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Devaluation of the Currency and Raising the Dollar Exchange Rate A Tool to Avoid the Dilemma.. Is the Timing Feasible?

Dr. Muhanad Muneer Al-Salman

● **Policy Paper**



Devaluation of the Currency and Raising the Dollar Exchange Rate: A Tool to Avoid the Dilemma.. Is the Timing Feasible?

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[Dr. Muhanad Muneer Al-Salman](#)/ College of Administration and Economics /
University of Mosul

[Translation](#) / Milad Alnofali

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www.bayancenter.org

info@bayancenter.org

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I. Executive Summary

- Iraq is a net importer of all products and services, offset by a modest contribution to the export of a few primary commodities, within a trade structure that reflects the rentier nature of the economy and the weak productive capacity of its other sectors.
- In the absence of a diversified productive base that offers import–substituting alternatives, the effects of currency devaluation translate into higher import prices and pressure on the balance of payments, squandering part of the competitive gains anticipated from the devaluation.
- Currency devaluation may yield an outcome contrary to its stated objective, as the cost of local production may rise due to the increased prices of intermediate inputs, while the cost of imports simultaneously increases, thereby broadening inflationary pressures without fundamentally altering the trade structure.
- Empirical benchmarks indicate that extensive currency devaluation without accompanying structural plans leads to tangible inflationary pressures that exacerbate monetary liquidity disruptions and erode macroeconomic stability over the medium term. Furthermore, the parallel market’s response to these changes often exacerbates imported inflation, as importers seek to cover their needs outside official channels, thereby increasing the money supply among the public.

- There is no urgent monetary necessity justifying the creation of a new price shock for the Iraqi dinar. It may be more appropriate to focus on narrowing the market gap, improving public financial management, and diversifying revenues, rather than utilizing the exchange rate as a primary tool to address the budget deficit.
- The sum of export and import elasticities reached approximately 0.53 at best, and imports were not significantly affected by changes in the exchange rate, whereas the elasticity of the productive apparatus requires a period that may extend from three to five years. The structural failure stems primarily from the depreciation of the dinar's exchange rate, which should have theoretically boosted exports and reduced imports; yet this did not occur at all, because Iraq's exports are purely oil-based and constrained by low global oil prices, while imports have continued their uninterrupted rise post-2003.
- Currency devaluation transmits to the prices of imported fuel, food, medicine, and intermediate goods, and may escalate into broad-based inflation if firms and workers begin pricing their products and wages based on a higher expected exchange rate, coupled with unstable inflation expectations or a large share of tradable goods.
- Currency depreciation may increase the value of dollar-

denominated debt, placing pressure on corporations, banks, and the government. Devaluation here may become a tool for managing the crisis rather than a means of exiting it, unfolding through a difficult scenario: currency devaluation, followed by price hikes, interest rate increases, and an economic slowdown, without any rapid improvement in exports or reserves.

- The decision to devalue the exchange rate under such unstable conditions creates chaos in transactions and expectations of further devaluation, and drives up demand for foreign currency amid weak confidence in the national currency. The burden of its inflationary pressures is borne largely by most low-income groups through the decline in their purchasing power.

- The inability to contain the inflationary effects of devaluation—given the rigidity of the productive apparatus and deficit financing policies—may negate all gains of devaluation and cause the public to lose confidence in the domestic currency. Consequently, demand for foreign currency increases, and the currency's value deteriorates further until money loses its function as a store of value.

- The core problem in Iraq is the narrow fiscal space and heavy reliance on oil, rather than the existence of a single exchange rate that can independently resolve structural imbalances.

- The decline in imports will be the result of reduced purchasing power rather than efficient domestic production substituting for them, while financial stability will be adversely affected as a result of speculative activity.
- Devaluation is more likely to succeed when four conditions are met simultaneously:
 - The existence of a clear gap between the official rate and the actual rate.
 - The availability of dollar-denominated exports, remittances, or revenues.
 - The state's ability to curb domestic demand; if deficit financing continues via printing money, or if wages and subsidies expand without funding, prices will rapidly consume the effect of devaluation, and inflation and pressure on the currency will return anew.
 - The availability of sufficient reserves and confidence.
- Successful timing for announcing a devaluation occurs within a clear program that includes a unified and credible exchange rate, a tighter monetary policy, a clear ceiling on deficit financing, financial protection for the weakest groups, and measures to improve exports, workers' remittances, and investment.
- It is illogical for devaluation to be the sole solution; rather,

it should be part of an integrated fiscal, monetary, and productive package, along with improvements in the business environment and support for the competitive environment. Without a social protection package, devaluation transforms into an indirect tax paid by employees, retirees, and small business owners; therefore, the decision should not be evaluated solely by its impact on the budget, but through its effect on inflation, real income, poverty, and social stability.

II. Introduction

Economic policymakers often resort to searching for out-of-the-box solutions to address the intractable problems facing the economy. Among these solutions is the attempt to influence the currency's value and utilize the savings generated from its devaluation to support the expenditures burdening the state, in exchange for the dollar-denominated oil revenues it collects. However, this approach often lacks precise forward-looking studies, as it leads to the erosion of the purchasing power of fixed-income earners and increases the risks of domestic inflation; furthermore, the deliberate devaluation of the exchange rate does not achieve the desired objectives unless accompanied by sustainable fiscal discipline and a genuine diversification of revenue sources away from the fluctuations of oil prices.

Since the collapse of the Bretton Woods system in the early 1970s and the unpegging of the world's currencies from a strict tie to gold or the dollar, the fundamental question facing the monetary decision-maker has become: when is devaluation feasible, and what difference does its timing make between containing the crisis and complicating it? The Iraqi case carries a special constraint in answering this question; the linkage of the currency's value to the oil Iraq exports and its global prices means its value is determined from outside the economy. Consequently, problems arise linked to global oil markets and the difficulty of controlling

the money supply and its value. More dangerously, Iraq is a net importer of all products and services, offset by a modest contribution to the export of some primary goods, within a trade structure where the rentier nature of the economy and the weak productive capacity of the rest of the sectors are clearly evident. Does this measure, therefore, represent a sustainable economic solution or merely a temporary means to alleviate budget pressure at the expense of citizens' purchasing power?

III. The Nature of the Dilemma: A Rentier Economy and a Distorted Trade Structure

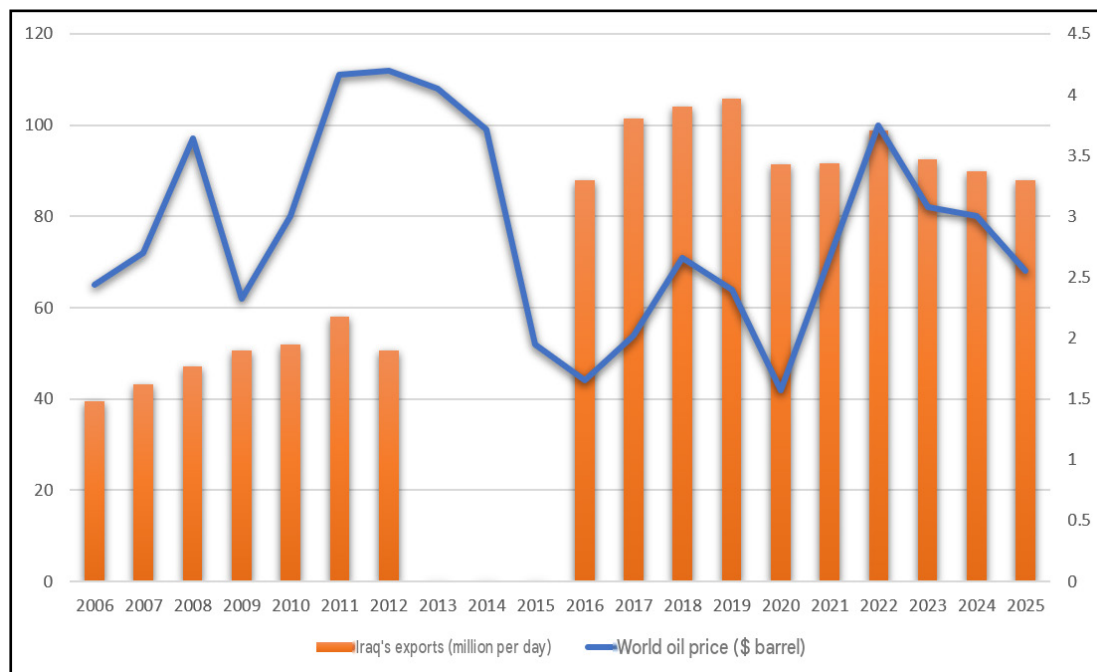
The core of the Iraqi dilemma is represented by the excessive reliance on oil revenues, which makes monetary policy hostage to the fluctuations of global crude prices, rather than being an effective developmental tool. Data on Brent prices and Iraq's exports from 2006 to 2025 show a sharp fluctuation in both together, which in turn leads to a fluctuation in the currency's value and in the dollars the state receives, and consequently, a decline in the importation of all products, including food items.

- Devaluation of the Currency and Raising the Dollar Exchange Rate

Year	(Global Brent (\$/barrel	(Iraq Exports (million b/d
2006	65	1.48
2007	72	1.62
2008	97	1.85–1.77
2009	62	1.9
2010	80	1.95
2011	111	2.18
2012	112	1.9
2013	108	No data available
2014	99	No data available
2015	52	No data available
2016	44	3.4–3.3
2017	54	3.8
2018	71	3.9
2019	64	(IMF/CEIC) 3.97
2020	42	3.43
2021	71	3.44
2022	100	3.71
2023	82	3.47
2024	82–80	3.37
2025	69–68	3.5–3.3

Source: Prepared by the researcher based on EIA, IMF, and CEIC data.

Figure 1. Oil price and Iraq's oil exports for the period 2006–2025



Source: Data from the table above.

Alongside this imbalance on the revenue side stands a structural imbalance in the structure of foreign trade, represented by the reliance of exports on a single commodity, which is oil, against the diversification and vast expansion of imports. External demand for Iraqi primary exports grows relatively slowly, whereas Iraq's demand for imported manufactured goods is trending rapidly upward. For this same reason, and in the absence of a diversified productive base that provides alternatives to compensate for imports, the effects of currency devaluation transfer to a rise in import prices and pressure on the balance of payments, and a portion of the competitive gains expected from the devaluation is lost.

The weak response of Iraqi imports is due to three main factors: The first is the weakness of the local alternative; the consumer cannot abandon the imported commodity unless there is a similar Iraqi commodity in terms of quality, price, and availability. Local demand looking for alternatives to high-priced imports collides with the absence of the alternative in light of a unilateral economy that relies on oil and suspends the rest of the productive sectors, which acts as a driver for a rise in the general price level. The second is the nature of the imported goods; a significant portion of them are not luxuries that can be dispensed with, but materials that go into production, construction, transport, or public services. The third is the weakness of the local productive apparatus; if the Iraqi product relies on imported raw materials and equipment, the devaluation raises its costs as well, and may prompt producers to raise prices instead of increasing production. Based on this, the devaluation may lead to a result contrary to the declared goal: the cost of the local product rises due to the high cost of production requirements, and the cost of the imported item rises at the same time, thus widening inflationary pressures without the trade structure changing in a fundamental way.

IV. The Trajectory of Exchange Rate Adjustments in Iraq Between 2020 and 2026

Devaluation is not a newly born idea, but rather the back door to which economic policy returns to address the cyclical budget deficit. The value of the currency is pointed to as a radical solution whenever the problem arises; then the decision is postponed and treated with other temporary tools that grant the problem additional time. Empirical experiences indicate that expansion in this measure without accompanying structural plans leads to tangible inflationary pressures that exacerbate monetary liquidity disturbances, and leads to the erosion of macroeconomic stability in the medium term. Moreover, the response of the parallel market to these changes often exacerbates imported inflation, as importers seek to cover their needs from outside official channels, thus increasing the money supply among the public.

On the ground, the Central Bank of Iraq adjusted the exchange rate in December 2020 from approximately 1,190 dinars per dollar to 1,450 dinars for buying foreign currency from the Ministry of Finance, and 1,470 dinars for selling to the public, justifying the decision by the decline in oil prices, the Corona crisis, the widening deficit, the need to finance spending, and to avoid depleting foreign reserves. The devaluation here was an intersection between an oil shock and an external regulatory shock. With the sharp decline in oil revenues and the worsening of the

pandemic, there came an attempt to plug the financing gap of the 2021 budget, meaning the devaluation took on a purely fiscal character. The main goal was to increase the value of oil revenues in dinars, support the budget, and reduce pressure on reserves; however, the social outcome was represented by a rise in the prices of many goods, especially food and imported items, and a decline in the purchasing power of wages and savings in dinars. Although inflation later retreated with the improvement of external conditions and the decline in food and energy prices, the exchange rate adjustment was part of treating fiscal and external imbalances, not a substitute for fiscal and economic reform.

Since late 2022, however, a completely different trajectory began, as the US Treasury Department and the Federal Reserve tightened oversight over Iraqi banks through a new electronic auditing system similar to international compliance standards for combating money laundering. Consequently, several banks were excluded from the currency sale auction, many financial transfers bounced back, and the official supply of the dollar shrank, which created a renewed gap between the official rate and the parallel market. Instead of an additional devaluation, the Central Bank took a partially reverse decision in February 2023 by officially raising the value of the dinar from 1,460 to 1,320 per dollar, in an attempt to narrow the gap with the parallel market and alleviate the inflationary pressure on citizens. Despite the Central Bank's insistence

in its statements that it is the sole source of the dollar, and that what is known as the “parallel market” has no legal existence, monitoring reports indicated the continuation of a tangible difference between the two rates until 2025, driven by the continuation of the electronic transfer platform’s restrictions on more than 28 Iraqi banks. Nevertheless, and supported by foreign reserves that reached their highest levels in the country’s history, the gap retreated to “limited levels” at the beginning of 2025.¹

At present, and up to August 16, 2026, the official price of the dollar published in the data of the Central Bank of Iraq reached approximately 1,310 dinars per dollar. The bank denied in June 2026 the existence of a trend to change the exchange rate, and warned against a forged document that claimed the existence of a request to raise the rate to 1,600 dinars. Meanwhile, the Governor of the Central Bank confirmed in February 2026, according to what was reported by the Iraqi News Agency, that the exchange rate is fixed, and that the bank does not suffer a problem in gold and foreign currency reserves, with the continued pumping of the dollar through official channels. These givens mean that the devaluation decision at the current timing does not seem driven by an acute reserves crisis in the direct sense; there is no urgent monetary necessity that justifies creating a new price shock, and it may be more appropriate to focus on reducing the market gap, improving public financial

1. Mamood Baban, Value of Iraqi dinar against US dollar, Reuters Center, November 11, 2023, <https://www.jstor.org/stable/resrep54902?seq=1>

management, and diversifying revenues, instead of using the exchange rate as a primary tool to address the budget deficit.

V. Theoretical and Structural Constraints: Why Might Devaluation Succeed and Why Might it Fail?

Theoretically, the trade balance improves after a currency devaluation if the sum of the elasticities of demand for exports and imports exceeds a true one (unity). However, this improvement is not immediate; the J-curve (which describes the temporal dynamic of the trade balance after the devaluation of the local currency) shows that import prices may rise directly, while quantities need time to adapt. Thus, the trade balance deteriorates first, then improves later if the elasticities are sufficient. The success of the policy requires two conditions: that the domestic demand for imports and foreign demand for exports be elastic, and that the national productive apparatus be characterized by sufficient flexibility (technologically, financially, and humanly) to produce goods of similar quality and competitive prices, and to substitute national products for imported ones. In the Iraqi case, these conditions have not been met empirically; the sum of the elasticities of exports and imports remained less than a true one, reaching about 0.53 in the best of cases, and imports were not significantly affected by the change in the exchange rate, while the elasticity of the productive apparatus requires a period that may extend from three to five years. The basis for this failure is

structural; the drop in the exchange rate of the dinar should have raised exports and lowered imports, but that did not happen at all, because Iraq's exports are purely oil-based and tied to low global oil prices, while imports continued their continuous rise after 2003.

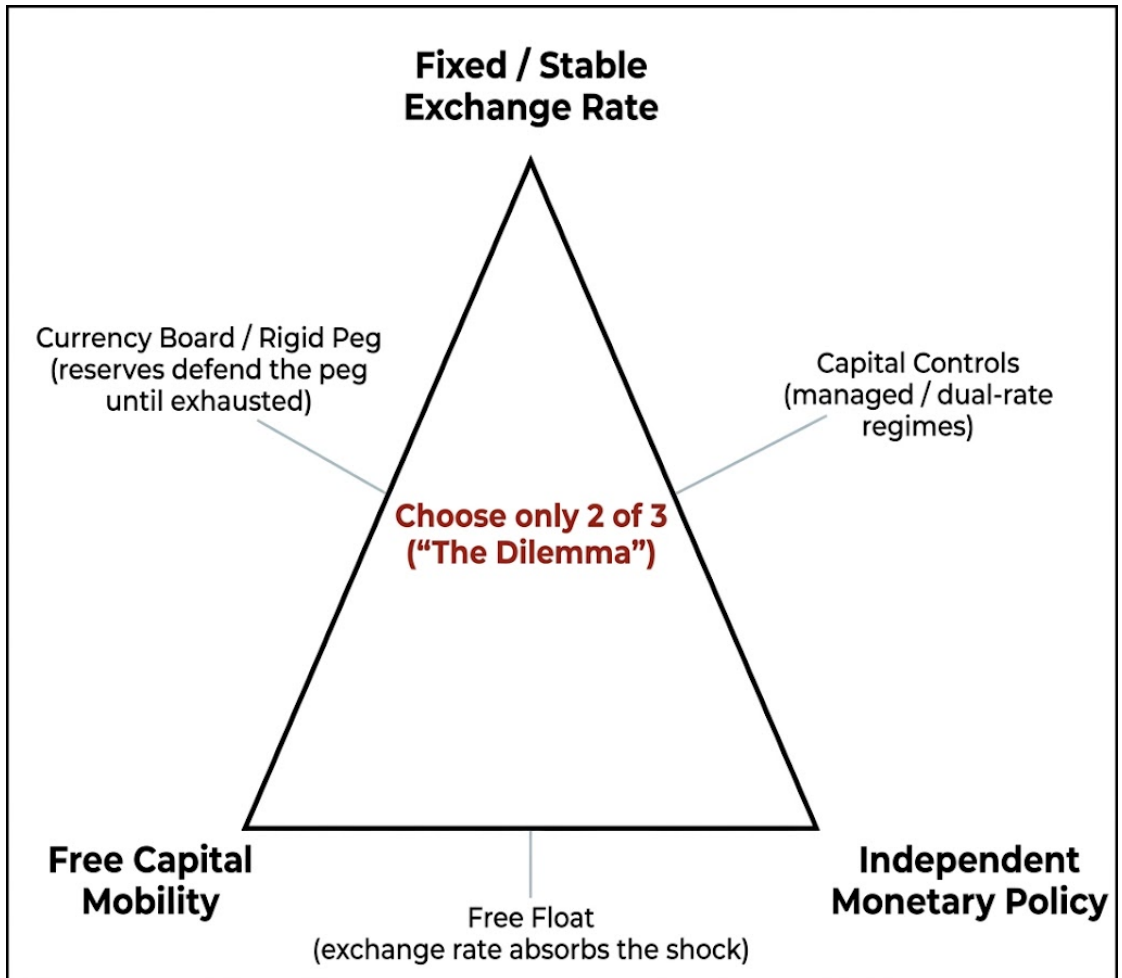
The structure of the economy adds an additional constraint: oil exports do not respond to the devaluation of the dinar rate in the way that industrial or agricultural goods respond, because their volume is linked to production factors, export capacity, production quotas, global demand, and oil prices. A rise in the dollar may raise the dinar value of oil revenues, but it does not automatically create non-oil exports, nor does it change the essence of the problem. Accordingly, instead of improving competitiveness, the currency devaluation transmits to the prices of fuel, food, medicine, and intermediate goods in importing economies, and it may turn into broad inflation if companies and workers begin pricing their products and wages based on a higher expected exchange rate. The problem of the exchange rate passing through to inflation is usually greater in emerging economies, especially with unstable inflation expectations or a large share of tradable goods. Furthermore, the currency devaluation may raise the value of debts denominated in dollars, placing pressure on companies, banks, and the government. The devaluation here may become a tool to manage the crisis, not a means to exit it, through the difficult scenario: currency devaluation, then rising prices, then raising

interest rates, then slowing the economy, without a rapid improvement in exports or reserves.

The constraints do not stop at inflation channels only; the choice of the exchange rate itself is constrained by the “Impossible Trinity” model, which asserts that any economy cannot simultaneously combine a fixed or stable exchange rate, complete freedom for the movement of capital, and independence in managing domestic monetary policy; achieving any two of these goals requires sacrificing the third. This proposition did not remain confined to the theoretical model of Mundell and Fleming, but was subjected to empirical testing covering more than 130 years of international monetary history, which concluded that these constraints remain largely in place across various monetary regimes. The literature has also shown that strictly pegged regimes carry within them the seeds of their collapse whenever they conflict with other domestic policy goals. In economies effectively tied to the dollar, like the case of Iraq and most Gulf states, openness—even partially—to the movement of capital and external transfers means implicitly conceding the independence of monetary policy. The only “safety valve” when an external shock occurs (such as a drop in oil or the restriction of banking correspondent channels) becomes either the depletion of reserves or adjusting the exchange rate periodically and in phases, with the accompanying capital flight and the reluctance of investors and the withdrawal of their money to more stable environments.

The result is that the decision to devalue the exchange rate in such unstable conditions is a decision with negative, not positive, effects; it creates chaos in transactions and expectations of further devaluation, and raises demand for foreign currency in light of weak confidence in the national currency, and the majority of low-income groups bear the consequences of its inflationary pressures through a decline in their purchasing power. Moreover, the lack of ability to contain the inflationary effects of the devaluation—in light of the rigidity of the productive apparatus and deficit financing policies—may cancel out all the gains of the devaluation; the public will lose confidence in the local currency, demand for foreign currency will increase, and the value of the currency will deteriorate further and further, until money loses its function as a store of value.

Figure (2) The Impossible Trinity – Only two of the three objectives can be combined simultaneously



Source: Obstfeld, Shambaugh & Taylor (2005); <https://ideas.repec.org/a/tpr/restat/v87y2005i3p423-438.html>

VI. A Reading of the Fiscal Situation: Is the Current Timing Feasible?

The International Monetary Fund pointed out, in the 2025 Article IV consultations, that the Iraqi fiscal deficit reached about 4.2% of GDP during 2024, compared to 1.1% during 2023, as a result of increased spending on wages, salaries, and energy purchases. The Fund warned against resorting to monetary financing of the deficit because it may increase inflation, deplete foreign reserves, and weaken the Central Bank's balance sheet. According to the Fund's own figures, real output contracted by 2.3% in 2024, with inflation at the end of the year at 2.7%, and international reserves reaching \$100.3 billion. In the baseline scenario, growth is expected to decline to 1.4% in 2026, the deficit to rise to about 9.2% of output, and reserves to decrease to \$79.2 billion, with the official exchange rate remaining at 1,300 dinars to the dollar as an average for the period. This means that the core of the problem, from the Fund's perspective, is the narrow fiscal space and heavy reliance on oil, not the existence of a single exchange rate that alone can solve the imbalances.

Against this, the timing for a large and unconditional devaluation currently seems unfavorable for three reasons: First, inflation; the pass-through of the exchange rate to prices increases with high inflation and uncertainty, and large and continuous shocks have a stronger impact than small

changes. Second, the supply structure; if local production is not capable of replacing imported goods, then the decline in imports will partially be the result of a decrease in purchasing power, not the result of replacing them with efficient local production. Third, financial stability; the widening gap between the official and parallel markets creates incentives for speculation and repricing, and weakens the transmission of monetary policy. Nevertheless, there is a strong argument in favor of treating the gap itself: the continuation of an official price physically far from the market price creates a dual price and increases allocative distortions. From a stability perspective, a process of gradual unification of the price with improved access to official banking channels may be less risky than keeping the gap for a long time and then jumping to a large correction all at once.

Four scenarios can be envisioned for the timing:

- A devaluation synchronized with the current oil price peak (\$91–\$117): Risks making a decision for an unstable price level based on an increase driven by a temporary conflict (as actually happened between April and July); the price may return to below \$65 within months, creating the need for a rapid second devaluation—which is the “sequential devaluations” pattern that weakened Egypt’s credibility after 2016.
- A devaluation synchronized with a price collapse (repeating

the December 2020 pattern): Literally repeats the 2020/2021 precedent that cost a loss of about 23% of value at the time. The lesson from international comparison is that decisiveness in a single moment, accompanied by a clear institutional signal, is less costly than hesitation. “General uncertainty”—not the devaluation itself—was the source of the greatest damage, making the quality of government communication a crucial factor as much as the economy itself.

- Freezing the decision amid continuous volatility (the current actual policy): As long as reserves can withstand the pressure, the exchange rate remains as is. However, the widening of the parallel gap to 1,700 dinars is an early warning indicator perfectly matching the pre-crisis pattern in the experiences of Egypt 2014–2016 and Iraq 2022–2023. The validity of this scenario is linked to the rate of reserve depletion, not just political will.
- A managed, gradual correction instead of a single leap: Theoretically possible, but Egypt’s experience in 2014–2015 (a partial 5% devaluation) shows that timid gradualism may fail to close the gap originally if it is smaller than the size of the actual imbalance.

The analytical summary is that the sharp volatility itself—not just the direction of the price—is what makes this particular moment the worst to calibrate a calculated single devaluation, as every decision made today

may seem wrong within months, in any direction.

VII. When is Devaluation Feasible?

The timing of devaluation is not measured by the existence of a budget deficit alone, but by the extent of the economy's readiness to bear the consequences of the decision. Devaluation is more viable for success when four conditions are met simultaneously: First, the existence of a clear gap between the official rate and the actual rate, as gradually unifying it may shrink the parallel market and improve the allocation of foreign currency. However, nominal devaluation does not succeed if the market continues to expect a new devaluation after a short period. Second, the existence of exports, remittances, or revenues in dollars that can respond, as producers need productive capacity, financing, inputs, ports, and trade procedures that allow for increased exports. Third, the state's ability to curb domestic demand; if deficit financing by printing money continues or wages and subsidies expand without funding, prices will quickly devour the effect of the devaluation, and inflation and pressure on the currency will return anew. Fourth, the availability of sufficient reserves and confidence. Having foreign reserves at a good level is a condition for the success of a devaluation policy, as an economy enjoying a decent level of reserves does not need to resort to this policy, at least in the short term. The conditions for successful timing can be summarized in four points:

- The existence of a structural trade deficit with foreign reserves sufficient to absorb the initial shocks resulting from the devaluation.
- An integrated fiscal and structural reform plan that includes coordinated monetary and fiscal policies to combat inflation, such as controlling government spending and tightening monetary policy, alongside structural reforms to support productivity and boost exports.
- Manageable inflation expectations; if inflation is already high, the devaluation may make things worse, and tools must be available to control the rise in prices afterward.
- Gaining market trust through credibility and transparency in economic policies to avoid capital flight.

Timing approaches success when the devaluation is announced within a clear program encompassing a unified and credible exchange rate, a tighter monetary policy, a clear ceiling for deficit financing, financial protection for the weakest segments, and measures to improve exports, worker remittances, and investment. Conversely, announcing a devaluation in isolation, with the continuation of the deficit, monetary financing, and an absence of transparency regarding reserves, usually means the market will view it as a down payment rather than a final price.

International comparisons confirm five factors that determine the feasibility

of timing: (a) Institutional decisiveness over hesitant gradualism. Comparing Nigeria's experience (an immediate decisive correction) with Egypt's 2014–2015 experience (a failed gradualism that did not close the gap) and Turkey's (prolonged postponement for more than two years) shows that a decisive correction accompanied by a clear institutional signal tends to reduce the duration of macroeconomic disruption. In contrast, delayed gradualism accumulates “flow” costs year after year without closing the underlying gap; (b) The adequacy of foreign reserves at the time of correction. The availability of comfortable reserves—as in the Iraqi case post-2023 and Nigeria—allows for smoother management of the post-correction phase and reduces the probability of sliding into a speculative attack; (c) The elasticity of the export apparatus and the productive structure. Many rentier economies—as Arab studies on Algeria, Libya, and Egypt show—suffer from structurally low export elasticity, which makes the expected “competitive” benefit of limited effect unless accompanied by true productive diversification. This explains why the Egyptian flotation in 2016 did not prevent the recurrence of the imbalance later; (d) The consistency of the accompanying monetary and fiscal policy. An exchange rate decision does not operate in isolation from the interest rate decision and fiscal discipline; and (e) The nature of the fundamental catalyst for the dilemma. The Iraqi case clearly distinguishes between a dilemma originating purely internally and fiscally (as in 2020) and a

dilemma originating from an external regulatory/geopolitical constraint (as in 2022–2023). In the second case, the timing of the monetary adjustment remains a necessary condition for immediate relief, but it is insufficient to resolve the core imbalance, which requires institutional and regulatory reform that goes beyond the exchange rate tool alone.

On the opposite side, devaluation is fraught with risks and may lead to counterproductive results if taken in light of high inflation rates and weak reserves, or the existence of a large external debt denominated in foreign currencies, as the burden of this debt increases after the devaluation and may push the country toward bankruptcy; or the absence of supporting mechanisms and policies that protect poor groups and balance monetary and fiscal policies. In such cases, any potential adjustment must be accompanied by measures that protect those with limited incomes, such as increasing minimum salaries or providing temporary cash transfers, ensuring the availability of basic goods, monitoring markets, and preventing the exploitation of the decision to raise prices in an exaggerated manner.

In all cases, it is not logical for the devaluation of the Iraqi dinar to be the sole solution, but rather part of a comprehensive package encompassing: structural fiscal reform (reducing unnecessary government spending, increasing revenues through fair taxes, and combating corruption); a transparent monetary policy that entrenches confidence in the local currency and helps manage inflationary expectations; and bolstering

productivity and exports via investment in infrastructure, improving the business environment, and supporting local industries to become more competitive without relying entirely on the exchange rate. It should also be remembered that devaluing the dinar affects all segments, but to varying degrees: limited-income families spend a large percentage of their income on food, transport, medicine, and housing, which are sectors that are quickly affected by a rise in the dollar's rate; fixed-income earners and those with dinar savings see their purchasing power decline directly; and small projects that depend on imported raw materials are harmed, while some exporters or dollar holders may benefit. Without a social protection package, the devaluation transforms into an indirect tax paid by employees, retirees, and small business owners; therefore, the decision should not be evaluated through its impact on the budget alone, but through its impact on inflation, real income, poverty, and social stability.

VIII. Conclusion

The decision to devalue the currency and raise the dollar exchange rate is a double-edged sword: effective in correcting imbalances and stimulating growth under certain conditions, and a bearer of grave risks that may exacerbate the deterioration of living conditions, inflation, and the debt burden under other conditions. Timing is a necessary condition, but it is insufficient to avoid the dilemma. On one hand, the literature of the first generation of currency crises confirms that postponement is rarely without cost: it either accelerates the date of the crisis through speculators' expectations, or it accumulates the cost of "flows" until the final correction becomes larger and more painful than if it had taken place early—as embodied in the Turkish experience 2021–2023. On the other hand, the experiences of Egypt and Iraq reveal that decisiveness in timing does not negate the need to fulfill other conditions: real productive elasticity, sufficient reserves, and sustainable institutional credibility that does not relapse after the conclusion of the reform program.

In the Iraqi case, the fundamental problem appears to be financial and structural more than an exchange rate problem. The sustainable cure starts with controlling the growth of salaries and current expenditures, expanding non-oil revenues, reforming banks, shrinking the cash economy, improving the business environment, and supporting agriculture, industry, and services. The summary judgment is that the current timing

of currency devaluation may be feasible if the intent is to reorganize the exchange rate and reduce the gap between the official and parallel rates in a gradual and announced manner, backed by fiscal, monetary, and banking reforms. However, if the intent is to use raising the dollar price as a substitute for fiscal reform or as a quick way to increase the cash amounts funding the budget, the evidence does not support considering it a sustainable solution. It represents the process of buying short time at the price of inflation and a greater loss of purchasing power, and at that point, raising the dollar price transforms from a tool for correcting an imbalance into a new episode in a series of devaluations and inflation. The optimal policy in the near term is represented by: managing the gap gradually, preventing fiscal expansion after any adjustment, protecting the purchasing power of vulnerable groups with targeted mechanisms, testing the exposure of the banking sector and companies to foreign currency, and utilizing any nominal gain from foreign transfers in dollars to reduce the deficit and build reserves or fund productive investment, rather than expanding current spending. Only under these conditions can the exchange rate transform from a tool for postponing the dilemma into a part of its solution.

IX. Resources:

- International Energy Agency (Reports for several years) – <https://www.iea.org/>
- International Monetary Fund – IMF, Iraq’s Reports from 2019–2026. <https://www.imf.org/en/countries/irq>
- Comprehensive Global Macroeconomic Data and Analytics – CEIC, data collected via varied reports, <https://isimarkets.com/ceic/>
- Mamood Baban, Value of Iraqi dinar against US dollar, Reuters Center, November 11, 2023, <https://www.jstor.org/stable/resrep54902?seq=1>
- Obstfeld, Shambaugh & Taylor (2005), <https://ideas.repec.org/a/tpo/restat/v87y2005i3p423-438.html>



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