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## Special Analysis

**IRAN-IRAQ:** **Still Able To Finance War Effort**

***Iran and Iraq will have little trouble financing the war this year if oil prices average $15 to $18 per barrel, as expected. Even if prices fell to $13 per barrel and stayed low for the remainder of the year—an unlikely development—the resulting economic problems would not be likely to affect the willingness of the combatants to continue fighting.*** [redacted]

Iraq's oil revenues probably will be higher this year than any since the start of the war and will easily cover essential military and civilian imports, expected to be about $12 billion in 1988. Baghdad's revenue outlook was much improved last year by the expansion of its oil pipeline through Turkey, which increased Iraq's export capacity by 500,000 barrels per day to 2.2 million. The Iraqis will continue to receive large cash grants—expected to reach about $2 billion this year—from Saudi Arabia and Kuwait. In addition, Baghdad will hold down imports to conserve scarce foreign exchange, continue to borrow to finance its imports, and reschedule a large portion of the debt payable this year. [redacted]

Iran has fewer sources of financing available to it than Iraq, but its oil revenues probably will nearly cover its import requirements this year—roughly $10 billion worth. Tehran has trimmed civilian imports by nearly 50 percent in the past five years, and it is unwilling to borrow or further draw down its cushion of assets. Iran almost certainly would pare civilian spending further to cover military imports. The Iranians will also continue to rely on countertrade deals to finance both military and civilian imports. [redacted]

Iran's financing efforts would be strained more severely than Iraq's if oil prices were to drop sharply and remain low for the remainder of the year. Still, prices would have to fall to an average of $13 per barrel in 1988 before Iranian oil revenues would decline to the low hit in 1986. Even at this level, Tehran probably would muddle through by reducing imports and otherwise increasing austerity. In addition, since Iran maintains the offensive in the ground war, it can more easily control the pace and intensity of the fighting according to its resources. [redacted]

Lower oil prices probably would not hurt Iraq significantly because of its increased export capacity. Prices would have to average below $10 per barrel for 1988 for Iraqi revenues to drop to the levels of 1986. [redacted]



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