
Consequences of Currency Issuance, Increased Expenditures, and Dollar Supply in Iraq

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Summary : This issue has broader implications, including US-Iraq relations and US economic sanctions against other countries. Actions and warnings from the Americans alone depreciated the Iraqi dinar against the dollar, despite efforts by the Iraqi government and the central bank to increase the dinar value. Despite adjustments, it still trades above 1,540 dinars per dollar in the markets, highlighting the significant impact of American statements on Iraq's economic situation.

Overview

The amount of dinars circulating in Iraq that do not return to the market and banks is increasing daily. [By the end of December 2023](#), it had reached 101.4 trillion dinars, with 93.1 trillion dinars outside banks and 9.03 trillion dinars inside banks.

The issuance of dinars was traditionally linked to the inflow of US dollars from oil sales, totalling \$97.5 billion last year according to the Iraqi Oil Ministry. However, if oil prices remain unfavorable and these dollars do not enter Iraq, it raises concerns about the value of all dinars in the market. Last year, the Iraqi dinar's value against the US dollar fluctuated significantly, reaching about 10,000 dinars per 100 dollars within a week. If this instability persists, it poses a growing threat to both the state and the people.

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Another factor is the issuance (Foreign Currency Selling) of dollars in cash and transfers abroad (remittances and credit) by the Central Bank of Iraq, which reached its highest in the past five years at \$9.1 billion last year. Despite this, these days the exchange rate has not reached 1,600 dinars per dollar due to high supply.

The third aspect involves government expenditures, particularly salaries. In November alone, expenditures increased by 100%, with 50% allocated to salaries, totalling 19 trillion dinars, compared to the previous months' 9 to 12 trillion dinars.

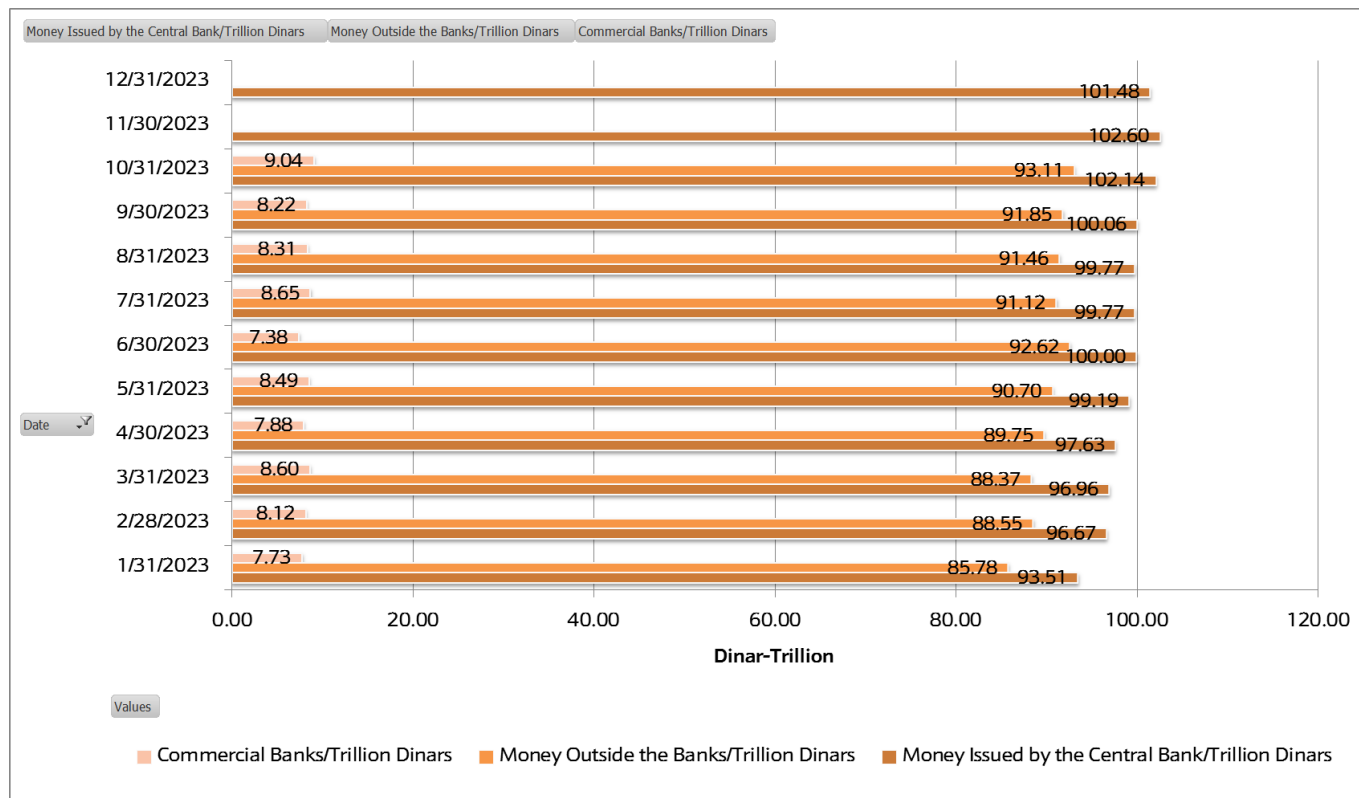
These insights are derived from data provided by the Central Bank and the Ministry of Finance of Iraq, prompting a need for careful consideration of money issuance and dollar supply policies in Iraq.

Currency Issuance, Expense Increase and Keeping it in the Hand of the People

The number of Iraqi dinars issued is increasing month by month. During the past year, 13.9 trillion new dinars were issued, bringing the total to 101.4 trillion dinars at the end of December 2023, up from 87.5 trillion dinars at the end of December 2022.

Meanwhile, by the end of October 2023, [the dinar in the market reached](#) 93 trillion dinars. However, during the same period, [the money in banks](#) amounted to 9 trillion dinars, marking the largest increase in recent times. More than 90 percent of Iraq's money is still outside banks and in the market.

Graph 1: Iraqi Dinar Issuance by 2023



Note: According to official data, the total number of dinars issued in Iraq in December decreased compared to November, whereas it should have increased.

Escalating Expenditures: Accumulating Cash in Stock Markets, not in Banks

Iraq's expenditures in the past eleven months surged to 109 trillion dinars, compared to 89 trillion dinars during the same period in 2022. The notable increase this year prompts scrutiny, especially considering the average for the first ten months was 90 trillion dinars. The sudden jump to 19 trillion dinars in the eleventh month raises questions about the reasons behind this significant spike.

The surge in November expenditures was not attributed to investment projects but rather to an increase in salary expenses. From the beginning of the 2023 until October, salary expenditures were 37.6 trillion dinars, but it has reached its peak in November, they reached 42.1 trillion dinars, reflecting a standalone increase of 4.5 trillion dinars. Iraq's 11-month salary expenditures alone were five times the total Syrian budget and half of Iran's budget for 2023, with Iran having a budget of \$52 billion and Syria's budget at \$5.88 billion.

Over these 11 months, a comparison of September, October, and November reveals that the Ministry of Interior spent over 11 trillion dinars. Following closely is the Ministry of Education, reaching 9.3 trillion dinars. This implies that most of the increase in salary expenditures occurred in these two ministries, with 120 billion in the Ministry of Defense and 300 billion in the Ministry of Education, as illustrated in the second graph.

Graph 2: Iraq's Expenditures on Ministries and Institutions in September, October, and November 2023

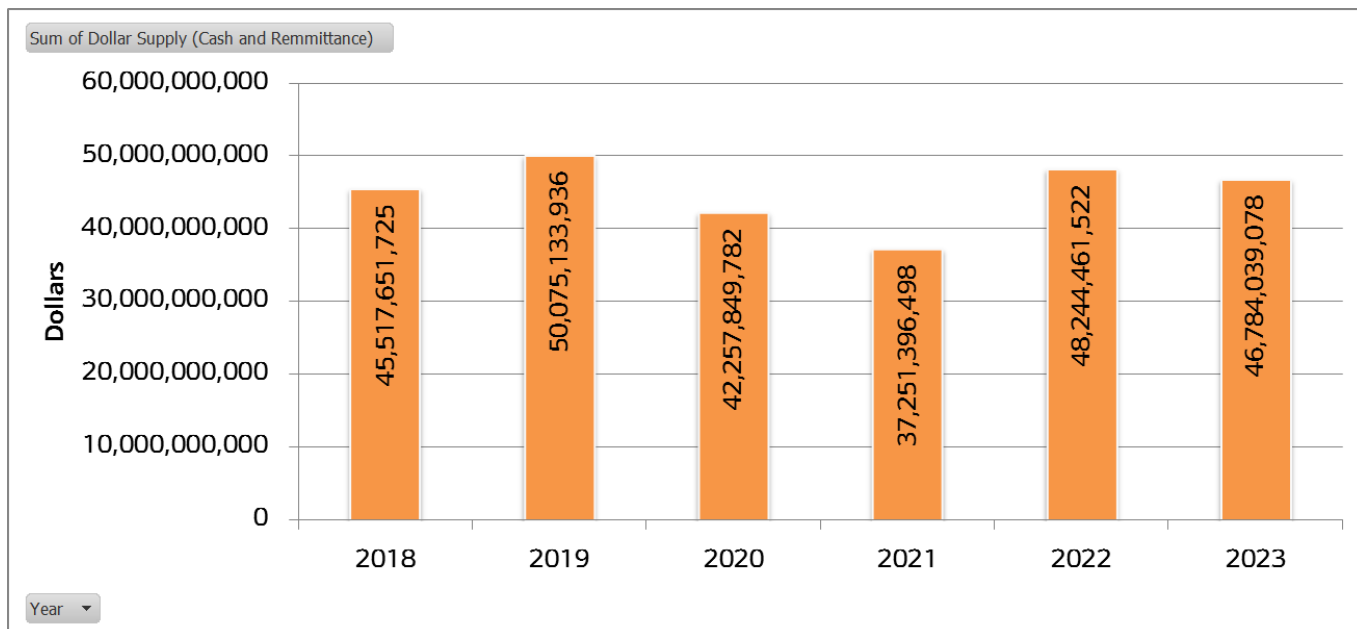


Source: Ministry of Finance, 09-01-2024

Dollar Supply and the Persistent Volatility of Its Value

Overall, in Iraq, \$1.46 billion less in remittances and cash was sale in 2023 than in 2022, making the market more volatile last year. For instance, Iraq total sale amounts \$46.7 billion in 2023 compared to \$48.2 billion in 2022, as depicted in the third graph.

Graph 3: Dollar Cash and Remittance Supply from 2018 to 2023



In terms of cash withdrawals and transfers abroad (remittances and credits) the highest cash withdrawals of dollar supply in the past six years was in 2023 at \$9.1 billion, compared to \$8.9 billion in 2022, marking an increase of more than \$200 million. However, transfers abroad (remittances and credits) were lower than in 2022, with 37.6 billion transfers abroad (remittances and credits) from the central bank in 2023, compared to \$39.3 billion in 2022, reflecting a decrease of \$1.7 billion.

Graph 4: Cash withdrawals of dollar during 2018 -2023 by the Central Bank of Iraq.



Conclusion

At the end of last year, the price of the dollar was around 1,500 to 1,550 dinars, owing to the decision to operate in a single currency within the country and the daily issuance of more than \$200 Million in cash withdrawals and transfers abroad (remittances and credits). However, the streamlined processes of dealing with dollars made the impact less noticeable in the market and economic transactions.

Currently, two significant developments are underway: increased spending and heightened currency issuance in Iraq. However, as the dinar remains in the market without returning to the country's economic cycle, these trillions of dinars, whether in paper or any other form, will eventually surface, revealing the true value of the Iraqi dinar.

Finally, the central bank's supply does not directly influence the value of the dinar against the dollar in the markets, and it is not under its control. The ability to issue cash and remittances depends on the US supply of dollars rather than oil sales and revenue collection. Consequently, converting Iraq's economic transactions with its primary economic partners into currencies such as the UAE dirham has not had a major impact.