

Iraq investors trade polls for portfolios

By Andrew England, Financial Times, March 10, 2010

The room is buzzing. Men lean on wooden shelves as they phone brokers sitting behind a glass barrier. Others focus on screens showing the latest trades on the Iraq Stock Exchange, while an AK-47-wielding guard keeps his distance behind.

The market has resumed trading after a five-day break because of Sunday's general election and the mood among investors appears sanguine. The polls passed without the big attacks many feared and investors' minds are back on their equity portfolios.

"I'm not buying or selling, but I'm expecting the market to go up," says Naeem Abdullah, eyeing the banking sector. "We are expecting political and security stability and that will attract foreign investment."

The market closed after its first session of the week on Tuesday up 1.2 per cent, with the value of trades around \$6m (€4.4m, £4.01m) a cautious thumbs-up to the latest test of Iraq's stability and nascent democracy, seven years after the US-led invasion.

The market reflects how facets of normal life continued despite Iraq's turmoil – with some even improving. The ISE was set up in 2004 to replace a government-controlled bourse. It began with just 15 listings and an antiquated system needing share certificates to be physically exchanged.

Today, however, it boasts 91 stocks, a market capitalisation of around \$2.5bn and, since last April, electronic trading based on Nasdaq OMX technology.

Its performance has mirrored the fortunes of the nation. During 2005 and 2006, as Iraq headed towards civil war, the market fell by about 40 per cent, says Taha Abdulsalam, ISE chief executive.

"I call them the black years," he says. "People left Iraq – families, rich people, businessmen – and they [went] to Jordan, Syria and Dubai, they invested there and we lost their money."

But as the violence fell, trading volumes picked up and the market's performance improved, although it can be volatile. In 2009 the market was down 2.98 per cent in dinar terms, and in the year-to-date it has fallen by around 2.8 per cent.

Mr Abdulsalam hopes to attract more listings, develop internet trading and lure foreign investment, which accounted for about 3 per cent of the value of trades last year.

Iraq desperately needs such investment, with development seen as critical to stability. Falling oil prices in 2009 revealed Iraq's dependence on crude, which provides 98 per cent of government revenues.

Meanwhile, services and infrastructure are decaying after years of sanctions and war and unemployment runs at 15 per cent – or 57 per cent for males between 15 and 29. Iraq is a frontier destination that offers potential – notably the world's third largest proved oil reserves – but also comes fraught with risk, from the threat of violence to corruption and

the weakness of state institutions.

Local businesses enjoyed a boom after the US invasion as import curbs were lifted and goods banned under Saddam Hussein – such as mobile phones and satellite dishes – flooded the market. In 2004, the economy grew 46 per cent.

Then escalating violence hit trade hard. In 2004, Ahmed Ibrahim was driving at night with \$30,000 in cash, payment for a web contract. He stopped for fuel, only to have a gun put to his head. After a struggle he escaped, but his Mercedes and cash were gone.

He then moved to Jordan, but his business remains focused on Iraq, with Mr Ibrahim tapping into demand for technology products. His company has won multi-billion dollar contracts to supply organisations and government offices with smart cards.

“The upside in Iraq is it is very thirsty for any business,” says Mr Ibrahim.

But then there are the downsides. “I have a contract for \$1m, I make \$100,000 profit, but when you are doing the paperwork any of the public servants will say ‘I will not do that unless I get paid’,” says Mr Ibrahim, 36.

He must still change cars and routes to ensure there is no repeat of the robbery. “True security is when you can return to your house at 2am or 3am with money in your car and not be worried,” he says.

Investors will be watching to see how Iraq holds together as the election results are released.

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