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WHAT YOU SHOULD KNOW

In its first week, Iraq's newly established government under former head of the National Intelligence Services Mustafa Al Kadhimi has already had to confront public opposition - even before it has formed a full cabinet.

The new PM, whose appointment on May 6 put an end to months of political stalemate in Iraq, faces multiple economic, social and geopolitical challenges. Before broader reform can be introduced, it will have to tackle a flailing economy, hit particularly hard by low oil prices and coronavirus. And while the new PM has the support of key political interests - the US, Iran and main parliamentary coalitions Fateh and Sairoon - he will face difficulties in trying to balance multiple interest groups and keep social protests at bay.

The new government will struggle to deliver adequate reform to get the economy back on track, build stability and security, and attract foreign investment.

WHY THIS MATTERS

Before Al Kadhimi can enact broader reforms, his immediate priority will be the economy. Large cuts to public spending are absolutely critical in addressing Iraq's debt burden, and the new government will have to look at other options to cover shortfalls, including debt restructuring, a possible IMF loan and foreign borrowing, which would prove difficult and expensive to secure. Ali Allawi, a technocrat and former finance minister from 2005-6, takes over as finance minister from Fuad Hussein. He will be wary of introducing tough new austerity measures, as significant job losses will raise the prospect of widespread protests that could threaten tenuous support for the new government.

Security risks also loom large, including the potential of a US-Iran showdown on Iraqi soil. Any flare up in the fragile security situation or social unrest would hinder progress on essential reforms and further stall economic growth prospects. Al Kadhimi will rely on support from

foreign allies to help ensure financial and domestic stability. The US has extended its electricity waiver for another 120 days, and will likely resume intelligence collaboration. Strong relations with Gulf Arab states will be key to securing economic support. Tehran may exhibit slightly more restraint towards Iraq and keep a tighter leash on hardline PMUs as long as Al Kadhimi maintains the fragile agreement between Shia parties and notifies Iran on important matters such as US troop withdrawal.

Ali Allawi will also serve as acting oil minister, and is the second technocrat in a row to hold the position. As low oil prices and OPEC+ cuts force Iraq to turn to creditors and restructure existing loans, the ministry has to tread carefully so as not to push away further foreign oil interests or risk added delays and project cancellations. Al Kadhimi has talked of contract renegotiations with IOCs but this is likely little more than rhetoric; the country cannot afford to spark resource nationalism at a time when IOC relations are already strained and further shut-ins and delays pose a grave danger to economic reforms under the new government.

WHAT'S NEXT

Talks between the US and Iraq are scheduled for June 10-11. These will focus on developing a political, economic and security agreement between the two countries to better reflect Iraq's needs and give more legitimacy to US presence ahead of the gradual removal of troops. Iraq will seek US support for the establishment of the Supreme Council for Construction and Investment and the Made in Iraq national project to strengthen the government's economic aspirations.

A robust approach to economic reform, including the implementation of controversial austerity measures, could spark protests and threaten Al Kadhimi's consensus position. However, this is also critical if Iraq hopes to get on stronger financial footing and eventually deliver on long-overdue cuts to the bloated public sector. In the near term, these measures may prove too ambitious; Al Kadhimi will have to assume a cautious, middle-of-the-road approach to reform to avoid inciting domestic or foreign backlash.

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