Measuring the Impact of the Electronic Platform on the Parallel Exchange Rate in Iraq (2022–2024)

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Abstract

This study aims to measure the impact of the electronic platform on the parallel exchange rate in Iraq during the period 2023–2024. The external financial constraint imposed by the electronic platform has led to a new international policy that can be described as a quasi-transformation or a de facto appropriation of the foreign currency sales window. Consequently, exchange rate movements have become directly tied to the foreign currency holdings of intermediary banks, particularly those that are logistically accepted within the U.S. financial system—meaning they facilitate transactions through the Office of Foreign Assets Control (OFAC) under the U.S. Department of the Treasury. The study finds that liquidity intervention operates through two primary channels. The first is domestic: the Central Bank of Iraq (CBI) purchases U.S. dollars from the government in exchange for issuing Iraqi dinars, based on oil revenues. The second is external: foreign currency is utilized to settle credit line obligations extended to local banks. The time lag between these two processes—whether delays or accelerated execution—affects the exchange rate of the Iraqi dinar. Despite measures undertaken by the Iraqi government and the CBI, as well as negotiations with the U.S. authorities, the gap between the official exchange rate and the parallel market rate has persisted throughout the study period.

Keywords: *Electronic Platform, Parallel Exchange Rate, Foreign Currency Sales Window.*

Introduction

The foreign currency auction is an indirect monetary policy tool that influences the country's monetary base to regulate aggregate demand and address inflationary

pressures. It contributes to stabilizing the value of the Iraqi dinar by maintaining an equilibrium exchange rate, which positively impacts overall price levels, particularly for imported final goods and production inputs. Additionally, it plays a role in managing economic liquidity and controlling its levels.

The foreign currency sales window is a mechanism adopted by the Central Bank of Iraq (CBI) to regulate the sale and purchase of foreign currency (U.S. dollars) to achieve monetary stability and manage the exchange rate. This tool is used to intervene in the foreign exchange market to mitigate sharp fluctuations in the value of the Iraqi dinar and ensure the availability of foreign currency to meet import and foreign trade requirements.

In recent years, with the introduction of the electronic platform for external transfers, there has been a shift toward strengthening oversight of dollar sales and gradually transitioning to a model that directly links Iraqi banks with accredited correspondent banks. This transition requires prior auditing of financial transfers. The electronic platform for external transfers, overseen by the CBI, commenced operations in late 2022 as an initial phase of restructuring and regulating financial transfer processes, aiming to enhance proactive oversight rather than relying solely on post-transaction monitoring.

This approach involved the U.S. Federal Reserve reviewing daily transfers—an exceptional measure, as such oversight does not fall within its standard responsibilities. A phased approach was planned to establish direct connections between Iraqi banks and accredited foreign correspondent banks, with financial transfers subject to prior auditing by an international auditing firm before execution by these banks.

The Importance of the Study:

The significance of this study lies in its focus on the relationship between the electronic platform—expressed through the foreign currency sales window—and the parallel exchange rate. This contributes to a deeper understanding of the dynamics of monetary policy in Iraq during the studied period. The electronic platform has a direct impact on the parallel exchange rate, making it essential to analyze this relationship in

order to assess the effectiveness of the monetary policies implemented by the Central Bank of Iraq in maintaining monetary stability.

Research Problem:

Despite the measures taken by the Central Bank of Iraq and negotiations with Washington, a gap of approximately 20 basis points remains between the official and parallel exchange rates following the implementation of the electronic platform. Consequently, this study seeks to address the following research question:

- *Are the measures adopted by the Central Bank of Iraq insufficient to narrow the gap between the official and parallel exchange rates during the study period?*

Research Objective:

This study aims to measure the impact of the electronic platform on the parallel exchange rate in Iraq during the period (2022–2024) by analyzing the economic factors influencing the study variables. Specifically, it seeks to evaluate the extent to which the parallel exchange rate is affected by fluctuations in the foreign currency sales window, as represented by the electronic platform.

Research Hypothesis:

The study is based on the hypothesis that, following the implementation of the electronic platform, liquidity intervention operates through two main channels. The first is domestic, where the Central Bank of Iraq purchases U.S. dollars from the government in exchange for issuing Iraqi dinars, based on oil revenues. The second is external, where foreign currency is used to settle credit line obligations extended to local banks. The time lag between these two processes—whether in the form of delays or accelerated execution—has a direct impact on the exchange rate of the Iraqi dinar.

Research Methodology:

This study employs a quantitative analytical approach to measure the relationship between the electronic platform and the parallel exchange rate over the specified

period. Additionally, a descriptive method will be used to outline the theoretical framework and key concepts related to the topic, as well as to analyze relevant monetary policies and economic changes.

Previous Studies:

- **Study by Gürkaynak (2021)**: This study examined the relationship between monetary policy shocks and exchange rate behavior, aiming to analyze the impact of such shocks in both the United States and the Eurozone. It also tested the Information Effect Hypothesis, which suggests that financial markets may reinterpret monetary policy decisions based on implicit expectations about economic conditions.

  The findings revealed that no single model could fully capture all patterns of exchange rate responses to monetary policy shocks, highlighting the need for more comprehensive models that account for informational asymmetries between central banks and financial markets. This study contributes to a deeper understanding of the interaction between monetary policy and exchange rates while emphasizing the role of information effects in generating unexpected market reactions. Additionally, its results provide a practical framework for monetary policymakers to enhance their strategies and improve the effectiveness of their tools in guiding financial markets.

- **Study by Mustafa (2023):** This study aimed to analyze the impact of the foreign currency sales window on the exchange rate of the Iraqi dinar from 2003 to 2021. Given Iraq's rentier economy, which suffers from weak monetary policy transmission channels due to structural imbalances and heavy reliance on imports, monetary authorities employ direct instruments, such as the currency sales window, to stabilize prices and combat inflation. The study found that while the currency sales window influenced the exchange rate, this impact was not consistent throughout the study period.

  The findings indicate that the exchange rate of the Iraqi dinar responded positively to Central Bank interventions between 2003 and 2010, as foreign reserves were utilized to maintain stability. However, from 2011 to 2020, the

effectiveness of these interventions weakened, leading to an increased gap between the official and parallel exchange rates. The widening gap prompted monetary authorities to reconsider the valuation of the dinar and implement measures to curb the depletion of foreign currency reserves through the sales window. Furthermore, the study suggested a shift towards documentary credit mechanisms for financing foreign trade under regulatory oversight. It also proposed the establishment of a joint bank to finance private sector imports as an alternative to the foreign currency sales window.

- **Study by Yousif (2024):** This study aimed to analyze the impact of structural changes in monetary sterilization components on the parallel exchange rate in Iraq following the implementation of the electronic platform during the period 2021–2024. To achieve this, a regression model was estimated for the parallel exchange rate, incorporating structural changes using the Step Indicator Saturation (SIS) methodology, which detects location shifts—unconditional mean changes—by incorporating structural breaks into the model through automatic model selection algorithms.

  The findings revealed a strong relationship between monetary base growth, foreign reserves, and their influence on the parallel exchange rate in Iraq during the study period. The findings also indicated that one of the key financial determinants affecting monetary policy is the link between money supply and government spending, reflecting the dominance of fiscal policy over the monetary base. Consequently, any structural increase in foreign reserves leads to an expansion in the monetary base, contributing to a broader money supply. Additionally, the constraints imposed by the electronic platform limit the Central Bank's ability to conduct monetary sterilization operations, thereby influencing the dynamics of the foreign exchange market.

Study Axes:

To comprehensively address the research topic, the study has been structured as follows:

First: The Conceptual Framework of the Relationship Between the Electronic Platform and the Parallel Exchange Rate in Iraq

Exchange rate policy serves as an effective mechanism to shield a country's economy from internal and external shocks. The effectiveness of this policy depends on the stability of the optimal exchange rate, which is influenced by the exchange rate regime adopted by the country. Exchange rate policy is an integral part of broader economic policies, aiming to achieve economic growth, price stability, and external balance (Bukhari, 2010, p. 119). Moreover, it is one of the key tools employed by economic management to address macroeconomic imbalances, particularly external imbalances, which can significantly impact a nation's economic performance amid the challenges posed by international trade conditions and capital globalization.

The foreign currency auction is one of the indirect monetary policy instruments that influence the country's monetary base, aiming to regulate aggregate demand and counter inflationary pressures (Malak, 2001, p. 293). This mechanism helps stabilize the Iraqi dinar's value by defending an equilibrium exchange rate, which positively impacts overall price levels, particularly for imported goods and production inputs. Additionally, it plays a crucial role in managing liquidity within the economy and maintaining its balance.

Given the nature of government revenue streams and expenditure financing, as well as the need to fund foreign trade and address balance of payments deficits, the sale and purchase of foreign currency follow a specific and predetermined framework. Most of the Iraqi Ministry of Finance's revenues are in foreign currency (USD), while the majority of its expenditures are in Iraqi dinars. Consequently, the ministry sells USD to the Central Bank of Iraq (CBI) at the official exchange rate, and the CBI, in turn, resells it to the private sector, enabling businesses to cover their import needs and other financial obligations. Since the CBI holds a monopoly over USD sales, this process serves as a primary channel for monetizing oil revenues to fund the state budget.

However, the CBI also finances budget deficits, which increases demand for USD, leading to a decline in foreign currency reserves. Thus, international reserves are dynamic rather than static, fluctuating based on the interaction between these financial

flows. Through this mechanism, exchange rate stability is maintained, and expectations regarding USD demand are shaped (Al-Waeli, 2013, pp. 7-8).

Recognizing its role in developing the operations of currency exchange companies and foreign exchange intermediaries, and enhancing technological infrastructure to ensure secure and transparent transactions, the CBI launched an electronic platform at the end of 2022. This platform restructured the financing of cross-border trade that previously relied on cash-based USD transactions, a method widely used in small-scale cross-border trade activities. Before the establishment of the platform, cash-based USD sales were instrumental in facilitating broad border trade exchanges.

In early 2023, the CBI introduced the electronic platform for foreign transfers, marking the first phase of financial transaction restructuring to ensure proactive rather than reactive oversight. A key component of this reform involved the U.S. Federal Reserve reviewing daily transactions, an exceptional measure given that such reviews typically do not fall within its usual responsibilities. Moreover, a gradual transition was planned to establish direct banking relationships between Iraqi banks and accredited foreign correspondent banks. To ensure compliance and transparency, a global auditing firm was engaged to conduct pre-transaction verification before the correspondent banks processed the transfers (Saleh, 2023, pp. 1-2).

Second: Analyzing the Impact of the Electronic Platform on the Parallel Exchange Rate in Iraq (2022-2024)

The value of a currency is one of the fundamental economic factors affecting a country's macroeconomic stability, as it reflects the strength and stability of the national economy. In Iraq, the Iraqi dinar (IQD) has undergone multiple structural changes in its value in recent years, significantly influencing monetary policy. The discrepancy between the official exchange rate and the parallel market rate affects the monetary base, increasing the need for central bank intervention in the foreign exchange market to regulate money supply. This was evident in Iraq when the widening gap between the official and parallel exchange rates exerted greater pressure on foreign currency reserves (Neamah, 2022, p. 573). Table (1) presents trends in the relationship between the electronic platform and the parallel exchange rate, highlighting the exchange rate differential for the period 2020-2024.

Period	Foreign Currency Window (Cash Sales) (One Million USD)	Foreign Currency Window (Wire Transfers) (One Million USD)	Parallel Exchange Rate	Official Exchange Rate	A Gap between the Two Exchange Rates = Official - Parallel *100 Official
Jan –22	969	3,130	1,482	1,450	2.21
Feb –22	798	2,862	1,471	1,450	1.45
Mar –22	859	3,134	1,471	1,450	1.45
Apr –22	710	3,270	1,480	1,450	2.07
May –22	604	2,845	1,480	1,450	2.07
Jun –22	810	4,507	1,485	1,450	2.41
Jul –22	543	3,411	1,485	1,450	2.41
Aug –22	834	4,715	1,485	1,450	2.41
Sep –22	753	3,971	1,478	1,450	1.93
Oct –22	758	4,093	1,471	1,450	1.45
Nov –22	577	1,476	1,480	1,450	2.07
Dec –22	860	312	1,512	1,450	4.28
Jan –23	1,107	647	1,598	1,450	10.2
Feb –23	1,030	978	1,526	1,450	5.24
Mar –23	1,163	2,522	1,558	1,450	7.45
Apr –23	844	2,939	1,455	1,450	0.34
May –23	998	2,631	1,455	1,450	0.34
Jun –23	673	2,827	1,471	1,450	1.45
Jul –23	479	2,619	1,498	1,339	11.9
Aug –23	738	2,110	1,519	1,300	16.8
Sep –23	420	1,956	1,548	1,300	19.1
Oct –23	312	2,469	1,597	1,300	22.8
Nov –23	293	1,761	1,603	1,300	23.3
Dec –23	297	1,689	1,548	1,300	19.1
Jan –24	335	2,385	1,527	1,300	17.5
Feb –24	283	2,520	1,522	1,300	17.1
Mar –24	269	1,815	1,494	1,300	14.9
Apr –24	283	1,163	1,476	1,300	13.5
May –24	383	1,522	1,464	1,300	12.6
Jun –24	210	859	1,469	1,300	13
Jul –24	241	1,574	1,494	1,300	14.9
Aug –24	201	1,632	1,498	1,300	15.2
Sep –24	250	1,442	1,494	1,300	15.4
Oct –24	199	1,781	1,498	1,300	15.2
Nov –24	210	1,432	1,500	1,300	15.3
Dec –24	313	1,223	1,527	1,300	17.4

Table (1): Trends in the Relationship Between Study Variables in Iraq (2022-2024)

Source: Central Bank of Iraq (CBI), Statistics & Reports, Annual Bulletins (2022-2024).

Since 2004, monetary policy, led by the Central Bank of Iraq (CBI), has been primarily focused on exchange rate stability due to the rentier nature of the Iraqi economy. This economic structure aligns with a foreign currency-dependent financial flow, where foreign exchange auctions have been a key instrument of monetary policy. The foreign currency auction was introduced to regulate liquidity levels while maintaining exchange rate stability (Al-Nabi, 2014, pp. 3-4). These auctions served as a balancing tool between the local currency (IQD) and foreign currency (USD) through supply and demand adjustments. This mechanism helped control liquidity levels in local currency (Al-Shabibi, 2007, pp. 26-27).

There exists a direct relationship between fluctuations in the local currency's value and foreign currency sales (demand for USD). A decline in currency fluctuations signals expectations of an appreciation in the local currency's value, encouraging individuals to hold onto the local currency as liquid cash or bank deposits, thereby reducing demand for foreign currency.

Based on the data in Table (1), the Iraqi dinar experienced significant volatility between 2022 and 2024, directly affecting the Iraqi economy. Furthermore, this fluctuation widened the gap between the official and parallel market exchange rates. By February 2024, the parallel exchange rate reached approximately 1,500 IQD per USD, compared to the official rate of 1,300 IQD per USD. This discrepancy influenced monetary base stability and posed additional challenges for Iraq's monetary policy. Amid ongoing concerns over rising inflationary expectations, the parallel exchange rate deviated significantly from the official rate before the official exchange rate adjustment in 2023. In response, the monetary authorities, in coordination with the Ministry of Finance, decided to adjust the exchange rate from 1,450 IQD per USD to 1,300 IQD per USD.

One key paradox in monetary sterilization was the continued influx of foreign currency through budget revenues, leading to a rise in foreign reserves, yet an inability to absorb excess liquidity within the monetary base itself. This was largely due to strict regulatory measures implemented following the introduction of the electronic platform for foreign currency sales via the CBI's auction window in late 2022.

This measure created a form of "parallel sterilization" in the foreign exchange market, where the parallel market dictated liquidity levels based on the extent of liquidity traps in foreign currency transactions—whether in cash USD circulation or foreign currency deposits held by individuals in offshore banks. Additionally, transactions in the parallel market were affected by asymmetric information, as the market lacked informational efficiency. This impaired rational expectations due to unregulated internal and external market information, leading to notable exchange rate distortions. These price fluctuations were particularly evident between October 2022 and February 2023, just before the official adjustment of the Iraqi dinar's exchange rate.

Third: Estimating the Impact of the Electronic Platform on the Parallel Exchange Rate in Iraq (2022-2024)

The Iraqi economy faces structural challenges due to its rentier dependence on the oil sector, where oil production and exports constitute the primary source of GDP, while other productive sectors contribute only marginally. This excessive reliance increases the economy's vulnerability to global price shocks and fluctuations, affecting its financial and monetary stability. Within this context, monetary policies may yield unintended consequences, potentially exacerbating economic imbalances rather than mitigating them. Therefore, studying the impact of these policies within a rentier economic framework is crucial, emphasizing the need to diversify the economic base to reduce oil dependency and enhance fiscal sustainability.

To analyze the research variables, monthly data issued by the Central Bank of Iraq and the Central Statistical Organization were utilized. The key variables include the parallel exchange rate (Y), central bank cash sales of foreign currency (X1), and central bank foreign currency sales via wire transfers (X2).

1. **Results of the Unit Root Test for Time Series Using the (Range Unit Root) Test**

The (Robust against Nonlinearities, Error Distributions, Structural Breaks, and Outliers) Range Unit Root Test is a methodology for unit root testing that excels in handling challenges such as nonlinearity, diverse error distributions, structural breaks, and outliers. The Range Unit Root Test (RUR) is an advanced development in time

series analysis, aimed at determining whether a given time series contains a unit root (i.e., whether it is non-stationary over time). Unlike traditional tests such as Dickey-Fuller (ADF) and Phillips-Perron (PP), the RUR Test has the following advantages (Aparicio, 2006, 545-546):

- Resistance to Nonlinearity: The test takes into account the nonlinear behavior in the data, which is common in many economic and financial variables.
- Ability to Handle Different Error Distributions: The test does not assume any specific error distribution, such as the normal distribution, making it more robust under real-world data conditions.
- Handling of Structural Breaks: It can detect and adjust for the impact of sudden structural changes in the data, which could lead to erroneous conclusions in traditional tests.
- Handling of Outliers: Outliers or extreme values can affect the results of traditional unit root tests, but the RUR test is designed to be more resistant to such effects.

This test is particularly useful in economic and financial studies dealing with unstable data influenced by multiple factors, such as exchange rates, stock prices, inflation, and economic growth. Table (2) summarizes the stationarity test results for the time series variables under study as follows:

Table (2): Summary of Stationarity Test Results for Time Series Variables

Range Unit Root Test						
Null Hypothesis: The series has a unit root (non-stationary) **Alternative Hypothesis**: The series has no unit root (stationary)						
	Statistic	p-value	Critical Value (10%)	Critical Value (5%)	Critical Value (2.5%)	Critical Value (1%)
y	1	0.1	1.126288	0.975784	0.863112	0.722044
X1	2.5	0.9	1.126288	0.975784	0.863112	0.722044
X2	1.33	0.9	1.126288	0.975784	0.863112	0.722044

The series is non-stationary (fail to reject the null hypothesis)

Source: Researcher's own work using Python software.

According to the data from Table (2) for the Range Unit Root Test, it is observed that the time series for the study variables (parallel exchange rate, Y, central bank cash sales of foreign currency X1, and central bank foreign currency sales via wire transfer X2) do not exhibit stationarity at the level, indicating the presence of a unit root. However, these variables become stationary after taking the first difference, as shown above.

2. Estimation of Study Models Using Regression with Consideration for Outliers and Structural Breaks

After testing the stationarity of the time series with outliers and structural breaks for the study variables, a regression model for the parallel exchange rate Y in Iraq was estimated as the dependent variable, influenced by the independent variables, namely the electronic platform represented by the central bank's cash sales of foreign currency X1 and the central bank's foreign currency sales via wire transfer X2, using Indicator Saturation Methods. This was carried out using the Step Indicator Saturation (IIS, SIS, TIS) method to detect location shifts (previous unconditioned mean shifts) considered as structural changes, which were incorporated into the model after estimation using the automatic model selection algorithm in EViews 13 statistical software. Following the model estimation process, the results were obtained as shown in the following tables:

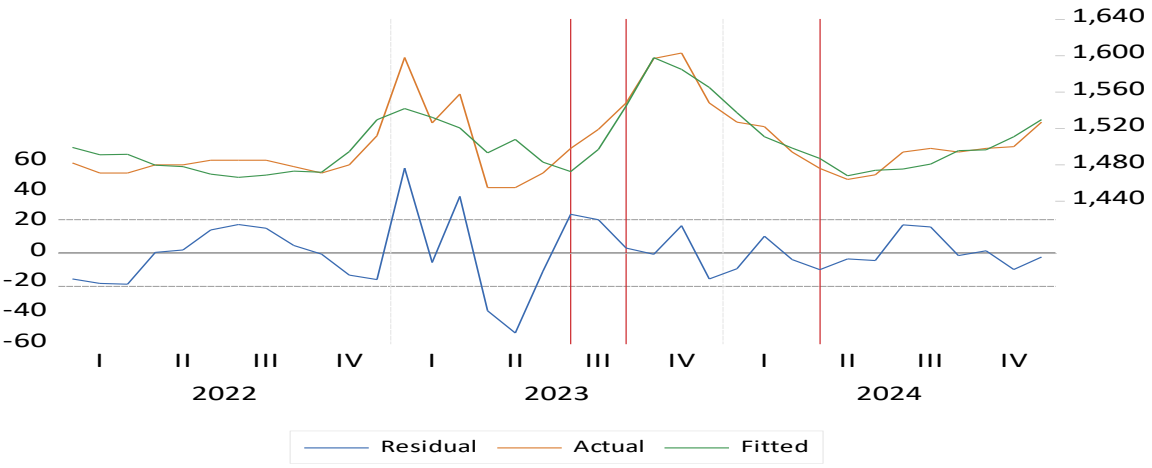
Table (3) Results of Estimating the Parallel Exchange Rate Model Using Regression with Outliers and Structural Breaks.

Dependent Variable: Y

Method: Least Squares				
Date: 03/02/25 Time: 05:01				
Sample: 2022M01 2024M12				
Included observations: 36				
Indicator Saturation: IIS SIS TIS, 105 indicators searched over 2 blocks				
0 IIS, 0 SIS, 3 TIS variables detected				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1	0.068462	0.027080	2.528151	0.0170
X2	-0.013428	0.004185	-3.208490	0.0032
C	1474.872	27.23196	54.15959	0.0000
@TRENDBR("2023M08")	67.37788	10.15531	6.634746	0.0000
@TRENDBR("2023M10")	-88.43930	11.83570	-7.472247	0.0000
@TRENDBR("2024M05")	29.98909	5.139168	5.835398	0.0000
R-squared	0.729498	Mean dependent var		1503.306
Adjusted R-squared	0.684414	S.D. dependent var		39.05075
S.E. of regression	21.93756	Akaike info criterion		9.165289
Sum squared resid	14437.69	Schwarz criterion		9.429209
Log likelihood	-158.9752	Hannan-Quinn criter.		9.257404
F-statistic	16.18095	Durbin-Watson stat		1.742611
Prob(F-statistic)	0.000000			

Source: Researcher's own work based on Eviews 13 software.

Figure (1) Residual Distribution of the Estimated Model to Measure the Impact of the Electronic Platform on the Parallel Exchange Rate in Iraq for the Period (2022-2024).



Source: Researcher's own work based on Eviews 13 software.

Based on the estimation results provided in Table (3), the following can be observed:

- Regarding the significance of the regression equation, it is noted that the F-statistic value is significant at any level of significance, which is confirmed by the p-value of 0.000000. This allows us to reject the null hypothesis and accept the alternative hypothesis, indicating that the regression equation as a whole is statistically significant in influencing the dependent variable (parallel exchange rate, Y).
- Regarding the contribution of the explanatory variables (central bank's cash sales of foreign currency X1 and central bank's foreign currency sales via wire transfer X2) in determining the behavior of the dependent variable (parallel exchange rate Y), it is clear from the R-squared value (0.72) that 72% of the changes in the dependent variable are explained by the explanatory variables, with the remaining 28% attributable to unmeasured factors or estimation errors.
- The Durbin-Watson statistic value of 1.74 indicates the acceptance of the null hypothesis, meaning there is no autocorrelation problem between the residuals, and thus, the alternative hypothesis is rejected.
- As observed in Table (3), there is a statistically significant positive relationship (p-value = 0.0170) between the central bank's cash sales of foreign currency (X1) and the parallel exchange rate (Y), with a t-statistic of

2.528151. This suggests that after the implementation of the electronic platform, the relationship between cash sales of dollars and the parallel exchange rate is positive. As cash sales through the currency window increased, with new restrictions in place, cash flows of dollars through the official window decreased, thereby increasing demand in the black market and raising the parallel exchange rate.

- It is also noted in Table (3) that there is a statistically significant negative relationship (p-value = 0.0032) between the central bank's foreign currency sales via wire transfer (X2) and the parallel exchange rate (Y), with a t-statistic of -3.208490. The platform-imposed restrictions on entities receiving dollars, which forced importers to use official channels. The inverse relationship between foreign currency sales via wire transfers through the central bank’s currency window and the parallel exchange rate became more pronounced after the implementation of the new electronic platform. This implies that as the central bank's official foreign currency sales increased, the parallel exchange rate decreased.
- The results of adding structural breaks to the estimated model are statistically significant, as indicated by a p-value of 0. This shows a strong correlation between the electronic platform (represented by the central bank's cash sales of foreign currency X1 and the central bank’s foreign currency sales via wire transfer X2) and their impact on the parallel exchange rate in Iraq. Therefore, any structural change in the independent variables affects the dependent variable.

1) Goodness of Fit for the Estimated Model

To ensure the reliability of the estimated model used to measure the impact of the electronic platform on the parallel exchange rate in Iraq (2022-2024) and to confirm that it is free from standard issues, diagnostic tests were performed as shown in Table (4):

Prob	F–statistic	Indicator	Test

0.6606	0.420871	Breusch–Godfrey Serial Correlation LM Test	Serial Correlation Test
0.3274	0.988256	ARCH	Heteroskedasticity Test
0.3816	1.926302	Jarque Bera	Normality Test

Table (4) Summary of Model Quality Tests for the Study.

Source: Researcher's own based on Eviews 13 software.

The results of the statistical tests indicate that the residuals of the estimated model do not suffer from common issues that could affect the accuracy of the estimates. According to the Breusch-Godfrey Serial Correlation LM Test, the Prob. Chi-Square value is 0.6606, which is greater than 0.05, indicating no serial correlation problem. Therefore, the null hypothesis is accepted, and the alternative hypothesis is rejected.

The ARCH Test shows that the residuals of the model do not suffer from heteroskedasticity, with an Obs R-squared Prob. value of 0.3274, which is also greater than 0.05. This supports the acceptance of the null hypothesis and the rejection of the alternative hypothesis.

Additionally, the Jarque-Bera Test indicates that the residuals follow a normal distribution, with a JB value of 1.926302 and a Prob. value of 0.3816, which is greater than 0.05, meaning the null hypothesis is accepted, and the alternative hypothesis is rejected. Based on these results, it can be concluded that the statistical model exhibits favorable characteristics in terms of the absence of autocorrelation, stability of variance, and adherence to a normal distribution, which enhances the reliability of the estimates provided.

Fourth: Conclusions:

1. The implementation of stringent regulatory controls following the adoption of the electronic platform for foreign currency sales through the Central Bank’s window has led to the parallel market gaining control over liquidity levels.

This is influenced by the extent to which the so-called "foreign currency liquidity trap" fluctuates, whether concerning cash dollars or foreign currency deposits held by external banks.

2. The buying and selling activities in the parallel market have been affected by asymmetric information, where the market lacks informational efficiency, limiting the ability to form rational expectations due to the presence of both internal and external information that is not subject to regulation. This situation has reflected on exchange rate behaviors in the parallel market, leading to noticeable price deviations.
3. The analysis revealed that the time lag between the Central Bank's purchase of dollars from the government and their release into the market directly impacts the stability of the parallel exchange rate. Despite the measures taken, challenges remain regarding the speed of monetary transactions and liquidity control in the market.
4. Changes in the import patterns of fast-moving consumer goods within compliance controls require time to organize and adapt to the international compliance system. Therefore, the fluctuations occurring in exchange markets, particularly in the parallel market, are considered a transitional phenomenon.

Fifth: Recommendations:

1. Strengthening the balances of Iraqi banks that have correspondent banks abroad, by changing the mechanism for boosting the balances, which is now done directly through Iraqi banks' accounts with correspondent banks, rather than through the Central Bank.
2. Diversifying the foreign currency portfolio, including the use of the euro, UAE dirham, and Chinese yuan, to facilitate transactions with major trading partners.
3. Opening competition among local banks and expanding the available options in the market to contribute to the stability of the dollar exchange rate within the Iraqi economy.
4. When the domestic banking sector adopts correct commercial documentation that aligns with international trade financing rules regarding international

compliance, the exchange market will converge in terms of pricing, with the official exchange rate gradually aligning over time in a more accelerated manner.

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