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By *mark.gimein*

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Why investing in Iraq's currency is a terrible idea.

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I first learned of the trade in Iraqi dinars when I got an e-mail from a woman who was looking for a story I'd written years ago about trading in foreign currencies. She was wondering whether I thought the can't-lose opportunity she'd heard about in the currency of the not-quite-51st-state was really as good as it sounded. I told her that I actually didn't know you could invest in dinars at all. And then I started looking at how to go about it.

You can look through major news sources forever and find no mention of the Great Dinar Opportunity, but start Googling a bit, and you instantly find what looks like an endless dinar-trading underground, part of the great hidden river of shady investment schemes that bubbles underneath the "real" markets. There's a network of at least dozens, and probably hundreds, of companies and Web sites devoted to charting, analyzing, and promoting dinar investments-but, most of all, trying to *sell* you Iraqi dinars.

We're not going to do these guys the favor of linking to them. If you want to seek them out, you can Google away on your own. The basic pitch goes like this: At the conclusion of the Kuwait war, the *Kuwaiti* dinar traded at just a few cents. Now it's gone up 20 times in value. So as Iraq, which holds the world's third-biggest oil reserves, restores its infrastructure and gets its economy back on sound footing, we can expect the same. Oh, and in the last two years, the value of the Iraqi dinar has gone up a solid 25 percent. Not too bad, considering how the market's done, right? All this civil-war stuff will blow over eventually, and then there are the billions of dollars in oil surpluses the Iraqi government has built up and that Barack Obama talks about.

If this sounds good to you, keep looking, because the key problem with "investing" in Iraqi dinars lies in what you *won't* find on all the sites devoted to this great new investment. Many, many companies will offer to sell you dinars in amounts ranging from a single 25,000 dinar note to bundles of many millions. But awfully few are interested in *buying* your dinars.

In theory, the Iraqi dinar right now is trading at around 1,176 to the dollar (we'll get to what that means in a second). That's a rate you'll find quoted on some of the dinar-trading sites-but it's not the rate you'll pay. For 1 million dinars, you'll pay anywhere from \$949 (hey, that includes shipping) [to \\$1,194](#) [3]. That second number might *sound* awfully close to the exchange rate-but watch out! It actually comes out to just 838 dinars to the dollar and means that if you decide to buy dinars today and change your mind and want to change them back to

dollars an hour later, you'll have already lost 30 percent of your money.

If, that is, you can actually find someone to buy your notes. You can spend a while looking for a buyer online, and if you do find one, you'll pay more in exchange fees, and they'll want only uncirculated bills, so you'd better not handle your dinars too much. Oh, and by the way, FedEx won't insure your package of Iraqi currency (read the fine print on that form), but what the heck, it'll probably get there anyhow. There is one little bit of upside: Some of the folks who buy and sell dinars will let you [trade them in for Vietnamese dong notes](#) [4]. So if you've developed an exotic-currency addiction, you're all set.

But if your aim is to actually end up with more *dollars* than you started with, good luck. While the Iraqi dinar is a freely floating currency, with the exchange rate set by supply and demand, there is in fact only one major source of demand for dinars. That is, believe it or not, the [Central Bank of Iraq](#) [5]. The Iraqi government takes in oil revenues in dollars. It pays its expenses, like salaries, which seem to actually be getting paid these days, in dinars. So every day, the government of Iraq holds an auction—technically, a [reverse auction](#) [6]—in which it buys dinars for dollars, seeking to get the best possible price. That's where the current exchange rate of 1,176 dinars to the dollar comes from. It's how much the Iraqi government is paying to buy dinars.

One piece of bad news: To participate in this auction, you need to be an Iraqi bank. If you're just an individual "investor," you're out of luck. This, by the way, is the point at which the conventional news story delves into whether or not it's legal to bring large sums of currency into Iraq if the mood hits you to go to Baghdad and try to buy or sell some dinars there. We'll skip that part, because that mood *will not hit you*, and if it does, you have far bigger sanity issues than an article like this could possibly address.

The worse news, though, is on the other side of the equation. Surprisingly, the Central Bank of Iraq's Web site is a model of utilitarian simplicity. If you're asking questions like, "Is there also an auction at which the government offers to *sell* dinars for dollars?" or "How many banks are lining up to buy dinars from the government of Iraq?" you can find the answers in about two minutes. They are: "Yes, the government will also sell dinars" and "The number of buyers is zero." Track the auctions for a few days, and you'll find a very simple pattern. Every day the government [trades millions of dollars for dinars](#) [5]. And every day the government offers to sell dinars to the banks and finds no takers.

Like much of the Arab world, and very much unlike the new Iraq that was hoped for, Iraq is a quasi-centralized economy, with the government making up a huge part of the economy. The market in dinars, while free in principle, is actually a pseudo market, with the needs of one big buyer setting the price. It'll be that way for a long time. If you want an on-the-ground view of whether the Iraqi dinar is a great deal, look to the Iraqis themselves.

In addition to the dollars-for-dinars auctions, the Iraqi government also conducts a regular auction of dinar-denominated bonds. You can think of this auction as a kind of referendum on how safe the local banks think their currency is—it's the interest they can get from the government if they keep their money in dinars. The more risk they see, the higher the return they'll demand. And right now those bonds are paying a junk-bondlike [yield of 16 percent](#) [5]. If you see an offer to buy Iraqi dinars and think it might not be a bad thing to stash some under your mattress, think about that. They will likely stay under the mattress for a while.

From the point of view of the Iraqi government, that might be a good thing. Governments love collectors of coins and bills—they prop up currencies and subsidize the local economy. Buying dinar notes and stashing them in your cupboard is like importing Iraqi-made goods that cost nothing to produce. So if it makes you happy, you can buy dinars in bulk and do your part to help support the rebuilding of Iraq. But, then again, your tax dollars are doing

that already.

Author:

[Mark Gimein](#) [7]

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