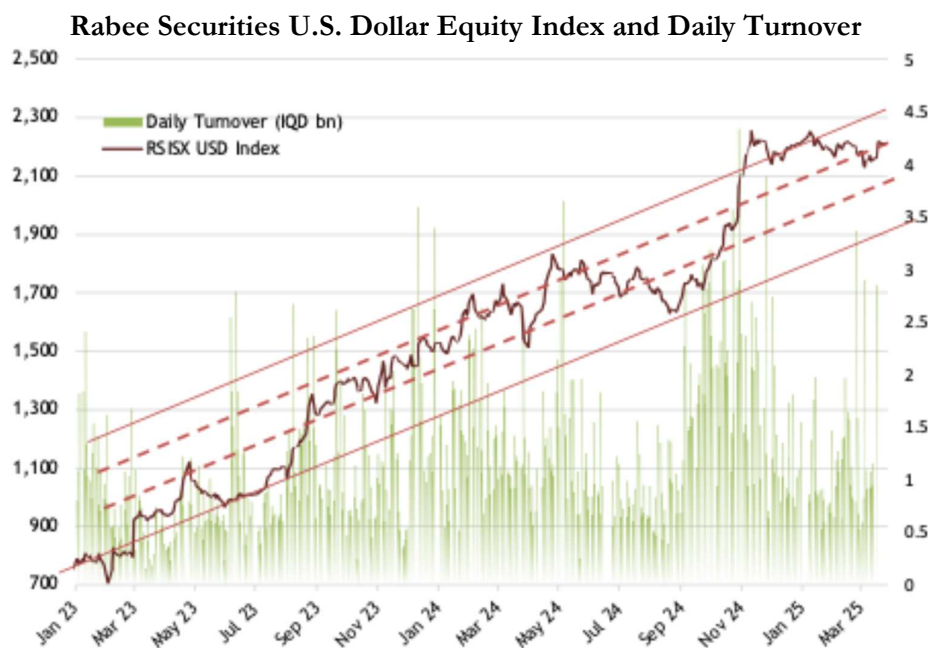


“Tariffs, Oil Prices, and the Budget”

Ahmed Tabaqchali, April 5th, 2025

The market, as measured by the Rabee Securities U. S. Dollar Equity Index (RSISX USD Index), was up 1.6% for the month, and 0.2% for the year. The market continued with the process of consolidating its gains that started in December, following a blistering 35.9% rally since late August, and just as in the past two months, spent the month in a tight range of -2.3% and +1.8% around its prior month's close. While, this consolidation could continue over the next few weeks, the market's technical picture continues to be positive, and the likely consolidation or pullback should be within its multi-month uptrend (chart below).

Nevertheless, the process of consolidation could extend towards the lower band of the uptrend, due to the uncertainty over the health of the global economy following the unveiling of the U.S.'s [radical tariffs](#) on its trading partners. The tariff's direct impact on Iraq is almost zero, since oil constitutes almost all of its exports to the U.S., which are [exempt](#) from reciprocal tariffs, however, the impact will be indirect and felt through a lower oil price as a consequence of expected lower global demand for oil.

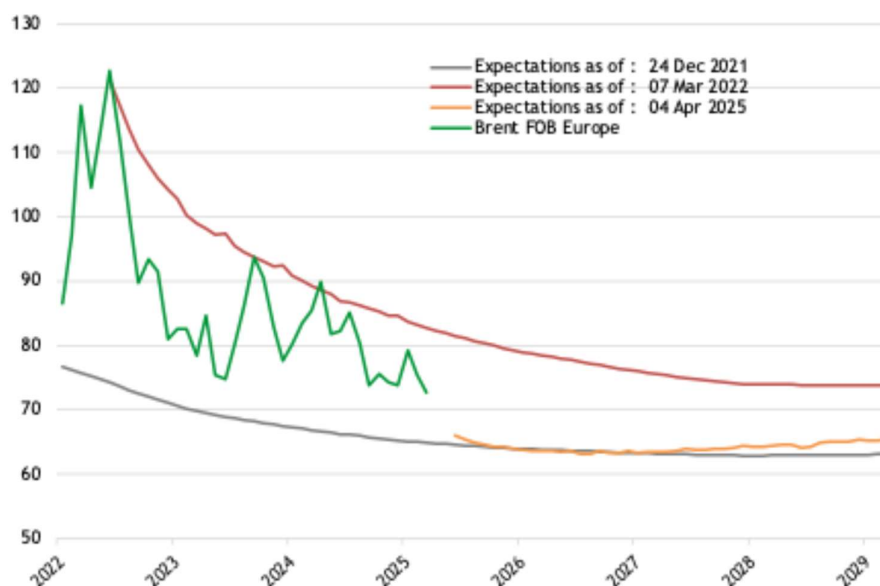


(Source: Iraq Stock Exchange, Rabee Securities, AFC Research, daily data as of March 27th. Note: daily turnover adjusted for block trades¹)

This lower global demand for oil, was compounded by supply increases as a result of the unexpected OPEC+ announcement in the wake of the U.S.'s unveiling of tariffs, that the group will triple its planned production increase in May. The actual increase will in fact be much less as a function of over-production by some group members, and the tripling of production, so far, is planned only for May. Nevertheless, the clear implication is that the group's planned unwinding of prior production cuts will proceed even in the face of the expected weaker demand for oil –versus the market's prior expectations that OPEC+ will delay the unwinding of production cuts when demand is weak. This might seem illogical at first sight, but it will soften the tariffs and potential counter tariffs blow to the world economy, make up for the potential loss of Iranian oil from the U.S.'s [tough measures](#), and help in stimulating the eventual global recovery. However, it's negative for medium-term oil prices which, as measured by Brent crude futures contracts as of April 4th, have shifted (orange line, chart below) to the lower end of a three-year range –marked on the upper end by those of supply fears following the invasion of Ukraine (red line, chart below), and on the lower end by those following the emergence from COVID-19 at the end of 2021 (grey line, chart below).

Market Expectations for Future Oil Prices

As measured by Brent Futures Contracts (USD per barrel)



(Source: [Investing.com](#), AFC Research, as of April 4th; U.S. Energy Information Administration ([EIA](#)), as of March 31st)

This decline in expectations for future oil prices (orange line, chart above), has negative implications for Iraq's oil export revenues which in 2025 could translate to IQD 17.3 tn (USD 13.3 bn), or 16%, in less oil revenues than in 2024.² Notwithstanding this, it was argued here in "[Market Review for 2021 and Outlook for 2022](#)" when expectations for future oil prices at the time were at the lower of this range (grey line, chart above), that they were positive for the country's financial position in that they provide the government with the wherewithal to continue with expansionary economic policies. While prices at the upper end of the range allow for the accumulations of budget surpluses, and at the lower end require the issuance of domestic debt to fund budget deficits, yet the overarching theme was, and remains, is that over the next few years, the direction is for decreasing oil prices. Thus, as reasoned in "[What Next after Two Gangbuster Years](#)", this implies increased debt issuance to augment government spending, that will play a big role in developing the country's bond market, which, in turn, with the growth of the equity market, will contribute to the evolution of the country's capital markets.

The government is yet to submit the updated budget tables for 2025 as part of the expansionary three-year [2023-25 budget](#). However, the projections should be for slightly increased expenditures and decreased revenues in 2025 over 2024 in line with the changes of 2024 over 2023; and as such would lead to a deficit of Iraqi dinar (IQD) 65.0-67.0 tn (USD 50.0-51.5 bn, based on the official exchange rate of USD = IQD 1,300). However, in practice, there is a [world of difference](#) between budget projections and actual budget executions, mostly due to the historically low execution rates of investment spending and the plodding pace of the Iraqi bureaucratic machine. In both 2023 and 2024, the budget called for a deficit of around IQD 64.0 tn (USD 49.3 bn), however, the actual budget execution was vastly different. Actual deficits were significantly lower than projected, and were financed by the cash balances at the Ministry of Finance's (MoF) account at the Central of Iraq (table below).

Actual Budget Data 2022-2024

Actual federal budget (IQD bn)	2024 est.	% vs. 2023	2023	% vs. 2022	2022
Total expenditures	151,849	6.2	142,436	8.8	129,962
Programs - Special and government	832	-27.6	1,061	18.9	860
Operating	832	-27.6	1,061	18.9	860
Investment spending (within non-oil investment spending)					
Operating expenditures	108,823	7.4	100,804	6.0	94,765
Public sector salaries	60,414	21.8	47,217	7.6	43,614
Social welfare (pensions, social Security, etc.)	27,295	8.5	24,988	0.8	24,783
Goods and services (inc. maintenance)	10,110	-39.6	14,112	-13.9	16,076
Grants, subsidies, foreign aid, etc.	10,511	-31.7	13,841	27.5	10,029
Miscellaneous payments	493	-30.7	645	59.5	261
Debt servicing	16,478	0.6	16,378	43.1	9,316
Amortization	10,467	6.7	9,766	17.5	8,060
Interest payments	6,012	-10.0	6,612	81.0	1,257
Investment spending	25,716	5.9	24,193	-3.4	25,020
Nonoil investment spending	12,315	-7.7	13,262	19.4	10,694
Oil investment spending	13,401	18.4	10,931	-31.1	14,326
Total revenues	146,437	7.3	135,681	-19.2	161,697
Oil revenues	126,420	0.0	125,882	-22.4	154,039
Nonoil revenues	20,018	51.0	9,799	21.8	7,659
Surplus/deficit	-5,411		-6,754		31,736
MoF bank balances	7,798		10,531		23,701

(Notes and data sources³)

Accordingly, estimating actual budget execution for 2025 can be made by using current market projections for oil prices², and assuming actual expenditures would be 10% higher than those for 2024, which implies a budget deficit of IQD 35.8 tn (USD 28.0 bn). This would be easily financed through the issuance of domestic debt, increasing domestic sovereign debt from IQD 83.1 tn (USD 63.9 bn) at the end 2024 up to IQD 118.9 tn (USD 91.5 bn) by the end of 2025 –a better [outlook](#) than initially [estimated](#) a few months ago, primarily due to better than expected budget performance in 2024.

The 2025 budget, like that of 2023 and 2024, should continue to support the two key dynamics driving the transformation of the Iraqi economy, and subsequently the equity market. The first is the cumulative positive effects of the relative stability that the country has enjoyed over the past few years, which created a stable and predictable macroeconomic framework for businesses and individuals to operate in and to plan for capital investments on a scale last seen in the 1970's and early 1980's before the onset of the decades of conflict. The second is the significant structural fundamental development accelerating the adoption of banking and bringing about a transformation of the sector and its role in the economy.

The equity market, as measured by the Rabee Securities U. S. Dollar Equity Index (RSISX USD Index), having surpassed its 2014 peak by 7.1% by the end of March, has the potential to rally further reflecting the powerful dynamics discussed here over the last few months. However, significant risks remain given Iraq's recent history of conflict, extreme leverage to volatile oil prices, as well as the risk that the widening of the current Middle East conflict will not be contained and evolve to destabilise the region

Notes:

- 1) Daily market turnover is first adjusted by removing block, pre-arranged trades conducted during the special session following the regular trading session; subsequently, it is adjusted further by removing high-volume trades during regular market hours that show a pattern consistent with those of pre-

arranged trades. High-volume trades are defined as those that are significantly higher than a given stock's average daily turnover; and as such are subjective. Moreover, trading volumes, and trading turnovers are used interchangeably here, and defined as the values of trading turnovers in Iraqi dinars (IQD).

- 2) The figure is highly dependent on actual oil exports, which can vary depending on Iraq's compliance with production agreements made by OPEC+, which in turn are likely to change further in 2025 depending on evolving oil market dynamics.
- 3) Budget data, budget specifics, and sources are based on "[Iraq's 2024 budget: Not what it appears when it first meets the eye](#)", Ahmed Tabaqchali, The Atlantic Council, November 6th, 2024. Data for budget execution for 2024 has been updated since then using actual MoF data up to November 2024 and making estimates for December 2024.

Disclaimer

Ahmed Tabaqchali's comments, opinions and analyses are personal views and are intended to be for informational purposes and general interest only and should not be construed as individual investment advice or a recommendation or solicitation to buy, sell or hold any fund or security or to adopt any investment strategy. It does not constitute legal or tax or investment advice. The information provided in this material is compiled from sources that are believed to be reliable, but no guarantee is made of its correctness, is rendered as at publication date and may change without notice and it is not intended as a complete analysis of every material fact regarding Iraq, the region, market or investment.