

CREDIT GUARANTEE:

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	<i>ZZ</i>	Off cover

Recent Political Highlights

- ❑ Chief of state since April 2005 is President Jalal Talabani. Head of government since May 2006 is Prime Minister Nuri al-Maliki. The Economist expects the political scene to remain unstable as conflicts between and within Iraq's various communities persist and fluctuate.
- ❑ Iraq lawmakers adjourned for summer early this month without passing a crucial election law that many hoped would solidify the still recent fragile gains in security. The failure seemed likely to mean the postponement of provincial elections, originally set for October, until next year. Polling is seen as vital to reconciling the deep-seated tensions among Iraq's political sectarian groups.
- ❑ The leader of the most powerful militias in Iraq, Moqtada al-Sadr, is to order his followers to disarm and transform themselves into a purely social and political organisation. Such a shift would mark a significant step forward for US and Iraqi government attempts to pacify Iraq. Sadr's army, committed to forcing US troops out of Iraq has been behind much of the violence since the 2003 invasion. His forces have maintained a ceasefire since May. US military and diplomatic sources welcomed the prospect of the Mahdi army laying down its arms but expressed strong scepticism, given previous statements by Sadr that were followed by renewed outbursts of violence.
- ❑ American soldiers will withdraw from cities across Iraq next summer and all US combat troops will leave the country within three years, provided the violence remains low, under the terms of a draft agreement with the Iraq government. The US military would be barred from mounting attacks inside Iraq from next year. Britain will strike its own deal with Iraq and it's expected to reduce the number of its soldiers from 4,100 to a few hundred.

Recent Economic Highlights

- ❑ Iraq's economy is dominated by the oil sector which has traditionally provided about 95% of both foreign exchange earnings and government revenue. Although insurgent attacks and sabotage have undermined economy rebuilding efforts, economic activity is beginning to pick up. The International Compact with Iraq was established in May 2007 to integrate Iraq into the regional and global economy, and the Iraqi government is seeking to pass laws to strengthen its economy.
- ❑ Iraq said it was resuming exploration of its immense oil reserves after a break of nearly 20 years due to crippling UN sanctions. Iran hopes exploration squads will help uncover deposits that will enable it to double proven oil reserves, currently estimated at 115bn barrels of crude. The oil ministry has begun to build new refineries in the country and is renovating others. The country suffers acute refinery shortages following years of UN sanctions and decades of war. The shortfall has forced Iraq to turn to imports from neighbouring Iran, Kuwait and Turkey. Long queues at gas stations are a common sight at gas stations in Baghdad, where residents rely on fuel for power generators needed to make up for chronic power outages. Iraq now wants to ramp up output by 500,000 bpd from the current average production of 2.5 million bpd (about equal to the amount being pumped before the US-led invasion of March 2003) and the oil ministry is keen to raise capacity over the next five years to 4.5 million bpd. The Iraqi oil ministry estimates that Iraq exported 411 million barrels of oil in the first seven months of this year and had a revenue of \$43bn.
- ❑ At the end of June, the oil ministry threw open six oil fields and two gas fields for international bidding by 41 companies, the contracts for which are going to be signed in June next year. A report by the International Energy Agency said only 10% of Iraq has been explored for oil and 60% of proven reserves are in undeveloped fields.
- ❑ A US government report said Iraq was amassing a huge budget surplus of soaring oil export revenues but spending little on reconstruction, leaving the financial burden on the US. Counting Baghdad's actual budget balance for 2005-2007, and the projected budget of 2008, Iraq would have amassed a surplus of up to \$79.3bn. The US estimates that Iraq is only spending about 1% of its revenue on maintaining critical infrastructure projects but the country's planning ministry said the government was spending enough money to upgrade the oil, electricity and industry sectors. Analysts acknowledged that inefficiency and a cumbersome, inexperienced bureaucracy were still delaying many projects aimed at improving the lives of Iraq's 28 million people. Nonetheless, public pressure is strong from the Iraqi people, who want to see progress in boosting the nation's economy after five years of war.
- ❑ As Iraq is likely to report a budget surplus this year, Kuwait has asked the country to pay its debts. The debt is estimated at \$15-\$16bn, which are loans Kuwait made to Baghdad in the Saddam Hussein era. The UAE waived all of Iraq's almost \$7bn debt. The US State Department estimated the fall in Iraq's debts of \$66.5bn in the last three years. The Paris Club countries have dropped about \$43.2bn dollars from the Club's debts of Iraq. The remaining debts on Iraq are estimated at about \$80bn, due mostly to Saudi Arabia and Kuwait. Saudi Arabia had promised to cancel 80% of the estimated \$15bn debt but have not implemented it so far.
- ❑ Hampered by years of violence, and a decimated infrastructure, a lack of foreign investors and a flood of imports that have undercut local businesses, Iraq' private sector has so far failed to flourish as its American patrons had hoped. The Iraqi government has been sustaining its economy by putting citizens on its payroll. Since 2005, according to federal budgets, the number of government employees has nearly doubled to 2.3 million from 1.2 million. In 2006, 31% of Iraq's labour force was working in the public sector. The figure reached 35% this year. The Iraqi government has set aside money to help small businesses secure credit.

Latest Trade Developments

- ❑ **Main imports:** food, medicine and manufactures. **Major trading partners:** US, Italy, Spain, Canada, France, Netherlands, Syria, Turkey, Jordan and China.
- ❑ South African exports to Iraq totaled R341.7m in 2007, R764.2 m in 2007 and R242.3m in the year-to-March 2008. On August 5, the Iraqi and Iranian customs departments signed a memorandum of understanding that aims at boosting mutual cooperation and working towards a free trade zone between the two countries. An Iraqi government spokesman announced that the cabinet extended its ban on imported cars older than two years. The ban on imported cars would come into effect starting from September 1, 2008. In 2005, the cabinet decided to impose a ban on imported cars of models from before 2005. Iraq and China are set to revive a \$1.2bn oil deal that was cancelled after the 2003 US-led invasion. An initial agreement with China is expected to be signed this month to develop the billion-barrel oil field south of Baghdad. The contract will grant China exploration rights to the oil field. The original deal from 1997 included 23 years of exploration rights to the field valued at \$700 million.