



## The Role of the Exchange Rate in Achieving Macroeconomic Stability in Light of Trade Openness A Case Study of Iraq for the Period 2004–2022

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### ABSTRACT

This study aims to highlight the importance of adopting an exchange rate policy that contributes to the stability of the macroeconomic variables under consideration in the context of free foreign trade (trade openness). One of the most important recommendations of the study is to peg the Iraqi dinar's exchange rate to a basket of foreign currencies not just the dollar to avoid rising inflation rates and the collapse of the local currency's purchasing power.

The researcher also recommended the need to work on increasing non-oil imports by developing all economic sectors, including the oil sector, to avoid further financial shocks and deficits that may affect the general budget, which relies heavily on oil revenues that are often subject to fluctuations in global oil prices.

At the conclusion of the study, a set of findings was established that may help shed further light on the current research topic, leading to the proposal of a series of recommendations that could contribute to correcting some of the imbalances in the Iraqi economy that constitute an obstacle to trade liberalization.

**Keywords:** Exchange Rate, Macroeconomic Stability, Foreign Direct Investment, Inflation, Trade Liberalization, Gross Domestic Product.

### INTRODUCTION

The system governing today's world is one of international economic relations built on commercial interests among nations. One of the most significant factors influencing trade relations is the exchange rate, which serves as a mirror reflecting the state of a country's economy to other nations. No country chooses its exchange rate system arbitrarily but rather based on an objective study that addresses all dimensions and the immediate and future implications of such a decision, given its internal and external effects.

Consequently, in recent years, there has been increased interest and focus on studying exchange rate fluctuations and their effects on overall economic activity. This has encouraged many researchers, government agencies, and international organizations to continue studying exchange rate movements, the global trend toward trade liberalization, and their impacts on macroeconomic variables. Everyone recognized early on the risks that reduce the volume of investments and, consequently, lower economic

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growth rates in countries characterized by excessive fluctuations in their currency exchange rates against major currencies (the dollar, the yen, the pound sterling, the Australian dollar, the Swiss franc, and the Canadian dollar), as well as trade restrictions.

### Research Problem

Excessive exchange rate volatility creates an unfavorable environment for economic activities, as these activities become extremely difficult in the presence of excessive volatility, as the latter drives foreign investors, in particular, to avoid investing in countries suffering from excessive exchange rate volatility. Furthermore, volatility affects production and employment patterns through the misallocation of resources toward alternative uses, as well as by hindering efforts aimed at stabilizing macroeconomic variables.

### Importance of the Research

Studying exchange rate volatility and its effects is a matter of utmost importance for an economy seeking to achieve internal and external balance, as well as relative stability in the local currency's value and macroeconomic variables, including (exchange rate, inflation, trade openness, gross domestic product, and trade balance).

### Aim of the Research

The researcher seeks to highlight the importance of the role and impact of the appropriate exchange rate mechanism, which may contribute to the stability of macroeconomic variables in the context of free trade (trade liberalization).

### Research Hypothesis

The research is based on the hypothesis that if the government pursues a policy of free trade (trade liberalization) with the outside world, it will lead to a state of equilibrium in the exchange rate in the long run, and that this exchange rate equilibrium has a reciprocal role and impact on the stability of the macroeconomic variables studied in Iraq.

### Research Limits

- Spatial Scope: The spatial scope of the study covers all provinces of Iraq, including the provinces of the Kurdistan Region of Iraq.
- Temporal Limits: The temporal limits of the study span the period from 2004 (the base year) to 2022 (the comparison year).

## Chapter One: Conceptual Framework

Introduction: Given the increase in the volume of trade between national economies and the outside world, and since each country has a national currency that differs from those of other countries, there arose a need for a means through which to settle domestic and foreign payments, known as the "exchange rate." In addition to its significant impact on the stability and balance of the macroeconomic variables under study—including the exchange rate itself as one of the most important tools of macroeconomics as well as trade openness, gross domestic product, inflation, and the trade balance.

### First: The Concept of the Exchange Rate

The exchange rate is defined as the price of one currency relative to another. It is also defined as "a specific number of units of one currency (the quote currency) in exchange for one unit of another country's currency, known as the base currency" (Piros and Pinto, 2013:40).

Exchange rates can be fixed or floating; fixed exchange rates are determined by a country's central bank, while floating exchange rates are determined by market supply and demand.

The exchange rate is also defined as "the rate at which one currency is exchanged for another; that is, the value of one unit of the foreign currency is expressed in units of the national currency, and vice versa; thus, one currency is considered a commodity and the other its price" (Ahmed and Al-Khadrawi, 2017:302).

### Second: Types of Exchange Rates

**Exchange rates take many forms and types, as follows:**

#### Nominal Exchange Rate

This is the cost of a single unit of one currency which is converted into units of a different currency that is, it is the current exchange rate which fails to consider the purchasing power of goods and services between the two nations.

#### Real Exchange Rate

This is the nominal exchange rate that is adjusted according to price level between the home country and other countries or in other words it is the implied relative movements of domestic and foreign prices.

Mathematical equation between the nominal and the real exchange rate  $RER = NER.P^*/P$ .

Where: Real Exchange Rate: RER  
 NER: Nominal Exchange Rate  
 P\*: Foreign prices  
 P: Domestic prices

**Effective Exchange Rate**

One that considers the fact that a currency of a country has different rates of exchange with other currencies; the effective exchange rate is computed by being an average weight of individual and bilateral exchange rates.

**True Effective Exchange rate.**

It is the average of the currency of a country compared to an index or a basket of other major currencies weighted. The weights are calculated by comparing the relative balance of trade of a country with the currency of other countries that are included in the index. When the fixed income rate of a country increases it is an indication that exports made by this country have been made more expensive and imports cheaper. It is losing its competitiveness in trade.

**Market Exchange Rate**

The market exchange rate is the actual rate of exchange of the foreign currencies in the open market and it is variable to the changes in the supply and demand conditions of the foreign

currencies.

**Official Exchange Rate**

This is the official rate in which the currency of one country can be traded with that of another country.

**Forward Rate**

This interest rate is charged on a financial transaction to be made in future; it can also be a fixed interest rate on a future financial commitment e.g. interest rate in a loan payment.

Bid Rate: Bid rate is the maximum price that a buyer can pay to acquire a security.

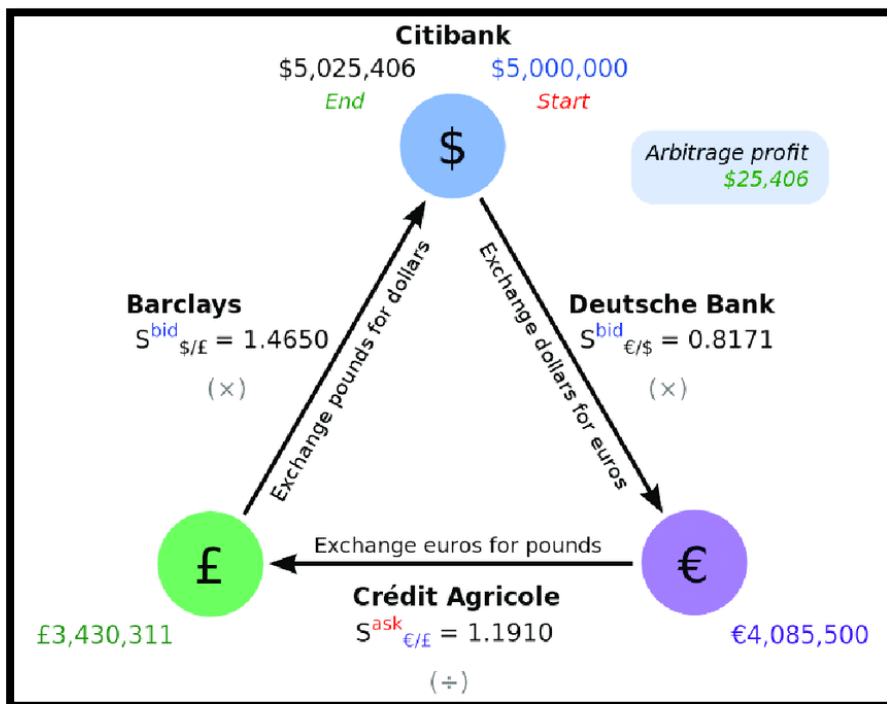
Ask Rate: The lowest price that a seller is willing to accept a security is known as the ask rate.

Spot Rate: It is the present rate that one can sell one currency and buy another one and deliver it immediately.

The difference between the ask rate and the bid rate; the narrower the gap the more liquid the given security is.

**Arbitrage**

This refers to simultaneous selling and purchasing of the same asset in the various markets to exploit slight discrepancies in the quoted price of the asset.



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### **Third: Types of Exchange Systems**

Exchange rate systems vary among many countries depending on the nature of their economies and the efficiency of their commercial and financial transactions. They are classified as follows:

#### **1) Fixed Exchange Rate System:**

Under this system (fixed exchange rate), the central bank manages the deficits and surpluses in the balance of payments by securing sufficient gold and dollar reserves. That is, the central bank pegs the national currency to hard currencies such as the dollar or to gold by setting a specific weight equivalent to the value of units of the local currency. As for the monetary base, it is determined under the fixed exchange rate system through official statistical bulletins and balance of payments items (imports and exports), and among its most important advantages are increased trade and the volume of investment flows, as well as lower inflation rates (Gorden, 2009:272).

#### **2) Floating Exchange rate System:**

The relationship between the supply and the demand of currencies solely determines the exchange rate under this system, thus, sharing the same mechanism of determining the price of good or service in the market. It could also entail the purchase and sale to speculate, as opposed to financing (imports and exports). Floating exchange rate leads to adverse impacts on Macroeconomic variables and this will require the central bank to intervene using the foreign reserves to restore equilibrium between supply and demand i.e. it will work to keep the exchange rate of the local currency constant against the foreign currencies (Gorden, 2009:272).

#### **3) Managed Exchange rate system:**

It is a system where the exchange rate is driven mainly by the forces of supply and demand; it is also referred as a managed float since it is occasionally interfered with by the central bank and hence it is influenced. This is, the monetary authorities sell the foreign reserves and purchase the local currency when it depreciates in the foreign exchange markets and the reverse. In such a manner, the central bank is involved in alleviating the fluctuation of the exchange rate. However, the intervention level of the central bank can be minimal because of a lack of foreign reserves which leaves some levels of the exchange rate flexibility and hence a state of mixed floating and dirty floating (Gorden, 2009:272).

### **Section Two**

#### **The Current State of Macroeconomic Variables Studied in Iraq**

##### **First: The Reality of Exchange Rate Fluctuations in Iraq:**

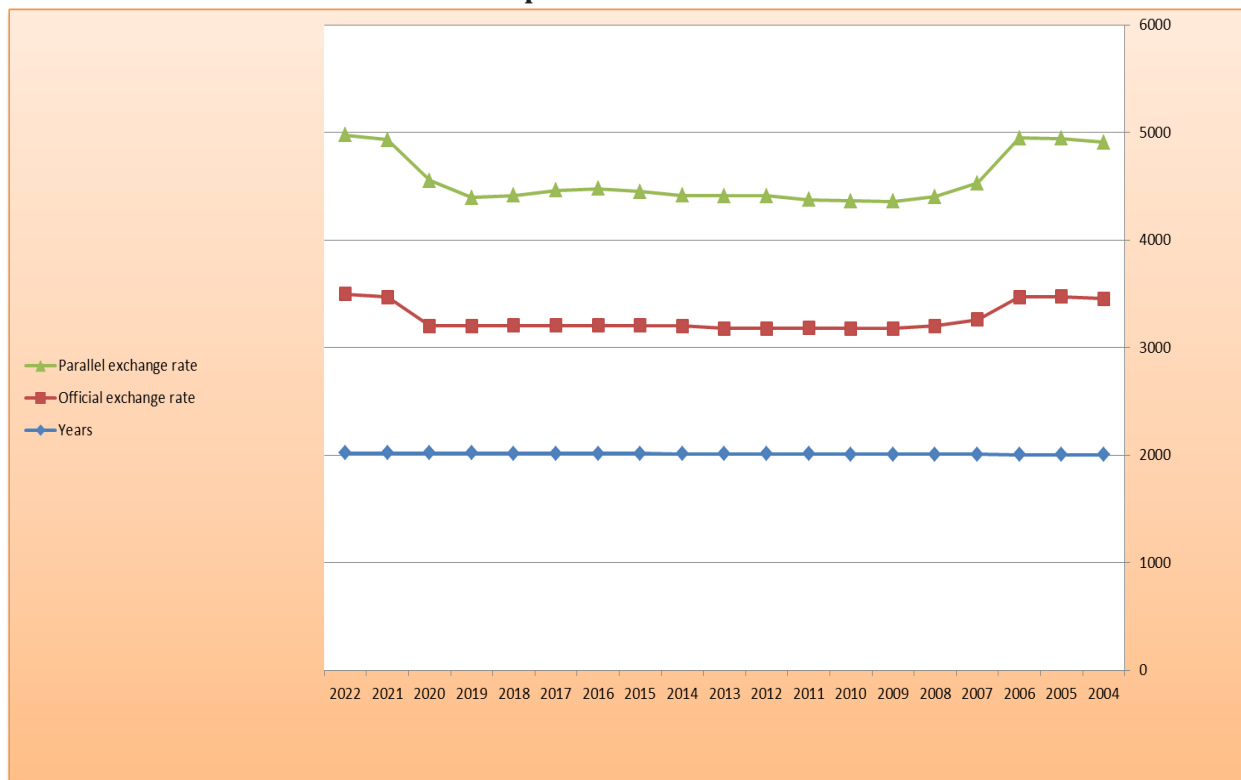
This was followed by a pessimism among citizens in terms of the economic and political future of Iraq after 2003, when the country was under U.S. occupation and a perceptible decline was observed in the exchange rate of the local currency as compared to foreign currencies until the Central Bank intervened in a series of actions to set the official exchange rate of the Iraqi dinar: which was 1,453 dinars in the year 2004, which is the base year of this study, with an annual growth rate of -23.37% after It has been fluctuating between the highs and the lows until the year of comparison in 2022, when the official exchange rate was 1,477 dinars and an annual growth rate of 1.86, and the parallel exchange rate was 1,480 dinars and an annual growth rate of 2.06 as indicated in Table (1).

**Table (1) Nominal and Parallel Exchange Rates of the Local Currency's (Iraqi Dinar) for the period 2004–2022**

year	Official exchange rate (Dinar / Dollar)	Annual growth rate (%)	Parallel exchange rate (Dinar / Dollar)	Annual growth rate (%)
2004	1453	-23.37	1453	-24.95
2005	1469	1.1	1472	1.31
2006	1467	-0.14	1475	0.2
2007	1255	-14.45	1267	-14.1
2008	1193	-4.94	1203	-5.05
2009	1170	-1.93	1182	-1.75
2010	1170	0	1186	0.34
2011	1170	0	1196	0.84
2012	1166	-0.34	1233	3.09
2013	1166	0	1232	-0.08
2014	1188	1.89	1214	-1.46
2015	1190	0.17	1247	4.72
2016	1190	0	1275	2.25
2017	1190	0	1258	-1.33
2018	1190	0	1209	-3.89
2019	1182	-0.67	1196	-1.08
2020	1182	0	1351	11.4
2021	1450	22.7	1461	8.14
2022	1477	1.86	1480	2.06

Source: Central Bureau of Statistics and the Central Bank’s annual financial reports for various years.

**Figure (1) The nominal and parallel exchange rates of the local currency (Iraqi Dinar) for the period 2004–2022**



Source: Prepared by the researcher based on the data from Table (1).

**Second: The Reality of Inflation in Iraq:**

Inflation is one of the most important determinants of the exchange rate, and the value of the local or foreign currency can reflect its purchasing power in the long term. In Iraq, following 2003 and the political and economic changes it witnessed, along with the shift toward an open economy, however, there were numerous factors that contributed to the continued rise in price levels, including the reduction of government

subsidies for a range of goods and services, the deterioration of security conditions, and the widespread prevalence of financial and administrative corruption (Central Bureau of Statistics, 3:2022).

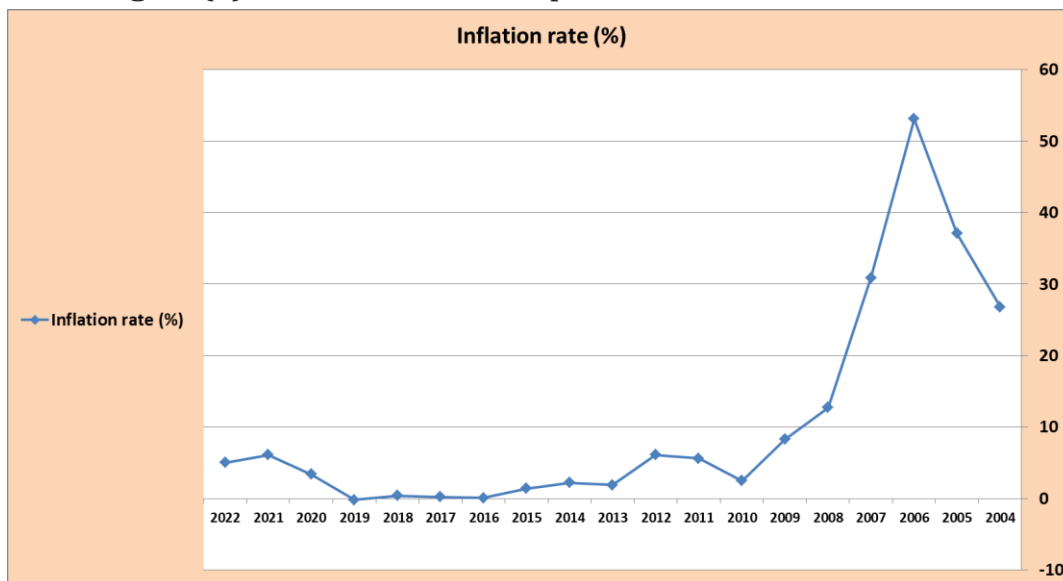
The general consumer price index continued to rise during the study period, reaching 118.5 in 2022 after standing at 36.4% in 2004, and recorded its highest inflation rate of 53.1% in 2006, as shown in Table 2.

**Table (2) Inflation Rates in Iraq for the Period 2004–2022**

year	General Price Index 2007=100	Inflation rate (%)
2004	36.4	26.8
2005	49.9	37.1
2006	76.4	53.1
2007	100	30.9
2008	112.7	12.7
2009	122.1	8.3
2010	125.1	2.5
2011	132.1	5.6
2012	140.1	6.1
2013	142.2	1.9
2014	145.9	2.2
2015	148	1.4
2016	148.1	0.1
2017	148.4	0.2
2018	149	0.4
2019	148.7	-0.2
2020	153.9	3.4
2021	163.3	6.1
2022	118.5	5

Source: Central Bureau of Statistics, Annual Statistical Collection (2022), p. 3.

**Figure (2) Inflation Rates in Iraq for the Period 2004–2022**



Source: The researcher based this analysis on the data from Table (2).

**Third: The Reality of Trade Openness in Iraq:**

Trade openness is one of the most important macroeconomic variables determining the exchange rate; that is, reducing trade restrictions and customs tariffs to the lowest possible level contribute to increasing the competitiveness of local goods and services, as well as to the recovery and diversification of exports—particularly non-oil exports and thus play a fundamental role in correcting imbalances in the production base and moving away from the rentier economy that

characterizes the Iraqi economy.

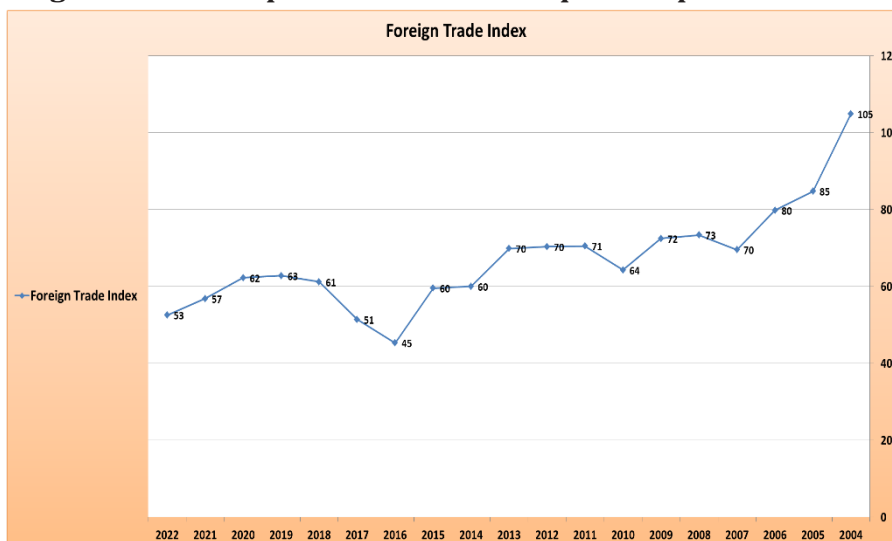
The trade openness index rose to 105% in 2004; however, due to rising violence, escalating military and terrorist operations, and the destruction of numerous oil pipelines, the foreign trade index fluctuated, reaching its lowest level of 45% in 2016. It then gradually rose again following improvements in the political and security situation, reaching 53% in 2022, as shown in Table (3).

**Table (3) Trade Openness Index in Iraq for the period 2004–2022**

year	Gross Domestic Product at Current Prices GDP (Million Dinars)	Exports (Million Dinars) X	Imports (million dinars) M	Export Index	Imports Index	Foreign Trade Index
				$\frac{X}{GDP\%}$	$\frac{M}{GDP\%}$	$\frac{X + M}{GDP\%}$
2004	53235358	26865970	28993162	50.47	54.46	105
2005	73533598	34810893	27540812	47.34	37.45	85
2006	95587954	44786043	31511160	46.85	32.97	80
2007	111455813	50762240	26771660	45.54	24.02	70
2008	157026061	76025118	39235384	48.42	24.99	73
2009	130643200	46133100	48569040	35.31	37.18	72
2010	162064566	60563880	43673760	37.37	26.95	64
2011	217327107	97374420	55929510	44.81	25.74	71
2012	254225491	110061072	68800996	43.29	27.06	70
2013	273587529	104639172	86556136	38.25	31.64	70
2014	266332655	97921846	62004382	36.77	23.28	60
2015	194680972	59899776	56027670	30.77	28.78	60
2016	196924142	48814236	40433856	24.79	20.53	45
2017	221665709	68149856	45898944	30.74	20.71	51
2018	254870184	101578400	54425840	39.85	21.35	61
2019	262917150	96433470	68719116	36.68	26.14	63
2020	198774325	61041544	62787600	30.71	31.59	62
2021	221665709	105591900	20438163	47.64	9.22	57
2022	383064130	180910609	20438163	47.23	5.34	53

Source: Iraqi Ministry of Planning, Central Statistical Organization, various

**Figure 3. Trade Openness Index in Iraq for the period 2004–2022**



Source: The researcher based the analysis on data from Table (3).

#### Fourth: The Changing Reality of Iraq's Gross Domestic Product (GDP):

Gross Domestic Product (GDP) is the most important monetary measure of the market value of final goods and services produced within a specific time period by a country or group of

countries. Governments of these countries often use GDP to measure the efficiency of the economic system and the rate of its growth. According to economic activities and quarters, Iraq's GDP reached (38,306,413,000) million Iraqi dinars in 2022, while it had reached (53,235,358) in 2004, as shown in Table (4).

**Table (4) Gross Domestic Product Index at Current Basic Prices by Economic Activities and Quarters in Iraq for the Year 2022**

ISIC Code	Economic Activity	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
1	Agriculture, Forestry, Hunting and Fishing	1,878,634.7	5,276,696.1	1,534,724.6	2,232,732.3	10,922,787.7
2	Mining and Quarrying	51,490,884.0	63,250,753.4	57,297,332.6	47,524,872.2	219,563,842.2
2-1	Crude Oil	51,449,080.5	63,200,104.3	57,249,751.2	47,454,623.0	219,353,559.0
2-2	Other Types of Mining	41,803.5	50,649.1	47,581.4	70,249.2	210,283.2
3	Manufacturing Industry	1,264,940.2	1,605,008.5	2,303,642.6	1,678,998.3	6,852,589.6
4	Electricity and Water	783,582.2	1,209,475.7	2,006,107.7	1,101,755.8	5,190,921.4
5	Building and Construction	1,741,812.8	2,110,379.9	1,982,558.9	2,927,049.3	8,761,800.9
6	Transport, Communications and Storage	7,765,571.1	9,379,241.1	8,593,894.6	7,663,490.9	33,402,197.7
7	Wholesale and Retail Trade, Hotels and Others	5,695,817.7	5,822,916.3	5,830,500.7	5,926,703.9	23,275,938.6
8	Finance, Insurance, Real Estate and Business Services	4,532,830.2	4,693,989.0	4,690,636.4	4,670,810.7	18,588,266.3
8-1	Banks and Insurance	519,664.8	628,967.2	576,302.3	513,909.9	2,238,844.2
8-2	Ownership of Dwellings	4,013,165.4	4,065,021.8	4,114,334.1	4,156,900.8	16,349,422.1
9	Social and Personal Services	14,249,115.4	14,543,847.2	14,701,290.0	14,502,625.6	57,996,878.2
9-1	General Government	11,099,311.8	11,329,761.9	11,474,348.3	11,237,114.9	45,140,536.9
9-2	Personal Services	3,149,803.6	3,214,085.3	3,226,941.7	3,265,510.7	12,856,341.3
Total by Activities		89,403,188.3	107,982,307.2	98,940,688.1	88,229,039.0	384,555,222.6
Imputed Bank Service Charges		346,096.8	418,892.2	383,817.3	342,264.0	1,491,070.3
Gross Domestic Product (GDP)		89,057,091.5	107,563,415.0	98,556,870.8	87,886,775.0	383,064,152.

Source: Iraqi Ministry of Planning, Central Statistical Organization, Directorate of National Accounts, 2022: 9.

#### Fifth: The Current State of Iraq's Trade Balance:

Trade balance is among the most significant economic indicators to gauge the efficiency and effectiveness of economy, the strength and diversification of productive base since it denotes the net value of exports and imports of goods and services. The trade balance also shows reliability of the economic activity as economic, security, and political conditions in the country are stable. In

Iraq, given the rentier state of its economy, which depends on a single source, crude oil, to fund its public budgets, the balance of trade is not correct. It can be explained by the fact that the rise in exports is not connected with the agricultural and industrial production, but with the oil sales which constitute over 95 percent of the total. Thus, Iraq will not experience any improvement in its trade balance due to the large and chronic deficit until the non-oil imports can be boosted and enhanced.

The 2004 level of the trade deficit dropped to (127,192) million dinars that of 3,569,184 million dinars and exports maintained its fluctuation to 76,025,118 in 2008 with an annual rate of 49.7. Exports also reported a significant drop in 2009 which was influenced by the drastic recession caused by global financial crisis.

Concerning the year of comparison to be used in this study, 2022, the Iraqi exports amounted to

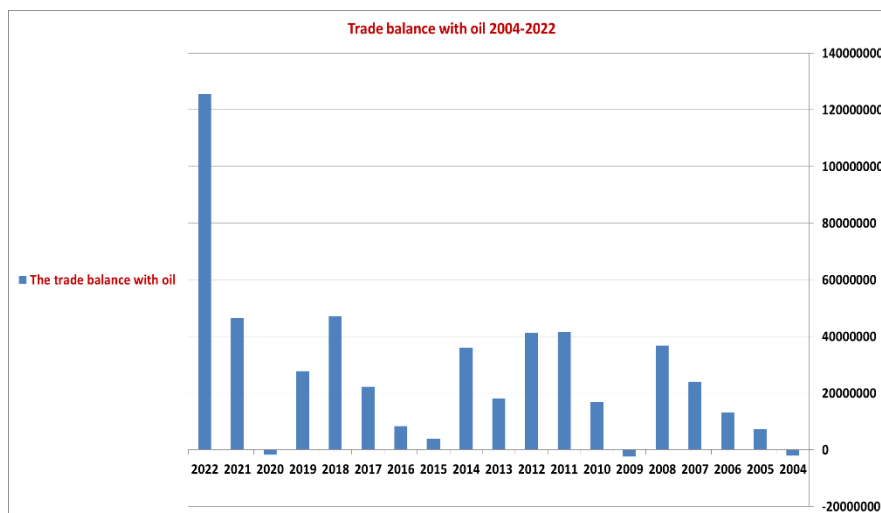
(18,091,0609) although this is positive in terms of the annual growth rate which stood at (71.3) because of the increasing global oil prices, and a rebound in the balance of trade. Imports on the other hand recorded (55,438,163) and the yearly growth rate stood at (6.1%), hence the balance of trade took the value of (15,247,444.6) at the same year of study as indicated in Table (4) (Central Bureau of Statistics, various years).

**Table (4) Trade Balance Variable in Iraq for the period 2004–2022**

year	Exports (Million Dinars)	Growth rate %	Imports (million dinars)	Growth rate %	The trade balance with oil
2004	26865970	83.1	28993162	58.9	-2127192
2005	34810893	29.6	27540812	-5.0	7270081
2006	44786043	28.7	31511160	14.4	13274883
2007	50762240	13.3	26771660	-15.0	23990580
2008	76025118	49.8	39235384	46.6	36789734
2009	46133100	-39.3	48569040	23.8	-2435940
2010	60563880	31.3	43673760	-10.1	16890120
2011	97374420	60.8	55929510	28.1	41444910
2012	110061072	13.0	68800996	23.0	41260076
2013	104639172	-4.9	86556136	25.8	18083036
2014	97921846	-6.4	62004382	-28.4	35917464
2015	59899776	-38.8	56027670	-9.6	3872106
2016	48814236	-18.5	40433856	-27.8	8380380
2017	68149856	39.6	45898944	13.5	22250912
2018	101578400	49.1	54425840	18.6	47152560
2019	96433470	-5.1	68719116	26.3	27714354
2020	61041544	-36.7	62787600	-8.6	-1746056
2021	105591900	73.0	59067200	-5.9	46524700
2022	180910609	71.3	55438163	-6.1	125472446

Source: Iraqi Ministry of Planning, Central Statistical Organization, various years.

**Figure (4) Trade Balance Variable in Iraq for the period 2004–2022**



Source: The researcher worked based on the data from Table (4).

**Section Three**

Analysis of the Impact of the Exchange Rate on Macroeconomic Variables, Including the Trade

Openness Variable in Iraq

To begin with, the mutualism between the exchange rate and inflation:

According to the definition of inflation, it is a long-term growth in the overall price level, and also, a fall in the purchasing power of the local currency in a particular country.

In a bid to fight inflation, especially imported inflation, nations can decide to peg the value of their domestic currency against the value of the foreign currency since when the nation goes to a flexible system, that is (floating exchange rate system), inflation will lead to change in the exchange rate of the domestic currency. The overall domestic prices will increase in comparison with foreign prices as the amount of domestic inflation increases, and a decrease in the value of the local currency will occur. On the other hand, as the global inflation increases, the overall global prices, as compared to domestic goods prices, and the supply of foreign currencies increases. The local currency demand will in turn also be boosted and hence the local currency is also going to improve its value. Moreover, the correlation between the exchange rate of the local currency and the domestic inflation is negative and the correlation of the exchange rate of the local currency and global inflation is positive (Al-Hindawi, 2011, 61).

### **Second: The Interaction Effect between the Exchange Rate and Trade Openness:**

Another economic policy variable that requires excessive customs restrictions to be liberalized to enhance trade openness is international trade openness. The liberalization of foreign trade, exposure of exports to excessive custom duty and other forms of trade and regulation policies, including the exchange rate policy and other macroeconomic tools are very important and prominent in balancing the balance of payment and the balance of trade. The policy of devaluing the local currency, the Iraqi dinar, was not felt because the country of Iraq is a one-sided economy, and relies heavily on the export of oil as well as the contribution of capital imports, and the imbalance in the production base.

This move to appreciate the foreign exchange rate has contributed towards narrowing the deficit in the balance of payments in Iraq by using the oil revenues in the form of Iraqi dinars. Then the state sells dollars to the Central Bank at 1,450 Iraqi dinars against 1,182 Iraqi dinars. The exchange rate of the local currency should not be fixed to the fluctuating world oil prices because it results in

additional external financial shocks, adversely affecting the overall budget of the state because the oil revenues comprise over 95 of the budget (Al-Ta'ma, 2022, 57).

### **Third: The spill-over effects between the exchange rate and gross domestic product:**

Gross Domestic Product (GDP) is a concept that is defined as having a total value of goods and services that are produced in the boundaries of a country, usually in one year and is said to be of high significance in the measurement of efficiency of a given economic system. Research has revealed that the correlation between the export rate and the exchange rate is negative. Meaning, the more the productive base grows and is diversified, the more the economy of the country will be able to increase the competitiveness of domestic goods and services, which will result in the shift of the demand oriented to the goods and services, which are produced at the domestic market, and the decrease in demand of goods and services, which are imported (Samuelson and Nordhaus, 2006, p. 451).

### **Fourth: Exchange rate interaction with the balance of trade:**

Trade balance is actually the difference between imports and exports of goods and services within a given period of time, in most cases, one year. Research has proved that the exchange rate and the trade balance have a long term relationship. One will need to comprehend the changes and influences upon the exchange rate of the local currency of a country, which can be explained by a decline in the exchange rate due to the interaction of forces of supply and demand, an appreciation in the exchange rate due to the interaction of forces of supply and demand, a devaluation due to a lowering of the exchange rate of the local currency due to the monetary authority, and a revaluation which is a direct opposite of a devaluation.

One can clearly see in the above that all of these changes directly affect the trade balance, due to the influence of fluctuations of the exchange rates to exports and imports, which form part of the foreign trade in a country. Stability of the exchange rate contributes significantly to the creation of environment that favors recovery of foreign trade; when the exchange rates experience constant cyclical fluctuations it results in weakening foreign trade (Shehab, 2007:258).

## **Conclusion**

The exchange rate of Iraqi dinar worsened after 2003 and Central Bank of Iraq adopted a series of measures which culminated in stabilization of the official exchange rate in 2004 at 1,453 dinars. The exchange rates have remained fluctuating, until in 2022, the exchange rate was 1,477 Iraqi dinars, they were 1.86 per year.

The correlation between the exchange rate of the local currency and the domestic inflation is negative, but the correlation between the exchange rate of the local currency and the global inflation is positive. The rise in the administration and financial corruption in all government sectors, the loss of the security situation, and the reduction of cost of living through the disappearance of most government subsidies on goods and services caused the highest inflation rate of 53% in 2006, The general consumer price index remained in the rise reaching 118.5 in 2022 compared to the 36.4% in 2004.

The minimum index of trade openness (45% was observed in 2016) then started to increase slowly up to 53% in 2022 due to the better economic, political, and security situations. The policy of devaluing the local currency, the Iraqi dinar, did not have any effect since Iraq is highly dependent on oil exports and relies on capital imports as well as the lack of diversification and the imbalance of its production base.

The connection existing between the exchange rate and GDP is inverse; the lesser the imports and the greater the exports, the better the trade balance. GDP increased to 38,306,413,000 dinars in 2022 and this was during the study period.

The high importance of the exchange rate stability on the trade balance (exports - imports) and recovery of the foreign trade.

### **Recommendations**

The Central Bank, which is managed by monetary authorities must do everything possible to stabilize the exchange rate between the local currency and foreign currencies since it has positive implications which include, attracting both domestic and foreign investment.

Manage the natural inflation rates through pegging the Iraqi dinar exchange rate to a basket of foreign currencies- not only the dollar- to ensure no continuous variations and as a result control the general consumer price index and the purchasing power of the domestic currency.

The level of trade openness towards the outside world should be enhanced through continuing to improve, develop and diversify the productive base which will result in more exports and less importation through making the local goods and services to be more competitive.

To maximize and increase non-oil revenues through developing all sectors of the economy besides the oil sector in order to evade the reoccurrence of financial shocks and deficits in the financing of the public budget which is highly dependent on oil revenues prone to fluctuation in the global oil prices which are denominated in U.S. dollars.

Enhancement of gross domestic product (GDP) index through increasing efficiency of the economic system and per capita GDP, which is among the most significant economic factors enabling the strength and the flexibility of the economy of a country, as well as a motivator of foreign trade and an aspect in winning the trust of international investors.

It should carry out more studies and research with insights and strategies that aid in the implementation of an exchange rate policy which reflects with the macroeconomic conditions of a country and thus stabilize the macroeconomic variables and also open up trade to the outside world.

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