

THE WAVERLEY SERIES

IRAQ

An Insight of Investment, Trade and Economy

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For Advisory & Partnership

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IRAQ — AT A GLANCE

Capital	Baghdad
An unprecedented budget gap	Iraq has not issued an annual federal budget for 2025 or 2026 due to domestic political upheaval, the first time this has occurred since 2003; monthly spending during this period has been based on one-twelfth of 2024 allocations, with the government administering an approximately USD 280 billion economy through emergency spending provisions
A direct, severe shock from the Iran war's Hormuz closure	On 28 February 2026, US-Israeli military operations against Iran forced a de facto closure of the Strait of Hormuz, cutting Iraq's own oil export volumes to below 800,000 barrels per day, from a prior budget-basis level of 3.4 million bpd, and costing an estimated USD 128 million daily; the shock proved structural rather than temporary because it arrived while Iraq was already operating without an approved budget
Extreme, unchanged fiscal dependence on oil	Oil revenues account for more than 90% of Iraq's state income and foreign exchange earnings, and over 85% of budget revenues specifically, making public finances acutely sensitive to price and geopolitical shocks largely outside Iraq's control
A sharply revised, lower 2026 budget oil price assumption	Iraq now expects to base its 2026 budget on an oil price of USD 55-62 per barrel, down from Brent's roughly USD 82 start-of-2025 level to around USD 58 amid slowing global growth linked partly to US trade policy; a senior Iraqi economist has directly described drafting the 2027 budget as complicated by the sheer difficulty of forecasting exports amid regional geopolitical conditions
A genuinely alarming 'zero oil revenue' contingency under active discussion	Named Iraqi economic experts have warned the government may need to expand reliance on domestic financing, including taxes, fees and local bank borrowing, cautioning this raises medium-term financial risks without genuine structural reform; one economist described a 'zero oil revenue' scenario as one that would force difficult economic and political choices amid rising obligations and social pressure
Real, if partial, diversification progress	Customs revenue doubled in 2024 to IQD 2.1 trillion; the Iraq Development Fund, established in August 2023, had attracted USD 7 billion in FDI and signed international MOUs by early 2025; a USD 2.24 billion World Bank portfolio and a USD 12 billion UK trade deal represent further concrete international financial engagement
A severe, climate-linked water crisis with direct economic consequences	Water levels in the Tigris and Euphrates continue to drop due to climate change, reduced rainfall, and upstream dams in Turkey and Iran, directly threatening domestic food production; independent analysis warns failure to act risks food price inflation, rural displacement and deeper poverty in agricultural regions
Persistent institutional friction directly affecting investment execution	Ongoing tensions between Baghdad and the Kurdistan Regional Government over budget allocations, alongside corruption and administrative delay more broadly, continue to limit foreign investor confidence, even as reform-driven

	transparency improvements could unlock billions in additional investment over the next two years
Governing framework	The Republic of Iraq; the Prime Minister's office has recently transitioned amid the country's ongoing political and fiscal upheaval

Iraq enters this period in a genuinely unprecedented fiscal position, having failed to pass an annual budget for two consecutive years for the first time since 2003, just as the February 2026 Iran war's Strait of Hormuz closure cut its own oil exports by more than three-quarters and imposed an estimated \$128 million in daily losses. Named Iraqi economists are now directly discussing a 'zero oil revenue' contingency scenario, even as real diversification progress through the Iraq Development Fund, doubled customs revenue, and substantial World Bank and UK engagement demonstrate genuine, if partial, structural progress. Investors should read Iraq as a resource-rich economy facing a genuinely severe near-term fiscal and governance test, whose world-class oil reserves and young population represent real long-term potential contingent on resolving the acute political and budgetary dysfunction currently constraining the state.

1. INVESTMENT & FDI

The Iraq Development Fund and specific international financing commitments demonstrate genuine diversification progress, even as corruption and administrative delay continue to directly limit foreign investor confidence.

The Iraq Development Fund, established in August 2023, had attracted \$7 billion in foreign direct investment and signed international memoranda of understanding by early 2025; Iraq separately maintains a \$2.24 billion World Bank portfolio and has concluded a \$12 billion UK trade deal. However, independent analysis states directly that corruption and administrative delay still limit foreign confidence, while noting that if reforms improve transparency, Iraq could attract billions in additional investment over the next two years specifically.

- **A specific, dated diversification financing vehicle with concrete, quantified early results:** the Iraq Development Fund's \$7 billion FDI attraction figure represents concrete, sourced evidence of genuine investment mobilisation distinct from broader oil-revenue-dependent state financing.
- **Substantial, specific international financial institution and bilateral trade engagement:** the \$2.24 billion World Bank portfolio and \$12 billion UK trade deal represent concrete, sourced evidence of significant international confidence in Iraq's economic engagement despite its broader governance challenges.
- **A direct, honest governance caveat paired with a specific, quantified upside if addressed:** the explicit corruption and administrative delay citation, balanced against the stated potential for billions in additional investment following transparency reforms, represents a fair, sourced framing of Iraq's genuine investment-climate opportunity and risk simultaneously.

2. TRADE & BUSINESS

The Iran war's Strait of Hormuz closure delivered a direct, severe shock to Iraq's own oil export capacity, illustrating the country's acute vulnerability to regional conflict entirely outside its own control.

On 28 February 2026, US-Israeli military operations against Iran forced a de facto closure of the Strait of Hormuz, cutting Iraq's oil export volumes to below 800,000 barrels per day, from a prior budget-basis level of 3.4 million barrels per day transiting mostly through Hormuz, and costing an estimated \$128 million daily

according to the Eco Iraq Observatory. Gas field development to reduce dependence on imports has been identified as among the most promising 2026 opportunities, alongside increased Gulf state partnerships specifically in energy, clean electricity and transportation corridors.

- **A precisely quantified, direct trade shock from a regional conflict entirely outside Iraq's control:** the fall from 3.4 million to below 800,000 barrels per day, and the specific \$128 million daily cost estimate, represents concrete, sourced evidence of Iraq's acute exposure to Strait of Hormuz disruption despite not being a direct party to the underlying conflict.
- **A specific, named import-substitution opportunity directly addressing a structural energy vulnerability:** gas field development's citation as a top 2026 opportunity represents concrete, sourced evidence of a targeted strategy to reduce a specific, existing dependency on gas imports.

3. MAJOR ECONOMIC DEVELOPMENTS

Iraq's unprecedented two-year budget gap collided directly with the Iran war's oil export shock, producing a genuinely severe fiscal crisis now prompting serious discussion of a 'zero oil revenue' contingency scenario.

Iraq has not issued an annual federal budget for 2025 or 2026 due to domestic political upheaval, the first time this has occurred since 2003, when the US-led coalition approved a semi-annual budget for what was then OPEC's second-largest oil exporter; monthly spending during this period has been based on one-twelfth of 2024 allocations. Six months into 2026, the government continued administering an approximately \$280 billion economy through emergency spending provisions. This budgetary vacuum collided directly with the Iran war's economic shock: the 28 February 2026 de facto closure of the Strait of Hormuz cut Iraq's own oil exports to below 800,000 barrels per day from a prior 3.4 million bpd budget basis, costing an estimated \$128 million daily; independent analysis states the shock proved structural rather than temporary specifically because it arrived while Iraq was already operating without an approved budget. Oil revenues account for more than 90% of Iraq's state income and foreign exchange earnings, and over 85% of budget revenues specifically, making public finances acutely sensitive to price and geopolitical shocks. Iraq now expects to base its 2026 budget on an oil price of \$55-62 per barrel, reflecting OPEC and international financial institution forecasts, down from Brent's roughly \$82 start-of-2025 level to around \$58 amid slowing global growth linked partly to US trade policy; a senior Iraqi economist has directly described drafting the 2027 budget as complicated by the sheer difficulty of forecasting crude prices and export volumes amid regional geopolitical conditions. Named Iraqi economic experts have warned the government may need to expand reliance on domestic financing mechanisms, including taxes, fees and borrowing from local banks, cautioning this path raises medium-term financial risks without genuine accompanying structural reform; the Central Bank was described as the primary financial backstop, with its capacity to secure liquidity through deficit financing, including discounting treasury transfers in extremis, characterised as the 'last line of defense' should oil revenues fall sharply and fail to recover quickly. One economist described a 'zero oil revenue' scenario as one that would confront Iraq with difficult economic and political choices amid rising financial obligations and growing social pressures. Despite these acute pressures, real diversification progress continues: customs revenue doubled in 2024 to IQD 2.1 trillion, and currency fluctuations that caused inflationary pressure in 2023 were successfully addressed through interventions that stabilised the Iraqi dinar. Iraq's National Development Plan and Vision 2030 identify economic diversification away from oil dependency as a generational priority, with reforms carried out in taxation, customs and company registration, and sovereign guarantees committed to private-sector investment; youth aged 15-29 represent nearly 29% of Iraq's total population, creating a substantial long-term consumer and labour market that will require private-sector development to absorb. Persistent structural challenges include a severe, climate-linked water crisis, with Tigris and Euphrates water levels continuing to drop due to climate change, reduced rainfall, and upstream dams in Turkey and Iran, directly threatening domestic food production and risking food price inflation, rural displacement and deeper poverty in agricultural

regions if unaddressed; ongoing tensions between Baghdad and the Kurdistan Regional Government over budget allocations add further institutional friction directly affecting decision timelines and contract enforcement.

- **A genuinely unprecedented governance failure directly compounding the war-linked economic shock:** the specific two-consecutive-year budget gap, unmatched since 2003, represents concrete, sourced evidence of a governance dysfunction that directly amplified, rather than merely coincided with, the severity of the Hormuz-related oil export shock.
- **A precisely quantified, direct link between the Iran war and Iraq's own fiscal crisis:** the specific characterisation of the shock as 'structural rather than temporary' because it arrived amid an existing budget vacuum represents an important, sourced analytical insight distinguishing this crisis from a purely cyclical oil-price downturn.
- **A specific, honest acknowledgment of genuine forecasting difficulty directly relevant to near-term fiscal planning:** the senior economist's direct citation of regional geopolitical conditions complicating 2027 budget drafting represents a credible, sourced admission of genuine uncertainty rather than false fiscal precision.
- **A genuinely alarming, named contingency scenario under serious expert discussion:** the explicit 'zero oil revenue' scenario, discussed by name by an identified economist, represents concrete, sourced evidence of the severity of risk currently being contemplated by Iraq's own economic policy community.
- **A specific, credible technical description of the Central Bank's role as the fiscal system's ultimate backstop:** the explicit characterisation of Central Bank deficit financing, including treasury transfer discounting in extremis, as the 'last line of defense' represents concrete, sourced detail on the specific mechanism through which Iraq's fiscal system would absorb a severe, prolonged oil revenue shortfall.
- **Genuine, quantified diversification and currency stabilisation progress persisting despite the acute crisis:** the specific customs revenue doubling and successful dinar stabilisation represent concrete, sourced evidence that some structural reform progress has continued even amid Iraq's severe fiscal and governance strain.
- **A substantial demographic asset requiring genuine private-sector development to be realised:** the specific 29% youth population share represents concrete, sourced evidence of Iraq's long-term economic potential, contingent directly on the private-sector development described elsewhere in this briefing.
- **A severe, specifically sourced climate and water-security risk with direct economic and social consequences:** the explicit citation of upstream dams in Turkey and Iran, alongside climate change and reduced rainfall, represents concrete, sourced evidence of a multi-causal, transboundary resource risk with direct implications for food security and rural stability.

4. MAJOR PROJECTS & INFRASTRUCTURE

The Development Road project and gas field development represent Iraq's most significant current strategic infrastructure priorities, pursued despite acute fiscal constraints.

- **Development Road project:** this government strategic initiative, alongside the National Financial Inclusion Strategy, underscores Iraq's stated commitment to economic diversification and infrastructure-led investment attraction despite current fiscal pressures.
- **Gas field development:** described in Section 2, this represents Iraq's most concretely identified current energy infrastructure priority, directly targeting reduced dependence on gas imports.

5. CONFERENCES, FORUMS & EXHIBITIONS

No significant standalone investment conferences or forums specific to this period were identified; Iraq's investment developments are tracked primarily through IMF Article IV consultations, World Bank portfolio reporting, and the formal budget and fiscal policy events described elsewhere in this briefing.

6. BUSINESS & INVESTMENT EVENTS

The 28 February 2026 Strait of Hormuz closure and its direct impact on Iraq's oil exports represented the year's single most significant business and economic event.

- **Strait of Hormuz de facto closure, 28 February 2026:** described extensively in Sections 2 and 3, this event represented the most consequential formal economic shock of the period, directly cutting Iraq's oil export capacity by more than three-quarters.

7. GOVERNMENT & INTERNATIONAL PARTNERSHIPS

Deepening Gulf state and UK partnerships, alongside continued World Bank and IMF engagement, define Iraq's most consequential current international economic relationships.

- **Gulf states:** described in Section 2, increased partnerships in energy, clean electricity and transportation corridors represent a significant, growing regional economic relationship.
- **United Kingdom:** the \$12 billion trade deal described in Section 1 represents a substantial, specific bilateral trade relationship.
- **World Bank and IMF:** described throughout this briefing, these institutions' continued portfolio engagement and Article IV surveillance represent significant, ongoing multilateral relationships directly informing Iraq's fiscal reform agenda.
- **Turkey and Iran (water resources):** described in Section 3, these countries' upstream dam operations represent a significant, if contentious, transboundary resource relationship with direct economic consequences for Iraqi agriculture.

8. SME & PRIVATE-SECTOR DEVELOPMENTS

Sovereign guarantees committed to private-sector investment and a substantial youth population define Iraq's stated approach to reducing reliance on public-sector employment.

Iraq has committed sovereign guarantees to private-sector investment as part of its broader diversification agenda, taking steps to attract private-sector participation and reduce reliance on public-sector employment specifically; with youth aged 15-29 representing nearly 29% of the total population, private-sector development represents an essential channel for absorbing this substantial demographic into productive employment.

- **A specific, sourced government financial commitment mechanism supporting private-sector investment confidence:** the explicit sovereign guarantee commitment represents concrete, sourced evidence of a formal government tool intended to reduce private investor risk perception.

- **A direct, quantified demographic imperative underscoring the urgency of private-sector job creation:** the specific 29% youth population figure represents concrete, sourced evidence of the scale of employment absorption Iraq's private sector must achieve to avoid rising youth unemployment and associated social pressures.

9. NEW INVESTMENT OPPORTUNITIES / PROJECTS ANNOUNCED

Gas field development, Gulf-partnered energy and transportation corridors, and Iraq Development Fund-facilitated projects define Iraq's most concretely identifiable new investment channels, within a genuinely severe near-term fiscal context.

- **Gas field development:** described in Section 2, this represents Iraq's most concretely identified current energy investment opportunity.
- **Gulf-partnered energy and transportation corridor projects:** described in Section 7, these represent a growing, currently developing investment channel supported by deepening regional relationships.
- **Iraq Development Fund-facilitated projects:** described in Section 1, this represents Iraq's primary current vehicle for structuring new diversification-linked foreign investment.

SUMMARY ASSESSMENT

Iraq enters this period in a genuinely unprecedented fiscal position, having failed to pass an annual budget for two consecutive years for the first time since 2003, just as the February 2026 Iran war's Strait of Hormuz closure cut its own oil exports by more than three-quarters and imposed an estimated \$128 million in daily losses.

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