
Will Iraq's falling oil revenues threaten public sector salaries in 2026?

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Summary : Iraq's oil production capacity has fallen to below 2003 levels in recent days and its exports via the Strait of Hormuz has completely stalled despite ongoing negotiation with the Iranian side to allow Baghdad to export its oil. Prior to February 28, when the US and Israel launched a massive air campaign against Tehran, Iraq had exported 3.5 million barrels per day (bpd) from its southern fields through the Strait of Hormuz at around \$65-72 dollars per barrel and around 50,000 bpd from the Kurdistan Region.

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After Tehran closed the Strait of Hormuz, Iraqi exports via the chokepoint dropped to zero and now the only avenue to export to international markets is through the Kurdistan Region pipeline to the Turkish port of Ceyhan. If the Strait of Hormuz remains closed and other export routes such as Syria and Jordan are not quickly activated to increase exports, then this month's export volume will be limited to approximately 300,000 bpd (250,000 bpd from Kirkuk and 35,000 - 40,000 bpd from Kurdistan fields)

With oil revenues [dropping](#) by nearly 90%, the question that is being asked is, will Iraq be able to pay its bloated public sector salaries for the rest of 2026 and beyond if the war continues? Kirkuk crude oil sells at a premium of \$2 per barrel over Brent in European markets and \$1.50 in American markets according to the Middle East Economic Survey MEES. However, Kurdistan Region crude exported to Europe sells at a \$4.70 per barrel discount to Brent, and \$5.10 in American markets.

With the current price of Brent oil futures standing at around \$105 bpd, exporting one barrel today is equivalent in value to almost exporting two barrels at early-2026 prices. This is precisely why Iraq must increase its export volumes, even if by tanker.

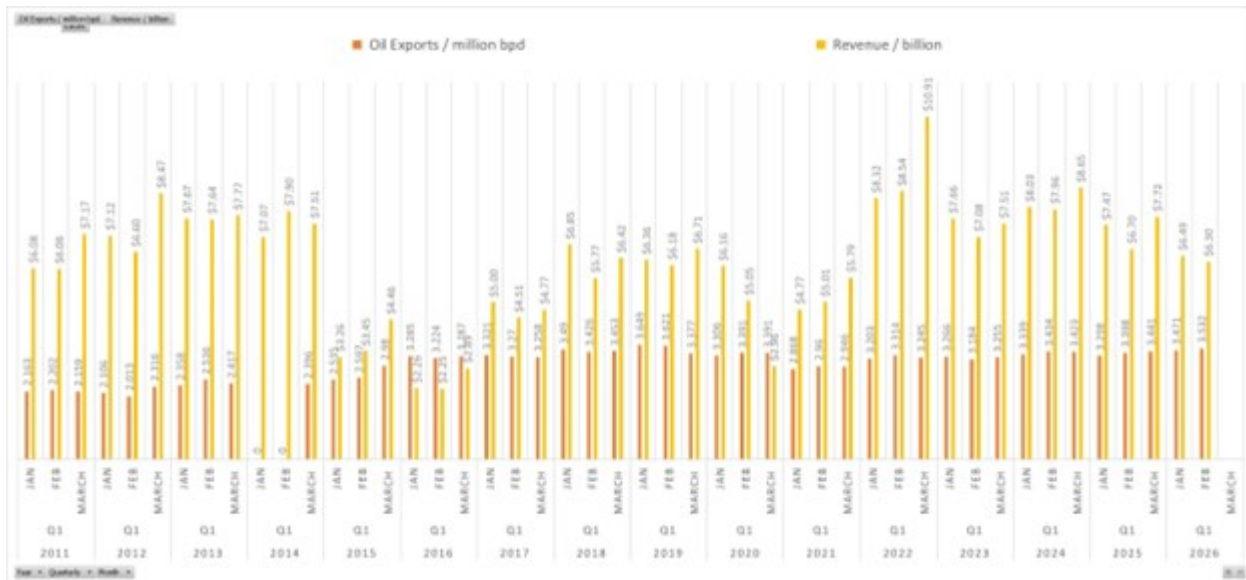
Iraq's Monthly Oil Export Volumes and Revenue — January 2011 to February 2026

Over the past 15 years, Iraq has faced several months of sharp revenue decline for various reasons. During the early months of the COVID-19 outbreak in 2020, April of that year brought in only \$1.5 billion revenue, with total oil revenue for the whole year standing at \$41.9 billion.

Four years earlier, the revenue dropped to \$2 billion in the early months with total revenue for the whole year, 2016, standing at \$43.5. In both of those years, daily oil exports were at their lowest — in April 2020, for instance, Iraq exported 3.43 million barrels per day, but the price had fallen to \$15 per barrel.

What makes the current situation different from previous revenue downturns is that this time the cause is not falling prices but the loss of export routes. According to Iraq's Ministry of Finance data, oil covered 88% of total government expenditures in 2025, with 12% coming from non-oil revenue.

Graphic 1: Oil Exports and Revenue, 2011..February 2026



Source: Iraqi Ministry of Oil publications 2011_2026, Iraq Oil Report.

Note: February 2026 revenue estimate is based on an average Brent selling price of \$63 per barrel.

Based on the figures in the first graphic, if March 2026 revenue is limited solely to Ceyhan exports, then Q1 2026 total revenue would be roughly double what was earned in Q1 2014, and comparable to Q1 2020 and Q1 2017. From a revenue standpoint alone, Iraq faces no crisis — contrary to what is being suggested — as it has extensive experience managing oil revenue downturns over the past two decades. It is true that in those two earlier periods, government expenditures were not as high as today, and the number of public employees has since grown by millions. However, the Iraqi government has two tools available: it can devalue the dinar against the dollar to cover expenses, and it can selectively reduce monthly spending — including salaries.

In 2020, then-Finance Minister Ali Allawi presented a plan called the "White Paper," focused on reducing expenditures and growing non-oil revenue. In practice, what was implemented was the devaluation of the dinar against the dollar to meet expenditure obligations.

The latest data from the Iraqi Ministry of Finance for December 2025 shows total expenditures of 14.3 trillion dinars — 12.4 trillion in operational spending and 1.8 trillion in investment. In one month alone, Iraq's public sector salary costs (excluding the Kurdistan Region) amount to 4.47 trillion dinars, with pensions and social welfare at 3.26 trillion dinars, totaling 7.7 trillion dinars. Adding the Kurdistan Region's salary costs (782 billion) and pensions (243 billion) brings the total to 8.2 trillion dinars, or approximately \$6.3 billion. Iraq could reduce this figure through cuts to either operational or investment spending.

For context, total expenditures in January 2025 were 9 trillion dinars — meaning this system can fluctuate by as much as 5 trillion dinars in a single month.

Central Bank of Iraq data shows reserves of \$97.4 billion (126 trillion dinars) in foreign currency, plus gold reserves valued at 31 trillion dinars — a combined total of 157 trillion dinars. Drawing down 8.9 trillion dinars per month to sustain salary and operational spending — assuming zero income, as in 2014 and 2020 — would not pose a serious problem. If a one-month revenue shortfall creates a problem, it is temporary and will be recovered in the months ahead. Iraq can pay salaries — whether as it did in 2020 by devaluing the dinar (more dinars per dollar), as in 2016 by drawing on Central Bank reserves, or as it did in late 2025 by cutting expenditures.