



## **Early Warning Report for the Banking Sector**

**Q3 2024**



**No. Twenty - Nine**

**Statistics and Research Department**  
**Monetary and Financial Stability Division**

**Early Warning Report for the Banking Sector**  
**(The Third Quarter – 2024)**

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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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### Introduction:

The early warning report for the banking sector is considered one of the most important direct supervisory tools, achieved through its indicators. These indicators can predict imminent and potential crises, even if they do not materialize, and measure potential deviations that may affect the banking sector and its influencing variables.

The report includes three chapters covering most indicators that affect the work of the monetary authority. The first chapter of the report includes an analysis of currency stability indices through several indices, most notably the ratio of net foreign reserves to broad money supply (M2). This ratio decreased to (79.7%) in the third quarter of 2024, compared to the same quarter of 2023, where it stood at (82.8%). This is higher than the standard ratio of (20%). The decrease in this ratio was a result of a (3.3%) increase in broad money supply and a (0.5%) decrease in net foreign reserves.

As for the second chapter, which includes an analysis of banks' performance indices, the ratio of total cash credit to total deposits reached (57%) in the third quarter of 2024, not exceeding the standard ratio set by the Central Bank of Iraq (75%). The money multiplier ratio in the third quarter of 2024 also witnessed an increase to (1.19) after being (1.12) for the same quarter of 2023. Regarding the non-performing loans to total cash credit indicator, it increased by (10.3%) in the third quarter of 2024, reaching (7.25%) after being (6.61%) during the same quarter of 2023.

The third chapter addressed the analysis of some macroeconomic indices that have an impact on the Iraqi banking system. Returning to the inflation rate, it is noted that it recorded (3.5%) in the third quarter of 2024, with 2022 being used as the base year for calculating the price index instead of 2012. Regarding treasury bills at operating banks as a percentage of total public debt, it increased from (7.6%) during the third quarter of 2023 to (11.4%) during the same quarter of 2024, indicating an increased intensity of public sector competition with the private sector for obtaining credit. The gross domestic product at current prices in Iraq achieved an increase of (8.8%) during the third quarter of 2024, reaching IQD (92.8) trillion after being IQD (85.2) trillion during the third quarter of 2023.

# **Chapter One**

## **Analysis of Currency Value Stability Indices**



### Chapter One: Analysis of Currency Value Stability Indices

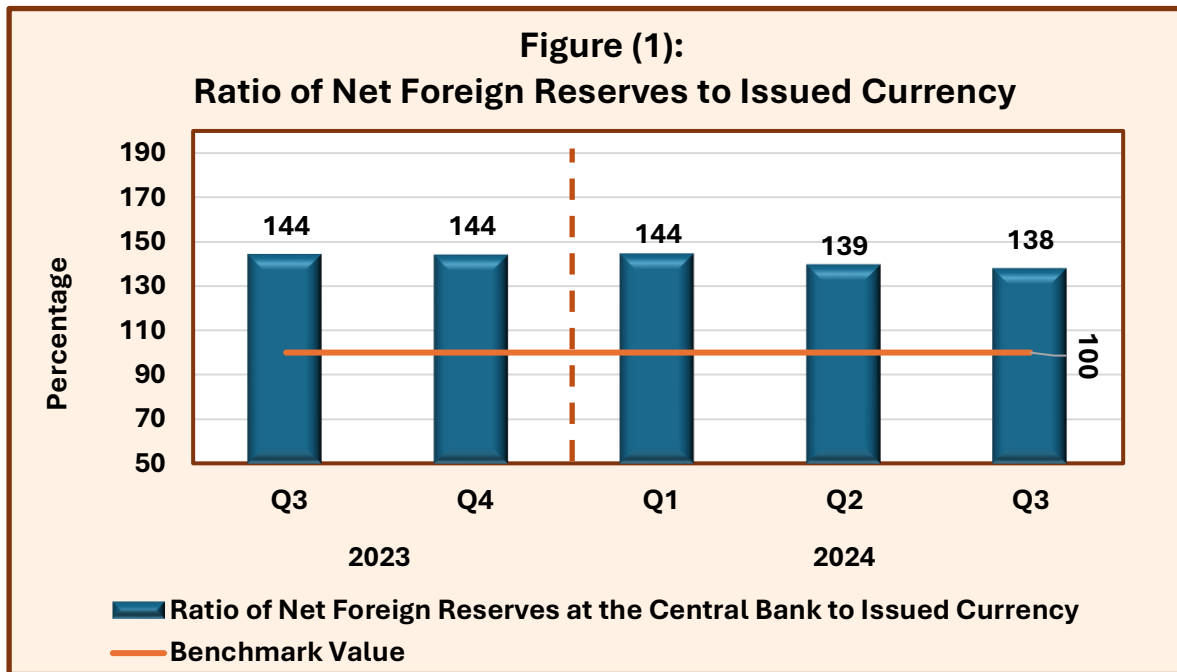
The stability of a currency's value can be inferred by monitoring a set of important indices. If all indices remain within acceptable ranges and without significant fluctuations, this suggests that the financial system is not exposed to external or internal shocks, and consequently, the currency's value will likely remain stable. However, the appearance of significant fluctuations in the indices or a portion of them serves as a warning sign of potential fluctuations in the currency's value in the coming months. Among the most important indices that provide an accurate analysis of fluctuations in the national currency's value are the following:

#### First: Adequacy of Foreign Reserves:

The adequacy of foreign reserves in central banks is a key index of the stability of the financial and banking system and its ability to face external challenges. These reserves enhance the protection of the national currency from fluctuations and increase investor confidence in the economy. There are several indices to measure the adequacy of these reserves. Among these indices:

##### 1. Adequacy of Net Foreign Reserves to Issued Currency Index:

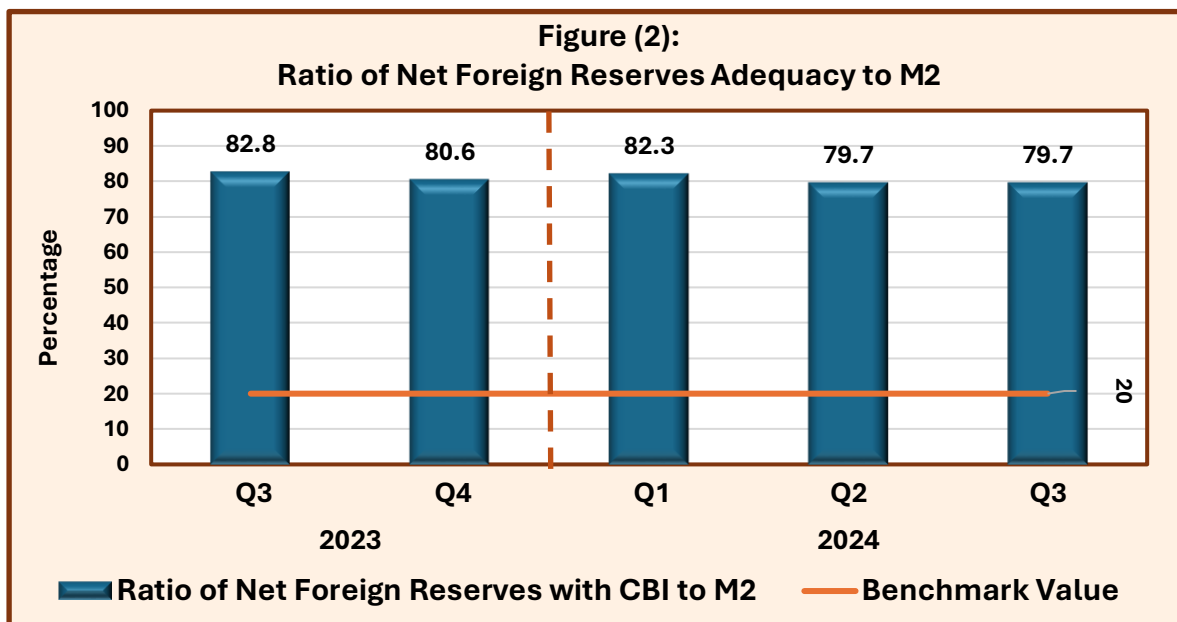
Net foreign reserves are considered the first line of defense for the stability of the national currency's value and support of the national economy. They enable the central bank to confront fluctuations in the foreign exchange market and protect the value of the national currency against these fluctuations, which requires maintaining an appropriate level of these reserves. The ratio of this index reflects the relationship between net foreign reserves and the value of the national currency, and a high ratio is considered a positive index. Figure (1) shows a decrease in the coverage ratio of net foreign reserves to issued currency to (138%) in the third quarter of 2024, compared to (144%) in the same quarter 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 merchants for imports. Additionally, the government's significant demand for the central bank's dinar to finance spending led to growth in the issued currency by a (4.0%), while net foreign reserves slightly decreased by (0.5%). However, this ratio remained positive and impactful as it is higher than the benchmark ratio of (100%).



Source: Central Bank of Iraq, Statistical Website.

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

This index is measured by dividing net foreign reserves by (M2). Figure (2) shows that the ratio of net foreign reserves to (M2) for the third quarter of 2024 was (80.6%), well above the standard ratio set at (20%), although it decreased by (3.7%) compared to the same quarter of 2023, when it was (82.8%), as a result of a rise in (M2) by (3.4%) with net foreign reserves decreased by 0.5% over the same period.

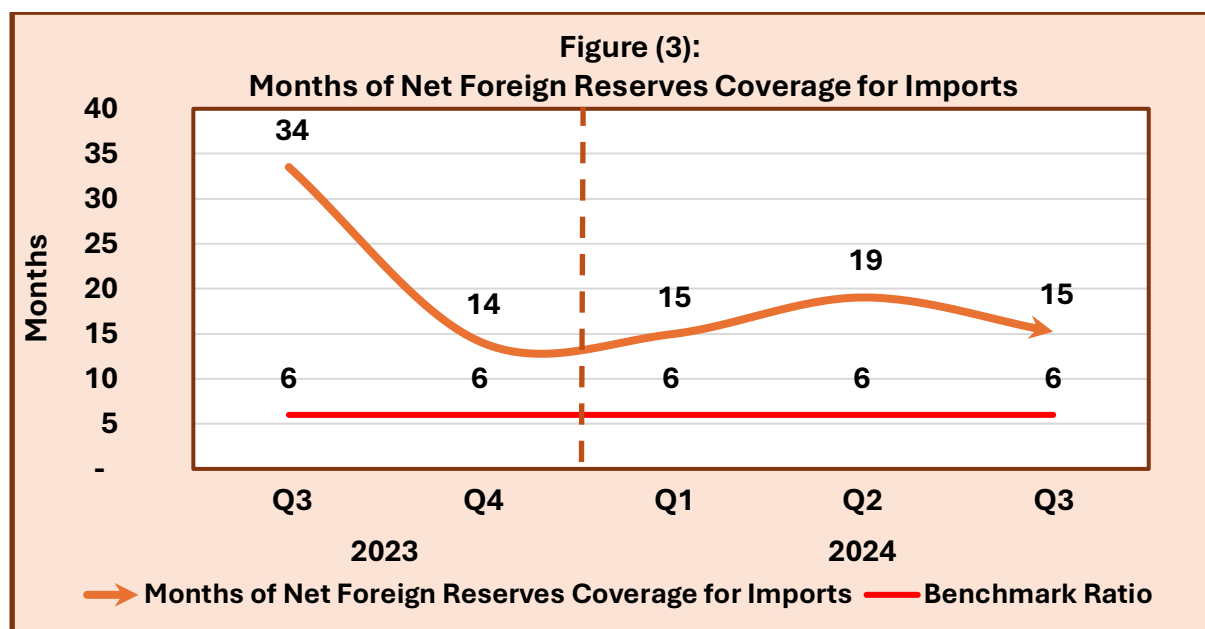


Source: Central Bank of Iraq, Statistical Website.

### 3. Index of Net Foreign Reserves Coverage to Total Imports:

This index is used to assess the quality of the country's economy and the stability of its financial system. International financial institutions such as the International Monetary Fund (IMF) and the World Bank (WB) are interested in monitoring this index to direct the necessary financial support in case of need. In some countries, the minimum limit of this index ranges from 3 to 6 months. Also this ratio varies from country to another depending on the country's economic situation. In Iraq, the minimum acceptable limit of this index is 6 months<sup>1</sup>.

The coverage period of net foreign reserves to total imports in the third quarter of 2024 witnessed a decrease to reach (15) months, compared to (34) months in the same quarter of 2023. This is a result of the increase in total imports on a (CIF) basis, recording IQD (28.2) trillion after being IQD (12.9) trillion during the same quarter, in addition to the slight decrease in net foreign reserves, which amounted to IQD (143.3) trillion in the third quarter of 2024, compared to IQD (144.1) trillion during the same quarter of 2023. It is worth noting that the ratio is high and impactful as it is greater than the benchmark ratio set at (6 months), as shown in Figure (3).



Source: Central Bank of Iraq, Statistical Website.

<sup>1</sup> Ali Mohsin Al-Alaq, International Reserves and Foreign Currency Selling Window at the Central Bank of Iraq, Central Bank of Iraq, Researches and Studies, p 7.





### Second: Change in Interest Rate Levels:

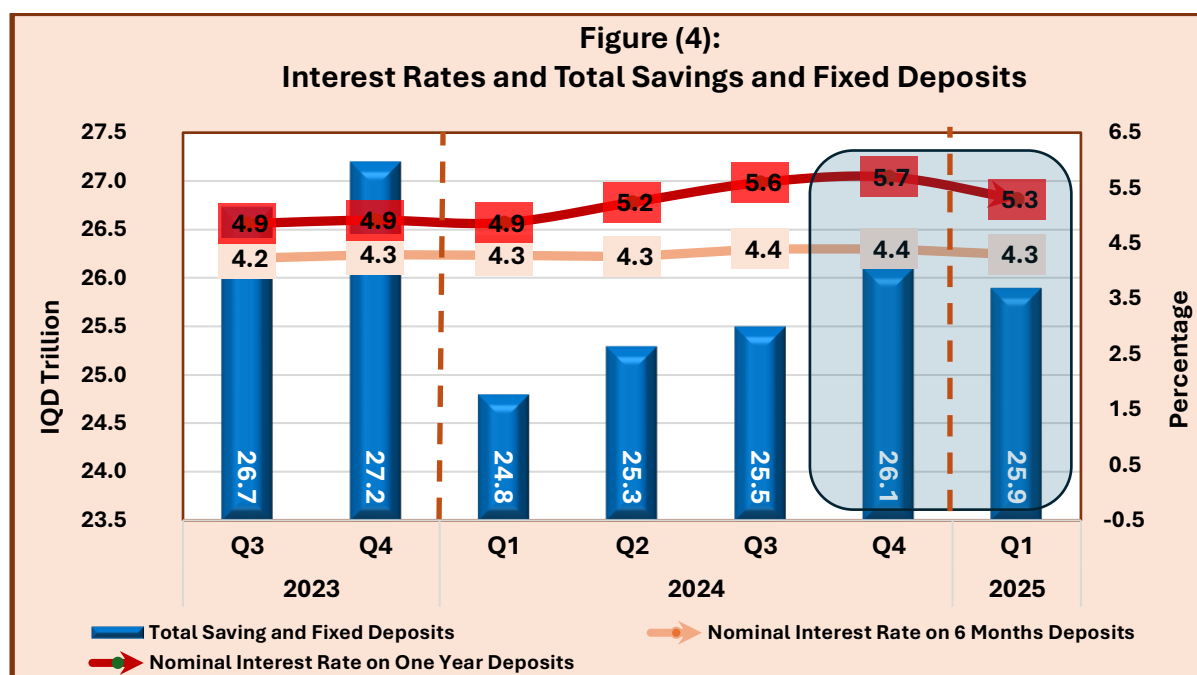
The index of change in interest rate levels is a vital index that shows the general direction of the economy. Higher interest rates on deposits are assumed to be an indicator of currency withdrawal from circulation and hoarding by individuals in favor of deposits with banks, thus increasing the banks' ability to grant credit and stimulate the economy as a result of increased financial depth. Conversely, in the event of a decrease in interest rates, deposits with operating banks will decrease due to the lower return, and the currency in circulation will increase, thus reducing financial depth.

#### 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 banking awareness among the public, and the level of services provided by the banking system. Figure (4) illustrates that the rise or fall in interest rates has a weak impact on the volume of deposits, which indicates a low level of banking culture among the public. It is expected that the nominal interest rate on six-month deposits will register a slight increase to reach (4.4%) in the third quarter of 2024, while the nominal interest rate on one-year deposits is expected to rise to (5.6%) in the same mentioned quarter. Meanwhile, the total of savings and fixed deposits recorded a decrease to reach IQD (25.5) trillion in the third quarter of 2024 compared to IQD (26.7) trillion during the same quarter of 2023.

It is expected that the nominal interest rate on 6-month deposits will stabilize at (4.4%) in the fourth quarter of 2024, achieving a slight decrease to (4.3%) in the first quarter of 2025. Meanwhile, the interest rate for one year is expected to change to (5.7%) in the fourth quarter of 2024 and (5.3%) during the first quarter of 2025. Similarly, the volume of deposits is expected to increase by a small percentage, indicating that changes in interest rates do not significantly affect the volume of deposits.



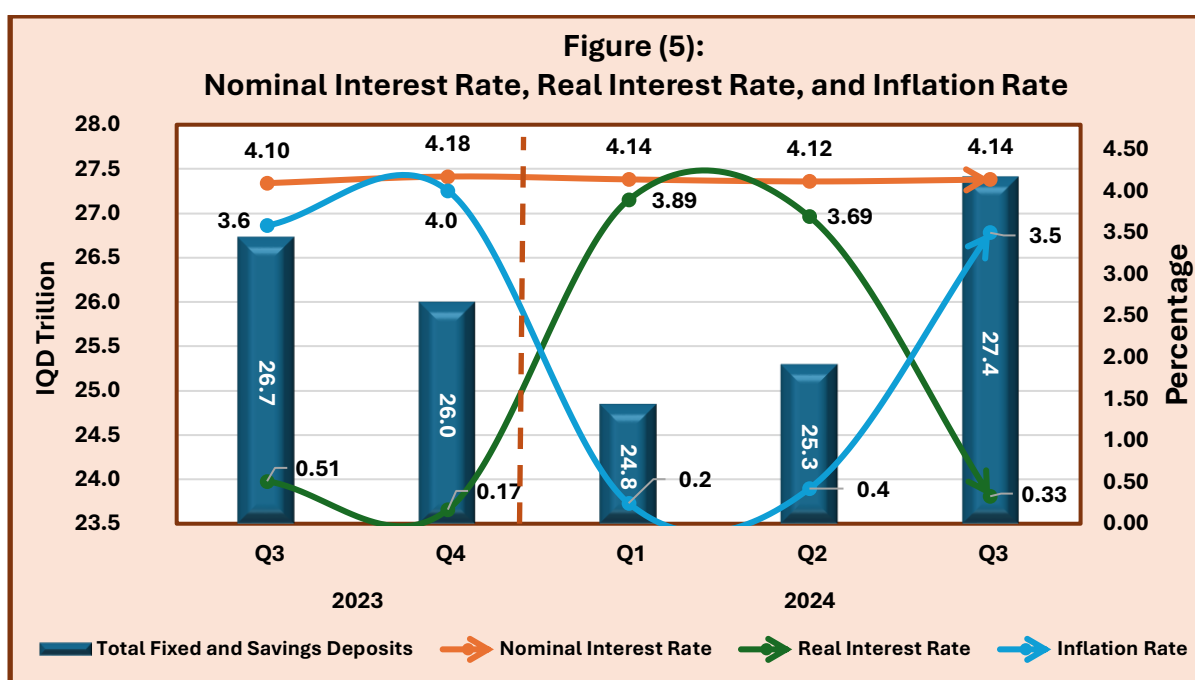


Source: Central Bank of Iraq /Statistical Website.

\* Data for Q4 of 2024 and Q1 of 2025 are forecast data based on the forecasts of Monetary and Financial Stability Division.

## 2. Real Interest Rates:

The real interest rate is considered an important index as it takes into account inflationary pressures and their effects on nominal interest rates. Figure (5) shows forecasts indicating a decrease in the real interest rate during the third quarter of 2024 to reach (0.22%) compared to (0.51%) in the third quarter of 2023. In contrast, the inflation rate followed an upward trend to reach (3.5%) in the third quarter of 2024. It is worth noting the change in the base year for calculating the Consumer Price Index, as the year 2022 was adopted instead of 2012, as announced by the Ministry of Planning. This was reflected in the increase in the real interest rate in the first quarter of 2024 and the decrease in the inflation rate during the same quarter, only for the real interest rate to decrease again, reaching (0.22%) due to the rise in the inflation rate to (3.5%) in the third quarter of 2024.



Source: Central Bank of Iraq, Statistical Website.

Table (1) Currency Value Stability Indices			
Index Name	Q3 2023	Q3 2024	Change Rate %
Net Foreign Reserves at the Central bank of Iraq (IQD Trillion)	144.1	143.4	- 0.52
Issued Currency (IQD Trillion)	100.1	104.1	4
Ratio of Net Foreign Reserves at the Central Bank of Iraq to Issued Currency (%)	144	138	- 4.4
Broad Money Supply (M2) (IQD Trillion)	173.9	179.8	3.34
Ratio of Net Foreign Reserves at the Central Bank of Iraq to Broad Money Supply M2 (%)	82.8	79.7	- 3.74
Months Of Coverage of Net Foreign Reserves for Imports (Months)	34	15	- 55.8
Total Fixed Deposits and Savings Deposits (IQD Trillion)	26.7	٢٥,٥	- 4.4

The table was prepared by adopting data:

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

## **Chapter Two**

# **Analysis of Operating Banks' Performance Indices**

### Chapter Two: Analysis of Operating Banks' Performance Indices

Analyzing the performance indices of operating banks is one of the key tools to assess the efficiency and effectiveness of banking activities. This analysis contributes to enhance the transparency of banks' financial performance by enabling readers to gain deeper understanding of bank performance indices and how to use them as an analytical tool to improve the sustainability and competitiveness of the Iraqi banking sector. It is achieved by depending on a set of indices such as total cash credit to total deposits index, money multiplier index, banks' profitability index, non-performing loans to total cash credit index, and non-performing loans to total deposits index, as well as other indices which shall be shown as follows:

#### 1. Outstanding Lending Facilities from the Central Bank of Iraq to Total Banks' liabilities:

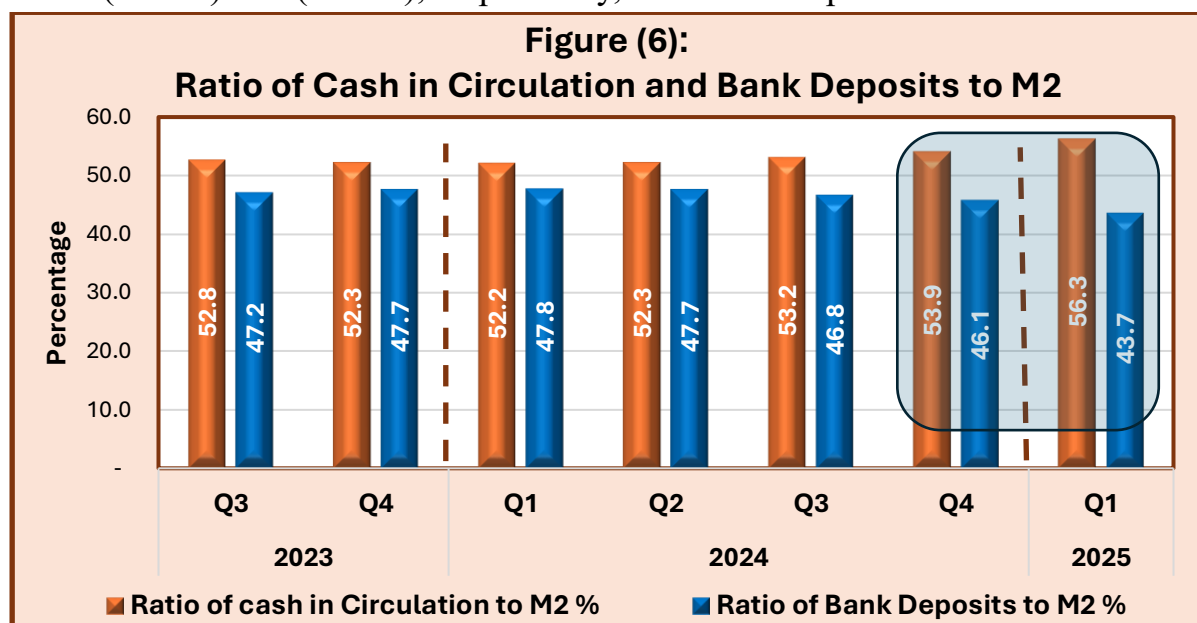
Outstanding lending facilities provided by the Central Bank of Iraq to operating banks as the last resort lender vary according to the impairments experienced by operating banks. As facilities provide more financial support to banks, the Central Bank of Iraq Law No. 56 of 2004, under article 30 sets out the legal conditions for assisting banks experiencing financial crises. The Central Bank of Iraq considers that banks must possess sufficient liquidity to cope with their depositors' withdrawals and to safeguard the banking system from collapse. So that aid request must be based on their need to improve liquidity, since a liquidity crisis reflects the degree of distress experienced by the banking sector. It is noted that the Central Bank of Iraq did not provide loans to operating banks during the third quarter of 2024, as they did not need urgent liquidity or extraordinary withdrawals, or because they did not meet the aforementioned conditions.

#### 2. Bank Deposits to Broad Money Supply (M2):

Bank deposits reflect the extent of financial solvency enjoyed by banks, which can be achieved through the diversification of services provided to the public in order to attract more depositors to the bank. Thus, this index represents the public's willingness to engage with banks and the quality of services they provide. As well the volume of bank deposits represents an indicator of the bank's activity, on the one hand, and the spread of its banking services on the other hand. This index is measured by dividing bank deposits by broad money supply (M2). Figure (6) explains that the ratio of bank deposits to M2 decreased from (47.2%)

for the third quarter of 2023 to (46.8%) for the same quarter of 2024. In contrast, the ratio of cash in circulation to (M2) rose from (52.8%) for the third quarter of 2023 to (53.2%) for the same quarter of 2024, indicating that a significant proportion of the issued currency by the Central Bank of Iraq goes as cash in circulation rather than as bank deposits. A large proportion of transactions within the real sector continue to be conducted in cash despite the gradual improvement in the use of electronic payment tools.

Expectations indicate that the ratio of banking deposits to M2 will reach (46.1%) and (43.7%), respectively, for the fourth quarter of 2024 and the first quarter of 2025, while they showed that the ratio of cash in circulation to M2 will reach (53.9%) and (56.3%), respectively, for the same period.



Source: Central Bank of Iraq, Statistical Website.

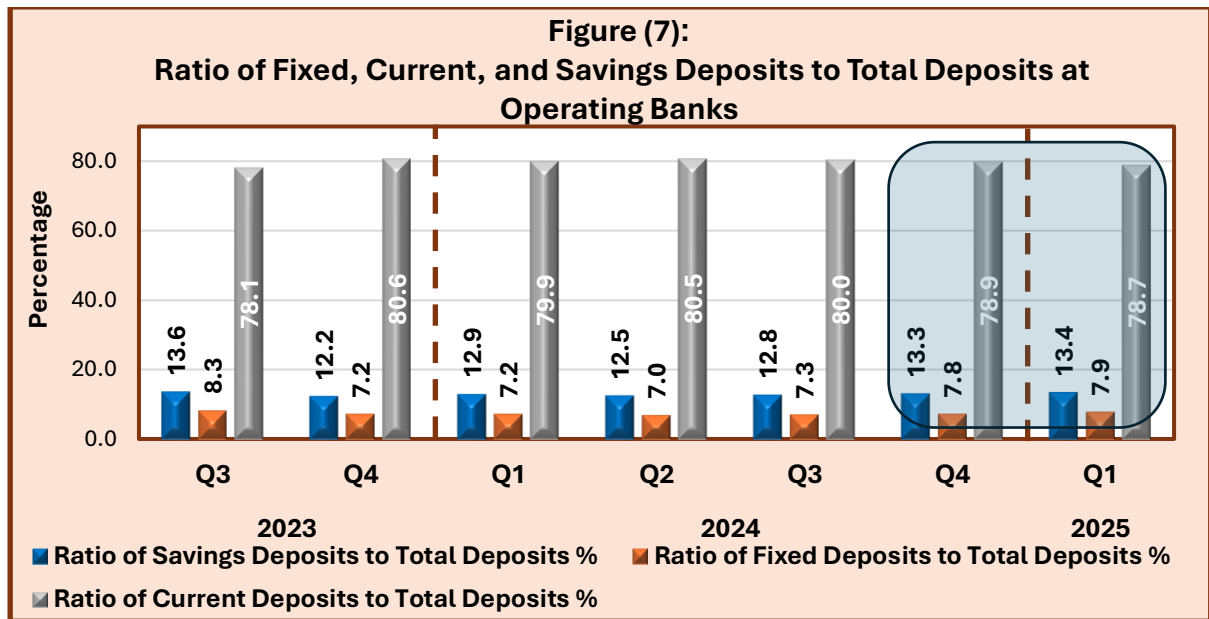
\* Data for Q4 of 2024 and Q1 of 2025 are forecast data based on the forecasts of Monetary and Financial Stability Division.

### 3. Types of Deposits at Operating Banks in Iraq:

By examining the types of deposits at operating banks, we observe that current deposits accounted for the largest proportion of banks' total deposits, rising from (78.2%) for the third quarter of 2023 to (80.0%) for the same quarter of 2024. While the ratio of fixed deposits to total deposits decreased from (8.3%) for the third quarter of 2023 to (7.3%) for the same quarter of 2024. The ratio of savings deposits to total deposits also declined from (13.6%) for the third quarter of 2023 to (12.8%) for the same quarter of 2024. In other words, banks must be more effective in attracting deposits by providing more services with greater attention

to advertising that shows the benefits of bank deposits. Figure (7) clarifies deposits volume at operating banks.

Expectations indicate that the ratio of current deposits to total deposits will reach (78.9%) and (78.7%), respectively, for the fourth quarter of 2024 and the first quarter of 2025. Expectations show that the ratio of savings deposits to total deposits will reach (13.3%) and (13.4%), respectively, while fixed deposits are expected to record (7.8%) and (7.9%), respectively, for the same period.



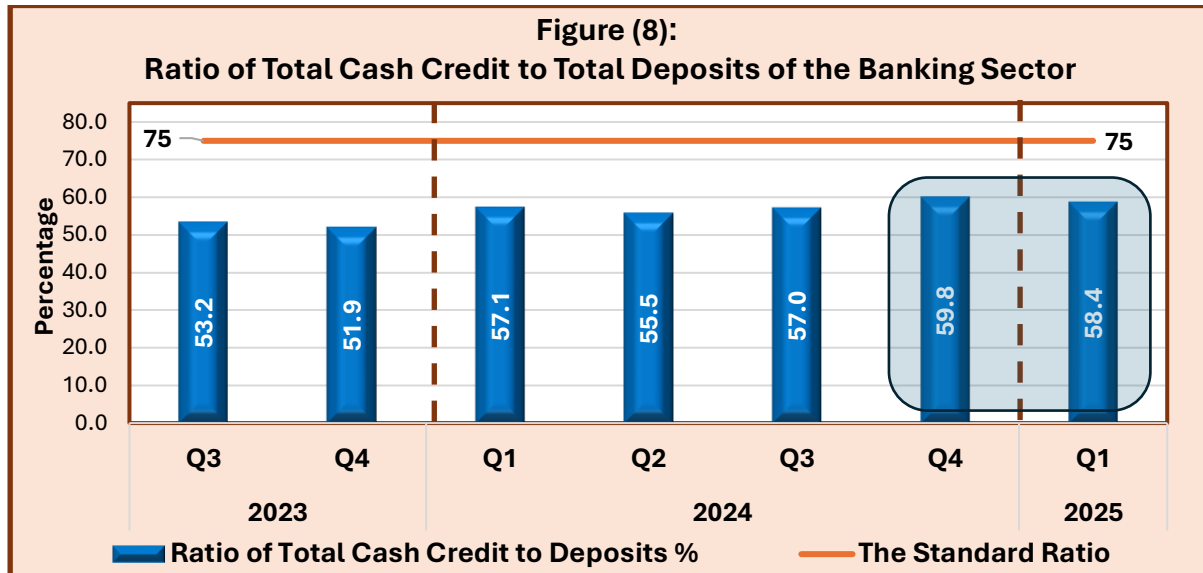
Source: Central Bank of Iraq, Statistical Website.

\* Data for Q4 of 2024 and Q1 of 2025 are forecast data based on the forecasts of Monetary and Financial Stability Division.

## 4. Total Cash Credit to Total Deposits:

This index shows banks' ability to utilize deposits to meet customers' credit needs while retaining liquidity to enable the bank to meet its different requirements. The Central Bank of Iraq has set this ratio at (75%) to maintain sufficient liquidity at banks to cope with customers withdrawals and conduct bank's financial activities. This ratio is measured by dividing total cash credit by total deposits of operating banks, as this index reflects the long-term liquidity situation of the banking sector. Figure (8) shows that the ratio of total cash credit to total deposits increased from (53.2%) for the third quarter of 2023 to (57%) for the same quarter of 2024 due to an increase of granted credit by (11.6%) against an increase of deposits volume by (4.2%) 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 of Iraq.

The ratio of total cash credit to total deposits is expected to rise to (59.3%) and (58.4%), respectively, for the fourth quarter of 2024 and the first quarter of 2025.



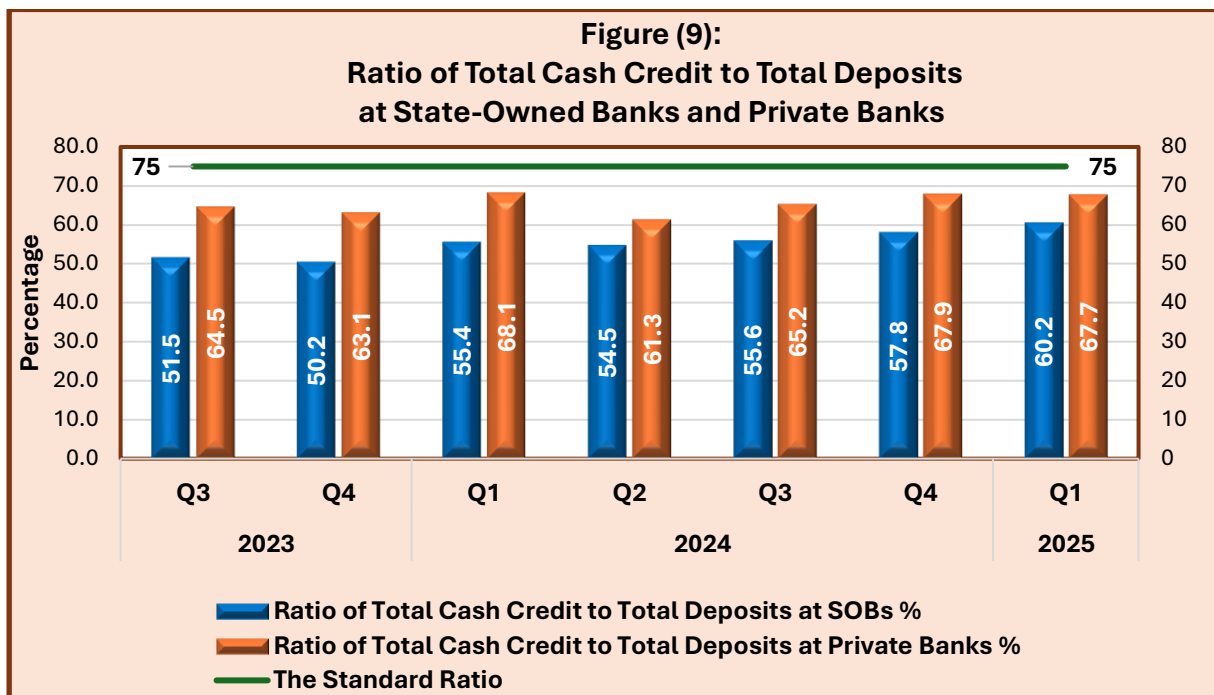
Source: Central Bank of Iraq, Statistical Website.

**\* Data for Q4 of 2024 and Q1 of 2025 are forecast data based on the forecasts of Monetary and Financial Stability Division.**

As for the ratio of total cash credit to total deposits at private banks, it is larger than that of state-owned banks (SOBs) - although deposits volume at SOBs is greater than that at private banks. Figure (9) shows that the ratio for private banks increased from (64.5%) for the third quarter of 2023 to (65.3%) for the same quarter of 2024 owing to the increase of granted credit by private banks by (15.4%), which is greater than the increase of private banks' total deposits reaching (13.9%). It reflects the tendency of private banks to provide liquidity to domestic markets. As for SOBs, the ratio increased from (51.5%) for the third quarter of 2023 to (55.6%) for the same quarter of 2024.

As for SOBs, the ratio of total cash credit to total deposits is expected to reach (57.8%) and (60.2%), respectively, for the fourth quarter of 2024 and the first quarter of 2025 and for private banks to reach (67.9%) and (67.7%), respectively, for the same period.





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

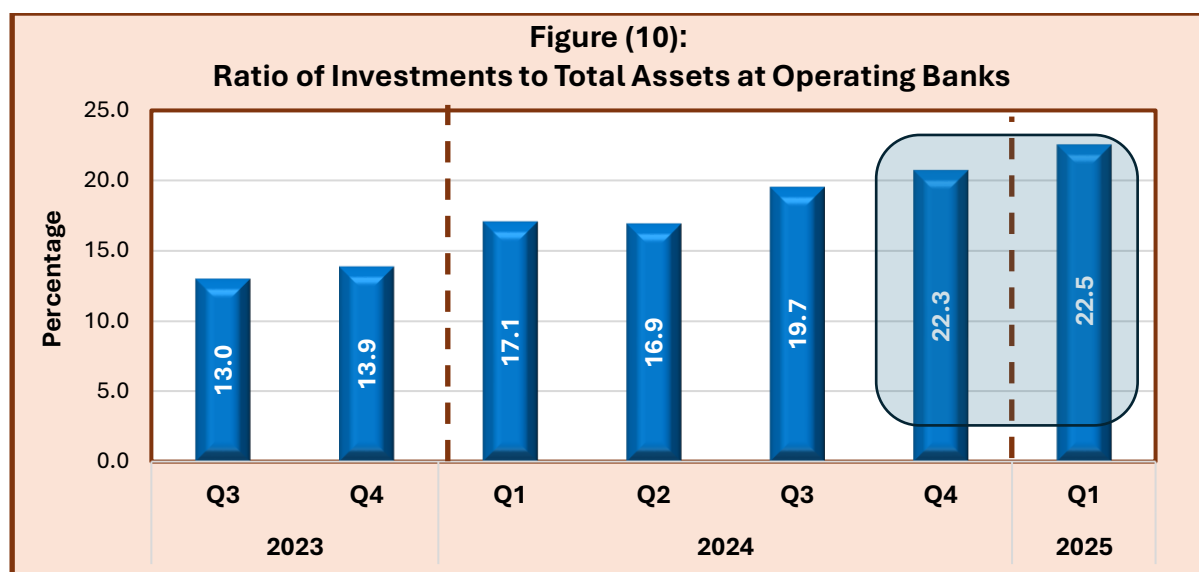
\* Data for Q4 of 2024 and Q1 of 2025 are forecast data based on the forecasts of Monetary and Financial Stability Division.

## 5. Banks' Investments to Total Assets:

This index is considered one of the important metrics that shows the volume of actual investments within operating banks' statements. The significance of investments lies in the return they provide to the bank and the increase in its profits, especially if these investments are within high revenue activities. As investments are financed by the bank's capital and available deposits. They are on the assets side of the bank's statements. Therefore, they are measured against total assets for the purpose of determining their volume at the bank. Figure (10) explains that the ratio of total investments to total assets at operating banks increased from (13%) for the third quarter of 2023 to (19.7%) for the same quarter of 2024 due to an increase of (61.8%) of total investments compared to an increase of (7.1%) of total assets.

The ratio of investments to total assets at operating banks is expected to reach (22.3%) for the fourth quarter of 2024 and (22.5%) for the first quarter of 2025.



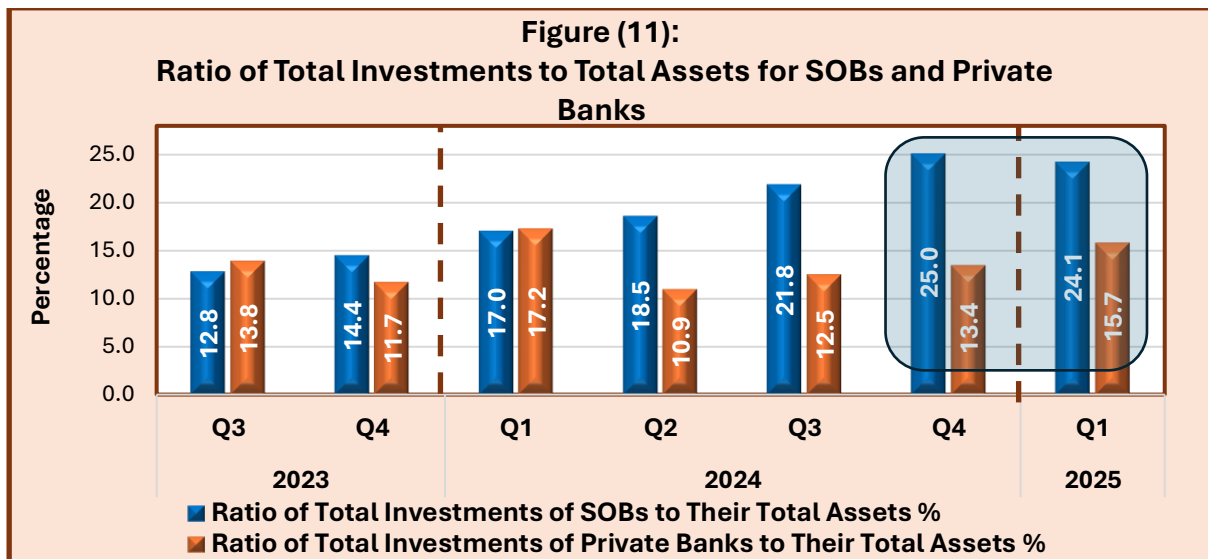


Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

\* Data for Q4 of 2024 and Q1 of 2025 are forecast data based on the forecasts of Monetary and Financial Stability Division.

As for the classification of banks by ownership, the ratio of investments to volume of assets of state-owned banks is greater than that of private banks. Figure (11) shows that the ratio of total investments to assets at state-owned banks increased significantly from (12.8%) for the third quarter of 2023 to reach (21.8%) for the same quarter of 2024. While the ratio of investments to total assets at private banks decreased from (13.8%) for third quarter of 2023 to (12.5%) for the same quarter of 2024. It is worth mentioning that the ratio of investments at state-owned banks constitutes (85.3%) to total investments at operating banks for the third quarter of 2024.

Total investments of private banks as a percentage of their total assets is expected to reach (13.4%) and (15.7%) for the fourth quarter of 2024 and the first quarter of 2025, respectively, and to reach (25.0%) and (24.1%), respectively, for state-owned banks for the same period.

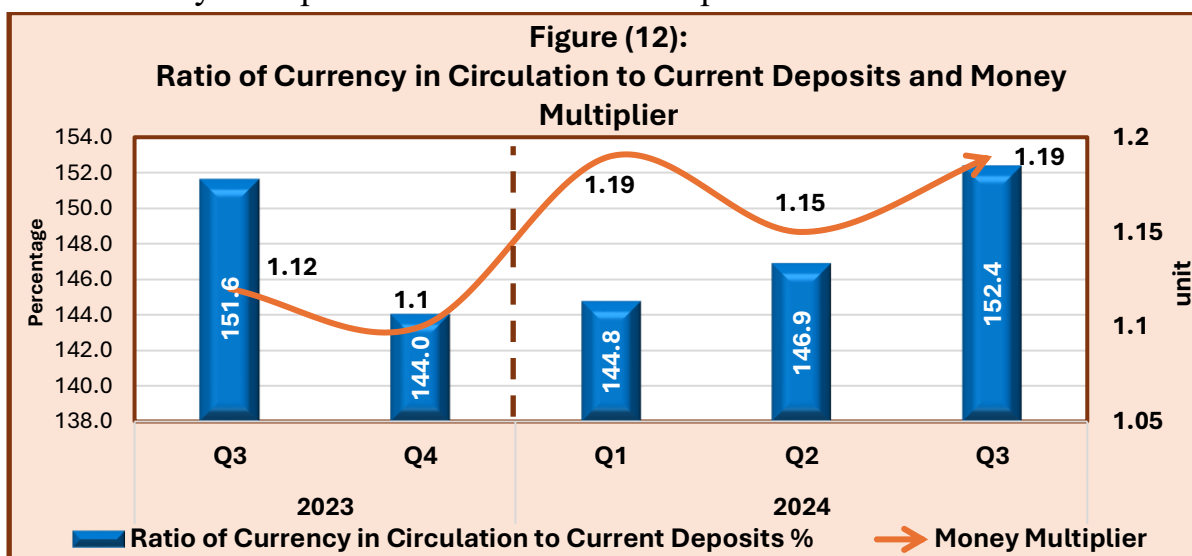


Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

\* Data for Q4 of 2024 and Q1 of 2025 are forecast data based on the forecasts of Monetary and Financial Stability Division.

## 6. Money Multiplier:

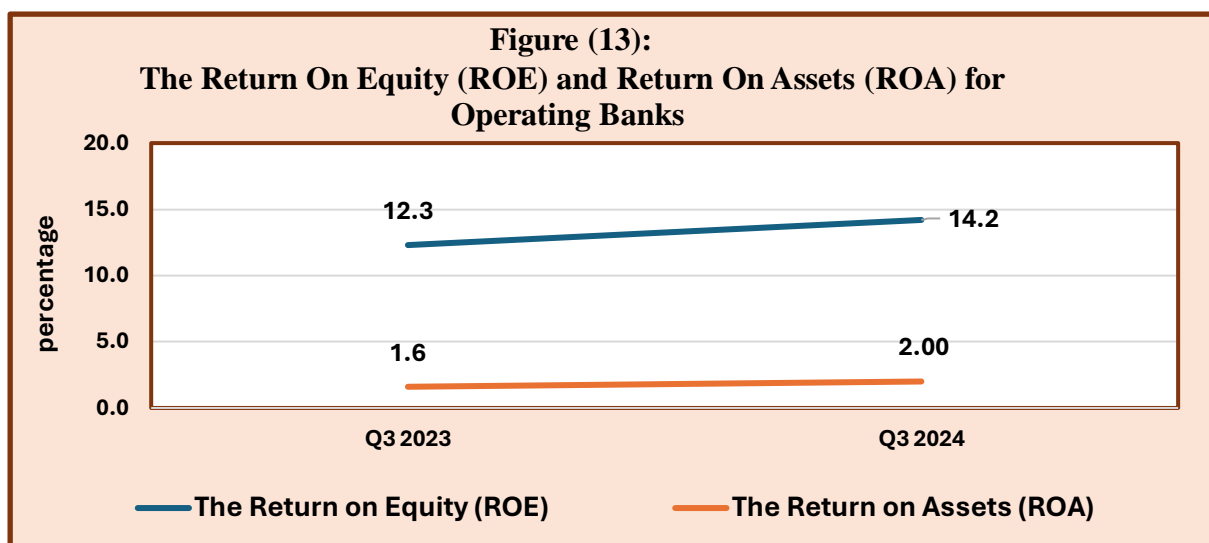
The money multiplier is defined as the ratio that expresses the amount of new funds that banks can create through their outstanding reserves. It is measured by dividing broad money supply (M2) by the monetary basis. Money multiplier recorded an increase in the third quarter of 2024 as it reached (1.19) from (1.12) for the same quarter of 2023. This increase is due to the growth of cash credit volume provided by banks by (11.6%) for the third quarter of 2024. Figure (12) shows money multiplier values over the same period.



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

## 7. Bank's Profitability:

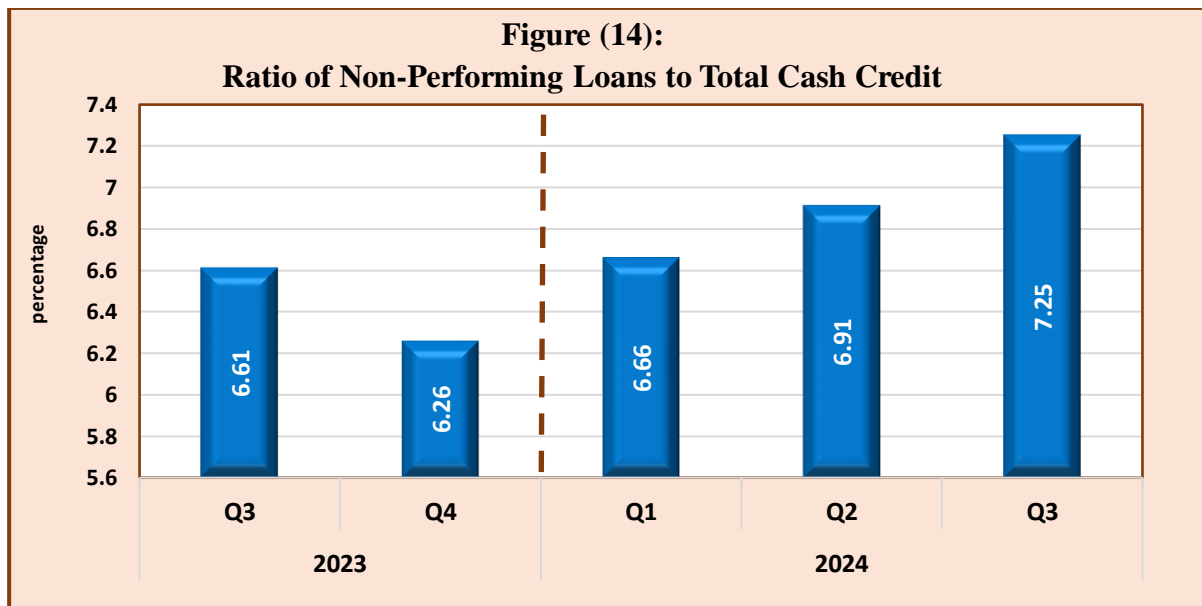
This index illustrates the profits or losses incurred by banks. Figure (13) shows the return on equity and return on assets of operating banks within the banking system. There is an increase in the ratio of return on assets from (1.6%) for the third quarter of 2023 to (2.0%) for the same quarter of 2024 due to the growth of pre-tax net income of banks by (17.6%). The return on equity also increased from (12.3%) for the third quarter of 2023 to (14.2%) for the same quarter of 2024.



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

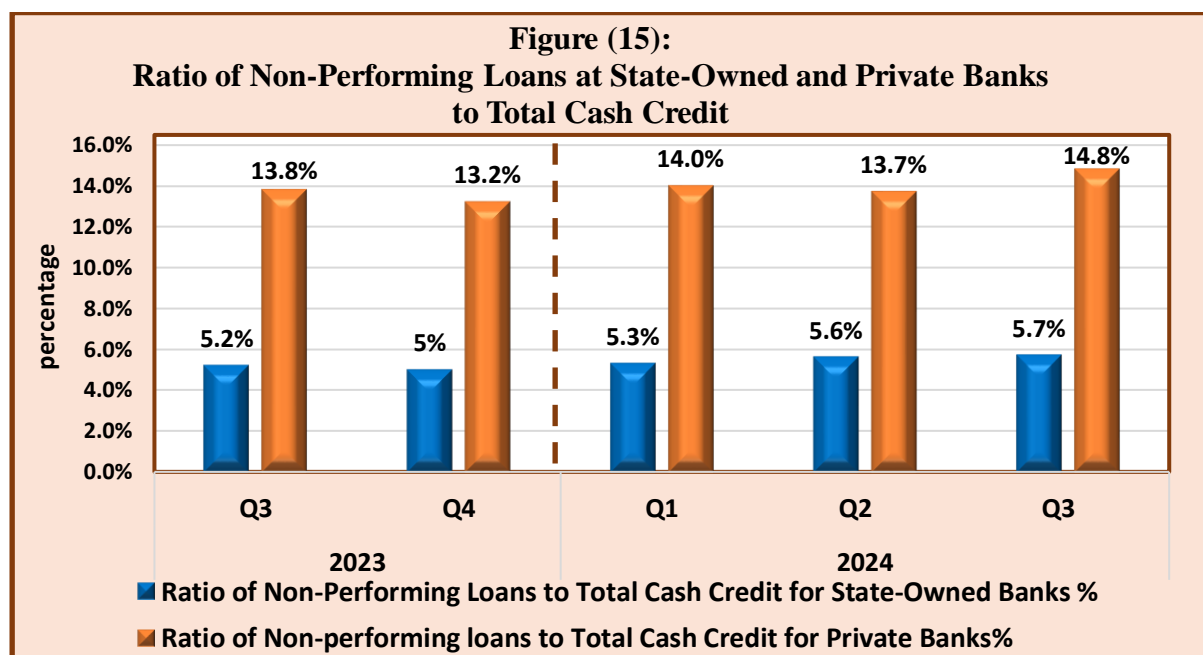
## 8. Non-Performing Loans to Total Cash Credit:

This index is measured by dividing non-performing loans by total cash credit. Figure (14) shows that the ratio of non-performing loans to total cash credit in the third quarter of 2024 increased to (7.29%), up from (6.61%) for the same quarter of 2023. This increase is a result of a (22.5%) growth in non-performing loans, which is higher than the (11.63%) growth in granted cash credit.



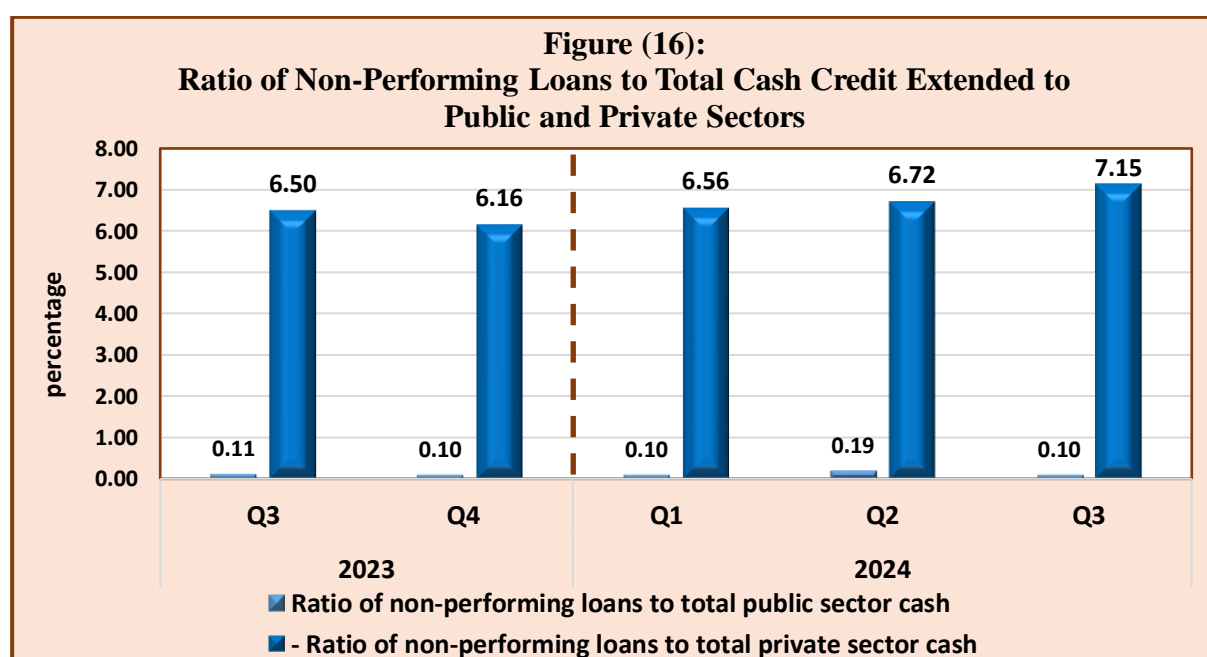
Source: Central Bank of Iraq, Department of Statistics and Research, Statistical Website.

Regarding the classification of banks by ownership, we find that the ratio of non-performing loans to total cash credit is higher in private banks compared to state-owned banks. Figure (15) illustrates that the ratio of non-performing loans to total cash credit in private banks increased to (14.8%) in the third quarter of 2024, up from (13.8%) in the same quarter of 2023. This increase is due to a (23.9%) growth in non-performing loans, which is higher than the (15.4%) increase in total private credit. Additionally, the non-performing loan provision ratio for private banks reached (118.2%) of their total non-performing loans. As for state-owned banks, the ratio of non-performing loans to total cash credit increased to (5.7%) in the third quarter of 2024, up from (5.2%) in the same quarter of 2023. Meanwhile, the non-performing loan provision ratio for state-owned banks reached (114.0%) of their total non-performing debts during the same period.



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

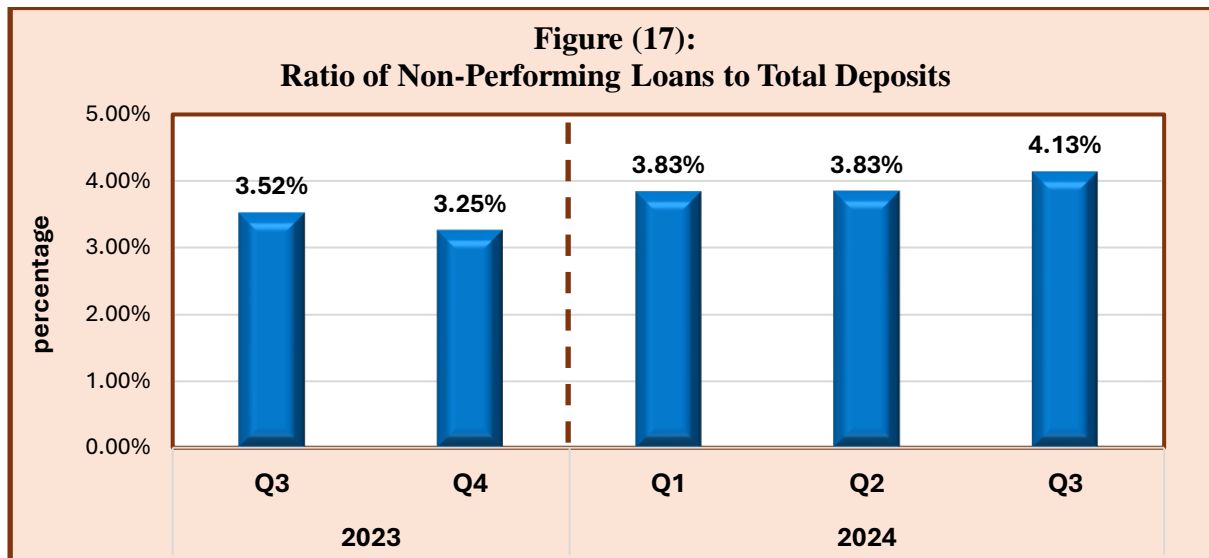
As for the non-performing loans in both the private and public sectors to the total cash credit, it is noted that the percentage of non-performing loans in the private sector is higher than its counterpart in the public sector, as this percentage reached (7.15%) in the private sector during the third quarter of 2024, while this percentage reached (0.10%) in the public sector during the same period, and Figure (16) clarifies this.



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

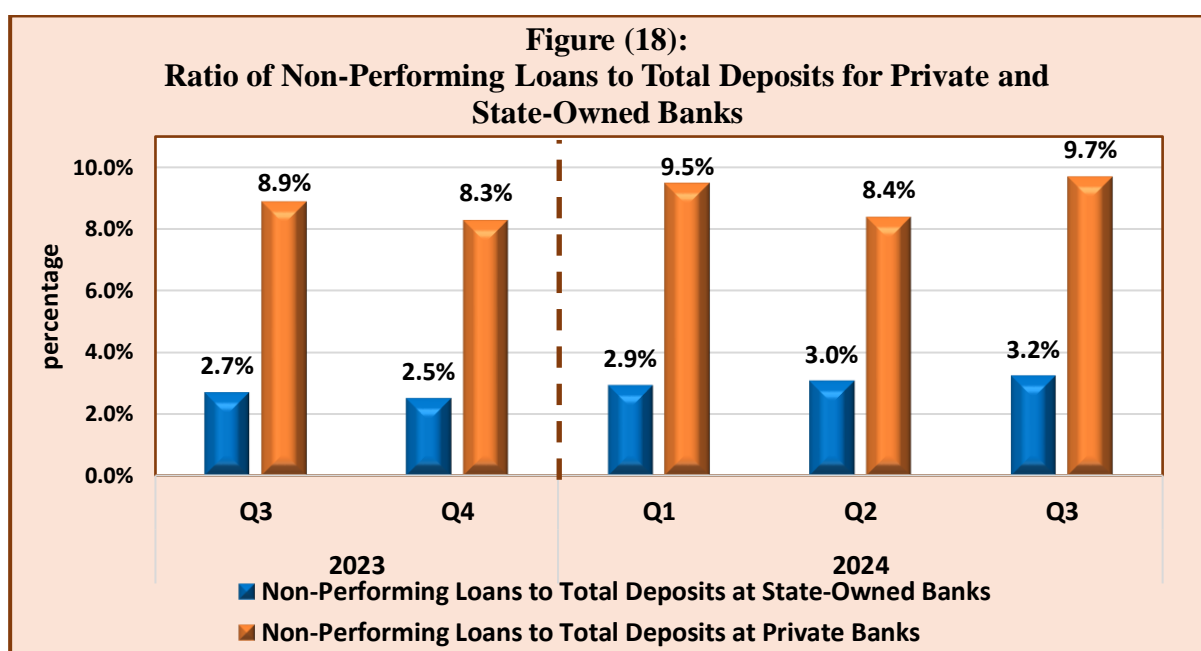
## 9. Non-Performing Loans to Total Deposits:

This index is measured by dividing non-performing loans by total deposits at operating banks. Figure (17) shows that the ratio of non-performing loans to total deposits rose to (4.13%) in the third quarter of 2024, up from (3.52%) in the same quarter of 2023. This increase is the result of a (22.48%) increase in total non-performing loans, which is greater than the growth rate of total deposits, which amounted to (4.24%).



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

Returning to the classification of banks in terms of ownership, we find an increase in this ratio among private banks, as the ratio of non-performing loans to total deposits in private banks rose to (9.6%) in the third quarter of 2024, after it was (8.9%) in the same quarter of 2023. Meanwhile, this ratio among state-owned banks rose to (3.2%) in the third quarter of 2024, after it was (2.7%) in the same quarter of 2023. Although the volume of credit in state-owned banks is larger than that of private banks, this ratio is higher among private banks than it is among state-owned banks.



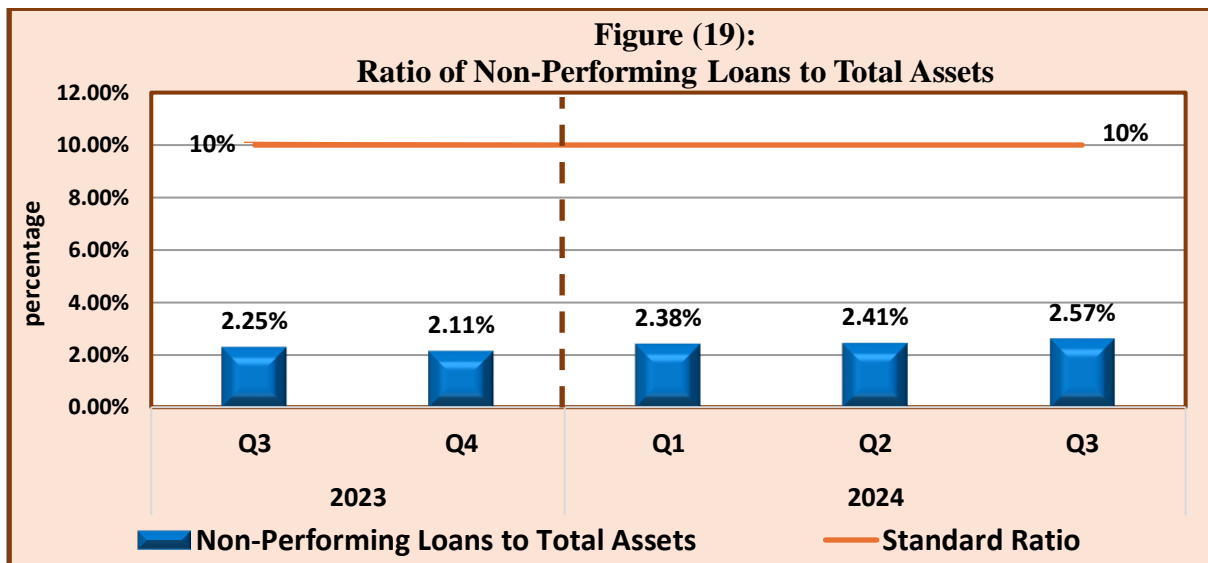
Source: Central Bank of Iraq, Department of Statistics and Research, Annual Statistical Bulletin

## 10. Non-Performing Loans to Total Assets:

This index is measured by dividing non-performing loans by total assets held by banks. The standard ratio for this ratio is (10%). A ratio of non-performing loans to total assets exceeding the standard value indicates a significant increase in the volume of non-performing loans<sup>1</sup>. Figure (19) shows the ratio of non-performing loans to total assets held by banks operating in Iraq. This ratio increased to (2.57%) in the third quarter of 2024, compared to (2.25%) 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. This is a positive indicator that demonstrates banks' ability to confront any potential financial crisis in the coming period.

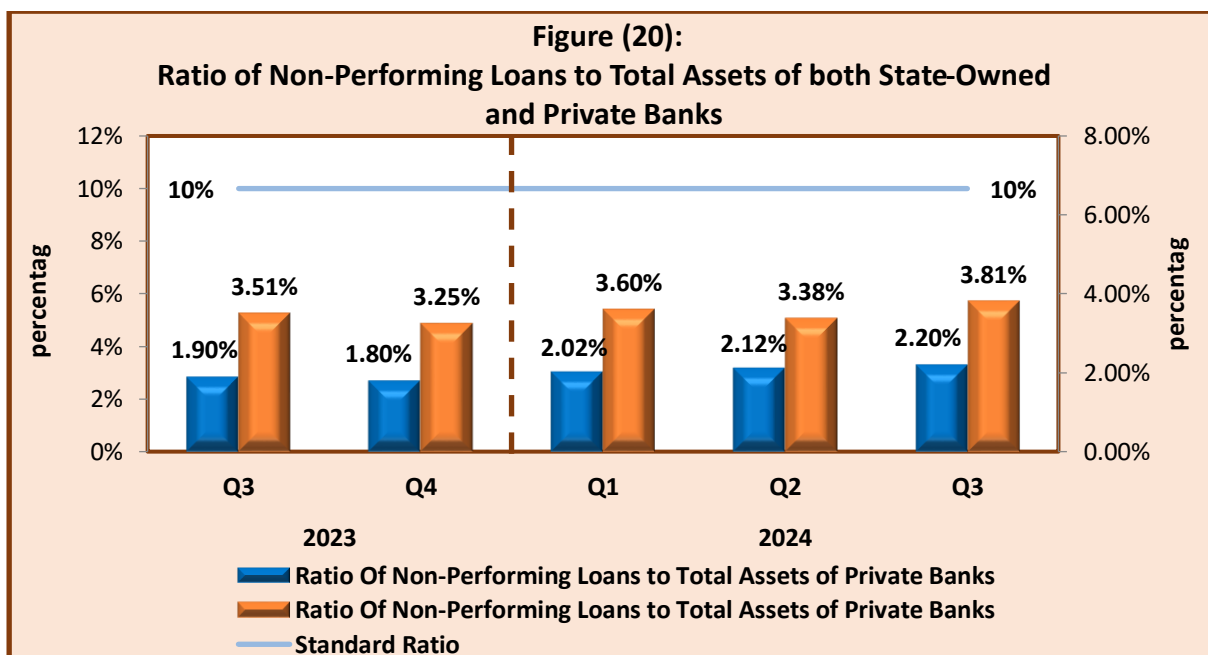
<sup>1</sup> For further details, see: Central Bank of Iraq, 2020, Early Warning Report for the Banking Sector, Issue No. 13, p. 23.





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

Looking at the breakdown of banks according to ownership, we find that both private banks and state-owned banks did not exceed the aforementioned percentage, and Figure (20) shows this, noting that this percentage is higher for private banks than its counterpart for state-owned banks, as the percentage reached (3.82%) for private banks in the third quarter of 2024, while this percentage reached (2.20%) for state-owned banks for the same period, and this percentage does not call for concern with regard to financial stability.

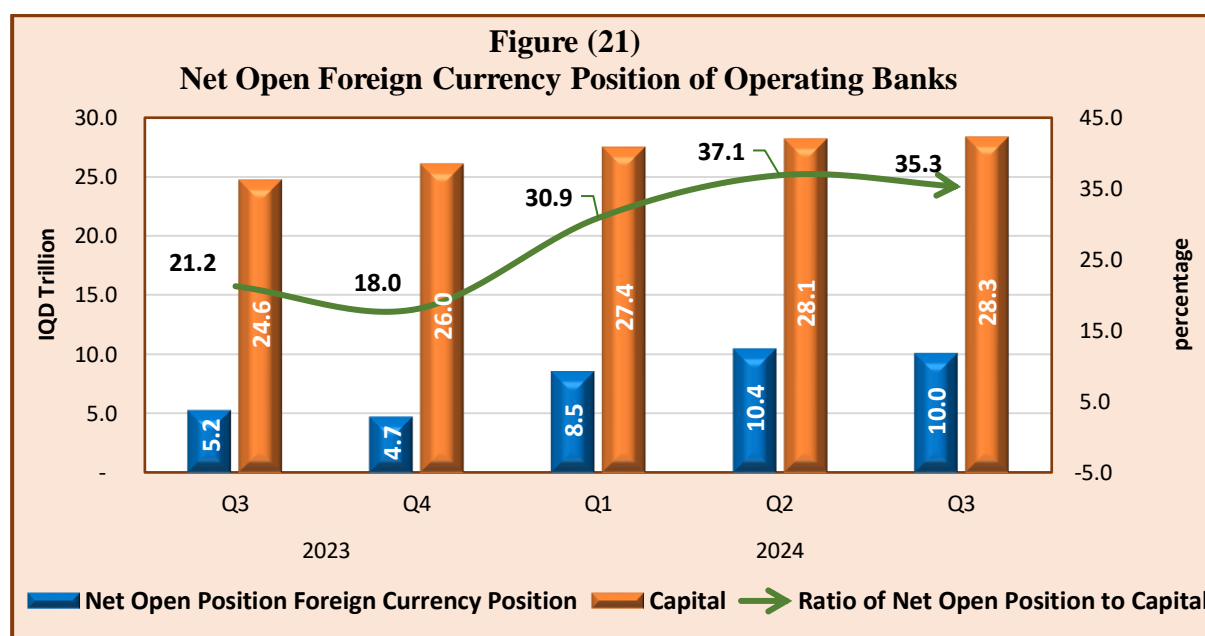


Source: Central Bank of Iraq, Department of Statistics and Research, Annual Statistical Bulletin.



## 11. Net Open Foreign Currency Position of Operating 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. Therefore, a decrease in this ratio indicates a decrease in the volume of foreign assets of operating banks or an increase in foreign liabilities, and vice versa. Figure (21) shows an increase in the index ratio among operating banks from (21.2%) in the third quarter of 2023 to (35.3%) in the same quarter of 2024. This is due to a (90.6%) increase in net foreign assets and a (14.8%) increase in capital. This reflects the strong desire of operating banks to increase their assets, such as deposits and securities denominated in foreign currency.



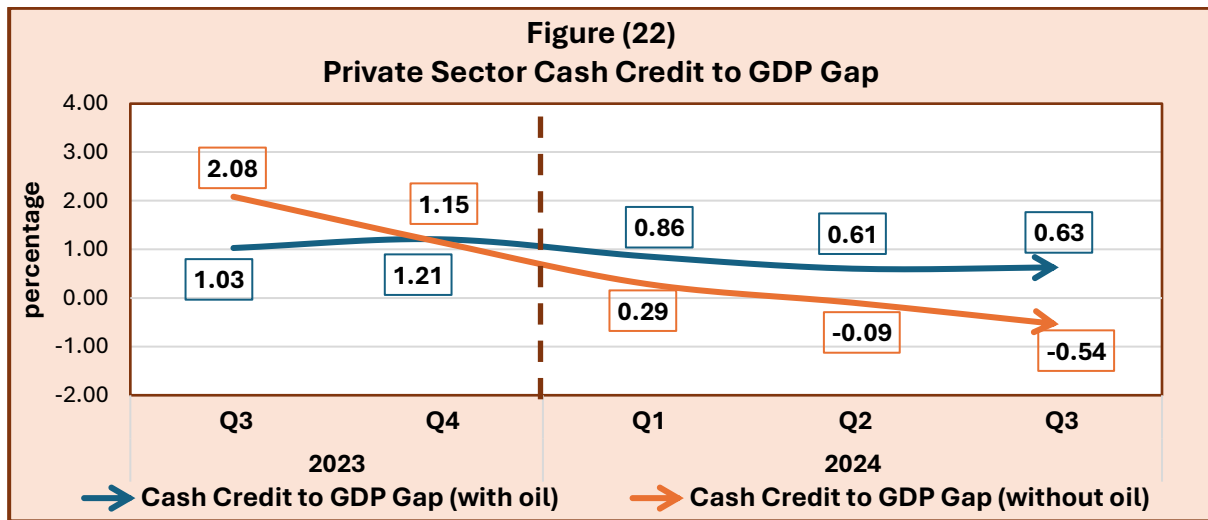
Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

## 12. Private Sector Cash Credit to GDP Gap:

The credit gap is defined as the ratio of cash credit extended to the private sector divided by GDP at current prices, minus the general trend of the ratio of credit (directed to the private sector) to GDP<sup>2</sup> at current prices. The standard value for this indicator ranges between (2.5%) and (10%). The closer the estimated ratio is to the higher standard value, the more banks are required to create additional capital buffers, called countercyclical buffers, due to credit growth increasing at a rate greater than GDP growth. Figure (22) illustrates the credit-to-GDP gap with

<sup>2</sup> For more information on how to calculate the output gap, see Central Bank of Iraq, Iraq's Early Warning Report, Issue No.18, chapter. I, Q1 2020, p. 23.

and without oil. This gap, excluding oil, reached (-0.54%) in the third quarter of 2024, while the gap when measuring GDP data with oil reached (0.63%) in the same period. The above indicates that both gaps in the third quarter of 2024 are below the standard ratio. GDP data gap with oil (0.63%) in the same period, showing that the gaps in the third quarter of 2024 are below the standard ratio, which means that cash credit extended to the private sector can be increased without fear of financial instability.



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

Table (2) Indices For Banks Performance Analysis			
Index Name	Q3 2023	Q4 2024	Growth Rate %
Bank Deposits to M2 (%)	47.2	46.8	-0.85
Cash In Circulation to M2 (%)	52.8	53.2	0.76
Total Cash Credit to Total Deposits (%)	53.2	57	7.14
Total Investment to Total Assets (%)	13	19.7	51.5
Money Multiplier	1.12	1.19	6.25
Currency In Circulation to Current Deposits (%)	151.6	152.4	0.53
Return On Equity (%)	12.3	14.2	15.4
Return On Assets (%)	1.6	2.0	25
Non-Performing Loans to Total Cash Credit (%)	6.61	7.25	9.7
Non-Performing Loans to Total Deposits (%)	3.52	4.13	17.33
Non-Performing Loans to Total Assets (%)	2.25	2.57	14.22
Net Open Foreign Currency Position of Operating Banks (%)	21.2	35.3	66.51

The table was prepared based on data from:

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

# **Chapter Three**

## **Analysis of Macroeconomic Performance Indices**

## Chapter Three: Analysis of Macroeconomic Performance Indices

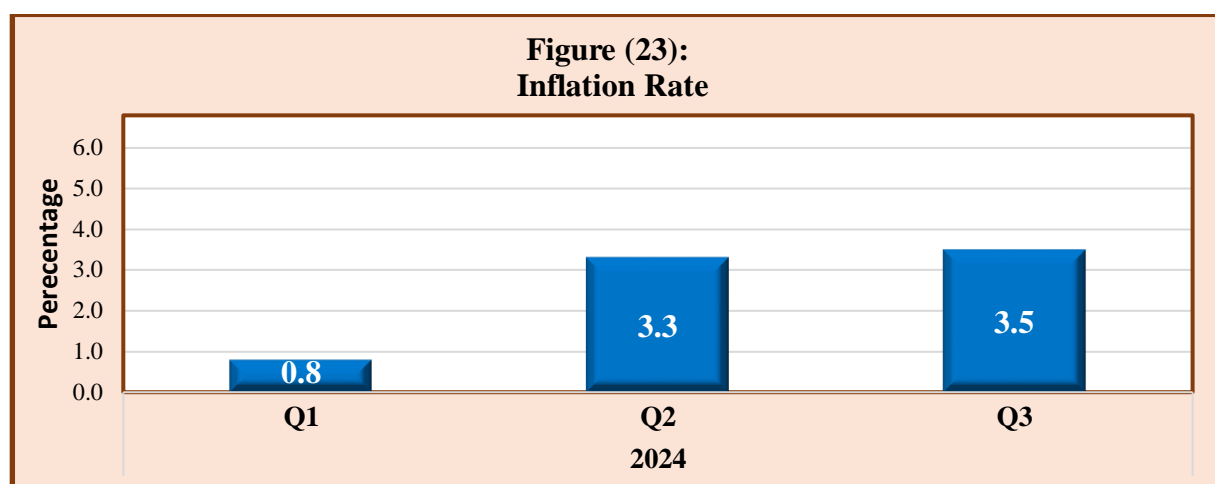
Macroeconomic variables are among the most prominent factors affecting the financial system, as they directly and indirectly impact the banking sector as well as the financial sector. Therefore, the Early Warning Report provides an analysis of the most prominent macroeconomic indices for the third quarter of 2024, with forecasts for the fourth quarter of 2024 and the first quarter of 2025, such as the inflation rate, the GDP implicit deflator, in addition to the total public debt and the monetary stability coefficient. The following are the most prominent macroeconomic indices:

### 1. Inflation Rate:

The inflation rate can be measured through the Consumer Price Index (CPI), which indicates changes in the prices of goods and services consumed by individuals, whether produced domestically or imported. It is noted that the inflation rate in Iraq rose during the third quarter of 2024 to reach (3.5%) , compared to (3.3%) in the second quarter of the same year, as shown in Figure (23). The inflation rate for 2024 was calculated by setting 2022 as the base year in calculating the CPI, instead of 2012 as announced by the Ministry of Planning. The increase resulted from the rise in most CPI aggregates. The entertainment and culture sector recorded a growth rate of (2.8%) in the third quarter of 2024 compared to the second quarter of the same year, while the housing, water, electricity, and gas sector recorded a growth rate of (2.3%), the communications sector recorded a growth rate of (1.3%), the miscellaneous goods and services sector recorded a growth rate of (1.3%), and the transportation sector recorded a growth rate of (0.7%) during the same period, as shown in Table (3).

Table (3)					
Goods & Services Aggregates					
Details	Recreation & Culture	Housing, Water, Electricity & LPG	Communications	Miscellaneous Services & Goods	Transportation
Q1 2024	111.5	101.3	96.5	109.5	105.9
Q2 2024	112.7	101.9	98.4	111.4	108.1
Q3 2024	115.9	104.2	99.7	112.9	108.9

Source: Central Bank of Iraq, Basic Financial Data.

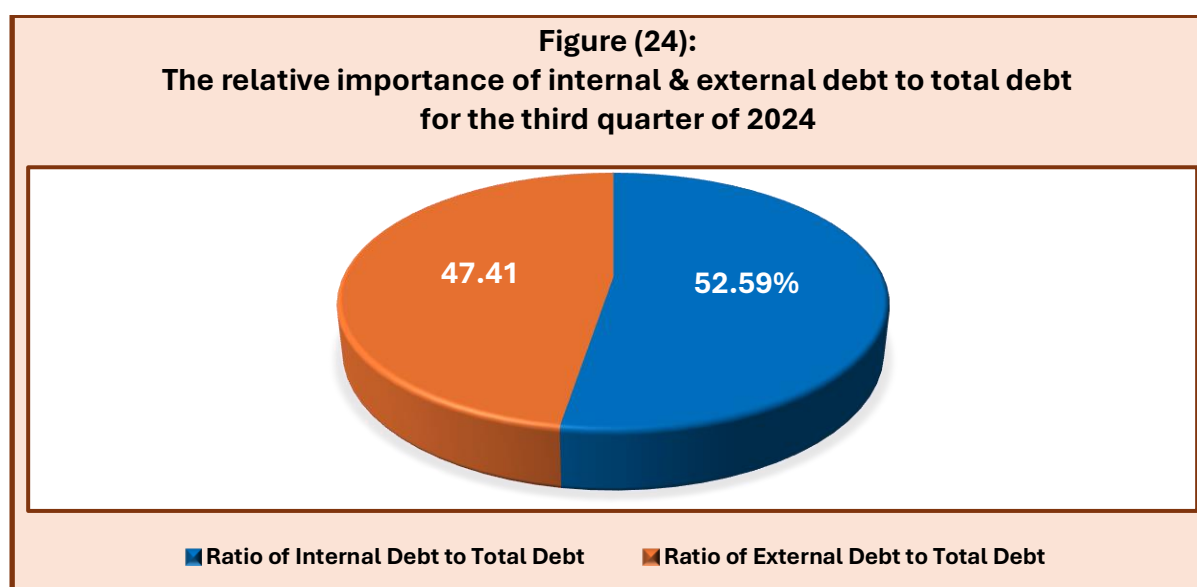


Source: Central Bank of Iraq, Basic Financial Department.

## 2. Total Public Debt Growth Rate:

Debt represents the government's obligation to banks and the Central Bank of Iraq through (internal debt), meaning obligations within the country, and (external debt), meaning obligations outside the country. The government relies on borrowing to finance public spending and support economic development.

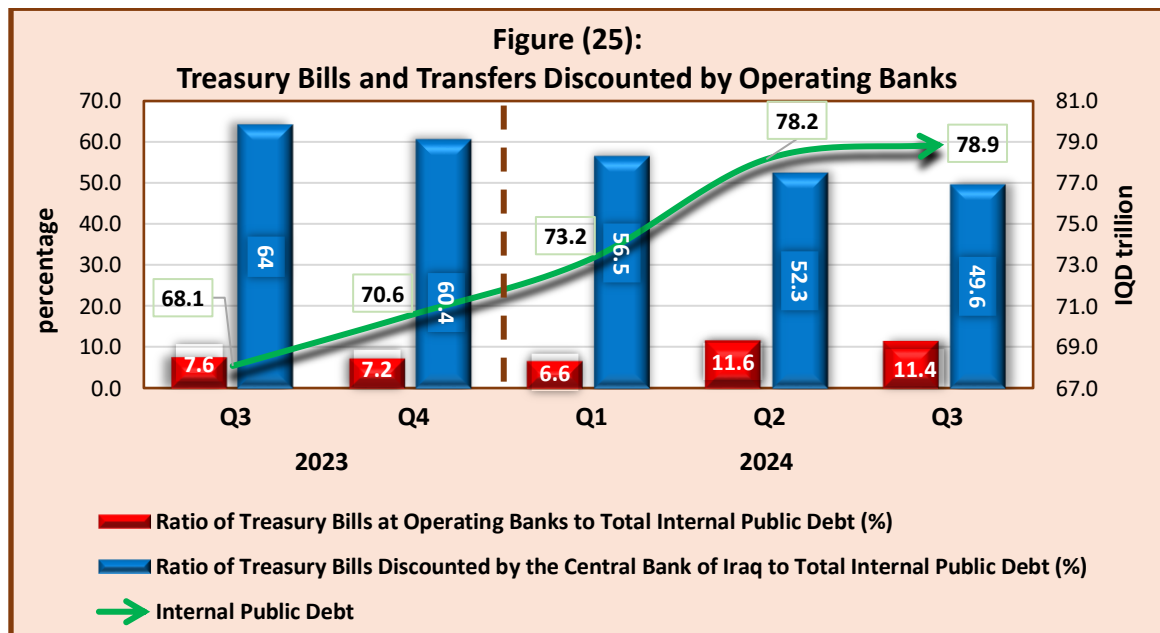
Figure (24) shows an increase in the total public debt growth rate in the third quarter of 2024 by (7%) compared to the same quarter of 2023, due to the increase in internal debt despite the decrease in external debt. Figure (24) also shows that the internal debt ratio for the third quarter of 2024 reached (52.59%) of the total debt, while the external debt ratio for the third quarter of 2024 reached (47.41%) of the total debt.



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

**A- External Debt Growth Rate:** This refers to the Ministry of Finance's obligations to international lenders, such as governments, financial institutions, or foreign investors. The external debt rate decreased by (1.4%) during the third quarter of 2024 compared to the same quarter of 2023. This reflects the Iraqi government's efforts to free the Iraqi economy from external obligations that impact national development.

**B. Internal Debt Growth Rate:** It indicates the government's commitment to operating banks and the Central Bank of Iraq. Figure (25) shows that internal debt increased in the third quarter of 2024 to IQD (79) trillion after it was IQD (68) trillion for the same quarter of 2023. This is due to the rise in the proportion of treasury bills at operating banks to the total internal public debt to reach (11.4%) in the third quarter of 2024 after it was (7.6%) in the same quarter of 2023. This may have a negative impact on the financial system due to the increased competition for the private sector in obtaining financing. As for the treasury bills discounted by the Central Bank of Iraq to the internal public debt, the percentage decreased to reach (49.6%) in the third quarter of 2024 after it was (64%) in the same quarter of 2023 due to the government payment of part of these bills.



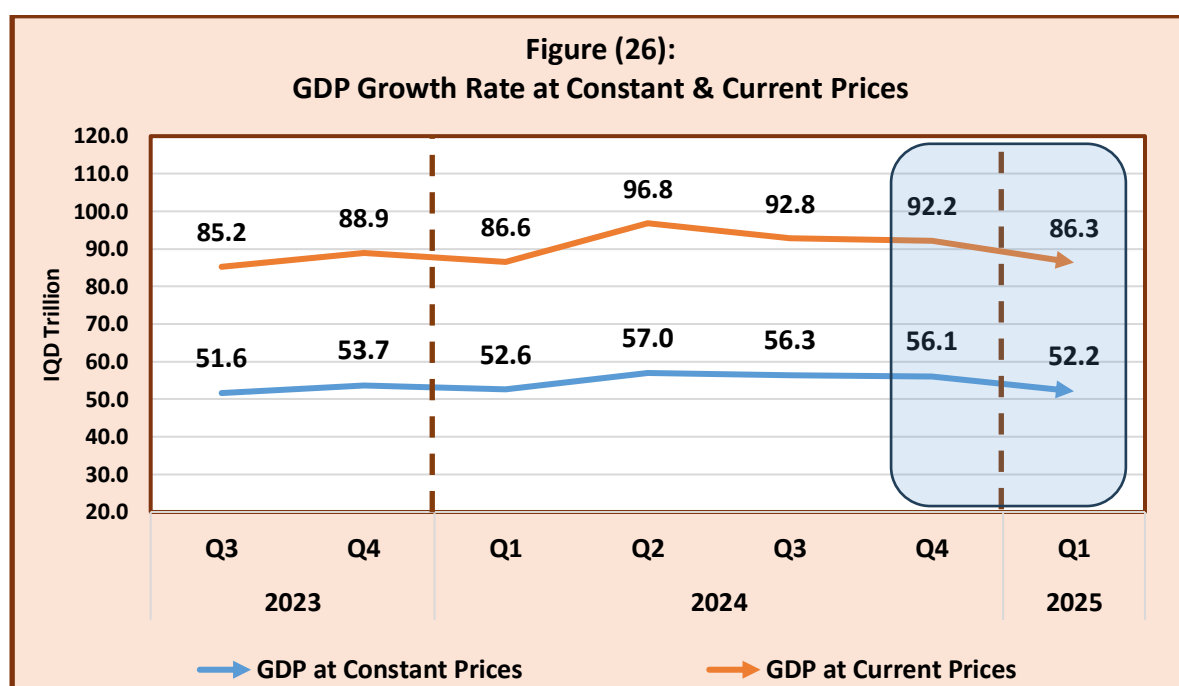
Source: Central Bank of Iraq, Department of Statistics & Research.



### 3. Gross Domestic Product (GDP) Growth Rate:

Gross Domestic Product (GDP) is considered one of the most important economic tools that represent the economy's capacity and growth. It reflects the level of efficiency and economic activity within a country over a specific period, helping to assess economic performance and determine future trends. It is noted that Iraq's GDP at current prices in the third quarter of 2024 recorded a growth of (8.9%), reaching IQD (92.8) trillion, compared to IQD (85.2) trillion in the same quarter of 2023. This increase is attributed to the growth rate of most economic sectors, as illustrated in Figure (26).

It is expected that the GDP at current prices will decrease to IQD (92.2) trillion in the fourth quarter of 2024 and to IQD (86.3) trillion in the first quarter of 2025. It is also expected that the GDP at constant prices will decrease to IQD (56.1) trillion in the fourth quarter of 2024 and to IQD (52.2) trillion in the first quarter of 2025.



Source: Ministry of Planning, Central Statistical Organization, GDP Data.

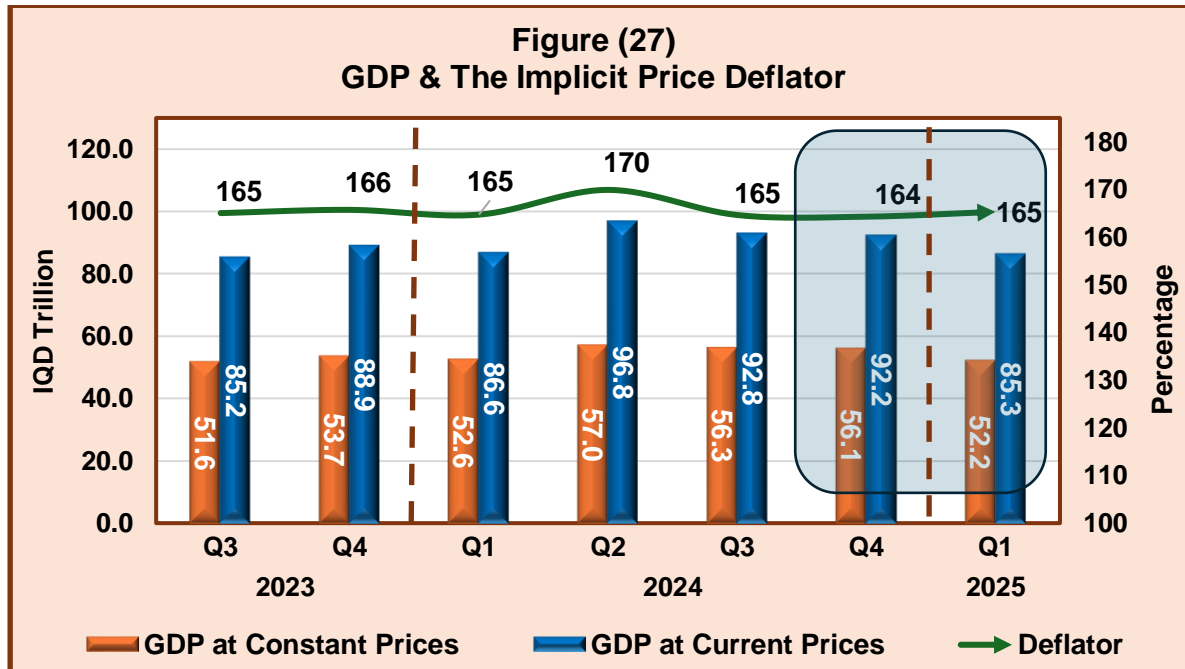
\* Fourth quarter of 2024 and first quarter of 2025 are forecast data, based on forecasts from the Monetary and Financial Stability Division.



## 4. Implicit Price Deflator:

The implicit price deflator is considered one of the main tools for measuring the inflation rate. It reflects changes in the prices of all goods and services produced within the national economy over a specific period. It is calculated by dividing the Gross Domestic Product (GDP) at current prices by the GDP at constant prices, providing an accurate measure of price changes over time. Figure (27) shows stability in the implicit deflator value, reaching (165%) in the third quarter of 2024 and 2023. This is a result of positive inflation rates during both periods.

It is expected that the implicit deflator will decrease to (164%) during the fourth quarter of 2024 and rise in the first quarter of 2025 to (165%).



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

\* Fourth quarter of 2024 and first quarter of 2025 are forecast data, based on forecasts from the Monetary and Financial Stability Division.

Table (4)			
Macroeconomic Performance Indices			
Index Name	Q3 2023	Q3 2024	Rate Of Change%
Inflation Rate (%)	3.6	3.5	-2.8
Ratio Of Treasury Bills at Operating Banks to Total Internal Public Debt (%)	7.6	11.4	50
The Ratio of Treasury Bills Discounted by the Central Bank of Iraq to Total Internal Public Debt (%)	64	49.6	-22.5
GDP At Current Prices Amount (IQD Trillion)	85.2	92.8	8.9
GDP At Constant Prices (IQD Trillion)	51.6	56.3	9.11
Implicit GDP Deflator	165	165	0.0

Source: - Central Bank of Iraq, Department of Statistics and Research.  
 - Ministry of Planning, Central Statistical Organization, GDP data.



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