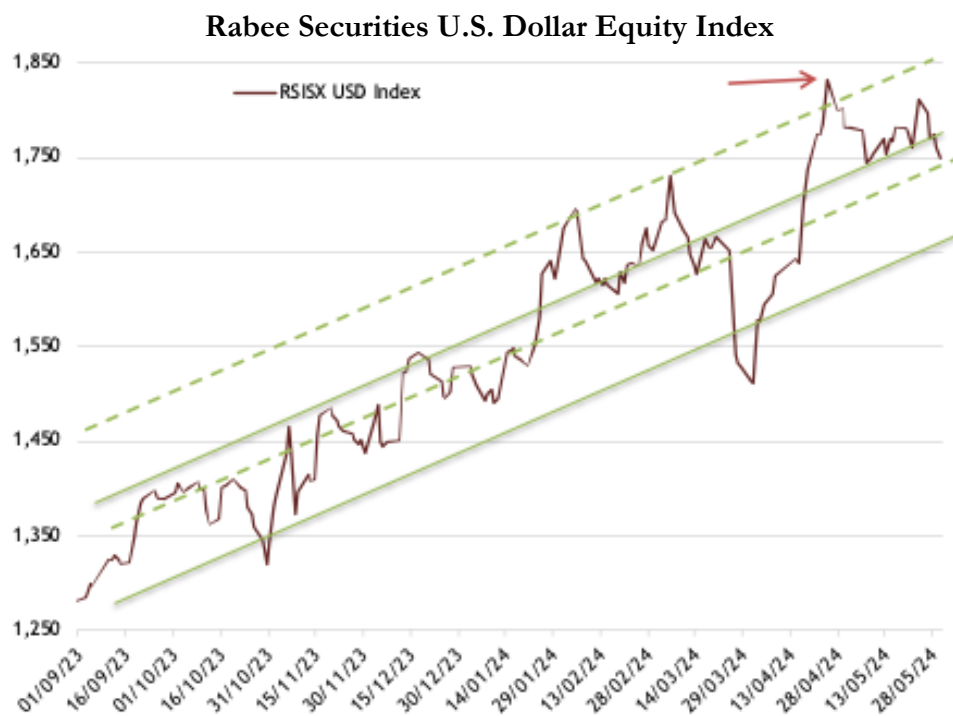


“IMF Sees Budget Boosting non-oil GDP Growth”

Ahmed Tabaqchali, June 4th, 2024

The equity market, as measured by the Rabee Securities U. S. Dollar Equity Index (RSISX USD Index), was down 1.9% for the month and up 14.4% for the year. The market's 1.9% decline is a continuation of the profit-taking that marked the last days of April, then the month's increases peaked at 21.1% (red arrow, chart below) before profit-taking pared them to an increase of 17.8% in the last few days. While there is the potential for continued profit-taking, these should take place within the market's current multi-month uptrend in the same way that they did over these months.



(Source: Iraq Stock Exchange, Rabee Securities, AFC Research, daily data as of May 31st)

During the month, the IMF released its [latest](#) evaluation of Iraq's economic performance for 2023 and near-term outlook for 2024-25 for the annual Article IV consultations as part of the country's commitment under the IMF's Articles of Agreement. The main drivers of the updated evaluation and the outlook are the government's expansionary [three-year 2023-25 budget](#) passed in June 2023, on the back of a similarly [expansionary supplementary budget](#) in June 2022, both of which were fuelled by [elevated oil prices](#). As such, they are in line with the thesis made here in the past, the most recent of which was "[Government Starts Implementing the Expansionary 2023 Budget](#)". Interestingly, early news reports show that updated tables for the budget for 2024 indicate a projected budget expenditure increase of 6.5% over those planned for 2023.

The IMF now estimates that real non-oil GDP growth in 2023 was 6.0%, higher than its prior estimate of 4.2%, and projects for it to increase by a further 3.5% in 2024 and by 3.3% in 2025 (table below). Its prior projection was an increase of 4.0% in 2024, but that was from a lower base, and the updated projection is effectively a further upward increase. Worth noting is that construction activity for 2023 contributed to the increased estimate, and is a theme discussed here most recently in "[Construction Activity and Stability](#)", reflecting the meaningful capital investment by businesses and individuals, brought about by the relative stability that the country enjoyed over the last few years.

The significant liquidity injections into the economy, first from the 2022 supplementary budget, followed by the 2023-25 three-year budget, meant that the money circulating in the economy—in other words, broad money—increased by 20.3% in 2022 as discussed here in "[Private Sector Loan Growth to Fuel Economic Recovery](#)". This is estimated to have increased a further 7.5% in 2023, and it is projected to increase more by 8.9% in 2024 and 9.1%

in 2025. Promisingly, this growth in non-oil GDP, and the significant liquidity injections into the economy, have been accompanied by moderating inflation as headline inflation declined from a high of +7.0% in early 2023 to +4.0% by the end of 2023, and it is projected to remain at these levels for 2024-2025 (table below).

Overall GDP estimates for 2023, and projections for 2024-25 reflect Iraq's ongoing OPEC+ commitments for production cuts of 5% agreed in April 2023, and further commitments for an additional 5% cuts taking effect in the second half of 2024. As such, total GDP is estimated to have declined by 2.2% in 2023 and is projected to increase by 1.4% in 2024, and further increase by 5.3% in 2025 – with Iraqi oil production seen returning to 2022 levels by then. Iraqi oil prices are estimated to have averaged USD 79.2 per barrel (/bbl) in 2023 before moderating to USD 77.2/bbl in 2024 and USD 72.3/bbl in 2025 (table below) –both of which are somewhat lower than those implied from current oil market expectations (*).

Selected Economic Indicators 2022-25

	2022A	2023E	2024P	2025P
Non-oil GDP (\$bn)	112.9	140.2	154.5	167.6
Real non-oil GDP change %	0.0%	6.0%	3.5%	3.3%
M2 Growth (YoY)	20.3%	7.5%	8.9%	9.1%
CPI YoY % (end of period)	4.3%	4.0%	4.0%	4.0%
GDP (\$bn)	261.4	254.4	265.9	278.8
Real GDP change %	7.0%	-2.2%	1.4%	5.3%
Iraqi Oil price (\$/bbl)	95.3	79.2	77.2	72.3

(Source: IMF Article IV Consultation Report [24/128](#), AFC Research)

The budget's sizable liquidity injections into the economy, coupled with elevated oil prices, should continue to fuel the current growth in corporate profits, which would support the market's rally. The upside opportunity for the Iraq equity market, is that RSISX USD Index, which by the close of the month is 15.6% below its 2014 peak, has the potential to regain that peak and rallies further reflecting the developments discussed above, in tandem with those based on the expected increases in banks' net profit driven mostly by the fundamental developments last discussed in "[Banks End the Year with a Bang](#)". However, significant downside risks remain given Iraq's recent history of conflict, extreme leverage to volatile oil prices, as well as the risks that the widening of the current Middle East conflict will not be contained and evolve to destabilise the region.

Notes

(*) These, as measured by Brent crude futures contracts, imply an average Iraqi oil price of \$78.3/bbl for 2024 and \$73.5/bbl for 2025 – based on the average discount that Iraqi oil sells to Brent crude. Brent futures contracts are based on data from the Wall Street Journal as of 31st May 2024, implying an average Brent crude price of \$82.4 for 2024 (including using actual FOB Brent prices for [January-May 2023](#) as measured by Energy Information Agency (IEA)). Iraqi oil prices are assumed here to sell at a discount of \$4/bbl, versus the average discount of \$3.4/bbl for 2023.

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