

“Iraqi Dinar’s Devaluation: Context and Near-term Outlook”

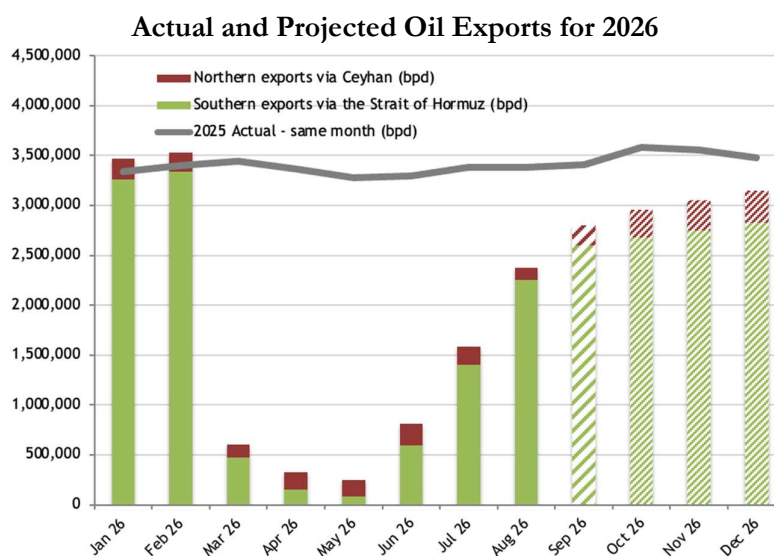
Ahmed Tabaqchali, October 20th, 2026

On October 7th, the Central Bank of Iraq (CBI) devalued the Iraqi dinar (IQD) by 13.3% against the U.S. dollar (USD), moving the official rate from 1,300 to 1,500 IQD per dollar – equivalent to a 15.4% rise in the dollar. The devaluation’s timing amplifies its effect: it increases the dinar value of the country’s oil revenues by 15.4% just as oil exports recover to 75% of pre-war levels and expectations for future oil prices shift higher – a combination that magnifies the boost to oil revenues and, through them, to the wider economy. This piece reviews the devaluation in context and considers the near-term outlook for government finances, the economy, and foreign reserves.

Oil Exports, Oil Revenues, and the 2026 Budget

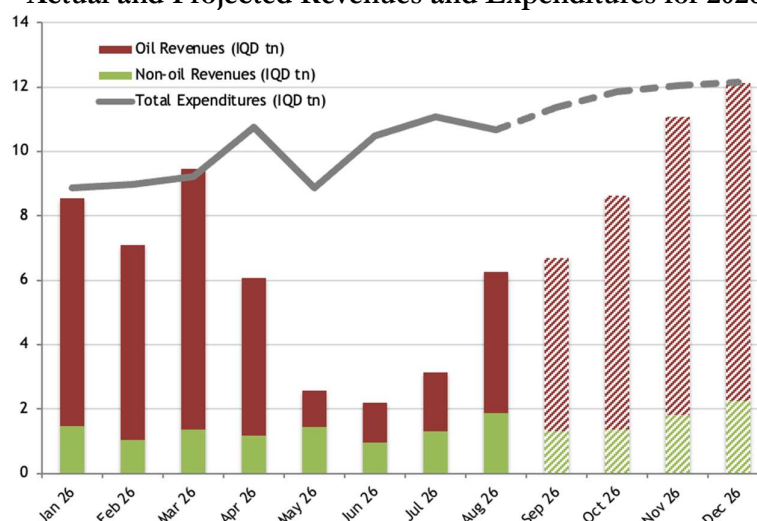
The closure of the Strait of Hormuz in early March, following the onset of the U.S.–Israel war on Iran, led to the effective shutdown of Iraq’s oil exports, 95% of which had passed through the Strait before the war. This could have had an immediate impact on the government’s ability to meet its expenditures, as about 90% of its revenues come from oil exports. This, in turn, could have hurt the wider economy, given the state’s outsized role, both through its provision of goods and services and through the public-sector payroll.

However, this initial loss of oil exports did not represent an immediate hit to oil revenues, which continued to flow into March–April, benefiting from the roughly two-month lag between oil exports and the receipt of their revenues. Nevertheless, the loss of oil exports in March–May translated into sharply lower oil revenues for May–July, with the beginning of oil export recovery in June reflected in the strong recovery of oil revenues in August (charts below). Oil exports continued to recover, reaching about 68% of pre-war levels in August and [75% in September](#), with preliminary reports suggesting that the momentum carried into early [October](#). This export recovery should begin to show in stronger oil revenues from September, with those for October–December benefiting further from the dinar’s devaluation. Somewhat mitigating the drop in oil revenues was the strong growth in non-oil revenues, up 24% in January–August versus the same period in 2025, which benefited from the implementation of a new automated customs tariff system at the end of 2025.



(Source: State Oil Marketing Organization for January–June and August; Iraq Oil Report for July and estimates for September; AFC Research projections for October–December*)

Actual and Projected Revenues and Expenditures for 2026



(Source: Ministry of Finance for January–August; AFC Research projections for September–December*)

The state's expenditures are dominated by rigid current expenditures – made up of public-sector salaries, pensions, social security, benefits, and subsidies – which, reflecting the country's political economy, are exceptionally difficult to reduce even when oil revenues decline below expenditures. As such, the prior government, and the current government in office since May, continued with the usual cash-management toolkit – employed by all prior governments when oil revenues fall below expenditures – such as ad hoc cost savings and accumulating arrears to third parties, including domestic contractors and International Oil Companies (IOCs), together with the freezing of all new capital and investment spending projects. Despite these measures, there was a gap between revenues and expenditures in 2025, which continued into 2026 (chart above), but which increased significantly in April–June, then began to narrow in August, and is projected to narrow further as the year comes to an end (table below).

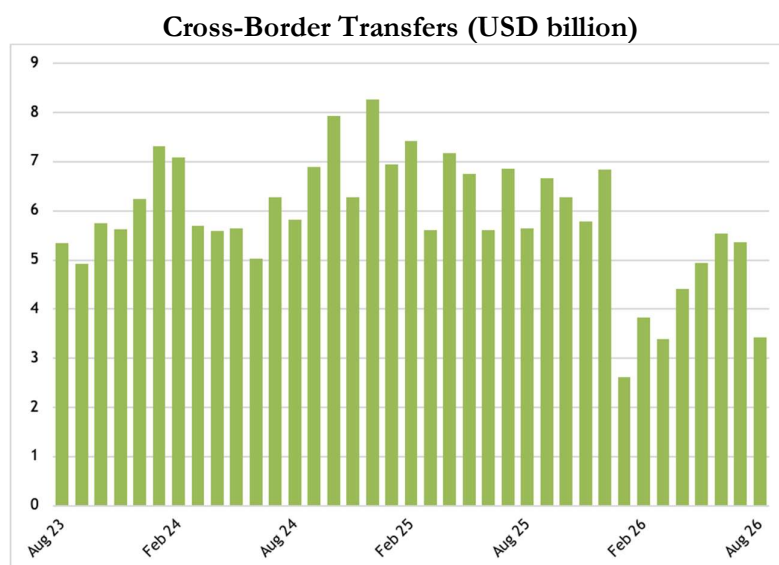
Actual and Projected Figures for the 2026 Budget

IQD tn	Current expenditures	Investment spending	Total Spending	Revenues	Oil Revenues	Non-Oil revenues	Deficit	Net new domestic debt	Domestic debt
January-August (actual)	75.8	3.1	78.9	45.4	34.7	10.6	-33.6	22.4	112.9
September-December (proj.)	41.4	6.0	47.4	38.5	31.8	6.7	-8.9	7.4	120.4
2026 Total (proj.)	117.2	9.2	126.4	83.9	66.5	17.4	-42.5	29.9	120.4
2025 (actual)	119.2	22.1	141.2	124.2	109.2	15.0	-17.0	7.5	90.5

(Source: Ministry of Finance for January–August; Central Bank of Iraq for domestic debt to July, August estimated; AFC Research projections for September–December*)

Foreign Reserves and the Exchange Rate

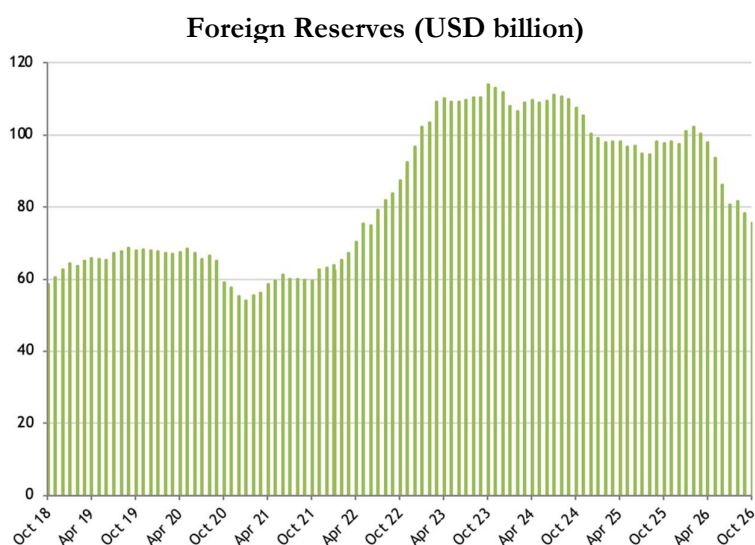
The government's continued spending, in particular its current expenditures, sustained domestic consumption, which in turn sustained the demand for imports. Surprisingly, this demand was relatively strong in the context of the disruptions brought by the closure of the Strait of Hormuz, as reflected in cross-border transfers (chart below), which are mostly used to pay for imports and are thus a proxy for domestic consumption. The [application](#) of the new automated customs tariff system at the end of 2025 had an initial depressing effect on demand, as reflected in the sharp drop in January, but demand recovered in subsequent months, with the drop in August being a function of new CBI procedures that constrained transfers.



(Source: Central Bank of Iraq, data as of the end of August)

The continued drawdowns of foreign reserves to meet demand for cross-border transfers, not replenished by the conversion of oil revenues from dollars into dinars, led to a sharp decline in reserves, which by the end of September were down 23% from the levels at the end of 2025.[†] However, current levels are healthy, comfortably supporting at least 12 months of imports,[‡] and are much higher than those that prevailed prior to the 18.5% devaluation in December 2020. As such, the current decision to devalue the dinar was a proactive one, buying the government time to decide on fiscal reforms, which is in sharp contrast to the historic head-in-the-sand stance of the country’s political elite during periods of crisis.

In the near term, the pressures on foreign reserves should ease substantially, as reserves should be replenished by the conversion of increased oil revenues in October–December into dinars, while demand for cross-border transfers should be dampened somewhat by the effects of the dinar’s devaluation on domestic consumption.



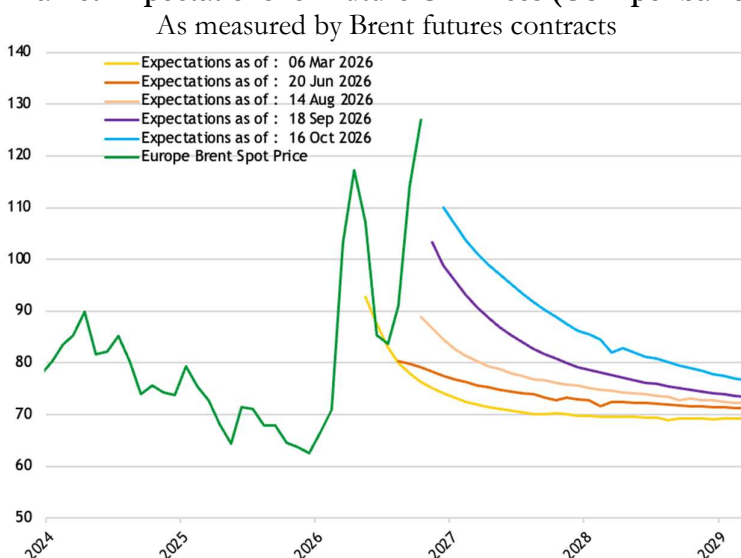
(Source: Central Bank of Iraq, data as of the end of September)

Near-term Outlook

The near-term outlook for government finances, the economy, and foreign reserves is highly dependent on the continuation of the recovery in oil exports and on the continuation of the pause in the tit-for-tat attacks between the U.S. and Iran. While a few strong oil export months do not make a trend, especially in this highly fluid and dangerous period, current market expectations for future oil prices, as measured by Brent futures contracts, promise a measure of stability for all three.

Expectations for future oil prices following the collapse of the [Islamabad Memorandum of Understanding](#) have consistently shifted higher, suggesting an acceptance that the current pause in the tit-for-tat attacks between the U.S. and Iran is evolving into a surreal new normal of no-war/no-peace (chart below).

Market Expectations for Future Oil Prices (USD per barrel)



(Source: U.S. Energy Information Administration, *investing.com*, AFC Research, data as of October 16th)

As such, the combination of likely higher near-term oil prices, continued strong oil export recovery, and the 13.3% devaluation of the dinar would substantially improve the government's financial position for the year (budget table) and provide a measure of stability for the economy and foreign reserves – although reserves would still trend lower, albeit at a much slower rate.

The three positives of higher oil prices, continued strong oil export recovery, and the 13.3% devaluation of the dinar, while necessary, are not sufficient to sustain economic stability without addressing the budget's structural imbalances of rigid expenditures and revenue volatility. Nevertheless, they have provided the government with breathing space to decide on fiscal reforms, in particular those that could come with an International Monetary Fund (IMF) programme, such as the Stand-By Arrangement (SBA) signed in 2016, or, better still, the more substantial Extended Fund Facility (EFF). Any IMF programme would face extreme resistance from the public and the political elite, who together rejected the White Paper for Economic Reform, which came in response to the financial crisis of 2020 and aimed to address the economy's structural imbalances.[§] That said, the continued need for debt to augment oil revenues, irrespective of the future direction of oil prices, requires the issuance of foreign debt in the form of Eurobonds, which would not come without an IMF programme, to supplement domestic debt – as the issuance of domestic debt on its own will continue the pressure on foreign reserves, while foreign debt will increase them.

Despite domestic resistance to an IMF programme, the proactive decision to devalue the dinar – breaking the historic head-in-the-sand pattern – signals the seriousness of the government's tentative engagement with the Fund over recent months. That engagement has since solidified: at the close of the IMF–World

Bank Annual Meetings in Bangkok on October 17th, the IMF's Managing Director [confirmed](#) that the authorities had requested a programme, pledging “both money and policy support”.

While such an engagement would likely take many months to conclude, the three positives outlined above have opened a window of up to a year for these discussions, as can be seen from the near-term implications of Brent crude prices under the assumption of continued oil export recovery. Current expectations imply an average Brent price of USD 92.5 per barrel (USD/bbl) for 2026, a projected average of USD 95.1/bbl for 2027, and USD 81.2/bbl for 2028, which, for Iraq under the current assumption of no-war/no-peace, means realised prices about USD 32/bbl below Brent for the balance of 2026 and for 2027–2028. Assuming expenditures over the next two years are in line with those projected for 2026, this suggests that the budget's deficit for 2027 could be better than that of 2026, but that the deficit for 2028 could be worse. In the short term, this would allow domestic debt to fund the deficit without significantly eroding reserves, while in the medium term foreign debt would be needed – all of which support the conclusion of an IMF programme.

Notes

* Methodology: Projections for oil exports assume incremental month-on-month increases from September's estimated levels. Blended oil prices for southern oil exports assume a discount of USD 32 per barrel (USD/bbl) to Brent crude prices, while northern oil exports assume a discount of USD 5/bbl to Brent (September reflects actual Brent spot prices; December reflects futures prices as of October 16th; October and November are interpolated between the two). Budget oil revenues are derived from projected export receipts ($0.44 \times \text{current month} + 0.56 \times \text{two months earlier}$), less a 15% haircut, and converted at 1,461 IQD/USD in October and 1,500 IQD/USD in November–December. Projected non-oil revenues assume full-year growth of 16%, down from 24% year-on-year in January–August. Projected expenditures assume continued cost controls; each month's projected expenditures are based on the average of the preceding three months and include oil capital expenditures (15% of oil revenues), which were minimal in January–August.

† Reserves are created when the Ministry of Finance (MoF) converts its dollar oil revenues into dinars: the Central Bank of Iraq (CBI) buys the dollars from the MoF and sells it the equivalent in dinars. Cross-border transfers, on the other hand, are the reverse transaction: the private sector, through the banks, sells dinars to the CBI and buys dollars from its reserves. Reserves therefore increase when the CBI buys more dollars from the MoF than it sells to the private sector, and decline when it sells more than it buys. See: (1) Ahmed Tabaqchali, “A Fistful of Dinars: Demystifying Iraq's Dollar Auction,” *LSE Middle East Centre*, April 18th, 2024, pp. 7–11, <https://researchonline.lse.ac.uk/id/eprint/122652/>; (2) Ahmed Tabaqchali, “The Empire Strikes Back: Trump 2.0 and Iraq's Dollar Accounts at the Federal Reserve,” *LSE Middle East Centre Blog*, March 4th, 2025, <https://blogs.lse.ac.uk/mec/2025/03/04/the-empire-strikes-back-trump-2-0-iraqs-dollar-accounts-at-the-federal-reserve/>.

‡ Reserves as of the end of September, divided by the 18-month average of cross-border transfers, would cover at least 12 months of transfers. A CBI official at the MERI Forum in Erbil on October 13th stated that reserves cover Iraq's imports for a year or more. See: Al-Mada, “Central Bank: Our Foreign Reserves Cover Iraq's Imports for a Full Year or More” (in Arabic), October 14th, <https://almadapaper.net/456706/>.

§ Ahmed Tabaqchali, “Missed Opportunities for Economic Reform,” in *Iraq 20 Years On: Insider Reflections on the War and Its Aftermath*, Chatham House, May 4th, 2023, <https://www.chathamhouse.org/2023/03/iraq-20-years-insider-reflections-war-and-its-aftermath/missed-opportunities-economic>.

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