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The US Holds Iraq Hostage with the Dollar

Since 2003, Iraq is required to send all its oil revenues to a single US bank account. Washington is now weaponizing Baghdad's own dollars against Iraq, by devaluing its currency and hindering payments.

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In an effort to combat rampant corruption in Iraq, the US has implemented several strict measures, including sanctions on Iraqi banks and the rationing of dollars. Rather than dissuade smuggling and fraud, the measures are only exacerbating Iraq's economic crisis.

With every fluctuation in the exchange rate of the Iraqi dinar against the dollar, the political and social situation in the country becomes increasingly complex. The same country that managed to beat back ISIS and color revolutions, today is witnessing turmoil caused by the US.

The US Federal Reserve has imposed strict measures on Iraqi banks under the pretexts of preventing smuggling and money laundering. This prompted the US Treasury Department to ration the dollar payments to Baghdad from Iraq's own oil revenues, causing the Iraqi national currency to decline from 1,460 (the official rate) to 1,640 dinars overnight.

Implementing US policies

The financial situation is further complicated by the ambiguity of the Iraqi government and the Central Bank over these US measures, which came into effect in late 2022.

Iraq's Central Bank Governor **Mustafa al-Jubouri** appears to be convinced uncertain policy that saved him two years ago – when former **Prime Minister Mustafa al-Kadhimi**'s government raised the official exchange rate for the dollar from 1,182 dinars to 1,460 dinars – will save him again.

Jubouri is handling the current crisis in a cold and calculated manner, constantly reminding Iraqis of the increase in the Central Bank's dollar reserves – now said to exceed $100 billion – as though it was his personal achievement, and the reason he was named governor years ago.

However, there are some vitally important details that Jubouri chooses to ignore. The Central Bank governor, for instance, has stated that Iraq is implementing the recommendations of the Financial Action Task Force (FATF) – despite the fact that Iraq is *not* a member of this group.

Jubouri deliberately confuses the aforementioned US group with Iraq's membership in the Gulf Financial Action Task Force (MENAFATF), which is "of a voluntary and cooperative nature, established by agreement between the governments of its members, and it is independent of any other international body or organization."

Since 2018, FATF has removed Iraq from the special monitoring process known as the "Continuous Global Compliance Process to Combat Money Laundering and Terrorist Financing," after Baghdad's approval of the Anti-Money Laundering and Terrorist Financing Law.

Despite not being a member of FATF, Iraq has implemented its recommendations to establish an electronic platform for selling dollars linked to the global SWIFT system, the Belgian-based banking messaging system that ties countries to the distinctly western financial system.

According to experts, this platform will be, in the long term, an alternative to the legally stipulated window for selling currency, and is almost completely outside the control of the Iraqi government.

Sanctioning Iraqi banks

The recent crisis began with the imposition of sanctions by the US Treasury Department on three Iraqi banks owned by businessman Ali Muhammad Ghulam al-Ansari, followed by sanctions on 16 further Iraqi banks. Another 23 banks remained operating as clients of the currency window in the Central Bank.

This sudden measure caused a decrease in the central bank's sales of dollars by about 40 percent, which led to a decline in supply and a surge in demand, resulting in an increase in the price of the dollar to more than 1,550 dinars.

But this is not the whole story. Sources within Iraq's Central Bank have confirmed to *The Cradle* that Baghdad had been informed of the US Treasury's procedures two years ago, but the Kadhimi government and Jubouri chose to ignore them, with the US turning a blind eye due to the special relationship that linked the previous government with Washington.

These sources have also revealed that last July, the US Treasury Department invited the Association of Private Banks, headed by Wadih al-Handal (close to the UAE) and his deputy Tamkeen al-Hasnawi (close to the Sadrist movement) to a training workshop on electronic platform procedures that was held in Istanbul.

Notably, the ministry excluded from the invitation those banks that "happened" to be recently sanctioned.

Crippling the economy

A senior Iraqi official revealed to *The Cradle* that a series of meetings were held in the fourth quarter of 2022 in Amman, Jordan between the Central Bank of Iraq and the US Treasury, during which the latter submitted documents showing clear operations of smuggling of dollars outside of Iraq.

Among the documents submitted by the Americans was evidence of “importing one million refrigerators, at a price of $4,000 each” through Sulaymaniyah – an exaggerated price, given that the Iraqi market does not demand a huge quantity of this durable commodity. The US Treasury alleges that the document was forged and that its intent was instead to obtain a large amount of US dollars illicitly.

A member of the Iraqi parliament’s Finance Committee, who declined to be named, explained to *The Cradle* that the US Treasury had previously followed a particular schedule in providing Baghdad with dollars – sending $2.5 billion every three months that were transported by five planes.

Since 2018, these funds have begun to feature traceable serial numbers. During the Amman meetings, the US Treasury informed Iraq’s Central Bank that quantities of these dollars were being monitored in a number of regional countries, after their exit from Iraq through the UAE.

Consequently, Washington moved to reduce its dollar transfers by almost half, and to slow down most financial transfer procedures from Iraq – now taking about 15 days to complete – which have paralyzed the Iraqi market and surprised the Baghdad government.

Note that the dollars being transferred to Iraq consist of *Iraqi funds* deposited in US banks.

A source close to the Central Bank governor, who declined to be named, told *The Cradle Arabi* that these measures are aimed at preventing the smuggling of dollars to Iran, Syria, and Lebanon.

He reveals that the Central Bank verbally instructed Iraqi commercial banks not to sell dollars to travelers to the three countries. The source adds that the latest development – per US instructions – is to prevent the transfer of dollars from Iraq to Lebanon, even through tourists.

It is important to note that, for years, Iraq has required banks to sell up to $ 5,000 in cash to travelers, providing they produce an entry visa and airline ticket to their destination country.

Why does the US control Iraq’s dollars?

Iraqi financial sources point to the main dilemma: Since 2003, all Iraqi oil revenues have been paid into an account with the US Federal Reserve. Although Iraqis formed a sovereign government after the US invasion and occupation of their state, Iraq is still restricted from opening accounts for its oil earnings outside the United States.

This dilemma is causing an additional problem for Iraq. Its Central Bank funds are deposited in multiple accounts – amounting to about $ 99 billion (November 2022 figures), deposited in central banks in a number of countries ($ 13.8 billion), in securities ($ 52.8 billion), in international banks ($ 8.15 billion), in addition to about $ 7.3 billion in physical gold in Iraq and abroad.

Washington, given its dominance of the global financial system, has the ability to control all funds of Iraq's Central Bank through threats or sanctions, even though these funds are not deposited exclusively in US banks.

But Iraq's oil funds, which due to the 2022 global oil price hike also amount to more than $ 90 billion, remain – contrary to any economic, financial, or even accounting principle – in one account in the United States of America.

These funds belong to the Iraqi state and are controlled by the country's Ministry of Finance, not by the Central Bank. This reality gives Washington greater control over the movement of foreign exchange in Iraq, without even being at the political table in Baghdad.

An Iraqi economic analyst says that successive governments are still subject to the decision of the "first American ruler of Iraq after the occupation," Paul Bremer, and no one has thought of diversifying the risks by depositing oil money in various banks around the world instead of keeping it in a single US account.

With Washington's unchallenged ability to control the dollar in Iraq – and thus the value of the Iraqi dinar – even prominent Saudi daily *Asharq Al-Awsat* published an article in December blaming US political diktats for the recent deterioration of the Iraqi dinar.

Entitled *The Iraqi dinar is reeling under the pressure of US measures against "laundry" banks*, the article – in a newspaper owned by Saudi royals – writes:

> "The crisis began even before the implementation of the new financial system in the [Iraq's] central bank, when the Americans told Sudani's government that the rise of the influence of the political wing close to Tehran in state institutions should not reach political financial institutions, along with sensitive security agencies such as the intelligence services."

No one in Iraq and abroad denied what was published in the Saudi paper. It is hard to conclude that the recent deterioration of Iraqi dinar is due to any other factor than this American political decision.

Yet, even today, not a single Iraqi official has emerged to call for linking the dinar to a basket of currencies – something that would protect Iraq from the dollar weapon. Nor has a single Iraqi official challenged the danger of Iraqi oil revenues being paid into a solitary account in the United States, based on a decision issued when US troops occupied Iraq.

The case of Iraq provides concrete evidence that dollar dependence is detrimental to a country's economy and monetary policies – particularly one that is heavily reliant on energy exports. For Iraq, which has a history of political instability and economic challenges, the arguments for diversifying its trade and adopting alternative currencies are more compelling than ever.

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