

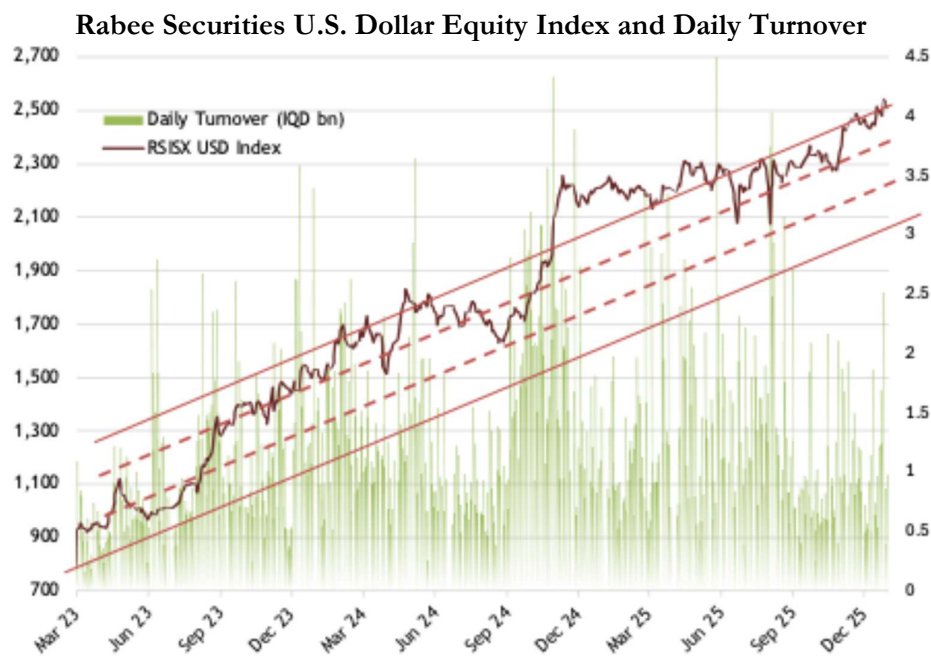
“What next after a gangbuster three-year rally???”

Ahmed Tabaqchali, January 3rd, 2026

The market, as measured by the Rabee Securities U.S. Dollar Equity Index (RSISX USD Index), was up 13.7% for the year and 2.2% for the month. The year’s solid performance brings the RSISX USD Index’s three-year return to an increase of 224.5%, with the performance driven by the dynamics that are fuelling a secular transformation of Iraq’s economy following decades of conflict. Foremost among them are 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 plan for capital investments. The second is the significant structural fundamental development accelerating the adoption of banking away from cash and informality, bringing about a transformation of the sector and its role in the economy.

In 2023-24, the economy’s secular transformation was boosted by the cyclical positives of strong oil prices that allowed the government to pursue [expansionary](#) budgets that expanded non-oil GDP by 13.8% in 2023 and a further estimated 2.5% in 2024⁽ⁱ⁾. However, in 2025 these cyclical positives began to reverse into cyclical negatives, with non-oil GDP projected to increase by 1.0% as oil prices weakened considerably versus those of 2023-24 –Brent crude averaged 15.1% lower in 2025 than that for 2023-24⁽ⁱⁱ⁾. Despite the conventional wisdom that sees Iraq primarily through the oil lens, the RSISX USD Index continued to make new all-time highs as oil prices were hitting five-year lows –at the end of 2025, Brent crude was down 15.3% for the year, while the RSISX USD Index was up 13.7%. Thus emphasising that the Iraq investment thesis is more than simply oil, in that the cyclical negatives of weaker oil prices would dampen, but not derail, the secular transformation of the economy –a point made a few months ago in [“Market at an All-time High, Oil Prices Crashing, What Gives?”](#).

The reversal of the tailwinds of 2023-24 into headwinds in 2025, were part of the fundamental backdrop to the technical assertion made here throughout the year that “the market’s technical picture continues to remain positive and that the consolidation phase would continue with the likely consolidation or pullback should be within its multi-month uptrend”. Promisingly, this turned out to be more like an upside correction, reflecting the market’s technical health and the potential for a resumption of the prior powerful uptrend (chart below).



(Source: Iraq Stock Exchange, Rabee Securities, AFC Research, daily data as of December 30th.)

Note: daily turnover adjusted for block trades)

Outlook for 2026

The headwinds of weaker oil prices should continue to dampen but not derail the dynamics fuelling the economy's secular transformation, which would continue to unfold in 2026 as much as they did in 2023-25 and, in the same way, drive the market's performance. Supporting this assertion is the expected rebound in non-oil GDP growth, which is projected to grow by 1.5% in 2026, and a further 2.5% in 2027⁽ⁱ⁾.

Two key factors will come into focus throughout the year and beyond. The first is the growth trajectory of the top banks in the country, whose fortunes brightened considerably following the introduction of the Central Bank of Iraq (CBI)'s updated regulations on foreign transfers in November 2022. These, then, fast-tracked the economy's adoption of banking and the move to formality, that disproportionately benefited these banks, who subsequently experienced exceptional quarter-on-quarter, and year-over-year growth for the first two years. While this heady growth, as [argued here in the past](#), moderated meaningfully over the last few quarters, the follow-up raft of measures introduced by the CBI in 2025 will further positively impact their fortunes. The most significant of which is the multi-year [comprehensive banking sector](#) overhaul, taking effect in late 2025, which aims to modernise the sector, align it with international best practices, and attract direct international institutional investments into the sector. While the effect of these measures will unfold over a number of years, nevertheless, they will have an equally profound effect on the banking sector as those of the November 2022 regulations, and just like them, will disproportionately benefit the top quality banks.

Consequently, a “new normal” for the banking sector will begin to take shape in 2026, in which the future growth trajectories of the top banks will be from a higher base and from a significantly improved financial position. This new normal will be marked by an accelerated adoption of banking and of formality, coupled with an acceleration of the move away from the dominance of cash and informality –developments that the investment thesis for the banking sector contends would come with growth in credit, resulting in an expansion of the money circulating in the economy and consequently to a meaningful increase in non-oil GDP. Over time, this should support the growth in top banks' earnings, and ultimately feed into higher stock market valuations –driven by earnings growth and by the increases in market multiples placed upon these earnings.

The second key factor will be the effect of lower oil prices on government spending, and subsequently on the non-oil economy, given the central role of government expenditures. Current market expectations are that Brent crude price for 2026-27 will average 12.4% lower than that for 2025, or 25.7% lower than that of 2023-24⁽ⁱⁱⁱ⁾. Thus, all things being equal, the upcoming government will not have the wherewithal to meet its planned expenditures without the need for substantial debt issuance to augment its declining oil revenues. Over the next few years, the much-increased need for sovereign debt will play a big role in developing the country's bond market, subsequently contributing to the equity market's development. Ultimately, this will bring with it “bond market discipline” that has the potential to positively influence the [structural imbalances](#) between current and investment spending that were perpetuated in every budget over the last two decades.

With the end of 2025, the over-arching theme, remains the same as that highlighted at the end of the prior year, i.e., that both of the two key dynamics discussed –the cumulative positive effects of the relative stability and structural banking developments– are in the early stages of their transformation of the Iraqi economy, a process that would unfold over the next few years, bringing with it high economic growth that would feed into higher corporate profits, and ultimately higher stock market returns.

However, risks remain given Iraq's recent history of conflict, extreme leverage to volatile oil prices, as well as the real risk that a sustained crash in oil prices, of two years or more, will derail the economy's secular transformation. However, it should be noted that there is no indication that such a sustained crash is on the horizon.

Note:

- i. Non-oil GDP figures for 2023, estimates for 2024, and projections for 2025-27 are those of IMF Iraq [Article IV report 25/83](#) published in July.
- ii. Brent crude prices are sourced from U.S. Energy Information Administration ([EIA](#)), as of December 31st.
- iii. Market expectations are based on Brent crude long term futures contrast sourced from [investing.com](#) as of December 31st.

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