

Global Hot Topics

Iraq: Increasing political tension endangers the future of Iraq

Yigit Engin, Alvaro Ortiz and Tomasa Rodrigo. BBVA Cross Emerging Markets Unit and Garanti Economics

On February 9, Iraqi Prime Minister (PM) Abadi announced cabinet reshuffle to sustain political stability in Iraq. The country suffers both ISIS and sectarian/ethnic disputes. Corruption and lack of governance also reinforced the latter and led to countrywide protests that increased the social unrest and threathens public confidence for Abadi government Iraq's influential actors who initially supported PM Abadi's reform programme have already indicated signs of withdrawing their backing if the reform agenda fails. If this failure materializaes, the Iranian proxies may opt to fill the vacuum with a pro-Iranian actor as Maliki. Such a figure would also welcome a more Iranian/Russian influence, pushing Iraq deeper into a proxy war zone.

Abadi lacks ammo to win the ongoing political fight

Iraq political sentiment (Jan 14 - Mar 16) Lower values indicate a deterioration of political climate Source: www.gdelt.org, BBVA Research and Garanti Bank



PM Abadi announced a "radical cabinet reshuffle" to replace members of Irag's Council of Ministers (CoM) with technocrats and academics instead of the members of political blocs. One the main reasons is to increase his control over a government which was increasingly out of control. Accordingly, the Speaker of the Council of Representatives (i.e. the parliament) warned that reshuffling of the CoM would have to be approved by the latter. The truth is that once the support of the Grand Ayatollah Ali al-Sistani (the Iraqi's highest Shi'a cleric) dissapeared PM Abadi's reforms have been blocked, entering in a serious political roadblock. Besides, another Shi'a cleric and the leader of Sadrists, Muqtada al-Sadr has given Abadi just 45 days to make reforms, threatening to withdraw his support if the reform process do not accelerate. If this does not happen, a noconfidence vote could go ahead. Last, but not least, PM Abadi has lost even the support of his party (the Dawa Abadi's weak political figure is Thus, increasingly under question and points out to political noise in the short term.

Potential implications of the cabinet reshuffle attempt

The potential implications of Abadi's failure can be important not only for Iraq but also for the security of the region. Some of the following scenarios are:

<u>-Muddling through with the US support:</u> PM Abadi may win time and the cabinet reshuffle can be materialized with bolder US financial and political support. If the reforms kick in, Muqtada al-Sadr and the Grand Ayatollah Ali al-Sistani may give their supports back to the government in return. Then, the political blocs in the Coouncil of Representatives may not have enough support to push for a no-confidence vote against PM Abadi.

<u>-The end of the Abadi era:</u> In the absence of the US support it will be quite challenging for PM Abadi to fulfill reforms in 45 days. Thus, Muqtada al-Sadr would withdraw his support and a no-confidence vote would be successful as other political blocs' will provide green light to the replacement of PM Abadi. In this scenario, Maliki could attempt to replace PM Abadi in his post with two possible outcomes:

- Iranian proxies will take over the power in Iraq with a full control over the government after replacing Abadi, then Iraq would fall further into a proxy war between Iran and the Sunni camp to reclaim the political control over the country in favor of one of the sectarian houses (Sunni or Shi'a). Saudi Arabia and its partners recently conducts a massive military excerise near Iraqi border in the name of fighting with terrorism but this exercise can be well percevied as a message to Iran.
- The political crisis in Baghdad could escalate to the battleground and ISIS would fight back to seize the lost territories.

Summing up

The Prime Mninister Abadi is living his toughest days in Baghdad. This is not only because the political fight with his opponents but also because of the increasing lack of confidence of his Shi'a supporters. Alas, the political fight in Baghdad could push Iraq further into Iran's orbit. Thus, regional disputes could rise to a higher level unless Iraq reach restores a stable political environment.



Global Hot Topics 01 March 2016

DISCLAIMER

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.