 – 20 <sup>th</sup> September 2022.
14	<b>CII business delegation visited Baghdad and Erbil from 25 to 30 June, 2022.</b> On 26 <sup>th</sup> , June. A nine-member CII business delegation visited Baghdad and Erbil from 25 to 30 June, 2022 and had meaningful BSM, B2G and I2I interactions with various Iraqi and Kurdistan Region authorities, business associations, meeting with Electricity, Agriculture and Trade Ministers, Cabinet Secretary and senior officials of Government of Iraq in Baghdad and with Importers/Exporters Union of Kurdistan, Minister & Head of Department of Foreign Relation, Investor's Union, Minister of Electricity, Minister of Trade & Industry, Erbil Chamber of Commerce and Chairman of Board of Investment in Erbil..

## **F. Major Developments during 2022-23**

### **a. Iraq's trade relations with India:**

#### **Oil Sector:**

Iraq has the fifth-largest proven crude oil reserves in the world at 145 billion barrels, representing 17% of proven reserves in the Middle East and 8% of global reserves. Iraq's economy heavily relies on crude oil exports, which account for more than 90% of the country's revenues.

Iraq is the most significant partner for India's energy sector. Over the years, Iraq has been among the top three suppliers of petroleum products to India, along with Saudi Arabia and UAE. Iraq has become the largest supplier of crude oil to India in 2017 and has consistently been maintaining the position with supplying 51.56 MMT crude oil in FY 2019-20 which was 22.16% of India's total oil imports and 43.02 MMT in the FY 2020-21, which was 21.64 % of India's total oil imports and 56.5 MMT crude oil to India during FY 2021-22 which is 25.7% of India's total oil imports. Iraq supplied 50.6 MMT crude oil to India during FY 2022-23 which is 21.3% of India's total oil imports. The IOC is the largest importer of crude oil from Iraq. The HPCL and BPCL are the other two major Indian crude importers from Iraq. Crude oil Imports from Iraq in the last few years is as follows:

<b>Year</b>	<b>MMT</b>	<b>US\$ (Billion)</b>
2007-08	12.63	6.83
2008-09	12.22	7.65
2009-10	13.88	6.97
2010-11	14.76	8.95
2011-12	23.76	18.82

2012-13	24.24	19.14
2013-14	24.57	18.34
2014-15	24.07	14.17
2015-16	35.69	10.76
2016-17	37.81	11.63
2017-18	45.74	17.54
2018-19	46.60	22.30
2019-20	51.56	22.76
2020-21	43.02	12.83
2021-22	56.5	26.17
2022-23	50.6	34.14

(Source: Ministry of Commerce & Industry, GOI)

The average crude oil imports by India from across the world is around 4-5 million bpd. The crude oil output by Iraq is around 4.4 million bpd. The Iraqi Government hopes to increase the output of crude oil to 8 million bpd by 2027. As of now, Iraq supplies more than half of the Asia's oil needs. In 2019, Iraq had allocated 67% of its oil exports to Asian markets. It is expected to meet 80% of Asia's petroleum needs in near future and Asia's two largest importers, China and India, would have major share of it. Most of oil fields in Iraq are in Kurdish North and Shitte South but there are large untapped / unexplored oil fields in the Western Iraq, which would be up for grabs in the near future.

There are 8 Indian oil companies operating in Iraq to import Iraqi crude oil. These are:

- (i) Reliance Petroleum (Reliance)
- (ii) Bharat Petroleum Corporation Limited (BPCL)
- (iii) Nayara Energy Limited (Nayara)
- (iv) Mangalore Refinery & Petrochemicals Limited (Mangalore)
- (v) Indian Oil Corporation (IOC)
- (vi) HPCL-Mittal Energy Limited (HMEL)
- (vii) Hindustan Petroleum Corporation Limited (HPCL)
- (viii) Bharat Oman Refineries Limited (BORL)

It has been reported that IOC and HPCL will raise crude oil imports from Iraq significantly (IOC – 390000 bpd - 11.5% increase and HPCL – 64000 bpd – 45% increase) in the FY 2022 due to enhanced refining capacity and shortfall from other sources. The crude oil supplies from Iraq were not hampered during COVID pandemic the offtake was around 100,00,00 bpd, which surged to a three-year high of 1.3 million bpd in January 2022.

**ONGC Videsh (OVL)** had signed Exploration & Development Contract (EDC) for 100% Participating Interest in Exploration Block-8 (now rechristened as Block-20), Western Desert, Iraq with Oil Exploration Company (OEC) of Ministry of Oil in November 2000, which got scuttled due to US invasion of Iraq and subsequent turn of events, which destabilized Iraq. Negotiations are ongoing between OVL and Ministry of Oil to restart the project.

**Karabla Refinery Project** witnessed workers' unrest in March 2022 involving 2000 Indian workers, whose resident visas were not extended for the past one year by the employer, M/s Hyundai Engineering and Constructions (HEC), the EPC contractor for the US\$ 6.04 billion refinery project at Karbala with 140,000 bpd refining capacity. There were reports that Iraqi immigration was stamping deportation mark on the passports of these workers on exit from Iraq, which exacerbated the issue further. The Mission approached the employer, Iraqi authorities and the agitated Indian workers towards resolution of the issue. The issue has since been resolved. The refinery operations have commenced and about 5000 Indians continue to work.



Although, Iraq is the largest supplier of crude oil to India but these oil imports are absolutely transactional in nature and there is no investment component to it and despite Iraqi economy being rentier in nature, Indian investment in Iraqi oil sector is negligible compared to enormous potential it holds, given the geo-strategic position that Iraq holds.

- **Electricity Sector:**

The electricity sector is an essential indicator of the development and the economic growth of a country. It is also a key player to promote the growth and the stability of the industrial sector. The Iraqi economy is known to be oil-dependent that lacks other developed sectors. According to the International Monetary Fund, around 90% of government revenues come from crude oil exports. The main focus of the government is on the petroleum industry which has led to the negligence of other sectors like the electrical and industrial sectors. The electrical sector has become highly dependent on the money generated from the oil revenues which are in turn proved to be unstable.

Iraq's installed capacity grew from 6000 MW in 2008 to 33000 MW in 2021. Iraq's net electricity generation grew by an annual average of about 8% each year between 2010 and 2020, reaching an estimated 78 billion kilowatthours (kWh). Nearly all (more than 97%) of Iraq's electricity generation is from oil and natural gas. According to the International Energy Agency, natural gas use in the power sector increased from less than 30% in 2018 to about 50% in 2020 because Iraq began importing natural gas from Iran to bolster its own supplies. Hydroelectricity accounts for the remaining share of electricity production, but its share has declined during the past decade. In 2010, the power generation accounted for only 42% of the demand, while in 2013 the generation climbed up to 52%. It fell to 38% in 2014, and it reached up to 57% in 2015. In 2020, the generation exceeded 70%.

Federal Iraq's available peak electricity generation capacity was 19.3 gigawatts (GW) for 2020. The available capacity in 2020 was much lower than the installed capacity of 33 GW at the end of 2018, as well as the 27.5 GW needed to meet peak summer demand. In 2023, the available capacity remains the same (19.3 GW) but the peak demand in summer is expected to go up to 33 GW. Iraq's electricity use is very seasonal and reaches peak capacity in the summer months. Generation plants run at low utilization rates, and the available or effective production capacity is much lower than installed capacity because of poor transmission infrastructure, inefficient or damaged power plants, and to a lesser extent, Iraq's insufficient natural gas infrastructure.

Peak summer demand typically exceeds actual generation, resulting in power shortages that have sparked protests, particularly in southern Iraq. In the summer of 2021, Iraq arranged with oil companies to re-route power from oil projects to help offset shortages.

Distribution losses remain an issue in Iraq. From 2010 to 2020, distribution losses averaged 52% of total electricity supply. High distribution losses are the result of inefficiencies on the grid, poor system design, and high electricity theft.

Iraq burns crude oil directly at power plants to make up for its limited feedstock of other power generation fuels. At its peak, direct use of crude oil reached more than 220,000 b/d in the summer of 2016. Reported average crude oil used at power stations fell from an average of 169,000 b/d in 2016 to an average of 28,000 barrels per day (b/d) in 2020 as a result of increased use of natural gas for electric power generation. Although Iraq's official reports of crude oil burn have been low during the past few years, other industry sources report much higher amounts of crude oil used in power production.

Iraq's electricity sector depends on Iran for much of its supplies. In 2020, about 23% of Iraq's electricity was generated by natural gas produced in Iran, and Iraq imported about 5% of its electricity from Iran. Iraq owes about US\$ 1.6 billion to Iran towards gas imports.

Iraq is looking to diversify its sources of imported electricity. Sources under consideration include the Gulf Cooperation Council (GCC), Saudi Arabia, Turkey, and Jordan. Iraq has signed an agreement with the GCC, but the agreement didn't go into effect in 2021 as planned and could be delayed past the summer of 2023. In July 2021, the Federal Government in Iraq signed agreements with Turkey and the KRG to import an additional 650 megawatts (MW) of electricity to help counter power blackouts. Iraq and Jordan signed an agreement in September 2021 to construct a transmission line linking the countries and allowing Jordan to export about 114 MW of electricity to Iraq.

### Major Chinese Investment in Power Sector in Iraq:

S. No.	Project Name & Location	Name of Company Executing the Project	Company details/Subsidiary or other Associated Companies involved	Date of Commencement Current, Status and Likely date of Completion	Technical Specifications	Total Estimated Cost (in USD \$ Million)
1.	Salahuddin Natural Gas fired power project in al-Jalsiya area	CMEC	Subsidiary of Chinese Conglomerate SINOMACH / Shanghai Electric	2012 / June 2021	630 MW x 2 = 1260 MW	1.2 billion
2.	Wassit Power Project at Zobidia in Wassit province	Shanghai Electric Group	Shanghai Electric Group Company, a subsidiary of Shanghai Electric	2012/ 2015	330x4=1320 MW 610x2=1220 MW (Oil fired PP)	750 million
3.	Rumaila Combined-Cycle Power Plant Renovation Project, Basra	Power China	State owned Power Construction Corp. of China comprising 779 companies/ Syno-hydro	2017/ 2018	730 MW - construction of a gas storing facility, combustion chambers, a powerhouse, substations, a cooling tower, installation of gas turbines and generators, and the laying of transmission lines.	1.026 billion
4.	Maysan Power Project at Amara City in Maysan province	CITIC Group	State-owned investment company	2019/ 2022	840 MW gas-fired, combined-cycle power generation	2 billion
5.	Al-Khairat Power Project, Karbala	CITIC Group	State-owned investment company	2021/ 2031	3.2 GW (400 MWx8) heavy oil-fired project	5.7 billion (285 x 2)
6.	Solar PV Park in Iraq	Power China	State owned Power Construction Corp. of China comprising 779 companies/ Synohydro	2023/ 2024 (currently project is at permission stage)	2 GW Solar PV Park in Iraq to be developed in multiple phases (750 MW in the 1 <sup>st</sup> phase)	3.75 billion

**Bharat Heavy Electricals Ltd (BHEL)** in 2022, won a prestigious order for compressor package for Baiji Refinery in Iraq placed by Northern Refineries Company (NRC), a company owned by the Ministry of Oil, Iraq. The order envisages the design manufacturing and supply of an electric motor driven recycle gas centrifugal compressor. It will be executed by BHEL's International Operations Division and its manufacturing units at Hyderabad and Bhopal. The new compressor will replace the existing compressor, also supplied by BHEL in 2000, which was damaged due to the war in Iraq. BHEL has strong presence in Iraq, having supplied gas turbine-based power

plants, including 4x157 MW gas turbine generator (GTG) units for Baiji Power Station and 2x125 MW GTG units for Rumaila Power Station. BHEL has also constructed the 4x125 MW gas turbine-based Sulaymaniyah Power Project in Iraq. BHEL's portfolio of having supplied over 400 gas/air compressors for various industries/applications - covering a wide range of pressures and flow and handling numerous types of gases is a testament to its robust presence in this segment.

**M/s Kalpataru Power Transmission Limited**, one of the leading Indian companies with significant presence in the Middle-East and Africa had expressed interest in the power transmission and distribution sector of Iraq but backed out despite being facilitated ministerial level meeting by the Mission to its representative. Other Indian companies are also hesitant / reluctant to invest in Iraq due to opaque regulatory mechanism in Iraq. The likely solution that may be viable is to tie up with a local intermediary firm, which may assist in overcoming the regulatory rigmarole in Iraq.

- **Other Sectors**

**TVS Motor expand its presence in Iraq with new showroom in Baghdad:**

Indian automotive giant TVS Motor opened a new showroom in Baghdad in May 2021 with distribution partner Ritaj International General Trade LLC. It is the first-of-its-kind showroom for the company in the region, and apart from the wide range of two-wheelers and three-wheelers, it will also host spare parts and feature a service facility. The company will also launch two products — commuter motorcycle TVS Star HLX 150 5 Gear and three-wheeler TVS King Deluxe Plus — in the market. TVS Motor Company has been present in Iraq since 2016. The company has 41 touchpoints across the country.

**Iraq exports more than 4000 MTs of Sulphur to India:** It has been reported that Iraq has exported 4540 tons of sulphur to India for the first time. This is the first ship to export sulphur. The Mashreq fields in the Nineveh Governorate are estimated at 354 million tons out of the total world reserves of 600 million tons of sedimentary sulphur.

**b. Iraq's trade relations with China:**

Iraq is China's strategic partner since 2015 and China has been actively expanding its footprints in Iraq from the strategic point of view not only in oil and gas but also in Iraq's overall \$88 billion reconstruction programme. Bilateral trade between Iraq and China topped \$30 billion in 2020 and \$53 billion in 2022 (Chinese imports' \$39 billion Chinese export to Iraq \$14 billion). Iraq has become China's third largest source of crude oil after Saudi Arabia and Russia. Energy cooperation is the foundation of the bilateral relationship. Chinese companies today are involved in upstream, midstream, and downstream operations in Iraq and are poised to buy equity shares of western oil companies that are withdrawing from Iraqi oil market. The annual import of crude oil from Iraq is 60 million tons. For Iraq, China is the biggest importer of Iraqi oil (amounting to 40-44% of the total Iraqi oil exports) followed by India. China committed US\$ 10.5 billion to be invested in Iraq under Belt and Road Initiative in 2021.

- **Oil and Gas sector**

China's most productive upstream activities are located in Iraq, with CNPC holding substantial stakes in Al Ahdab, Rumaila, Halfaya and West Qurna oil fields in the Basra basin. Having profited from CNPC's position in oilfield development and operation, its service affiliates CPECC, BGP Inc., China Petroleum Pipeline Bureau (CPP), Bohai Drilling Engineering Co. and Daqing Oilfield Co., all operate in Iraq. A recent example of CNPC having led the way for its affiliates is CPECC's commitment to build and operate facilities to process natural gas extracted from the Halfaya

oilfield. China State Engineering Corp is actively seeking opportunities in Iraq, mainly in the oil sector.

An in-principle agreement for the \$7 billion Al-Faw investment refinery project was signed in December 2021 by ZhenHua oil. It is 100 percent indirectly owned by the Assets Supervision and Administration Commission of the State Council (SASAC) of China. The refinery will have a capacity of 300,000 barrels per day, while the petrochemical complex will be able to produce 3 million tons.

Another project of interest to China is Iraqi-Jordanian oil pipeline project. The \$5 billion pipeline is aimed at carrying oil produced from the Rumaila oilfield in Iraq's Basra Governorate to the Jordanian port of Aqaba, with the first phase of the project comprising the installation of a 700km long pipeline with a capacity of 2.25 million bpd within the Iraqi territories (Rumaila-Haditha). The second phase includes installing a 900 km pipeline in Jordan between Haditha and Aqaba with a capacity of 1 million bpd.

Chinese companies are currently working as primary contractors or subcontractors at 15 oil fields in southern Iraq. Iraq has 78 oil fields that China is planning to develop. The Iraqi oil industry suffers from obsolete and poor technology and Chinese companies' growing stakes in international oil companies would help bring in new technology and financial capital as Iraq aspires to produce 8 million bpd by 2026. Two Chinese companies bagged oil contracts in the 5th hydrocarbons licensing round.

- **Non-oil sectors:**

Chinese investments in Iraq are concentrated not just in oil exploration but also in infrastructure projects such as Nasiriyah airport construction, power plants, cement factories, renewables and water treatment facilities. Numerous Chinese firms are currently engaged in major construction projects in Iraq, including Shanghai Electric, China Building Materials Construction, and China Hydroelectric Power. CITIC Construction Co. is serving as a credit provider and an EPC contractor in the building of a combined cycle power plant in Missan Governorate.

- **Recent developments:**

**China's CNOOC to drill 150 oil wells in Iraq:** Iraq has inked an initial agreement with China National Offshore Oil Corporation (CNOOC) to drill 150 wells in Buzurgan oilfield in the Southeastern Maysan Governorate.

**China, Iraq traded +\$53 billion in goods in 2022:** Trade between Iraq and China rose to a record level in 2022, making Iraq the Asian country's second most important trading partner. Goods worth around \$53.37 billion were traded between the two countries, up around 43.1% from 2021.

**Iraqi drilling company signs a partnership contract with a Chinese company to carry out drilling and reclamation operations:** Iraqi Drilling Company signed a partnership contract with the Chinese company ZPEC to complete the associated works and provide support for the implementation of drilling and reclamation operations for the benefit of international companies operating Iraqi oil fields, developing the company's cadres, and transferring expertise and technology.

**National Oil Company of Iraq signs a contract with SINOPEC:** In January 2022, Iraq signed a contract with the Chinese company SINOPEC to develop the Mansouriya gas field in Diyala with a capacity of 300 cubic meters. It is reported that this contract represents an addition to the investment of free gas from the second largest gas field in Iraq. National Oil Company (NOC) entered as a partner with the Chinese company Sinopec at a rate of 51%. The contract includes

training workers to keep pace with development and modern technology in the field. The field's area is 150 km<sup>2</sup> and the gas reserve is estimated at 4.5 trillion standard cubic feet.

**Iraq was the largest beneficiary of China's Belt & Road Initiative in 2021:** Iraq was the largest beneficiary from China's Belt and Road Initiative (BRI) in 2021 according to a study by the Green Finance & Development Centre, at Shanghai's Fudan University. Iraq was the highest construction volume with about \$10.5 billion, followed by Serbia (about \$6.8 billion) and Indonesia (about \$2.4 billion). In energy sector, Iraq received by far the most investment from China in 2021. Five main projects were being implemented by China in Iraq:

- a. **Oil:** Construction of Al-Khairat heavy oil power plant (\$5 billion)
- b. **Gas:** The second largest Al-Mansuriya gas field developed by Sinopec (49%) and Iraq's Midland Company (51%) for 300 million standard cubic feet everyday.
- c. **Solar:** 2GW power PV Project (3.7 billion) by Power Construction Corporation of China.
- d. **Aviation:** Rehabilitation of the Nassiryiah International Airport.
- e. **Construction:** 1000 housing units (schools) – PowerChina will build 679 and Sinotech the remaining 321.

**c. Iraqs' trade relations with other countries:**

**Iraq, Aramco sign a deal on developing the western Akkas Gas Field:** Iraq has signed a heads-Deputy Prime Minister for Energy Affairs, Oil Minister Hayan Abdul Ghani heralded a landmark agreement with Saudi oil giant, Aramco, to invest in and develop the Akkas gas field in the western Anbar governorate. The deal, slated to invigorate the development and investment prospects of the Akkas gas field in the western Anbar governorate, promises to further consolidate the energy collaboration between the two nations.

**3 Iraqi contracts with an "Emirati company" to develop gas fields in Diyala and Basra:** Al Hilal Petroleum, which is based in the Emirates, has signed three contracts for the development of gas fields in the provinces of Diyala and Basra. It will develop two fields in Diyala province to produce 250 million standard cubic feet per day of natural gas within 18 months to supply nearby power stations.

**The winning companies of the fifth border licensing round contracts:** Deputy Prime Minister for Energy Affairs and Minister of Oil, Hayan Abdul Ghani, said that the contracts include the development of (6) fields and exploratory blocks, which are first: (Exploration, development and production of the exploratory block, Oil Khana, in Diyala Governorate, and it was referred to the Chinese company (Geo Gade).

Second: Development and production of the Al-Hawiza oil field in Maysan Governorate, which was also referred to the Chinese company (Geo Gade). Third: Development and production of the Sinbad oil field in Basra Governorate, which was referred to the Chinese company (UIG). Fourth: Development and production of (Kalabat-Qamar) fields. ) in Diyala Governorate and it was referred to the UAE (Hilal Petroleum) Company, Fifth: Development and production of (Khashm Al-Ahmar-Anjana) fields in Diyala Governorate and it was referred to the UAE (Hilal Petroleum) Company, Sixth: Exploration, development and production of the exploratory patch (Khidr El-Maa) in Basra Governorate, and it was referred to the Emirati company (Hilal Petroleum)..

## Fall out of the Russia-Ukraine War:

Central Bank of Iraq advise to Iraqi Government against signing deals with Russia due to a number of economic sanctions imposed against Russia by the US Department of Treasury and Europe after the invasion of Ukraine. The bank has sent a statement to the Council of Ministers advising the Iraqi government against signing contracts with Russian companies and against making payments to the country.

Due to Russian invasion of Ukraine drives up food prices in Iraqi markets, as well as a spike in global wheat and oil prices, Iraq has taken measures to ensure food security and have strategic food reserve. Russia is the world's top wheat exporter and Ukraine is known to be the breadbasket of Europe, with the Middle Eastern states heavily relying on Ukrainian agricultural products. Iraq is the world's largest wheat and flour importer from Turkey. Ankara stands second on the list of destinations of wheats exports from Russia. The price of sunflower seed oil has also doubled in Iraq and the Kurdistan Region with Moscow and Kyiv being key suppliers of the product. It was decided to set aside \$100 million to help bolster its strategic wheat reserves by an additional 110 million bushels in the coming months in an effort to bolster food security and address rising global prices. Iraqi government will provide \$100 million to buy wheat abroad in Ukraine, which is one of the main suppliers of wheat equal to Russia in Iraq, due to the escalation of the situation.

Similarly, Iraq is among the few oil producers globally with spare capacity that could be drawn on to increase output, help offset supply losses from Russia or elsewhere and ease prices. Saudi Arabia, UAE, Iraq and Kuwait have about 4 million bpd of spare capacity that can be brought onto the market within a 3-6 month period. Following Russia's invasion of Ukraine concern about supply disruption has driven international oil prices to their highest since 2008 at over \$139 a barrel this week.

### d. Multilateral Projects in Iraq:

**Iraq plans to adopt the clean and renewable energy program:** In order to adhere to Iraq's commitment to reduce carbon emissions through implementing a number of gas investment projects and developing gas fields, as well as projects to produce solar energy, a conference under the title "Pathways for a lower carbon future for Iraq" was organized by Ministry of Oil in cooperation with General Electric Gas Energy company, in which he pointed out that more than one contract was signed to implement these projects with international companies specialized in the field of clean energy, including the French companies (Total and a consortium group with the Norwegian company SCATEC and the Emirati Masdar). GE presented an integrated roadmap in the conference to support the energy transition sector in Iraq by focusing on specific areas.

### e. Economic Indicators:

Iraq's economy is almost entirely dependent on its hydrocarbon industry, which accounts for 90% of the gross revenue. Economic reforms are needed to revive the derailed economy beset with wars, sectarian violence, terrorism, general unrest due to endemic corruption, lawlessness and lastly protracted political instability.

### Outlook for 2023-27:

S. No.	Topic	2022	2023	2024	2025	2026	2027
1.	Real GDP growth	8.2	2.7	3.1	2.4	2.0	1.8
2.	Consumer price inflation (av)	5.3c	4.1	2.8	1.7	1.0	0.7
3.	Oil production ('000 b/d; av)	4,450c	4,277	4,470	4,693	4,834	4,931
4.	Government balance (% of GDP)	10.4	-3.7	-4.5	-4.7	-5.4	-6.4

5.	Exports of goods fob (US\$ bn)	118.4	92.3	91.7	93.2	91.1	88.7
6.	Imports of goods fob (US\$ bn)	59.6	61.9	63.2	64.4	63.8	61.2
7.	Current-account balance (US\$ bn)	41.3	8.4	5.2	4.8	3.5	3.9
8.	Current-account balance (% of GDP)	15.4	3.0	1.8	1.7	1.3	1.4
9.	External debt (end-period; US\$ bn)	92.0	94.2	96.8	100.3	104.1	107.8
10.	Exchange rate (av, market rate) ID:US\$	1,494c	1,572	1,326	1,326	1,352	1,378

(Source: EIU)

## Fiscal Policy

We expect global oil prices to gradually fall from 2023 onwards, but to stay high compared with the levels that followed the 2014 oil price crash. Tighter OPEC+ production restrictions may provide some buoyancy to global prices when they take effect from May. However, the fiscal impact of higher prices for Iraq is likely to be offset by falling oil output, driven by the production cuts, alongside ongoing short-term disruptions to Kurdish oil exports to Turkey, which we expect to decline by almost 4% in 2023. Additional pressure will be presented by the government's decision to revalue the official exchange rate by 11.5% in February, to ID1,300:US\$1, which will weigh on revenue potential in 2023-27 by reducing the local value of Iraq's US dollar-denominated oil exports, limiting the effect of a gradual rise in oil production later the forecast period.

The government's decision to increase both current and capital expenditure in the 2023-25 budget will weigh heavily on the public finances, although we expect that spending that will remain below government targets in 2023 given the delay in parliament passing the budget. We forecast that government expenditure as a proportion of GDP will rise from 35.3% in 2022 to 40.5% in 2023, driven by growing subsidy payments and public-sector payroll costs as the government seeks to respond to voter demands. Capital spending will also rise by about 10% in 2023, from a low base, targeting reconstruction in the non-oil economy, improvement of Iraq's oil infrastructure and development of the country's nascent natural gas industry.

Overall, we expect a notable deterioration in Iraq's fiscal performance in 2023-27 as government spending grows and oil revenue falls. The budget will return to deficit in 2023, with a projected shortfall of 3.7% of GDP. Insufficient efforts to bolster alternative revenue sources will expose the country's oil-reliant revenue streams to a further decline in oil prices as the forecast period progresses. This will force the government to curb expenditure, but the inflexibility of a growing public-sector wage bill (which accounts for more than half of current spending) will constrain these efforts. Corruption and inefficient spending will weigh heavily on revenue collection without serious institutional reform. Iraq is expected to run sizeable budget deficits in 2024-27, averaging 5.3% of GDP a year, financed by borrowing and drawing upon foreign-exchange reserves.

## Monetary Policy

The Central Bank of Iraq (CBI) will struggle to employ effective monetary policy in 2023-27, owing to the weak banking sector, the large informal economy and the overwhelmingly cash-based nature of the formal economy. The central bank is considering banking sector reforms that will promote privatisation, but these will be delayed by opposition from politicians benefiting from the state's involvement in the sector. The CBI will take into account the actions of the Federal Reserve (the Fed, the US central bank) in its conduct of monetary policy. However, the relationship will be loose, underlined by the CBI's decision to leave its policy rate unchanged at 4% despite successive rounds of monetary tightening by the Fed in 2022-23. We expect this rate to be maintained, particularly as we expect Fed rate increases to peak at 5.25-5.5% in June 2023.

## Economic Growth

Iraq's energy sector, which accounts for about two-thirds of GDP, will continue to drive economic growth during 2023-27. Average oil production will fall by about 4%, to 4.28m b/d, in 2023, prompting a contraction in export volumes and in government consumption, underlining a sharp slowdown in real GDP growth to 2.7%. We forecast that growth will accelerate to 3.1% in 2024 as oil production picks up, but major downside risks to rising output persist, including potential attacks on oil infrastructure and the withdrawal of oil producers from the Kurdistan Region if the legal status of oil exports from the region remains uncertain. Average growth during this period would be higher if the economy was not plagued by an unstable security environment, water shortages and unreliable power supplies.

Increased oil production, the easing of infrastructure bottlenecks and moves to expand gas utilisation capacity will boost the exports component of real GDP in the longer term. However, Iraq's heavy reliance on oil earnings will expose economic performance to a gradual decline in oil prices in 2025-27, when growth is expected to slow to an annual average of 2.1%. Lower export revenue will be exacerbated by fiscal rationalisation efforts that will curb salaries and job opportunities in the dominant public sector, weighing on domestic consumption. The creation of more jobs in the private sector (where employment is mostly informal) will depend on implementation of labour market reform, which is likely to occur only over the longer term.

**Trade Queries & Business Visas** – 1715 trade queries were received from India and two were received from Iraq. A total of 1717 trade queries were duly replied during the period of April 2022 – March 2023. There were 183 **Business Visas** issued in the FY 2022-23.

Month	India	Iraq	Total
April 2022	95	0	95
May 2022	121	0	121
June 2022	139	0	139
July 2022	135	0	135
August 2022	148	0	148
September 2022	148	0	148
October 2022	148	0	148
November 2022	148	0	148
December 2022	148	0	148
January 2023	174	0	174
February 2023	210	0	210
March 2023	101	2	105
<b>TOTAL</b>	<b>1715</b>	<b>2</b>	<b>1717</b>

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## • Political and economic outlook

- Iraq has an undiversified economy that is dependent on oil production and exports. The industrial sector, especially gas and electricity, is underdeveloped and will be the main attraction for investment during the forecast period.
- Political instability will persist in 2023-27 as deep sectarian-based divisions stifle reform and fuel continued anti-government demonstrations. The authorities will struggle to contain the activities of armed militias, some of which are aligned with Iran, adding to the climate of political uncertainty.
- The government will continue to implement piecemeal liberalisation measures to restore economic stability but lacks the political will and institutional capacity to undertake deeper structural reforms. In this context, an abysmal business environment and low confidence in the rule of law will constrain potential output and overall activity.
- Real GDP growth will weaken markedly in 2023 as OPEC+ production cuts and an oil export dispute with Turkey lead to a decline of almost 4% in oil output. Production will recover in 2024-27, but the impact on economic growth will be muted by falling global oil prices and long-standing structural constraints on non-oil economic growth.
- Iraq will return to a fiscal shortfall in 2023 as government spending rises and oil revenue falls. Deeper fiscal deficits later in the forecast period as oil prices decline will force the government to implement politically difficult revenue-generating measures and spending cuts.
- The Central Bank of Iraq (CBI) will maintain a fixed exchange rate between the Iraqi dinar and the US dollar. The CBI revalued the dinar in early 2023, to ID1,300:US\$1, and might do so again later in the forecast period, although this is not EIU's central forecast.
- We expect negotiations over reviving the Iran nuclear accord to collapse early in the forecast period, reinforcing Iraq's status as a regional theatre for confrontation between Iran and the US.

Key indicators						
	2022 <sup>a</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>	2025 <sup>b</sup>	2026 <sup>b</sup>	2027 <sup>b</sup>
Real GDP growth (%)	8.2	2.7	3.1	2.4	2.0	1.8
Consumer price inflation (av; %)	5.3 <sup>c</sup>	4.1	2.8	1.7	1.0	0.7
Government balance (% of GDP)	10.4	-3.7	-4.5	-4.7	-5.4	-6.4
Current-account balance (% of GDP)	15.4	3.0	1.8	1.7	1.3	1.4
Exchange rate ID:US\$ (av)	1,450 <sup>c</sup>	1,310	1,300	1,300	1,300	1,300

<sup>a</sup> EIU estimates. <sup>b</sup> EIU forecasts.

## Market opportunities





### Key changes since April 1st

- Parliament approved controversial changes to Iraq's electoral law on March 27th, 2023 returning the country to its pre-2020 voting system, which is expected to favour larger establishment parties over smaller groups and independents in future elections.
- Oil exports to Turkey through the Ceyhan pipeline were halted on March 25th following an International Chamber of Commerce ruling that Turkey's procurement of oil produced and exported independently by the Kurdistan Regional Government (KRG) is illegal.
- The suspension of exports through the pipeline has knocked out about 400,000 barrels/day (b/d) exported by the KRG and 75,000 b/d by Iraq's federal government. Exports through the Ceyhan pipeline are expected to remain suspended in the short term.
- Export disruptions, combined with OPEC+ production cuts announced in April of about 211,000 b/d for Iraq starting in May, have led to a downward revision to our oil output forecasts. Iraq is expected to produce 4.28m b/d on average in 2023, marking a 4% decline from 2022.
- With oil production rising from a lower base, and the risk of OPEC+ production cuts continuing later in the year, economic growth is expected to decelerate faster in 2023. Real GDP growth is forecast at 2.7% in 2023 (4.4% previously).
- Lower oil exports amid reduced output and disruptions to exports via Turkey mean that the annual average current-account surplus forecast for 2023-24 has been revised down from 5% of GDP to 2.4% of GDP.
- Lower oil revenue in 2023 and expectations of oil production rising from a lower base in 2024 have resulted in an upward revision to the annual average fiscal deficit forecast in 2023-24, from 2.4% of GDP to 4.1% of GDP.

### The month ahead

- Budget pending for approval of parliament: The expansionary 2023-25 budget was presented to parliament in early April. Opposition from Sunni members of parliament over fiscal sustainability and controversy over allocation to Kurdistan, the budget is facing the difficulty in Parliament.
- Consumer price inflation (April; Central Statistical Organisation): Consumer price inflation fell to 5% year on year in March, driven by falling global commodity prices and easing currency pressures as dollar availability rose. Inflation declined again in April, driven by easing currency volatility and lower imported inflation.
- May 11th—Oil production (April; OPEC): Oil production has fallen in 2023, largely owing to easing global demand. Oil production fell by about 6% in April to 3.94m b/d, driven by Turkey's freeze of oil imports from the Kurdistan Region amid an ongoing legal dispute.

## Major risks to our forecast

Scenarios, Q1 2023	Probability	Impact	Intensity
Business-friendly legislation proves to be insufficient to attract foreign investment	Very high	High	20
Unsustainable current spending levels remain unaddressed	Very high	High	20
A liquidity crisis hits banks	High	High	16
Failure to reform water policies leads to water and food shortages	High	High	16
Infrastructure bottlenecks prevent the expansion of oil production	High	High	16

Note. Scenarios and scores are taken from EIU's Operational Risk product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: EIU.

### **Inflation**

Inflation is expected to fall to an annual average of 3.5% in 2023-24, driven by lower global commodity prices. The 11.5% revaluation of the official exchange rate will also reduce the cost of imports of essential goods in the medium term as the parallel rate strengthens in line with growing US dollar availability. However, risks include the prospect of severe drought, driven by chronic water shortages and reducing agricultural output. Later in the forecast period a softening of domestic demand and a further fall in global commodity prices will cause inflation to slow, to an annual average of 1.1% in 2025-27. The small size of the domestic manufacturing and agricultural sectors underpins Iraq's exposure to fluctuations in global goods and commodity prices, presenting an enduring source of price volatility.

### **Exchange rates**

In February the CBI revalued the official currency peg to ID1,300:US\$1, from ID1,450:US\$1 (set in December 2020), supported by current-account surpluses and sizeable foreign-exchange reserves. Although Iraq's current-account surplus and available foreign-exchange reserves are expected to shrink during the 2023-27 forecast period as oil exports and revenue fall, they will remain sufficient to support the current exchange rate. A further revaluation of the official rate may take place in 2024-27 as political pressure to further reduce import costs remains high.

### **External sector**

The trade and current-account positions in 2023-27 will be determined largely by the level of oil export revenue and rising import volumes due to surging government spending. After two years of extraordinary growth—export receipts, mainly from crude oil, will contract by 22% in 2023 as global energy prices fall, output decreases and the revaluation of the official exchange rate reduces the local-currency value of Iraqi exports. Combined with higher import costs as the government ramps up current and capital expenditure, this fall in export revenue is expected to sharply reduce the current-account surplus in 2023, to 3% of GDP, from over 15% of GDP in 2022.

Export revenue will continue to fall throughout the forecast period, narrowing the current-account surplus further in 2024-27, to an annual average of 1.6% of GDP. Rising imports will increasingly weigh on Iraq's current-account balance in 2023-27, driven by firm demand for capital goods as reconstruction efforts accelerate. Iraq's inability to adequately bolster non-oil sectors will leave current-account surpluses heavily dependent on oil export revenue, exposing the external balances to the risk of a sharper downturn in global oil prices and demand than is currently expected throughout the forecast period.

## Energy

- Iraq has the world's fifth-largest proven crude oil reserves—145bn barrels as at end-2020, equivalent to about a tenth of the global total—after Iran, Canada, Saudi Arabia and Venezuela. It is also the second-largest oil producer in OPEC, after Saudi Arabia. Iraq's oil and gas reserves are likely to be higher than those proven, as large swathes of the country—particularly in the Western Desert and the southern marshlands—have not been fully explored.
- Crude oil output (excluding other liquids) has more than doubled in a decade, to an estimated average of 4.5m barrels/day (b/d) in 2022, exceeding the highs of the 1970s, as international oil companies (IOCs) have returned to operate the giant southern oilfields. Production climbed strongly in 2022 owing to a gradual unwinding of the cuts agreed by OPEC+ (an alliance of OPEC and non-OPEC oil producers) in 2020 in response to the coronavirus pandemic.
- EIU forecasts that Iraqi oil (crude oil and other liquids) output will rise only modestly in 2023-32 owing to infrastructure constraints, poor relations between the government and IOCs, a lack of treated water for oilfield injection at southern fields and continued political instability that will deter investment. We forecast that total liquids production will rise to about 6.7m b/d in 2032.

### Energy: key indicators

	2021a	2022a	2023b	2024b	2025b	2026b	2027b	2032b
GDP (US\$ bn at market exchange rates)	207,889 <sup>c</sup>	260,972	256,767	255,982	255,713	253,224	251,485	–
Real GDP (% change, year on year)	2.8 <sup>c</sup>	8.2	3.9	2.5	2.1	1.4	1.2	–
Population (m)	40.0	40.6	41.8	43.0	44.4	45.9	47.3	–
Population (% change, year on year)	-0.5	1.5	2.8	3.0	3.3	3.4	3.0	–
Gross domestic energy consumption (ktoe)	46,014	47,035	47,810	48,637	49,348	50,298	51,256	56,114
Gross domestic energy consumption (% change, year on year)	0.8	2.2	1.6	1.7	1.5	1.9	1.9	1.8

Note. Forecasts for all dates are available via EIU's data tool.

a EIU estimates. b EIU forecasts. c Actual.

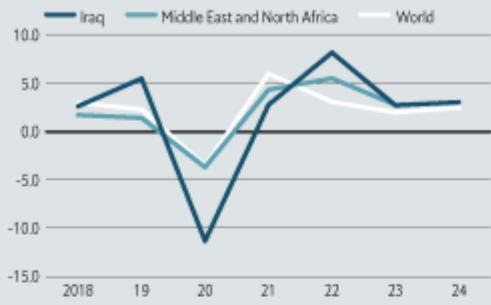
Sources: EIU; © OECD/IEA 2018 IEA statistics, [www.iea.org/statistics](http://www.iea.org/statistics), licence: [www.iea.org/t&c](http://www.iea.org/t&c).

- Weak economic growth will moderate energy demand during the forecast period (2023-32), although the impact will be balanced by continued heavy subsidies, discouraging efficiency. Total energy demand will rise from an estimated 47m tonnes of oil equivalent (toe) in 2022 to just over 56m toe in 2032. Demand for gas will outpace that for oil as increased gas supply enables its use in place of petroleum liquids in power generation.
- Renewables production will expand but from a tiny base and slowly, as government policy focuses on maximising hydrocarbons extraction. Investment by regional allies keen to build political influence will help to increase exploitation of the country's vast solar power potential.

# Data and charts: Annual trends charts

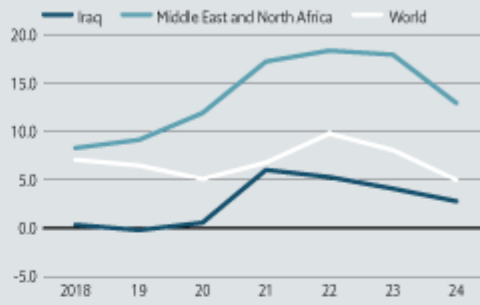
## Annual trends charts

**Real GDP growth**  
(% change)



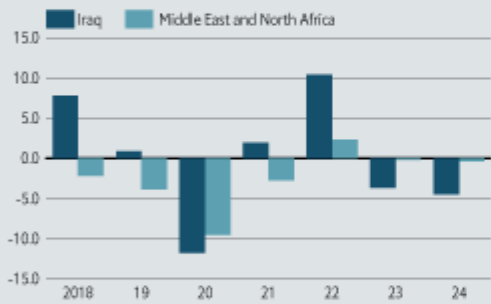
Source: EIU.

**Consumer price inflation**  
(av; %)



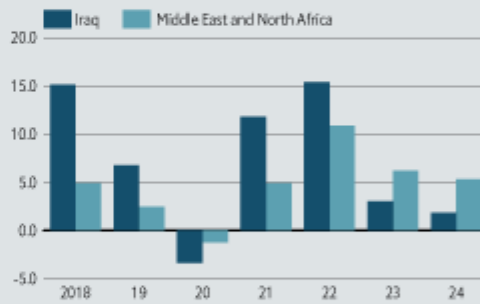
Source: EIU.

**Budget balance**  
(% of GDP)



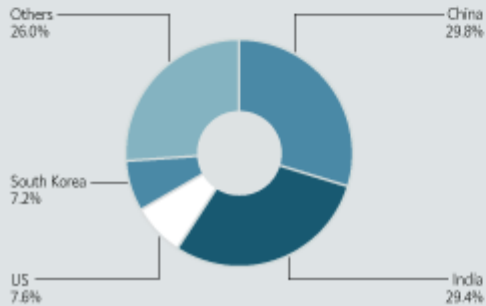
Source: EIU.

**Current-account balance**  
(% of GDP)



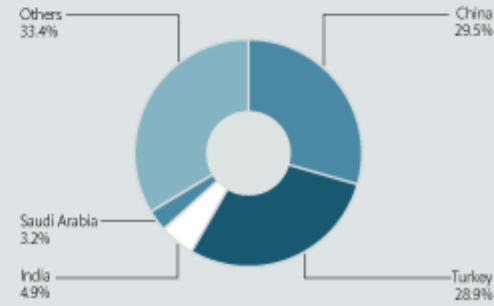
Source: EIU.

**Main destination of exports, 2022**  
(share of total)



Source: EIU.

**Main origins of imports, 2022**  
(share of total)



Source: EIU.

# Data and charts: Monthly trends charts

## Monthly trends charts

**Exchange rate**  
(ID:US\$; av)



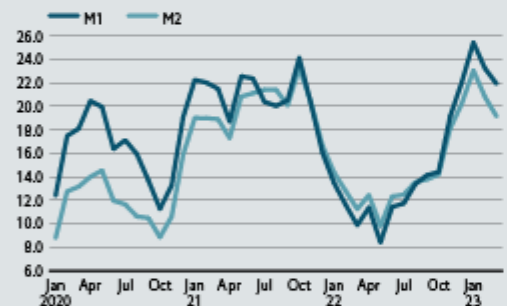
Source: EIU.

**Consumer prices**  
(% change, year on year)



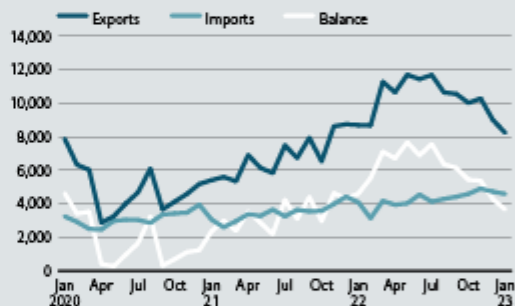
Source: EIU.

**Monetary aggregates**  
(% change, year on year)



Source: EIU.

**Foreign trade**  
(US\$ m; goods only)



Source: EIU.

**Foreign-exchange reserves**  
(US\$ m)



Source: EIU.

**Oil: Brent crude price**  
(US\$/b; av)



Source: EIU.