



Early Warning Report for the Banking Sector

Q4 2024



No. Thirty

Statistics and Research Department
Monetary and Financial Stability Division

Early Warning Report for the Banking Sector
(The Fourth 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 regulatory tools in this sector. This is achieved through the indices it contains, which can predict imminent and potential crises in general, even if they do not materialize. Furthermore, it measures potential deviations that may affect the banking sector and the variables influencing it.

The report includes three chapters covering the majority of indices that affect the work of the monetary authority.

The first chapter of the report included an analysis of currency value stability indices through several key indices, most notably the ratio of net foreign reserves to broad money supply (M2). This ratio decreased to (75.2%) in the fourth quarter of 2024, compared to the same quarter of 2023 when it stood at (80.5%), which is higher than the standard ratio of (20%) in both the fourth quarters of 2023 and 2024. The decrease in this ratio is attributed to a (10.2%) decline in net foreign reserves during the same period.

Regarding the second chapter, which includes an analysis of banks' performance indices, the ratio of total cash credit to total deposits reached (59.3%) in the fourth quarter of 2024. This remained below the standard ratio of (75%) set by the Central Bank. Additionally, the money multiplier ratio witnessed an increase in the fourth quarter of 2024, reaching (1.22), compared to (1.10) for the same quarter of 2023. This rise is attributed to the (5.8%) growth in the volume of cash credit extended by banks during that period. As for the non-performing loans to total cash credit ratio, it increased to (7.21%) in the fourth quarter of 2024, up from the (6.3%) recorded in the same quarter of 2023.

The third chapter addressed the analysis of some macroeconomic indices that have an impact on the Iraqi banking system. Regarding the inflation rate, it is noted that it recorded (2.8%) in the fourth quarter of 2024, with 2022 being used as the base year for calculating the price index instead of 2012. Concerning the total public debt, an increase of (17.0%) is observed in the fourth quarter of 2024 compared to the same quarter of 2023. This rise is attributed to an increase in internal debt, despite a decrease in external debt, which constituted (46.08%) of the total debt in the same quarter. Furthermore, Iraq's nominal Gross Domestic Product (GDP) in current prices achieved an increase of (7.5%) in the fourth quarter of 2024, reaching IQD (95.6) trillion after being IQD (88.9) trillion during the same 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 following a set of important indices. As all indices remain within acceptable range and without significant fluctuations, it suggests that the national currency is not exposed to external or internal shocks. Consequently, the path of currency's value will likely remain stable. However, when large fluctuations appear in all or part of them, they serve 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:

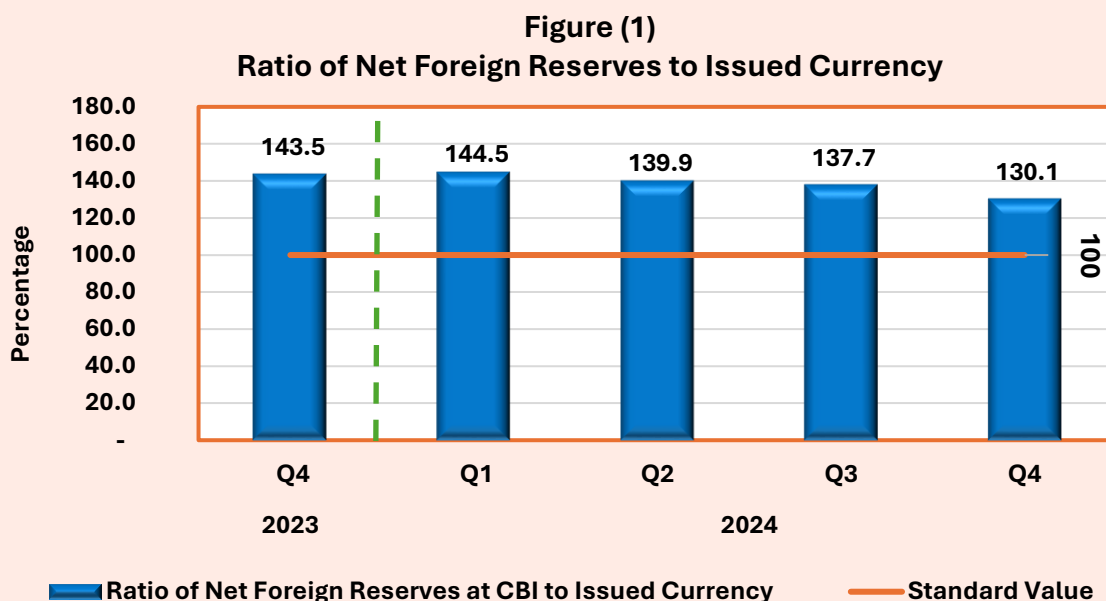
First: Foreign Reserves Adequacy:

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.

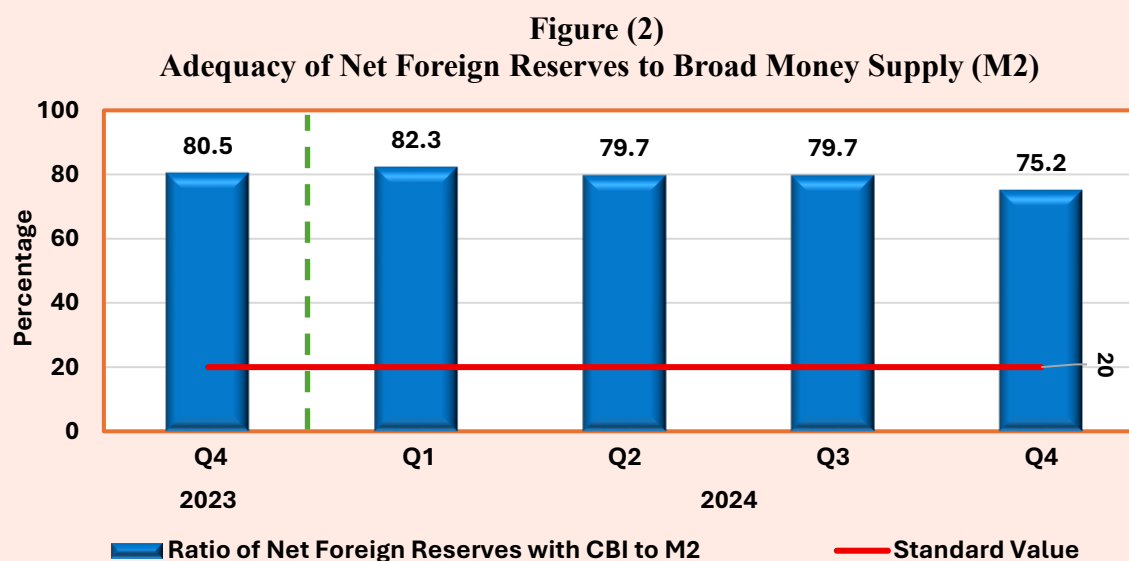
The ratio of this index reflects the relationship between net foreign reserves and the value of the national currency, as a high ratio is considered a positive index. Figure (1) shows a decrease in the coverage ratio of net foreign reserves to issued currency, reaching (130%) for the fourth quarter of 2024 compared to (144%) for the same quarter of 2023. This decrease is attributed to continued efforts of the Central Bank of Iraq to defend the value of the dinar by providing the foreign currency to cover the import bill and maintaining the money supply volume at acceptable levels, as the money supply remained at the level of IQD (100) trillion during the same period. Despite the decrease of net foreign reserves by (10.2%), reaching IQD (130.8) trillion for the fourth quarter of 2024, after it had reached IQD (145.6) trillion for the same quarter of 2023, still the ratio remained positive and influential because it is higher than the standard ratio specified at (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 fourth quarter of 2024 was (75.2%), which is well above the standard ratio set at (20%), although it decreased by (6.6%) compared to the same quarter of 2023, when it was (80.5%) as a result of a decrease of net foreign reserves by (10.2%) despite a decrease of broad money supply (M2) by (3.8%) during the same period.

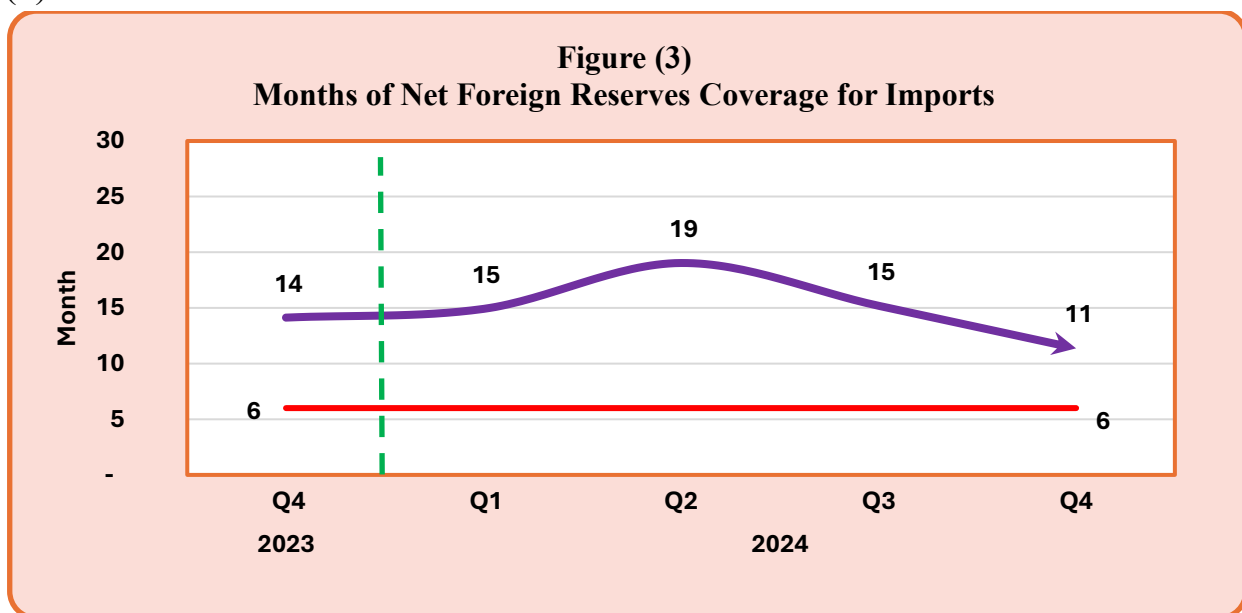


Source: Central Bank of Iraq, Statistical Website.

3. Net Foreign Reserves Coverage to Total Imports Index:

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 4 to 5 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 months¹.

The coverage period of net foreign reserves to total imports in the fourth quarter of 2024 witnessed a decrease to reach (11) months compared to (14) months for the same quarter of 2023. It is a result of the increase of total imports on a (CIF) basis, recording IQD (34.4) trillion after being IQD (30.9) trillion during the same quarter of 2023, in addition to the decrease of net foreign reserves, which amounted to IQD (130.8) trillion for the fourth quarter of 2024 compared to IQD (145.6) trillion during the same quarter of 2023. It is worth noting that the ratio is high and impactful as it is greater than the standard ratio set at (6 months), as shown in Figure (3).



Source: Central Bank of Iraq, Statistical Website.

¹ For more information, see the Early Warning Report, Issue Nineteen, Quarter One 2022, p 6.

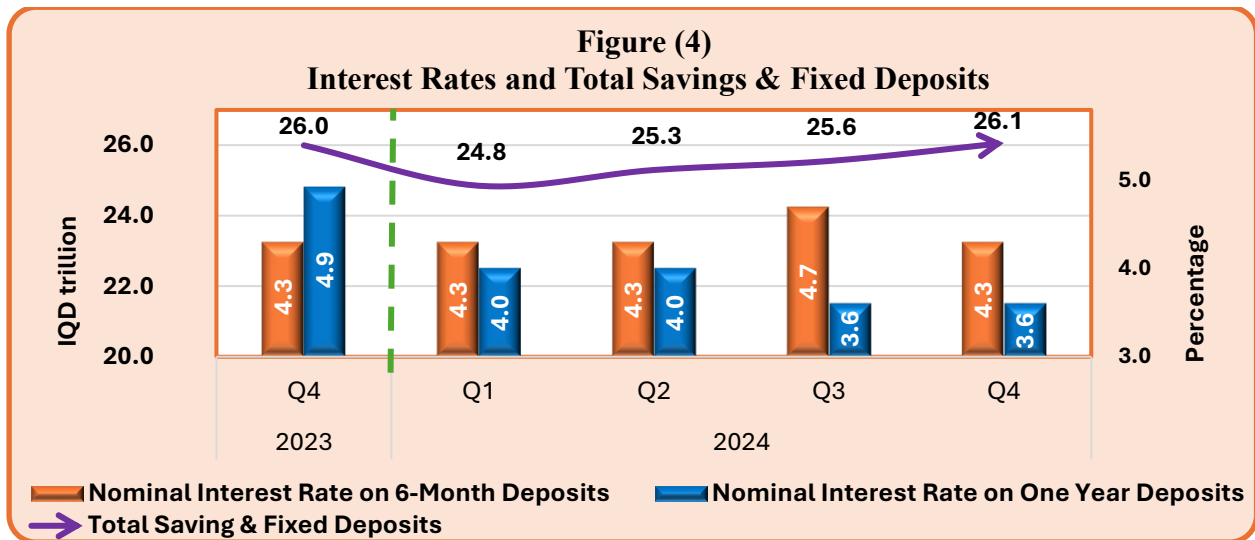
Second: Change in Interest Rate Levels:

The index of change in interest rate levels is a vital index that shows the general direction of the economy. As higher interest rates on deposits are supposed to be an indicator of currency withdrawal from circulation and hoarding by individuals in favor of deposits at banks. Therefore, increasing the banks' ability to grant credit and stimulate the economy because 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 inclusion levels.

1. Short-Term Interest Rates and 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 of interest rates has a weak impact on the volume of deposits because of individuals' tendency to hoard rather than deposit with banks. The nominal interest rate on six-month deposits remained at (4.3%) for the fourth quarter of 2024 and 2023, while it decreased on one-year deposits to (3.6%) for the fourth quarter of 2024, after it had reached (4.9%). Meanwhile, the total savings and fixed deposits recorded a rise of IQD (26.1) trillion for the quarter compared to IQD (26.0) trillion during the same period.

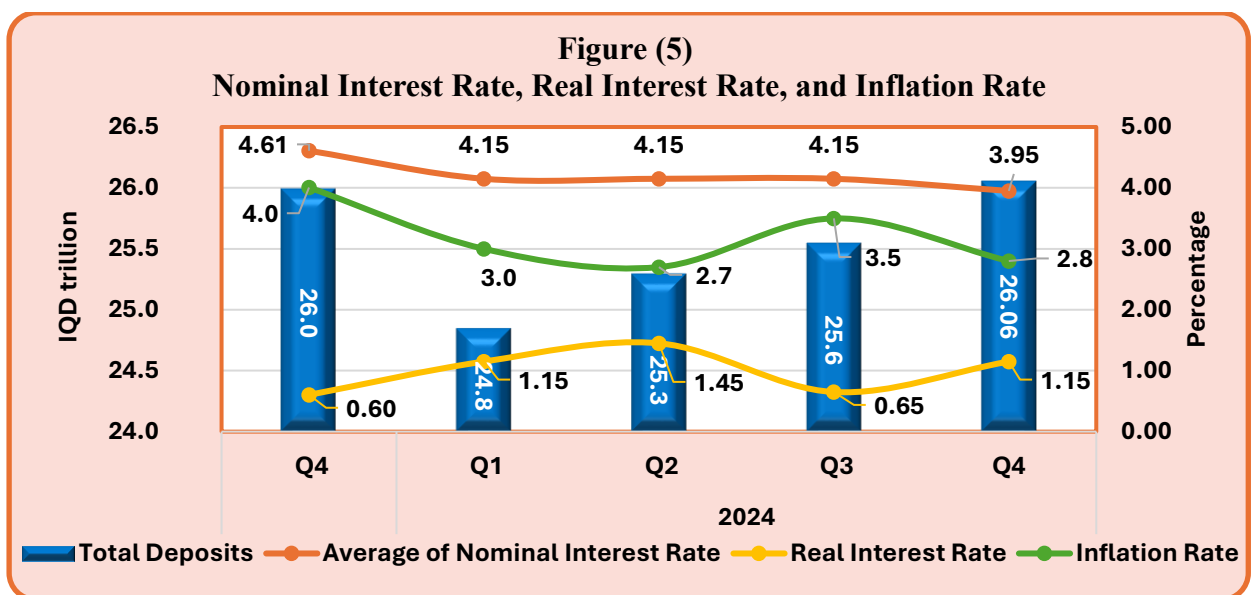
Figure (4) below shows that the correlation between total fixed and savings deposits and interest rates for six-month and one-year terms is weak and does not represent a strong direct relationship.



Source: Central Bank of Iraq /Statistical Website.

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 that there is an increase of real interest rate during the fourth quarter of 2024, reaching (1.15%) compared to (0.60%) for the fourth quarter of 2023 due to the decline of inflation rate reaching (2.8%) for the fourth quarter of 2024. It is necessary to indicate the change of the base year for calculating the Consumer Price Index, since the year 2022 was adopted instead of 2012, as announced by the Ministry of Planning. It was reflected in the increase of real interest rate for the fourth quarter of 2024 and the decrease of inflation rate during the same quarter.



Source: Central Bank of Iraq, Statistical Website.

Table (1) Currency Value Stability Indices			
Index Name	Q4 2023	Q4 2024	Change Rate %
Net Foreign Reserves at the Central Bank of Iraq (IQD Trillion)	145,639	130,826	-10.2
Issued Currency (IQD Trillion)	101,481	100,543	- 0.9
Ratio of Net Foreign Reserves at the Central Bank of Iraq to Issued Currency (%)	144	130	- 9.7
Broad Money Supply (M2) (IQD Trillion)	180,976	174,043	- 3.8
Ratio of Net Foreign Reserves at the Central Bank of Iraq to Broad Money Supply M2 (%)	80.5	75.2	- 6.1
Months of Coverage of Net Foreign Reserves for Imports (Months)	14	11	- 21.4
Total Fixed and Savings Deposits (IQD Trillion)	26	26.03	- 0.4

The table was prepared by adopting data from:

- 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:

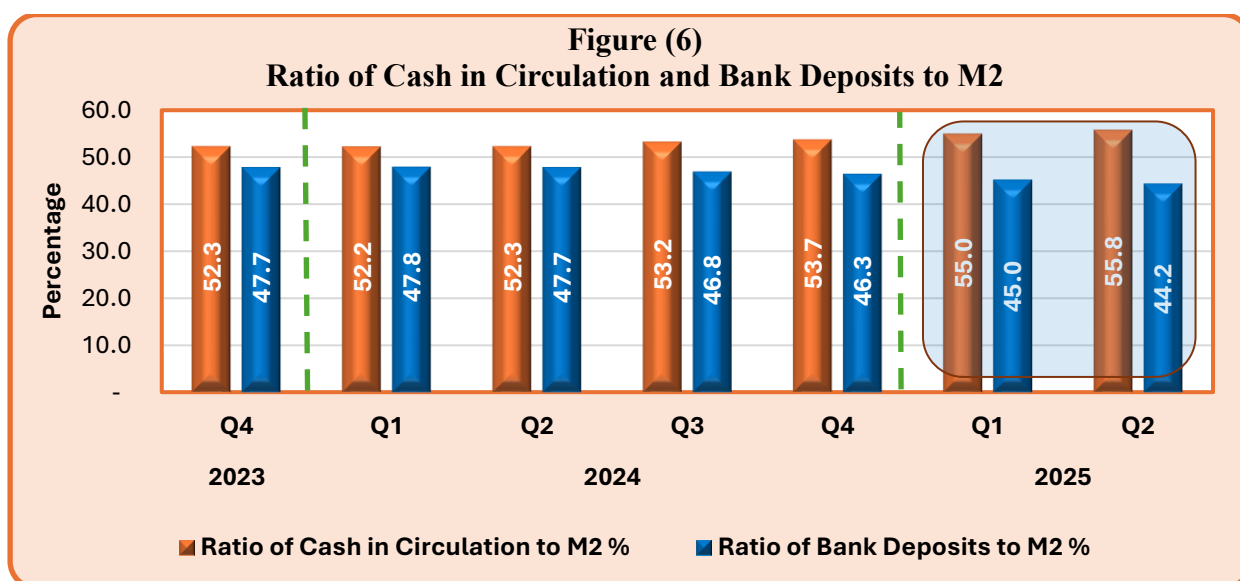
Outstanding lending facilities provided by the Central Bank of Iraq to operating banks as the last resort lender vary according to the impairments experienced by operating banks. As facilities provide more financial support to banks, the Central Bank of Iraq Law No. 56 of 2004, under article 30 sets 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 fourth 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) illustrates that the ratio of bank deposits to M2 decreased from (47.7%) for the fourth quarter of 2023 to (46.3%) for the same quarter of 2024 as a result of the decrease in current deposits. In contrast, the ratio of cash in circulation to (M2) rose from

(52.3%) for the fourth quarter of 2023 to (53.7%) 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 bank deposits to M2 will reach (45%) and (44.2%), respectively, for the first and second quarters of 2025, while they showed that the ratio of cash in circulation to M2 will reach (55%) and (55.8%), respectively, for the same period.



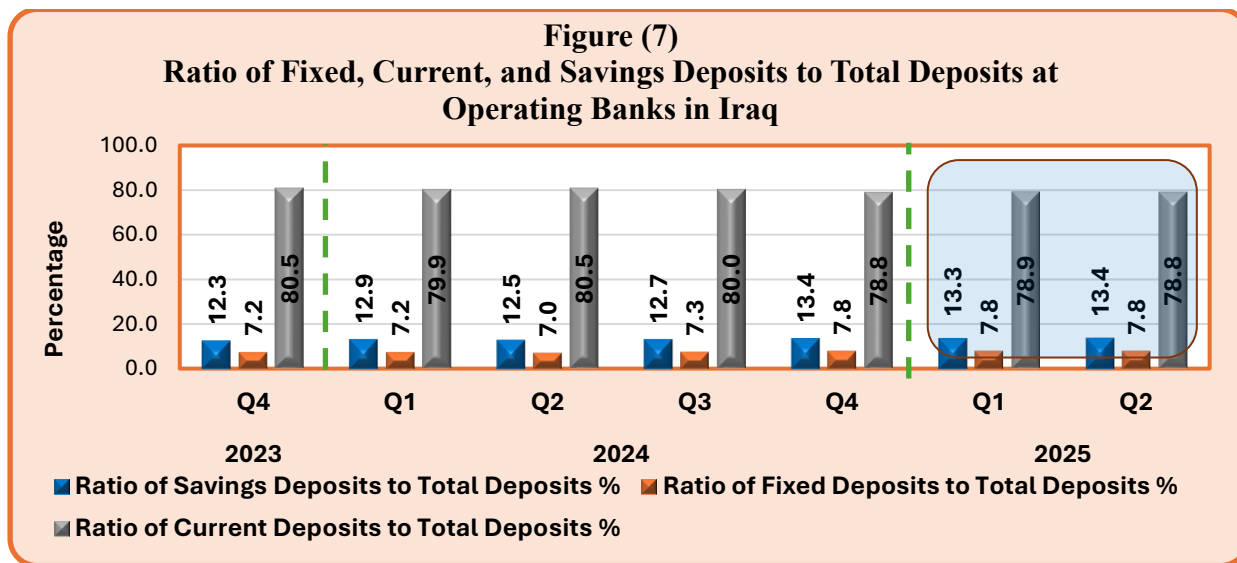
Source: Central Bank of Iraq, Statistical Website.

* Data for Q1 and Q2 of 2025 are forecast data based on the forecasts of the 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, By following the types of deposits with operating banks, we find that current deposits accounted for the largest percentage of total deposits with banks, despite the decrease in their percentage to total deposits from (80.5%) in the fourth quarter of 2023 to (78.9%) in the same quarter of 2024. While The ratio of fixed deposits to total deposits increased from (7.2%) in the fourth quarter of 2023 to (7.8%) in the same quarter of 2024. As for the ratio of savings deposits to total deposits, it also increased from (12.3%) in the fourth quarter of 2023 to (13.4%) for the same quarter of 2024. In other words, banks must be more effective in attracting deposits by providing

more banking services as well as paying 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 stabilize at (78.9%) and (78.8%) in the first and second quarters of 2025, respectively, while the ratio of savings deposits to total deposits is expected to reach (13.3%) and (13.4%). Fixed deposits are projected to remain stable at (7.8%) for the same duration.



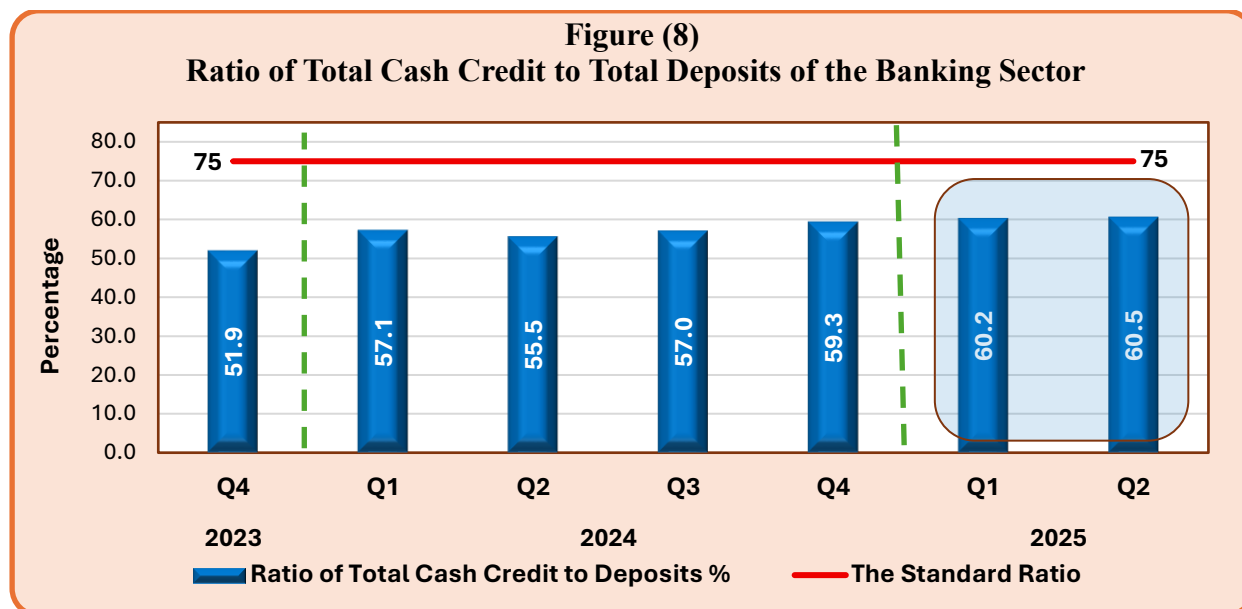
Source: Central Bank of Iraq, Statistical Website.

* Data for Q1 and Q2 of 2025 are forecast data based on the forecasts of the 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 (51.9%) for the fourth quarter of 2023 to (59.3%) for the same quarter of 2024 due to an increase of granted cash credit by (5.6%) against a decrease of deposits volume by (7.6%) for the same period. Despite this increase, the ratio of total credit to total deposits did not exceed the standard ratio set by the Central Bank of Iraq.

The ratio of total cash credit to total deposits for the banking sector is expected to rise to (60.2%) and (60.5%), respectively, for the first and second quarters of 2025.

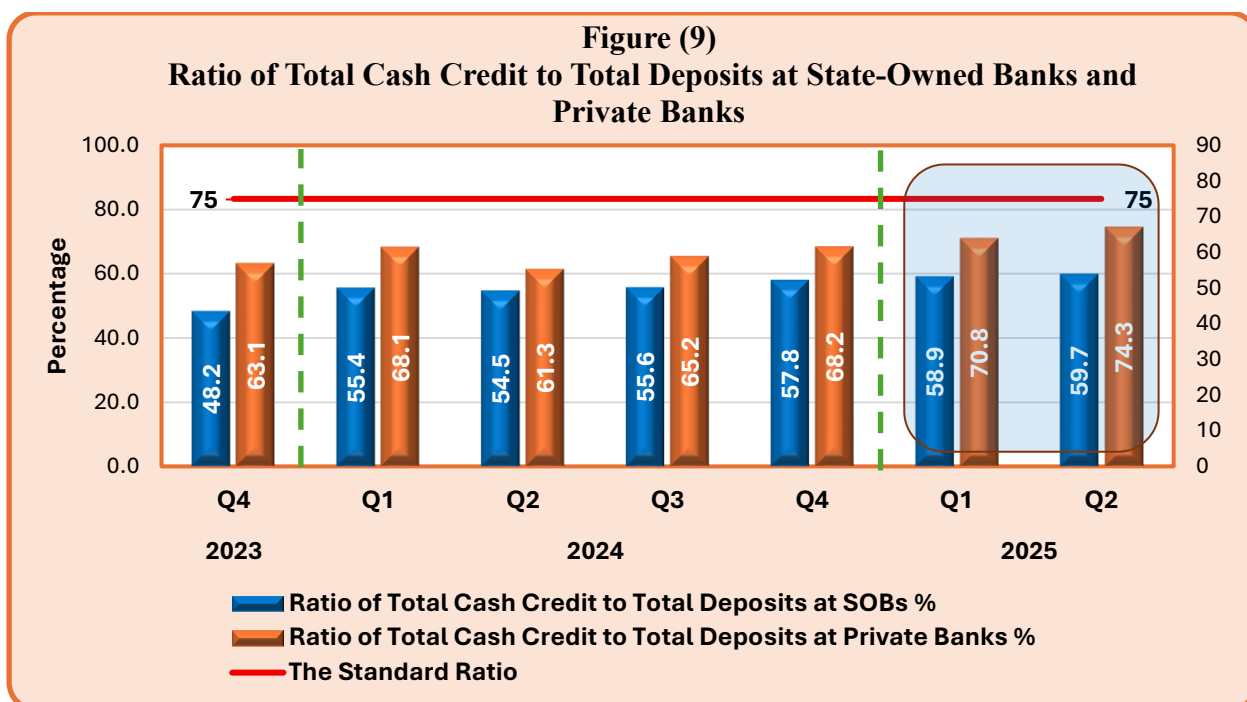


Source: Central Bank of Iraq, Statistical Website

* Data for Q1 and Q2 of 2025 are forecast data based on the forecasts of the 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 (63.1%) for the fourth quarter of 2023 to (68.2%) for the same quarter of 2024 owing to the increase of granted credit by private banks by (16.5%), which is greater than the increase of private banks' total deposits reaching (7.8%). It reflects the tendency of private banks to provide liquidity to domestic markets. As for SOBs, the ratio increased from (48.2%) for the fourth quarter of 2023 to (57.8%) for the same quarter of 2024.

It is expected that the ratio of total cash credit to total deposits is expected to reach (58.9%) and (59.7%), respectively, for the first and second quarters of 2025 and for private banks to reach (70.8%) and (74.3%), respectively, for the same period.



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

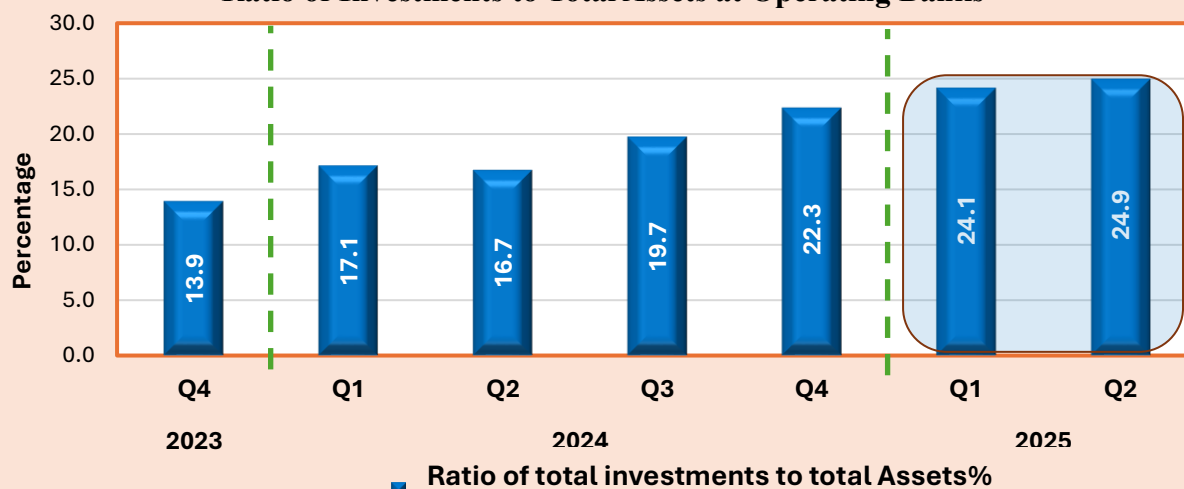
* Data for Q1 and Q2 of 2025 are forecast data based on the forecasts of the Monetary and Financial Stability Division.

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' budgets. The significance of investments lies in the returns 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 budget. 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 (13.9%) for the fourth quarter of 2023 to (22.3%) for the same quarter of 2024 due to an increase of (59.3%) of total investments compared to a decrease of (1.2%) of total assets.

The ratio of investments to total assets at operating banks is expected to reach (24.1%) for the first quarter of 2025 and (24.9%) for the second quarter of the same year.

Figure (10)
Ratio of Investments to Total Assets at Operating Banks



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

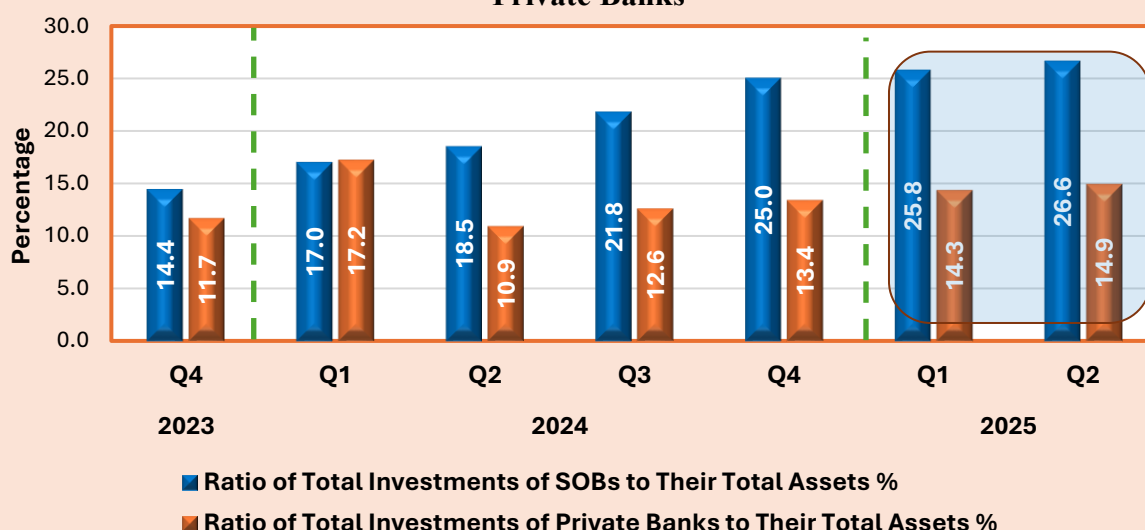
*** Data for Q1 and Q2 of 2025 are forecast data based on the forecasts of the Monetary and Financial Stability Division.**

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 (14.4%) for the fourth quarter of 2023 to reach (25.0%) for the same quarter of 2024.

While the ratio of investments to total assets at private banks increased from (11.7%) for fourth quarter of 2023 to (13.4%) for the same quarter of 2024. It is worth mentioning that the ratio of investments at state-owned banks constitutes (86.0%) to total investments at operating banks for the fourth quarter of 2024.

Total investments of private banks as a percentage of their total assets is expected to reach (14.3%) and (14.9%) for the first quarter and the second quarter of 2025, respectively, and to reach (25.8%) and (26.6%), respectively, for state-owned banks for the same period.

Figure (11)
Ratio of Total Investments to Total Assets for State-Owned Banks and Private Banks



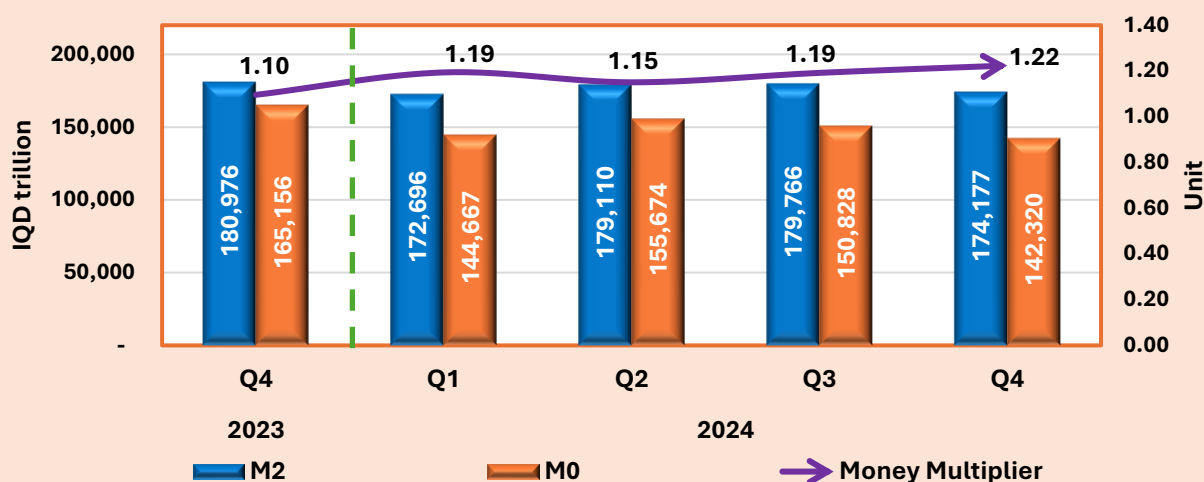
Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

* Data for Q1 and Q2 of 2025 are forecast data based on the forecasts of the 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 cash basis. Money multiplier recorded an increase in the fourth quarter of 2024 as it reached (1.22) from (1.1) for the same quarter of 2023. This increase is due to an increase in broad money supply (M2), recording IQD (174.2) trillion, compared to the cash basis recording an amount of IQD (142.3) trillion during the fourth quarter of 2024. Figure (12) shows money multiplier values over the same period.

Figure (12)
Cash Basis, Broad Money Supply (M2) & the Money Multiplier

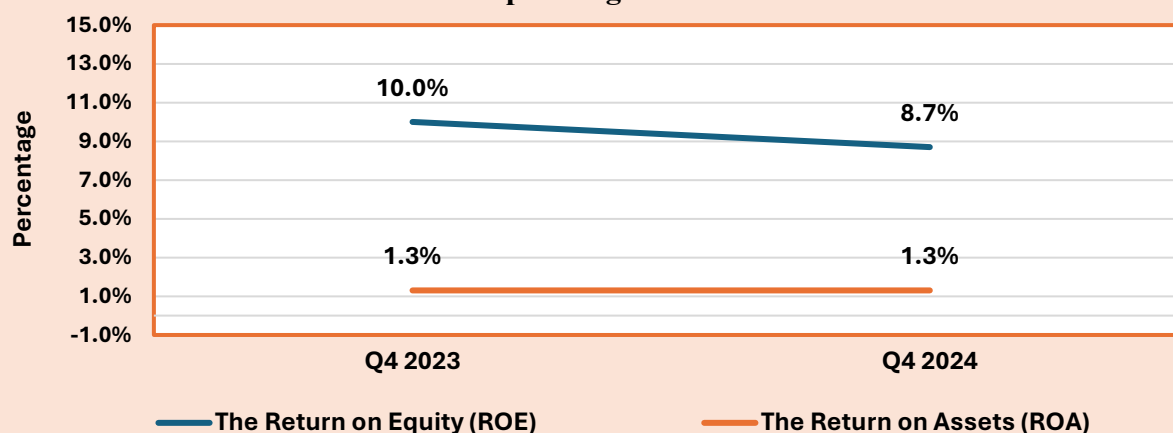


Source: Central Bank of Iraq, Statistics and Research Department, estimates of Monetary and Financial Stability Division.

7. Banks' Profitability:

The Banks' Profitability Index is a measure to evaluate the extent of a bank's ability to achieve profits compared to other factors such as capital, revenues or assets. This index helps investors and management understand the extent of the bank's efficiency in generating and sustaining profits. Figure (13) shows that there is stability in the return on assets ratio at (1.3%) in the fourth quarter of 2023 and 2024, and the return on equity ratio decreased from (10.0%) in the fourth quarter of 2023 to (8.7%) for the same quarter of 2024.

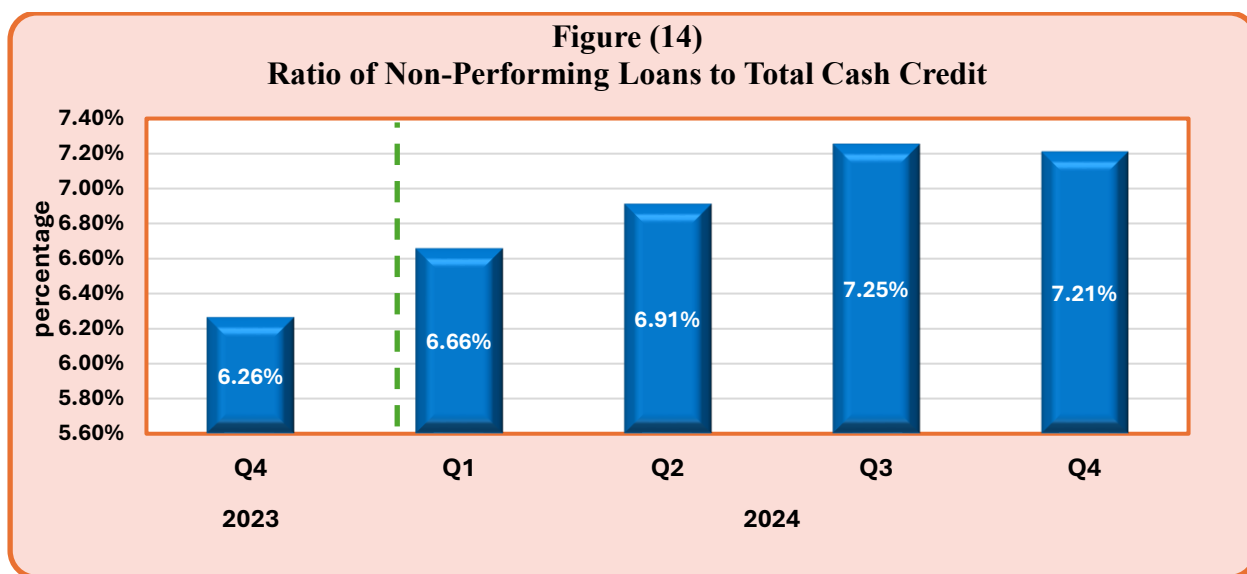
Figure (13)
The Return on Equity (ROE) and Return on Assets (ROA) for Operating Banks



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

8. Non-Performing Loans to Total Cash Credit:

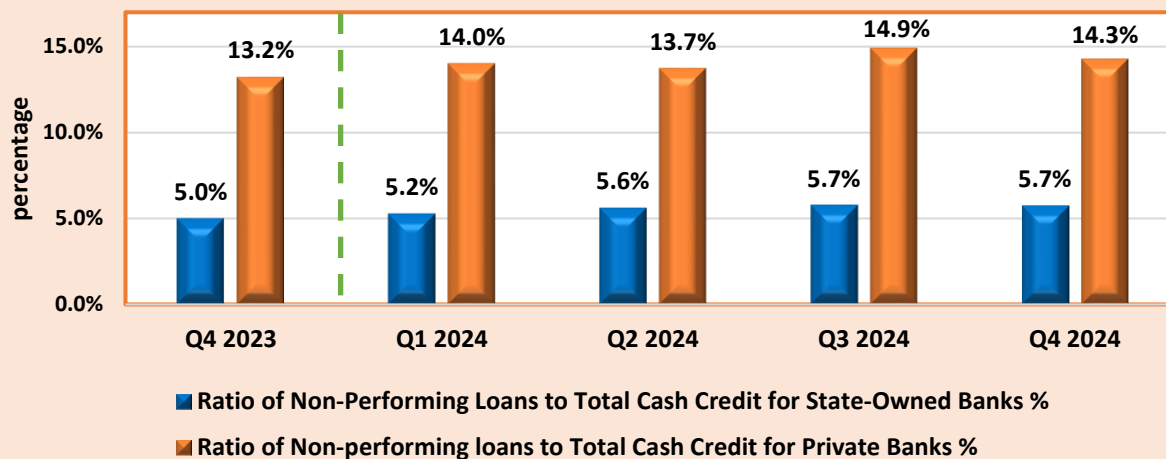
This index is measured by dividing non-performing loans by total cash credit. Figure (14) shows that the ratio of non-performing loans to total cash credit in the fourth quarter of 2024 increased to (7.21%), after being (6.26%) for the same quarter of 2023. This increase is a result of a (21.6%) growth in non-performing loans, which is higher than the (5.6%) 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 (14.4%) in the fourth quarter of 2024, up from (13.2%) in the same quarter of 2023. As a result of the growth in non-performing loans of private credit, which increased by (27.2%), which is higher than the increase in total private credit by (16.5%), as for state-owned banks, the ratio of non-performing loans to their total cash credit increased to reach (5.7%) in the fourth quarter of 2024, after it was (5%) for the same quarter of 2023.

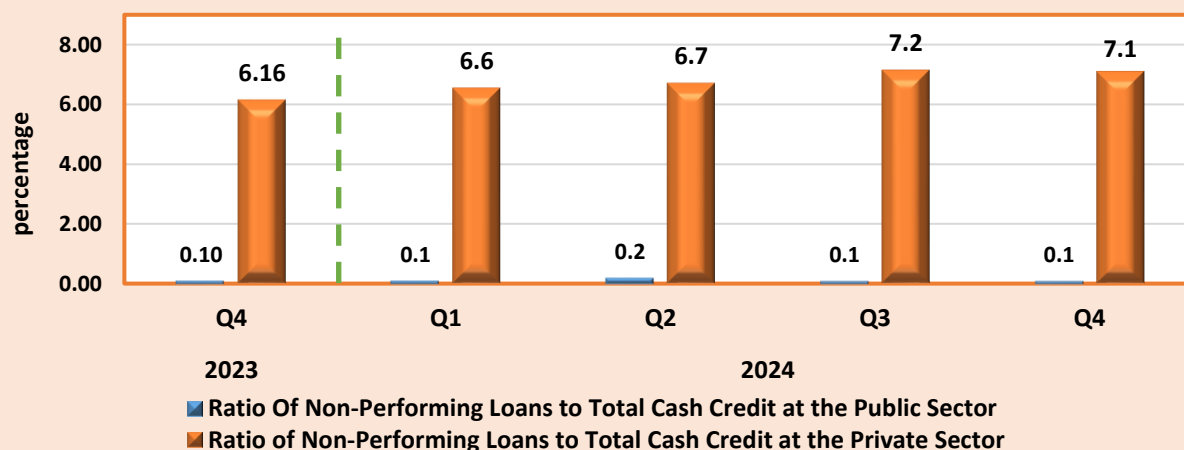
Figure (15)
Ratio of Non-Performing Loans at State-Owned and Private Banks to Total Cash Credit



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 ratio reached (7.1%) in the private sector during the fourth quarter of 2024, while this percentage reached (0.10%) in the public sector during the same period, and Figure (16) clarifies this.

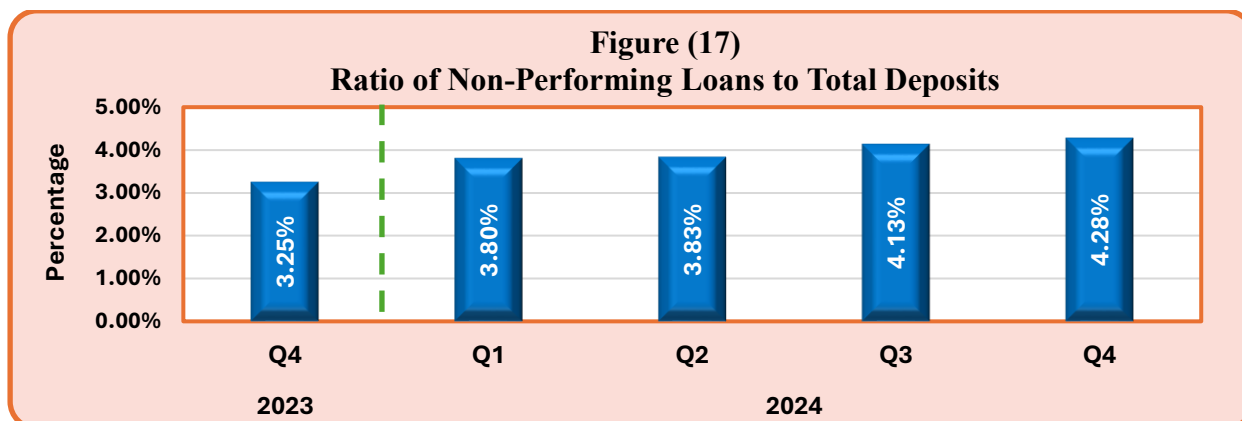
Figure (16)
Ratio of Non-Performing Loans to Total Cash Credit at the Public and Private Sectors



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

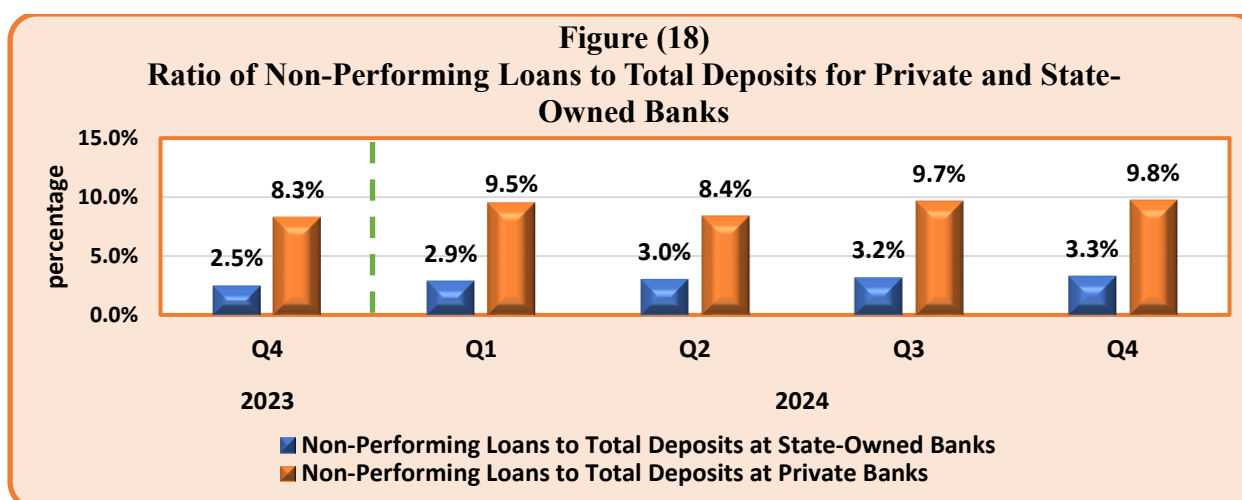
9. Non-Performing Loans to Total Deposits:

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 (4.28%) in the fourth quarter of 2024, up from (3.25%) in the same quarter of 2023. This increase is the result of a (21.6%) increase in total non-performing loans, which is greater than the growth rate of total deposits, which amounted to (7.6%).



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

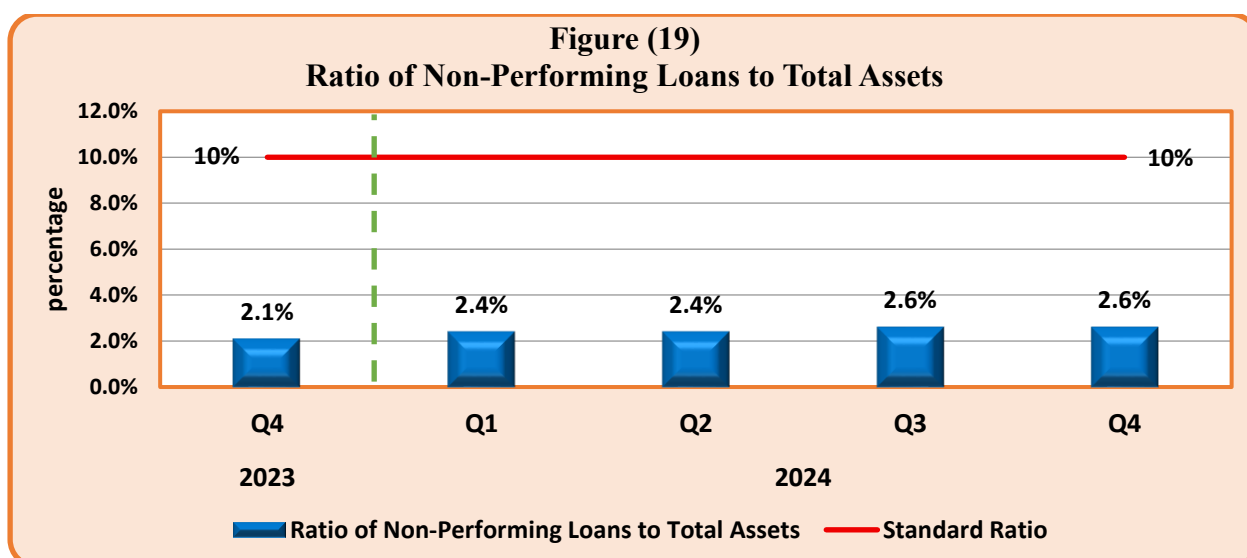
Returning to the classification of banks in terms of ownership, we find an increase in this ratio among private banks, as the ratio of non-performing loans to total deposits in private banks rose to (9.8%) in the fourth quarter of 2024, after it was (8.3%) in the same quarter of 2023. Meanwhile, this ratio among state-owned banks rose to (3.3%) in the fourth quarter of 2024, after it was (2.4%) in the same quarter of 2023. This difference between private banks and state-owned banks is due to an increase in deposits with private banks by (7.8%) compared to a decrease in deposits with state-owned banks by (13.6%).



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

10. Non-Performing Loans to Total Assets:

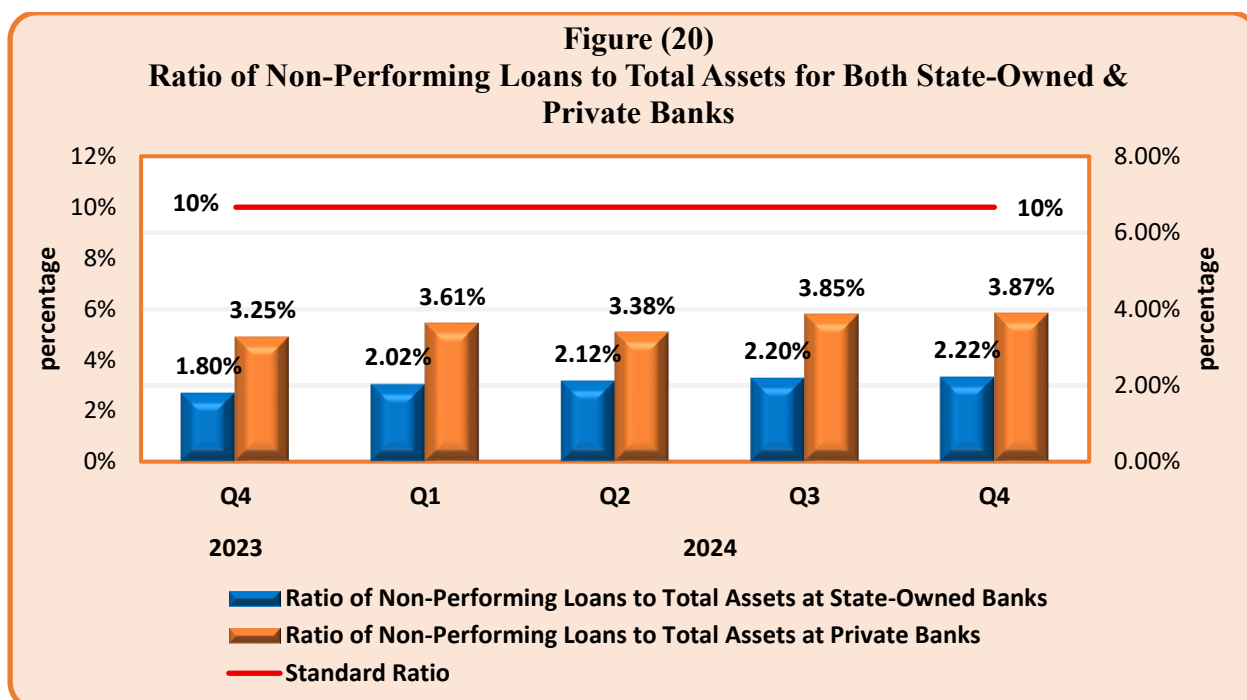
This index is measured by dividing non-performing loans by total assets held by banks. The standard ratio for this ratio is (10%). A ratio of non-performing loans to total assets exceeding the standard value indicates a significant increase in the volume of non-performing loans¹. Figure (19) shows the ratio of non-performing loans to total assets held by banks operating in Iraq. This ratio increased to (2.6%) in the fourth quarter of 2024, compared to (2.1%) 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.



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 (3.87%) for private banks in the fourth quarter of 2024, while this percentage reached (2.22%) for state-owned banks after the percentage was (1.80%) for the same period, and this percentage does not call for concern with regard to financial stability.

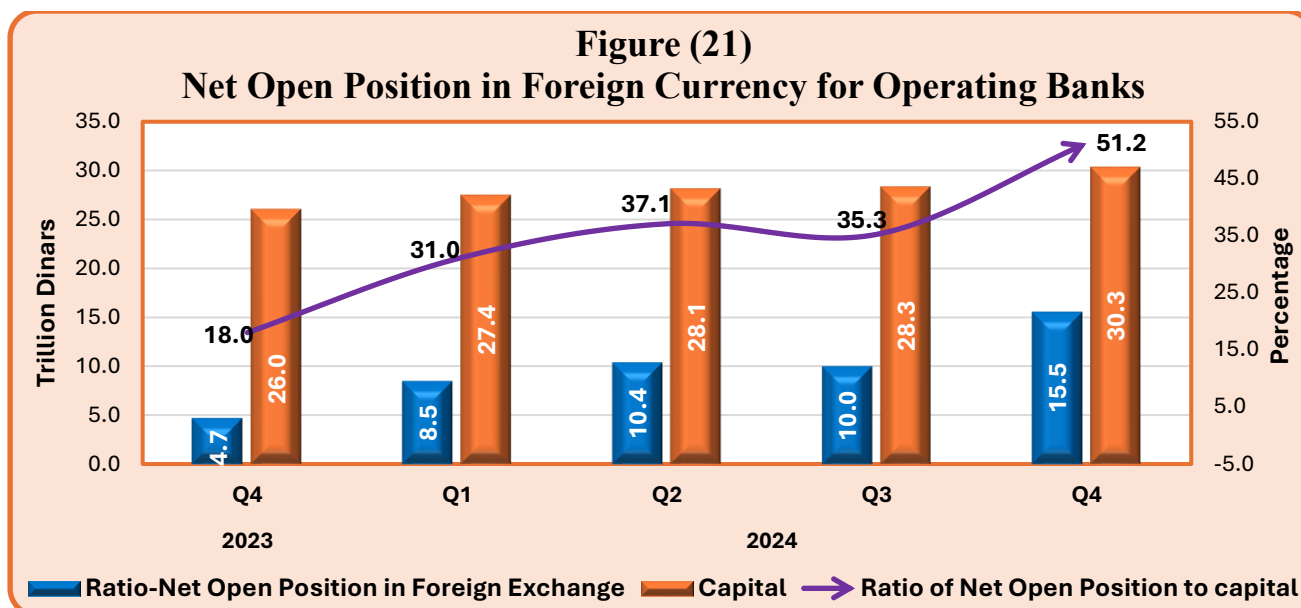
¹ For further details, see: Central Bank of Iraq, 2020, Early Warning Report for the Banking Sector, Issue No. 13, p. 23.



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

11. Net Open Position in Foreign Currency for Operating Banks:

This index measures the net foreign assets at operating banks by calculating the difference between their foreign assets and liabilities, divided by capital. A lower ratio signals a contraction in foreign asset holdings at operating banks or an expansion of foreign liabilities, while a higher ratio indicates the opposite. As depicted in Figure (21), this Index for operating banks showed a marked improvement, rising from (18.0%) in the fourth quarter of 2023 to (51.2%) in the fourth quarter of 2024. This significant uplift was driven by a (229.8%) increase in foreign net assets, complemented by a (16.5%) growth in capital. This trend reflects a strong desire among operating banks to boost their holdings of foreign currency assets, such as deposits and securities.



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

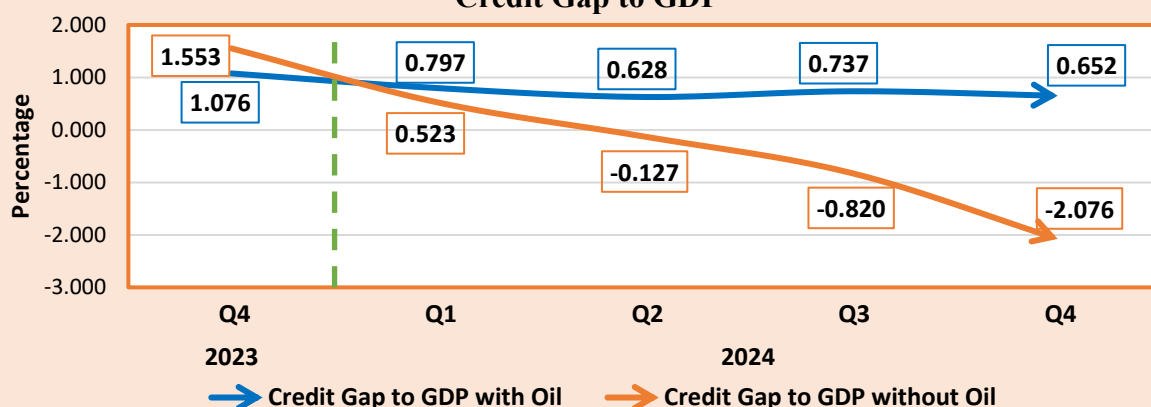
12. Private Sector Cash Credit to GDP Gap:

The credit gap is defined as the ratio of cash credit extended to the private sector to GDP in current prices, minus the trend of this ratio (credit to the private sector to GDP at current prices)². This index's standard value typically ranges from (2.5% to 10%) . When the estimated ratio approaches this standard, banks are required to build additional capital buffers, known as counter-cyclical capital buffers, due to credit growth outpacing GDP growth.

Figure (22) illustrates the credit-to-GDP gap, both with and without oil. The non-oil credit gap registered (-2.076%) in the fourth quarter of 2024, a decrease from (1.553%) in the same quarter of 2023. Conversely, the credit gap when including oil in GDP was (0.652%) in the fourth quarter of 2024, down from (1.076%) in the fourth quarter of 2023. These figures indicate that both gaps in the fourth quarter of 2024 were below the standard ratio. This suggests that an increase in cash credit extended to the private sector is possible without jeopardizing financial stability.

² [1] For further information on the calculation method for the GDP gap, refer to the Central Bank of Iraq, Iraqi Early Warning Report No. 18, Q1 2020, p. 23

Figure (22)
Credit Gap to GDP

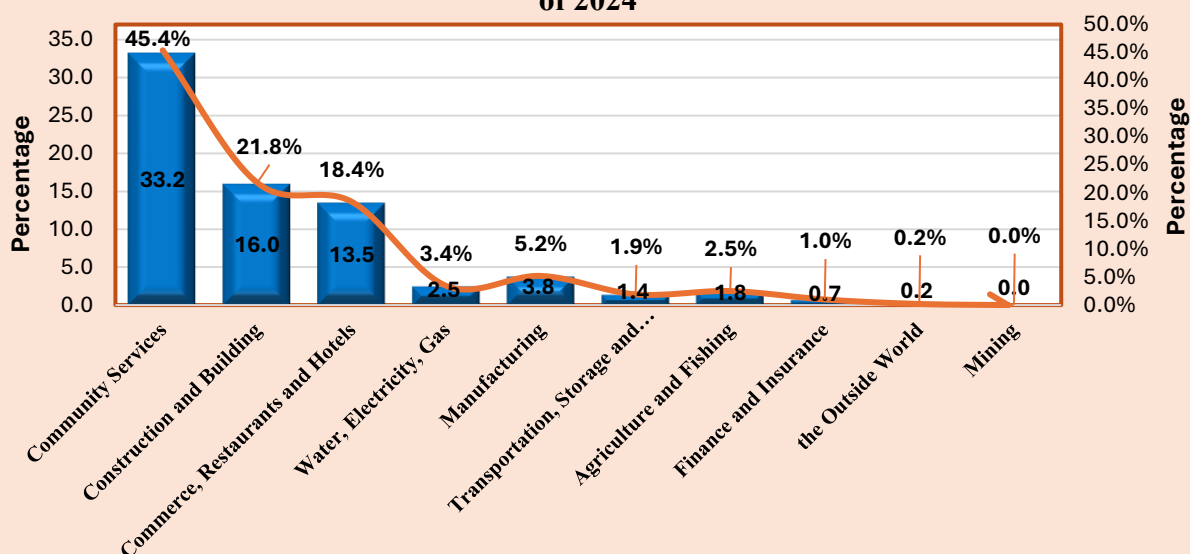


Source: Central Bank of Iraq, Monetary and Financial Stability Division Estimates

13. Sectoral Distribution of Cash Credit in the Real Sector:

The sectoral breakdown of cash credit allows for the identification of the most effective and reliable sectors in the Iraqi economy, as their operations draw significant credit. Data reveals that the community services, construction, trade & hotels/restaurants sectors collectively receive the largest share of credit within the economic landscape. Specifically, the community services sector received the highest proportion of cash credit allocated to real sectors, accounting for (45.4%) and amounting to IQD (33.2) trillion. This was followed by the construction sector (21.8%) and the trade sector (18.4%), as illustrated in Figure (23).

Figure (23)
Cash Credit Provided to Each Real Sector During the Fourth Quarter of 2024



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

Table (2)
Banks' Performance Indices

Index Name	Q4 2023	Q4 2024	Growth Rate%
Bank Deposits to M2 (%)	47.7	46.1	-3.4
Cash in Circulation to M2 (%)	52.3	53.6	2.5
Total Cash Credit to Total Deposits (%)	51.9	59.3	14.3
Total Investment to Total Assets (%)	13.9	22.3	60.4
Money Multiplier	1.10	1.22	10.9
Currency in Circulation to Current Deposits (%)	144	157.6	9.4
Return on Equity (ROE) (%)	10.0	8.7	-13.0
Return on Assets (ROA) (%)	1.3	1.3	0
Non-Performing Loans to Total Cash Credit (%)	6.26	7.21	15.2
Non-Performing Loans to Total Deposits (%)	3.25	4.28	31.7
Non-Performing Loans to Total Assets (%)	2.1	2.6	23.8
Net Open Foreign Currency Position of Operating Banks (%)	18	49.3	173.9

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

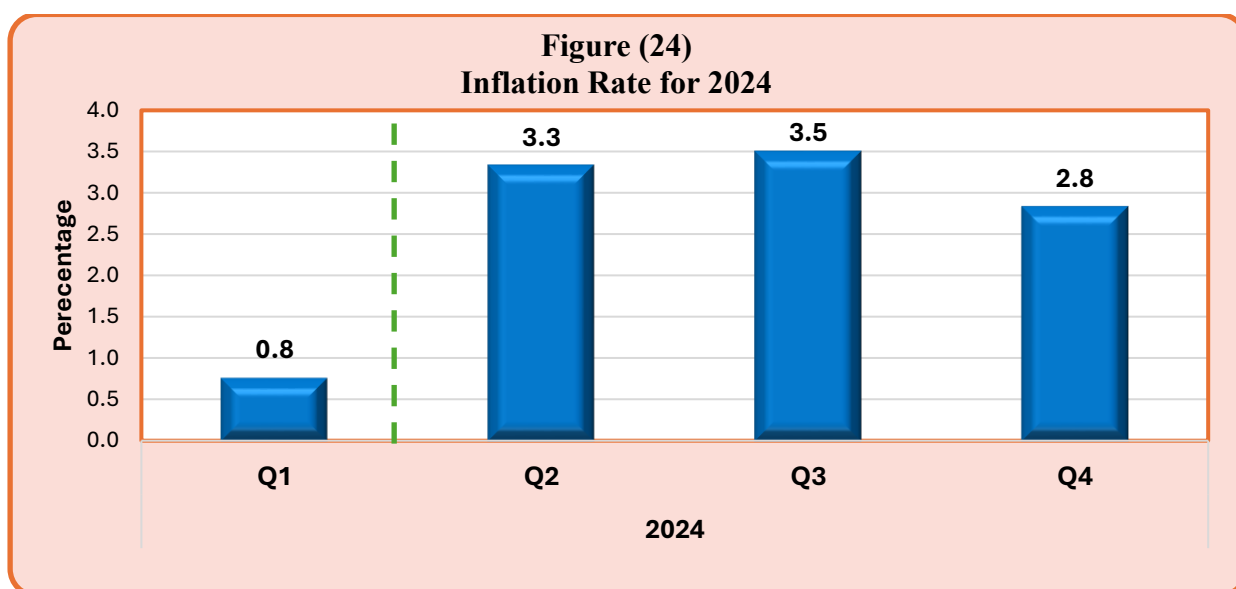
Chapter Three: Analysis of Macroeconomic Performance Indices

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 fourth quarter of 2024, such as the inflation rate, the GDP implicit deflator, in addition to the total public debt.

1. Inflation Rate:

Inflation is defined as the change in the general level of prices for goods and services over a specific period. The inflation rate is measured through several indices, with the Consumer Price Index (CPI) being the most significant among the adopted indices. This is because it reflects changes in the prices of most goods and services consumed by individuals, whether locally produced or imported.

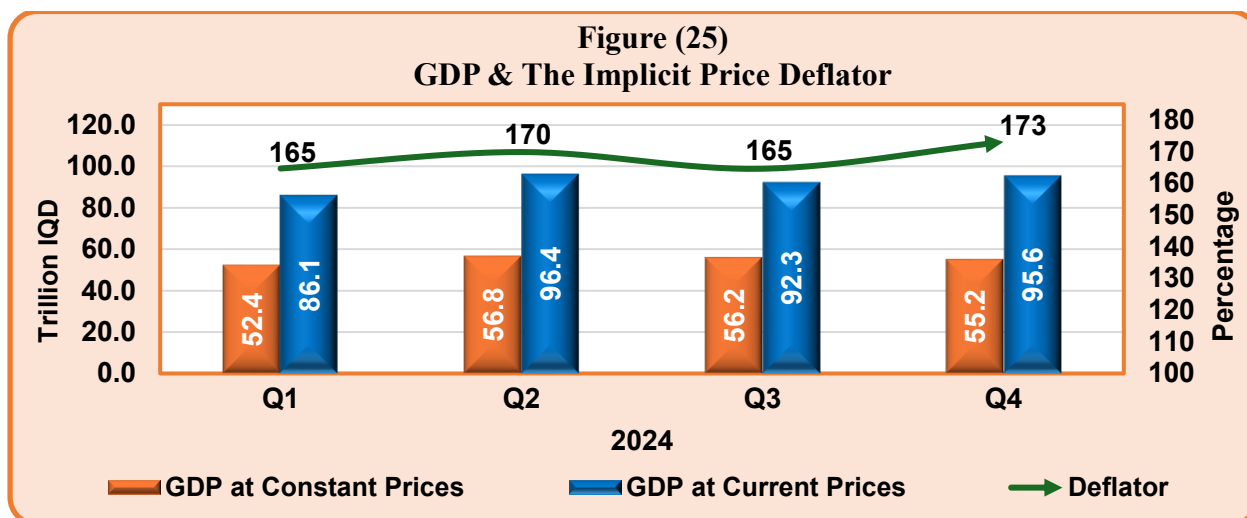
It is worth noting that the inflation rate for the fourth quarter of 2024 was calculated by setting 2022 as the base year for calculating the CPI, instead of 2012 as previously announced by the Ministry of Planning. The inflation rate recorded in the fourth quarter of 2024 was (2.8%) after being (3.5%) in the third quarter of the same year. This indicates a stabilization in the general price level, as illustrated in Figure (24).



Source: Central Bank of Iraq, Basic Financial Data.

2. Implicit Price Deflator:

The implicit price deflator is considered one of the main tools for measuring the inflation rate, as it reflects changes in the prices of all goods and services produced within the national economy during a specific period. It is calculated by dividing the nominal Gross Domestic Product (GDP) by the real GDP, thus providing an accurate measure of price changes over time. Figure (25) shows an increase in the value of the implicit deflator to reach (173%) in the fourth quarter of 2024, after it was (165%) in the third quarter of the same year, as a result of the nominal GDP growing by (3.58%).



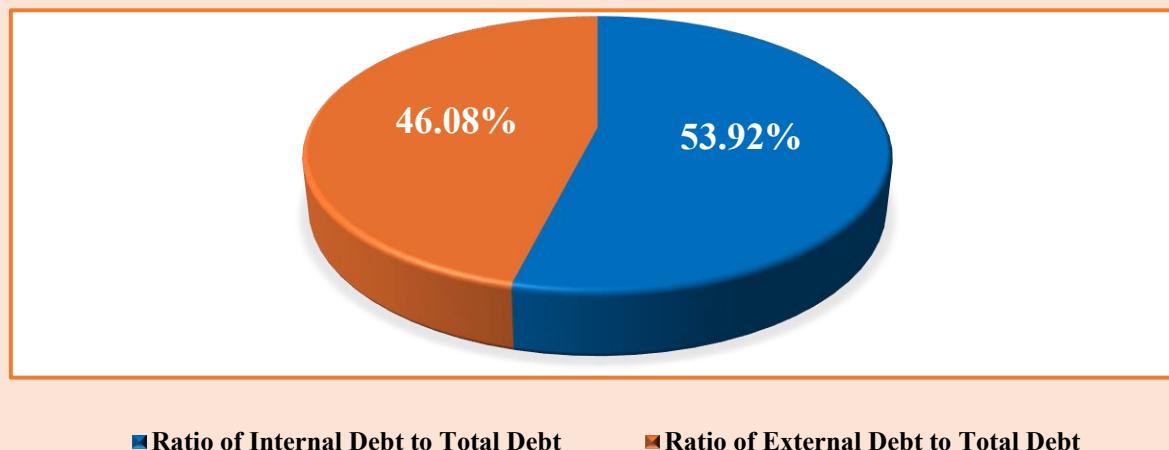
Source: Central Bank of Iraq, Statistical and Economic Website.

3. 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 when public revenue declines.

The total public debt achieved a growth rate of (17.0%) in the fourth quarter of 2024 compared to the same quarter of 2023 as a result of the increase in internal debt, despite a decrease in external debt. Figure (26) shows that the internal debt ratio for the fourth quarter of 2024 reached (53.92%) of the total debt, while the external debt ratio for the fourth quarter of 2024 reached (46.08%) of the total debt.

FIGURE (26)
RATIO OF INTERNAL & EXTERNAL DEBT TO TOTAL DEBT FOR
THE FOURTH QUARTER OF 2024



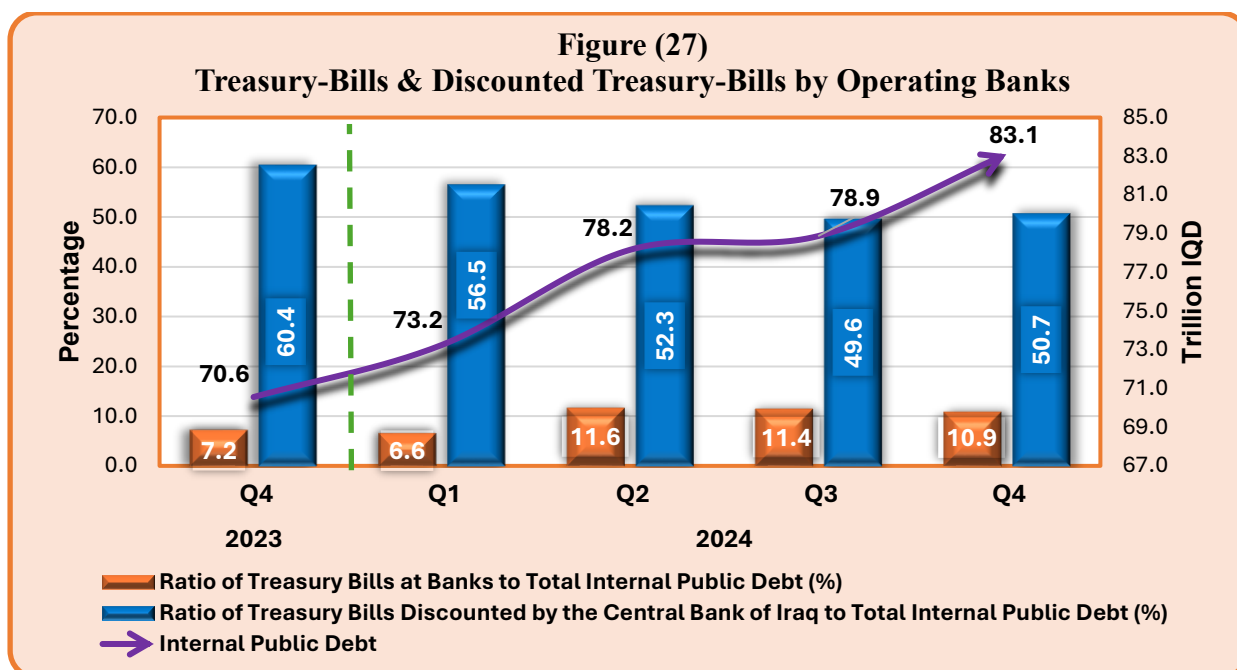
Source: Central Bank of Iraq, Department of Statistics & Research.

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 (2.9%) during the fourth 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:

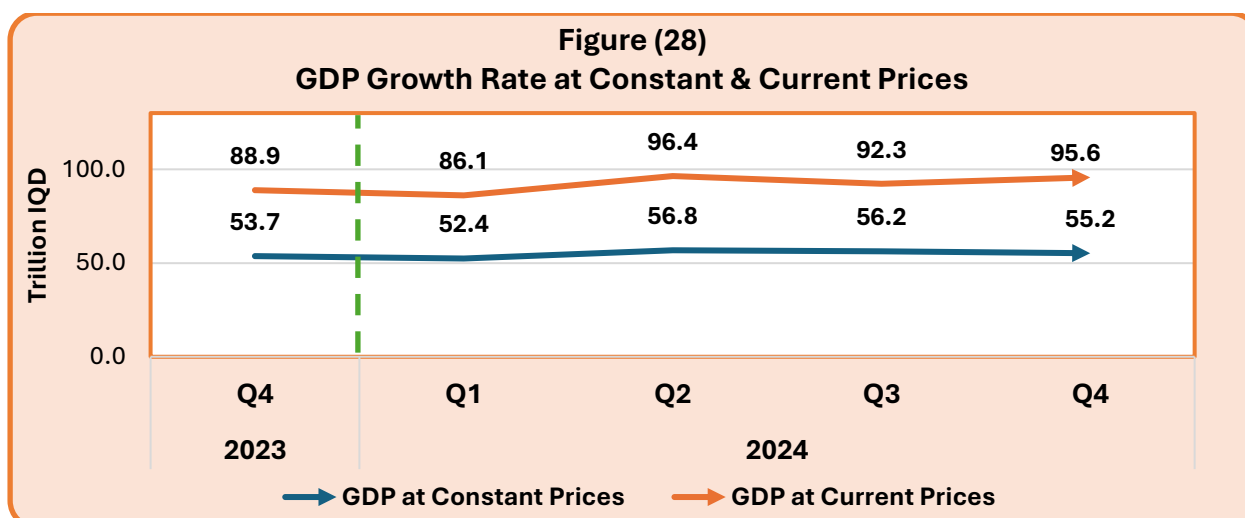
It indicates the government's commitment to operating banks and the Central Bank of Iraq. Figure (27) shows that internal debt increased in the fourth quarter of 2024 to IQD (83.1) trillion after it was IQD (70.6) trillion for the same quarter of 2023. This is due to the rise in the proportion of treasury bills at operating banks to the total internal public debt to reach (10.9%) in the fourth quarter of 2024 after it was (7.2%) 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 ratio decreased to reach (50.7%) in the fourth quarter of 2024 after it was (60.4%) 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

4. 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 fourth quarter of 2024 recorded a growth of (7.5%), reaching IQD (95.6) trillion, compared to IQD (88.9) trillion in the same quarter of 2023. This is a result of the increase in government spending by more than (30%) during the same period, as shown in Figure (28) below.



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

Table (3)
Macroeconomic Performance Indices

Index Name	Q4 2023	Q4 2024	Rate Of Change%
Inflation Rate (%)	4.0	2.8	- 30
Ratio Of Treasury Bills at Operating Banks to Total Internal Public Debt (%)	7.2	10.9	51.4
The Ratio of Treasury Bills Discounted by the Central Bank of Iraq to Total Internal Public Debt (%)	60.4	50.7	16.1
GDP At Current Prices (IQD Trillion)	88.9	95.6	7.5
GDP At Constant Prices (IQD Trillion)	53.7	55.2	2.8
Implicit GDP Deflator	166	173	4.2

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

- Ministry of Planning, Central Statistical Organization, GDP Data.



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