

## **Iraq Plans First Bond Sale in Six Years on Economy: Arab Credit**

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By Nayla Razzouk and Robert Tuttle

July 7 (Bloomberg) -- Iraq, recovering from decades of war and sanctions, may sell its first bonds since 2006 next year as rising oil revenue and increased stability help push borrowing costs lower. "Iraqi bonds have been performing well, so the central bank may issue new ones early next year," Waleed Eedi, a director general at the Central Bank of Iraq, said in a telephone interview from Baghdad on July 4. "The performance of the bonds has improved because Iraq's economy is getting stronger."

The extra yield investors demand to hold Iraq's international bonds rather than U.S. Treasuries has plunged 358 basis points, or 3.58 percentage points, in the past two years to 341 on July 5, according to JPMorgan Chase & Co.'s EMBI Global indexes. Middle Eastern bonds yield an average 334 basis points more than Treasuries, JPMorgan data show.

Iraq will use the money to refinance international debt, which has dropped to about \$40 billion from \$135 billion in 2003, Eedi said. Eight years after a U.S.-led invasion toppled Saddam Hussein, Iraq's economy is poised to grow 9.6 percent this year, second only to Qatar in the Middle East and North Africa, according to International Monetary Fund forecasts.

The yield on Iraq's 5.8 percent dollar bond maturing in January 2028 dropped to 6.699 percent yesterday from this year's high of 7.117 percent reached on March 2, according to data compiled by Bloomberg. The notes have yielded an average 9.257 percent since they were sold in January 2006.

### **Few Protests**

Iraq was largely untouched by the so-called Arab Spring, which saw uprisings topple leaders in Egypt and Tunisia and threaten regimes in Syria, Libya and Yemen. Protests were mostly limited to the country's Kurdish north and the civil strife that has plagued Iraq since Hussein's ouster has subsided. Violent civilian deaths fell to 4,038 last year from as high as 28,018 in 2006, according to iraqbodycount.org. The country's gross debt as a percentage of gross domestic product, will fall to 39 percent this year from 352 percent in 2005, the IMF predicts. "Iraq's cash position is going to improve dramatically," said Farouk Soussa, chief economist for the Middle East at Citigroup Inc. in Dubai. "The Arab spring hasn't really made a marked dent on peoples' perception of risk in Iraq."

The cost of insuring Iraqi debt against default has declined 59 basis points this year to a 2011 low of 302 on July 5, according to data on five-year credit-default swaps provided by CMA, which is owned by CME Group Inc. and compiles prices quoted by dealers in the privately negotiated market.

### **Oil Output Jumps**

Credit default swaps for Egypt, whose president was toppled in February, have climbed 76 basis points to 319 in the same period. The contracts pay the buyer face value in exchange for the underlying securities or the cash equivalent if a government or company fails to adhere to its debt agreements. Iraq, which holds the world's fifth-largest oil reserves, increased crude output by 15 percent in the past year amid a 34 percent jump in oil prices, Deputy Prime Minister for Energy Affairs Hussain al-Shahristani said last month. The country has signed 15 gas and oil licenses since 2003 with companies including Exxon Mobil Corp. and BP Plc, and has plans to raise production capacity to as much as 12 billion barrels a day.

Crude traded at an average price of \$98.39 a barrel in New York this year, while Iraq's budget is based on an average price of \$76.50, Eedi said. The inflation rate has dropped from about 60 percent in 2003 to below 4 percent now, he said.

## Debt Under Hussein

Iraq sold \$2.7 billion of bonds in 2006 to restructure debt accumulated during the Hussein era. The notes were issued to settle claims by large commercial creditors, who received securities with a face value of \$200 for every \$1,000 they were owed.

“Many countries are writing off the debt because a lot of it was spent on wars by the former regime, not on the development of the country,” Muzhar Saleh, an adviser to central bank Governor Sinan Al-Shabibi, said in a telephone interview. “The remaining debt is now mostly claimed by Arab countries, including Saudi Arabia, Kuwait and Qatar.”

United Nations protection of Iraq’s oil revenue from creditors seeking damages from the Hussein era expired on June 30. The country will seek bilateral agreements to protect its assets abroad after the end of the mandate, Foreign Minister Hoshyar Zebari said in December. Iraq still has to set aside five percent of its oil revenue to pay reparations to Kuwait, a ruling imposed under Chapter 7 of the UN Charter. The rest of the country’s oil revenue has been deposited in the Development Fund for Iraq, set up in 2003 to pay off debts incurred by the Hussein regime.

“Iraq is very well positioned to have a very successful bond auction,” said Shwan Taha, chairman of **Rabee Securities**, a leading provider of financial services to the Iraq Stock Exchange.

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