Central Bank of Iraq
Statistics & Research Department
Monetary and Financial Stability Division

Early Warning Report for the Banking Sector

Q1 2024

No. Twenty - seven

Statistics and Research Department

Monetary and Financial Stability Division

Early Warning Report for the Banking Sector

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Early warning: is an index that gives a clear picture of the reality and magnitude of the potential risks that may occur to the financial sector and economy in general. Thus, it enables decision-makers to take necessary measures and formulate policies in a timely manner to avoid financial crisis.

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Contents

List of Figures

List of Tables

Introduction:

The early warning report for the banking sector is one of the most important direct supervisory tools for this sector. This is through the indices it contains, which can predict imminent and potential crises in a general way, even if they do not materialize. In addition to measuring potential deviations that may affect the banking sector and the variables that influence it.

The report consists of three chapters that cover most of the indices that affect the work of the monetary authority. The first chapter of the report analyzes indices of currency value stability through several indices, most notably the ratio of net foreign reserves to broad money supply (M2). This ratio decreased to (82.3%) in the first quarter of 2024 compared to the same quarter of 2023, where it reached (83.5%), which is higher than the standard ratio of (20%). This decrease was due to an increase in broad money supply by (1.3%) and a decrease in net foreign reserves by (0.2%).

As for the second chapter, which includes an analysis of bank performance indices, the ratio of total cash credit to total deposits reached (57.1%) in the first quarter of 2024, as it did not exceed the standard ratio set by the central bank (75%). Also, the money multiplier ratio in the first quarter of 2024 increased to (1.19) after being (1.12) for the same quarter of 2023 because of a decrease in the monetary base by (3.2%) for the same period. As for the non-performing loans to total cash credit index, it decreased by (9.6%) in the first quarter of 2024 to reach a ratio of (6.56%) after being (7.26%) during the same quarter of 2023.

The third chapter discussed the analysis of some macroeconomic indices that affect the Iraqi banking system. When returning to the inflation rate, it recorded a rate of (0.8%) in the first quarter of 2024, as the year 2022 was calculated as the base year for calculating the price index instead of 2012. As for the treasury bills at banks in iraq to total public debt, it decreased from (8.2%) during the first quarter of 2023 to (6.6%) during the same quarter of 2024, meaning a decrease in the intensity of the public sector competing with the private sector to obtain credit. The gross domestic product at current prices in Iraq decreased by (0.9%) during the first quarter of 2024, reaching IQD (76.9) trillion, after being IQD (77.6) trillion during the first quarter of 2023.

Chapter One: Analysis of Currency Value Stability Indices

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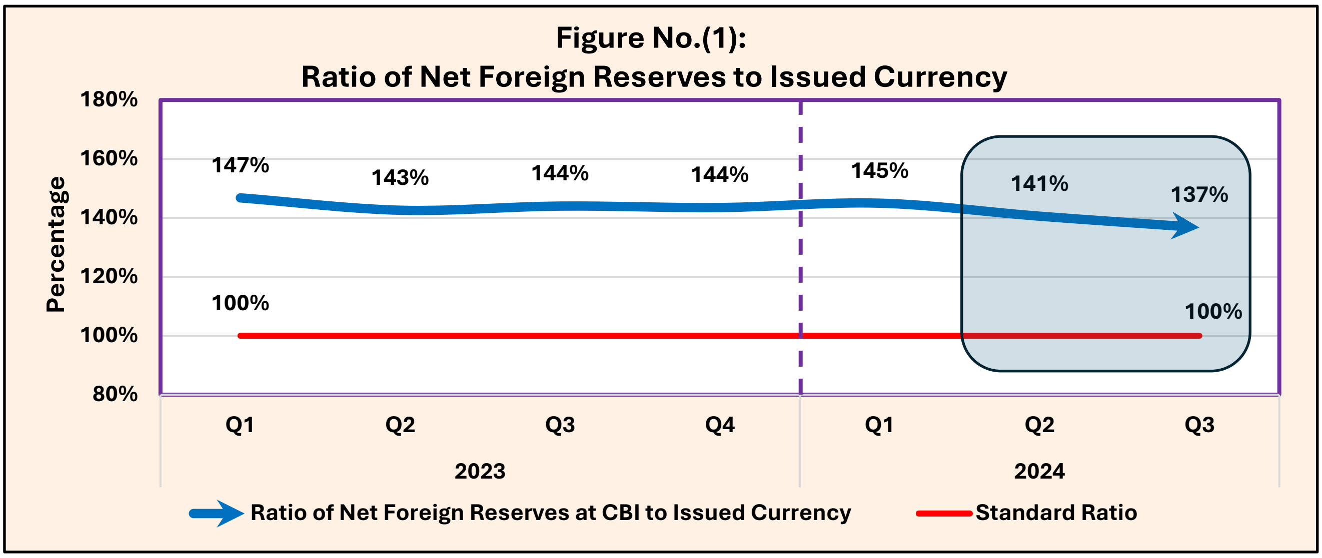
The stability of a currency's value can be assessed by monitoring a set of important indices. If one or more of these indices deviate from acceptable levels due to internal or external shocks, it indicates a disruption or deviation in the currency's value trajectory. This serves as a warning sign of potential fluctuations in the currency's value in the coming months. Among the most important of these indices, providing an accurate analysis of fluctuations in the national currency's value, are the following:

First: Adequacy Of Foreign Reserves:

The adequacy of foreign reserves held by central banks is considered a vital index of the stability of the financial and banking system and its ability to withstand external challenges. These reserves play a significant role in protecting the national currency from fluctuations and boosting investor confidence in the economy. There are numerous indices to measure the adequacy of these reserves, including:

1. Net Foreign Reserves Adequacy Index to Issued Currency

Net foreign reserves are considered the first line of defense for the stability of the national currency and supporting the economy. They enable the central bank to confront fluctuations in the foreign exchange market and protect the value of the national currency by maintaining an adequate level of these reserves. The ratio of this index reflects the relationship between net foreign reserves and the value of the national currency. A higher ratio is considered a positive sign, while a lower ratio indicates weak demand for the domestic currency, which negatively affects the value of the currency and the economy. As shown in Figure No. 1, the ratio of net foreign reserves coverage to the issued currency decreased to (145%) in the first quarter of 2024, compared to (147%) in the same period of 2023. This decrease is attributed to the continued efforts of the Central Bank of Iraq to defend the value of the dinar by providing the foreign currency required by traders for imports. Additionally, the government's high demand for dinar from the central bank to finance spending led to the growth of the issued currency at a rate higher than the growth of net foreign reserves. This resulted in a decrease of net foreign reserves by 0.2% during the same period. However, this ratio remained positive and significant as it is higher than the standard benchmark of 100%. It is expected that the ratio of net foreign reserves coverage to the issued currency will decrease to 141% and 137% in the second and third quarters of 2024, respectively.



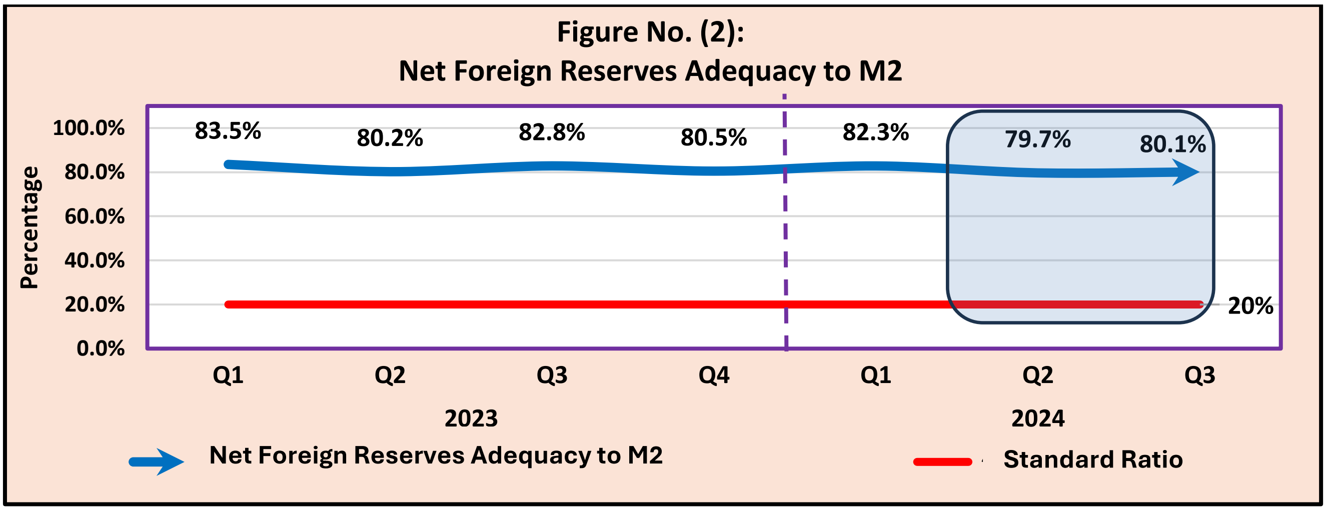
Source: Central Bank of Iraq, Statistical Website.

* Q2 and Q3 of 2024 are forecast data based on estimates from Monetary and Financial Stability Division.

2. Net Foreign Reserves Adequacy Index to Broad Money Supply (M2)

This index is calculated by dividing the net foreign reserves by M2. Figure No. 2 shows that the ratio of net foreign reserves to M2 in the first quarter of 2024 reached 82.3%, which is significantly higher than the standard benchmark of 20%. Despite this, it decreased by 1.5% compared to the same quarter of 2023 when it was 83.5%. This decrease is attributed to a 1.3% increase in M2 and a 0.2% decrease in net foreign reserves during the same period.

It is expected that this ratio will decrease in the coming two quarters to reach 79.7% and 80.1% respectively, and it will remain above the standard ratio.



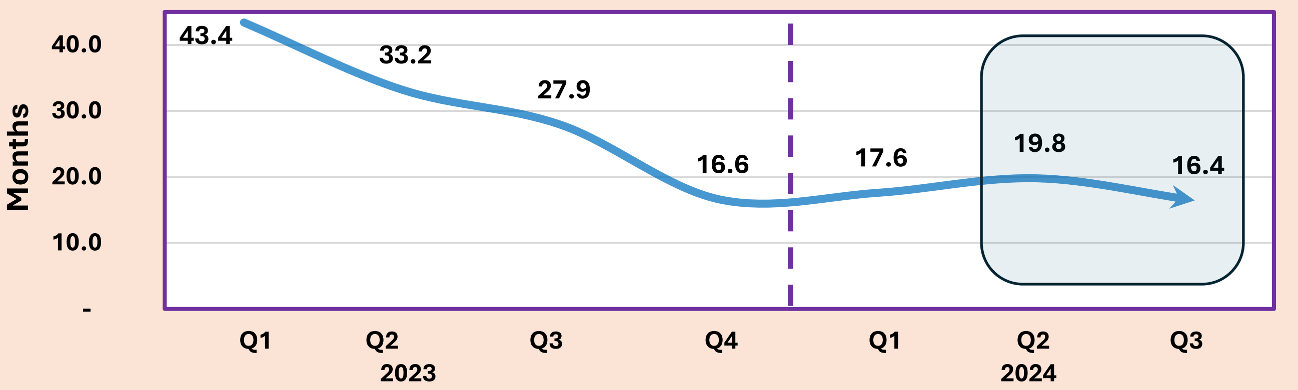
Source: Central Bank of Iraq, Statistical Website.
* Q2 and Q3 of 2024 are forecast data based on estimates from Monetary and Financial Stability Division.

3- Net Foreign Reserves Coverage Index to Total Imports

This index is used to assess the quality of a country's economy and the stability of its financial system. International financial institutions such as the International Monetary Fund (IMF) and the World Bank monitor this index to provide financial support when needed. The minimum threshold for this index varies from country to country, depending on the economic situation, but in some countries, it ranges from 4 to 5 months. In Iraq, the acceptable minimum for this index is 6 months.

The coverage period of net foreign reserves to total imports experienced a decline in the first quarter of 2024, reaching 17.6 months, compared to 43.4 months in the same period of the previous year. This decrease is attributed to a significant increase in total imports on a CIF basis from IQD 11.6 trillion to IQD 28.5 trillion during the same period, coupled with a 0.2% decrease in net foreign reserves compared to the first quarter of the previous year. Additionally, the increased accuracy of balance of payments data following the implementation of the electronic platform contributed to this decline. However, this ratio remained positive and significant as it is greater than the standard benchmark of 6 months, as shown in Figure No. 3. It is expected that the months of coverage of net foreign reserves will increase to 18 months and 16 months respectively for the following two quarters of 2024.

Figure No.(3):
Months of Coverage of Net Foreign Reserves For Imports



Source: Central Bank of Iraq, Statistical Website.

* Q2 and Q3 of 2024 are forecast data based on estimates from Monetary and Financial Stability Division.

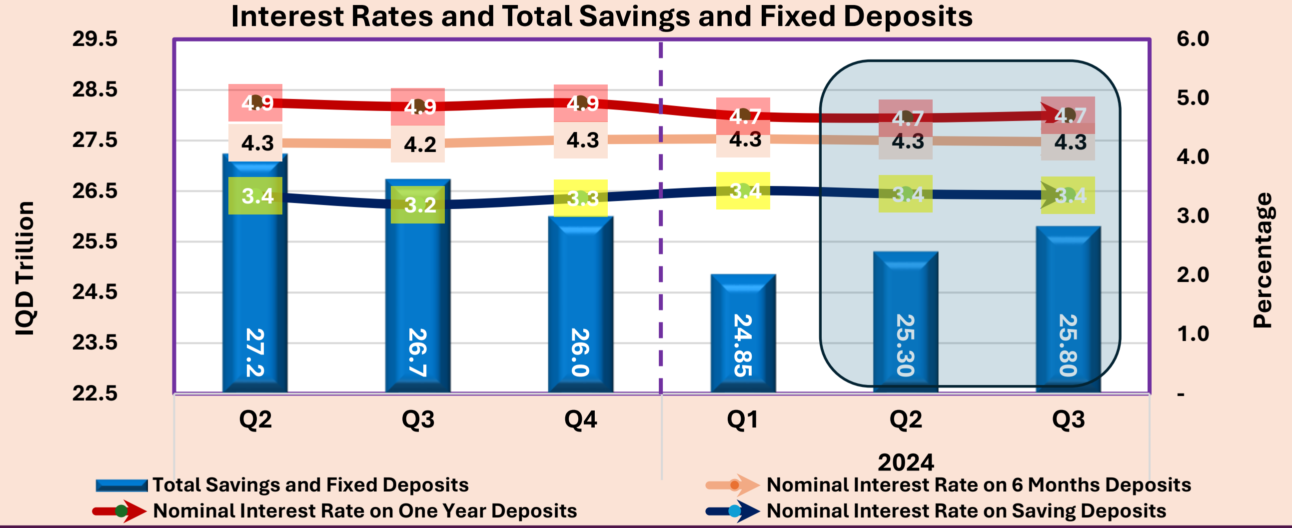
Second: Change in Interest Rates

The interest rate change index is one of the primary economic indices. It plays a significant role in influencing both the currency in circulation and currency hoarded by individuals. Interest rates also impact exchange rates and foreign trade. Moreover, changes in interest rates are expected to reflect on economic activity through deposits and credit. For these reasons, interest rates are closely monitored and analyzed as follows:

1- Short-term Interest Rates on Deposits

The impact of interest rates on the volume of deposits depends on several factors, including the inflation rate, the level of financial literacy among the public, and the quality of services provided by the banking system. Figure No. 4 shows that increases or decreases in interest rates have a weak impact on the volume of deposits due to individuals' tendency to hoard money rather than deposit it in banks. Interest rates on savings deposits remained stable at 3.5% in the first quarters of both 2023 and 2024, while interest rates for 6-month deposits remained at 4.3% in the same quarters. Interest rates for one-year deposits decreased from 5.0% in the first quarter of 2023 to 4.7% in the first quarter of 2024. It is expected that the nominal interest rate on 6-month and one-year deposits will remain stable in the second and third quarters of 2024, as well as savings deposits, with an expected increase in the volume of deposits. This implies that changes in interest rates have a weak impact on the volume of deposits.

Figure No.(4):
Interest Rates and Total Savings and Fixed Deposits

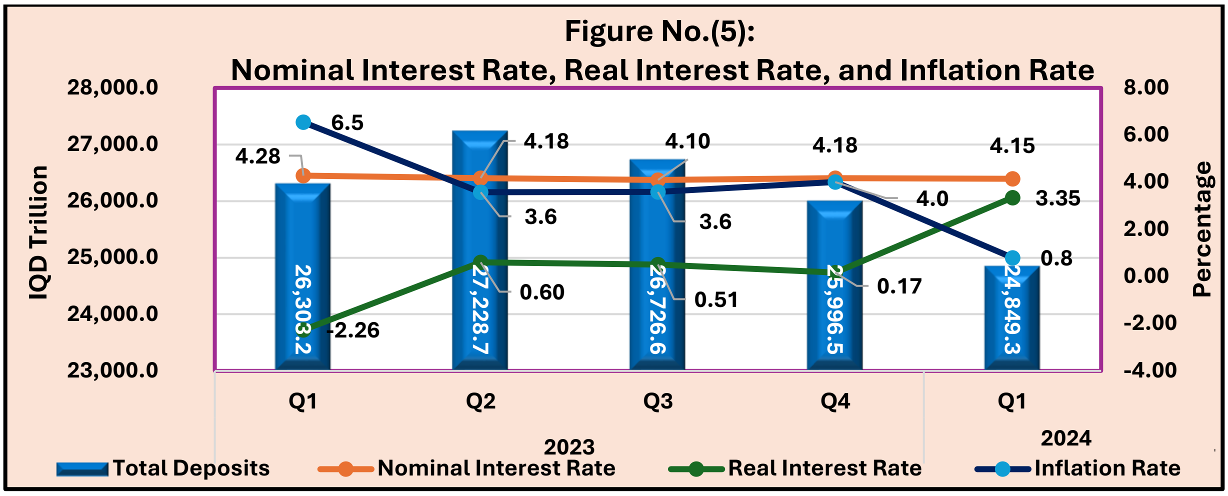


Source: Central Bank of Iraq, Statistical Website.

* Q2 and Q3 of 2024 are forecast data based on estimates from Monetary and Financial Stability Division.

2. Real Interest Rate

The real interest rate is considered a significant index as it takes into account inflationary pressures and their impact on nominal interest rates. As shown in Figure 5, there was an increase in the real interest rate during the first quarter of 2024, reaching 3.35% compared to 2.26% in the first quarter of 2023. This increase resulted from a decline in the inflation rate from 6.5% to 0.8% during the same period. This sharp decrease is attributed to a change in the base year for calculating the consumer price index, where 2022 was adopted instead of 2012, as announced by the Ministry of Planning.



Source: Central Bank of Iraq, Statistical Website.

Table No.(1): Currency Value Stability Indices			
Index Name	**Q1 2023**	**Q1 2024**	**Change Rate %**
Net Foreign reserves at CBI (IQD trillion)	142.3	142.0	- 0.2
Issued Currency (IQD trillion)	96.96	98.3	1.4
Net foreign reserves at CBI to issued currency ratio (%)	147	144	-2.0
Broad money supply (M2) (IQD trillion)	170.5	172.7	1.3
Net foreign reserves at CBI to broad money supply M2 ratio (%)	83.5	82.3	-1.5
Total imports on CIF Basis (IQD trillion)	11.6	28.5	145.7
Months of coverage of net foreign reserves for imports (months)	43.4	17.6	-59.5
Total fixed deposits and savings deposits (IQD trillion)	26.3	24.8	-5.7
Nominal interest rate on 6-month deposits (%)	4.3	4.3	0
Nominal interest rate on one-year deposits (%)	5.0	4.9	- 2
Nominal interest rate on savings deposits (%)	3.5	3.5	0
Nominal Interest Rate (%)	4.28	4.15	- 3.04
Real Interest Rate (%)	-2.26	3.35	—

This table was prepared by adopting data from

- Central Bank of Iraq, Statistical Website.
- Central Bank of Iraq, Statistics and Research Department, Balance of Payments, and External Trade Division.

Chapter Two: Analysis of Banks' Performance Indices

Chapter Two: Analysis of Banks' Performance Indices

Banks' performance analysis is a fundamental pillar in assessing the efficiency of banks in investing their deposits and the credit they provide. This analysis reveals the strengths of banks and contributes to enhancing them. It also exposes weaknesses and helps find appropriate solutions. This is done by relying on a set of indices such as the total cash credit to total deposits index, the non-performing loans to total cash credit index, the non-performing loans to total deposits index, the money multiplier index, and the bank profitability index, in addition to other indices that will be explained, as follows:

1- Outstanding Lending Facilities provided by the Central Bank to Total Bank's Liabilities

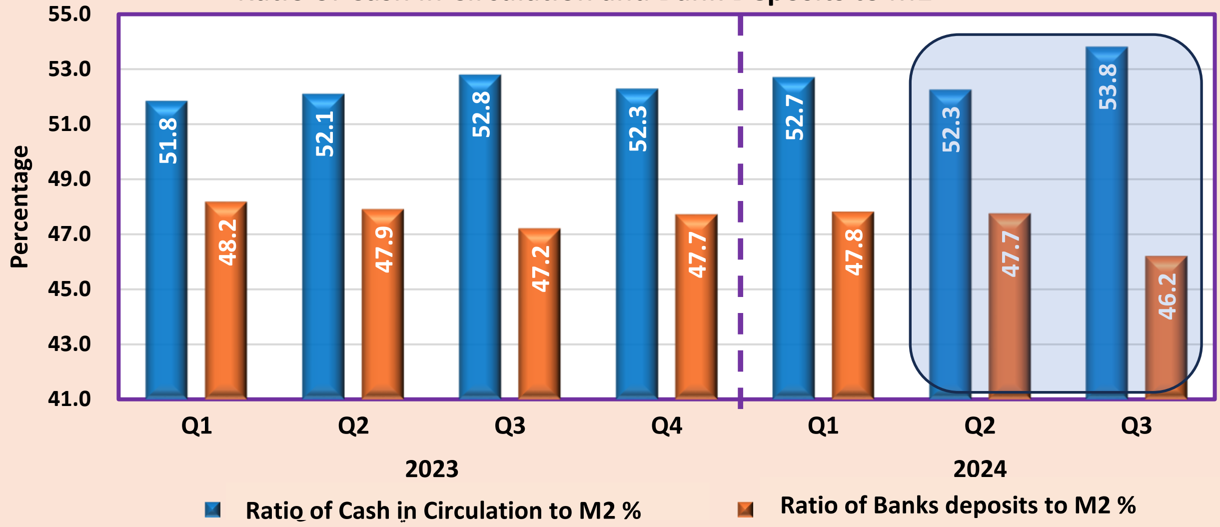
The existing lending facilities provided by the Central Bank to banks as a last resort for lending vary according to the difficulties to which banks are exposed to, as the facilities provide more financial support to banks. The Central Bank of Iraq Act No. 56 of 2004, in accordance with article 30, sets out the legal conditions for assisting banks experiencing financial crisis. The Central Bank considers that banks must have sufficient liquidity to meet depositor withdrawals and to keep the banking system from collapse, so aid demand must be based on its need to improve liquidity, Because the liquidity crisis reflects how much the banking sector is struggling. It is noteworthy that the Central Bank of Iraq did not provide loans to banks during Q1 of 2024, because banks did not need emergency liquidity or extraordinary withdrawals, or because they did not meet the mentioned conditions.

2- Bank Deposits to Broad Money Supply (M2)

Bank deposits reflect the financial liquidity of banks, which can be obtained by diversifying the services provided to the public in order to attract a larger number of depositors to the bank. Therefore, this indicator represents the public's desire to turn to banks due to the need for the services that attract the public to them. In addition, the volume of deposits in a bank is an indicator of its activity on the one hand and the extent of the spread of its banking services on the other hand. This index is measured by dividing bank deposits by the broad money supply (M2). Figure No. 6 shows that the ratio of bank deposits to M2 decreased slightly from 48.2% in the first quarter of 2023 to 47.8% in the first quarter of 2024. Conversely, the index of cash in circulation to M2 increased from 51.8% in the first quarter of 2023 to 52.2% for the same quarter of 2024. This indicates that a significant portion of the currency issued by the central bank is going towards cash in circulation rather than bank deposits. This is due to a low level of banking awareness and the benefits of using the financial services offered by banks, despite the gradual improvement in the use of electronic payment tools.

Forecasts indicate that the ratio of bank deposits to M2 will reach 47.7% and 46.2% in the second and third quarters of 2024, respectively. Meanwhile, forecasts show that the ratio of cash in circulation to M2 will reach 52.3% and 53.8% respectively for the same period.

Figure No.(6):
Ratio of Cash in Circulation and Bank Deposits to M2



Source: Central Bank of Iraq, Statistical Website.

* Q2 and Q3 of 2024 are forecast data based on estimates from Monetary and Financial Stability Division.

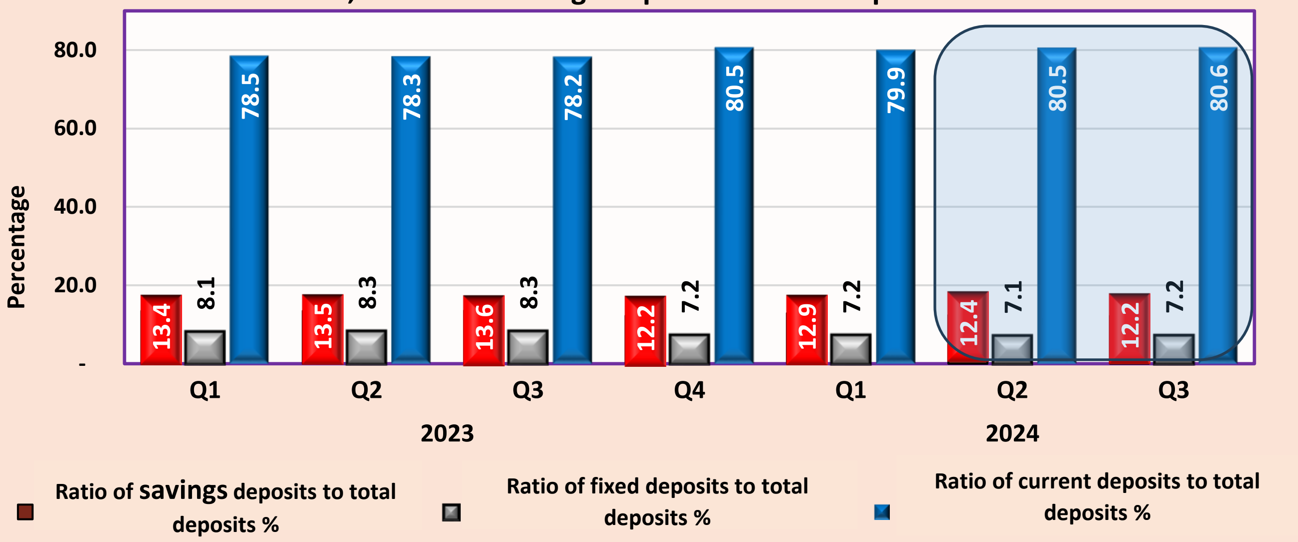
3. Types of Deposits at Banks in Iraq:

Through monitoring the types of deposits in banks, we find that current deposits have captured the largest share of total bank deposits. Their ratio to total deposits increased from (78.5%) in the first quarter of 2023 to (79.9%) in the same quarter of 2024. Meanwhile, the ratio of fixed deposits to total deposits decreased from (8.1%) in the first quarter of 2023 to (7.2%) in the same quarter of 2024.

As for the ratio of savings deposits to total deposits, it also decreased from (13.4%) in the first quarter of 2023 to (12.9%) in the same quarter of 2024. This means that banking awareness among individuals is still low, which requires operating banks to be more effective in attracting deposits by providing more services and increasing advertising that demonstrates the benefits of bank deposits. Figure No. (7) illustrates the volume of deposits in operating banks.

Forecasts indicate that the ratio of current deposits to total deposits will reach (80.5%) and (80.6%) in the second and third quarters of 2024, respectively. Forecasts show that the ratio of savings deposits to total deposits will be (12.4%) and (12.2%) respectively for the same period. As for fixed deposits, they are expected to record (7.1%) and (7.2%) respectively for the same period.

Figure No. (7):
Ratio of Fixed, Current & Savings Deposits to Total Deposits at Banks



Source: Central Bank of Iraq, Statistical and Economic Website.

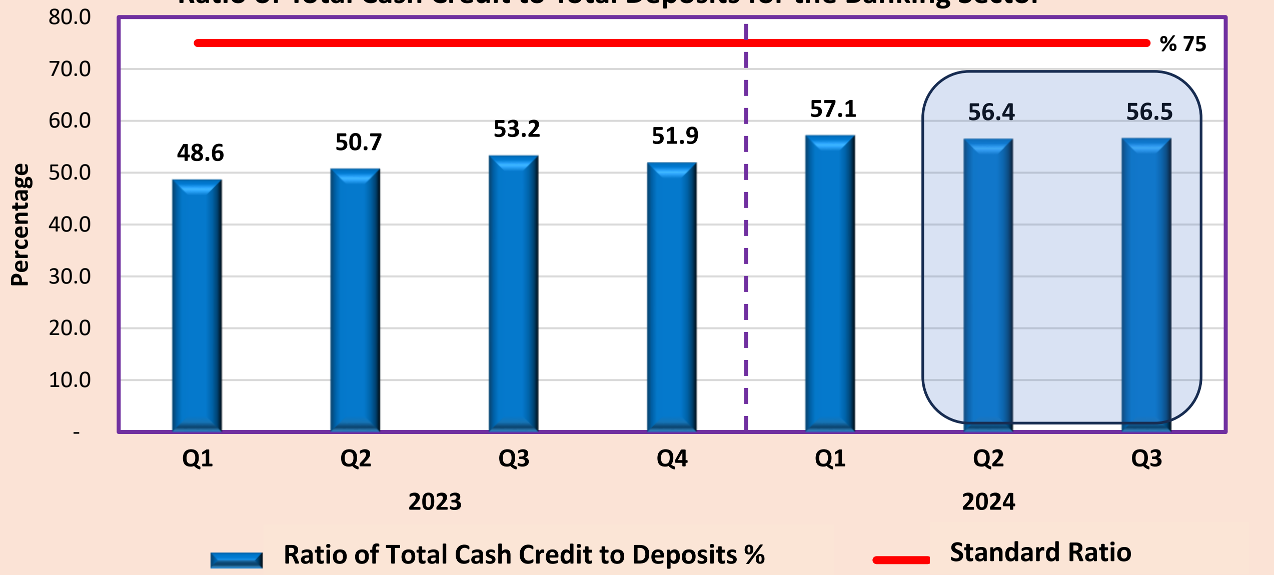
* Q2 and Q3 of 2024 are forecast data based on estimates from Monetary and Financial Stability Division.

4. Total Cash Credit to Total Deposits:

This index shows the banks' ability to utilize funds obtained from deposits to meet customer credit needs. The Central Bank of Iraq has set this ratio at (75%) to maintain sufficient liquidity for banks to face customer withdrawals and conduct banking activities. This ratio is calculated by dividing total cash credit by total deposits at operating banks. It reflects the long-term liquidity position of the banking sector. Figure No. (8) shows that the ratio of total cash credit to total deposits increased from (48.6%) in the first quarter of 2023 to (57.1%) in the same quarter of 2024, due to a (19.1%) increase in the volume of credit granted compared to a (1.3%) increase in the volume of deposits for the same period. Despite this increase, the ratio of total credit to total deposits did not exceed the ratio set by the Central Bank.

It is expected that the ratio will decrease to (56.4%) and (56.5%) for the second and third quarter of 2024, respectively.

Figure No. (8)
Ratio of Total Cash Credit to Total Deposits for the Banking Sector



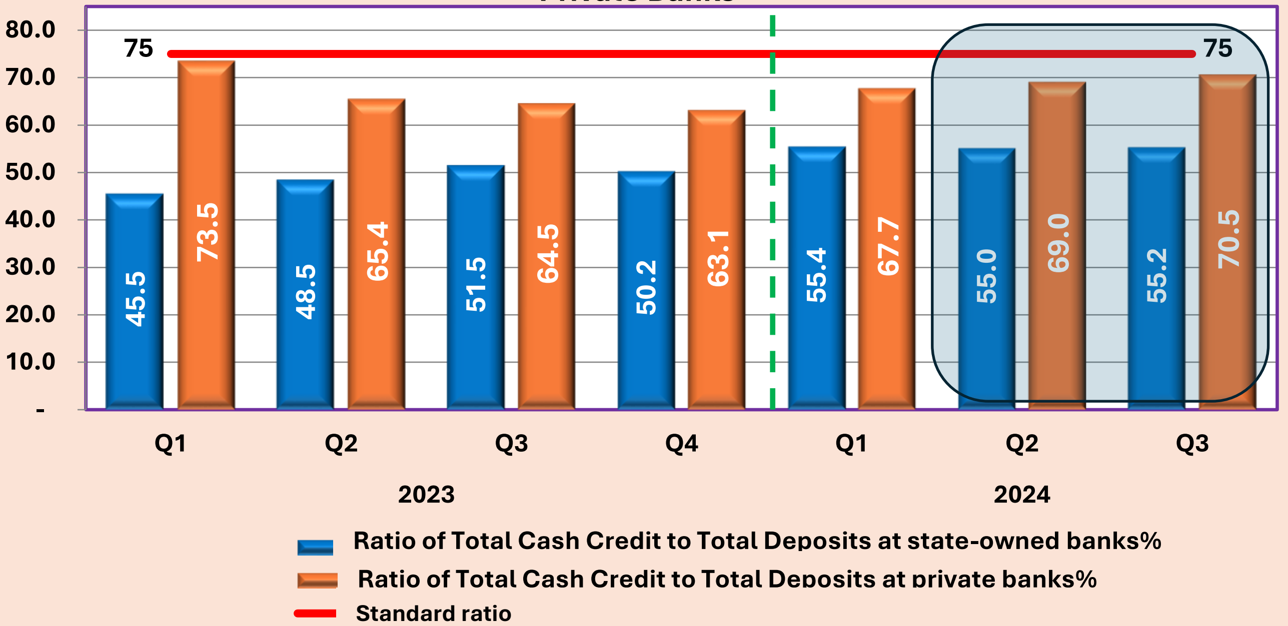
Source: Central Bank of Iraq, Statistical and Economic Website.

- Q2 and Q3 of 2024 are forecast data based on estimates from Monetary and Financial Stability Division.

It is also shown that the ratio of total cash credit to total deposits at private banks is higher than that of state-owned banks, despite decreasing during the first quarter of 2024. Figure No. (9) shows that the ratio for private banks decreased from (73.5%) in the first quarter of 2023 to (68.1%) in the same quarter of 2024, because of a (22.6%) increase in total deposits at private banks. This is due to the continued increase in financial inclusion. In contrast, the increase in credit granted was (13.7%) during the same period. As for state-owned banks, the ratio also did not exceed the specified limit, although it increased from (45.5%) in the first quarter of 2023 to (55.4%) in the same quarter of 2024.

It is expected that the ratio of total cash credit to total deposits for state-owned banks will reach (55.0%) and (55.2%) in the third quarter compared to the second quarter of 2024, respectively. For private banks, the ratio is expected to reach (69.0%) and (70.5%) respectively for the same period.

Figure No. (9):
Ratio of Total Cash Credit to Total Deposits for Both State-Owned & Private Banks



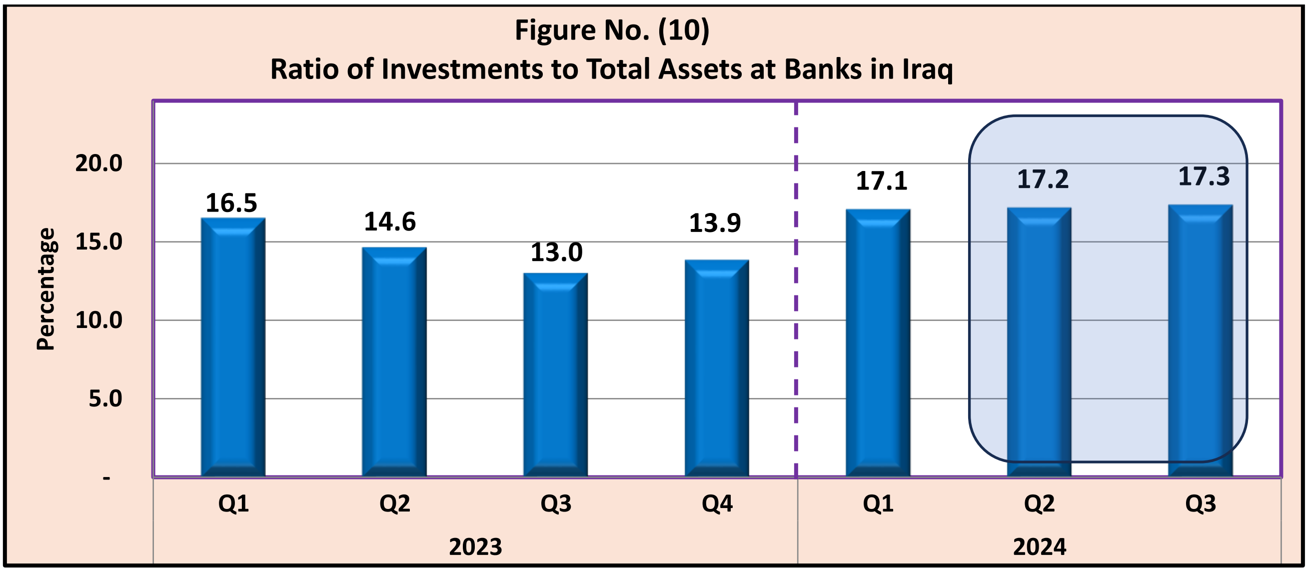
Source: Central Bank of Iraq, Monetary and Financial Statistics Department.

* Q2 and Q3 of 2024 are forecast data based on estimates from Monetary and Financial Stability Division.

5. Banks' Investments to Total Assets:

This index is a significant measure of the actual investment size within the balance sheets of operating banks. Investments are crucial because they generate returns for the bank and increase its profits, especially if these investments are in high-yield activities. Investments are funded by the bank's capital and available deposits and are listed as assets on the bank's balance sheet. Therefore, they are measured against total assets to determine their size within the bank. Figure No. (10) shows that the ratio of total investments to total assets of operating banks increased from (16.5%) in the first quarter of 2023 to (17.1%) in the same quarter of 2024, primarily due to increased investments by private banks.

It is expected that the ratio of investments to total assets of operating banks will reach (17.2%) and (17.3%) for the second and third quarters of 2024, respectively.



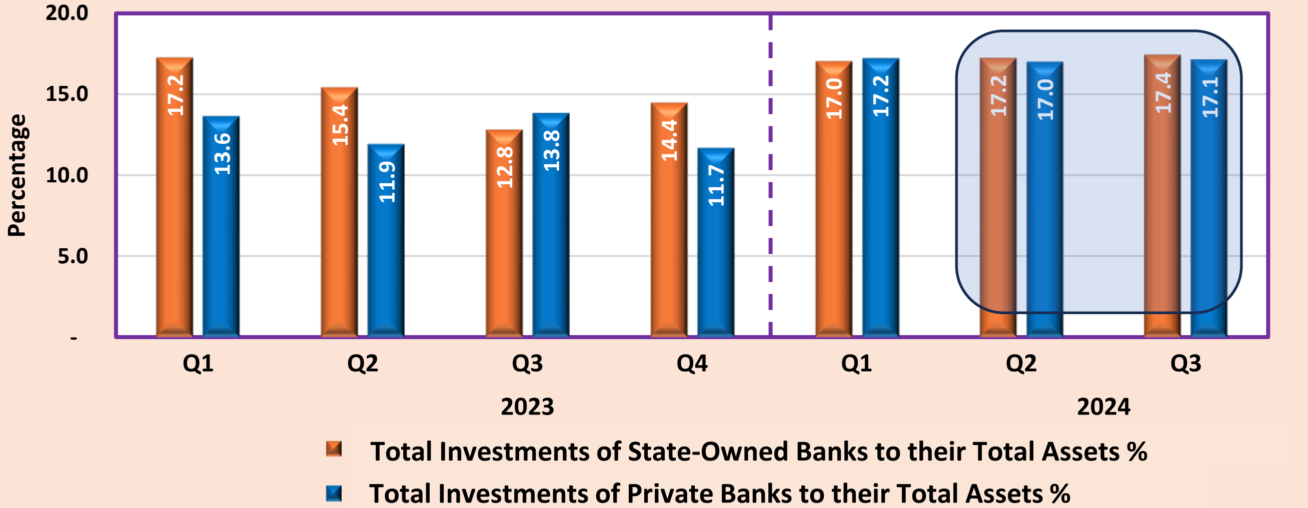
Source: Central Bank of Iraq, Department of Statistics and Research, Monetary and Financial Statistics Division.

- Q2 and Q3 of 2024 are forecast data based on estimates from Monetary and Financial Stability Division.

When looking at the classification of banks by ownership, we find that the ratio of investments to total assets for state-owned banks is higher than that of private banks. Figure No. (11) shows that the ratio of total investments to assets for state-owned banks decreased from (17.2%) in the first quarter of 2023 to (17.0%) in the same quarter of 2024, while the ratio of investments to total assets for private banks increased from (13.6%) in the first quarter of 2023 to (17.2%) in the same quarter of 2024. It is worth noting that investments by state-owned banks account for (77.5%) of the total investments of all operating banks in the first quarter of 2024.

It is expected that the ratio of investments to total assets for state-owned banks will reach (17.2%) and (17.4%) for the second and third quarters of 2024, respectively, while for private banks, the ratio is expected to reach (17%) and (17.1%) respectively for the same period.

Figure No. (11):
Ratio of Total Investments to Total Assets for both State-Owned and Private Banks



Source: Central Bank of Iraq, Monetary and Financial Statistics Division.

* Q2 and Q3 of 2024 are forecast data based on estimates from Monetary and Financial Stability Division.

6. Money Multiplier:

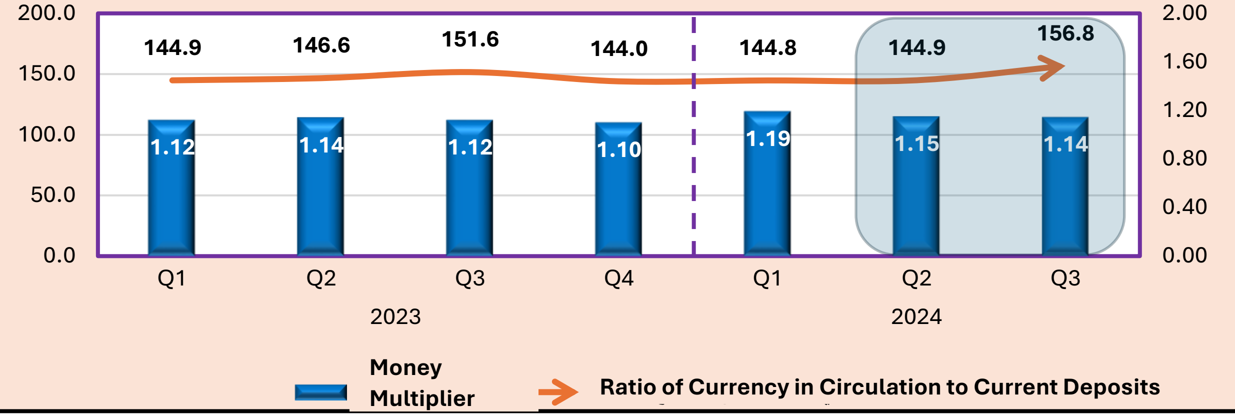
The money multiplier recorded an increase in the first quarter of 2024, reaching (1.19) compared to (1.12) in the same quarter of 2023. This is due to a (5.3%) decrease in the monetary base, which reached IQD (144.7) trillion in the first quarter of 2024 compared to IQD (152.7) trillion in the same quarter of 2023. Meanwhile, broad money supply (M2) increased to IQD (172.7) trillion, compared to IQD (170.5) trillion, reflecting the expansion of banks' banking activities in exchange for holding a portion of their deposits with the Central Bank. Cash Credit increased by (19.1%) during the same period, as shown in Figure No. (12).

It is expected that the ratio of currency in circulation to current deposits will reach (144.9%) and (156.8%) for the second and third quarters of 2024, respectively, and that the money multiplier will record (1.15) and (1.14) for the same period.

Money multiplier:

The money multiplier is defined as the ratio that expresses the amount of new money that banks can create through their existing reserves.

Figure No. (12):
Currency in Circulation to Deposits and the Money Multiplier



Source: Central Bank of Iraq, Department of Statistics and Research, Estimates from the Monetary and Financial Stability Division.

- Q2 and Q3 of 2024 are forecast data based on estimates from Monetary and Financial Stability Division.

7. Banks' Profitability:

This index shows the profits earned or losses incurred by banks. Figure No. (13) illustrates the return on equity and return on assets for banks operating within the banking system. We find that there has been an increase in the return on assets from (1.9%) in the first quarter of 2023 to (2.0%) in the same quarter of 2024. However, the return on equity has decreased from (15.5%) in the first quarter of 2023 to (14.5%) in the same quarter of 2024. This indicates that the increase in the proportion of equity capital of operating banks was greater than the return achieved in the first quarter of 2024.

Frame (1)

According to Central Bank of Iraq Board of Directors Decision No. (127), it was decided to increase the capital of banks to no less than IQD (400) billion by December 31, 2024, in three installments, with each installment not less than IQD (50) billion. The first increase was on December 31, 2023.

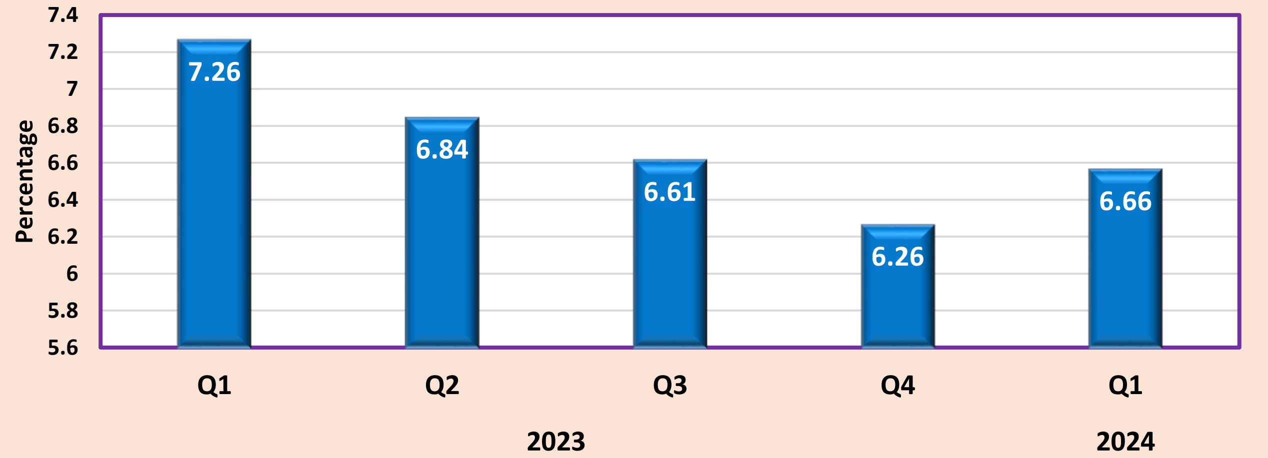
Figure No. (13):
Return on Equity and Return on Assets at Banks in Iraq

Source: Central Bank of Iraq, Department of Statistics and Research, Monetary and Financial Statistics Division.

8. Non-Performing Loans to Total Cash Credit:

This index is calculated by dividing non-performing loans by total cash credit. Figure No. (14) shows that the ratio of non-performing loans to total cash credit in the first quarter of 2024 decreased to (6.66%) from (7.26%) in the same quarter of 2023. This decrease is due to the higher growth rate of total cash credit granted, which increased by (19.1%), compared to the growth rate of non-performing loans, which was (9.26%).

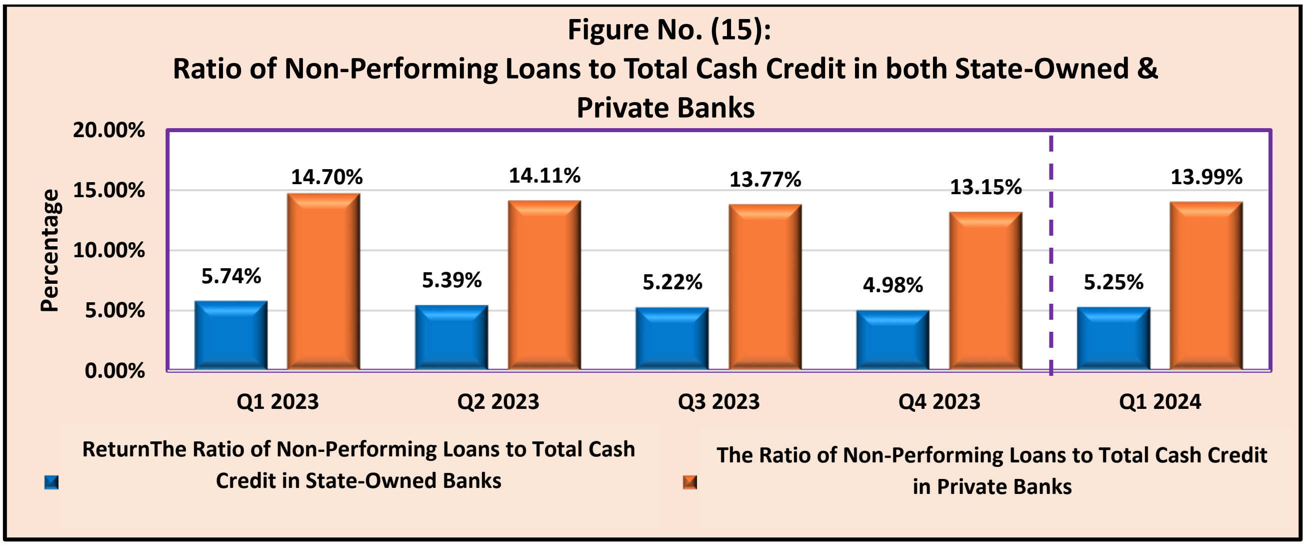
Figure No. (14):
Ratio of Non-Performing Loans to Total Cash Credit



Source: Central Bank of Iraq, Department of Statistics and Research, Statistical Website.

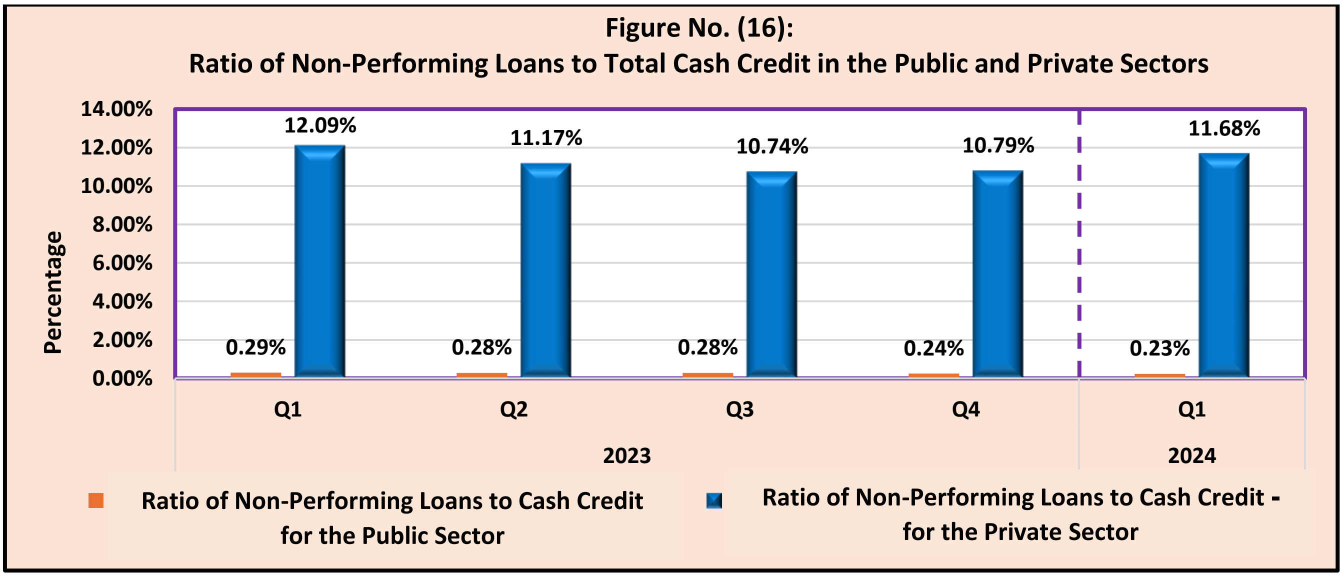
When looking at the classification of banks by ownership, we find that the ratio of non-performing loans to total cash credit is higher for private banks compared to government banks. Figure No. (15) shows that the ratio of non-performing loans to total cash credit for private banks increased to (13.99%) in the first quarter of 2024, compared to (13.62%) in the same quarter of 2023.

Additionally, the provision for non-performing loans for private banks reached 83% of their total non-performing loans. As for state-owned banks, the ratio of non-performing loans to total cash credit reached (5.25%) in the first quarter of 2024, down from (5.74%) in the same quarter of 2023, while the provision for non-performing loans for state-owned banks reached (125%) of their total non-performing loans during the same period.



Source: Central Bank of Iraq, Statistics and Research Department, Annual Statistical Bulletin.

Regarding non-performing loans (NPLs) as a proportion of total cash credit for both the private and public sectors, it is observed that the NPL ratio for the private sector is higher than that of the public sector. Specifically, the NPL ratio for the private sector reached (11.68%) during the first quarter of 2024, while the same ratio for the public sector reached (0.23%) during the same period. Figure No. (16) illustrates this.

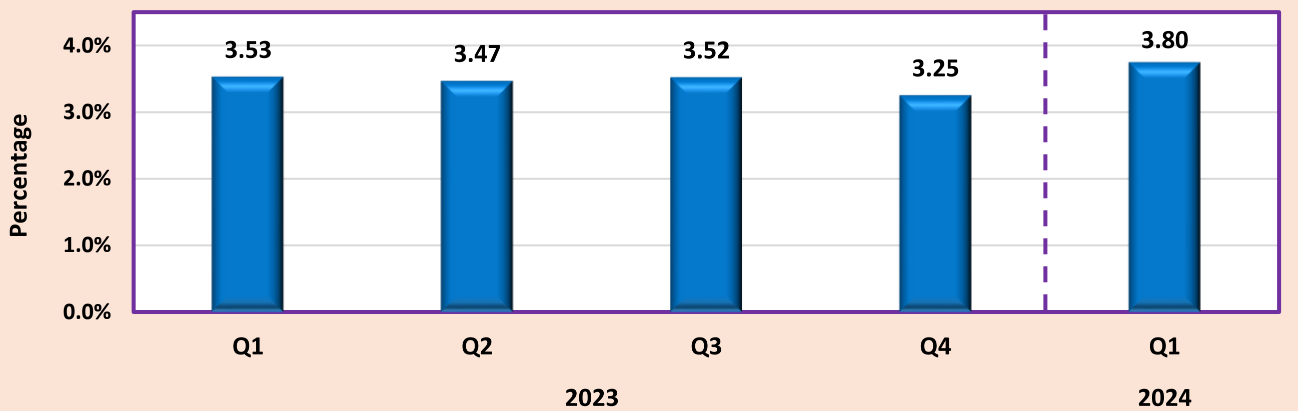


Source: Central Bank of Iraq, Statistics and Research Department, Annual Statistical Bulletin.

9. Non-Performing Loans to Total Deposits:

This index is calculated by dividing non-performing loans by the total deposits of operating banks. Figure No. (17) shows that the ratio of non-performing loans to total deposits increased to (3.8%) in the first quarter of 2024, compared to (3.53%) in the same quarter of 2023. This increase is due to the growth of total non-performing loans by (9.26%), which is higher than the growth rate of total deposits at (1.30%).

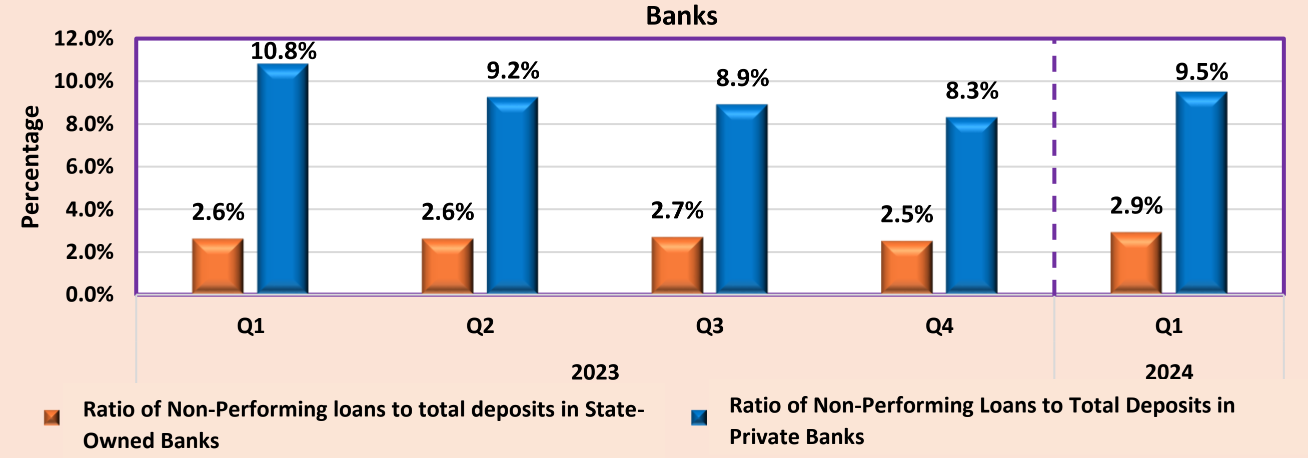
Figure No. (17):
Ratio of Non-Performing Loans to Total Deposits



Source: Central Bank of Iraq, Statistics and Research Department, Statistical Website.

Regarding the classification of banks by ownership, we find a decrease in this ratio for private banks. The ratio of non-performing loans to total deposits in private banks decreased in the first quarter of 2024 to (9.5%) from (10.8%) in the same quarter of 2023. Meanwhile, this ratio increased slightly for state-owned banks to (2.9%) in the first quarter of 2024 from (2.6%) in the same quarter of 2023. This difference between private and state-owned banks is attributed to the higher volume of deposits in state-owned compared to private banks.

Figure No. (18):
Ratio of Non-Performing Loans to Total Deposits in both State-Owned and Private Banks



Source: Central Bank of Iraq, Department of Statistics and Research, Annual Statistical Bulletin.

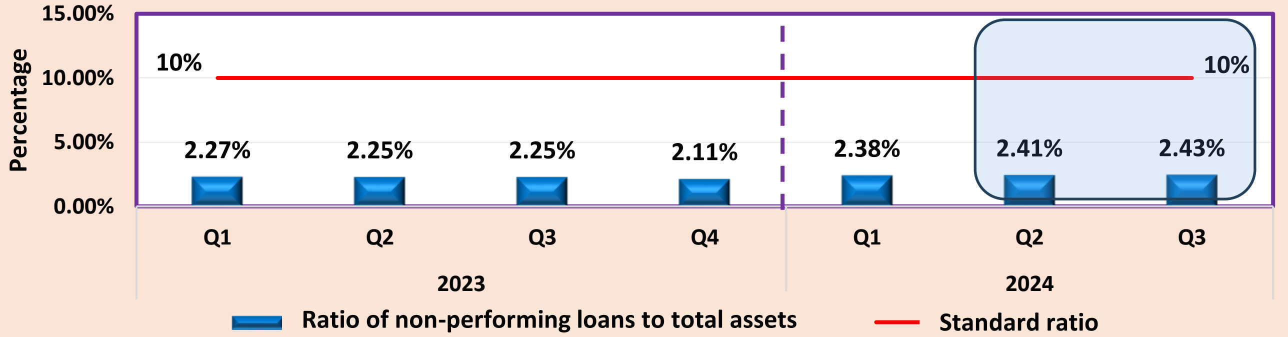
10 - Non-Performing Loans to Total Assets:

This index is measured by dividing non-performing loans to total assets in banks, and the standard value for this ratio is (10%).

Though non-performing loans to total assets exceeding the standard value indicates a significant increase in the volume of non-performing loans[1]. Figure (19) shows the ratio of non-performing loans to total assets in banks in Iraq, as a slight increase in this ratio is noted to reach (2.38%) in Q1 of 2024 compared to (2.27%) for the same quarter of 2023. It is worth noting that the ratio of non-performing loans to total assets did not exceed the aforementioned standard ratio, and this is a positive indicator that indicates the ability of banks to confront any potential financial crisis in the coming period.

The ratio of non-performing loans to total assets for Q2 and Q3 of 2024 is expected to be (2.41%) and (2.43%) respectively.

Figure No. (19):
Ratio of Non-Performing Loans to Total Assets

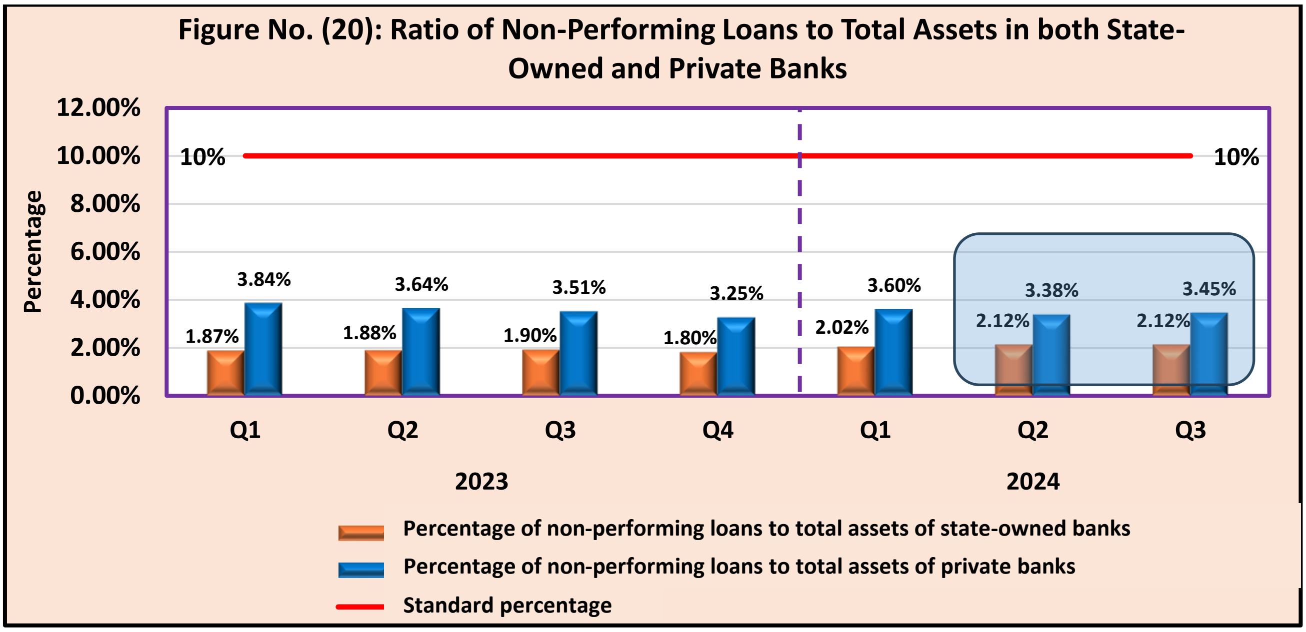


Source: CBI, Statistics and Research Department, Statistical Website.

* Q2 and Q3 of 2024 are forecast data based on estimates from the Monetary and Financial Stability Division.

Considering the breakdown of banks according to ownership, it could be found that both private banks and state-owned banks did not exceed the aforementioned ratio as shown in Figure No. (20), noting that this percentage is higher for private banks than its counterpart for state-owned banks. Since it reached (3.60%) for private banks in Q1 of 2024, while this percentage reached (2.02%) for state-owned banks for the same period, and this percentage does not raise the concern with regard to financial stability.

[1] For more, see, CBI 2020, Early Warning Report for the Banking Sector, Issue Thirteen, p. 23.



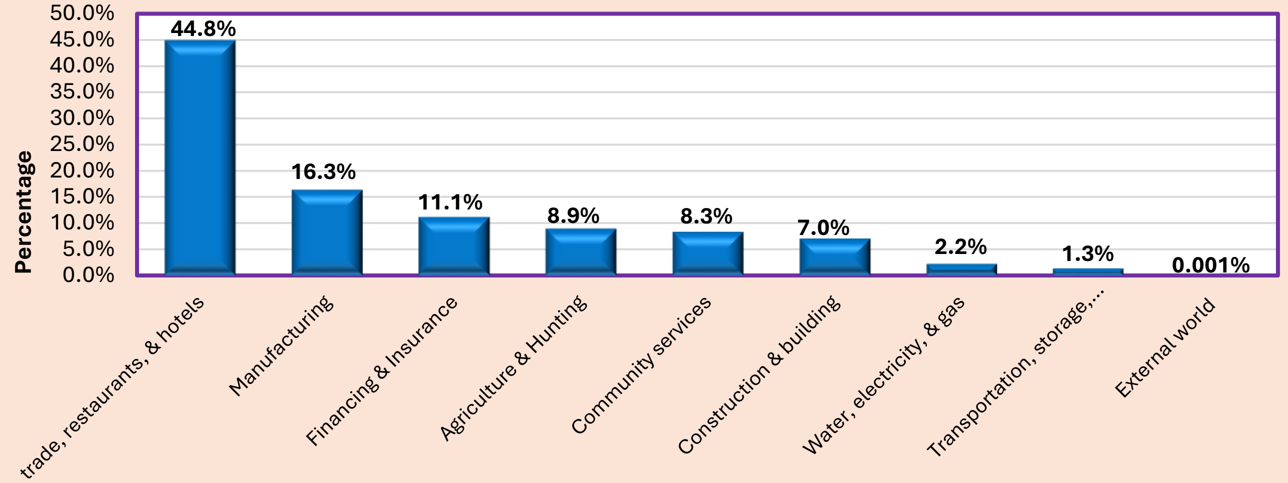
Source: CBI, Statistics and Research Department, Annual Statistical Bulletin.

* Q2 and Q3 of 2024 are forecast data, based on forecasts from the Monetary and Financial Stability Department.

11 - Sectoral Distribution of Non-Performing Loans:

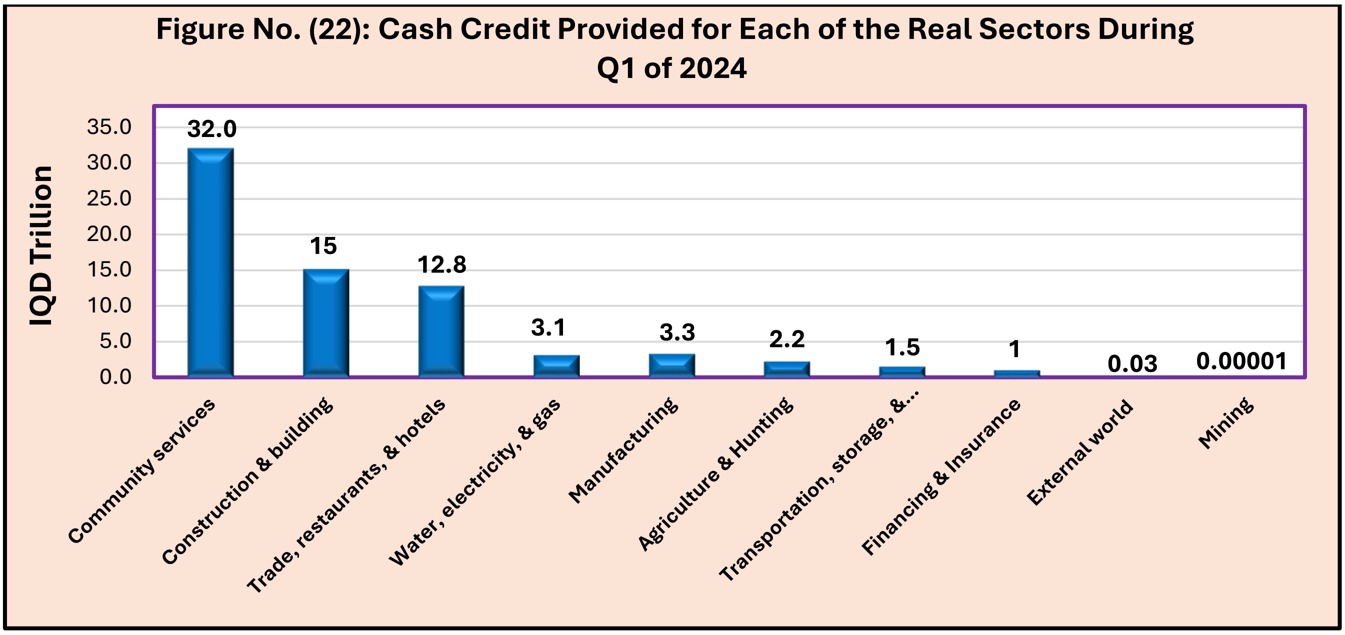
This index shows the sectoral distribution of non-performing loans, and Figure No. (21) shows that the trade, restaurants and hotels sector recorded the largest percentage of non-performing loans, reaching (44.8%) during Q1 of 2024. This demands that the guarantees required by the bank to be more robust in order to reduce the shocks that this sector may be exposed to, in case that some of the existing projects are stopped due to default in repaying loans. This sector is followed by the manufacturing one, which recorded (16.3%) during the same period. Therefore, it is necessary for banks to be more cautious and careful in granting credit for these two sectors, to avoid faltering their activity and ensure the safety of depositors' funds. It is necessary to develop policies that enable these two sectors to recover and return to the correct growth path.

Figure No. (21): Rate of Non-Performing Debts for Each of Real Sectors During the First Quarter of 2024



Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

It is worth noting that the trade, restaurants and hotels sector does not represent the largest share of the volume of credit granted within the real sector, but it recorded the largest share of the volume of bad debts. While the community services sector recorded the largest share of cash credit granted to the real sectors at a rate of (45.0%) and an amount of IQD (32.0) trillion, followed by the construction and building sector at a rate of (21.2%), as shown in Figure No. (22).

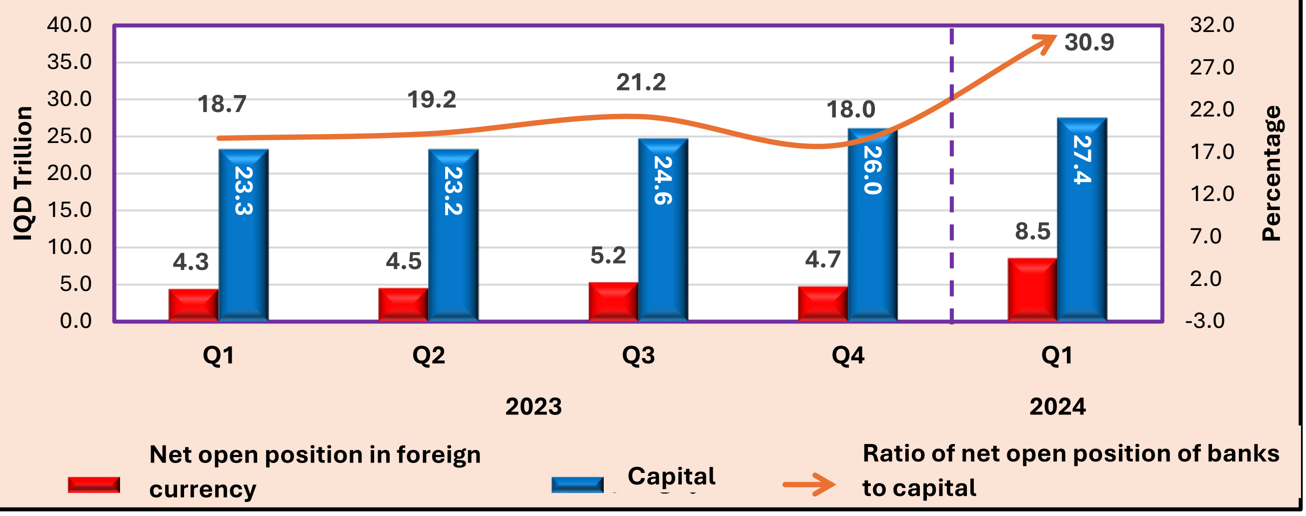


Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

12- Net Open Foreign Currency Position of Banks:

This index measures the net foreign assets of operating banks, by calculating the difference between their foreign assets and foreign liabilities divided by capital. Consequently, a decrease in this ratio means a decrease in the volume of foreign assets of operating banks or an increase in foreign liabilities, and vice versa. Figure No. (23) shows an increase in the index ratio for operating banks from (18.7%) in Q1 of 2023 to (30.9%) in the same quarter of 2024, as a result of an increase in net foreign assets by (95.2%) with an increase in capital by (18.0%), which reflects the desire of operating banks to increase their assets such as deposits and securities in foreign currency.

Figure No. (23): Net Open Foreign Currency Position of Banks

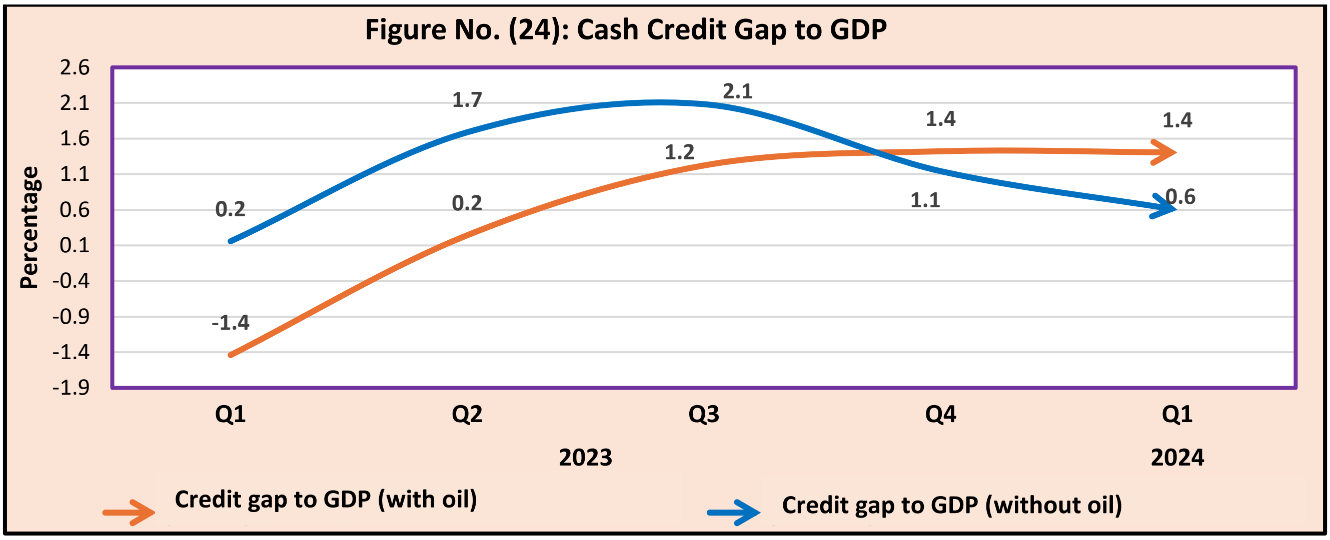


Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

13- Private Sector Cash Credit Gap to GDP:

The credit gap is defined as the ratio of cash credit provided to the private sector to GDP at current prices, minus the general trend of the ratio of credit (directed to the private sector) to GDP[2] at current prices. As the estimated ratio approaches the standard value, banks must create additional capital buffers, known as buffers of cyclical fluctuations, due to the increase in credit growth at a rate greater than the increase in GDP growth. Figure No. (24) shows the credit gap to GDP with and without oil. This gap without oil reached (0.6%) in Q1 of 2024. While the gap when measuring GDP data with oil reached (1.4%) in the same period. From the above, it is clear that the two gaps in Q1 of 2024 are lower than the standard ratio, which means that it is possible to increase cash credit provided to the private sector without fear of financial destabilization.

[2] For more information on the method of calculating the output gap, refer to the CBI, Early Warning Report of Iraq No. 18, Chapter 1, 2020.



Source: Central Bank of Iraq, Estimates of Monetary and Financial Stability Division.

Table No. (2): Indices for Analyzing Bank's Performance			
Index name	**Q1 2023**	**Q1 2024**	**Growth Rate %**
Bank deposits to M2 (%)	48.2	47.8	-0.8
Cash in circulation to M2 (%)	51.8	52.2	0.8
Total cash credit to total deposits (%)	48.6	57.1	17.5
Total investment to total assets (%)	16.5	17.1	3.6
Money multiplier	1.12	1.19	6.2
Currency in circulation to current deposits (%)	144.9	144.8	-0.1
Return on equity (%)	15.5	14.5	-6.5
Return on assets (%)	1.9	2.0	5.3
Non-performing loans to total cash credit (%)	7.26	6.66	-8.3
Non-performing loans to total deposits (%)	3.53	3.80	7.6
Non-performing loans to total assets (%)	2.27	2.38	4.8
Net open foreign currency position of banks (%)	18.7	30.9	65.2

The prepared table was based on the following data:
- Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

Chapter 3: Analysis of Macroeconomic Performance Indices

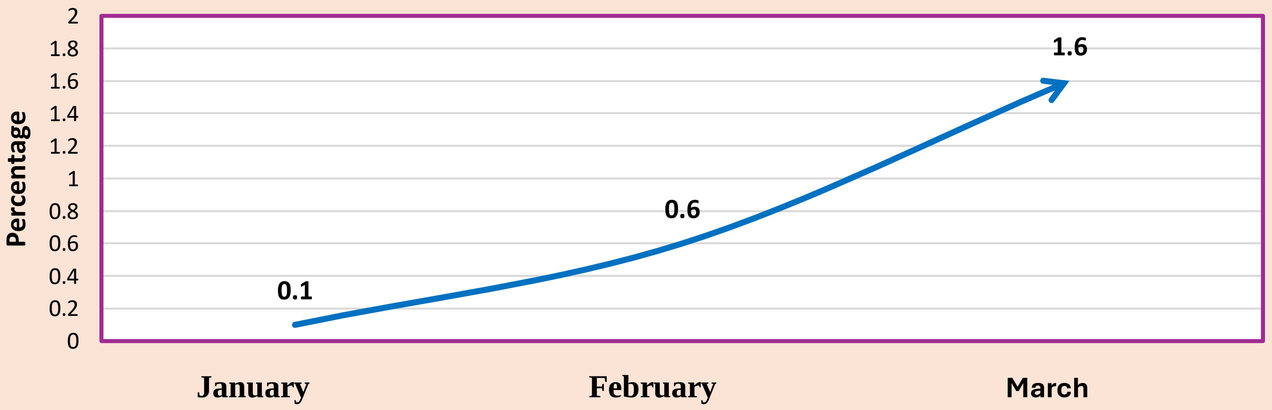
Chapter 3: Analysis of Macroeconomic Performance Indices

Macroeconomic variables are among the most important factors influencing the financial system, and they directly and indirectly affect the banking sector. Therefore, the early warning report has analyzed the most important macroeconomic indices, including the inflation rate, the internal public debt index, as well as the calculation of the implicit GDP deflator, which illustrates the limits of production capabilities within the Iraqi economy, in addition to measuring the gross domestic product gap (GDP-gap). The following are the most important macroeconomic indices:

1. Inflation Rate:

The inflation rate is measured through several indices, but the most important is the Consumer Price Index (CPI), as it reflects changes in the prices of some goods and services consumed by individuals, whether produced locally or imported. It is worth noting that the inflation rate for 2024 was calculated by setting 2022 as the base year for calculating the (CPI) instead of 2012 as previously announced by the Ministry of Planning. The inflation rate recorded an increase in March 2024 to reach (1.6%) after being (0.6%) in February of the same year.

Figure No. (25): Inflation Rate for Months of 2024



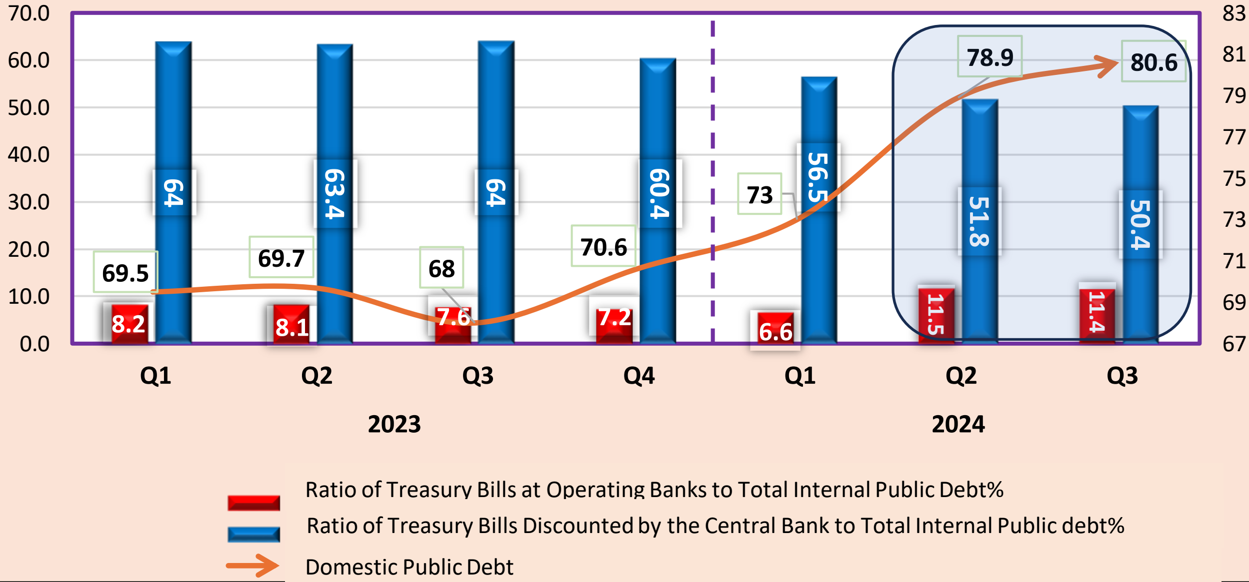
Source: Central Bank of Iraq, Basic Financial Data.

2. Internal Debt Growth Rate:

This index shows the government's obligations towards banks and the central bank. Figure No. (26) shows that the ratio of treasury bills to operating banks to total domestic public debt decreased to (6.6%) in the first quarter of 2024, compared to (8.2%) in the same quarter of 2023. As for the discounted transfers from the central bank to the public debt, it also decreased to reach (56.5%) in the first quarter of 2024, compared to (64.0%) in the same quarter of 2023, because of the government's repayment of part of these transfers. On the other hand, total internal public debt increased to reach a value of IQD (73) trillion in the first quarter of 2024, compared to IQD (69.5) trillion in the same quarter of 2023, due to the government's borrowing from state-owned banks by an amount of IQD (3.8) trillion to cover the budget deficit from operating and investment expenditures.

The internal public debt is expected to increase by (13%) and (18%) to reach IQD (78.9) trillion and IQD (80.6) trillion, respectively, for the second and third quarters of 2024.

Figure No. (26):
Treasury Bills and Transfers Discounted by Banks



Source: Central Bank of Iraq, Statistics and Research Department.

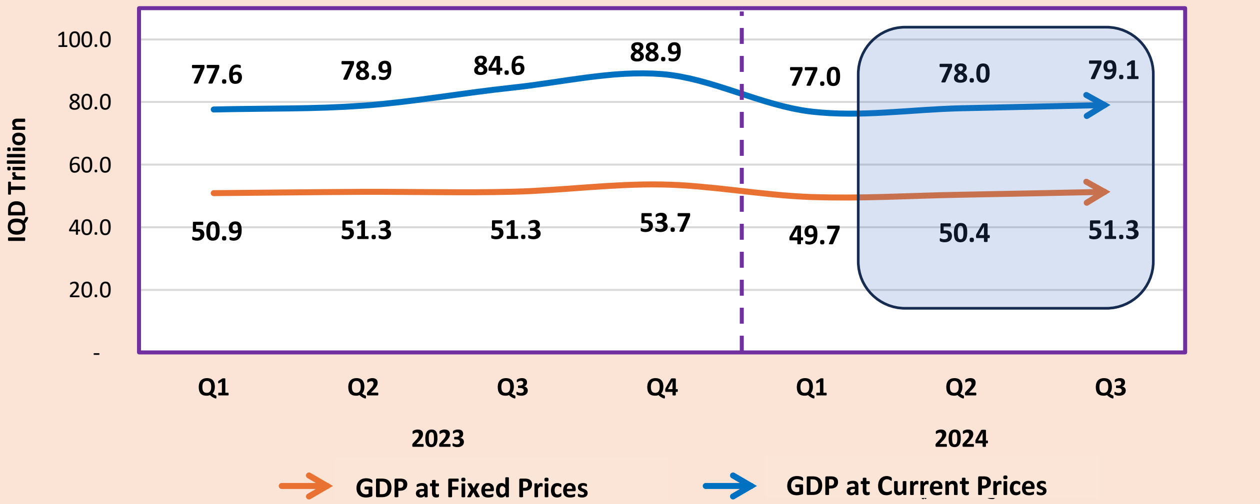
* Q2 & Q3 Of 2024 Are Forecast Data Based on Forecasts from the Monetary And Financial Stability Division.

3. Gross Domestic Product (GDP) Growth:

Gross Domestic Product (GDP) represents one of the most important economic indices used to evaluate the size and growth of an economy, as it reflects the level of economic activity in a country over a specific period. The GDP at current prices in Iraq decreased in the first quarter of 2024 by (0.9%) to record IQD (76.9) trillion compared to the same quarter of 2023, which amounted to IQD (77.6) trillion. This is due to the decline in the production of crude oil, which recorded an amount of IQD (32.8) trillion, compared to IQD (36.2) trillion. Also, the production of the mining and quarrying sector decreased to record an amount of IQD (32.9) trillion, compared to IQD (36.3) trillion during the same period. This affected the decline in the growth of GDP at current prices, as shown in Figure No. (27).

The GDP at current prices is expected to decline for the second and third quarters of 2024, compared to the same two quarters of 2023, respectively, and the GDP at constant prices is expected to reach IQD (50.4) trillion and IQD (51.3) trillion in the second and third quarters of 2024, respectively.

Figure No. (27):
GDP at Fixed and Current Prices



Source: Ministry of Planning, Central Bureau of Statistics, Gross Domestic Product Data.

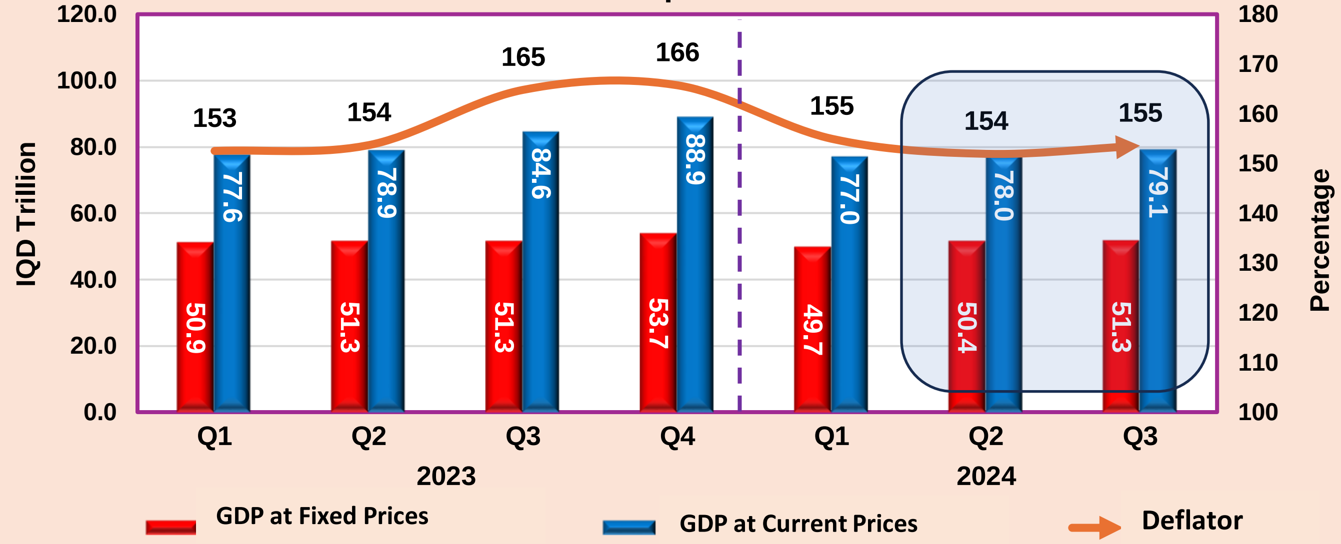
* The second and third quarters of 2024 data are forecasts based on projections from the Monetary and Financial Stability Department.

4. Implicit Price Deflator:

The Implicit Price Deflator is considered one of the indices used to measure the rate of inflation as it reflects changes in the prices of all goods and services produced within a country over a specific period. It can be calculated by dividing the current-price GDP by the fixed-price GDP.[1] A higher value of the deflator indicates an increase in the overall price level. Figure No. (28) shows an increase in the value of the implicit deflator to (155%) in the first quarter of 2024, compared to (153%) in the same quarter of 2023. This is due to positive inflation rates during the same period.

The implicit deflator is expected to rise to (154%) and (155%) respectively in the second and third quarters of 2024.

Figure No. (28):
GDP and Implicit Deflator



Source: Central Bank of Iraq, Statistical and Economic Website.

* The second and third quarters of 2024 data are forecasts based on projections from the Monetary and Financial Stability Department.

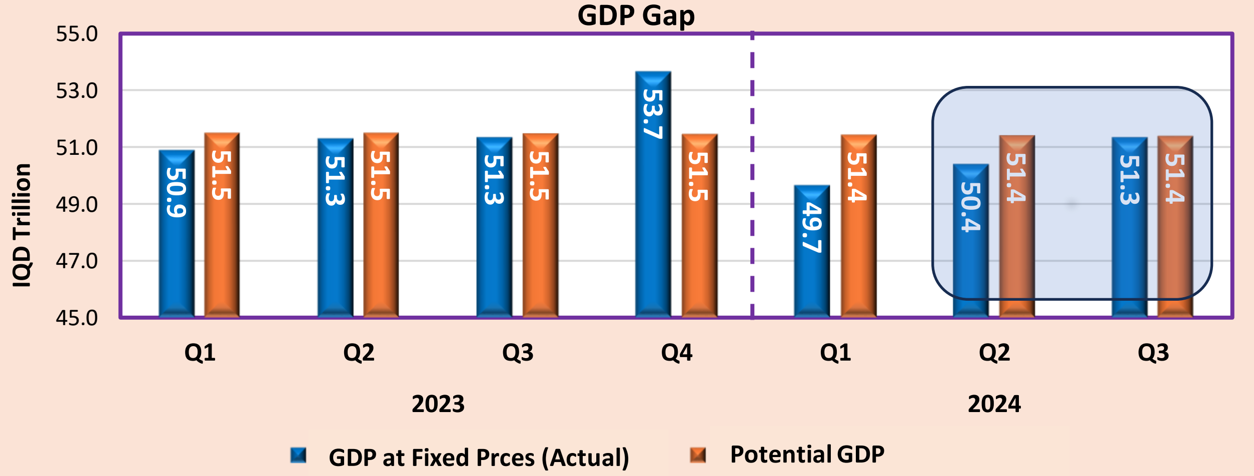
[1]] For more information on the deflator, refer to the Central Bank of Iraq, Early Warning Report, Issue Nineteen.

5. GDP Gap:

The GDP gap represents the difference between the actual (at fixed prices) and potential Gross Domestic Product (GDP). A positive gap indicates that the actual GDP is greater than the potential GDP, meaning the economy is operating above its production capacity. A negative gap, on the other hand, suggests that the actual GDP is less than the potential GDP, implying that the economy is operating below its production capacity. This leads to higher-than-normal unemployment rates and lower-than-possible output, causing deflationary pressures. Figure No. (29) shows that the potential GDP reached IQD (51.4) trillion in the first quarter of 2024, while the actual GDP decreased to IQD (49.7) trillion for the same quarter in 2024, compared to IQD (50.9) trillion in the same quarter of 2023. This indicates that the economy is operating below its potential.

The actual GDP is expected to increase in the second and third quarters of 2024, reaching IQD (50.4) trillion and IQD (51.3) trillion respectively, compared to the first quarter of 2024. However, the potential GDP is expected to remain constant at IQD (51.7) trillion.

Figure No. (29)
GDP Gap



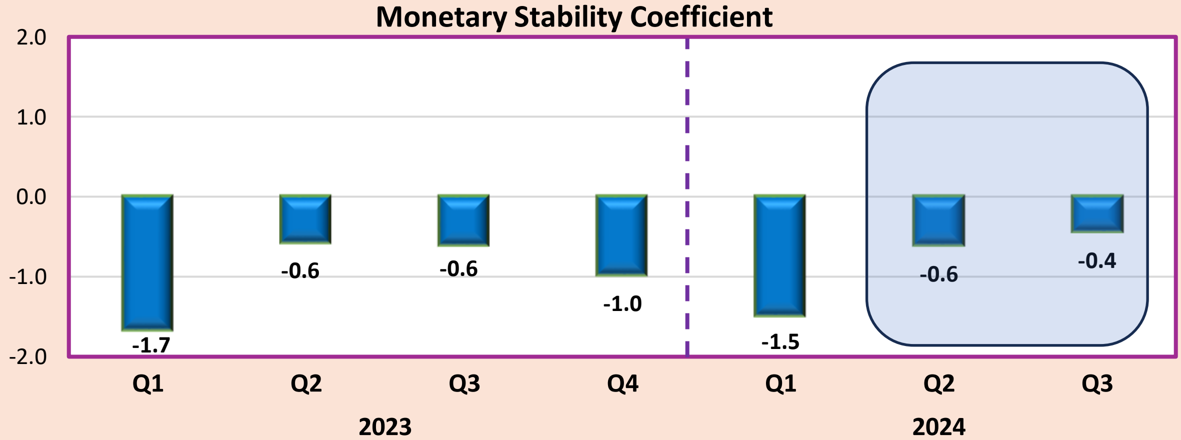
Source: Central Bank of Iraq estimates from the Monetary and Financial Stability Division based on data from the Ministry of Planning, Authority of Statistics and Geographic Information Systems.

*The second and third quarters of 2024 data are forecasts based on projections from the Monetary and Financial Stability Division.

6. Monetary Stability Coefficient:

The monetary stability coefficient indicates the degree of balance between the money supply and the quantity of goods and services in the economy. It is calculated by dividing the growth rate of broad money supply (M2) by the growth rate of GDP in current prices. Monetary stability is achieved when the value of this coefficient equals one. A value greater than one indicates inflationary pressures in the economy (a rise in the general price level), while a value less than one signifies deflationary pressures. Figure No. (30) illustrates the changes in the value of this index. It recorded a value of (-1.5) in the first quarter of 2024, compared to (-1.7) in the same quarter of 2023. This decrease is due to a decline in the quarterly growth rate of M2 to (1.3%) in the first quarter of 2024 from (32.5%) in the same quarter of 2023, as well as a decrease in the growth rate of nominal GDP during the same period to (0.9). This indicates that the economy is in a deflationary phase. The monetary stability coefficient is expected to reach (-0.6) and (-0.4) in the second and third quarters of 2024, respectively.

Figure No.(30):
Monetary Stability Coefficient



Source: Central Bank of Iraq, Department of Statistics and Research.

* Data for the second and third quarters of 2024 is forecasted based on projections from the Monetary and Financial Stability Division.

Table No. (3): Macroeconomic Performance Indices			
Indicator	**Q1 2023**	**Q1 2024**	**Change Rate %**
Inflation Rate (%)	6.5	0.8	- 87.7
Treasury Bills Ratio to Total Internal Debt (%)	8.2	6.6	- 19.5
Discounted Bills Ratio to Total Internal Debt (%)	64	56.5	- 11.7
GDP in Current Prices (Trillion IQD)	77.6	76.9	-0.9
GDP in Fixed Prices (Trillion IQD)	50.9	49.7	-2.4
GDP Implicit Deflator	153	155	1.3
Output Gap (Trillion IQD)	0.8-	2.1-	162.5
Monetary Stability Coefficient	1.0-	0.7-	- 30

Source:

- Central Bank of Iraq, Department of Statistics and Research.
- Ministry of Planning, Authority of Statistics and Geographic Information Systems, Gross Domestic Product data.

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