

The impact of dollar price fluctuations on the GDP of developing countries: Iraq as a model

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Abstract: The exchange rate is a tool of monetary policy, which is a matter of monetary policy, determined by the Central Bank of Iraq, as well as the subject of the exchange rate of complex topics, and the importance of this research lies in understanding the impact of dollar price fluctuations on the Iraqi economy, which contributes to enhancing knowledge about how external factors interact with local economic conditions, providing valuable recommendations for decision-makers to design effective strategies to deal with these fluctuations and achieve greater economic stability. The descriptive approach was used to collect and analyze economic data related to dollar price fluctuations and its impact on GDP, which helps to understand the relationships between these variables in Iraq during the period (2003-2024), the most important conclusions reached by the research that the general trend indicates sustainable growth in GDP, but economic challenges, such as exchange rate fluctuations and inflation, need to be effectively addressed. The government and central bank should promote economic stability through effective monetary policies that support growth and maintain exchange rate stability.

Keywords: Exchange rate, Gross domestic product (GDP).

1. Introduction

Currency fluctuations, especially the US dollar, are an important factor affecting global economies, especially in developing countries. The US dollar is the world's most widely used reserve currency, and many countries rely on it in international trade transactions, which makes its fluctuations cast a shadow on the economic stability of these countries. In Iraq, this impact reflects the specificity of its economic and social reality, as it suffers from multiple challenges such as heavy reliance on oil revenues, political fluctuations, and security instability.

GDP is closely linked to economic stability and growth, as it reflects the total value of goods and services produced in a country. An increase in GDP is a sign of positive economic growth, while its fluctuations or decline can indicate economic crises. In Iraq, which is highly dependent on oil exports, any fluctuations in the dollar price may affect national revenues and, consequently, GDP. This research is based on studying the impact of dollar price fluctuations on GDP in Iraq as a model that shows how developing economies can be affected by currency fluctuations

1.1. The Problem of Research

Dollar fluctuations are one of the main factors affecting the global economy, especially in developing countries such as Iraq, as these countries face great challenges as a result of sudden changes in the value of the dollar, which affect investments, exports, and imports, and these fluctuations lead to direct and indirect effects on GDP, as they contribute to increasing inflation rates and reducing the purchasing power of citizens. Therefore, a comprehensive study is needed to understand how dollar fluctuations affect the Iraqi economy in particular, and what strategies the government can adopt to address these challenges. Hence, the research problem can be formulated in the following main question:

1.2. *What is the Impact of Dollar Fluctuations on the GDP of Developing Countries, With A Focus on Iraq?*

1.2.1. *The Importance of Research*

This study is of great importance to understand the impact of dollar fluctuations on the Iraqi economy, which contributes to enhancing knowledge about how external factors interact with local economic conditions, and the results can help guide economic policies, as they provide valuable recommendations for decision-makers to design effective strategies to deal with these fluctuations and achieve greater economic stability.

1.3. *The Research Hypothesis*

The dinar devaluation policy leads to positive effects on the structure of GDP, in the long run, if there are supportive requirements through prudent fiscal, monetary, and trade policies.

1.4. *The Research Objectives*

This research aims to analyze the impact of dollar price fluctuations on GDP in Iraq, by studying their effects on different economic sectors, and the research also seeks to understand the relationship between dollar price fluctuations and GDP during the period (2004–2023).

1.5. *The Research Methodology*

The descriptive approach will be used to collect and analyze economic data related to dollar price fluctuations and its impact on GDP, helping to understand the relationships between these variables. The research will also include the analytical approach to evaluate historical data and determine the impacts on different economic sectors, through analytical tools.

2. **Theoretical Framework**

2.1. *The First Theme: Fluctuations in Dollar Prices*

The fluctuations of the US dollar are one of the main economic phenomena that play a pivotal role in determining the course of growth and economic development in many countries, especially developing countries, as these countries are particularly affected by their high dependence on foreign trade and foreign finance (Arafa, 2023).

2.1.1. *Firstly: The Concept of Dollar Price Fluctuations*

Dollar price fluctuations refer to sharp and sudden changes in the value of the US dollar against other currencies, and these fluctuations may be the result of economic, political, or social factors, including interest rate variations, inflation, monetary policy, and geopolitical events (Askar, et al., 2023). Dollar fluctuations are influenced by several factors such as:

- Central Bank Policies: interest rate decisions and quantitative easing.
- Inflation: Price levels within the United States compared to other countries.
- Geopolitical Events: political crises or wars affecting financial stability (Morina, et al, 2020).

These fluctuations are of particular importance to developing countries, as they can significantly affect economic growth and investment, increasing the need for strategies to adapt to these changes.

2.1.2. *Secondly: The Effects of Dollar Fluctuations on the Macroeconomy*

Dollar fluctuations reflect continuous and sudden changes in the value of the US dollar against other currencies, a common phenomenon that significantly affects the global economy, as these fluctuations cause important results and have far-reaching implications for both the local and global economies (Barguelli, et al, 2018).

Factors affecting dollar fluctuations include monetary policies adopted by central banks, such as the Federal Reserve, where higher interest rates can attract foreign investment and strengthen the value of the dollar. If inflation rates in the United States are higher than those in other countries, the dollar may fall, and economic events, such as reports on growth and employment, affect the direction of the dollar, with strong data boosting its value while weak data leads to a decline. Geopolitical events such as

political conflicts and economic crises also increase uncertainty, negatively affecting the value of the dollar (Askar et al., 2023).

The economic effects of dollar fluctuations are evident in trade, as a stronger dollar makes U.S. exports more expensive, negatively impacting exporting firms. In contrast, if the dollar falls, exports become more attractive, boosting economic growth. In addition, volatility affects FDI flows, as investors may avoid unstable markets in search of safe havens. Dollar fluctuations also play a role in inflation, as they can lead to changes in the cost of imported goods (Arafa, 2023).

For developing countries, these fluctuations are even more challenging given their heavy dependence on imports and exports; in cases such as Iraq, the economy relies on exported oil revenues in dollars, making any fluctuations in the value of the dollar significantly affect GDP. To weather the effects of these fluctuations, developing countries can take actions such as diversifying the economy to reduce dependence on certain exports, improving the management of monetary reserves, and developing financial instruments such as options to hedge against risks from price fluctuations (Kandil, Mirazaie, 2005).

Overall, dollar fluctuations represent a major challenge for global economies, and understanding these dynamics is essential for governments and policymakers to achieve stability and economic growth.

2.2. The Second Theme: GDP of Developing Countries

Gross Domestic Product (GDP) is one of the most important economic indicators used to measure the economic performance of countries, as it reflects the challenges and opportunities faced by these economies, and understanding the influencing factors and challenges that hinder growth can help develop effective strategies to achieve sustainable development and improve living standards (Morina, et al, 2020).

2.2.1. Firstly: Definition of GDP

Defined as the total value of all goods and services produced within the borders of a given country over a specified period of time, usually one year, GDP reflects economic activity and is used as a tool to assess the standard of living and economic growth (Momodu, 2015).

2.2.2. Secondly: Characteristics of the GDP of Developing Countries

Developing countries have a number of characteristics that affect their GDP significantly. Below is a breakdown of these properties with explanatory data in the form of tables.

2.2.2.1. Heavy Dependence on Primary Sectors

Developing countries often rely on agriculture and natural resources as their main sources of revenue, making them vulnerable to price fluctuations in global markets.

Table 1.
Dependence of developing countries on primary sectors (2023).

Country	Percentage of primary sectors contribution to GDP	Main revenue streams
Iraq	25%	Oil, Agriculture
Nigeria	30%	Oil, Agriculture
India	15%	Agriculture
Kenya	30%	Agriculture, tourism

Source: Researcher preparation based on World Bank data available at: <https://data.worldbank.org/>

In the case of Iraq and Nigeria, the economy depends heavily on oil, which makes them vulnerable to fluctuations in commodity prices in global markets, any decline in oil prices may lead to a significant deterioration in government revenues and the ability to finance public services, which negatively affects economic growth. In contrast, India and Kenya are less dependent on primary sectors, giving them some flexibility in the face of market volatility. However, agriculture still plays a key role in these

countries' economies, which means that any major changes in climate or agricultural policies could affect their GDP.

2.2.2.2. Disparity in levels of development

There are significant disparities between developing countries in terms of levels of economic development, which affect economic growth rates.

Table 2.
Disparity in levels of development (2023).

Country	GDP (Billion USD)	Economic growth rate (%)	Human development index (HDI)
Iraq	200	4.5	0.674
Nigeria	450	2.2	0.539
India	2,900	6.1	0.645
Kenya	95	5.4	0.601

Source: Researcher preparation based on World Bank data available at: <https://data.worldbank.org/>

Table 2 shows the differences in GDP, economic growth rate, and human development index among developing countries, as the figures indicate that India has the highest GDP, which reflects the size of its large economy and rapid growth, and the economic growth rate in India reached (6.1%), which is among the highest, which indicates the strength of its economic performance and its ability to attract investments. In contrast, Nigeria, although it has a large GDP, has a relatively low growth rate (2.2%), reflecting domestic challenges such as corruption and security challenges, and Nigeria's Human Development Index (0.539), the lowest among the mentioned countries, indicates that much of the population lives in poverty and suffers from a lack of basic services.

2.2.2.3. The Role of Foreign Investments

Foreign direct investment plays an important role in promoting economic growth, but developing countries often face challenges in attracting such investment.

Table 3.
Role of foreign investment in some developing countries (2023).

Country	Foreign direct flows (FDI) (Million USD)	The percentage of GDP (%)	Challenges in attracting investments
Iraq	5.000	2.5	Political instability, corruption
Nigeria	3.500	0.8	Security challenges, infrastructure
India	50.000	1.7	Complex regulations, bureaucracy
Kenya	1.200	1.3	Corruption, lack of infrastructure

Source: Researcher preparation based on World Bank data available at: <https://data.worldbank.org/>

Table 3 presents data on foreign direct flows (FDI) for each country, indicating the ability of these countries to attract foreign investment, with India topping the list of foreign flows, reflecting investor confidence in the Indian economy despite regulatory challenges. Iraq, despite receiving significant inflows of foreign investment (\$5,000 million), the ratio of these inflows to GDP (2.5%) shows that there is still plenty of room for growth. Political challenges and corruption remain an obstacle to exploiting this potential. Nigeria and Kenya also face different challenges, with security challenges in Nigeria limiting the government's ability to attract investment, while Kenya suffers from infrastructure shortages and corruption, which negatively affects the investment climate.

The tables illustrate the main characteristics of GDP in developing countries, which helps in understanding how these characteristics affect economic performance; the data highlights the need for effective strategies to address challenges and achieve sustainable development, as addressing these issues can lead to improved economic performance and growth in these countries.

2.3. *The Third Theme: The Relationship Between Dollar Fluctuations and GDP*

GDP is a basic indicator that reflects the economic performance of countries, and the relationship between it and dollar fluctuations shows an important role in understanding how national economies are affected, as this relationship takes multiple dimensions, most notably the impact of trade. The GDP of developing countries depends heavily on exports and imports, which means that any change in the price of the dollar can have wide-ranging effects: when the dollar rises, exports become more expensive for other countries, which can lead to lower demand for domestic products. In turn, it can make imports cheaper, leading to increased domestic consumption of foreign goods, thereby reducing domestic economic activity (Barguelli, et al, 2018).

As for the impact of dollar fluctuations on consumption and investment, these fluctuations can lead to significant changes in consumer and investor behavior. For example, if the dollar rises significantly, consumers may be reluctant to buy import-dependent goods due to the increase in cost. Similarly, investors may be affected by the higher cost of financing as a result of exchange rate changes, which affects their investment decisions. If uncertainty increases due to dollar fluctuations, investors may prefer to wait rather than make decisions that may be risky. This could lead to slower economic growth, as developing countries rely heavily on foreign and domestic investment to boost their economies (Askar, et al., 2023).

Thus, dollar fluctuations can significantly affect the economic performance of countries, making understanding these dynamics necessary for policymakers and investors alike; this relationship reflects the complex interactions between global and local markets, requiring flexible strategies to deal with volatility and achieve sustainable growth.

3. The Practical Framework

3.1. *First: Analysis of the Exchange Rate in Iraq for the Period 2004-2023*

After 2003, the Central Bank of Iraq adopted a new monetary policy to improve the exchange rate of the dinar and get rid of the fluctuations it suffers from, by adopting a window for buying and selling foreign currency, which contributed to raising the value of the Iraqi dinar, which is one of the methods of monetary policy that led to the stability of the overall demand for foreign exchange and to stabilize the general level of prices, and reduce inflation through a direct impact on the growth of the monetary mass and control liquidity levels, and has been able to unify exchange rates against the Iraqi dinar, as well as On the homogeneity of the exchange market mechanism by satisfying the market's desire for foreign currency and meeting the needs of the private sector to finance all its imports within equilibrium exchange rates, because of the importance of the exchange rate as a variable that has a significant and timely impact on the behavior of future inflation rates (Battal et al., 2014: 57) and the important effects of that behavior on economic development indicators, and the exchange rate can be tracked through Table 4.

Table 4.
Exchange rate of the Iraqi dinar for the period (2004-2023).

Year	Official price (Window price)	Annual rate of change %	Parallel price (Market price)	Annual rate of change %
2004	1453		1453	
2005	1469	1.10	1472	1.31
2006	1467	-0.14	1475	0.20
2007	1255	-14.45	1267	-14.10
2008	1193	-4.94	1203	-5.05
2009	1170	-1.93	1182	-1.75
2010	1170	0.00	1185	0.25
2011	1170	0.00	1218	2.78
2012	1166	-0.34	1232	1.15
2013	1166	0.00	1232	0.00
2014	1166	0.00	1214	-1.46
2015	1167	0.09	1247	2.72
2016	1182	1.29	1275	2.25
2017	1184	0.17	1258	-1.33
2018	1183	-0.11	1209	-3.90
2019	1182	-0.06	1196	-1.08
2020	1192	0.86	1234	3.18
2021	1450	21.63	1474	19.45
2022	1450	0.00	1474	0.00
2023	1316	-9.26	1320	-10.45

Source: Central bank of Iraq, Annual Statistical Bulletin, miscellaneous years.

The exchange rate of the Iraqi dinar against the dollar witnessed significant changes between 2004 and 2023. Initially, the official rate was relatively stable until 2015, when it remained at 1,166 dinars per dollar for several years. But in 2021, it rose significantly to 1,450 dinars per dollar, reflecting a significant shift in monetary policies or economic conditions.

The parallel price has been more volatile, with sharp declines in 2007 and 2008. After that, it began to recover gradually until 2011, and also rose significantly in 2021, indicating marked economic pressures.

The annual rate of change reflects these fluctuations, with the years 2007 and 2008 experiencing significant declines. In contrast, the period between 2015 and 2019 was more stable, but the significant increase in 2021 indicates fundamental changes in supply and demand, and possibly external influences such as oil prices.

After 2021, there appears to be a trend towards price stability, despite the slight decline in 2023. This stability reflects a more cautious monetary policy after years of volatility.

The impact of these changes on the Iraqi economy is clear, as exchange rates play a key role in determining inflation, purchasing power, and investments. Hence, the government and the central bank need to reassess their policies to keep the dinar stable and support the economy.

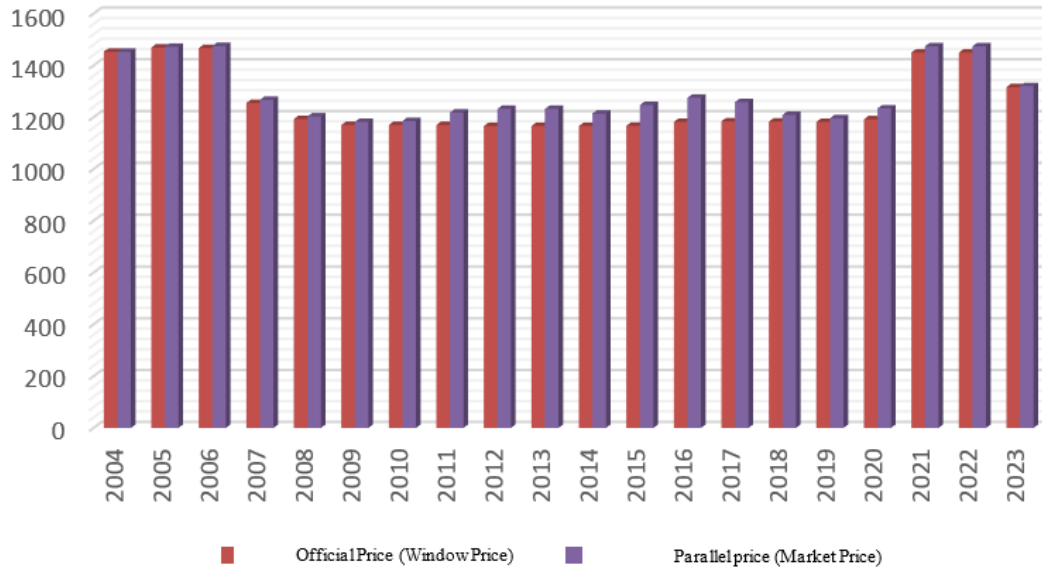


Figure 1.
Exchange rate of Iraqi dinar for the period (2004–2023).
Source: Prepared by the researcher based on the data of Table 4.

3.2. Second: The Evolution of the Gross Domestic Product in Iraq for the Period (2004–2023):

Table 5.
Evolution of GDP at constant and current prices in Iraq for the period (2004–2023) (Million dinars).

Years	GDP at constant prices	Annual rate of change%	GDP at current prices	Annual rate of change%
2004	101,788,449		53,235,359	
2005	103,568,449	1.75	73,533,599	38.13
2006	109,368,369	5.60	95,587,955	29.99
2007	111,455,813	1.91	111,455,813	16.60
2008	119,802,041	7.49	157,026,062	40.89
2009	124,659,542	4.05	130,643,200	-16.80
2010	132,731,012	6.47	162,064,566	24.05
2011	142,696,722	7.51	217,327,107	34.10
2012	161,066,280	12.87	254,225,491	16.98
2013	174,990,175	8.64	273,587,529	7.62
2014	175,335,400	0.20	266,420,385	-2.62
2015	182,051,373	3.83	199,715,700	-25.04
2016	199,476,600	9.57	203,869,833	2.08
2017	201,528,216	1.03	228,995,179	12.32
2018	210,532,887	4.47	268,918,874	17.43
2019	222,141,230	5.51	276,157,868	2.69
2020	195,402,550	-12.04	215,661,517	-21.91
2021	198,496,540	1.58	301,152,819	39.64
2022	212,408,657	7.01	383,064,152	27.20
2023	207,223,350	-2.44	330,046,391	-13.84

Source: Central Bank of Iraq, directorate general of statistics and research, annual statistical bulletin, miscellaneous years.

Table 5 shows that Iraq's GDP, both at constant and current prices, has witnessed remarkable changes that reflect the reality of the economy from 2004 to 2023. Initially, output at constant prices

began at KD 101,788,449 million in 2004, with continuous growth to reach KD 207,223,350 million in 2023. The highest growth rates were recorded in 2011 (7.51%) and 2012 (12.87%), indicating a period of economic prosperity. However, there was a sharp decline in 2020 (-12.04%), reflecting the effects of the COVID-19 pandemic.

In terms of GDP at current prices, it witnessed a significant increase from 53,235,359 million dinars in 2004 to 330,046,391 million dinars in 2023, which indicates a significant improvement in the monetary value of the economy. However, output experienced significant volatility, with the highest growth rates in 2005 (38.13%) and 2008 (40.89%), while it faced sharp declines in 2015 (-25.04%) and 2020 (-21.91%)

The annual rate of change reflects these fluctuations, with years such as 2008, 2011 and 2012 registering high growth rates, while 2015 and 2020 were difficult periods. These changes between output indicate inflationary effects, where the rise in output at current prices is likely to be the result of an increase in prices rather than a real increase in production.

Overall, the trend shows that Iraq has seen sustained growth over the years, despite significant challenges it has faced, such as the impact of the COVID-19 pandemic. Therefore, the government should focus on improving economic policies and promoting diversification in the economy to ensure stable sustainable growth.

These data generally show that the Iraqi economy, despite periods of remarkable growth, needs integrated development strategies to support its stability and promote its future growth.

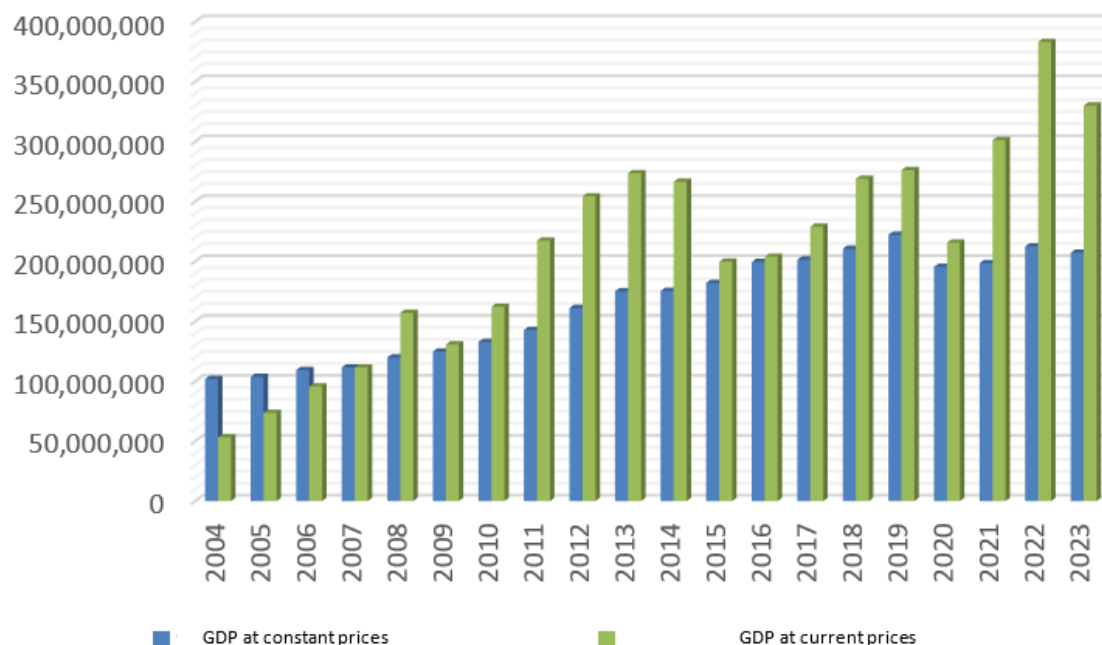


Figure 2.

Evolution of GDP at constant and current prices in Iraq for the period (2004–2023) (Million dinars)

Source: Prepared by the researcher based on the data of Table 5.

3.3. Third: The Relationship Between the Exchange Rate and GDP In Iraq for the Period (2004–2023)

Table 6.

Relationship between the exchange rate and GDP in Iraq for the period (2004–2023) (Million dinars).

Years	Official price (Window price)	GDP at constant prices	GDP at current prices
2004	1453	101,788,449	53,235,359
2005	1469	103,568,449	73,533,599
2006	1467	109,368,369	95,587,955
2007	1255	111,455,813	111,455,813
2008	1193	119,802,041	157,026,062
2009	1170	124,659,542	130,643,200
2010	1170	132,731,012	162,064,566
2011	1170	142,696,722	217,327,107
2012	1166	161,066,280	254,225,491
2013	1166	174,990,175	273,587,529
2014	1166	175,335,400	266,420,385
2015	1167	182,051,373	199,715,700
2016	1182	199,476,600	203,869,833
2017	1184	201,528,216	228,995,179
2018	1183	210,532,887	268,918,874
2019	1182	222,141,230	276,157,868
2020	1192	195,402,550	215,661,517
2021	1450	198,496,540	301,152,819
2022	1450	212,408,657	383,064,152
2023	1316	207,223,350	330,046,391

Source: Central bank of Iraq, Directorate general of statistics and research, annual statistical bulletin, miscellaneous years

The Iraqi economy witnessed significant changes in the official exchange rate and GDP, both at constant and current prices between 2004 and 2023. The official exchange rate began at 1,453 dinars per dollar in 2004 and gradually fell to 1,170 dinars between 2007 and 2014. After that, it witnessed a sharp increase in 2021 to reach 1450 dinars, and then decreased again to 1316 dinars in 2023. This fluctuation directly affects the value of the dinar and its purchasing power, which is reflected in the economy in general.

The GDP at constant prices recorded a remarkable growth, rising from 101,788,449 million dinars in 2004 to 207,223,350 million dinars in 2023. Output reached its highest levels in 2012 and 2013, signifying a period of economic prosperity. However, output declined in 2020 to KD 195,402,550 million, reflecting the challenges Iraq faced, such as the impact of the COVID-19 pandemic.

As for the GDP at current prices, it increased from 53,235,359 million dinars in 2004 to 330,046,391 million dinars in 2023, indicating a significant improvement in the monetary value of the economy. Output achieved the highest growth rates in certain years, such as 2005, 2011, and 2022, but the years 2015 and 2020 witnessed a significant decline, highlighting the impact of economic pressures.

The discrepancy between output at constant and current prices indicates the impact of inflation, as part of the increase in current output may be attributed to higher prices rather than a real increase in production. The significant appreciation in the exchange rate in 2021 reflects pressures on the economy affecting purchasing power and increasing costs.

Although the general trend points to sustained GDP growth, economic challenges, such as exchange rate fluctuations and inflation, need to be effectively addressed. The government and central bank should promote economic stability through effective monetary policies that support growth and maintain exchange rate stability. Economic policies also require a focus on boosting productivity and economic diversification to reduce dependence on the most volatile sectors, which will help restore confidence in the Iraqi dinar and enhance its stability.

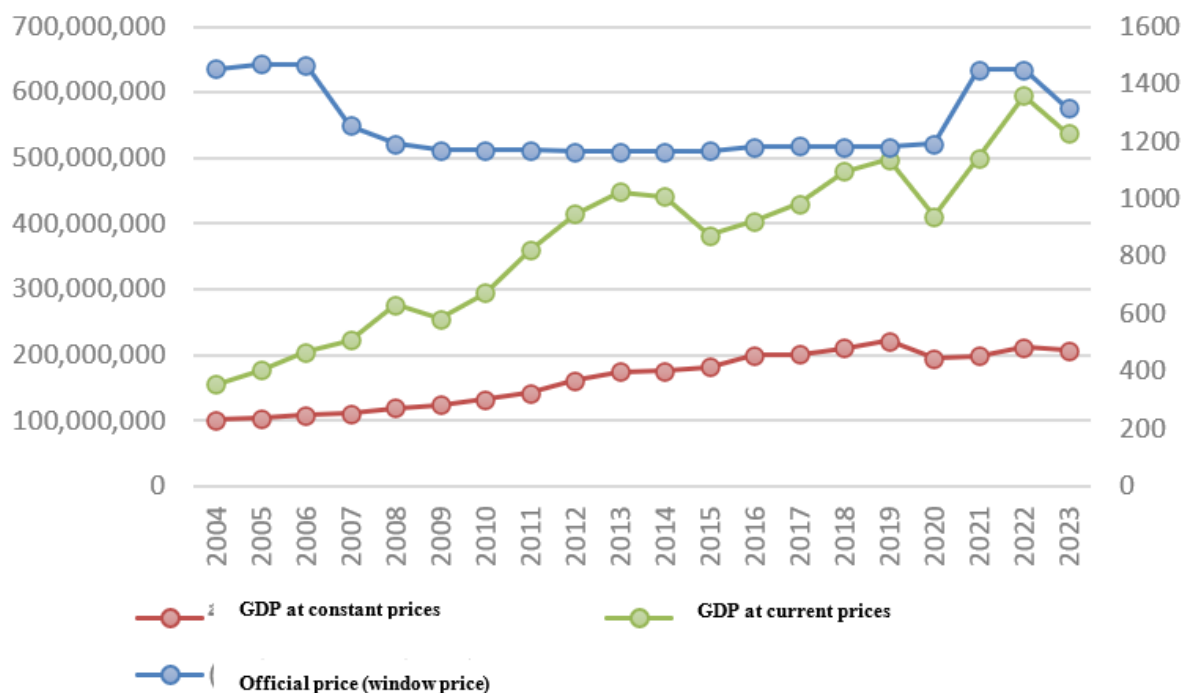


Figure 3.

The relationship between the exchange rate and GDP in Iraq for the period (2004–2023).

Source: Prepared by the researcher based on the data of Table 6.

4. Conclusions and Recommendations

4.1. The Conclusions:

The results showed that the economies of Iraq and Nigeria rely heavily on oil, which makes them vulnerable to fluctuations in commodity prices in global markets, as any decline in oil prices may lead to a significant deterioration in government revenues and the ability to finance public services, which reflects negatively on economic growth. In contrast, India and Kenya are less dependent on primary sectors, giving them some flexibility in the face of market volatility.

The results showed that India has the highest GDP, reflecting the size of its large economy and rapid growth, which indicates the strength of its economic performance and its ability to attract investments. In contrast, Nigeria, although it has a large GDP, has a relatively low growth rate, reflecting domestic challenges such as corruption and security challenges.

The results showed that India tops the list of foreign inflows, reflecting investor confidence in the Indian economy despite regulatory challenges. Iraq, despite receiving large inflows of foreign investment, the ratio of these flows to GDP (2.5%) shows that there is still plenty of room for growth. Political challenges and corruption remain an obstacle to exploiting this potential.

Data highlight the need for effective strategies to address challenges and achieve sustainable development, as addressing these issues can lead to improved economic performance and growth in these countries.

The exchange rate of the Iraqi dinar against the dollar witnessed significant changes between 2004 and 2023. Initially, the impact of these changes on the Iraqi economy is clear, as exchange rates play a key role in determining inflation levels, purchasing power, and investments. Hence, the government and the central bank need to reassess their policies to keep the dinar stable and support the economy.

Table 5 shows that Iraq's GDP, both at constant and current prices, has witnessed remarkable changes that reflect the reality of the economy from 2004 to 2023. Overall, the trend shows that Iraq has seen sustained growth over the years, despite significant challenges it has faced, such as the impact of the COVID-19 pandemic. Therefore, the government should focus on improving economic policies

and promoting diversification in the economy to ensure stable sustainable growth. These data generally show that the Iraqi economy, despite periods of remarkable growth, needs integrated development strategies to support its stability and promote its future growth.

Although the general trend points to sustained GDP growth, economic challenges, such as exchange rate fluctuations and inflation, need to be effectively addressed. The government and central bank should promote economic stability through effective monetary policies that support growth and maintain exchange rate stability.

Economic policies also require a focus on boosting productivity and economic diversification to reduce dependence on the most volatile sectors, which will help restore confidence in the Iraqi dinar and enhance its stability.

4.2. The Recommendations

Preparing an effective national strategy for economic development that is prepared according to solid scientific standards based on the available capabilities.

Working to activate the role of macroeconomic variables, including the exchange rate, to exercise its role in the process of economic development.

Working to exploit the available economic resources in a direction that develops the productive sectors so that they occupy the position that is commensurate with the available resources and capabilities, especially the agricultural and industrial sectors, in addition to employing the steady revenues from the oil sector to develop and advance the various economic sectors in order to diversify the production base.

Accuracy in choosing the exchange rate, as well as choosing the appropriate timing for changing the foreign exchange rate, so that monetary policy does not fall into the problem of overestimating the foreign exchange rate.

For the sake of maintain the value of the Iraqi dinar, monetary policy must work to stabilize the foreign exchange rate and avoid foreign exchange rate change policies, because the exchange rate is the economic strength of the country through the balance of payments that connects Iraq to global economies.

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