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The Iraqi Dinar: Between Economic Oscillations and Political Deliberations

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The Iraqi Dinar: Between Economic Oscillations and Political Deliberations

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Abstract:

This research sheds light on the impact of political and economic events on the value of the Iraqi Dinar (IQD), leading to disruptive repercussions on the country's financial and economic indicators. The outbreak of the COVID-19 pandemic and the subsequent closure of public facilities resulted in a global economic recession and a decline in worldwide demand for fossil fuels. This, in turn, led to a decrease in oil prices and a reduction in the country's overall revenue, prompting the government of Mustafa Al-Kadhimi to devalue the Iraqi Dinar to address the budget deficit. However, this scenario changed with the outbreak of the Russian-Ukrainian war, causing a shift in the oil price landscape and resulting in financial abundance. Consequently, Iraqi politicians advocated for restoring the previous value of the Iraqi Dinar before the devaluation, citing reasons such as supporting the impoverished class in society. The government of Mohammed Shia Al-Sudani indirectly supported this by endorsing the decision of the Central Bank Governor, Ali Mohsen Al-Alaq, who reduced the exchange rate from 1450 to 1300 IQDs per 1 USD.

Introduction:

It is self-evident today that the value of any local currency is subject to the influence of foreign currencies such as USD. This influence varies depending on the prevailing exchange rate system. Despite the

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collapse of the Bretton Woods system in 1973 and the shift from fixed exchange rate systems to floating ones, most developing and emerging countries, suffering from structural production deficiencies, found it suitable to maintain a fixed exchange rate system. Under this system, financial crises and economic cycle fluctuations accumulate pressure on the value of the local currency. As these pressures persist and monetary tools fail to achieve price stability, monetary policy is compelled to alter the value of the local currency through devaluation or appreciation, causing disruptions in the country's price system. Rentier countries are characterized by intricate financial and monetary relationships, reflected in the rapid transition of fiscal policy stimuli to exchange rates. The dominance of oil revenues in the general budget leads to changes in government spending, necessitating a change in the size of domestic demand. With the consumption trend in rentier countries surpassing the productive investment trend, increased government spending does not necessarily lead to an increase in demand for local goods compared to foreign goods, resulting in fluctuations in the value of the local currency.

Global oil crises stand out as the primary reasons for the malfunction in the financial and banking systems of these countries. Oil revenues exhibit exceptional characteristics, marked by the elevation of their revenues on one hand and their lack of stability on the other. In essence, oil revenues have immediate, irregular, and unsustainable effects. In the case of Iraq, the dominance of financial variables over monetary instruments became evident with the discovery of oil resources in the country. This transformation led to a shift in the concept of the state, transitioning from a guarding state to an owning state, and subsequently to a monopolistic state. This situation persisted until the period preceding Central Bank Law No. 56 of 2004, during which deficit financing mechanisms practised by the CBI were aligned with the desires and objectives of the financial authority, diverging from the requirements of productive investment activities.

After 2003, with the country's economic openness, the value of the Iraqi Dinar became the focal point of monetary policy. In the absence of financial depth and its implications for the reduced flexibility of interest rates in influencing economic activity, monetary policy concentrated on the exchange rate as a target and intermediary to mitigate inflationary waves experienced by the country during the 1990s and to achieve price stability. Thus, the exchange rate evolved into a tool of monetary policy.

First: Economic Variables and Exchange Rates

In a world where political and economic events and fluctuations are accelerating, they pose challenges and obstacles that create pressures on the governmental system of the country. Finding solutions to these pressures becomes more complicated than the issues themselves. Despite the fact that the ISIS terrorist crisis is primarily a political and military crisis, and the COVID-19 pandemic is primarily a health crisis, both have caused significant damage to the global and local economies.

With the spread of the COVID-19 pandemic, most international airports and seaports witnessed almost complete shutdowns, while other sectors such as tourism and industry came to a complete halt. This led to a decline in asset prices and returns in global financial markets, including fossil fuel prices. The Brent crude oil index dropped from $74 per barrel in August 2019 to around $22 per barrel in March 2020, rendering shale oil unprofitable after surpassing the breakeven point between cost and return.

In the context of a rentier economy like Iraq, which relies on oil exports for more than 95% of its national budget, the 46.5% decline in oil revenues in 2020 compared to the previous year necessitates a restructuring of financial authority expenditures. This leads to a change in the total demand, where the volume of dollar inflows decreases, and the volume of dinar outflows increases after deducting central treasury transfers to reduce the general budget deficit. The second aspect is the devaluation of the Iraqi dinar due to the decline in oil prices. When oil-exporting countries experience a drop in oil prices, it results in a deterioration of the trade balance, reflecting a decrease in the value of the dinar.

As the Central Bank of Iraq (CBI) is obliged to maintain the stability of the dollar exchange rate by absorbing demand in the local market, this puts pressure on foreign exchange reserves. A one-dollar decrease in oil prices per barrel costs Iraq approximately $39 million, estimated at around 5.07 trillion annually.[1] This situation led to an agreement between the executive and legislative authorities on one side and the financial and monetary authorities on the other to reduce the value of the Iraqi dinar from 1190 to 1450 IQDs per 1 USD in a shock-style approach on December 19th 2020. This was in response to the pressures of operational expenses financing and covering the deficit of the general budget for 2021, aiming to maximize revenues. This monetary management of the dinar, estimated at around 260 new dinars per dollar, resulted in an increase in the money supply and consequently a rise in the Consumer Price Index (CPI) to around 7% during the second half of 2021. According to these data, the economic effects of this decision began to emerge:

1- The Decline in Real Income Levels for Social Classes: The reduction in the real income levels of social classes, especially the poor and the middle class, results from the decrease in their purchasing power. For instance, if the average monthly salary for employees is 600,000 IQDs, equivalent to $500 at an exchange rate of 1200, after

1. Based on the oil export quantity of 3.25 million barrels per day and the exchange rate of 1300 dinars per one US dollar.

the devaluation, it becomes equivalent to $413. This means a decrease in the employee's income by $87, which is equal to 125,000 IQDs. This forced poverty leads to an increase in unemployment rates and poverty levels in the country, unlike the rich class that possesses dollar reserves. After the increase in the value of USDs, they now own more IQD reserves than before, strengthening their IQD income levels.

2- Erosion of Confidence and Consumption Patterns: Adjustments to the Iraqi dinar exchange rate have shaken the confidence of its holders, causing them to fear future reductions in its real value. This has affected consumption patterns due to the rise in the general level of tradable goods prices. Since most goods available in local markets are imported for final consumption or are part of the production process, and since these goods are paid for in USD, the increase in the USD's value directly impacts the overall price levels. As previously mentioned, the Consumer Price Index (CPI) rose by about 7% during the second half of 2021.

3- Foreign Exchange Market Dynamics: like any other market, is inherently challenging to control and predict, primarily due to the behaviours of its participants. The presence of herding behaviours, where investors collectively rush to buy or sell, or engage in feedback trading based on price movements, can result in inconsistencies between the exchange rate and the goals and trends of monetary policy.[2] Consequently, when the central bank sells the dollar at a higher rate, it tends to decrease the demand for it. This occurs due to an increased acquisition cost for savers and reduced profitability for speculators.[3] In response to the depletion of foreign reserves, which declined from $70

2. Dutta, Rupa, et al. "Moving towards Exchange Rate Flexibility: How, When, and How Fast?" International Monetary Fund, 2006, p. 8.
3. Al-Dulaimi, Awad Fadel Ismail. "Evaluation of the Policy of Increasing the Value of the Iraqi Dinar against the US Dollar." Journal of Economic and Administrative Sciences, University of Baghdad, No. 34, 2012, p. 20.

billion in 2013 to approximately $47 billion in 2020, the CBI took measures to address this issue.

4- Positive Financial Impact and General Expenditures: Despite the negative impact of the above points, the increase in general financial revenues due to the excessive dinarization for each dollar allowed the government to commit to its sovereign expenditures. This includes the salaries of approximately 3.5 million public sector employees and retirees, as well as other sovereign expenses. After the global oil price drop, the government faced very limited scenarios for fulfilling its duties, including external borrowing. This option often restricts the government with austerity measures, and it increases the burden of the general debt service, particularly since economic logic dictates that a country should resort to external borrowing only if it can use the loan to finance investment projects sufficient to repay the principal and associated interest.

Second: **Exchange Rate and Political Deliberations**

Political thought, with its orientations, is considered one of the most influential factors in shaping the reality of achieving economic development and sustainability in any country. In this context, cognitive sociology focuses on the reciprocal relationship between thought and reality. Additionally, Marxist sociology adds a third dimension to this duality, namely political action and its impact on the social and economic development that can be achieved. If this three-dimensional relationship is well-aligned, a country can transition to a more advanced and developed stage.[4]

Concerning the research topic, ample evidence illustrates the conflict of interests between the dominance of political power and the strength of monetary authority in maintaining the stability of the currency

4. Economies of Arab Countries, p. 145

value. An example of this is the German currency (**Deutsche Mark**), which witnessed conflicts and collisions over the conversion rate of the East Deutsche Mark to the unified Deutsche Mark in preparation for German reunification in the early 1990s. The conversion rate was set at 1 East Deutsche Mark to 1 unified Deutsche Mark for the first 4000 East Deutsche Marks and at a rate of 2 to 1 for amounts exceeding 4000 East Deutsche Marks. Disagreements arose between the German Central Bank and the German government regarding this rate due to the undervaluation of the East Deutsche Mark. The rate was determined for political reasons to attract the East German public.[5]

These examples lead us to the concept known as "monetary independence" or the independence of central banks and the extent of its boundaries. According to economist Paul Samuelson, "the central bank should not be subordinate to any of the three branches of legislative, executive, and judicial authorities. The monetary authority should formulate its policies in line with the national economic interests of the country." In a related context, Michael Abdigman believes that "independence means that monetary policy and its implementers are not influenced by government political pressures, emphasizing the importance of coordination between the two sides, although the final decision remains with the monetary authority".[6]

Regarding the monetary policy situation in Iraq, it has witnessed a significant degree of subordination. Historically, most monetary decisions have been approved at the top of the political hierarchy, aligning with the interests of those at the summit, regardless of the repercussions of these decisions on the country's economy.

In 1980, the Iraqi Dinar's value was \$3.37 per 1 IQD, and the country possessed foreign reserves of around \$35 billion. Despite having these

5. Fuad Qasim Amir, a previous source, page 239.
6. Abdul Hussain Jalil Al-Ghalebi, a previous source, page 97.

monetary reserves, the country's economy was weakened, entering an eight-year-long war. The accumulation of these foreign reserves did not result from productive activities but rather from rents derived from the fossil energy source.

As the country's economy shifted towards a wartime economy due to the declaration of the first and second Gulf Wars, followed by an internal civil war with the Kurdish component in northern Iraq, the popular uprising -1991 Iraqi uprisings- in southern Iraq, and the subsequent economic blockade, the value of the dinar collapsed completely. Its value declined to around 4,000 IQDs per 1 USD in the parallel market. These events were a consequence of international isolation and the cessation of oil exports, the main source of obtaining dollars. Due to this isolation, the Central Bank of Iraq took on the responsibility of printing the local currency after facing difficulties printing it abroad. The bank became a source of financing cheap cash. These monetary prints represented debts to the Ministry of Finance to fund the ongoing budget deficit. After the regime's fall, these debts were estimated at around 5.5 trillion dinars.

According to Branson's 1988 analysis, adopting an expansionary fiscal policy in the short term would improve the local currency's value. However, the long-term dynamics of accumulating debt would push the currency's value downwards. Achieving a surplus in the trade balance is necessary to face international debt payments, services, and bondholders' dues, which is challenging under the economic blockade imposed on the country. All these factors were driven by the decisions of the ruling political oligarchy, demonstrating the extent of monetary policy (management and tools) subordination to the military-political institution.

After 2003, with the political changes and the openness to Western democracy, difficulties arose in reaching an agreement among political leadership factions. Amid marginalization and displacement, a form of inconsistency prevailed between ideology, reality, and political action. With the multiplicity of political party formations reflecting diverse ideologies and ethnicities within society, it became challenging to isolate the orientations and actions of these parties in the path of achieving the country's economic development in general and the financial and banking system in particular.

This path requires a political system that encompasses all sectors of society, possessing genuine will and efficient management to organize financial and human resources. In a framework where public interest prevails over personal and political utility, and where a fair distribution of the country's wealth is achieved, according to the Gini coefficient, it is observed that Iraq achieves rates exceeding 0.50 in income inequality among societal strata.

Despite changes in institutional frameworks and legal regulations in the banking sector after 2003, with the hope of charting a path of development that had been absent for two decades, the political culture of the rulers in this country still largely perceives banking institutions as affiliated with the governance system without being subject to the winds of quota-based appointments and political desires, rather than economic necessities. This scenario was witnessed by the late Dr. Sinan Al Shabibi, the former Governor of the Central Bank, who was among the first to shape the compass of monetary policy in Iraq after 2003, based on his experience and professionalism gained through his work as a consultant at the United Nations Conference on Trade and Development (UNCTAD).

During the tenure of Prime Minister Nouri al-Maliki, the late Dr. Shabibi faced significant difficulties in maintaining the independence of the Central Bank and keeping it away from the political rivalries and conflicts of that time. There was a desire by al-Maliki to withdraw

$5 billion from those reserves, which was vehemently rejected by Dr. Shabibi. He considered that the sole purpose of those reserves was to serve as a cover for the local currency and achieve price stability through the stability of the exchange rate of the dollar.

Financially, Dr Sinan Al Shabibi based his argument on the independence of the Central Bank, as outlined in Article 26 of the Central Bank of Iraq Law No. 56 of 2004. This law explicitly prohibited the Central Bank from directly or indirectly lending to the government, allowing only for the purchase of government securities through secondary market operations.[7] The legislation emphasized the independence of the Central Bank, preventing government interference in shaping its policies. However, it allowed for coordination between the government and the Central Bank, aligning policies with the bank's vision for economic development.

During an official visit to Tokyo in 2012, Dr. Sinan Al Shabibi, accompanied by his friend Dr. Mazhar Mohammad Saleh, realized that returning to Iraq was impossible due to an arrest warrant issued against him. Despite being acquitted of charges in 2015, he chose not to return to Iraq until his death.

Dr. Sinan Al Shabibi assumed the role of Governor of the Central Bank at a time when Iraq faced external debts of around $140 billion. However, through negotiations led by then Finance Minister Adil Abdul-Mahdi, he successfully reached an agreement with the Paris Club countries to cancel approximately 80% of Iraq's debts. This significant step was a key move toward monetary reform. According to Dr. Sinan Al Shabibi's statement to Wall Street, this debt cancellation percentage was the highest achieved by a country of medium income at that time. Additionally, under his leadership, the value of the Iraqi Dinar against the US Dollar was increased, setting the exchange rate

7. The Central Bank of Iraq Law No. 56 of 2004.

at 1,166 Iraqi Dinars per USD. The Central Bank retained reserves of around $70 billion during his tenure.

The COVID-19 pandemic once again highlighted the impact of the intervention of both legislative and executive authorities on the boundaries of monetary policy and its operational mechanisms. With the global decline in demand for oil and its prices dropping to around $12 per barrel in the spring of 2020, the government of Mustafa Al-Kadhimi, heavily dependent on oil for 95% of its budget, faced a significant challenge. The country lacked the environmental and investment infrastructure, and its production process was essentially an assembly of wood pieces imported from one country with nails and hammers imported from another.

In this scenario, the government led by Mustafa Al-Kadhimi found itself compelled to address the crisis by implementing a series of measures, including an increase in domestic public debt. In total, the government borrowed 26.3 trillion dinars, with 14.3 trillion borrowed between June and October 2020.[8] Despite introducing austerity measures and cutting sovereign expenditures, the government faced challenges in meeting its commitments to 3.5 million public sector employees. Consequently, the Al-Kadhimi government made a politically contentious decision — a 20% devaluation of the dinar from 1200 to 1450 dinars — marking the most controversial move since 2003.

This decision prompted political deliberations, initiated with the presentation of the economic reform document, known as the "White Paper," to the Parliament. During one parliamentary session, Speaker of Parliament Mohammed Al-Halbousi instructed then-Finance Minister Ali Allawi to clarify the reasons behind the surge in the dollar exchange rate against the dinar, attributing it to the pandemic, which

8. Ali Mirza, "Decline in Oil Revenues and Exchange Rate Change in Iraq," available on the Iraqi Economists Network website.

led to a decline in oil prices and a subsequent financial crisis. This crisis posed challenges for the Al-Kadhimi government in fulfilling its commitments to public sector employees and retirees. Various solutions were proposed, including a 30% reduction in public sector employee salaries and the mandatory retirement of a certain number of employees. However, the Parliament opted to amend the exchange rate, resulting in estimated revenues of around 22 trillion dinars for the state.[9]

Finance Minister Ali Allawi, in a statement published by "Al-Sabah Al-Jadeed," explained that the 2021 budget adopted an exchange rate of 1450 dinars per US dollar. This decision aimed to rectify the distortion caused by the previous exchange rate of 1182 dinars per US dollar, which did not accurately reflect the economic reality. Allawi confirmed that the previous exchange rate had detrimental effects, harming the competitiveness of Iraqi products and facilitating the inflow of goods from neighbouring countries such as Iran, Turkey, and Syria, thereby negatively impacting local industry and agriculture.

Economically, despite the social repercussions of the currency devaluation decision, Mustafa Al-Kadhimi's government successfully honoured its financial commitments, including salaries for employees, retirees, and the social protection network. This achievement occurred even in the face of the implicit tax burden on citizens resulting from the dinar devaluation. The 2021 budget allocated a total of 53 trillion dinars for employee compensations, while the government received approximately 54 trillion dinars through the dinar-dollar exchange rate set at 1450. The 20% reduction aligned with the deficit in the current account, estimated to be around 20% of the Gross Domestic Product (GDP) for the year 2020.[10]

9. Available on the Parliament website: https://iq.parliament.iq/blog
10. Mazhar Mohammed Saleh, "The Iraqi Dinar Between the Debates of Floataion and Reduction," available on the Iraqi Economists Network website.

This preemptive measure aimed to avert the devaluation of the Iraqi dinar's value, seeking to prevent a scenario akin to the Lebanese pound's rapid decline. The announcement by Riad Salameh, the Governor of the Central Bank of Lebanon, revealing insufficient foreign reserves to support the local currency, resulted in the Lebanese pound plummeting from approximately 1500 Lebanese pounds per 1 USD to an alarming rate of 10,000 Lebanese pounds per 1 USD. This catastrophic devaluation drastically impacted the minimum wage in Lebanon, which, initially at around 650,000 Lebanese pounds, nosedived to a mere $45, compared to its former value of $450. This scenario was foreseeable following the concerning and alarming depletion of foreign reserves, which serve as the cash cover for the local currency.

The decline in foreign reserves was triggered by a dual shock to the Iraqi economy before the first wave of the COVID-19 pandemic. Firstly, terrorist groups like ISIS occupied two-thirds of Iraqi territory, including control of oil fields. Secondly, the price of a barrel of Basra Light crude oil plummeted from $99.3 in September 2014 (the first month of Haider al-Abadi's government) to $24.7 in January 2016. Notably, the 2016 budget had initially estimated the oil barrel price at $45. In response to this decline, Haider al-Abadi's government increased the public debt ceiling by issuing treasury bonds, resulting in domestic debt-to-GDP ratios rising by 3.6%, 15.5%, and 24.5% from 2014 to 2016.

External borrowing played a crucial role in easing financial burdens, with international support aiding Iraq in combating terrorist groups like ISIS. However, this approach resulted in a decline in foreign reserves, decreasing to approximately $46 billion in 2016 from around $73 billion at the end of 2013. The reduction was linked to the Central Bank's commitment to discounting treasury bonds from the Ministry of Finance and ensuring price stability through foreign currency auctions.

Recognizing persistent challenges and the short-term deterioration in security and finances, the Central Bank raised the official exchange rate of the dollar from 1166 to 1188 dinars in 2014 and further to 1190 in 2015. This rate remained stable throughout Haider al-Abadi's government.

Conversely, the parallel exchange rate increased to 1275 and 1247 dinars in 2015-2016, respectively, widening the exchange rate gap by 4.78% and 7.14%. This situation, coupled with the significant difference between the Central Bank's purchases from the Ministry of Finance and its sales through the window, amounted to 11.8 and 7.8 billion dollars, leading to a decrease in reserves to around $45.3 billion in 2016.

The economic challenges faced by Iraq during Haider al-Abadi's government bear some resemblance to the crisis experienced by the government of Mustafa al-Kadhimi. However, notable differences include increased military spending to confront the terrorist organization ISIS during al-Abadi's tenure, in contrast to healthcare spending addressing the spread of the COVID-19 pandemic under al-Kadhimi.

Despite facing dual shocks, there was no inclination from the financial authority during al-Abadi's tenure, with the Central Bank of Iraq led by Ali Mohsen Al-Alaq, to significantly reduce the value of the dinar against the US dollar. The exchange rate was raised by 2% at around 24 additional dinars per US dollar.

In the face of a significant 75% decline in petrodollar revenues between September 2014 and January 2016, determining the end time of the crisis was challenging. While a potential solution could have involved reducing the value of the dinar to more than 24 dinars, aiming to address the budget deficit and lower dependence on external borrowing, the decision to keep the exchange rate stable required sacrifice. Iraq lost about $28 billion of its foreign reserves and bore external debts of around $13 billion, totalling $41 billion.

After the imminent resolution of the COVID-19 crisis and the reopening of Chinese, American, and European economies, coupled with the recovery of energy prices that compensated for losses suffered by oil companies, a new geopolitical challenge emerged with the Russian-Ukrainian conflict. This conflict subjected energy supplies to international and regional tensions, causing energy prices to follow an upward trajectory.

Following Russian President Vladimir Putin's announcement of war against Ukraine on February 24, 2022, the price of a barrel of oil reached a significant milestone, hitting three digits for the first time since October 2014. This surge in oil prices resulted in a substantial financial windfall for the government. Consequently, Iraqi politicians advocated for restoring the dinar to its pre-devaluation value, citing various reasons, including supporting the impoverished class in society, as the poverty rate had risen to around 30% after the initial devaluation.

In response to these calls, the government, led by Mohammed Shia' Al-Sudani, appointed Ali Mohsen Al-Alaq as the governor of the Central Bank of Iraq. Al-Alaq promptly took action by reducing the exchange rate of the dollar from 1450 to 1300 dinars in March of the current year, with a reduction rate estimated at 13%. This move, however, triggered an unprecedented demand for foreign currency, leading to a rapid increase in the parallel exchange rate.

The reduction in the exchange rate of the dollar coincided with an escalation between the U.S. and its allies on one side and Iran on the other. The success of any government in Baghdad lies in dealing neutrally with both parties amidst the competitive issues between them, presenting the most serious challenges to the country's monetary system during this period.

Financially, Iraq operates within the dollar zone, intertwined with the U.S. in financial and banking transactions. Simultaneously, Iraq shares a trade border of approximately 1458 km with Iran, serving as a crucial passage for Iranian goods to local markets. Iraq has become an indispensable trading partner for Iran. The implementation of international banking compliance rules, specifically the electronic platform, altered the rules of commercial financing used for two decades. This shift widened the gap between the official exchange rate and the parallel rate to about 22%, reaching 1590 IQDs per 1 USD in late September. It's worth noting that the globally accepted rate for exchange rate fluctuations, as per International Monetary Fund guidelines, is within (+/-1%).

The exchange rate in the parallel market significantly influences the prices of most imported goods and services. While most traders engaged in commercial dealings with any country can obtain remittances and credits at the official rate through the electronic platform, those dealing with Iran face unique challenges. Due to U.S. sanctions on Iranian banks, prohibiting any exchange with them in dollars, merchants receive the dollar at the parallel rate, not at the official exchange rate. This situation is compounded by the substantial trade volume, amounting to $9 billion in the Iranian fiscal year[11], as stated by Yahya Ale Eshaq, the head of the Joint Iranian-Iraqi Chamber of Commerce. In practical terms, Iraq needs around $25 million daily to finance trade with Iran, constituting about 60%-75% of the Central Bank's currency auction sales in cash. This demand is not limited to traders but also extends to various sectors, including tourism, medical, and educational purposes. Iraqis, according to the Iranian news agency IRNA, make up 55% of the total tourists entering Iran in 2022. Despite the Central

11. https://www.almayadeen.net/

Bank's instructions allowing travellers to obtain the dollar at the official exchange rate from exchange companies by presenting their identification documents, this privilege does not extend to travellers to Iran. This dynamic contributes to the increasing demand for the dollar in the parallel market and the expanding exchange rate gap.

Conclusion:

Based on the foregoing, we can conclude that despite the monetary policy reducing the exchange rate of the US dollar to 1300, the gap between the official and parallel rates widened to 22%, the highest since 2003. This contradicts the expected monetary outcomes of this decision.

Analyzing the foreign exchange market from the supply and demand perspectives, the country experiences a financial surge in dollars due to rising oil prices, the primary source of foreign reserves, which reached $90 billion for the first time at the Central Bank. Comparing these foreign accumulations with the narrow and broad money concepts, they exceed the full coverage of the money supply. When compared to the optimal standard of foreign reserves covering monthly import values according to the 3-month Triffin standard, the Central Bank holds more than five times its monthly import needs, with reserves covering imports for about 16.1 months. Finally, in comparison to the real GDP, they represent 66%.[12] Therefore, it cannot be said that there is a decrease in the dollar supply causing the widening of the exchange gap.

On the demand side, the monetary policy, through the foreign currency selling window over the past 19 years, has been able to absorb all bank requests compliant with the controls and laws for this window. Thus, it can be said that the newly established channels between supply and demand are causing this price discrepancy, as international

12. Data is available on the official website of the Central Bank of Iraq.

compliance rules (the electronic platform) changed the commercial financing rules applied for twenty years, and US sanctions restricted 14 private banks from dollar transactions. These are more political than economic issues, and all these decisions were made to try to reduce trade volume with Iran and prevent it from obtaining dollars.

The weakness of successive government measures in Iraq after 2003 to curb administrative and financial corruption, especially regarding dollar smuggling, lack of transparency, and integrity in the procedures regulating the dollar exit process, is one of the main reasons for the widening gap between the official and parallel exchange rates. On the other hand, corruption in the customs system poses another challenge to exchange rate stability. The forms of corruption in official customs outlets vary with the types of goods intended for import, in addition to unofficial customs outlets that serve as a gateway for unlicensed goods to enter local markets or expired ones.

Consequently, the crisis in the Iraqi political economy lies in the failure of governing systems to reduce reliance on an oil sector beyond their control in terms of price and supply. This can be achieved by diversifying revenue sources and developing the country's production structure. The root of the crisis lies in the political condition and the absence of understanding and harmony between the policies of the ruling parties. Therefore, the value of the Iraqi dinar will continue to be affected by geopolitical tensions, which are bound to have repercussions on economic indicators and commercial activities. Financial management failed to seize opportunities for economic development following the release of petrodollar returns and periods of price stability, restoring confidence in the dinar's value after years of rampant inflation in the country. Almost all successive governments recognize the importance of policies aiming to seize development opportunities and confront price fluctuations for oil exports, but none of them has succeeded in implementing these policies.

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