

Foreign Exchange Auction, International Reserves, and Central Bank Independence in Iraq

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Introduction

Misconduct charges against the Central Bank of Iraq (CBI) and banking system, before and after the replacement of the Governor in October 2012, have included two groups. The first relates to possible ‘misuse’ of CBI’s foreign exchange auction sales by banks, favouritism in allocating sales, and money laundering. The second includes failure to monitor final usages of auction sales (mainly for private importation), capital flight (‘smuggling’), and handling of international reserves. Charges in the second group display a misunderstanding about the nature of central banking in freer foreign exchange regime as well as about the nature, components, obligations on, and functions of international reserves.²

Notwithstanding misconduct charges, the matter largely transcends them, and goes directly to CBI independence and control of international reserves, on the one hand, and conflict with the government, on the other. In the following, therefore, we tackle the roots of the conflict during the last three years. Then, to evaluate CBI performance, in foreign exchange management, we look first into its foreign exchange auction, which has gained prominence in the charges against the Bank. Then, we touch on some institutional issues of foreign exchange regime and international reserves, before concluding. During the narrative, we also touch on the main charges.

Roots of conflict between the government and central bank

Three fundamental interrelated factors can be cited for the conflict between the government and the CBI during the last three years: independence of the CBI as stipulated by the Constitution (and Central Bank Law); stance of the Governor not to lend to the government, and growing size of international reserves.

After the collapse of oil prices in 2008/2009, the government attempted, in 2009 and in a subsequent year, without success, to secure loans from the CBI to finance possible deficit in the Budget, which must have sown the seeds of

¹ I thank Kamil Mehdi, Mowafaq Hasan Mahmood, and Nabil Al-Nawwab for valuable suggestions.

² Charges of possible misuse of foreign exchange auction sales by banks, favouritism in allocating sales, and money laundering are largely outside the main subject matter of this article.

conflict. CBI Law (article 26) prohibits lending to the government. Since then, efforts to limit its independence resulted in a decision by the High Federal Court, in January 2011, to affiliate the CBI, together with other independent bodies, to prime minister's office, though it was not implemented. Attempts to submerge independence underlie a reality; that despite stipulations in the Constitution, governance traditions in Iraq are averse to existence of bodies out of the reach of the executive branch; especially one with growing international reserves (reportedly, \$67 billion).

Therefore, gradually, the objective changed from borrowing to subordinating the Bank. What lends some support to this hypothesis is that due to accumulated Budget surplus, deficit financing was not needed, especially in the past two years. For despite data problems about the size of accumulated Budget surplus, conservative estimates place it between \$26 and \$32 billion, at the end of 2011. Most likely, it is higher. Furthermore, in spite of planned deficit (of \$12.7 billion) for 2012, actual oil revenues for 2012 imply that even if all budgeted expenditures materialize, there cannot be a deficit in 2012.³

Two additional practices could have contributed to the sour relationship, and later to misconduct charges against the Bank. One relates to the nature and functions of international reserves. They have been erroneously described as stocks, which are 'put aside' for emergencies only. Such misconception could have insinuated a misunderstanding, on the part of politicians and non-specialists that international reserves can be readily used as free finance. In reality, instead of being 'put aside', they are continually used through additions and withdrawals. For instance, purchases (or receipts) of US\$ by the CBI add to the reserves, while auction sales withdraw from them. Reserves rise when additions outweigh withdrawals and vice versa. Furthermore, international reserves as assets are completely balanced by liabilities (obligations). Therefore,

³ Actual oil export revenues in 2012 amounted to \$94 billion, equivalent to ID109.6 trillion. Budgeted non-oil revenues for 2012 were estimated at ID7.9 trillion, which when added to oil revenues make a total of ID117.5 trillion. Budgeted expenditures for 2012 amounted to ID117.1 trillion. Therefore, the budget cannot be in deficit in 2012. This result holds even with upward adjustment of war compensations consequent on higher oil revenues than originally foreseen in the budget. Oil revenues figure for 2012 is a sum of monthly figures published in www.oil.gov.iq.

using them, independently of obligations, results in disequilibrium in the exchange market and the economy as a whole.⁴

The other additional practice relates to CBI's daily foreign exchange auction. Due to the fact that auction sales of US\$ are intended to the private sector, through participating banks, it has been mistakenly perceived, somehow, that CBI meets the demand of the private sector only. Continuation of UN Security Council Chapter VII's Sanctions could have contributed to such perception. According to the Sanctions, oil revenues are not deposited directly in CBI, but in the Development Fund of Iraq, DFI (at the Federal Reserve Bank of New York). The Ministry of Finance, MoF, is the authority which makes decisions concerning oil revenues. Annually, it sells part of the revenues to CBI in return for Dinars.⁵ When it requires foreign exchange, however, MoF usually uses its account at the DFI rather than requests it from CBI. It has appeared, therefore, as if MoF provides rather than demands foreign exchange from CBI. The perception, however, is at variance with the fact that government accounts in Iraqi Dinars (in CBI and other banks) are one of the main obligations against international reserves. Other obligations include private sector accounts in Dinars, and issued currency. Therefore, if the government (say, MoF) requests dollars in return for its accounts in Dinars the CBI needs to accept.

Central Bank's foreign exchange auction

Let us note, first, that in spite of what is termed 'auction', Iraq, like most oil exporting countries in the region, has been following fixed-exchange-rate arrangement (to US\$) since the beginning of 2009. Furthermore, let us refer to auction rate of exchange as 'official' rate to distinguish it from 'market' rate; which is used by banks and money exchangers.

To meet demand, auction US\$ sales (henceforth, sales) to participating banks include two types of transactions, international transfers and cash payments. International transfers, which make the majority of transactions, are intended mainly to finance imports by the private sector. Cash sales serve to meet payments for travel, medical expenses, etc. The purposes, that these two

⁴ See Merza, A. (2012) 'Consequences of Use of International Reserves in Their Non-essential Function', Iraq Economists Network, 18 May, in Arabic, www.irageconomists.net.

⁵ During 2004-2011, CBI's purchases of US\$ from MoF outweighed its auction sales. CBI's purchases amounted to \$227 billion (65% of Iraq's oil revenues) while its auction sales \$177 billion. The difference (\$49 billion) represents increase in its international reserves. Auction sales figures are calculated from CBI's Annual Statistical Bulletins, 2007, 2009, and 2011. Oil revenues total is calculated from various sources including Ministry of Oil's Internet site, www.oil.gov.iq.

types of transactions serve, define what can be called ‘auction rules’, which insure that sales meet ordinary demand.⁶ From the widening gap between official and market exchange rates in 2012 (table 1 below), on the one hand, and the enforcing of auction rules, on the other, it can be inferred that sales do not necessarily meet all demand by the banks. Consequently, upper limits on daily transactions seem to exist.

The exchange market, however, was in balance throughout 2004-2010/2011. Between 2004 and 2010 percentage difference between the market and official exchange rates (i.e. gap rate) was only 0.7%, which can be taken to signify equilibrium in the exchange market. After 2010, the gap rate started to increase. In the first half of 2011 it rose to 1.6% (which still indicates a balance) and in the second to 2.8%. During the first nine months of 2012 the average climbed to 6.4% (obviously indicating an imbalance); noting that it reached 10% on April 10, before descending to 2.9% in October, table (1).⁷

During 2012, the gap rate does not seem to have moved in tandem with the (inverse) change in supply (sales); table (1). Average daily sales in the first four months of 2012 were not much different from that in the second half of 2011; yet the gap rate rose rapidly. On the other hand, although average daily sales rose tangibly between May and August, the gap rate did not decline proportionally. The pattern of change, in 2012, therefore, points at the possibility of other influencing variables on the gap rate. Econometric investigation, of daily auction transactions, during January 2009-October 2012, has identified what appears to be ‘additional’ demand as one such variable in 2012. Uncertain economic prospect, anticipated political instability and insecurity after the withdrawal of American forces, and regional instability could have all resulted in higher additional demand on US\$ since November/December 2011. Furthermore, the investigation indicates that the response of the gap rate to change in additional demand was rather strong, whereas to change in auction sales, relatively weak. The implication is that in order to restore balance in the market, daily sales should have risen to very high levels, which were not possible according to auction rules. See Appendix (1). Furthermore, politically they were unacceptable. Hence, during the first nine months of 2012, actual increase in daily sales was not very effective in restoring

⁶ Demand divides into two types; ‘ordinary’, which is derived from the level of economic activity and income (imports, investment income, travel, etc), and non-ordinary, which depends on such factors as, speculation, hoarding, capital flight, etc, see Appendix (1).

⁷ Divergence between the two rates had motivated trading activities to exploit the difference (arbitrage).

balance to the market. What appeared a fall in demand at the end of third quarter seems to have been more effective.⁸ What lends some support to this hypothesis is the slow decline in the gap rate between April and August, and faster fall afterwards, table (1).

Table (1) Gap between Market and Official Exchange Rates

	Rate of Exchange			Average Daily Auction Sales <i>US\$ Million</i>
	<i>Dinars for one US\$</i>		Gap Rate: <i>Percentage Difference of Market to Official %</i>	
	Official (Auction)	Market		
2004-2007	1,411	1,417	0.4	45
2008-2010	1,178	1,190	1.1	132
2011				
First Half	1,170	1,189	1.6	151
Second Half	1,170	1,202	2.8	179
2012				
January	1,168	1,205	3.2	218
February	1,166	1,236	6.0	106
March	1,166	1,240	6.3	230
April	1,166	1,263	8.3	148
May	1,166	1,249	7.1	179
June	1,166	1,240	6.4	186
July	1,166	1,254	7.5	227
August	1,166	1,248	7.0	275
September	1,166	1,228	5.3	271
October	1,166	1,200	2.9	258

Sources: calculated from data in the following:

Central Bank of Iraq, Annual Bulletins, 2007, 2009, 2011.

(212) *Central Bank of Iraq Foreign Exchange Auction,*

http://www.cbi.iq/documents/CBI_FOREIGN_EXCHANGE_AUCTIONS.pdf,

Accessed 2 November, 2012.

The foregoing description points at the balancing mechanism in the market. After the lifting of quantitative restrictions, the main tool at the disposal of the CBI to realize equilibrium is through change in supply to satisfy demand.

⁸ Econometric investigation rest, mainly, on statistical associations and assumptions. More detailed and factual investigation is needed to check the result in the text, and Appendix (1), about the components and role of, what appeared to have been, ‘additional’ demand in the rise and fall of the gap rate, during the first ten months of 2012.

Apparent resurgence of additional demand since November/December 2011, however, seems to have weakened the effectiveness of supply tuning to return the market to equilibrium. The imbalance of 2012 raises important issue of how to deal with similar shocks. The lesson derived is that when the exchange market confronts shocks it needs more effective tools to return to balance than only those in possession of CBI. The required tools, however, depend on the type and nature of the shock.

Entrenched habits and long years of familiarity with old regimes of restricted foreign exchange dealings have prompted many politicians and non-specialists to object to the increase of US\$ sales, implying that they facilitate ‘smuggling’.⁹ This could have limited, further, the effectiveness of supply tuning to attain balance in foreign exchange market. It is worth referring, in this regard, to two recently-published official documents implying charges of ‘smuggling’ and favouritism in auction transactions. The first, by Board of Supreme Audit, BSA, has concluded that only 18% of auction sales, in 2012, were used to finance private imports. The rest of the sales are not elaborated beyond mentioning lack of documentation for some and repeated uses for others. Furthermore, BSA has referred to the dominance of specific banks and persons in the auction sales. Based on BSA’s findings, the second report, by a parliamentary committee, has iterated, inter alia, similar charges.¹⁰ In Appendix (2), however, we raise doubts about the data used, in BSA’s document, to calculate private imports.

Foreign exchange policy and institutional set-ups: evaluation

1. In spite of fluctuations in auction sales in the first four months of 2012 (table 1); the CBI had increased daily sales since May. By October, the market was near balance. However, it is clear, though, that the market was in disequilibrium for the best part of 2012, which entails an explanation. Why had it taken more than ten months to come close to balance? Was CBI overwhelmed by the size of ‘additional’ demand in 2012? Why had not CBI increased auction sales faster and in bigger size to narrow down the gap, was it held back by anticipated political opposition or by auction rules? Was the

⁹ Before 2003, Iraqi Dinar was also pegged to US\$. At the official rate, foreign exchange was, however, only available to very limited and pre-allocated uses. Other uses had to seek the parallel market. The gap between official and parallel rates ran into hundreds and later thousands of percentages. Dichotomy between the two markets had created, then, a sense of illegality or ‘smuggling’ in the exchange of Dinars for US\$, which seems to persist, now, despite the existence of freer and legal exchange market. Apart from money laundering, therefore, ‘smuggling’ loses its meaning in a freer and legal market.

¹⁰ Both documents were published, respectively, on 7 November and 13 December, 2012, in ‘Masalah’ website, <http://www.almasalah.com>.

delay, in response, the result of institutional/managerial problems in the Bank? Until such time when better answers and explanations were made available, we believe that the delay was not the main responsibility of CBI. The apparent rise in additional demand, during the ten months before October 2012, required increases in daily sales which could have been infeasible under auction rules. Furthermore, entrenched aversion to the working of freer exchange market might have deterred CBI, further, from providing proportional increase in supplies (sales). Therefore, the Bank was facing a dilemma that must have constrained its response. In the light of these caveats, it can be said that CBI succeeded, in the end, to restore stability in the exchange market.

2. Unlike Budget surpluses, which are not known exactly in size, place of deposit, or mode of management, CBI's international reserves (balance of payments surpluses) are known in size, places of deposit, and mode of management. Furthermore, instead of keeping all reserves in the Federal Reserve Bank of New York, the CBI deposited important portions in other, especially European, central banks. Preservation of CBI independence, on the one hand, and sound parliamentary and professional monitoring, on the other, would also prevent misuse of the Reserves.
3. Notwithstanding restrictions relating to money laundering and other minor restrictions, foreign exchange regime in Iraq was characterised, in the beginning of 2011, as "generally [having] unrestricted current account ... and a significantly liberalized capital account".¹¹ Although still largely accurate characterisation, auction rules, since November/December 2011, must have imposed de facto restrictions on private sector's transactions in the two accounts; mainly through meeting ordinary rather than all demand. We think that present foreign exchange regime, as characterised above, is to be maintained in the future, subject to some provisos. A fixed-exchange-rate arrangement, in a balanced market, requires adequate oil revenues and international reserves. If oil prices plummet and/or international reserves fall below critical level, fixed-exchange-rate arrangement becomes unsustainable. The CBI may need, in this case, to revert to crawling-peg arrangement and at the same time impose stricter controls, largely on capital account. Furthermore, rules of meeting ordinary demand need to be

¹¹ 'Other restrictions' include the requirement to pay taxes due, debt, and outstanding obligations to government and official entities, before proceeding with foreign exchange transfers. See, IMF (2011) *Iraq: Second Review Under the Stand-By Arrangement*, Country Report No. 11/75, March, Washington, D.C.

continued, CBI independence maintained, and political and extralegal interferences stopped.

4. Foreign exchange auction has long lasted its purpose. Alternative arrangement is needed to serve foreign exchange demands of both public and private sectors. The depositing of all oil revenues in CBI instead of DFI will enhance such arrangement and make CBI the main provider of foreign exchange to the public sector. The lifting of UN Chapter VII's Sanctions will facilitate the new role.
5. Institutional set-up of the exchange market is in need of restructuring, especially in terms of management, procedures, monitoring, documentation, and data processing and assimilation. Restructuring can enhance the efficiency of the market and its transparency. Development of tools and set-ups to early identify imbalances and devising measures to overcome them, are necessary. Imports documentation needs to be streamlined to match actual with reported costs.

Conclusions

- i. Apparent rise in additional demand, during the ten months before October 2012, required increases in daily sales of foreign exchange, which could have been infeasible under auction rules. Furthermore, entrenched aversion to the working of freer exchange market, on the part of many politicians and public figures, might have deterred CBI, further, from providing proportional increase in supplies (sales). Therefore, the Bank was facing a dilemma that must have constrained its response.
- ii. Since the replacement of the Governor in October 2012, ensuing political and official statements have indicated that the position of government and important block in Council of Representatives seem to question the performance of CBI in foreign exchange auction and in handling international reserves. Charges relating to the auction have been expounded in recently published documents by BSA and a parliamentary committee. BSA's main finding, on volume of imports financed by auction sales, is, however, contestable as we show in Appendix (2), in PDF version, which throws doubts on charges based on it.
- iii. Previous attempt to subordinate the CBI (High Federal Court decision, January 2011), calls for improper use of its international reserves since the beginning of 2012, and in spite of accumulated budget surplus, previous calls for borrowing from the Bank, could all point at an intention to compromise the independence of the Bank. Therefore, there is a risk that international reserves might be handled in a non-transparent way, similar to that of the accumulated budget surplus.

Appendix (1)

Influencing Variables in Foreign Exchange Market

The state of foreign exchange market in Iraq is investigated, in this appendix, through the estimation of econometric relationship between variables, the interaction of which determines the state of the market. Data from CBI's daily foreign exchange auction, is used in the estimation, including, official (auction) and market rates of exchange and sales of US\$, for the period January 2009 to October 2012. Various mathematical forms were experimented with to obtain estimations with the best fit; i.e. R^2 and t -values. However, only those with the best results are reported below. Investigation covers the whole period of 2009-2012 as well as sub-period 2011-2012. Number of observations amounted to 924, representing auction days (i.e. excluding holidays) for the whole period and 440 for the sub-period.

Balance or equilibrium in the exchange market is defined as the state at which the percentage difference between the market and official rates (i.e. 'gap rate') does not exceed 0.7%-1.0%. If it exceeds the range by a high margin then the market is in disequilibrium.

Variables that determine the gap rate in the market are the same as those determining the market rate of exchange (noting that the official rate is fixed). They are, mainly, supply of and private sector's demand for foreign currency; US\$. The most important source of supply is auction sales; henceforth sales. Other sources include transfers from abroad and non-oil exports. Due to relative insignificance, we abstract other sources. Private sector's demand is satisfied in the market place through banks and money exchangers. Demand divides into two types; 'ordinary', which is derived from level of economic activity and income. The other type, non-ordinary, depends on such factors as speculation, hoarding, capital flight, etc. Anticipated political instability and insecurity, at the wake of American forces withdrawal, had motivated higher level of capital flight. So-called regional demand, emanating from armed conflict in Syria and sanctions on Iran, could have played a similar role.

Data on demand is not available; therefore, proxies are used instead. Demand (ordinary and non-ordinary) is represented by time trend. An 'additional' non-ordinary demand seems to have gained momentum since December 2011. It is represented by dummy variable. Therefore, during 2009-2011 demand is represented by time trend while in 2012 by time trend and dummy variable.

In the following, the best fit has been obtained when the relationship is formulated in double-log form and when the gap rate in a given day is influenced by sales seven days before.

2009-2012

$$(1) \ln(GAP_t) = -4.46 + 0.642 \ln(D) + 0.0012(t) - 0.083 \ln(SS_{t-7}), \quad R^2=0.91.$$

$$t\text{-value} \quad (-61.8) \quad (28.9) \quad (50.0) \quad (-5.6) \quad D-W=0.19.$$

$$t = 12 \text{ January } 2009\text{-} 31 \text{ October } 2012, \text{ daily}, \quad N=924.$$

$$D = \begin{cases} 1, & 12 \text{ January } 2009\text{-}30 \text{ November } 2011; 1\text{-}31 \text{ October}, 2012, \\ e, & 1 \text{ December } 2011\text{-}30 \text{ September } 2012. \end{cases}$$

2011-2012

$$(2) \ln(GAP_t) = -3.43 + 0.647 \ln(D) + 0.0011(t) - 0.11 \ln(SS_{t-7}), \quad R^2=0.83.$$

$$t\text{-value} \quad (-35.3) \quad (21.0) \quad (12.8) \quad (-5.5) \quad D-W=0.22.$$

$$t = 3 \text{ January } 2011\text{-} 31 \text{ October } 2012, \text{ daily}, \quad N=440.$$

$$D = \begin{cases} 1, & 3 \text{ January } 2011\text{-}30 \text{ November } 2011; 1\text{-}31 \text{ October}, 2012, \\ e, & 1 \text{ December } 2011\text{-}30 \text{ September } 2012. \end{cases}$$

Where,

GAP: gap rate, which is equal to percentage difference between market and official (auction) rates to official rate, measured in percentages.

SS: daily auction sales (supply) of US\$, measured in US\$ Millions.

D: dummy variable, representing additional demand.

e: natural logarithm base ($e=2.7183$).

N: number of observations.

Using D-W values, in CRDW test for co-integration, the test shows that both regressions (equations 1 & 2) are non-spurious.¹²

The response (elasticity) of the gap rate with respect to change in supply is low; at 0.083, 0.11, respectively, in equations (1) and (2), whereas, it is relatively high with respect to change in additional demand; at about 0.64 in both equations.

¹² Critical values for D-W in CRDW test are only available, in the literature, for $N=200$ and less. For number of variables of 4 (as in equations 1&2) and 5% significance, the following critical values apply: ($N=50, 1.05$), ($N=100, 0.58$), ($N=200, 0.3$). See, Verbeek, M. (2008) *A Guide to Modern Econometrics*, John Wiley & Sons Ltd, London, P. 330. From these associations, it is possible to extrapolate a critical value of 0.15 for $N=400$. For $N>400$ the critical value is even less. Accordingly, D-W in equations (1) and (2) is above this critical value; hence, their regressions are non-spurious. It is worth noting that in spurious regression, estimated coefficients are unreliable.

Let us now investigate the response of the gap rate to change in supply by posing the following question: to reduce the gap rate from 8.3%, as it was in April 2012, to 2.9% (as it turned-up in October) what is the required percentage increase in supply (auction sales)? By assuming all other variables constant, apart from gap rate and auction sales, and differentiating equation (2) we arrive at the following equation; which is an approximation as Δ is used instead of the differential operator:

$$(3) \quad \frac{\Delta S\$}{S\$} = \frac{1}{-0.11} \times \frac{\Delta GAP}{GAP} = -9 \frac{\Delta GAP}{GAP}$$

The required percentage change in supply should be nine times that in the percentage change in gap rate. To reduce the gap rate from 8.3% to 2.9%, substitution in equation (3) results in the following equation:

$$(4) \quad \frac{\Delta S\$}{S\$} = -9 \frac{(2.9\% - 8.3\%)}{8.3\%} = -9 \times -65\% = 585\%.$$

Auction sales, therefore, need to increase by 585%, i.e. from \$148 million daily, in April 2012 (table 1 in the text), to \$1,014 million daily in order to reduce the gap rate to 2.9% in May. Under auction rules, which are geared to satisfy ordinary demand, especially private imports, such increase is hardly feasible and might be politically unacceptable. This state of affairs signifies the limitation of supply increase to reduce the gap rate. In contrast, the higher elasticity of the gap with respect to additional demand indicates that reduction in demand is more effective.

Low elasticity with respect to supply, might explain inability to narrow down the gap in a shorter time, in 2012. First, actual increase in daily sales was below what was deemed adequate. Second, high additional demand appeared to have persisted for the best part of 2012 and only started to decline at the end of the third quarter. When it did decline, however, the gap rate fell rapidly. The lesson derived from the imbalance in 2012 is that when the exchange market confronts shocks it needs more effective tools to return to balance than only those in possession of CBI.

Econometric investigation, however, rests, mainly, on statistical associations and assumptions. Therefore, augmenting it with detailed investigation and economic analysis of the exchange market in 2012, especially for 'additional' demand and its components, is highly desirable.

Appendix (2)

Auction Sales and Private Sector's Imports

CBI's auction daily sales of US\$ to participating banks are intended to meet private sector's demand (mainly for importation). The banks re-supply the US\$ to individuals, companies, and money exchangers. Divergence between official and market rates in 2012 (table 1) has led many to raise questions about actual end-uses of auction sales. Claims were voiced that auction sales have not only been used to meet ordinary demand but also non-ordinary demand (speculation, hoarding, capital flight: so-called "smuggling", including money laundering, etc). Furthermore, it is contended that some participating banks and persons could have misused part of the auction sales through inflated/fictitious imports, profiteering (exploiting the difference between the exchange rates), etc.

The financing of private importation, which is considered the main target of auction sales, has been investigated by Board of Supreme Audit, BSA, in an official letter, dated 25/9/2012 (15 pages) addressed to the Chairman of House of Representatives.¹³

For a sample of \$2,298 million, which makes 11% of total auction sales during the first eight months of 2012, BSA tracked value of imports that have been financed by this amount. The database of General Commission of Customs (GCC) indicates that actual private imports amounted to \$22.5 million only, i.e. less than 1% of the sample value. Adding what has been imported via Kurdistan, \$393 million, the total amounts to \$415.5 million, which makes 18% only of the sample value.

Two points can be raised to doubt the accuracy of these figures. The first relates to incompleteness and the second to incomprehensiveness of GCC database. Incompleteness emanates from the fact that it takes very long time to collect all imports' documents in GCC database. Hence the very small amounts of imports in GCC database for 2012. Consequently, BSA's calculations imply that 94.6% (\$393 million out of \$415.5 million) of all private imports come through Kurdistan while all other parts in Iraq handle only 4.4% (\$22.5 million out of \$415.5 million), which is hardly realistic. Therefore, these shares themselves throw doubt on BSA's figures.

Furthermore, what also ascertain incompleteness are imports figures published by Central Organization of Statistics, COSIT, in its Annual Abstract of Statistics 2010/2011. In the estimation of COSIT figures, GCC database is also used. As the figures for 2010 and 2011 are not yet complete, let alone those of 2012, COSIT's latest figures are those of 2009. The figure for 2009 indicates that private sector's imports for 2009 made about 46% of auction sales in that

¹³ The letter was published on 7 November, 2012, in 'Al-Masalah' website: <http://www.almasalah.com>.

year, but was less than that in 2007 and 2008, table (2). However, although the percentage for 2009 is very different from that of BSA's sample (18%), its lower values for 2007 and 2008 also raise doubts about completeness of the figures in GCC database for 2007-2009 as well.

Table (2) Auction Sales and Private Sector's Imports

	Auction Sales \$Billion	Imports of Goods and Services by the Private Sector, \$Billion		Imports/Auction Sales %	
		Balance of Payments	Foreign Trade Statistics	Balance of Payments	Foreign Trade Statistics
2007	16.0	12.0	4.6	75	29
2008	25.4	16.8	2.2	66	9
2009	34.0	26.5	15.7	78	46
2010	36.3	32.7	N/A	90	
2011	39.8	34.9	N/A	88	

Sources:

Auction sales:

Central Bank of Iraq (2012) *Central Bank of Iraq Foreign Exchange Auction*, 2 November. http://www.cbi.iq/documents/CBI_FOREIGN_EXCHANGE_AUCTIONS.pdf.

Imports of private sector:

Balance of payments: Central Bank, Annual Statistical Bulletins 2007-2011.

Foreign trade statistics: Central Organization of Statistics, COSIT (2012) *Annual abstract of Statistics 2010/2011*, http://cosit.gov.iq/annual_abstract_of_statistics_ar.php.

Note: imports for 2004-2006 are not available in Annual Abstract of Statistics 2010/2011.

Second, even if imports documentation in GCC database is complete, experience in Iraq and other countries has indicated that imports as recorded in custom departments' databases are less than those recorded in the balance of payments. The discrepancy had been identified in Iraq since the 1970s and has not been resolved yet. It may also be relevant to cite an example from another country; Libya. Average value of imports from foreign trade statistics (which are derived from the database of the custom department) was 55% the value of imports in the balance of payments for the years 2003, 2006, and 2009.¹⁴

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¹⁴ Tables (4-1) and (4-4) in Merza, A. (2012) *Libya: Lost Opportunities and Renewed Hopes*, Arab Institute for Research and Publishing, AIRP, Beirut, August, in Arabic.