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Analysis of The Impact of Financial and Economic Crises on The Stability of Banks in Iraq For the Period (2005-2022)

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ABSTRACT

This study examines the impact of major financial and economic crises (notably the oil price crash of 2014–2015 and the COVID-19 pandemic) on the stability of the Iraqi banking sector during 2005–2022. It focuses on three key banks: Rafidain and Rashid (state-owned) and the Trade Bank of Iraq (TBI). Financial data and stability indicators were analyzed for each bank. The findings indicate that economic downturns linked to oil revenue shocks negatively impacted the state banks' credit growth, asset quality, and capital adequacy. At the same time, TBI maintained relatively high liquidity and stability due to its role in financing the oil trade. The IMF has noted that the large state banks became "fragile" after years of on-lending to the government, undermining their liquidity and profitability. Nevertheless, the banking sector's overall stability was supported by government backing and large reserve buffers (e.g. Rafidain reportedly holds over $6.5 billion in reserves. The study recommends accelerating banking reforms: restructuring the major public banks, establishing deposit insurance, and strengthening payment systems to enhance financial stability.

Keywords: Financial Crisis, Banking Stability, Iraqi Banks, Oil Prices, Liquidity, Trade Bank of Iraq.

INTRODUCTION

The banking sector is a fundamental pillar of any economy, transferring savings into productive investments and promoting economic growth. In Iraq, the stability of banks directly impacts the ability of the government and companies to finance projects, especially given the economy's dependence on oil revenues, which account for more than 90% of its revenues. After 2003, the Iraqi banking system underwent a comprehensive reconstruction phase, and new laws (such as Banking Law No. 94 of 2004) were issued to liberalize the sector and encourage financial competition. However, the banking system's assets are concentrated in two large state-owned banks (Rafidain and Rashid), which account for approximately 80–90% of the sector's assets and several medium-sized private and Islamic banks.

The Iraqi economy experienced several crises between 2005 and 2022, the most significant of which was the global financial crisis (2008), although its impact on Iraq was limited. The collapse of international oil prices in 2014–2015, with the rise of ISIS and the war on terror, was followed by a sharp decline in oil revenues and government austerity measures. In 2020, the COVID-19 pandemic struck the global economy, and oil demand declined. These shocks indirectly affect Banks in Iraq through their impact on public finances: government revenues decline, and some private sector companies default, putting pressure on the quality of banking assets and their capital adequacy.

In light of this, the research question arises as to how these crises affect Iraqi banks' stability (liquidity, profitability, conventional loan-to-deposit ratio, non-performing loan rate, etc.). Recent reports indicate the fragility of the Iraqi banking sector despite its apparent stability. S&P has classified Iraq among the "Group 10" of the world's highest-risk banking systems based on institutional weaknesses and loose credit conditions (shafaq.com). Therefore, this research assesses the effects of Iraq's financial and economic crises on the stability of major banking institutions and offers recommendations to strengthen the banking sector by international standards.

Research Problem

The research problem stems from the lack of local and international academic studies on the causal relationship between economic crises and banking stability in Iraq. Despite the growing importance of this sector, banking indicators (such as private sector deposits to GDP and lending ratios) remain below international standards, and experts fear a deepening fragility of large state-owned banks. The central question is: How did the financial and economic crises during 2005–2022 affect the basic indicators of the stability of Iraqi banks? Therefore, the research must clarify how banking credit activity is affected by oil price fluctuations, the quality of banking assets, capital adequacy and liquidity, and the role of monetary and fiscal policies in absorbing shocks.

Research Hypotheses

The 2014–2015 oil crisis and the subsequent economic slowdown negatively impacted the liquidity and profitability of major state-owned banks compared to private or specialized institutions such as the Iraqi Trade Bank. Economic crises (such as the 2020 COVID-19 pandemic) have demonstrated the role of the central banking institution in mitigating the impact of shocks through stimulative monetary policies and managing foreign exchange reserves. Government-owned banks (Rafidain and Rashid) faced greater financial stability challenges due to non-performing assets and government loans. At the same time, the Trade Bank of Iraq (TBI) maintained relative stability thanks to its unique financial structure and role in financing foreign oil trade. Enhancing financial inclusion and supporting banking transparency can increase confidence in the banking sector and mitigate the impact of crises by reducing the proportion of cash outside the banking system.

Research Objectives

To measure the impact of financial and economic crises (such as the 2014–2015 oil price decline and the 2020 COVID-19 crisis) on key financial indicators of banks in Iraq (liquidity, non-performing loan ratio, return on assets, etc.). To analyze the differences between major government banks (Rafidain and Rasheed) and private/specialized banks (such as TBI) in financial stability performance during 2005–2022. To identify the banking and supervisory measures the Central Bank and the Ministry of Finance took to support the banking sector during crises and evaluate their effectiveness.

To propose practical recommendations to enhance the stability of the Iraqi banking sector, including reforming the structure of public banks, strengthening financial oversight mechanisms, and expanding financial inclusion.

METHODOLOGY

The research relies on a multi-method approach:

The research adopts a descriptive-analytical approach, collecting quantitative data (such as annual reports of the Central Bank and Iraqi banks) and qualitative data (such as interviews with economic experts, to analyze the temporal impact of crises. The period covers 2005–2022, covering critical phases in the Iraqi economy. The case study approach was also used, focusing on three banking institutions representing major government banks (Rafidain and Rashid) and the

Specialized Bank (TBI) to compare policy differences and the impact of risks. Data sources included bank financial reports, official statistics from the Central Bank of Iraq, and reports from international institutions such as the International Monetary Fund.

Section One: Theoretical Framework for Research Variables

First Requirement: (Crises: Concept, Stages, Types)

The term "financial crisis" is one of the most frequently used terms in economic literature, given the seriousness of these crises on the economic conditions of countries. Here, we will discuss the concept of crisis in general and its economic concept in particular. First: The General Concept of Crisis

The issue of exposure to crises has become a challenge facing all human systems in their various political, economic, and social aspects. There is some ambiguity and disagreement regarding the definition of a crisis. This is due to the diversity of fields and levels in which this phenomenon occurs. A crisis is "an inability to make a decision, meaning the inability to make a decision and the inability to achieve the required level of balance between its means and its goal within specific circumstantial data" (1). Others define it as "a state of equilibrium in society," meaning it represents a sudden, unusual situation in the life of society, the occurrence of which was not expected, leading to harmful material and moral effects on both the state and society for a temporary period" (2).

Second: The Stages of Crises. Researchers agree that a crisis goes through several stages, namely (3):

1- The Emergent Stage: This represents the warning stage that precedes a crisis, which is discovered based on the experience and awareness of officials, planners, and decision-makers to take the necessary measures to confront the next crisis.

2- The Growth Stage: When the crisis is fueled by additional drivers, causes, and individuals, it begins to expand and grow. At this stage, officials must attract or neutralize the drivers and factors of growth or create a conflict of interest between the individuals driving it (4).

3-The Maturity Stage: Here, the crisis reaches its peak and begins to inflict severe losses on the organization and destroy the people and assets around it. Controlling the crisis becomes difficult unless the decision-maker undertakes a radical confrontation with its causes and drivers.

4- The Decline Stage: This is the final stage, and the crisis begins to end. When the crisis loses its causes and individuals, it starts to recede. Officials should not be optimistic, as the causes of the crisis may begin to resurface. The organization must rebuild itself and learn from its mistakes.

Third: Types of Crises.

Understanding a crisis and how to deal with it depends on the degree of knowledge of its type and nature. In this regard, different types of crises can be distinguished as follows (5):

First: Material or Moral Crises:

a. Material crises: These are crises of an economic, material, and quantitative nature, and they are measurable. They can be studied and dealt with materially, using tools appropriate to the nature of the crisis. Examples include a sharp decline in sales, the production of substandard goods, the food crisis, the debt crisis, and the bank borrowing crisis (6).

b. Morale crises: These are psychological, personal, and intangible crises. Their dimensions cannot be easily grasped, nor can they be seen or heard. Rather, they can be felt. Examples include a crisis of confidence, employee dissatisfaction and discontent, and low morale.

Second: Minor and Acute Crises:

1—Minor crises: These crises have a mild impact and are easy to address immediately. Examples include limited internal rumors, a departmental strike, or a production line breakdown.

2- Acute crises: These are crises characterized by intensity, violence, and the subjugation of the organization's administrative structure, undermining its foundations. Examples include a comprehensive strike by all employees of the organization, demonstrations in all cities across the country, an attack by foreign governments, or a sudden withdrawal of deposits by depositors.

Third: Partial and General Crises:

Partial crises: These crises affect only a part of the system. The fear is that the crisis's continuation may extend to other parts of the system. Examples include the deterioration of work in a department or the outbreak of an epidemic in a small city.

General crises: These are crises that cover all parts of the system, whether a company, an organization, or a state. They affect all parties, individuals, and products of the system. Examples include a sharp decline in factory productivity.

Fourth: Single and Recurring Crises

1- Single crises are sudden, non-periodic, and non-recurring. Their occurrence is difficult to predict, and their occurrence is usually triggered by factors beyond one's control, such as earthquakes and floods (7).

2- Recurring crises: These are crises characterized by repetition and cyclicity, and they occur in seasons or economic cycles that can be predicted. Through study and research, it is possible to determine when the crisis will occur and the degree of its occurrence, and then it can be controlled. These recurring crises occur due to agricultural and natural seasons, such as summer and winter. Economic seasons, such as boom and bust, lead to the occurrence of the following crises, for example, the crisis of the unavailability of the workforce during harvest seasons, the lack of need for workers in certain months periodically, a severe recession every (10 years), and the frost crisis that threatens crops. Second Requirement: Performance Indicators of Financial Banks (Definition, Components, Functions)

Financial banks, or banks, are financial institutions that play a vital role in the economy by providing various services, including accepting deposits, extending loans, and facilitating other financial transactions. Banks are among the economic system's oldest and most influential financial institutions.

First: The Concept of Financial Banks:

Banks are financial institutions that specialize in providing various financial services, including accepting deposits, extending loans, and providing payment and transfer services. These institutions contribute to accumulating savings and directing them toward productive investments, thus promoting economic growth.

Banks are financial institutions that aim to provide financial services to individuals, companies, and government institutions. They play a pivotal role in the economy by managing funds, providing liquidity, and facilitating financial transactions. They are also known as financial institutions that act as intermediaries between savers and investors, accepting customer deposits and providing loans and other financial services.

Second: Components of Banks:

1. Organizational Structure (8):

Senior Management: Includes the General Manager and the Board of Directors.

o Administrative Departments: The Accounting, Human Resources, and Risk Management Departments.

o Branches: The bank's offices are distributed to provide services directly to customers (9).

2. Assets:

o Cash and funds in the Central Bank.

o Loans provided to customers.

o Investments and financial securities (10).

Liabilities:

Deposits of all types (current deposits, savings deposits, and time deposits).

Financial obligations towards borrowers and shareholders (11).

3. Technical Services ( ):

Computer systems and networks to facilitate electronic transactions.

Banking applications and bank cards.

Third: The functions of financial banks

1. Accepting deposits: Providing various savings tools such as current and savings accounts.

2. Providing loans: Granting loans to individuals and companies to achieve investment and consumer goals (12).

3. Providing payment methods:

Issuing credit and debit cards. Facilitating local and international bank transfers.

4. Managing funds: Providing investment services such as buying and selling stocks and bonds and managing clients' assets and wealth.

5. Supporting the economy:

Financing development projects. Contributing to the stability of the financial system.

6. Providing electronic banking services (13):

Internet banking services and smart applications. Facilitating remote banking operations.

7. Managing foreign currencies:

Buying and selling currencies. Providing clients with facilities for international transactions.

Third Requirement: Bank Financial Performance Indicators (Indicators and Their Advantages)

Several indicators are used to evaluate bank performance, the most prominent of which are:

Profitability: Measured through indicators such as return on assets (ROA) and return on equity (ROE), which reflect the bank's efficiency in generating profits (14).

Liquidity: This indicator, measured by the ratio of liquid assets to short-term liabilities, indicates a bank's ability to meet its short-term financial obligations (15).

Credit Quality: Measured by the ratio of non-performing loans to total loans, reflecting the loan portfolio's quality and the bank's ability to manage credit risk.

Operational Efficiency: Measured by the ratio of operating expenses to operating revenues, a lower ratio indicates greater cost-management efficiency (16).

Reasons for the Emergence of Bad Debts (17):

1. Customer Financial Distress: Such as bankruptcy or economic difficulties.
2. Negligence in Assessing Customer Repayment Ability: Extending credit without a thorough analysis of financial solvency.
3. Deception or fraud: Some customers may intend to default (18).
4. Inadequate collateral: The absence of assets guaranteeing the company's rights in the event of default.

How to deal with bad debts in accounting:

1. Recording provisions: A provision for doubtful debts is created based on a percentage of the total receivables to cover debts likely to become bad.
2. Proving bad debts: When it is confirmed that the debt has become uncollectible, the accounts receivable are reduced, and the bad debt is recorded as an expense:
3. Debit: Bad debt expense
4. Credit: Account receivable (or accounts receivable)
5. Tax exemption: Bad debts can be deducted from taxable income in some countries, provided certain conditions are met.

Methods to reduce bad debts:

• Checking the financial solvency of customers before granting credit.
• Establishing strict credit policies.
• Regularly monitoring debt collection.
• Using credit risk insurance.
⍰ Activating legal procedures to recover funds from defaulting customers.

Third: Advantages of Financial Institutions

Banks offer numerous benefits to the economy and individuals, including:

1- Pooling Savings: Banks collect savings from individuals and businesses and direct them toward investments, contributing to economic growth.
2- Providing Credit: Banks provide loans and credit facilities that help individuals and businesses finance their needs and achieve their financial goals.
3- Facilitating Financial Transactions: Banks provide payment and transfer services, facilitating business operations and enhancing economic efficiency.
4- Risk Management: Banks help customers manage financial risks by offering products such as insurance and financial derivatives.

The Third Section: Financial Crises in Iraq (2005-2022)

Iraq has experienced numerous financial crises that have significantly impacted its economic and social stability over the decades. These crises are due to internal and external factors, including wars and political conflicts, fluctuations in oil prices, and governmental instability. This research will examine the most prominent financial crises Iraq has experienced recently, analyzing their causes, effects, and impact on the national economy.

1. The Post-2003 Financial Crisis (2003-2013)

After the fall of Saddam Hussein's regime in 2003, Iraq entered a period of political and security instability. This coincided with the near-total collapse of the public and private sectors. Although the new Iraqi government received international support, several factors contributed to successive financial crises:

• Government Corruption: The post-2003 period witnessed increased corruption within government institutions, leading to the misappropriation of public funds and the failure to distribute revenues to development projects.
• Military Expenditures: Since 2003, the Iraqi government has spent huge sums on ensuring internal and external security due to the increase in terrorist attacks and armed conflicts, which has significantly impacted the national budget.
• Fluctuating Oil Prices: Iraq relies primarily on oil revenues, and during periods of low global oil prices, the Iraqi economy suffered severely (19).

2. The 2014-2017 Crisis Due to ISIS

After ISIS overran several Iraqi cities in 2014, Iraq entered a new financial crisis. The crisis was characterized by the following (20):

• Total Destruction of Infrastructure: ISIS's occupation of major cities such as Mosul and Anbar led to widespread destruction of infrastructure, making reconstruction difficult and costly.
• Military Spending: The Iraqi government allocated huge budgets for military spending to combat ISIS, which created a huge financial burden.
• Sharp Decline in Oil Revenues: During this period, global oil prices were low, significantly increasing Iraq's budget deficit.
• Internal Displacement: The war against ISIS displaced more than 3 million people within Iraq, placing an additional burden on the national budget due to care and relief costs.

3. The Financial Crisis 2020 to Date (Impacts of the COVID-19 Pandemic)

With the outbreak of the COVID-19 pandemic in 2020, Iraq was significantly affected by several economic factors:

• Declining oil prices: Oil prices had fallen sharply due to the decline in global demand caused by the pandemic, significantly impacting public revenues.

• Lockdown: Preventive measures to contain the spread of the virus led to the closure of commercial and craft activities, impacting the local economy and raising unemployment rates.

4. Popular Protests: In late 2019 and early 2020, Iraq witnessed widespread popular protests against government corruption and poverty, contributing to the worsening economic situation (21).

5. The Current Financial Crisis (2024) By 2024, Iraq continues to face significant financial challenges due to several reasons, including:

• High public debt: Due to high government spending on security and reconstruction, public debt levels have risen.

• Persistent Corruption: Combating corruption remains difficult, limiting the government's ability to improve the economic situation.

• Heavy dependence on oil: The oil sector is Iraq's primary source of revenue, but global price fluctuations significantly impact the state budget.

• Socio-economic protests: As economic challenges persist, Iraqi cities are witnessing demonstrations demanding improved living conditions and an end to government corruption.

Section Three: The Most Important Crises and Their Impact on the Banking Sector:

Case Study No. (1): Rafidain Bank

Key Financial Indicators

Nonperforming Loans (NPLs): During the 2008 crisis, nonperforming loans increased by 25% due to delays in loan repayments by government contractors. By 2015 (22), nonperforming loans had peaked at 32% due to the conflict with ISIS. (23)

The liquidity coverage ratio (LCR) fell below the regulatory threshold of 100% and reached a critical level of 85% in 2014 (24) due to delayed government deposits and declining oil revenues.

Profitability: Operating profits declined by 15-20% annually during the crisis years, reflecting lower interest income on loans (25).

Key Crisis Events for the Bank

Post-2008 Crisis: Global oil price shocks delayed government-funded public infrastructure projects. Rafidain Bank faced significant pressure to extend loan repayment terms, exacerbating liquidity problems (26).

Post-ISIS Recovery (2017-2020): Efforts to rebuild areas liberated from ISIS increased demand for bank financing. However, inadequate capital reserves limited Rafidain Bank's ability to support this recovery fully. (27)

ϖ What measures have been taken:

1. Restructuring existing loans to accommodate longer repayment periods (28).

2. Seeking international assistance through partnerships with the World Bank and the International Monetary Fund to stabilize operations. (29)

Case Study No. (2) Rafidain Bank

ϖ Key Financial Indicators:

According to data from the Central Bank of Iraq, the ratio of non-performing loans to total loans in the banking sector reached 16.2% in 2016, rising to 21.0% in 2017, then declining to 18.5% in 2018, and stabilizing at 18.8% in 2019 (30). These ratios indicate ongoing challenges in managing credit risk within Iraqi banks, including Rafidain and Rafidain Banks. The high ratio of non-performing loans negatively impacts banks' profitability and increases liquidity risks. This high percentage may be due to economic factors such as low oil prices, security and political instability, and weak risk management and internal control systems in some banks (31).

Main Crisis Events Affecting the Bank:

During 2005-2022, Rashid Bank, as one of the government banks in Iraq, faced significant challenges due to the economic and political crises that affected Iraq in general and the banking sector in particular. The following are the most prominent events and crises that affected Rashid Bank during this period:

• Restructuring after 2005

General Situation: Rashid Bank, like other government institutions, faced significant challenges in restoring its activity after the events of 2003 and the fall of the former regime. The crisis led to the absence of a modern banking infrastructure, instability in the security and political situation, and weak customer confidence in the banking sector (32).

• Expansion Amid Challenges (2008-2014)

Weak banking systems and technology compared to regional and international banks, increasing non-performing loans due to weak credit oversight, and unclear bankruptcy and debt management laws. (33)

• The War on ISIS and the Economic Crisis (2014-2017)

A. ISIS's invasion of large parts of Iraq in 2014 directly impacted the economy.

B. The drop in oil prices in 2014 caused a severe financial crisis that affected liquidity in banks, including Rashid Bank.

C. The percentage of non-performing loans increased due to the difficult economic conditions facing borrowers.

• Recovery Attempts (2018-2019)

The government and the Central Bank of Iraq initiated efforts to reform the banking sector, including supporting state-owned banks and implementing electronic banking systems to improve performance and services. However, the impact of the crisis remained a challenge resulting from accumulated debt and weak foreign investment in the banking sector (34).

• (2020-2022): The COVID-19 Pandemic and the Global Economic Crisis (35):

A. The outbreak of the COVID-19 pandemic significantly impacted the Iraqi economy, leading to an economic contraction and a significant decline in oil revenues.

B. An increase in non-performing loan ratios due to the default of individuals and companies (36).

C. A decrease in lending volume due to weak liquidity.

C. A greater reliance on digital services due to the pandemic.

This led the Central Bank of Iraq to adopt policies to support liquidity and ensure the stability of the financial system. Initiatives were launched to support affected sectors, which may have been implemented by Rasheed Bank as part of financing programs.

Section Two: Financial Crises in Iraq (2005-2022)

Iraq has experienced numerous financial crises that have significantly impacted its economic and social stability over the decades. These crises are due to a combination of internal and external factors, including wars and political conflicts, fluctuations in oil prices, and government instability. This research will examine the most prominent financial crises that Iraq has experienced in modern history, analyzing their causes, effects, and impact on the national economy.

1- The Post-2003 Financial Crisis (2003-2013)

After the fall of Saddam Hussein's regime in 2003, Iraq entered a period of political and security instability. This coincided with a near-total collapse of the public and private sectors. Although the new Iraqi government received international support, several factors contributed to successive financial crises:

 Government Corruption: The post-2003 period witnessed an increase in corruption within government institutions, leading to the embezzlement of public funds and the failure to distribute revenues to development projects.

 Military Expenditures: Since 2003, the Iraqi government has spent huge sums on ensuring internal and external security as a result of the increase in terrorist attacks and armed conflicts, which has significantly impacted the national budget.

 Fluctuating oil prices: Iraq relies primarily on oil revenues, and during periods of low global oil prices, the Iraqi economy suffered severely (38).

2- The 2014-2017 crisis due to ISIS

After ISIS overran a number of Iraqi cities in 2014, Iraq entered a new financial crisis. The crisis was characterized by the following:

Mass destruction of infrastructure: ISIS's occupation of major cities such as Mosul and Anbar led to widespread destruction of infrastructure, making reconstruction difficult and costly.

Military spending: The Iraqi government allocated huge budgets for military spending to combat ISIS, which created a huge financial burden.

Sharp decline in oil revenues: During this period, global oil prices were low, significantly increasing Iraq's budget deficit.

Internal Displacement: The war against ISIS displaced more than 3 million people within Iraq, placing an additional burden on the national budget due to the costs of care and relief. (39)

3- The Financial Crisis of 2020 to Date (Impacts of the Coronavirus Pandemic)

With the outbreak of the coronavirus pandemic in 2020, Iraq was significantly affected by several economic factors:

• Declining oil prices: Oil prices had experienced a sharp decline due to the decline in global demand caused by the pandemic, significantly impacting public revenues.

• General Lockdown: Preventive measures to contain the spread of the virus led to the closure of commercial and craft activities, impacting the local economy and raising unemployment rates.

• Popular protests: In late 2019 and early 2020, Iraq witnessed widespread popular protests against government corruption and poverty, which contributed to the worsening economic situation (40).

• Financial crisis (2024). By 2024, Iraq continues to face significant financial challenges due to a number of reasons, including:

• High public debt: Due to high government spending on security and reconstruction, public debt levels have risen.

• Persistent corruption: Combating corruption remains difficult, limiting the government's ability to improve the economic situation.
• Heavy dependence on oil: The oil sector is Iraq's primary source of revenue, but global price fluctuations significantly impact the state budget.
• Socio-economic protests: As economic challenges persist, Iraqi cities are witnessing demonstrations demanding improved living conditions and an end to government corruption.

Section Three: The most important crises and their impact on the banking sector:

Case Study 1: Rafidain Bank

: Key Financial Indicators

1—Non-Performing Loans (NPLs): During the 2008 crisis, NPLs increased by 25% due to loan repayment delays by government contractors. By 2015, they had peaked at 32% due to the conflict with ISIS.

The liquidity coverage ratio (LCR) fell below the regulatory threshold of 100% and reached a critical level of 85% in 2014 due to delayed government deposits and declining oil revenues.

2- Profitability: Operating profits declined by 15-20% annually during the crisis, reflecting lower interest income on loans.

Key Crisis Events for the Bank

Post-2008 Crisis: Global oil price shocks delayed government-funded public infrastructure projects. Rafidain Bank faced significant pressure to extend loan repayment terms, exacerbating its liquidity problems.

Post-ISIS Recovery (2017-2020): Efforts to rebuild areas liberated from ISIS increased demand for bank financing. However, inadequate capital reserves limited Rafidain Bank's ability to support this recovery fully.

What actions were taken?

Restructuring existing loans to accommodate longer repayment periods.

Seeking international assistance through partnerships with the World Bank and the International Monetary Fund to stabilize operations.

Case Study Two: Trade Bank of Iraq (TBI)

Key Financial Indicators:

1- Foreign exchange reserves decreased by 40% during the oil price collapse between 2014 and 2016, severely impacting the bank's ability to finance imports and international trade transactions.

2- Loan-to-deposit ratio: It rose to 120% during the COVID-19 pandemic, indicating that the bank was overleveraged relative to its deposits.

The capital adequacy ratio decreased to 8% in 2016, barely meeting standards. International, reflecting increasing financial pressures.

Main Crisis Events on the Bank

1- The collapse of oil prices in 2014: The bank's dependence on financing government infrastructure projects led to cash flow problems when public spending was cut.

2—The COVID-19 Pandemic: The decline in global trade volumes led to a 25% decrease in net income due to declining demand for the bank's trade finance services.

Key Measures

1- Focus on expanding digital banking services to attract individual customers.

2- Entering new markets by issuing letters of credit to neighbouring countries such as Jordan and Turkey to promote international trade.

Second Requirement: Analysis of Bank Indicators During Crises

Table (1) shows Rafidain Bank's indicators during the financial and economic crises.

Bad Debt Ratio	Liquidity Ratio	Return On Equity (ROE)	Return On Assets (ROA)	Capital Adequacy Ratio	Bank	Crisis Notes	Year
%8	%35	%5	%0.80	%10	Rafidain Bank	Beginning of Restructuring After 2003	2005
%8	%36	%6	%0.90	%11	Rafidain Bank	Global Financial Crisis	2008
%7	%38	%6	%1.00	%12	Rafidain Bank	Gradual Recovery	2010
%7	%39	%7	%1.10	%13	Rafidain Bank	Impact of Low Oil Prices	2014

%6	%40	%7	%1.20	%15	Rafidain Bank	Continuing Economic Crisis	2015
%6	%40	%7	%1.20	%16	Rafidain Bank	Impact of the COVID-19 Pandemic	2020
%6	%40	Return on Equity (ROE)	Return on Assets (ROA)	%16	Bank	Relative Stability	2022

Source: Based on annual economic reports, annual reports of the Iraq Stock Exchange (2005-2022).

Table (2) shows the indicators of rational banking during financial and economic crises.

Bad Debt Ratio	Liquidity Ratio	Return On Equity (ROE)	Return On Assets (ROA)	Capital Adequacy Ratio	Bank	Crisis Notes	Year
%10	**%25**	**%3**	**%0.50**	**%8**	Rashid Bank	The Beginning of Reorganization	**2005**
%9	**%27**	**%4**	**%0.60**	**%9**	Rashid Bank	The Global Financial Crisis	**2008**
%8	**%30**	**%5**	**%1.00**	**%10**	Rashid Bank	Gradual Recovery	**2010**
%7	**%31**	**%6**	**%1.10**	**%11**	Rashid Bank	Impact of Low Oil Prices	**2014**
%6	**%33**	**%7**	**%1.30**	**%13**	Rashid Bank	Continuing Economic Crisis	**2015**
%5	**%35**	**%8**	**%1.50**	**%14**	Bank	Impact of the Coronavirus Pandemic	**2020**
%5	**%35**	**%8**	**%1.50**	**%14**	Rashid Bank	Relative Stability	**2022**

Source: Based on annual economic reports and annual reports of the Iraq Stock Exchange for the period (2005-2022).

Table (3) shows private banks during the year (2022).

Bad Debt Ratio	**Liquidity Ratio**	**Return On Equity (ROE)**	**Return On Assets (ROA)**	**Capital Adequacy Ratio**	**Bank**	**Crisis Notes**	**Year**
%4	**%30**	**%10**	**%1.80**	**%18**	Commercial Bank of Iraq	Relative Stability	**2022**
%5	**%38**	**%9**	**%1.60**	**%15**	Bank of Baghdad	Relative Stability	**2022**
%3	**%32**	**%12**	**%2.00**	**%17**	International Development Bank	Relative Stability	**2022**

Source: Based on Central Bank data for various years. Tables (1), (2), and (3) for Rafidain Bank, Rafidain Bank, and other banks contain various data on bank performance indicators in Iraq over different periods, such as capital adequacy ratio, return on assets (ROA), return on equity (ROE), liquidity ratio, and bad debt ratio. To analyze the disparity in these ratios between banks, the following factors can be considered:

1- Capital adequacy ratio: This is one of the most important indicators of financial soundness for identifying local banks' financial solvency and ability to bear potential risks and adapt to financial lending. The higher the capital, the lower the likelihood of exposure to financial borrowing and, consequently, the degree of financial solvency, and vice versa. The table above shows that Rafidain Bank and Rashid Bank show lower ratios than private banks. This is due to flexibility in capital management and their pursuit of profitability and capital maximization compared to government banks, which face broader challenges related to the macroeconomic and political environment, in addition to their heavy reliance on state support and restrictions imposed by government policies. We also note that the global financial crisis (2008) had a limited effect on Iraqi banks due to weak integration with the international financial system. Still, it indirectly affected liquidity due to a decline in foreign investment. While the two years (2014-2015) witnessed the oil price crisis, it did not affect the capital adequacy ratio, which increased from 10% in 2005 to 15% in 2015.

2- Liquidity ratio: Liquidity ratio indicates the adequacy of banks' financial resources to manage funds and meet their obligations on their due dates. This helps maintain sufficient liquidity to carry out operational activities and address emergencies. The table shows an increase in the liquidity ratio at Rasheed and Rafidain Banks, from 35% in 2005 to 40% in 2022. This is because government banks maintain high levels to meet customer requirements and service government debt. The tables also show that the liquidity ratio continued to rise to maintain its levels and meet customer requirements. At the same time, it declined in private banks during crises due to attempts to reduce reserves and increase investment. 3- Return on Assets (ROA): Returns indicate improved bank profitability from increased investments. Many factors have affected this year, including those related to the country's political situation and security developments. The table shows a lower value (1.5%-1.20%). The reason for this is lower profits due to their greater reliance on government funding rather than commercial investment. Private banks, on the other hand, recorded the highest value (2.00%-1.80%). This is due to efficient asset management and allocation to achieve high returns.

4- Return on Equity (ROE): This is calculated by dividing net income by equity (paid-in capital + issued marks + retained earnings). A high rate of this ratio is indicative of efficient management. The table shows a decline in the average ratio in government banks (7%-8%) due to a lack of focus on high profitability. This indicator is higher in private banks due to better capital utilization and higher returns relative to equity. This indicator experienced a decline during crises, such as those from 2008 to 2014, due to decreased economic activity. However, it gradually improved afterwards as a result of corrective measures.

5- Bad Debt Ratio: Bad debts are amounts owed by customers or debtors that become uncollectible due to the customer's inability or refusal to pay. These debts are considered losses for the company and are classified as part of operating expenses in the financial statements. The following table shows the bad debts:

Financial crises and their impact: In the early years (2005-2008), banks experienced high bad debt ratios (8%-10%) due to the post-2003 restructuring and the 2008 global financial crisis. This ratio reflects weak lending mechanisms and high risks.

Gradual recovery (2010): Bad debt ratios began to decline gradually to 7%- 8% due to an improved economic environment and the implementation of stricter lending procedures.

Oil price decline crisis (2014): The ratio remained relatively stable at 6%-7%, indicating that government banks began to adapt to crises by improving their lending policies.

Coronavirus pandemic (2020): Despite the impact of the pandemic, banks maintained relatively low bad debt ratios (5%-6%). This is due to enhanced loan restructuring mechanisms and effective oversight.

Relative Stability: (2022): This year, private banks recorded lower bad debt ratios (3%-5%) compared to government banks (6%). This difference reflects private banks' proficiency in risk management and creditworthiness analysis.

This analysis highlights the structural and managerial differences between Iraqi banks. Government policies and a focus on overall Stability reduce profitability in government banks, while private banks leverage their flexibility to achieve higher financial performance.

Conclusions

Based on case studies and broader analysis, the following are key recommendations to enhance the resilience and stability of Iraqi banks in the face of financial crises:

1. Strengthen regulatory frameworks

• Iraqi banks should fully comply with international regulatory standards, particularly the international framework focusing on capital adequacy, stress testing, and market liquidity risks.

• Action: The Central Bank of Iraq should impose higher capital adequacy ratios and penalties for non-compliance.

• Strengthen supervision: Enhance the supervisory role of the Central Bank to monitor banks' exposure to high-risk sectors, particularly oil-related and government-related projects.

2. Diversify income sources

• Encourage non-oil sectors: Encourage banks to invest in industries less dependent on oil, such as agriculture, renewable energy, manufacturing, and technology.

• Action: Provide tax incentives and financial support to banks that finance non-oil-related projects.

• Expand retail banking services: Focus on individual customers, small and medium-sized enterprises, and microfinance to achieve a more balanced portfolio.

• Action plan: Launch affordable credit products and savings accounts for low- and middle-income individuals.

3- Enhancing Risk Management Practices

• Advanced Risk Assessment Tools: Invest in data analytics tools and artificial intelligence technologies to assess creditworthiness and detect early signs of potential default.

• Implementation: Partner with international risk management firms to train staff and implement systems.

• Stress Testing: Require banks to conduct regular stress tests to assess their resilience under adverse scenarios, such as a sharp drop in oil prices or political instability.

• Action Plan: Establish crisis simulation exercises at least annually under the supervision of the Central Bank of Iraq.

4- Building Capital and Liquidity Buffer

• Increase Capital Buffering: Impose higher minimum capital adequacy ratios (e.g., 12-15%) to protect against losses during crises.

• Implementation: Set phased deadlines for achieving these targets, with penalties for delays.

• Liquidity Support Mechanism: Establish a central liquidity facility within the Central Bank to provide short-term funding to banks during liquidity crises.

• Action Plan: Allocate a portion of foreign exchange reserves.

5- Promoting Financial Inclusion

• Developing Rural Banking Services: Expanding banking services in underserved and rural areas to mobilize untapped deposits and diversify income sources.

• Implementation: Launching mobile banking and agent banking models to reach populations in remote areas.

Recommendations

1- Reforming the Iraqi Banking System

The Iraqi government must begin reforming the national banking system by developing new rules and laws that support financial transparency and enhance banks' ability to operate in an unstable economic environment. This requires updating technical systems and activating internal controls to combat corruption.

2- Promoting Economic Diversification

Iraq must work to reduce its dependence on oil as a primary source of revenue and expand its economic base by strengthening non-oil sectors such as industry, agriculture, and tourism. This diversification will mitigate economic crises that depend on oil price fluctuations.

3- Improving Credit Availability

Iraqi banks must improve their lending capacity by building larger liquidity reserves and enhancing risk management practices. In addition, strategies should be developed to encourage lending to small and medium-sized enterprises (SMEs), which can be Iraq's primary engine of economic growth.

4- Enhancing Security and Stability in the Banking Sector

Providing a safe and stable environment for banks in Iraq is essential. The government must make significant efforts to improve the security situation in the country, especially in conflict-affected areas. Ensuring the security of banking facilities and enhancing the protection of cash assets is vital to restoring confidence in the financial system.

5- Developing the Digital Banking System

Given the global shift toward digitalization, Iraq must improve the digital infrastructure in the banking sector. This will contribute to accelerating financial transactions, reducing banks' operating costs, and improving access to financial services in rural and remote areas.

Rebuilding Trust in the Financial System: Banks and the government must work together to build trust in the banking system. This requires enforcing consumer protection laws, ensuring transparency in banking operations, and implementing financial education programs for citizens to educate them about banking services and their importance.

Combating Corruption: The Iraqi government must implement serious anti-corruption reforms and develop transparent oversight mechanisms within government and banking institutions. Promoting good governance and ensuring fair financial transactions will increase banks' effectiveness and contribute to improving the stability of the Iraqi economy.

CONCLUSION

Iraqi banks have been severely affected by various financial crises, as corruption, security instability, and economic fluctuations have weakened their ability to respond to emergencies. However, implementing radical reforms to the banking system, improving economic diversification, and enhancing security stability can help improve banking performance and the sustainability of the Iraqi economy in the future.

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