

The Impact of Changes in Exchange Rates on Indicators of Stability in the Iraqi Economy after 2003

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Abstract

This study highlights the exchange rate policy as one of the important economic policies that support the work of the monetary and financial policy within the successful partial reforms. Those reforms are efficient and influential in economy structure, especially in the case of the availability of continuous structural reforms and control of unproductive expenditures with adopting many treatments that are devoid of defects and shortcomings in the economic, commercial and investment aspects. As well as, at the same time, it is considered a harmful policy if it is used in an economic environment that suffers from the most basic requirements of development due to the importance of most of the effects that the change in the exchange rate generates on the indicators of economic stability. However, what the Iraqi economy is experiencing in terms of the presence of a heavy legacy of inherent crises in the economy, perhaps the most important of which is the imbalance affecting the balance of payments, the general budget, the emergence of inflation and the rise in the public debt index is a clear translation of deep failures in the economic structure. Yet, the impact of the change in exchange rates is hardly devoid of a role in activating those failures that represent an obstacle to the progress of the economy through the negative effects that this change in exchange rates imposes on the reality of those indicators. Finally, this study has concluded that the weak and ineffective effect of adopting the policy of reducing the Iraqi dinar is due to the lack of complete adaptation in the structure of the Iraqi economy for the success of this implementation in the short term, with this reduction, Iraq has been distanced from economic stability, since the stability of any country is linked to the stability of the national currency exchange rate against foreign currencies, to ensure that it is far from the sharp fluctuations experienced by any country through the nature of the existing international and commercial relations with the countries of the world.

Key words: Exchange Rates, Indicators of Stability, Gross Domestic Product(GDP), Payments Balance, Public Debt, Impact of Exchange Rate

Introduction

Iraq is one of the countries that have a fertile environment of economic resources such as human and mineral wealth of oil and gas in addition to the availability of climate, soil and water to represent a source of agricultural resources, which, with its availability, can constitute indicators of an advanced economy in the case of correct management and the optimal use of those indicators that enable it to progress in a comprehensive economic development. However, the difficult events that Iraq had witnessed have aborted many of these capabilities and disrupted these capabilities, are in their entirety representing scenarios of wars, economic blockade, and American intervention in the region in the shadow of economic policies linked to continuous external and internal exchange rate changes due to financial crises and global developments. They have a negative impact that paralyzed Iraqi economic capabilities and became obstacles in the economic movement and of the work of economic policies, especially in the wake of the transitions from the socialist system to marketing system.

The study investigates the state of imbalances in the various economic stability indicators and considered it a basic problem. Its severity lies in the fluctuations in exchange rates due to the changes that the Iraqi economy experienced after 2003.

This study is important for financial and monetary policies and their primary role in addressing the imbalance in the balance of payments and rebalancing the balance and its role in addressing the continuous rise in the general level of prices and the decline in the value of the local currency and its impact on providing financial resources to repay internal debts by taking advantage of Currency difference system.

Methodology

The study relied on the method of descriptive analytical approach through extrapolation of data and statistics on stability indicators in the Iraqi economy for the period after 2003. The study hypothesizes that the exchange rate is of great importance in achieving balance in international exchanges by reducing or increasing domestic prices, as well as its role in restoring balance to the balance of payments and its role in curbing public spending and the level of inflation. The study aims to know the mechanism through which the exchange rate works and to know the extent of its impact on local prices, the level of use and the effectiveness of economic exchange between countries in light of economic indicators during the period of the study.

1. The Exchange Rate in the literature of economic thought

Exchange is a process that represents the exchange of various currencies between them, so each country has its own currency that is used in internal

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payment processes. The necessity arises to use foreign currencies when commercial or financial relations are established between institutions, companies and individuals that operate these categories within the state borders with institutions, companies and individuals operating outside it. The importing companies need the currency of the exporting country to pay the imported goods, and thus they are forced to go to the exchange market to buy the currency of the exporting country in order for this process to take place, and here there is an automatic relationship between the local currency and the global currency called the exchange rate, so the exchange rate is seen as an exchange of a number of Units of local currency in exchange for one unit of foreign currency and thus the exchange rate is a means of linking the national economy and the external economy through the existing relationship between exports and imports of these economies (Al-Atrash, 2007 : 96).

This price is represented as a process through which one currency is exchanged for another currency, meaning that it is a settlement tool for international transactions, so the purchase of any commodity is not in the local currency, but rather determining its value in relation to foreign currencies. Multiple concepts of the exchange rate can be given, as it represents the number of units of the national currency that must be paid to buy one unit of foreign currency or vice versa. We can also know it as the number of units that must be paid from a particular currency to obtain one unit from another currency, as the exchange rate is known. As a tool linking the prices of goods in the domestic economy and commodity prices in global markets, which means that the world price and the price local is linked to that of the SM through the price of health rack (Ali, 2013:15), of the fact there are two ways for the pricing of currencies, namely:

- 1- Direct pricing: It is the number of units of foreign currency that must be paid in order to obtain one unit of the national currency, and at the present time few countries use the direct pricing method, and the most important country that uses this method is Great Britain.
- 2- Non-direct pricing :is the number of units of the national currency to be paid for a single unit of currency foreign.

1.1. The Importance of the Exchange Rate

The importance of the exchange rate is highlighted through its contribution to achieving the macroeconomic goals, which are represented in the internal and external economic balance, as the internal balance is represented in the stability of domestic prices, along with achieving a level of economic growth, while the external balance is represented in the balance of the balance of payments, which appears in various State trade exchanges. The study of the exchange rate aims to

search for means and procedures that would lead to achieving stability in the national currency exchange rate against foreign currencies. Thus, the exchange rate has an important role in the external economic activities of any country, whether it is a commercial or investment activity, as it is a linking tool between the local country and the outside world in the economic field, in addition to that the exchange rate is used as an indicator of the competitiveness of the country.

1.2. Types of Exchange Rate

- 1- Nominal Exchange rate :It is the price of foreign currency in terms of the number of local currency units intended this rate of exchange in the nominal current (Bakhit, 2011:5).
- 2- Real exchange rate :This price is expressed by being an indicator that measures the amount of change in the exchange rate of a particular currency against several other currencies during a certain period of time, and here the actual actual exchange rate will represent the average of several bilateral exchange rates, as it is considered an appropriate indicator of the competitiveness of the country towards foreign countries (Al-Abbas, 2016:2).
- 3- Current exchange rate :It is the price specified according to the period of time, and it represents the rate of exchange at which currencies are exchanged with a present delivery, where it is agreed that the currencies will be delivered upon purchase.
- 4- Forward exchange rate :It is the price that is determined according to future buying and selling of all foreign currencies.
- 5- Cross exchange rate : It is the price of one currency against another currency and the link of these two currencies to a third common currency between them, so if we take, for example, the dollar currency against the two currencies, we can determine the intersection between these two currencies with each other ,with the availability of several conditions, including specifying the bank that calculates the type of currency sold , purchased, its price and the price of the third currency .
- 6- parrallel exchange rate : the definition of the exchange rate is consistent with balanced macroeconomic means that the exchange rate represents a sustainable balance of the balance of payments when the economy is growing at a normal rate and therefore the exchange rate is prevailing in non-defected economic environment (Al – Ghazali, 2003:4).

1.3. Exchange rate regimes

Fixed V. Floating: the monetary authority adopts in any particular economy a system of exchange rate if settled to leave the exchange rate to be determined

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according to the forces of supply and demand, the system is free of local currency fluctuation against the foreign currency, or it may be decided to fix it to a corresponding currency or group of currencies. It is a system characterized by steadily The exchange rate against that currency or group of currencies, and to intervene periodically in the foreign exchange market to defend the exchange rate it adopts, and between these two systems a wide range of exchange rate systems and arrangements, the most important of which is the controlled floating.

First :The flexible exchange rate system is that system that allows the local currency to fluctuate towards the rest of the currencies without restrictions imposed by the monetary authority, and the exchange rate under this system is determined according to the mechanisms of supply and demand, so the greater the demand for the local currency compared to the foreign currency, the higher the exchange rate. The local currency, and vice versa, if the demand for the local currency decreases compared to the foreign currency, then its exchange rate will decrease. The rise and fall in the exchange rate under this system reflects the state of external demand for local products or the payment of internal obligations, and the state of internal demand for imports or the payment of external obligations, so the greater the non-resident demand for local goods, for example, with other factors constant - the greater the demand for the local currency to pay the values of those commodities, and thus the value of the local currency to rise, but in the event that the resident demand for imports increases, for example, as other factors remain constant - the local demand for foreign currency will rise, and with the stability of the demand for the local currency, the exchange rate of the local currency towards the foreign currency will decrease (Dagher, 2018:302-4).

Second :The fixed exchange rate and the controlled floating, but in the case of the fixed exchange rate, it is called (Pigged), It is different, as the monetary authority to prove the local currency exchange rate against foreign currency certain, often the currency installation is the currency that make up most of the trading economy resident external. It defends the price of the exchange rate policy adopted in the foreign exchange market by buying and selling foreign currency.

1.4. Exchange rate functions

- 1- Standard function :as the exchange rate mechanism is relied upon in order to measure and compare national prices with international prices, and here the exchange rate forms a standard relationship between those prices.
- 2- Development function : a field of work exchange rates directly through strong tattered relationship with exports and imports of any country and

through this relationship works the exchange rate on the development of exports of that country to certain countries to deal with it from through its role in the promotion of exports, and by another could result in price drainage weakness or disable industrial areas and the productivity of certain and their replacement imports that are prices relatively cheaper than the prices of domestic goods, while can rely on the price of exchange appropriate to encourage certain imports.

- 3- Distributional Position : the exchange rate has an important role in strengthening and linking trade relations between the various countries of the world, due to link the price to trade foreign selling birth of the national income distribution of the world the national wealth between the various countries (Tharifa, 2017:9-10).

2. Indicators of Stability in the Iraqi Economy after 2003

The Iraqi economy is characterized by a complex economic crisis situation, as most economists agree on the general features of the economic crisis with a set of data, foremost of which is the reduction in investment expenditures, the emergence of unemployment, the decrease in the contribution of industrial production, the decrease in savings with the spread of pessimistic situations and the increase in the desire of individuals to maintain cash liquidity (Hansen, 1951:171-5). Despite the excellence of Iraq from the rest of the countries of Arab, Ba Mtlake abundance of arable land and water, with the decline in the index ratio of the population in Iraq, which represents (the proportion of %9.1 of the total population of countries Arab) (Abbas, 2011:24). With the availability and diversification of natural resources - especially crude oil and natural gas - the country suffers from the emergence of recurrent crises due to the great correlation between economic growth rates and crude oil output growth rates, accompanied by a weak level of growth experienced by sectors) agriculture and industry, (which was a s for much of the growth achieved in the crude oil sector (Al-Fahdawi, 2013 :3), as it led the decrease in the levels of production to a significant increase in unemployment rates in the market of the Iraqi labor as it indicated the Ministry of planning and Development cooperation of the Iraqi estimates the unemployment rate exceeded more than % 30 after the year 2003 (Alwani2009 :37) and the unemployment rate according to data released by the social and economic survey of the Iraqi family dropped its conducted by the Ministry of planning to reach the approximately %11.9 at the end of the year 2012 because of the free economic case and widely improved oil prices in that period (Al-Rawi,2019:190). When conducting a review to determine the features of the economy in Iraq, it requires an effort that is not limited to the field and

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the sectors of the economy only ,but it consists also the political and social fields. The following are the most important indicators :

1- Gross Domestic Product (GDP)

GDP is one of the most important indicators that reflect the level of performance and efficiency of the economy of any state and output growth analysis in various sectors structures that constitute the basic requirements for the citizen awareness of weakness, imbalance and their treatment. It is considered a global indicator to measure the growth of investment, trade, agricultural and Industrial production, stock markets and various economic transactions in Maintaining Economic Stability in the world (December: p18: 2011). Iraq has witnessed a fluctuated gross domestic product as a clear result of the conditions experienced of wars and the imposition of economic sanctions after the war of Kuwait in 1990 .This fluctuation in the volume of output is accompanied by the fluctuation of oil revenues that depend on international prices, which can only be controlled or controlled through the price that is originally outside the will of the oil country in general and on the whole economic conditions and changes in inefficient financial policies and the accompanying turmoil of the security situation after the change in 2003. The follow-up of the most important changes in the gross domestic product in Iraq, it becomes clear that this product has a disproportion between the economic sectors ,which led to a clear deficiency in the productive capacities of all sectors. A clear picture of the growth rates in the GDP through its contribution to all economic sectors at constant prices is given in Tables No.(1,2) .

Table (1) : Development in the growth rates in GDP in the total economic sectors in Iraq, at constant prices 100=1988 Million dinars

| growth rate | Service sectors | growth rate | Distributive sectors | growth rate | Commodity sectors | the years |
|-------------|-----------------|-------------|----------------------|-------------|-------------------|-----------|
| 24.2 | 7.0 | -45.5 | 14.6 | -47.9 | 78.4 | 2003 |
| 235.4 | 16.6 | 44.4 | 14.9 | 23.0 | 68.4 | 2004 |
| -5.9 | 15.5 | -3.1 | 14.4 | 3.4 | 70.1 | 2005 |
| 2.3 | 18.7 | -15.2 | 14.3 | -19.0 | 66.9 | 2006 |
| 0.4 | 21.1 | -12.1 | 14.2 | -13.8 | 64.7 | 2007 |
| 25.1 | 19.4 | 48.3 | 15.4 | 37.3 | 65.2 | 2008 |
| 26.2 | 26.5 | 19.6 | 20.0 | -24.6 | 53.4 | 2009 |
| 25.1 | 29.2 | 18.1 | 13.9 | -20.4 | 56.9 | 2010 |
| 67.0 | 26.0 | 20.3 | 10.0 | 12.7 | -15.0 | 2011 |
| 65.4 | 25.9 | 22.1 | 3.6 | 12.5 | 0.3 | 2012 |
| 60.6 | -6.7 | 27.3 | 5.8 | 12.1 | 1.1 | 2013 |
| 62.1 | -6.7 | 26.6 | -8.7 | 11.5 | -1.1 | 2014 |
| -2.5 | 17.2 | -16.2 | 14.6 | 0.2 | 68.1 | 2015 |
| -3 | th15 | -13.9 | 13.6 | 13.2 | 71.4 | 2016 |
| 0.3 | 13.4 | 8.7 | 15.7 | -3.2 | 71.0 | 2017 |
| 0.3 | 13.5 | 8.7 | 17.2 | -3.2 | 69.3 | 2018 |

| | | | | | | |
|-----|------|-----|------|-----|------|------|
| 2.1 | 13.0 | 4.7 | 16.5 | 4.8 | 70.5 | 2019 |
|-----|------|-----|------|-----|------|------|

The table was prepared by the researcher, depending on

- Shani, S. K. (2011). *The Analysis of the Relationship between the the Budget and Gross Domestic Product for the years. 2009-1988*. Master thesis. Karbala: Karbala University. p.79.
- Ministry of Planning, Central Bureau of Statistics, Annual Statistical Abstract, separate years.

From a follow-up to Table No ,(1) .the continuous change in the rates of GDP growth at the level of those sectors is evident as the contribution of commodity sectors to the Iraqi economy decreased in 2003 to reach a negative growth index estimated at , (%47.9-) and the reason for negative growth in the sectors field Commodity commodities in the aforementioned period referred to the decline in production rates in the agricultural sector and reliance only on the oil sector, which was insufficient to meet the increasing expenditures in that period, which represented a period of transformations in power and what This was followed by drastic changes in economic policies .It is worth noting that the weak growth of the agricultural sector was an inevitable result of a set of problems in the field of agriculture ,foremost of which is the misuse of available agricultural resources ,that is ,arable land with an estimated area of 48 million dunams, of which only 15 million dunums were used in the best case (Al-Fahdaw, 2000:260). As an inevitable consequence of what happened, obstacles would be generated accordingly that would burden the wheels of production in the national industry ,which depends on its financing from agricultural raw materials ,and thus an explicit delay in the industrial sector .As generated as a result of no less important than the first translated in an increase in importing food which is pushing for more pressure on the balance of payments and a waste of reserves of currencies difficult to cover those requirements of imports .The distributional sectors have witnessed a decline in GDP reached to an annual growth rate with the index minus an estimated , (%-45.5) this decline was caused by the decline in the sectors of transportation and wholesale and retail , while service sectors witnessed significant improvement reached the rate of annual growth of , (%24.2) and the back of this growth for Increasing social and personal development services , and the fluctuation continued to grow until 2009 is the year of the decline in oil prices due to the financial crisis that led to a decrease in the contribution of the oil sector to the GDP from (%68.14) in 2003 to (%42.97) in 2014 (Saleh, 2018:406). fluctuations in the rates of growth in the GDP of the economic sectors continued, and the state of repeated failures in the growth rates became associated with the structure of the Iraqi economy until it reached its peak at the end of 2014 due to the global oil price crisis as well .The case in the rest of the various sectors of service ,which was marked by the tripping and lack of productivity due to the adoption of the sectors of economic on the sector of oil , which is exposed to the decline in prices on an ongoing basis. While the fragmented structure of economy that the Iraqi economy has suffered from, the agricultural sector has been influenced

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by the crisis that hit the sector of oil ,despite the simple increase after 2003 and up to 2019. This sector became weak due to the accumulation of a number of reasons it comes in the forefront of the policy of opening-up trade ,which the government of Iraq has followed, the opening of border crossings, not activating the customs taxes and thus ended the presence of the policy of protection of the national product as well as high frequency productivity costs because of the adoption of raising the policy support of government for fuel for the lack of revenue needed to finance that support with the worsening of the problems of energy electric troubled than born two facts . One is more severe than the other one as imported products become cheaper relative to the local product .The second decline in the contribution of exports due to paralyzed productivity energy ,adversely affecting the increasing dependence on oil production and export and neglecting the rest of the vital sectors of the economy. This is discerned by showing reviewing the evolution of the relative importance of the industrial and economic contributions in Iraq for the period from 2003 to 2019. Table No (2) shows the increasing the relative importance of the commodity sector which oil accounts for the very high proportion of which it reached %78.4 of GDP . However, it has been noticed that in this year there is a significant decline for the rest of the sectors, which did not exceed % 14.6 for the distribution sectors and %7.0 for the service sectors, and then this imbalance continued due to the failure to adopt a policy of diversification in production and continuing to rely on the exporting of oil .Up to 2019, when the relative contribution of the commodity sectors reached %70.5 with the remaining low contribution ratios of the distributional sector which amounted to a maximum of % 13.5 and services %13.0 at the end of this year which resembles a return to the beginning of cycle of 2003 . This is a clear indication of the Iraqi economic stalemate and lack of growth. Table (2) can follow-up the most important these indicators.

Table No (2) .Developments in the relative importance of the group of economic sectors in the GDP

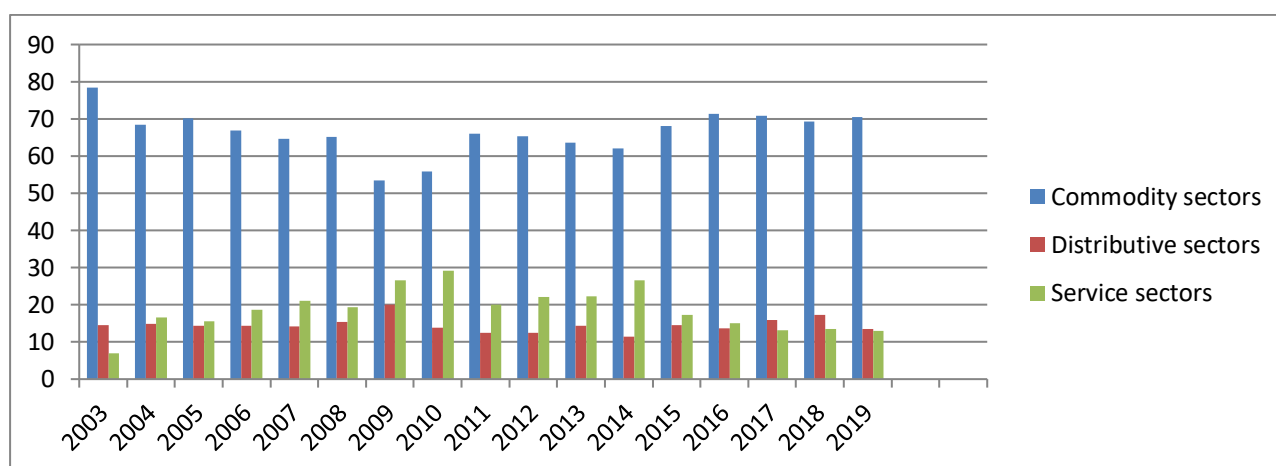
| Service sectors | Distributive sectors | Commodity sectors | the years |
|-----------------|----------------------|-------------------|-----------|
| 7.0 | 14.6 | 78.4 | 2003 |
| 16.6 | 14.9 | 68.4 | 2004 |
| 15.5 | 14.4 | 70.1 | 2005 |
| 18.7 | 14.3 | 66.9 | 2006 |
| 21.1 | 14.2 | 64.7 | 2007 |
| 19.4 | 15.4 | 65.2 | 2008 |
| 26.5 | 20.0 | 53.4 | 2009 |
| 29.2 | 13.9 | 55.9 | 2010 |
| 20.1 | 12.5 | 66.0 | 2011 |
| 22.1 | 12.5 | 65.4 | 2012 |
| 22.2 | 14.3 | 63.6 | 2013 |
| 26.6 | 11.5 | 62.1 | 2014 |

| Service sectors | Distributive sectors | Commodity sectors | the years |
|-----------------|----------------------|-------------------|-----------|
| 17.2 | 14.6 | 68.1 | 2015 |
| 15.1 | 13.6 | 71.4 | 2016 |
| 13.2 | 15.9 | 70.9 | 2017 |
| 13.5 | 17.2 | 69.3 | 2018 |
| 13.0 | 13.5 | 70.5 | 2019 |

-The table was prepared by the researcher .

-Ministry of Planning, Central Bureau of Statistics, Annual Statistical Abstract, separate years .

Figure (1) Developments in the relative importance of the group of economic sectors in the GDP



-This figure is designed by the researcher Balaatma d on the data in table No(2) .

2.1. Payments Balance

The balance of payments represents a statement in which it shows all goods, services, gifts, aid, and all capital and gold loans and international reserves that come from abroad into the country or that exit from inside the country to abroad (Khalil, 1982:739)

Balance of payments consists of:

- Current account : it is called the visible trade balance, meaning the goods trade balance, as well as the services balance or the so-called invisible trade balance, meaning exports and imports of services.

- Capital account : includes capital account all international transactions related to ownership, debt, stocks, bonds, currencies and deposits in banks

-Net international reserves of gold and liquid assets are settled payments through foreign trade and the gold records in this section of the balance of payments net changes in liquid international reserves in any year of the years for the purpose of calculation of the settlement's net deficit or surplus in the balance

-omission error andthis section show in order balancer of the balance of payments from the accounting point of any Cao the debtor side with side

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performance when a problem occurs, both sides must be held responsible, which is known as Pulse He and the mistake (Al-Dulaimi, 2011:10).

2.2. Imbalances in the Balance of Payments

The balance of payments usually lacks imbalances that usually take the form of a surplus or deficit, and there are several reasons that lead to these imbalances

- **Short-term turmoils** :They are all related to the occurrence of wars and seasonal changes
- **Changes in monetary income** : that the country lives in a state of deflation or inflation, and the changes that may result from those two situations in the total demand for goods and services, when demand exceeds the level of supply, signs of inflation will appear and vice versa
- **Structural Changes** : a state of the economy dependence on one sector can get this on the demand side or supply side conditions are the display changes according to the extent of abundance and scarcity of resources ,natural or high costs , or in the case of innovations and improved means of all production are all indicators that lead to lower costs and increased production and this In itself, a structural imbalance at the level of supply and demand ,as well as the existence of a structural imbalance at the level of factors of production (Farhan, 2014:459). The Iraqi balance of payments has an imbalance, especially after ,2003 as the Iraqi economy has witnessed varying rates of inflation since the eighties. The nineties as the period that witnessed the Gulf War crisis and the economic blockade that resulted in cutting trade relations with the countries of the world has grown. The balance of payments deficit for a number of reasons, the most important of which are :
 - Rise in inflation rates after ,2003 which made imported goods relatively cheaper domestic goods by the crisis of the Iraqi economy vehicle from the remnants of the war and the decisions of the economic siege and resulted in the base rickety productivity is unable to compete with the foreign product efficiency and price. This led to an increase of imports and decline of Exports (Al -Dulaimi, 2012:75).
 - The ineffectiveness of interest rates, as the Central Bank adopted a policy of administrative determination of those rates and obligating banks to adapt them. It has modified interest rates more than once since the beginning of ,2003 but the price increase refrained the effect of the interest rate and restricted its work.
 - Disruption of production structure and weak investment ,as it became clear the adoption of Iraq on one sector ,which is the oil that sector associated with the continuous pulse prices ,which support the case

of imbalances in the economy with a weak volume of investments as even g average (874.1) for a period of (2003-2009) (the central bank of Iraq: 2003-2009). It is clear through the follow - up to the balance of payments after the Iraqi crisis in ,2014 a crisis of Iraq affected by the shock drop in oil prices and the war on terrorism ,which led to increased public spending versus decline in public revenues and become unable to achieve the sustainability of financial to finance public spending (Al-Rawi, 2019:43). The case of the surplus and deficit could have been followed in the balance of payments of Iraq for the period of 2019-2003 in table. (3)

Table (3) :Deficit and surplus in the Iraqi balance of payments for the period (2003-2019)

| Deficit / surplus | the years |
|-------------------|-----------|
| -1900.7 | 2003 |
| 4212.0 | 2004 |
| 4122.0 | 2005 |
| 7360.8 | 2006 |
| 11757.3 | 2007 |
| 18000.8 | 2008 |
| -5000.8 | 2009 |
| 6286.3 | 2010 |
| 10393.7 | 2011 |
| 7986.8 | 2012 |
| 7860.9 | 2013 |
| -11871.2 | 2014 |
| -13473.6 | 2015 |
| -8344.1 | 2016 |
| 2701.2 | 2017 |
| 6595.2 | 2018 |
| 8724.6 | 2019 |

-Table prepared by the researcher Balaatma d on

- Ali Ahmad Darj, Saad Abdul Karim, The Disruption of the Iraqi Balance of Payments for the Period 1990-2009 , Al Maaref College Journal, Issue , 2012 , (19) p.84
- Central Bank of Iraq, General Directorate of Statistics and Research, Statistical Group, separate years
- The Ministry of Planning, Economic and Financial Policy Department, the Iraqi Economic Report for 2018 , 2009

The Iraqi economy is characterized by a large deformation of the structure of foreign trade is clear this imbalance great depending on the export of a single commodity which oil with the worsening is evident in the diversity of commodity imports and a large degree. Most of the statistical studies indicate that have been conducted based on models of global demand for many commodity groups but the demand for a group of primary products is a demand of low flexibility (Low flexibility of internal demand) with every relative increase that occurs in the quantity of those primary products that are demanded by importers, especially in rich countries where the increase in demand is

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relatively less than the relative increase in the national product of countries. rich , and based on the above it when incomes are in rich countries, the demand for goods and raw materials and raw materials from the world of Iraq is heading to a relatively slow rise , while a request for Iraq on manufactured goods and those products produced by developed countries , which is heading to the rapid increase (Torado, 2009:315). Between narrow and specific exports and various and increasing imports, a number of reasons stand out, foremost among which is the rentierness of the Iraqi economy and the weak production capacity in the rest of the sectors, which has negatively affected the structure of Iraqi exports and imports, in which the relative importance of one or two commodities increases as a maximum in relation to the rest of the exports and the relative importance of commodities is high. Open-pattern imports, and a clear picture of the most important of these imbalances can be displayed in Table (5.4).

Table (4) :the relative importance of the commodity distribution for the structure of Iraqi exports for the period (2003-2019) according to the International Standard Classification of Trade SITC. %

| Total | Miscellaneous goods and transactions | Miscellaneous products | Machinery and transport equipment | Manufactured goods classified according to material | Chemical materials | Animal and vegetable oils and fats | Mineral fuels and lubricating oils | Non-food raw materials | Beverages and tobacco | Food and live animals | the years |
|-------|--------------------------------------|------------------------|-----------------------------------|---|--------------------|------------------------------------|------------------------------------|------------------------|-----------------------|-----------------------|-----------|
| 100 | 0.00 | 0.60 | 0.10 | 0.90 | 1.00 | 0.50 | 83.90 | 8.00 | 0.0 | 5.00 | 2003 |
| 100 | 0.00 | 0.00 | 0.00 | 0.10 | 0.00 | 0.00 | 99.40 | 0.30 | 0.0 | 0.20 | 2004 |
| 100 | 0.00 | 0.00 | 0.00 | 0.06 | 0.00 | 0.00 | 99.50 | 0.18 | 0.0 | 0.26 | 2005 |
| 100 | 0.03 | 0.00 | 0.24 | 0.05 | 0.01 | 0.00 | 99.24 | 0.15 | 0.0 | 0.28 | 2006 |
| 100 | 0.00 | 0.00 | 0.20 | 0.10 | 0.00 | 0.00 | 99.20 | 0.20 | 0.0 | 0.30 | 2007 |
| 100 | 0.00 | 0.00 | 0.20 | 0.10 | 0.00 | 0.00 | 99.30 | 0.20 | 0.0 | 0.20 | 2008 |
| 100 | 0.02 | 0.00 | 0.20 | 0.05 | 0.01 | 0.00 | 99.20 | 0.22 | 0.0 | 0.30 | 2009 |
| 100 | 0.02 | 0.00 | 0.20 | 0.05 | 0.01 | 0.00 | 99.20 | 0.22 | 0.0 | 0.30 | 2010 |
| 100 | 0.03 | 0.00 | 0.24 | 0.05 | 0.01 | 0.00 | 99.25 | 0.15 | 0.0 | 0.27 | 2011 |
| 100 | 0.02 | 0.00 | 0.24 | 0.05 | 0.01 | 0.00 | 99.25 | 0.15 | 0.0 | 0.28 | 2012 |
| 100 | 0.02 | 0.00 | 0.24 | 0.05 | 0.01 | 0.00 | 99.25 | 0.15 | 0.0 | 0.28 | 2013 |
| 100 | 0.02 | 0.00 | 0.24 | 0.05 | 0.01 | 0.00 | 99.25 | 0.15 | 0.0 | 0.28 | 2014 |
| 100 | 0.02 | 0.00 | 0.24 | 0.05 | 0.01 | 0.00 | 99.25 | 0.15 | 0.0 | 0.28 | 2015 |
| 100 | 0.00 | 0.00 | 0.2 | 0.1 | 0.00 | 0.00 | 99.2 | 0.2 | 0.0 | 0.3 | 2016 |
| 100 | 0.00 | 0.00 | 0.04 | 0.00 | 0.00 | 0.00 | 99.9 | 0.02 | 0.0 | 0.04 | 2017 |
| 100 | 0.00 | 0.00 | 0.00 | 0.08 | 0.00 | 0.00 | 99.9 | 0.02 | 0.0 | 0.00 | 2018 |
| 100 | 0.00 | 0.00 | 0.00 | 0.2 | 0.00 | 0.00 | 99.8 | 0.00 | 0.0 | 0.00 | 2019 |

Table prepared by the researcher Balaatma d on

-Saleh, Y. M. & Nouri, M. T. (2018). *Structural Imbalances and their Impact on Sectoral Growth: Analytical Study* ,2018 ,. 413p.

- Ministry of Planning, Central Bureau of Statistics, Annual Statistical Abstract, many years.

Table: (5) the relative importance of the commodity distribution for the Iraqi import structure for the period

(2003-2019) according to the International Standard Classification of Trade SITC%

| Total | Unclassified goods and transactions | Miscellaneous crafts | Transportation machinery and equipment | Manufactured and classified goods by material | Chemicals | Animal and vegetable oils and fats | Mineral fuels and lubricants | Non-food raw materials | Drinks and tobacco | Food and live animals | the years |
|-------|-------------------------------------|----------------------|--|---|-----------|------------------------------------|------------------------------|------------------------|--------------------|-----------------------|-----------|
| 100 | 0.10 | 2.90 | 73.10 | 16.10 | 1.03 | 0.80 | 0.10 | 0.24 | 0.6 | 5.03 | 2003 |
| 100 | 2.90 | 15.80 | 43.50 | 8.36 | 6.72 | 6.39 | 9.86 | 1.76 | 1.3 | 3.43 | 2004 |
| 100 | 2.90 | 15.80 | 43.50 | 8.40 | 6.70 | 6.40 | 9.90 | 1.80 | 1.3 | 3.40 | 2005 |
| 100 | 2.90 | 15.80 | 43.50 | 8.40 | 6.70 | 6.40 | 9.90 | 1.80 | 1.3 | 3.40 | 2006 |
| 100 | 2.90 | 15.80 | 38.50 | 11.40 | 6.70 | 6.40 | 9.80 | 1.80 | 1.3 | 5.40 | 2007 |
| 100 | 2.90 | 15.80 | 38.50 | 11.40 | 6.70 | 6.40 | 9.80 | 1.80 | 1.3 | 5.40 | 2008 |
| 100 | 2.90 | 15.80 | 38.50 | 11.40 | 6.70 | 6.40 | 9.80 | 1.80 | 1.3 | 5.40 | 2009 |
| 100 | 2.90 | 15.80 | 38.50 | 11.40 | 6.70 | 6.40 | 9.80 | 1.80 | 1.3 | 5.40 | 2010 |
| 100 | 2.90 | 15.80 | 38.50 | 11.40 | 6.70 | 6.40 | 9.80 | 1.80 | 1.3 | 5.40 | 2011 |
| 100 | 2.89 | 15.80 | 38.49 | 11.39 | 6.70 | 6.39 | 9.80 | 1.80 | 1.3 | 5.40 | 2012 |
| 100 | 2.90 | 15.80 | 38.50 | 11.40 | 6.70 | 6.40 | 9.80 | 1.80 | 1.3 | 5.40 | 2013 |
| 100 | 2.90 | 15.80 | 38.50 | 11.39 | 6.70 | 6.40 | 9.80 | 1.80 | 1.3 | 5.40 | 2014 |
| 100 | 2.89 | 15.80 | 38.49 | 11.39 | 6.69 | 6.40 | 9.79 | 1.80 | 1.3 | 5.40 | 2015 |
| 100 | 2.9 | 15.8 | 38.5 | 11.4 | 6.70 | 6.4 | 9.8 | 1.8 | 1.3 | 5.4 | 2016 |
| 100 | 2.9 | 15.8 | 38.5 | 11.4 | 6.70 | 6.4 | 9.8 | 1.8 | 1.3 | 5.4 | 2017 |
| 100 | 2.9 | 15.8 | 38.5 | 11.4 | 6.70 | 6.4 | 9.8 | 1.8 | 1.3 | 5.4 | 2018 |
| 100 | 2.9 | 15.8 | 38.5 | 11.4 | 6.70 | 6.4 | 9.8 | 1.8 | 1.3 | 5.4 | 2019 |

- Table prepared by the researcher Balaatma d on
- Saleh, Y. M. & Nouri, M. T. (2018). *Structural Imbalances and their Impact on Sectoral Growth: Analytical Study*, 2018 ,. 413p.
- Ministry of Planning, Central Statistical Organization, Annual Statistical Abstract, Miscellaneous Years (2019-2003)

3. The General Budget

The general budget is defined as a plan that includes an estimate of the state's expenditures and revenues during a coming period, often a year, and this estimation is made in light of the goals pursued by the political authority, and based on this definition, the general budget is not an accounting tool to clarify the state's public expenditures and revenues, but rather is closely related to the economy (Al-Janabi , 2015:105) ,as it is known as an annual financial document used to achieve economic stability and economic development, and this document includes possible financial estimates for public spending and public revenue made in light of the financial and economic objectives of the state and the general budget is enacted by law by the legislative authority to enter into force from Before the Executive Authority (Khamees, 2020:41).

The aggravation of the inability of public financial resources to adequacy of expenditures in the country is one of the most important financial problems that led to a state of deficiency and deficit in the chapters of the general budget in Iraq. That balance prevailed between a somewhat stable pace, especially after the announcement of the lifting of economic sanctions on Iraq and the start of oil exports, causing Achieving a financial surplus estimated at (11083566) at the end of 2003, however, the passage of Iraq through the period of internal wars to confront ISIS with the weak flexibility of expenditures and their lack of adaptation to the sharp and sudden decline in oil prices in addition to the Central Bank's continued initiative in supporting the growth of real sectors by

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introducing initiatives Housing and agricultural lending, (Al-Nusiri: 31: 2018) are all signs of a deficit crisis in the budget, as the general budget in Iraq has faltered, not less than the state of default that affected the gross domestic product, as the budget imbalance widened significantly, declaring a financial deficit, that reached at the end of 2014 (7863.7-) (the Central Bank of Iraq: 2009), was announced by the lack of public revenues and the increase in the level of spending, which is the result of the accumulation of related pressure in the nineties and the resort to deficit financing through the process of the issuance of the new cash, which in that period led to a rise in the general level of prices, down to the state of inflation, which negatively affected the depreciation of the Iraqi currency. These accumulations prompted the continuation of the deficit due to high public revenues as a result of the state of economic openness to Iraqi oil exports after canceling the decision to prevent The export of oil, and the continuous increase in public spending and the rise in the rate of some salaries, led to a rise in the income scale and thus an increase in the level of demand for consumer goods, which led to an increase in import demand due to the inability and efficiency of the Iraqi economy to produce goods capable of covering this increasing demand in addition to the lack Iraq possession of a production base and its inability to compete with price in the face of foreign products all this pushed towards the emergence of the state of imbalance in the public budget until the beginning of 2019, when the Iraqi budget came out with a deficit of approximately (-4156.6) (Annual Iraqi Report: 47: 2019). The most important forms of imbalance in the general budget can be followed up by referring to Table No. (6).

Table (6) Development of revenues and expenditures and the state of surplus and deficit in the general budget in Iraq for the period (2003-2019)

| Surplus or deficit | Overhead | General revenue | the years |
|--------------------|-----------|-----------------|-----------|
| 11083566 | 4901961 | 15985572 | 2003 |
| 1467423 | 31521427 | 32988850 | 2004 |
| 9604598 | 30831142 | 40435740 | 2005 |
| 8775439 | 40323400 | 49098839 | 2006 |
| 18501555 | 33545143 | 52406698 | 2007 |
| 11685203 | 59403375 | 71088578 | 2008 |
| -5454508 | 52567025 | 47112517 | 2009 |
| -2292300 | 84659000 | 61736000 | 2010 |
| 30050 | 78758 | 108807 | 2011 |
| 14677 | 140 105 | 119817 | 2012 |
| 6894 | 106873 | 113767 | 2013 |
| -7863.7 | 113473.51 | 105609.84 | 2014 |
| -3927.25 | 70397.5 | 66470.25 | 2015 |
| -12658.16 | 67067.43 | 54409.27 | 2016 |
| 1845.8 | 75490.1 | 77335.9 | 2017 |
| 25696.6 | 80873.2 | 106569.8 | 2018 |

| | | | |
|----------|----------|----------|------|
| - 4156.6 | 111723.6 | 107567.0 | 2019 |
|----------|----------|----------|------|

Table prepared by the researcher Balaatma d on

- Central Bank of Iraq, General Directorate of Statistics and Research, Statistical Group, separate years

Figure (2) Development of revenues and expenditures in the general budget for the period(2003-2019)

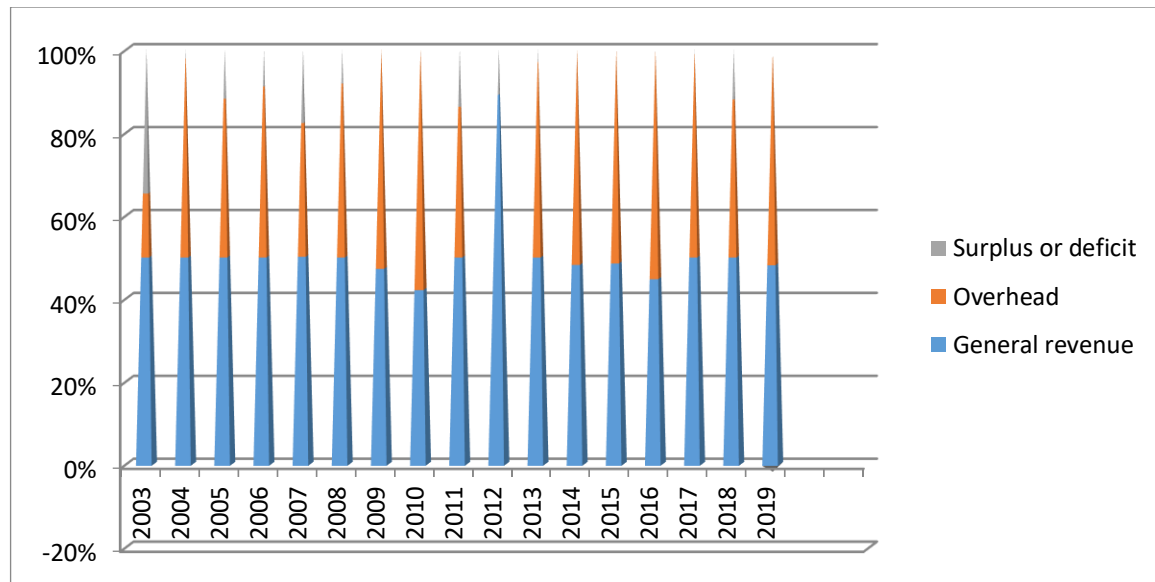


Figure prepared by the researcher Balaatma d on the data table(6)

2.4. Inflation Rate

Inflation is defined as the continuous rise in the general price level (Al-Subaihi: 2012: 9). It is also known as the condition of describing the surplus of demand over aggregate supply at the prevailing price level (Hussein: 315: 2003), and many factors combined that pushed inflation rates to rise after a year. 2003, the scene in those factors is at the forefront of high prices and increasing rates due to the imposition of the economic embargo on Iraq during the 1990s, which negatively affected this production levels on the one hand, and on the other hand the excessive growth in the size of the money supply in the Iraqi economy during that period as That era was born, and through following Table No. (6), inflation rates increased to more than (33%) at the end of 2003, due to the constant adjustments to the salary scale and the increase in the cash reserves of the Central Bank, which corresponds to the issuance of a local currency, (Al-Dulaimi: 77: 2012).

Worth pointing out that the continuous rise in costs, which has significantly deepened in covering the waves of continuous rise in prices, the increase in energy prices, raw materials and intermediate materials, and the rise in the interest rate all have led to tangible increases in production costs that have resulted in an increase in the prices of the final product, especially since the increase in those costs has not It is matched by a corresponding increase in

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productivity due to weak investment and technological progress, as well as the role of economic reform policies that the government has implemented, which are mostly inflationary policies in the first place and contractionary policies, which made the Iraqi economy fall into the trap of stagnant inflation, (Al-Zobaie: 63: 2013) And it became clear that the rate of inflation was announced and reached (53.2) at the end of 2006, due to economic openness policies as most of the components of the consumer basket are import, which made the Iraqi economy vulnerable to the expected price fluctuations in the world, negatively or positively. 2: 2013) During that period, the Iraqi economy recovered somewhat from a state of hyperinflation due to the return of oil prices to recovery, which enabled the government to activate government spending support, on the one hand. Otherwise, the financial and monetary authorities, in particular, the Central Bank, after the case of the continuous rise in inflation, began to monitor developments in the general level of prices in order to achieve stability in domestic prices, as the statistical and economic indicators issued by the Central Bureau of Statistics indicate a decline in the inflation rate, reaching at the end of 2019 to (0.1) -).

Inflation poses a threat to low-income groups, as economic studies have made clear that the nature of the relationship that exists between the rise in the price level and the standard of living is an inverse relationship because every increase in prices means a decrease in the purchasing power of the monetary unit and the exclusion of those with limited incomes in a group of goods and services, which is reflected in the level of The well-being of the individual, i.e. the higher the level of inflation, the lower the standard of living due to this situation (Central Statistical Organization, 2014: 34). The following are the most important movements of inflation rates in the Iraqi economy for the period 2003-2019.

Table (7) Inflation rates in the Iraqi economy for the period (2003-2019)

| Inflation rate% | the years |
|-----------------|-----------|
| 33.6 | 2003 |
| 27.0 | 2004 |
| 37.0 | 2005 |
| 53.2 | 2006 |
| 30.8 | 2007 |
| 2.7 | 2008 |
| -2.8 | 2009 |
| 2.5 | 2010 |
| 5.6 | 2011 |
| 5.1 | 2012 |
| 2.4 | 2013 |
| 1.6 | 2014 |
| 1.7 | 2015 |
| 1.5 | 2016 |
| 0.5 | 2017 |

| | |
|------|------|
| 0.2 | 2018 |
| -0.1 | 2019 |

-Table prepared by the researcher Balaatma d on

- On Sayel Spring, Sources of Inflation in the Iraqi Economy for the Years 1970-2000 and Suggested Ways to Address It, Master Thesis, Anbar University, College of Administration and Economics 99 , 2004 ,p.
- Central Bank of Iraq, General Directorate of Statistics and Research, Statistical Group, separate years

2.5. Public Debt

Public debt means the total balance of the government's direct contractual obligations of fixed term towards others, that is, the debts of government units included in government financial statistics, which include all of the central government, including service agencies and financial departments (Muti: 115 2016). Usually, the debt obligations and terms of payment provisions are specified. Benefits, within the chapters of preparing the public debt (DC: International Monetary Fund: p23: 2014)), and the public debt is divided into two main parts:

- Internal public debt: it is the debt that the government makes within the territorial borders of the country (Dardouri and Al-Akhdar: 128: 2018)
- External public debt: it is the debt that includes loans whose source is outside the borders of the state, were foreign countries, banks, or institutions, and the external debt is also known as the debt owed to non-residents. It may focus on the place of issuance and the legislations that regulate the debt contract, so it is known then (external debt is the debt issued in foreign countries and is subject to the jurisdiction of a foreign court). (UNCTAD / OSG / DP / 2008. p4)

Kanz believes that the use of loan or debt has become a financing method that countries resort to for the purpose of covering expenses, as the matter of resorting to the use of debts in Keynesian thought has become especially necessary, but rather a factor of growth and economic balance, and it is preferable to go with spending those debts in order to cover public investment spending (JM Keynes, 1936, p. 23),

Speaking about the Iraqi public debt, we find that Iraq faced major economic and political challenges that resulted in an exacerbation of the size of the debt, perhaps foremost of which is the deterioration of the national currency against foreign currencies, as well as the spread of financial and administrative corruption and political and security instability that directly affected the economy and which did capital flight From a purely economic perspective, the Iraqi economy has suffered from the backwardness of the economic sectors and their remaining in the state of their seat, as analysts agree that the Iraqi economy is a unilateral rentier economy and suffers from severe weakness in non-oil exports, as the proportion of oil exports reached (99.8 %) Of total exports, while

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the percentage of non-oil exports reached (2.0%) of total exports at the end of 2019 (Annual Economic Report: 56: 2019), which thus represents a very low percentage if compared to oil exports. Foreign imports are rising continuously, as we previously noted by presenting the balance of payments index and the structure of Iraq's foreign trade. It is an economy that suffers from excessive consumer import, as well as illusory projects, accumulation of military spending, financial corruption, war compensation, and huge salaries for the three presidencies that devour the financial gains achieved by oil exports and that the economy transforms into a chaotic economy that is fragmented and unable to restore the production process in light of the indicators and data received Iraq has become linked to external and internal debts in order to enable the wheel of life to run inside its country.

Iraq's debts have been classified into four classes

- Paris Club debts (government debts), represented by (18) countries, which reduced 80% of Iraq's debts according to the agreement signed on 11/21/2004 (Al Basri: 84: 2011)

Creditor countries that are not members of the Paris Club

- The foreign sector, foreign creditors

Countries of the Gulf Cooperation Council.

- From a follow-up to Table (8), the development of internal and external debt in Iraq for the period 2003-2019 becomes clear

Table (8) Development of the internal and external debt of Iraq for the period (2003-2019) million dollars

| External debt | Internal debt | the years |
|---------------|---------------|-----------|
| 120 | 2.863 | 2003 |
| 93.95 | 4.077 | 2004 |
| 125 | 4.249 | 2005 |
| 92.33 | 3.597 | 2006 |
| 81.48 | 4.099 | 2007 |
| 100.9 | 3.703 | 2008 |
| 67.74 | 7.208 | 2009 |
| 73.0 | 7.846 | 2010 |
| 52.58 | 6.364 | 2011 |
| 50.26 | 5.615 | 2012 |
| 50.37 | 3.649 | 2013 |
| 68128.2 | 8.165 | 2014 |
| 68590.4 | 27,566 | 2015 |
| 71404.8 | 43.510 | 2016 |
| 136.6 78 | 104.1 48 | 2017 |
| 79350.4 | 47391.2 | 2018 |
| 830.2 | 38331.5 | 2019 |

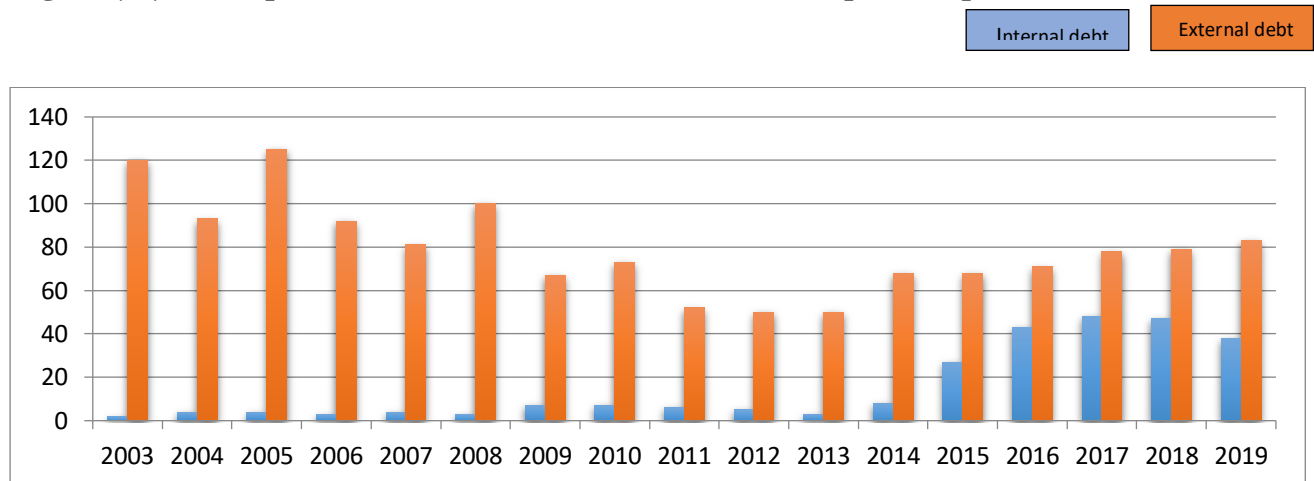
-Table prepared by the researcher Balaatma d on

-The Ministry of Planning, Department of Economic and Financial Policies, the Iraqi Economic Report for different years.

-Ministry of Planning, Department of Economic and Financial Policies, The Iraqi Economic Report 36 , 2018 p.

-Fadel, Shaima Muhammad Aziz, Khalil Ismail, Measuring the Impact of Public Debt Development on the Budget of Iraq),Analytical Study , (College of Administration and Economics, Wasit University 106 , 2019 ,p.

Figure (3) Development of internal and external debt in Iraq for the period(2003-2019)



The figure prepared by the researcher based on the data of Table(8)

It is clear from Table (8) that the external debt was very high, especially at the end of 2005, if the external debt reached 125 billion dollars, due to the accumulation of debts on the Iraqi economy during the period of the blockade and the repercussions of the Gulf War, then the total external debt decreased to reach 50.26 billion dollars in The end of 2012 compared to the year 2005, and the reason for that decrease is due to the lifting of the economic blockade on Iraq and its removal from the sanctions and restrictions that were imposed on it before 2003. In addition to that, the Paris Club agreement was implemented under which 80% of Iraq's debts were amortized during that period as well as recovery and increase Crude oil exports and their high prices, which led to an increase in oil revenues and a surplus in the state budget, which led to an increase in the government's ability to pay off foreign debts, (Al-Khazraji: 53: 2019). The rates of external debt remained between high and low, reaching 68590.4 billion dollars at the end of 2014, and the reason for this increase is due to the increase in the balance of external debts (such as the IMF loan) as well as the increase in expenditures, especially military ones, due to the conditions of the war on terror on the one hand and the decline in financial revenues from exports. Oil, on the other hand, during that period due to low oil prices, which caused imbalances and a large deficit in the public budget, forcing the government to resort again to borrowing from financial institutions in order to cover the deficit, and at the end of 2019, the external debt in Iraq reached It is worth \$ 83 billion.

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3. The Impact of Exchange Rate Change on GDP

The exchange rate is of great importance at the macroeconomic level, which aims to achieve economic growth and control the rates of rise in the general level of prices and stimulate exports, or at the micro-economy level based on the interpretation of the economic behavior of the individual and the institution, producers, consumers or others, according to the mechanism (Achieving the highest profits and striving to reduce costs). Hence, the exchange rate is not limited to being just a process of exchanging one currency for another currency, but rather it moves away more than that to represent negative or positive effects on the economy when the exchange rate of the national currency changes up or down, without will and planning. Without an incubator environment for the changes in the economy to change accordingly the situation of the economy, and the difficulty lies in the extent to which the robustness of the economy has been achieved to influence the outside world and not vice versa, and therefore the adoption of the policy of raising or lowering the exchange rate must be accompanied by a package of reforms and preventive measures that secure the protection of the economy from the emergence of unwanted effects. Decisions of change in exchange rates, as these reforms are represented in the following form:

- Structural reforms aimed at increasing state revenues
- Control of unproductive expenditures
- Addressing many deficiencies and deficiencies in public policies (economic, commercial, and investment) before resorting to the option of reducing the value of the Iraqi dinar. The following is a summary of the impact of the change in the exchange rate on the most important indicators of the Iraqi economy

3.1. The effect of the exchange rate devaluation on the gross domestic product

The gross domestic product, as previously mentioned, is one of the most important indicators that express the level of performance and effectiveness of the economy for any country, and in this way it reflects a clear picture of the extent of progress or backwardness of sectors in the economy, and in the Iraqi economy that is facing the fluctuation of low oil prices along with the outbreak of the Coronavirus pandemic. In light of the reduction of growth-friendly programs and a noticeable delay in implementing structural reforms, this economy has become restricted by a stifling crisis. This multifaceted crisis has generated a contraction in the growth rate in Iraq by up to 9.5% in 2020 (World Bank: 157: 2020)), which is the worst performance. Annually since 2003 and with a contraction in the oil GDP by 12% in light of the restrictions of OPEC and producers from outside agreeing to reduce production, while the non-oil

GDP suffers from a 5% contraction due to the impact of the services sector in the measures to limit the spread of the pandemic, especially the weakness And the participation of the religious tourism sector, these matters have caused a decrease in budget revenues, forcing the state to resort to internal fiscal and monetary policies in an attempt to address and translate these policies mainly by the central bank as well as from the country. The state-owned Nok, which deliberately followed a set of measures, the foremost of which was lowering the exchange rate and financing the deficit, and in light of the exacerbation of the multi-faceted crisis with the absence of a wide and varied production base and the domination of foreign imports on the reality of the Iraqi market, the exchange rate policy has become a non-policy It is effective and not in its required time. Rather, the state must adopt a set of reforms that seek to pursue such a policy as the levels of GDP are in a continuous decline and decline as the rate of GDP growth has not been significantly affected by the decline in the exchange rate due to the fluctuation of the contribution of the sectors contributing to Gross domestic product increase and decrease.

3.2. The Effect of Reducing the Exchange Rate on (Balance of Payments)

The relationship between the exchange rate and the balance of payments is that it is an interconnected relationship, not a partial relationship, but rather an integral relationship, meaning that the balance of payments affects the exchange rate just as the exchange rate affects the balance of payments, and in the event of a deficit in the balance of payments for the economy of a particular country, this will increase the demand on the foreign currencies to finance that deficit, and on the other hand, the decrease in foreigners 'demand for the country's national currency pushes towards the deterioration of the exchange rate of that country's currency, and the situation is completely different in the case of a surplus in the balance of payments, so the close relationship between the balance of payments and between supply and demand for currency emerges. This indicates its exchange rate. In the Iraqi balance of payments, we note the relationship between the exchange rate and the balance is an unstable relationship resulting from the fluctuation of the Iraqi dinar price against the American dollar, and this fluctuation ultimately affects the reality of Iraq's exports and imports, and by following the structure of Iraqi exports and imports, we notice the wide difference in the structure of exports. During the period from 2004 to 2012, where it achieved a clear growth at the beginning of the period and there was a clear increase in the value of exports in 2007 due to the rise in crude oil prices on the one hand and the increase in the exported quantities of this product, and then the resumption of these exports to fluctuation in the years that faced The decline in crude oil prices since the beginning of 2013 until the end of 2014 (Al-Enezi, 306-2018) On the other hand, Iraqi imports witnessed a continuous rise in their levels and achieved successive increases after 2003 as a

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result of lifting the economic blockade and openness that Iraq experienced and with the fact that the Iraqi economy is fully dependent. Therefore, the total demand increased due to the increase in government expenditures, and this was directly reflected in the increase in imports.

Based on the nature of the relationship between the balance of payments and the currency rate, we find that the decrease in the exchange rate of the Iraqi dinar should lead to an increase in exports and a decrease in imports. However, this did not happen at all, because Iraq's exports are purely oil and those exports are restricted to low global oil prices. Another aspect is Iraq's lack of a diversified production base that provides alternatives and compensates for imports, which negatively affected the increase in import prices as a result of the devaluation of the local currency against the dollar, which led to an increase in the state of deficit on the balance of payments.

4. The Effect of Devaluation on Inflation

The decision to devalue the Iraqi dinar will result in a rise in local prices, which negatively affects the balance of payments, and thus loses some of the competitive gains resulting from the devaluation of the currency. The authorities must contain the inflationary effects of the depreciation of the local currency, as the spread of inflation could lead to the elimination of all the gains resulting from the devaluation of the currency, and in view of the conditions of the Iraqi economy, which is characterized by the inflexibility of the production apparatus and its consideration of it as a one-sided sector with the pursuit of floundering policies under the weight of inflationary pressures, such as the policy of deficit financing, and then the devaluation of the currency will not improve the position of the balance of payments, but may lead to a loss of confidence in the local currency, and thus an increase in the demand for foreign currency against the local currency, which leads to a multiple deterioration of the value of the local currency, and then more inflationary pressures, and money could lose its function as a store of value, (Masouda, Marzouq: 71: 2016). The level of devaluation on Iraq due to its excessive dependence on large and varied imports, which have a greater impact than the reduction decision on this phenomenon, as the price of imports has increased and decreased Z export prices, as a result of the devaluation of the currency, will lead to an increase in the demand for national products and this rise in the demand for national products will have two aspects, namely

- The local demand will try to search for local substitute materials for imports whose prices have increased. Here, the results of the sterility of local production will emerge due to the unilateralism of the Iraqi economy and its dependence on the oil sector and the freezing of the rest of the productive sectors, as there is no alternative available for a local product.

- The demand for national products will also rise after they became cheaper than before, and this in itself represents an impetus for the general level of inflation to rise.

The effect of the reduction on the state's general budget: The general budget is closely related to the exchange rates, and by following up on the decision to devalue the Iraqi currency, we find that the effect of devaluation on the general budget has two aspects on (revenues and expenditures) in the general budget, and as it is known that the source of revenues in the Iraqi economy It came mainly from crude oil exports, and in the case of a 10% reduction in the dinar, revenues would increase (according to the new exchange rate by 9.9 trillion dinars, and up by 29.8 trillion dinars if the dinar was reduced by 30%, and non-oil revenues are expected to rise by 0.1 trillion). Dinars, 0.6 trillion dinars for two cuts (10% and 30% respectively) (Al-Alaq: 2: 2020).

5. Expenses

Expenditures could increase significantly, assuming the government is able to control the effect of inflation. Perhaps the most important of them.

- Government imports of goods and services
- Payments of foreign debt interest
- Payments for foreign investments and subscriptions
- The ration card (mostly imported).
- Social Protection Network (to protect the poor)
- The total of the above paragraphs 118 trillion dinars
- In the case of a 10% reduction, the total number of items above 122 trillion dinars
- In the event of a 30% reduction, totaling 130 trillion dinars, with a comparison to the original sum, which equals 118 trillion dinars. It turns out that the net impact on the 2020 budget (according to the adjusted expenditures and revenues) will have a positive effect of (2) trillion dinars in the two cases of reduction (10%) or (8.4) trillion dinars, and in the case of a reduction (30%). This is the small positive effect of the devaluation.

The total of the above sections is 118 trillion dinars

- In the case of a 10% reduction, the total number of items above 122 trillion dinars
- In the event of a 30% reduction, totaling 130 trillion dinars, with a comparison to the original sum, which equals 118 trillion dinars. It turns out that the net impact on the 2020 budget (according to the adjusted expenditures and revenues) will have a positive effect of (2) trillion dinars in the two cases of reduction (10%) or (8.4) trillion dinars, and in the case of a reduction (30%). This is the small positive effect of the devaluation.

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6. The Impact of the Reduction on the Public Debt

1- In the case of external debts, Iraq bears the payment of its debts and interest on it in the currency of the creditor country, so the burden of debts incurred by it in this case increases in the state's general budget as a greater amount of its national currency is allocated to the process of repayment in foreign currency, and this is a negative impact on the mechanism of repaying foreign debts

2- In the case of internal debts, Iraq bears the payment of its debts and interest on it in its national currency, pays the same amount of debts and interest in its national currency that has been reduced, and benefits from the reduction of its national currency in this case by the same amount of the reduction in the case of Iraq, and here the positive effect appears in the payment of internal debts.

3- The internal debt remains unchanged, as it is paid in dinars, which is a positive effect of stable debt repayment, even if it is small. Because due to the devaluation, government imports (resulting from the conversion of dollar oil revenues into dinars) rise, in addition to other effects, which raises the gross domestic product, and the public debt-to-GDP ratio is affected as a result, but this percentage does not exceed 2% (the lower ratio Public debt to gross domestic product (in the case of Iraq, according to the aforementioned local public debt amounts).

4- The public debt is mainly the debts of government banks (transfers and loans) and the Central Bank of Iraq (treasury transfers). The devaluation of the local currency will lead to a decrease in the value of the debts of banks and the central bank against the dollar by the reduction in the value of the local currency, that is, the value of the assets of those banks is affected. It is denominated in dollars, and the reserve of the Central Bank is affected, where in reality the Ministry of Finance is paid to the Central Bank in dollars (for the debts of the ministry, and the Central Bank calculates the equivalent in dinars according to the official exchange rate, thus preserving its reserves, but in the case of devaluation, the Ministry of Finance pays less than the dollar. As per the new lower exchange rate, which affects the reserves by the ratio of the new lower rate.

5- Weakness of the effect of the exchange rate on the foreign public debt in the short term (Abdual-Rahman: 144: 2020).

Insights into crisis management strategies

Fiscal and monetary policy strategy

1- Enhancing non-oil resources by activating taxes without harming segments of society by reforming the financial system and adopting a tax and fee policy in a way that enhances revenues and not exaggerating their amounts in accordance with the entry of citizens and the service provided to them

- 2- Reconsidering the currency auction and studying the adoption of a fixed exchange rate that would have been 1250 dinars / dollar, to which the bankers and banks were committed.
- 3- Developing a serious policy to attract savings from citizens and enhance the cash liquidity of banks, as the total savings of more than 43 trillion dinars are a block of cash for local circulation, of which only 3-4 trillion dinars are spared in banks, which causes banks to be unable to provide the necessary liquidity in many Often
- 4- Activating the role of the central bank in maintaining the continuation of reducing the rate of inflation and finding alternatives in developing revenues from hard currency without resorting to oil revenues that are subject to continuous decline
- 5- Seeking the help of experts in the field of auditing and international control and engaging banks and companies in a window to buy the dollar in order to control the sale of the dollar, maintain the stability of the exchange rate, and strengthen the internal monitoring and control systems.
- 6- Continuing to consolidate the reserve position in foreign currencies at a rate of more than 50% of the gross domestic product
- 7- Following up on public spending pressure by activating taxes, especially on luxury goods, and excluding productive capital goods

Economic growth strategy

- 1- Development and support of the industrial and agricultural sectors to ensure an increase and percentage of their contribution to the gross domestic production by activating the principle of protecting foreign trade to encourage Iraq's non-oil exports, which do not constitute any percentage in the trade balance, and to create job opportunities for the unemployed in these sectors and achieve entry for this category
- 2- Securing the border and direct crossings by controlling the leakage and smuggling gaps, the primary reason for permitting the Iraqi market and dumping it with cheap goods, implementing customs laws, protecting the local product, combating dumping, and protecting the consumer.

Debt strategy

- 1- Dropping the external debts owed by Iraq due to the obligations of previous wars and the pre-2003 era.
- 2- Supporting efforts aimed at canceling the highest possible percentage of foreign debts and war compensation.
- 3- Demanding to pay the cumulative interest on Iraq's funds frozen in Western banks due to the situation of Iraq under Chapter VII, in order to benefit from it in the payment of debt dues.

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4- The state's tendency towards adopting a certain percentage of financial revenues to serve the debts in a way that is commensurate with the volume of revenues and does not affect the state's budget to ensure a smooth payment of debts without accumulating and without taking harsh austerity measures.

Conclusion

It is concluded that the policy of devaluation of the exchange rate relies on the necessary indicators for its success or failure. Their availability will achieve success in the policy of reducing the exchange rate and comes in the forefront of which is the position of reserves of foreign currencies, which must be of a high degree of competence in accordance with international standards, and at a rate exceeding 30% of the gross domestic product, at a time when Iraqi production has a decent level of those reserves, then it does not need to resort to that policy, at least in the short term, and the emergence of the weakness and limitations of the monetary and financial policies to take adequate measures to curb the inflationary pressures resulting from Reducing the exchange rate of the local currency due to the ineffectiveness of the two policy tools for political, economic and financial reasons. This weakness in the performance of the two policies caused the state of economic instability, and accordingly the decision to reduce the value of the exchange rate in unstable conditions is a decision with negative effects rather than a decision with positive effects, as well as it creates chaos in transactions and expectations push towards further reduction, which results in confusion and constraint in market conditions and an increase in demand for foreign currency with weak confidence in the national currency, to In addition, the devaluation of the local currency pushes more inflationary pressures, the negative consequences of which are borne by most of the owners of limited incomes as a result of reducing the purchasing power of citizens, and in light of the above, and in order to achieve the reasons for resorting to this decision, the state must overcome important obstacles, the first of which is a review of the structure of public state institutions and the public sectors that suffer from fragility and corruption and the broadness of the sector (industrial and agricultural in particular), which indicates the negativity of production in them and represents at its lowest levels, and translates the percentage of its contribution to the gross domestic production, which does not exceed 5%. Positive or even negative, but it has a less serious impact than imposing a decision to devalue the currency in the shadow of indicators of an economy that suffers from sag

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