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## The effectiveness of the Iraqi security strategy in light of banking indicators For the period (2004-2020)

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**Abstract :** The issue of the effectiveness of the banking system is one of the important things in improving the performance of the banking system as a sensitive tool that has positive effects that the best use of its indicators, and therefore the indicators of the banking system can basically evaluate the development of the banking sector, and in Iraq the banking system has special importance, especially after the economic transformation of the country yet In 2003, due to its medieval role between economic units with surplus and economic units with deficit by granting loans and banking facilities for these units, and that came the research to focus on the role and importance of the banking system and clarify the factors affecting it and analyze the trends of the Iraqi banking system in light of some banking indicators in Iraq during Duration (2004–2020), and a set of results were reached, the most important of which is the effectiveness of the Iraqi banking system in most of its indicators, especially the inability of small banks to compete and undermine their role in activating the activity of the private sector.

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**Keywords** - Iraq, banking system, central bank, commercial banks, banking depth.

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### I. INTRODUCTION (11 BOLD)

The issue of the effectiveness of the banking system is one of the important matters in improving the performance of the banking system as it is a sensitive tool that has positive effects if its indicators are best used. This device can achieve the largest part of the profits, and without it banks lose their role as a financial intermediary.

As the importance of the banking system as a banking activity is very important as an attractive tool for managing commercial banks in particular.

Accordingly, the indicators of the banking system can be evaluated on the basis of the development of the banking sector, and in Iraq the banking system has received special importance, especially after the economic transformation of the country after 2003

Due to its mediating role between the surplus economic units and the deficit economic units by granting loans and banking facilities to these units.

research importance.

The importance of research stems from describing the banking system in Iraq as one of the important and vital topics through which it influences the macroeconomic variables, as the Iraqi banking sector, through its credit tools, plays a role in stimulating economic growth due to the credit facilities provided by commercial banks to the private and public sectors to build investment.

## **II. RESEARCH PROBLEM.**

The research problem lies in identifying the effectiveness of the banking system during the period (2004–2020), and it is manifested in the following question:

What is the size of the banking system and its effectiveness in Iraq for the period (2004–2020)?

## **III. RESEARCH AIMS**

1. Identifying the role and importance of the banking system and the factors affecting it during the period (2004–2020).

2. Analysis of the trends of the Iraqi banking system in the light of some banking indicators during the period (2004–2020)

## **IV. RESEARCH HYPOTHESIS**

The research adopts a hypothesis that: there is a positive development in the indicators of the effectiveness of the banking system in Iraq during the period (2004–2020).

## **V. RESEARCH METHODOLOGY.**

The research depends on the deductive approach based on the extrapolation of reality and the analysis of data descriptively through the analysis of indicators of the effectiveness of the banking system in Iraq during the period (2004–2020).

## **VI. RESEARCH STRUCTURE.**

In order to achieve the objectives of the research and verify its hypothesis, it was divided into two main sections, with a conclusion to the most important conclusions and recommendations, as follows:

## **VII. THE FIRST TOPIC**

**The emergence and development of the Iraqi banking system**

The opening of the first branch of the Ottoman Bank in 1980 in Iraq, and the first practice of Iraqi banking activity, followed by the establishment of the Eastern Bank branch in Baghdad in 1912, the British Bank for the Middle East, the Shahanshahi Bank of Iran in 1916, the Arab Jordan Bank in 1938, and then the establishment of the Agricultural and Industrial Bank in 1935 <sup>(1)</sup> as well as the establishment of the first commercial bank in the name of Rafidain Bank in 1935 with Iraqi capital, <sup>(2)</sup> The first branch of the Arab Bank was also established in Baghdad in 1938 based on customary banking until the appearance of the first legislation with a law on bank control in 1938, and it can be Considering this stage as the beginning of institutional banking work in Iraq, then it was followed by the issuance of a law amending the previous law No. 45 of 1939, and on this basis these banks and their branches in Iraqi cities were monopolized modern banking operations such as granting credit, selling commercial and financial papers and opening credits to merchants as well as buying and selling Foreign currencies <sup>(3)</sup> Some banking developments occurred at this stage that led to the establishment of the Central Bank of Iraq in 1947

With a capital of 5 million Iraqi dinars, as well as the nationalization of private banks in 1964, followed by the establishment of Al-Rasheed Bank in 1988 <sup>(4)</sup>

The financial and banking sector in Iraq, especially after 2003, has witnessed important developments in light of the openness to the outside world, and new markets have been established in different geographical locations <sup>(5)</sup>, and it is possible to give a summary of the components of the Iraqi banking system with the following:

Or not.

#### **First: Central Bank of Iraq.**

With the establishment of the Central Bank of Iraq in 1947, Iraq entered an era of its economic history and then a new phase after the issuance of Law No. (64) of 1976, as the bank developed a credit plan, followed up on its implementation, ensured the stability of the Iraqi currency and contributed to accelerating economic growth, and the bank became the government's advisor in matters of Banking, finance and economy, and the only body authorized to issue currency in Iraq as well as to monitor external transfer<sup>(6)</sup>, and it is responsible for implementing the monetary policy of the country, issuing currency, managing the cash reserve, and annual supervision of credit as well as organizing and supervising private banks and maintaining the money supply<sup>(7)</sup> .

#### **secondly. commercial banks:**

Commercial banks are one of the mainstays in building the economic structure of the country <sup>(8)</sup>, and their main function is to accept current, savings and term deposits from individuals, projects and public administrations. The number of Iraqi commercial banks before the nationalization decision in 1964 was eleven, and 50% of the total commercial banks operating in Iraq are owned by non-Iraqis, and they control not a small percentage of individuals' deposits and transfer most of their profits to their parent

banks abroad, but after The nationalization decision p. The ownership of banks was transferred to the state, until the number of commercial banks operating in Iraq reached (31) banks, (4) of which are governmental, and (27) private banks.

### **Third. Islamic banks**

The number of Islamic banks in Iraq increased to reach in 2016 about (15) banks distributed over all Iraqi governorates to constitute (23.07%) of the total banks operating in Iraq<sup>(9)</sup>. It was the first Iraqi private Islamic bank established in 1993 for investment and development, while the first bank was established Islamic government in 2015, named Al-Nahrain Bank.<sup>(10)</sup>

### **Fourthly: Specialized banks.**

They are those banks that serve specific activities such as industrial, agricultural or real estate activity without allowing the acceptance of demand deposits, as is the case with commercial banks, and they practice medium and long-term credit operations, and their activity is limited to achieving development goals such as financing agricultural activities, industrial activities, export development, or To achieve social goals such as housing financing, and governments contribute a high percentage to the capital of these banks <sup>(11)</sup>.

As for the components of the banking system in Iraq, it consisted of (69) banks until 2017, and in 2018, the number of banks increased to reach (71) banks, and also the number of banks increased in 2019, but in the year 2020, despite the world facing a virus (COVID-19) in general and Iraq in particular, but this did not prevent the expansion of granting specials to new banks, as the number of operating banks became (76) banks, including (7) government banks that include (3) specialized banks and (3) banks commercial and Islamic banks), while the number of private banks reached (69) banks, including (24) local commercial banks, (27) local Islamic banks, (2) two foreign Islamic banks, and (16) foreign commercial banks) as shown in the chart ( 1). It is noticeable that the largest share in terms of the number of banks is for private banks, reaching nearly (90.7%) and the rest for government banks (9.3%), as the percentage of commercial banks is equivalent to (56.5%), followed by Islamic banks with a percentage of (39.5%). Then the banks are specialized with (4%) of the total banks operating in Iraq <sup>(12)</sup>

## **The second topic**

### **The effectiveness of the Iraqi banking system in the light of some indicators**

The effectiveness of the Iraqi banking system can be studied by analyzing some indicators, as follows:

**First: The size of the banking system**

It can be obtained through the ratio of the total assets of the banking system to the gross domestic product, and this indicator is related to the effectiveness of the banking system<sup>(13)</sup>.

It is clear from Table (1) that the ratio of the indicator during the period (2004–2020) was subject to changes in both the gross domestic product and the volume of banking assets. The ratio was high during the period (2004–2010), as it ranged between 195.6% in 2008 and 313.3 % in 2004, and this means that the rate of increase in the volume of assets was higher than in the GDP, and in view of the trend of the gross domestic product to increase from 162,065 billion dinars in 2010 to 219,769 billion dinars in 2020, which is growing at a greater rate than the increase in the volume of banking assets, which This led to a decline in the index’s ratio from 224.2% in 2010 to 63% in 2010, and by achieving an average of the mentioned ratio, it amounted to about 139.2% for the whole period (2004–2020). Despite that decline, the ratio is good and indicates the effectiveness of the banking system and its ability to increase credit. .

Table (1)

Indicators (assets, deposits, and cash credit) to GDP in Iraq for the period (2004–2020)

billion dinars/percentage

Year	GDP	Banking Assets	Bank Deposits Total	Bank Cash Credit	Banking Assets/GDP %	Total Bank Deposits/GDP %	Bank Cash Credit/GDP %
2004	53235	166801	8620	825	313.3	16.2	1.5
2005	73534	213203	10770	1717	289.9	14.6	2.3
2006	95588	253454	16928	2665	265.2	17.7	2.8
2007	111456	282180	26189	3459	253.2	23.5	3.1
2008	157026	307195	34525	4596	195.6	22	2.9
2009	130643	334236	38583	5690	255.8	29.5	4.4
2010	162065	363360	47947	11722	224.2	29.6	7.2

2011	217327	143878	56157	20353	66.2	25.8	9.4
2012	254226	128200	62006	28439	50.4	24.4	11.2
2013	273588	142140	68855	29952	52	25.2	10.9
2014	266333	150207	74073	34123	56.4	27.8	12.8
2015	194681	136234	64344	36753	70	33.1	18.9
2016	196924	132614	62399	37180	67.3	31.7	18.9
2017	221666	111285	67049	37953	50.2	30.2	17.1
2018	268919	122995	76894	38487	45.7	28.6	14.3
2019	276158	133090	82106	42053	48.2	29.7	15.2
2020	219769	138469	84924	49818	63	38.6	22.7
Average					139.2	26.4	10.3

Source: Prepared by the researcher based on:

1. Ministry of Planning and Development Cooperation, Central Agency for Statistics and Information Technology, Directorate of National Accounts, GDP reports for different years
2. The Central Bank of Iraq, the General Directorate of Statistics and Research, various annual bulletins.

### **Second: Banking depth**

It can be obtained through the ratio of bank cash credit to the gross domestic product. The higher the ratio of the indicator, it indicates the effectiveness of the banking system and thus contribute directly to economic activity <sup>(14)</sup>, as it is clear from the previous table (1) that the ratio of the banking depth index was in An increasing situation during the period (2004–2020), especially during the years (2004–2016), after it reached about 1.5% in 2004, it increased to reach 18.9% in 2016 and then decreased to reach 15.2% in 2019 and then increased to reach 22.7% in 2020 With an average contribution of about 10.3% for the whole period under consideration, as the improvement in the index ratio after 2012 and reaching 22.7% in 2020 is no longer a good percentage, but rather a negative indicator in the contribution of the banking system towards financing economic activity, especially if compared with other countries. Which far exceeded the global ratio, which indicates the weakness of the effectiveness of the banking system <sup>(15)</sup>

### **Third: The index of total deposits to GDP.**

It is often called the average tendency of deposits, as it can be obtained through the ratio of total bank deposits, which represent as a whole of fixed, current and savings deposits to the gross domestic product, and it reflects the extent of the ability of commercial banks and their ability to attract deposits, as its high is an indication of the effectiveness of the banking system, It is clear from the previous table (1) that the total bank deposits were on a continuous increase during the period (2004–2020), and after they amounted to

about 8620 billion dinars in 2004, they increased to reach 47,947 billion dinars in 2010. The gross domestic product had increased from 53,235 billion dinars in 2004 to 219,769 billion dinars in 2020, which led to the instability of the influence of the average tendency of deposits due to the fluctuation of growth rates for both deposits and the domestic product and the total, until the highest percentage for this indicator reached about 38.6 in 2020 and the lowest was 14.6% in 2005, a percentage that is considered Weak and an indication of the weakness of the banking system in this area.

#### Fourth: The ratio of investments to total deposits

Through this indicator, it is possible to measure the capacity of the bank in terms of bank credit, and then to identify the ability of the banking system in the field of developing credit plans and the expression of its performance in this field <sup>(16)</sup>. Research (2004–2020), after it reached about 13.1% in 2004, increased to reach 26.4% in 2020, and the reason for this is attributed to an increase in the volume of banking investments, especially after the year 2015, which indicates the ability of the banking system to increase deposits with banks and thus The ability of the banking system to decrease its financial position.

Table (2)

Indicators (investments / deposits, loans / assets) in Iraq for the period (2004–2020)

billion dinars/percentage

Year	Banking Assets	Bank Deposits Total	total bank loans	Banking Investments	Banking Investments/ Bank Deposits%	Bank Loans/Bank Assets%
2004	166801	8620	0.396	1132	13.1	0.1
2005	213203	10770	0.893	2979	27.7	0.2
2006	253454	16928	1348	4186	24.7	0.5
2007	282180	26189	1862	6312	24.1	0.7
2008	307195	34525	3328	4317	12.5	1.1
2009	334236	38583	3674	4854	12.6	1.1
2010	363360	47947	7379	7710	16.1	2
2011	143878	56157	9743	6195	11	6.8
2012	128200	62006	22851	5791	9.3	17.8
2013	142140	68855	24701	4819	7	17.4
2014	150207	74073	28196	7148	9.6	18.8
2015	136234	64344	30297	13007	20.2	22.2

2016	132614	62399	30613	13552	21.7	23.1
2017	111285	67049	30967	17404	26	27.8
2018	122995	76894	31128	19716	25.6	25.3
2019	133090	82106	35411	25626	31.2	26.6
2020	138469	84924	43034	22439	26.4	31.1

Source: Prepared by the researcher based on:

1. Ministry of Planning and Development Cooperation, Central Agency for Statistics and Information Technology, Directorate of National Accounts, GDP reports for different years
2. The Central Bank of Iraq, the General Directorate of Statistics and Research, various annual bulletins.
3. <https://cbiraq.org/DataValues.aspx>

#### **Fifth: Bank loans to total assets index**

The rise in the ratio of bank loans to total banking assets is related to the effectiveness of bank credit, and then to the effectiveness of the banking system. The rise in the ratio of the indicator is related to the effectiveness of bank credit in a direct relationship until the increasing trend. The indicator means that there is a positive indicator towards participation in financing economic activity in general. The data in Table (2) notes that there is an increasing trend, after it reached about 0.01% in 2004, it increased to reach 31.1% in 2020 in view of the continuous increase in total bank loans from 0.396 billion dinars in 2004 and 43,034 billion dinars in 2020.

#### **Sixth: Banking Concentration Index**

That is, the total banking assets owned by the top ten banks in the banking system or the top five banks, according to the Herfindal–Hirschman index, which indicated that the decline in the concentration index means a high level of competition between banks, as well as the possibility of a decrease in this level in the future if banks adopt The other is the technology tools of financial banks by providing new financial services and products, and it is clear from Table (3) that the percentage of assets in the top ten banks has exceeded 80% during the period (2004–2020) and for the top ten banks it is considered high, which indicates that the banking system He has the ability to obtain



the necessary funds provided that the central bank follows a contractionary monetary policy, especially since the concentration of assets was in a small number of banks and therefore it indicates the low effectiveness of the banking system due to the inability of small banks, which is the largest percentage in enhancing the effectiveness of bank credit and thus weakening the effectiveness of the banking system Ethnic.

Table (3)

Banking concentration index in the Iraqi banking system for the period (2004–2020)

Percent

Year	number of banks	The percentage of banking assets in the top ten banks %
2006	26	99
2007	32	99
2008	39	99
2009	40	98
2010	42	98
2011	47	94
2012	51	93
2013	51	92
2014	53	92
2015	57	92
2016	65	91
2017	69	87
2018	71	81
2019	73	82
2020	76	82

Source: Prepared by the researcher based on:

1. Ministry of Planning and Development Cooperation, Central Agency for Statistics and Information Technology, Directorate of National Accounts, GDP reports for different years

2. The Central Bank of Iraq, the General Directorate of Statistics and Research, various annual bulletins.

3. <https://cbiraq.org/DataValues.aspx>

### **Conclusion.**

#### **First: The results:**

1. The Iraqi banking system has shown a development in its components. After it was composed of (69) banks in 2017, it rose to (71) banks in 2018 and reach (76) banks in 2020, including (69) private banks and (7) banks. The size of the banking system through the ratio of the total assets of the banking system to the gross domestic product in the average research period (2004–2020) became about 139.2%, which is a good percentage that indicates the effectiveness of the banking system and its ability to increase credit.

2. The percentage of the banking depth index amounted to about (22.7%) in 2020, after it was about 1.5% in 2004, and despite the increase, it is not good, but rather a negative indicator in the banking system's contribution towards financing economic activity, especially when compared with other countries. On the weak effectiveness of bank credit, and hence the effectiveness of the banking system.

3. The weak ability of commercial banks and their ability to attract deposits, and thus the weakness of the banking system in this area.

4. The indicator of the concentration of banking assets owned by the top ten banks in the Iraqi banking system exceeded 80% in the average period (2004–2020) indicating the low effectiveness of the Iraqi banking system, due to the inability of small banks to compete and undermining their role in activating the activity of the private sector .

#### **Second: Recommendations**

1. The necessity for commercial banks to pay attention to bank credit, especially cash, as an important variable that would contribute to achieving the goals sought by both lenders and borrowers, whether in the field of attracting savers' deposits or in the field of developing economic activity.

2. Follow up on overdue loans and adopt appropriate mechanisms to maintain the banks' financial positions and play their real role.

3. The necessity of following up on the issue of mobilizing local savings and deepening the role of financial mediation between each of the investors and savers within scientific bases that contribute to raising the bank cash credit ratio and in favor of expanding the production base.

4. The need to move towards the method of privatizing government banks, as it is an important mechanism for banking reform and is linked to competition between banks in the issue of directing bank credit, and this requires at the same time that the central bank uses the deposit reserves to lend to private banks at a lower interest and re-lending them to projects that contribute to increasing non-oil GDP .

.5The necessity of providing a safe legislative environment that would provide the necessary protection for those dealing with commercial banks, especially private ones, in order to increase confidence in the banking system.

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