

Editorial: The value of the Iraqi currency and structural economic imbalances

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Article seeks to examine the value of the Iraqi currency fluctuations and interpretation of structural imbalances and weak governance vocabulary application and other behavioral factors. And concludes that the following factors may have led to increased demand for foreign currencies and shortage of supply: External political, and weak business environment, the economic and fiscal policy, and the lack of political and economic stability, and the weakness of the productive capacity of local, and that the improvement in the rate of per capita income of Iraq was a factor is the other, weak governance and the rule of law, and the decline of family remittances from abroad, and the growing presence of financial transfer companies and brokerage firms (parallel market), and the emergence of trade zones in border ports.

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The value of the Iraqi currency and structural economic imbalances

Article seeks to examine the value of the Iraqi currency fluctuations and interpretation of structural imbalances and poor application of good governance vocabulary and other behavioral factors.

1. Structural imbalances

Derive the Iraqi currency recovered from the substance of the economy, and it can not be studying the stability of the value of the currency away

from the deal with the economic reality. Currently economy suffers from weakness in its components core, boils down to the reality of the Iraqi economy through the reflection in the components of GDP in 2011, where a different sectors to the GDP as follows: Oil 54.74% and Agriculture 4.15% and the industry about 1.83% etc. It is clear that the Iraqi economy's dependence on the oil sector. We have increased the value of gross domestic product (GDP) at current prices from 53 499 to 211 310 000 000 Iraqi dinars for the period 2004 -2011, for the same period increased the value of gross domestic product (GDP) at current prices excluding oil from 22.691 to 95.822 Mlyardinar.

The problem is that when oil revenues are much bigger than the financial returns obtained from taxes, the government will find usually have at their disposal a significant financial asset earning easy (not achieved at the expense of the financial resources of the citizens). This phenomenon will be encouraged in the absence of democracy (in the full sense) to give the government ample space to act on public money are inefficient, and examples of this have to resort for governments to adopt:

1) economic policies sterile in its effects: represented an increase of salaries and wages away from the accounts of labor productivity, and expand to create employment for the purposes of non-productivity resulting them inflated prices, and pursue a policy of supporting non-economic updated deformation in the structure of the economy and market indicators, and the trend towards spending unproductive political in essence, aims to connect the citizen power.

2) non-spending economic policies: represented activities have no justification and economic aid and open the external circuits and cultural diplomacy does not add real value to the economy and citizens, and be at the expense of pressing economic areas related to the dignity of the citizen.

As a result of each of the foregoing, the private sector in these countries enjoy the presence of weak and marginal, because it does not enjoy the support (as is the case in the public sector), which is concentrated in the areas of economic, commercial and service. The absence of the real role of the private sector means the absence of creativity and speed of adjustment to market needs and provide employment outside the public sector. The uniqueness of the public sector production and the absence of private sector competition lead to the continued deterioration of the efficiency of public sector output, Ø§Û„Ø§Û„...Ø±Ø§Û„,Ø°ÛŠ requires government intervention and protection of the public sector through financial support and customs protection policy (currently support annual rate of 3 billion dollars). Thus, the government is working to protect the institutions of inert productivity at the expense of the citizen, who he unchanged obliged to buy goods or services at a higher price and the quality is poor. This usually sacrifice and also emphasizes global trials does not lead in the short term and not run into improved performance and efficiency of the production of the public sector. The absence of political role of the private sector turns citizens into a cake and hired government employees belonging to the directions of the government, which is no doubt it would affect the independence of the individual from the government and then the breadth Square independent civil society organizations. The governmentâ€™s move in those contexts eventually lead to a split into two factions citizens of different users and others.

Because of limited job opportunities that could be created by the public sector, the government is seeking to create jobs through the promotion of the role of the security by increasing the number of employees of the police and army and take advantage of the surplus cash in the purchase of arms and military equipment. The growth of military capabilities encouraged to address the internal and external differences militarily, and then pre-empt any signs of growth and development in absolute terms. On the other hand that the adoption of oil revenues on the price of oil world market displays

the economies of those countries to the waves of the tide, which is reflected by the sharp fluctuations in oil revenues (as Invert in planning the federal budget from 2008 to 2009. Finally, the oil revenues of the States usually benefit including the cities over the countryside, and this is what causes a migration from the countryside to the city, but no doubt that this migration is usually in short period of time resulting in bottlenecks sharp due to insufficient supply of services in relation to demand and to social and economic problems manifold. and Aaktefi impact of this situation on the the level of services available in the city to exceed the weakness of the contribution of rural areas in the agricultural and livestock production and for changes in the fertility of the earth, and that lead to heavy losses. fact that what progress we can find him credibility in the Iraqi economy, especially during the period of time 1968 – 2003, no doubt that the effects of these policies and nature has not changed radically, because of the political pressure that list reflected the weakness of political will to change.

2. The market value of the Iraqi currency

Released in 1930 the first of a special law to issue currency Iraqi Dinar, and in 1932 was the issue of the Iraqi dinar and the dinar = 3.3 pound sterling, and in 1958 was the disengagement with lb dinar has been linked to the U.S. dollar on the basis of the dinar = 3.3 U.S. dollars. During the period from 1932 until 1990 was issued by the dinar Version 12, and after 1990 the currency was printed locally in Mesopotamia Press and exchange rate-, and after 2003 were printed issue a new currency from the dinar, and became a floating exchange rate orbit. Figure (1) shows the exchange rate of the Iraqi dinar against the U.S. dollar, the official at the Central Bank (Auction currency) and in the parallel market (the local exchange market) for the period from January 2011 to February 2013.

Source: Central Bank of Iraq

The local currency is part of the sovereignty of the state and also is reflecting the amount of economic well-being, and plays the exchange rate played an important role in the economic activities of the States, whether that activity commercial or investment, which occupies the exchange rate hub in monetary policy, where it can be used as a target or a tool, as well as an indicator of competitive state through its impact on economic growth components, such as investment and the degree of openness to international trade and capital flows, and the development of the financial sector.

And knows the exchange rate: is the ratio obtained on the basis of the foreign exchange swap in the national currency. The exchange rate is determined according to the law of supply and demand, the more demand the price of the currency and the lower demand for less price. There are two types of drainage systems used by States to determine the value of its currency:

Fixed exchange rate systems: are installed either currency exchange rate into a single currency is characterized specifications certain Kalqoh and stability. Or to a basket of currencies on the basis of the currencies of key trading partners, currency or constituent unit of the Special Drawing Rights (SDRs), or minerals Althmnah such as gold and silver.

Flexible exchange systems: characterized by flexibility and usability of adjustment on the basis of certain criteria, such as economic indicators.

State may follow a managed floating system where the authorities adjust exchange rates based on the level of frequency has reserves of foreign currencies and gold. Or use the free float, which allows for the currency value to change up and down as the market, this system allows for economic liberalization policies of the exchange rate restrictions.

It is the central bank which represents the key management in the state to identify and manage monetary policy so as to contribute to the achievement of economic goals that are looking for the state, and secondly commercial banks and remittance companies financial terms intervene in the market to execute the orders of their clients or for its own account, where these centers collect customers and orders doing banking transactions, and thirdly they are brokerage firms and brokers who collect orders for the purchase or sale of hard currency for the benefit of several banks or other traders away from transparency.

Factors affecting the currency in Iraq

Recently and over the past few months, decreased the value of the Iraqi dinar against foreign currencies, reaching in some cases the market rate of 1300 dinars per dollar, after it was stable on the rate of 1185 dinars per dollar, despite the stability of the selling price of the Central Bank's 1166 dinars with commission of 13 dinars for transfers any 1179 dinars to 1171 dinars to the sale of cash and this indicates to the high demand for the dollar in the domestic market and for the following factors:

1. External factors: formed a political and economic crises in neighboring countries (Syria and Iran) and embodied in the need for these countries to the dollar currency and foreign currencies. When the local currency is reduced in those countries and reflected down the price of exports to Iraq, and create windows to attract the dollar from Iraq to those countries through transactions to the Iraqis and alluring at the same time a source of hard currency to the Iranians and the Syrians. On the other hand there is interdependence of social and family with these countries may also have to exit port dollar, but it is difficult to predict.

2. Economic business environment: represented by the factors which result lead to a flight of domestic capital and the decline of foreign

investors, including political instability and the absence of the rule of law in economic transactions. There is no doubt that the time period that followed the 2008 saw an improvement in the security situation and then in the rate of inflation and the exchange rate. However, the economic environment is still repulsive acts do not encourage project planning medium or long-term. Which led to limited activities on some business and commercial projects yielding profit fast, but I doubt that the percentage of it turning to countries other scarce liquidity arising from the impact of the financial crisis that began in late 2008 (reaching rank Iraq 165 of 183 countries in 2012)

â€¢ 3 â€“ fiscal policy: Previous years have seen high levels of government spending at a greater rate than any other country in the world (public spending rose from 34.6 trillion dinars in 2004 to 117.1 trillion dinars in 2012) and most Pictures Consumer spending is leading to the rise in spending the outside world (travel, medical services and seminars, and import of goods and investments in real estate projects, etc.), and also led to a rise in net Iraqi currency traded amounting to 36 trillion dinars in 2013, raising the demand for foreign currency, where the value of imports of Iraqi 37.3027 billion dollars in 2010 to 40.6325 billion dollars in 2011, a change rate of 8.9%.

â€¢ 4 â€“ double tax policies: also include the non-application of the customs tariff law and of course that result in flooding the market with goods and services payable to the dollar in most cases. Also twice as efficient collection of receivables Aldharbah check ensures additional profits may find their way because of the weakness of bank credit to the Iraqi abroad dollars Authority.

â€¢ 5 â€“ political and economic stability: Because that Iraq states described as phase transition, and the political and economic stability, we find the proportion of individuals maintain accounts in foreign banks abroad and usually they are of senior officials and wealthy, and

increasingly these transfers directly proportional to the height of the oil revenues.

â€¢ 6 â€“ the weakness of the local productive capacities: that the improvement in Iraqâ€™s per capita income of 1670 dollars to 5400 dollars makes looking for initiating more in terms of quantity and quality. This factor is reflected in the market through external spending on the import of machinery and new materials or by increasing spending on foreign consumer goods.

â€¢ 7 â€“ weak governance and the rule of law: reflected Bagr the public money, corruption, and an example of the identification of projects guesses more than their real value, lead naturally raise the frequency converter of the Iraqi dinar to the dollar.

â€¢ 8 â€“ Ø§Ù„ØÙˆÙ„Ø§Øª the family from abroad: in previous years, there was a significant proportion of family Ø§Ù„ØÙˆÙ„Ø§Øª from abroad are to the inside and on the impact of improvement in the rate of per capita income of Iraq, but this has now eased transfers to large ranges.

â€¢ 9 â€“ money transfer companies and brokerage firms (parallel market): The presence of these companies to encourage the practice of monetary and foreign transfers that make up the pressure on dollar assets and was the first adoption documentary conversions.

â€¢ 10 â€“ the low incomes of non-oil foreign currencies due to lower international grants and aid for reconstruction and the decline in the U.S. presence in Iraq Akhas.

â€¢ 11 â€“ trade zones at border crossing points: that the presence of these areas encouraged to pay cash in dollars directly at the border points of contact, which thus leads to a direct increase in demand for the dollar.

Recommendations

That what is happening deformation in the structure of the Iraqi economy is a foregone conclusion rentier economic policy, and is not expected to control this deformation near extent. As the work requires the application of institutional governance vocabulary of the adoption of competencies, strategic vision, a sense of responsibility, transparency, ensure the rule of law, ensure participation and acceptance unanimously and achieve the goals of equality can not be achieved in the near term also. Overall solutions in monetary policy requires a long time to achieve the desired results, based on the factors affecting the local currency in Iraq find it necessary solutions and division into two procedures:

Quick solutions (short-term):

â€¢ 1 â€“ to reduce pumping hard currency (cash sales) in the central bank auction and the adoption of increased foreign remittances.

â€¢ 2 â€“ cash sales price increase in the central bank auction for the equivalent of selling price in the auction of foreign remittances in order to cancel the profit realized because of the difference between the two rates.

â€¢ 3 â€“ buy and sell foreign currency for remittance companies and financial companies to mediate done by licensed banks in Iraq in order to reduce non-compliant transactions of the conditions and procedures adopted.

â€¢ 4 â€“ forcing traders and dealers in the areas of trade exchange between Iraq and neighboring countries to deal financial transfer and letters of credit instead of cash purchases.

â€¢ 5 â€“ commitment to a transparent auction information and cash transfers and development of an electronic information system.

Radical solutions (long-term):

â€¢ 1 â€“ the audit of the financial policy of the state and reduce inflation in operational spending.

â€¢ 2 â€“ need to speed up plans for banking reform measures in order to facilitate the cash exchange.

â€¢ 3 â€“ to improve the tax code and work to expand horizontally while reducing tax evasion.

â€¢ 4 â€“ activate the law of customs tariff because of its important role in providing incentives for producers with economic advantage, leading to a reduction in the volume of imports as well as improved operating income.

â€¢ 5 â€“ improve the business environment in order to raise economic efficiency of production companies and local productive enterprises that will reduce imports and increase the intake of foreign currency through export and attract foreign investment.

â€¢ 6 â€“ the use of modern electronic mechanisms in the distribution of salaries and the use of bank instruments and encourage saving.

â€¢ 7 â€“ can issue a new currency or deletion of zeros from the current currency to have a positive psychological effects on the local currency dealers.

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