

# THE ROLE OF THE CURRENCY SALE WINDOW IN STABILIZING THE EXCHANGE RATE OF THE IRAQI DINAR

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## ABSTRACT

*The transition situation experienced by the Iraqi economy after the change of the political and economic system in 2003 and the changes that took place in the directions of monetary policy, especially after the Central Bank obtained its independence in accordance with Law No. 56 of 2004 and its use of modern monetary instruments, as a window of sale of the currency as one of the main and most appropriate ways The stabilization of the general level of prices through the stabilization of the local currency exchange rate, especially in light of the economic conditions prevailing in the economy from Iraq, monetary policy has succeeded in achieving its goal, but at the expense of the depletion of foreign reserves, Central Bank of reducing currency sales (especially cash sales), even if it caused a decline in the exchange rate in relative terms, in order to rebuild foreign reserves when oil prices rise again. As well as the need to work to limit the expansion of government spending, which is the main cause of increased money supply, which is inflationary pressures in the economy, which requires the central bank to intervene significantly in the window selling currencies to stabilize the dinar exchange rate.*

## INTRODUCTION

After the Central Bank obtained independence in accordance with Law 56 of 2004, this gave the monetary policy in Iraq more credibility than previously in the disclosure of the economic and monetary situation in the country. After changing the political system in Iraq and the result of the structural imbalance, as well as the failure of the financial system and banking, which made the traditional channels for the transfer of the impact of monetary policy is not effective significantly, so it has to develop a new tool suited to the nature of the conditions inherent in the Iraqi economy, And it is in transition. This has increased the importance of discussing how to stabilize the level of the year for prices at moderate limits as it represents the main objective of monetary policy for changes in the management of monetary policy and its intermediate objectives. Accordingly, the central Bank adopted the

monetary stability on the exchange rate by adopting it as a nominee and a mediator at the same time, using the sale window for the purpose of controlling the exchange rate and then reducing the gap between the declared price and the parallel price, which will reflect the stability of the general level To the prices and purchasing power of money in the economy. Indeed, the central bank has succeeded in doing so, but at the expense of the international reserves it has.

## RESEARCH PROBLEM

The stability of the general level of prices is necessary to prepare the appropriate environment that stimulates the economy towards growth and development. It helps decision-makers to formulate appropriate development policies, as well as to develop a clear vision for the advancement of economic reality using a medium exchange rate target. The value of the dinar by following

the currency sale window in the central bank faces many challenges, perhaps the most important of which is the depletion of the international reserves that represent the currency's cover, which leads to the gradual loss of the exchange rate of its effectiveness in maintaining the stability of the general level of prices.

### Search Hypothesis

A major role of the currency sale window in influencing the exchange rate and positive money supply is the stability of the strength of the dinar and thus stabilizing the general level of prices during the research period 2004-2015 .

### Objectives of the Study:

1. Study and analysis of the reality of the exchange market and some international traders that used the window selling the currency and show how successful .
2. Identify the effects of using the window selling the currency on the exchange rate through the sale and purchase of currencies in Iraq.

### Search Limits

Spatial boundaries: include the Iraqi economy (the central bank).

Time limits: include the period 2004-2015

### RESEARCH METHODOLOGY

In order to achieve the objectives of research and prove or deny the hypothesis, the researcher relied on the descriptive method of analyzing data related to research and tracking developments over time, and then extrapolating the economic reality and the development of effects and results to reach specific results through economic tools available.

### STRUCTURE OF RESEARCH

The second topic was devoted to analyzing the role of the currency sale window, while the third section was devoted to analyzing the role of the currency sale window. In the stabilization of the exchange rate of the

dinar Iraq, while the fourth section included the most important conclusions reached by the research and the most prominent recommendations proposed in this regard.

### CHAPTER ONE: THEORETICAL FRAMEWORK OF THE EXCHANGE RATE AND MARKET

#### First: What is the exchange rate?

The exchange of goods and services between countries requires the payment of such goods in a monetary unit acceptable to both parties in accordance with the international monetary system, whether direct, clearing or forward .And the difference in the purchasing power of the currencies of the trading countries depending on the type of monetary system followed and the size of their economies, the nature of their trading position and reserves, "and so on, leading to the determination of the price of the local currency called exchange rate, which is known as" the price of one currency of a country direction of the currency of another country) " Pilbeam, 2010: 260 ( Which is the number of units of the local currency for each unit of foreign currency, ie the number of Iraqi dinars that require one dollar . Also known also as " the price of cash in the country as the direction of the country the other, as is the ring arrived important in the comparison between costs and prices and identified between different countries and is thus the fact that the most prominent foundations that t depend on the relations of economic and trade between the countries (Abedi . 9 :2005)

Can know the exchange rate from the point of view of the researcher as " the number of units of cash paid from the currency local's to get the unit one of the currency foreign ,and therefore the rate of exchange is determined would Shan any price another in the economy through the interaction of the forces of supply and demand it".

**Second: I exchange rates**

## 1. Rate of exchange Nominal

Means the price of the currency given in terms of the currency of another or a basket of currencies, words other it expresses for value in nominal currency does not reflect its purchasing power, which does not take into account the inflation that exists in the economy level) Hubbard et al., 2012: 569-570.

## 2. Rate of exchange real

It means the prices relative to goods and services between the two countries or more, and through this price are the process of swap between the goods of local and foreign, ie is the prices of goods and local Mq blamed currency foreign exchange for goods of foreign denominated currency local. Mushin, 2012: 425). (Or it represents a rate of exchange nominal less than the rate of inflation is the most common definition in academic circles. (Chinn, 2006: 1)

## 3. Rate of exchange actual Effective Exchange Rate

It represents the average weighted rates of exchange between the currency and local country's currencies partners its trading partners) Salvatore, 1996: 143, (In other words, is the rate appropriate rates of exchange market against the currencies of partners trading, ie that the average arithmetic rate exchange rate of the currency local to the country as against the currencies of other proportion to the period of the basis of a certain weighted share of each partner business for that country) " al -Ani. ( 125 : 200 1 ,

## 4. Rates of exchange current and future :

When is the agreement on the delivery of the currency at the date of purchase, the price of

the purchase is called B rate of exchange current. As if you select an agreement of purchase and the date of receipt in the future called B rate of exchange for future Richard, 1987: 127) ( This type of exchange rates remain constant even if the change rate of exchange daily and usually what is contracted future in order to h protection of buyers against conditions not to ensure the risk of future ( Awad. 338 :1995)

**Third: exchange rate regulations:**

Exchange rate systems can be defined as:

**1- Fixed exchange rate system:** It is defined as the system in which the central bank intervenes in determining the level of the exchange rate for the purpose of controlling the entry and exit of foreign currencies. The central bank can fix the local currency exchange rate for one foreign currency, And the second option contributes to minimizing the effects of fluctuations that may occur in the foreign currency taken in the first case (Prissert, et.al, 1992: 305), and may therefore be To install as follows (Unified Arab Economic Report 2002: 303):

- A. A-One-currency stabilization: It means that countries are consolidating their currency in one major international currency without adjustments, except in rare cases such as: Jordan, Djibouti, Syria, Oman, and Egypt, which prove their currencies against the US dollar
- B. The stabilization of a basket of currencies: this is the case of countries fixing their currencies with a basket of currencies of major trading partners or to a standard unit of currencies such as the SDR. These countries are the UAE, Bahrain, Saudi Arabia, Qatar and Libya.
- C. Installment within Specific Margins: There are countries whose currency is "linked to a single currency or a basket of currencies within certain margins.

## 2- Floating exchange rate system: It is divided into two systems:

**A. Managed Floating:** This type of exchange rate system is more prevalent after the collapse of Bretton Woods and so far. The central bank intervenes in a specific and effective rate in the exchange market in order to determine the exchange rate. The intervention is either direct (sterile or non-sterilized) or indirectly through changes in interest rates and what the central sees as appropriate to guide the economy towards stability and growth. (Yagci, 2001: 4).

**B. Free float:** The exchange rate of the local currency according to this system is determined by the forces of the market supply and demand on the national currency exchange market freely without the intervention of the Central Bank in that, and the effects of exchange rate movement on demand and supply of exports and imports rely mainly on flexibility Domestic and foreign demand for exported and imported goods, as well as the elasticity of domestic supply of goods, as high as this elasticity makes it "responsive to changes in the foreign exchange rate." This type of exchange rate regime also allows for the free use of monetary and monetary policy instruments, because it is flexible the exchange rate is sufficient to achieve external balance, so there is no longer a need to maintain large foreign reserves to control the imbalance of payments.

3- System of exchange rates directed: Currency exchange rates are determined here in accordance with this system mainly through the interaction of market forces supply and demand for currency in the exchange market, despite the fact that governments sell or buy currencies or change their money supply to influence exchange rates (Samuelson & Nordhaus, (2001: 651-652).

4- Exchange Control System: Due to the negative effects of the free exchange rate on the national economy, this led to the countries to rely on the introduction of the system of control of exchange rates directly and under this system, is that the State controls the determination of foreign exchange rates by decisions issued from The central bank, as well as direct intervention in the demand and offer on currencies, "that this system appeared in the

thirties of the last century during the economic crisis (1929-1933) as control of exchange became part of the economic policy of the state, and continued to work during the World War Second, until late 1985, and despite the negative effects of this system, especially in capital movements, many developing countries remained in it (Ali, 2008: 38).

### Fourth: Exchange Market

There are many concepts of the exchange market, there is no one comprehensive and comprehensive definition of it, it was defined as "the market in which the processes of" the sale and purchase of foreign currencies by the dealers in order to make international payments and the exchange rate is determined by the interaction of supply and demand forces on the currency", 2010: 256), also known as "the international electronic market, which does not contain a single geographical area, where it conducts currency exchange by dealers such as traders and others around the world to conduct international transactions, the exchange rate is determined by the forces of the market (Ray & Anderson, 2010: 421). The currency exchange process is not one-sided but is a two-way process. The purchase of the currency corresponds to the sale of another currency, which contributes to creating an environment conducive to the flourishing of the speculation process and to benefit from the profit margin resulting from the exchange rate difference. One of the positive aspects of this process is that it can sometimes lead to large losses that could reach the extent of the collapse of economies, and the best example of what happened to Asian tigers in 1997 (Shalhoub, 2007: 118).

### Fifth: Exchange Market Structure

The exchange market consists of four levels of traders or participants (Khalil, 2007: 842-843):

Level 1: includes tourists, importers and exporters, which are dealing urgently and prepare suppliers of foreign currency.

Second level: Includes the depositary banks, which act as a settlement mechanism between dealers and suppliers of foreign currency.

Level 3: Exchange brokers who are used by banks to equate "foreign exchange inflows and outflows".

Level 4: The central bank represents the highest levels, being the last resort for buying and selling currency in the exchange market, in the case of a gap between the government revenues and expenses enters the central bank of the state or a buyer of the currency using its reserves and the system of exchange in the country.

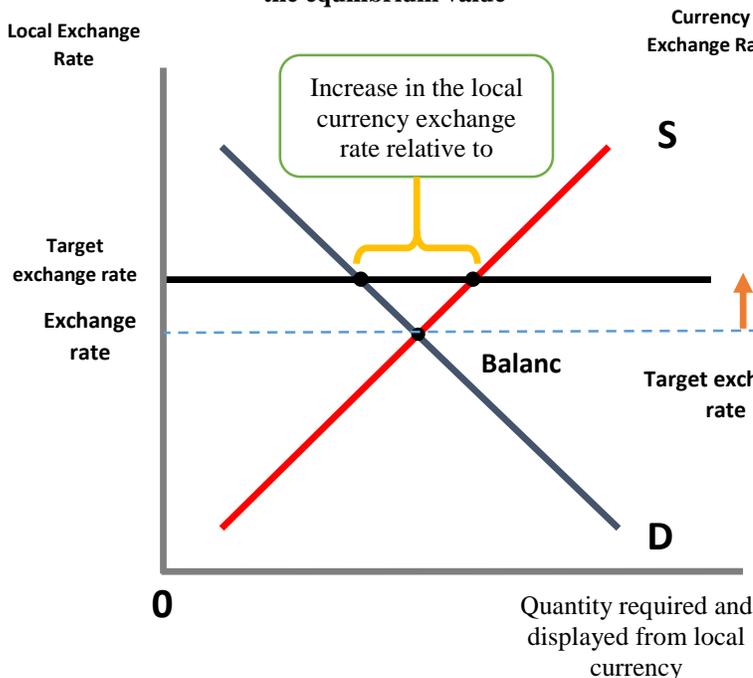
**Sixth: Intervention in the exchange market**

After the exchange market as other markets subject to the intervention of governments through their influence on the Central Bank, and vary rates of intervention from one country to another, the participation of the Central Bank in international financial transactions, which may affect the exchange rates in those countries or sometimes identified through the sale and purchase of

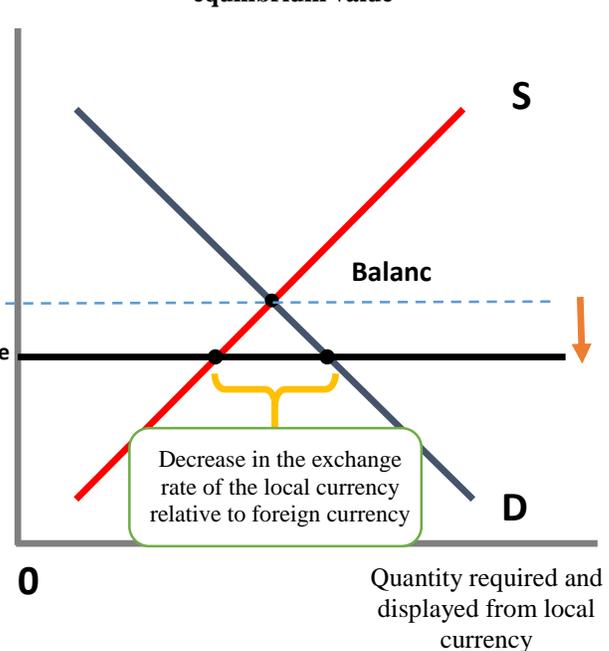
currencies Hotfile. The sale and purchase of currencies resulting from the Central Bank of the sale or purchase of some assets in foreign currencies and called international reserves, "and result in two types of effects are: the first is the decline of international reserves at the Central Bank The second is the absorption of liquidity from the domestic financial system, Because the Fed's bank deposits known as reserves will decline (Mishkin, 2012: 441-442). The sale and purchase of the local currency in the exchange market in the province contributes to the target exchange rate, especially under the floating flotation system. "In some countries, this process is the only way to absorb surplus liquidity in the economy (sterilization of money supply) by using its international reserves Exchange rate stability (Ray & Anderson, 2010: 432) Figure (1) represents the effect of intervention in the exchange market in maintaining the stability of the local currency exchange rate against the foreign currency (eg the dollar).

Figure :1 Intervention in the exchange market

**Figure A the target exchange rate is higher than the equilibrium value**



**Figure B the target exchange rate is lower than the equilibrium value**



Source: Ray, Margaret & Anderson, David. Krugman's Macroeconomics for AP, New York: Worth Publishers, .2010, p432.

It is clear from Figure (1) (a) that the target exchange rate is higher than the equilibrium price. This means that there is a gap in the width of the local currency. This is where the central bank intervenes as a buyer for the excess of the local currency, which increases the value of the foreign currency. Target point. In section (b) of the same form, where the target exchange rate is lower than the equilibrium price, this means that there is a demand gap for the local currency. Therefore, the central bank intervenes here as a local currency dealer, thus increasing the local currency and thus devaluing its exchange rate to the target point.

## **CHAPTER TWO: THE SALE WINDOW OF THE CURRENCY: THE CONCEPT AND MECHANISM OF ACTION, SOME INTERNATIONAL EXPERIENCES**

### **First: Conception of Currency Auction**

Many emerging economies in transition have followed new trends in monetary policy management by using quantitative instruments and commensurate with the evolution of their financial systems, either as a result of their economic crisis or their desire to integrate into the global economy (Gray et al., 2013: 10). The exchange rate is one of the most important channels for the transfer of monetary policy effects to the real sector, as these effects disappear under the fixed exchange rate system and increase with the adoption of the flexible exchange rate system. Therefore, intervention policies are a fundamental element of exchange rate policies. Which suffer from the backwardness of their financial and banking systems and their weak role in financial intermediation and the disruption of their economic structure, as well as their dependence on imports to meet the need for domestic demand, so the exchange rate is a key tool of the Central Bank to target inflation and maintain the stability of the general price of prices. Thus, the use of currency auctions (the currency sale window) is one of the most effective methods of influencing the exchange rate directly, and can be counted as a temporary tool to maintain monetary stability over a certain period (Gray et al., 2013: 8-12). The currency sale window can be defined as "the mechanism used by central banks as one of the most

important intervention methods in the exchange market to cover the gap in domestic demand for foreign currency and thus maintain the stability of the local currency exchange rate (Werner, 2001: 25-26).

### **Second: Mechanism of selling the currency**

The mechanism of selling the currency differs according to the different objectives of monetary policy, as well as the impact of the components of the presentation of foreign currency and the level of development in the monetary and financial sector in the national economy on the mechanism of work of that window, so can be described mechanism of action as follows:

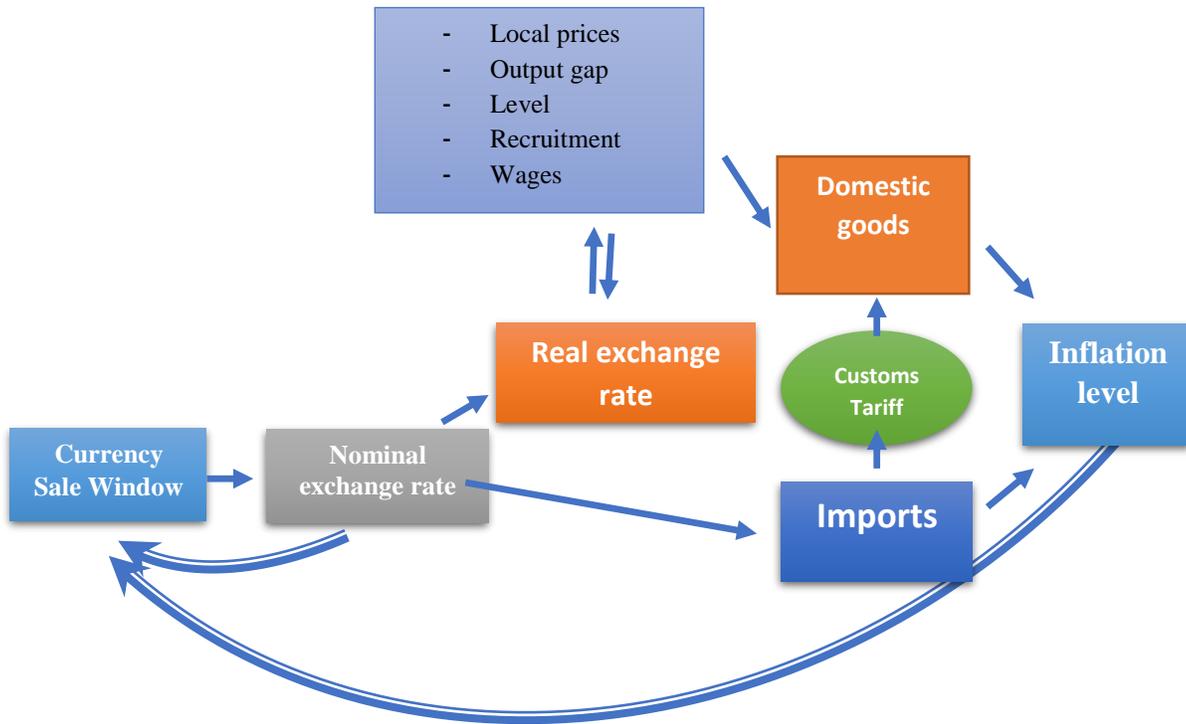
**A-One-way currency auctions:** The role of the central bank in this case is to intervene in the exchange market as a foreign currency seller, ie, one-way intervention to meet domestic demand on foreign currency to finance its foreign transactions. In this case, the exchange market is characterized as a monopoly market. The state monopolizes foreign exchange supply sources, especially in the rent-dependent economies, which depend on the local demand for aggregate demand through imports, so the central bank provides foreign currency to the private sector by selling it The price of selling the currency is the exchange market and the central bank is the main factor influencing the direction of the exchange rate through its sales (Ali, 2015: 512-514).

**B. Two-way currency auctions:** The role of the central bank in this case is to intervene in the exchange market directly and indirectly in the foreign exchange market, ie, its intervention is two-way to meet the domestic demand on foreign currency to finance its foreign transactions (imports) and maintain stability in the currency exchange rate In this case, the exchange market is characterized as the oligopoly market, because the sources of foreign currency supply are limited by a very small number, usually represented by the central bank, the syndicates and some other financial institutions. Exchange rate compared to the previous situation, but nevertheless remains a major role in influencing the auction currency (McCarty, 2002: 63-64). The currency selling window is one of the most important monetary policy instruments in stabilizing the

exchange rate through its effect on the supply and demand of the currency, adopted by many emerging economies, as mentioned earlier to stabilize the levels of inflation through the impact on the prices of imported

goods, which constitute a large part In influencing inflation levels caused by imported inflation. Accordingly, the movement of the effects resulting from the sale window can be expressed as follows:

Figure 2. Transmission of effects resulting from the currency sale window



Morandé, Felipe and Schmidt-Hebbel, Klaus, Monetary Policy and Inflation Targeting in Chile, Washington D.C: IMF Book, 1999, p64.

**Third: Experiences of some countries in using the currency sale window**

The adoption by emerging-market countries of new monetary instruments (currency sale window) as one of the effective methods of stabilizing the local currency exchange rate in order to move towards market mechanisms, as well as the use of this tool is temporary use, as many countries have followed We are focusing on three countries that have used the currency sale window to show how successful these countries are in using the window. These countries are Mexico, Croatia and Chile. Mexico notes that the Mexican central bank has contributed very significantly to controlling the exchange rate (peso) against the dollar , Through his

intervention In the exchange market followed by two methods: the first is the Central Mexican to buy foreign currency from the public sector at the prevailing market price, in order to absorb the direct impact of the fluctuation of oil revenues on the foreign exchange market, as they affect the exchange rate significantly through the impact on public spending . The second is the currency auction by your central Mexican son, who is offering about \$ 200 million in foreign currency "daily at the currency auction at a lower price than the market" (2%) from the previous day's closing price. Cuevas & Werner, 2001: 18-26). As for Croatia, Croatia achieved the lowest inflation rates possible compared to the rest of the economies in transition due to the adoption of the Croatian Central Bank on the exchange rate as a nominal

stabilizer, especially after the banking crisis that hit its economy in 1998, as the Central Bank of Croatia relied on a different number. One of the tools of monetary policy is the effect of the exposure of money and international reserves. The monetary authority in Croatia also adopted the exchange rate as a nominal stabilizer and intervened in the exchange market directly through currency auctions in order to maintain the exchange rate at its intended limits and to adjust its economy or reduce short-term fluctuations. On the one hand, and on the other hand the use of a number of instruments to sterilize the previous intervention and to avoid excess liquidity, which is a negative impact, especially in the short term, through the requirements of legal reserve and open market operations (Lang, 2005: 490).

As for Chile, its monetary authority relied on the exchange rate floating system and its adoption as a nominal stabilizer, enabling it to absorb a large amount of financial shocks. The exchange rate fluctuates in a manner that responds to the size and type of shock to the national economy and in line with the inflation target. The policy has proved successful in several dimensions, and despite the "floating system", the central bank has intervened in the exchange market through currency auctions on many occasions, including in 2008 and 2011, and attributes the focus on the exchange rate as a channel to convey the effects of monetary policy. Because its direct impact on the prices of imported goods and services, and thus on the general level of prices, which in turn affects inflation levels (Claro, 2013: 81).

### **CHAPTER THREE: ANALYSIS OF THE ROLE OF THE CURRENCY SALE WINDOW IN STABILIZING THE EXCHANGE RATE OF THE DINAR OF IRAQ**

#### **First: The dinar exchange rate system in Iraq**

After the issuance of Law 56 of 2004, which provided for the independence of the Central Bank of Iraq in the formulation and management of monetary policy, and was the liberalization of the exchange rate system in Iraq as a first step towards the transition to market mechanisms in the running of the economy, and became

the central bank responsible for the sole management. The exchange rate in Iraq after 2003 is a floating float system (Saleh, 2012: 271), while some believe that the type of exchange rate system in Iraq after 2003 can be divided into two phases: the first phase is the period (2004-2008) The drainage system is the managed float, while the type of drainage system followed during the stage. The second, which is the period after 2008 and so far is the fixed exchange rate system based on the index "Levy-Yeyati & Sturzenegger", as the central bank to maintain (defense) exchange rate declared through the window selling currency using the international reserves available to him in that (Geek, 2015: 76-78). Regardless of the type of exchange rate regime adopted by the monetary authority in Iraq after 2003, and since the end of 2003, intervention in the exchange market through the window selling currency in order to maintain the stability of the dinar exchange rate as part of the goal of monetary policy. President is to target inflation and stability in the general level of prices, and through the use of international reserves available to him.

#### **Second: Exchange market in Iraq**

The currency sale window in the Central Bank is the main market for foreign currency in Iraq, as the central bank intervenes in the exchange market in order to influence the exchange rate and achieve its stability within a certain range that fits the current economic situation. Since foreign exchange is considered "monopolized" by the government and the private sector is inoperable, the central bank is therefore the leader of this market and its ruler (Ali, 2009: 11).

On 4/10/2003 the window started to sell the currency and auctioned, as it required to deal with the offer of three offers of purchase by buyers decline in price with the increase in quantity required, and is known as the adoption of the low price, when the central bank to display the currency. The foreign exchange is greater than the demand for it, began to adopt the price of sale announced in advance, so there is no need for auction and became "label" closer to the window of them for auction (Ali, 2015: 541). The exchange market consists of two aspects:

**The foreign currency offer:** The offer of foreign currency in Iraq as we mentioned is monopoly by the central bank, as the contribution of the real sector both sides of the public and private alike in the supply of foreign currency with weak foreign exchange inflows into the economy (excluding crude oil revenues ) As direct or indirect investments caused by the poor and unstable security and political situation in the country, and become oil revenues is a source almost semi-contributor to the offer of foreign currency. The Ministry of Finance contributed about 98.5% of the sources of the sale of the currency to the Central Bank. The contribution of banks, government departments and their partners was about 1.1% and 0.4% respectively during the period 4/10/2003 to 26/2/2005. 2009 (Abd al-Nabi, d. 8).

**Second: Demand for foreign currency:** This aspect is the sales of the Central Bank of foreign currency through the window of selling the currency to the private sector for the purpose of filling the dollar financing needs corresponding to the imports needed by the market, as the central funding of the private sector through the participants in the window selling currency from Licensed banks and financial intermediaries "who obtained the license according to Article 28, Section 6 of the Central Bank Law No. 56 of 2004 (Saleh, 2012: 292) However, the public sector's demand for foreign currency is the" largest part " Sense By the Ministry of Finance, which it does not compete with private demand.

### **Third: The goals of selling the currency**

There are several objectives of selling the currency can be summarized as follows:

- 1- Is one of the main sources of financing private sector trade and meet domestic demand for goods and services (Saleh, 2012: 292).
- 2- Work to find the best ways to manage the international reserves, and in order to achieve "the greatest" benefit to the Iraqi economy and protect its external resources.
- 3- Developing the currency exchange process between the banks themselves, as banks with surplus foreign currency sell it to banks that

suffer deficit. This would reduce the pressure on the central bank on the one hand and generate an organized market for the exchange in the economy on the other. (Shabibi, 2007: 28-29).

- 4- Stabilize the exchange rate of the dinar, and then the general level of prices by disinfecting the money supply and absorption of excess liquidity.
- 5- The need to work to reduce the gap between the official exchange rate and parallel and to achieve an improvement in the value of the dinar.
5. Availability of foreign currency for banks, enabling them to open "documentary" credits and financial transfer in foreign currency. (Abd al-Nabi, 6: 6)

### **Fourth: The effect of the currency sale window in stabilizing the dinar exchange rate**

Before analyzing the role of the window in stabilizing the exchange rate, it is necessary to explain and clarify the fluctuations in the official and parallel exchange rate and the extent or extent of the gap between them. Table (1) shows the course of both the official and parallel exchange rate of the dollar against the Iraqi dinar and the gap between them. The table indicates that the Central Bank through the window of selling currency increased the exchange rate of the dinar gradually during the period 2004 - 2009 to reach the dollar / (0.00085468) by Au.P. And (0.00084615) according to Ma.P in 2009, after it was about (0.000688224) according to Au.P. And (0.000691062) according to Ma.P in 2004. However, the year 2005 saw a decline in the exchange rate and a negative growth rate of (-1.05%) in the official market and (-1.17%) in the parallel market and this decline is due to instability Security situation in Iraq.

The same table data indicate a decrease in the exchange gap between the official and parallel prices during the period 2004-2009, reaching about (- 0.000028) in 2004, which means the parallel exchange rate is higher than the official. As the mechanism of the currency

auction continues, the official price rises from the parallel, In the widening gap between the two prices gradually to reach about (0.0000085) in 2009. This has contributed to increasing public confidence in local currency and this stems from the public's confidence in the policies of the Central Bank that followed in achieving its main objective is to maintain the stability of the value of the Iraqi dinar).

After 2008, the Central Bank moved to a second phase in the context of its inflation targeting policy. It stabilized the exchange rate during the period (2009-2015) with a small margin that moves in the light of decline and rise, while using the international reserves it possesses to maintain the price stability The exchange gap increased from about (0.0000085) in 2009 to about (0.000044498) in 2015 with an average growth rate of about 32% for the same period. The average growth rate in the official market was about (0.426%) and (-0.156%) in the parallel market. This widening gap in the exchange gap, especially in the period (2010-2013) was the result of several factors, the most important of which is the US withdrawal from Iraq, the spread of pessimistic expectations and the emergence of the phenomenon of prudential behavior by the public. However, with the rise in oil prices and then oil revenues, The Central Bank of Iraq (KFI, 2013), which contributed to the strengthening of confidence in the dinar and the central bank's policy, thus reducing the pessimistic expectations that prevailed. As a result, the exchange gap To reach (0.00003) in 2014, and then return in the following year (2015) to the widening and by more than (32%) to about

(0.000044) and attributed the reason of this breadth to the shock of the parliamentary declaration, which set the ceiling of the Central Bank of the dollar, 50 ") of the 2015 budget to be estimated at " 75 "million dollars a day (Federal budget 2015, p. 34).

It is also noted from the same table that fluctuations in the exchange rate during the period were relative and uneven. This was confirmed by the dispersion coefficient (standard deviation S.E), which reached (0.0000760353) for the official market and about (0.000064806) for the parallel market, The value of the standard deviation until the fluctuations in the exchange rate are relatively minor fluctuations, as well as the official price is the leader of these fluctuations, and this is clearly shown during the first phase, as the exchange rate directly affected the price of the market, "Positive" represents a gradual improvement in the exchange rate of the dinar as well as Maintain stability in the second phase.

It is important to note that despite the slight fluctuations in the exchange rate, they are of great importance because they represent huge amounts (the difference between the two prices is a profit for the customers), as well as their direct impact on the public and on a daily basis, Negatively on the macro-economy by encouraging speculation in the exchange market in an uncontrolled by the financial and structural backwardness suffered by the economy, which negatively affects the value of the dinar and confidence in it.

Table (1) the official and parallel exchange rate and the exchange gap for the period2004-2015

Exchange gap	growth rate%	Parallel price Ma.P.	growth rate%	Official price Au.P.	the year
- 0.0000028	—	0.000691062	—	0.000688224	2004
0.0000015	- 1.71	0.000679235	- 1.05	0.000680822	2005
0.0000032	- 0.14	0.000678224	0.09	0.000681443	2006
0.0000073	16.5	0.000790185	17.03	0.000797543	2007
0.0000096	4.15	0.000822866	4.38	0.000832546	2008
0.0000085	2.82	0.00084615	2.65	0.00085468	2009
0.0000115	- 0.35	0.000843184	0.002	0.000854701	2010
0.00002	- 1.007	0.000834685	0	0.000854701	2011
0.0000452	- 2.68	0.000812269	0.32	0.00085751	2012

0.0000451	- 0.006	0.000812217	0.014	0.000857633	2013
0.0000336	1.44	0.000823952	0	0.000857633	2014
0.0000444	- 1.31	0.000813135	0	0.000857633	2015
0.0000189		0.000787264		0.000806256	Average
0.0000182		0.000064806		0.0000760353	SE

## References:

- Central Bank of Iraq, 2015, daily exchange rates from the beginning of the auction until 19/2/2015, and from 6/4/2015 to 18/11/2015, Baghdad, Auction currency: <https://www.cbi.iq/index.php?pid=CurrencyAuctions>
- Official and parallel exchange rates represent the annual average exchange rates of the dinar.
- The exchange rate for 2015 represents the annual average without the duration of the stop.
- Growth rate and the exchange gap of the researcher's work.

**Fifth: Central purchases and sales of foreign currency**

The Central Bank is the government bank and this stems from its function in the management and settlement of government transactions with the outside. Therefore, the public revenues from foreign currency resulting from the export of oil are included in the account of the Ministry of Finance in the Central Bank and administered by them taking into consideration the deduction ratio (5%) for compensation. The war (Ali, 2012: 99) is then divided into two parts: the first is used to cover government imports. And the second is sold to the Central Bank to be used to finance private sector imports through the currency sale window, and the surplus is added to the international reserve with the Central Bank.

Table (2) and Figure (2) shows the increase in purchases by the Central Bank of the USD from the Ministry of Finance since the start of work in the sale window of work gradually, as the purchases of about (900) million dollars in 2003 and then increased until the highest level in 2013 and (62) billion dollars, then decrease to reach about (47) billion dollars in 2014, this was due to the decline in oil revenues resulting from the decline of crude oil prices in the international market, and then dropped to about (32.45) billion dollars in 2015. It is necessary to note that a small percentage is almost negligible for the Central Bank's purchases through the

currency sale window, which reached its highest level in 2007, amounting to nearly one billion dollars. This amount represents speculative transactions in the exchange market as a result of the gradual improvement which He earned the dinar exchange rate during the period 2004-2008 although it was "limited", but it is an attempt to take advantage of the difference between buying and selling. What confirms this is the failure of the financial sector and there is nothing to export, so who goes those amounts? And certainly to speculate in currencies and take advantage of the difference in price and this is confirmed by the economic reality in Iraq. The table also shows that after 2008, the Central Bank used remittances as one of the selling methods in the selling window of the currency and at a price less than cash sales, in order to stimulate banking transactions and encourage it under the reform package to develop and grow. Sales in the window of selling the currency significantly after 2008, but still dealing with cash occupies an important ratio and reflects the general trend extends even to commercial transactions imports, it is one of the obstacles to the process of effective control of transfers. For example, trade with Iran is estimated to be about \$ 8 billion annually. These transactions are carried out through cash transactions without banking. In addition, many transactions by telephone have enabled the transfer companies to "receive" a certain amount within the country, the amount is paid in cash to the

transferor in the other country and by telephone confirmation (Alaq, 2015: 10).

It can also be noticed that the Central Bank's foreign currency sales in the window of selling the currency were lower than its purchases, which contributed to this

difference positively, in addition to the reserve balance available to reach the highest level at the end of 2013 and more than (74) billion dollars, except for years (2006, 2009, 2014, 2015), as the reserve was withdrawn due to lower oil prices in order to maintain currency stability. As shown in figure (4).

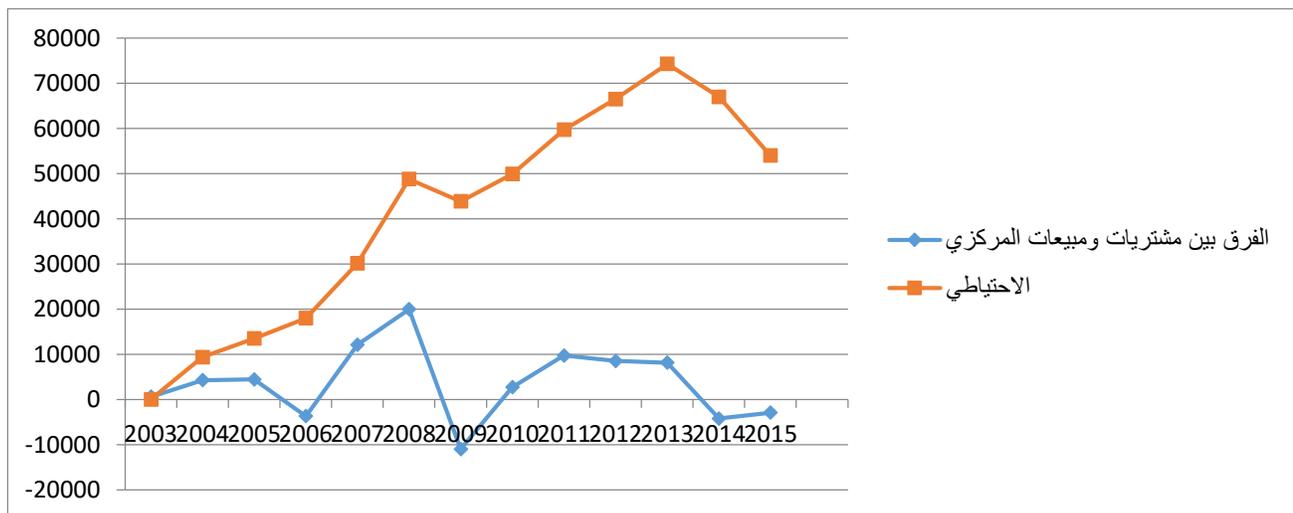
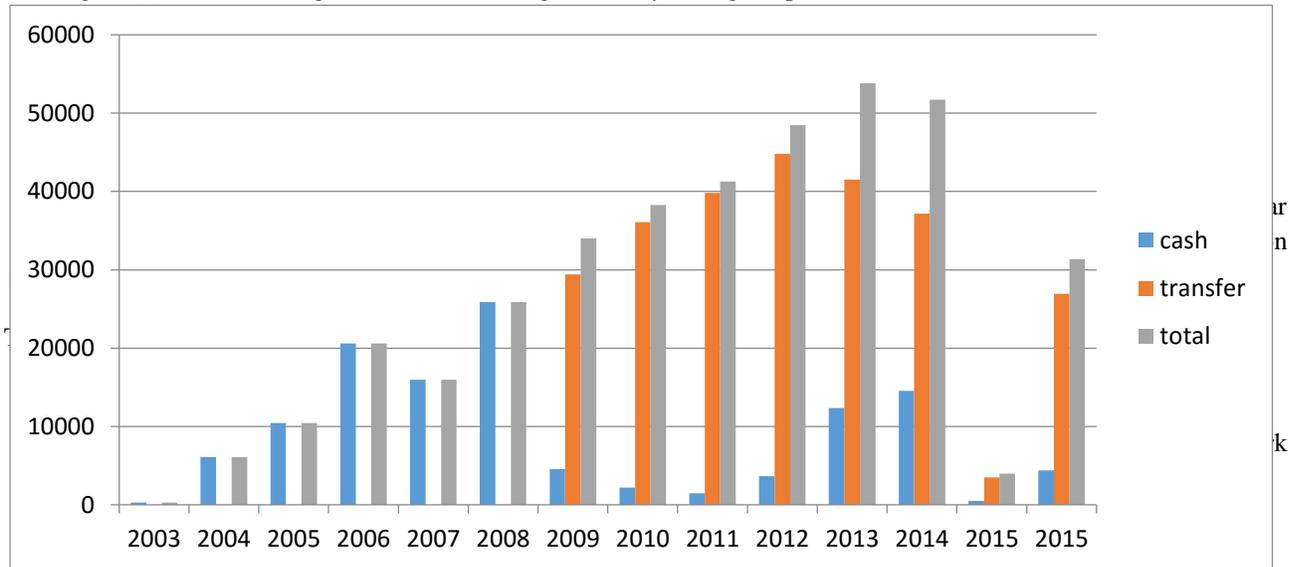
Table 2 Purchases and central sales of foreign currency for the period 2003-2015 million

Precautions	Different	Total	Central Sales Transfer	Central Cash Sales	Total	Central purchases of foreign currency from the window	Central purchases of foreign currency from the Ministry of Finance	Years
21.1	608	293	—	293	901	1	900	2003
9395.7	4294	6,108	—	6,108	10,402	50	10,352	2004
13519.7	4468	10,462	—	10,462	14,930	76	14,854	2005
18012.2	-3693	20,605	—	20,605	16,912	112	16,800	2006
30163.3	12133	15,980	—	15,980	28,113	1,413	26,700	2007
48809.6	19981	25,869	—	25,869	45,850	350	45,500	2008
43884.9	-10979.394	33,992.394	29,421.081	4,569.310	23,013	13	23,000	2009
49939.2	2743.968	38,260.032	36,067.234	2,192.798	41,004	4	41,000	2010
59707.3	9744.886	41,258.114	39,800.539	1,457.575	51,003	3	51,000	2011
66505.2	8538.914	48,465.086	44,809.995	3,655.091	57,004	4	57,000	2012
74301.6	8161.833	53,838.167	41,499.782	12,338.385	62,000	—	62,000	2013
67000	-4213.46	51,728.460	37,165.470	14,562.990	47,515	—	47,515	2014
58000	-2898.39	4,004.756	3504.613	500.143	32,450	—	32,450	2015
		31343.63604	26948.67104	4394.965				2015*

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- In 2015 after 19/2 the window was suspended for about two months and then returned to work in 6/4 and was sold in two ways, the first credits and cash in cash
- (Central Bank of Iraq, Central Bank of Iraq, Baghdad: <http://iraqieconomists.net>)
- For the Central Bank of Iraq, Annual Bulletins 2003 - 2012, Baghdad: Directorate General of Statistics and Research.
- International Reserve 2014 (Mirza, Ali, 2015, 2015 budget and determination of the ceiling of dollar sales in the currency auction: possible implications of the application: <http://iraqieconomists.net>)

Figure (3) Central selling mechanism of foreign currency during the period 2003-2015



**First: Conclusions**

1- Many countries have followed the mechanism of currency auctions, especially those in transition, aspiring to integrate their economies into the global economy and the transition to a market system. This mechanism was used temporarily until the transitional phase, stability of their economies and the development of their financial and banking sectors. Exceptional cases and strictly necessary.

2- The currency sale window has achieved great success in stabilizing the local currency exchange rate and this is consistent with the hypotheses of research.

3- The monetary authority in Iraq relied on the nominal exchange rate as part of the inflation targeting policy, due to the weak role of financial intermediation resulting from the backwardness of the financial sector, the disruption of the productive apparatus and the limited availability of imports to meet domestic demand.

4- The monetary policy in Iraq has followed the mechanism of selling window currency since the end of 2003 and now in one direction (sales only), because of the rentiness of the Iraqi economy and the monopoly of the offer of foreign currency by the government resulting from the export of crude oil.

5- The window of selling the currency has managed to achieve monetary stability in the economy, but at the expense of depleting the foreign reserves with the Central Bank. This puts the monetary policy in front of two options either continuing the policy of inflation targeting, which is reflected in the depletion of foreign reserves or the reduction of currency sales in the window And this corresponds to the volume of oil revenues, and this presents the economy to the waves of decline in the exchange rate and the best example of what happened when the implementation of the ceiling sales in the budget of 2015.

**Second: Recommendations**

1- The need to work to limit the expansion of government spending, which is the main reason for the increase in money supply, which constitutes inflationary pressures in the economy, which requires the central bank to intervene significantly in the window selling currency to stabilize the dinar exchange rate.

2- The necessity of the Central Bank's duty to activate the role of the banking sector in the investment process, and by directing it towards the target areas of production while providing facilities and incentives towards this trend.

3- Work to continue the central bank's policy to reduce the sales of currency (especially cash sales) even if that causes a decline in the exchange rate in proportion, with the aim of rebuilding foreign reserves when the return of oil prices to rise.

4- work on the need for coordination between economic policies in accordance with the economic program is deeply studied for the purpose of revitalizing the real sector, especially after the success of the Central Bank in reducing inflation rates, and therefore must be looking forward to the revitalization of the real sector (especially the private sector) and work to review the type and size Imports in order to reduce foreign currency leakage outside the country, and loss of growth opportunities.

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