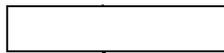




Director of
Central
Intelligence

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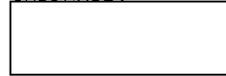
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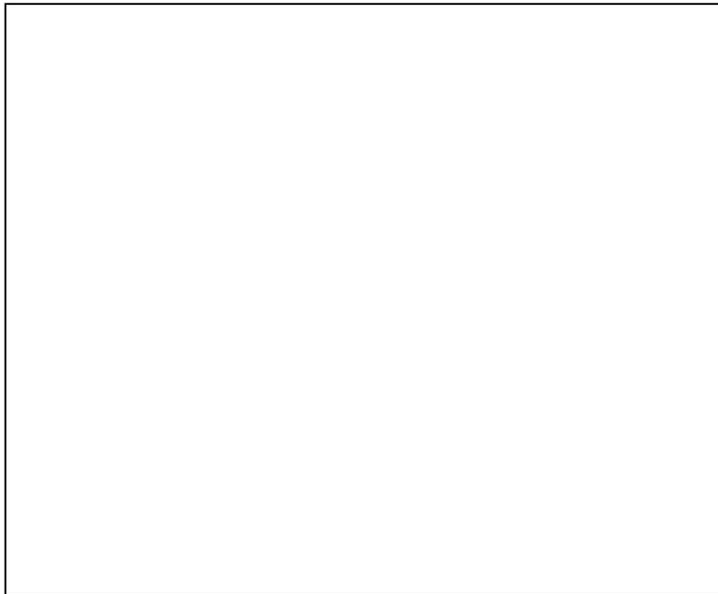
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Contents



Special Analysis

Iraq: Economic Pressures Intensify 11

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Special Analysis

IRAQ: Economic Pressures Intensify

Iraq's economic situation is steadily deteriorating because of the war. Its two oil export terminals in the Persian Gulf were put out of commission by the Iranians early in the war, and Damascus refuses to allow oil deliveries through the Iraq-Syria pipeline. Oil revenues are now less than one-third of prewar levels, forcing Baghdad to deplete its foreign exchange reserves and slash imports. If the Iraqis cannot find a way to ease their financial plight, they are likely to attack oil targets in Iran in the hope of forcing Tehran to the negotiating table. The French delivery of five Super Etendard aircraft would greatly improve the regime's ability to strike Iranian oil shipping and facilities. Baghdad probably hopes its public threats of such attacks will prompt more aid from the Persian Gulf states or bring action by the superpowers to arbitrate for peace.

This year Iraq's oil income will total about \$7 billion. In 1980 Baghdad earned more than \$25 billion from oil exports. Iraq's only current outlet for oil exports is the pipeline through Turkey, which handles 700,000 barrels per day.

Reduced Spending

Iraq's imports in 1983 probably will decline by nearly 25 percent from the level of \$19 billion in 1982. Much of the drop is coming at the expense of Japan, West Germany, and France. As a result of oil barter deals and delayed payment arrangements, Iraq will be able to avoid deeper import cuts this year.

//Imports from the USSR probably will approach the level of \$1.4 billion in 1982. An oil barter deal apparently solved the problem of arranging payment for Soviet military deliveries. The USSR is Iraq's most important arms supplier.

The Iraqi private sector and the Iraqi consumer are bearing the brunt of import reductions. Baghdad has shelved its development program and halted most projects not related to the war or to the petroleum sector. Consumer goods, including fresh produce, are increasingly scarce.

Shortages have heightened inflation and promoted black-market activity. Stricter controls on foreign exchange are contributing to a flight of foreign workers. This has compounded Iraq's chronic shortage of manpower, which was already made more acute by the war.

continued



Financing the Deficit

//Iraq will stay solvent this year because of financial help from the Arab states of the Persian Gulf and the deferred payments allowed by its trading partners. Aid from the Arab states probably will approximate the \$5.5 billion they provided last year. 

//Saudi Arabia and Kuwait—because of their own financial difficulties resulting from the weak world oil market—will provide most of the aid in the form of oil sales on Iraq's behalf. Much of this oil is being used in Iraq's oil barter deals. 

Iraq's payments are running as much as six months late, and Baghdad is negotiating delayed payment arrangements with a host of foreign companies. Most of the firms will agree to the request in order to salvage what they can of their sizable financial commitments in Iraq. 

//Meanwhile, Iraqi drawings on foreign exchange reserves probably will be about \$4-5 billion in 1983. During the first quarter, Iraq drew down reserves by \$3 billion to a level of \$5 billion. Before the war, foreign exchange assets amounted to about \$35 billion.// 

Next year Baghdad faces the prospect of a current account deficit nearly as large as the projected \$14 billion gap in 1983 unless it makes more cuts in imports. Iraq's trading partners and the Arab states of the Persian Gulf probably will not provide Baghdad with enough financial support to prevent a new round of austerity measures. 

