

مركز البيدر للدراسات والتخطيط

Al-Baidar Center For Studies And Planning



A Perusal of The Iraqi Dinar Exchange Rate Against the Dollar

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Oil export revenues that come in dollars are owned by the Iraqi ministry of finance, but it cannot use it in transactions inside Iraq, so it sells it to the central bank, which pays for it in Iraqi dinars to the ministry of finance.

The central bank maintains that money (Dollars) until it receives requests for dollars to finance the country's foreign transactions, which cannot be done in Iraqi dinars.

These requests currently come through the currency auction that banks apply to finance commercial deals for the private sector or to finance individuals' requests for dollars.

The central bank also pays in dollars to fund purchases of government institutions from abroad.

Thus, the central bank recovers a portion of the Iraqi dinars that it previously paid to the ministry of finance in exchange for oil dollars.

Thus, the CBI accumulates dinars in order to pay them again to the ministry of finance in exchange for the flow of dollars with the flow of oil exports. Whenever the demand for dollars is less than the revenues from oil exports, a surplus of dollars will be achieved at the central bank, and the country's reserves of hard currencies will therefore rise.

(The term dollar is used to denote hard currencies for simplification, which may be in euros or pounds sterling).

Now, what about the exchange rate of the Iraqi dinar against the dollar? Where does it lay in the operations mentioned above?

Since the central bank pays the value of dollars in Iraqi dinars to the ministry of finance, the calculation of that value is carried out according to the officially approved exchange rate.

This means that the revenues of the ministry of finance from selling dollars to the central bank rise when the value of the Iraqi dinar is devalued, as happened about two years ago when the dollar became equal to about 1460 Iraqi dinars instead of 1190.

The government took this measure to increase its resources in dinars to counter the

deterioration of oil prices and to make an implicit reduction in government salaries and wages by approximately 22%.

This procedure, although it brought benefits to the state treasury in Iraqi dinars, is not considered a good or acceptable procedure at the economic and financial level because of its negative results and side effects on the economy, especially since it was done at a very high rate, which is approximately 22%. Among the negatives that resulted from this procedure:

First: it shakes confidence and credibility in the policies of the government and the central bank because it took such a decision suddenly.

Second: harming the creditors of the Iraqi dinars because they lent dinars worth more dollars and got back dinars worth fewer dollars!!

Third: the erosion of the capital, denominated in Iraqi dinar, by the same percentage of reduction.

Fourth: debtors from merchants and businessmen achieve a spin-off of 22% because they can sell their goods or dollar balances for more dinars than those borrowed from banks or individuals.

Some would argue that whoever lent and borrowed in dinars will not be affected by this reduction. Here, I say that there is a so-called lost opportunity cost that appears in the creditor's account, as he could buy dollars at their previous rate instead of lending the amount in greed at the interest rate.

Also, current Iraq is commercially open to the world and almost imports everything, so the issue of linkage and evaluation with the dollar is at the heart of the accounts of all sectors, even those that consider themselves national but import all machines and production requirements, and even employment for some activities.

In addition to the foregoing effects, there is an imbalance in the structure of production costs, and thus prices for all sectors, and perhaps a loss of ability to compete with others when the market cannot bear to raise selling prices at the same rate of devaluation... especially since

this reduction led to a reduction in the purchasing power of people with limited incomes, such as employees and retirees, which reduced their ability to pay high prices.

Feasibility studies are carried out on the basis of assumed or expected prices for the inputs and outputs of new projects. Given the superior import nature of the Iraqi economy, all these estimates are based on the exchange rate of the dollar in Iraqi dinar.

When there is a reduction in this way, the picture may be reversed, and successful projects may turn into failures and may be closed. Now there is talk about the necessity of restoring the exchange rate to what it was and canceling that big devaluation. If the exchange rate is restored, a new series of economic problems will re-emerge, but the parties affected and who benefits will differ.

It will harm the debtor parties, as the amount of debt will rise in dollars, and the purchasing power of the wage earners and retirees will rise in exchange for a decrease in government revenues in Iraqi dinars. The increase in purchasing power will raise demand by approximately the same amount.

Since Iraq imports everything, the import bill will rise and pressure will increase on the balance of payments and perhaps the reserves of the central bank.

The most dangerous effect is the shaking of the world's confidence in monetary stability in Iraq and the sobriety and rationality of monetary and financial policies, which makes the flow of investments more difficult.

This may lead to a move away from using the dinar in contracts, and the dollar will be used instead of the dinar in contracts to ensure the interests of all parties and to avoid any hasty and ill-considered future decisions.

For all this, I think that the best thing is to pay attention to the groups that were affected by the previous reduction decision and try to support them, as well as support the severely affected health, education, and infrastructure sectors.

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Note: the opinions expressed in this research do not necessarily reflect the center's point of view, but only express the point of view of its author.

About center

Al-Baydar Center for Studies and Planning is a non-governmental and non-profit organization established in 2015 and registered with the NGO directorate in the general secretariat of the council of ministers in Baghdad.

The center seeks to contribute to developing the state and its institutions, by proposing ideas and practical solutions to the main problems and challenges facing the state, including improving public sector management, policies, and strategic planning, using reliable data and best practices. The center engages the relevant authorities in the state with regular meetings to support this objective and utilizes the support of international organizations dedicated to assisting Iraq's development. The center also seeks to support economic reforms, and sustainable development and provide technical assistance to the public and private sectors. The center also seeks to support the development of the private sector to provide job opportunities for citizens through training and upskilling, in a way that reduces dependence on government institutions and contributes to supporting and diversifying the country's economy.

The center aims to utilize the vast amount of potential in Iraq's human resources by organizing programs to prepare and develop promising young people, including leaders capable of proposing, adopting and implementing visions and future plans that advance society and preserve its value-system based on the commitment to a high moral standard and rejection of all types of corruption.

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