Central Bank of Iraq
Statistics and Research Department
Macroeconomics Division
Credit and Interest Rates Section

Weighted Interest Rates Structure on Deposits and Credit of Commercial and Specialized Banks for H1 of 2024

Introduction:

The interest rate tool is one of the important tools in the banking system, due to its impact on economic growth, whether in terms of mobilizing savings or in terms of providing the necessary funding for investment and consumption. The report presents a new mechanism for calculating the weighted interest rate on deposits and credit, which is an indicator that was not calculated or adopted in monetary statistics in Iraq. It's worth mentioning that there is feedback ranging between the weighted interest rate and the policy rate, since the policy rate directly affects the interbank interest rates, which in turn affects the average interest rates on loans and deposits. The report also includes the calculation of risk premiums on deposits in dinars, in addition to stating the interest rate margin on deposits and credit (spread factor). It also addressed the differences of interest rates averages ranging between deposits and credit in Iraqi dinar and US dollar.

First: Possible Guidance of The Weighted Interest Rate by Monetary Policy Rate:

The weighted interest rate refers to the relationship between average market interest rates (weighted by deposits and credit per bank), while the policy rate is the rate that the central bank determines as part of its monetary policy (the reference rate). The relationship ranging between the two rates is considered an indicator of the effectiveness of monetary policies and their impact on the financial and banking market.

But how can the policy rate be guided by the weighted interest rate?

In fact, it can be done through the central bank's expectation that weighted interest rates (of the market) will move in line with the monetary policy rate. If the central bank raises the monetary policy rate, market interest rates (including the average weighted interest rate) are expected to rise, and vice versa. The importance of this guidance can be demonstrated by:

- **Measuring Monetary Policy Efficiency**: If the weighted interest rate does not respond adequately to changes of the monetary policy rate, it may indicate the weakness of **Monetary Policy Transmission Mechanism.**
- **Liquidity and Credit Effect**: the guidance of the weighted interest rate helps adjust credit expansion and control money demand.
- **Determining Market Responsiveness**: shows the extent to which central bank policies affect real interest rates paid by consumers and borrowers.
- It is used to assess the average cost of money in banks.
- Helping to understand the dynamics of the financial market.
- It is used as an analytical tool of central banks to assess the impact of their monetary policies.

It is worth mentioning that several factors affect the guidance of the weighted interest rate by monetary policy rate:

1. **Degree of the Banking Sector Liquidity:** If banks have a large surplus of liquidity, interest rates may not rise as quickly as the monetary policy rate.
2. **Competition Level Among Banks**: in markets with strong competition, interest rates may not rise easily.
3. **Inflationary Expectations:** if inflationary expectations are high, weighted interest rates may move faster than the monetary policy rate.

Practical examples:

- **Raising Weighted Interest Rate:**

If the central bank raises the policy interest rate to combat inflation, banks may raise interest on loans and deposits, leading to increased average weighted rate.

- **Reducing Weighted Interest Rate:**

In case of easing monetary policy to encourage investment and spending, banks may reduce interest on loans and deposits, reflected in the low average weighted rate.

If there is a change in the weighted interest rate without a change in the monetary policy rate, it may be the result of other factors such as changes in supply and demand of money market or changes in the composition of loans and deposits.

Second: Development of Global Interest Rates:

The year 2024 witnessed stability of interest rates, as the Federal Reserve Bank fixed interest rates at (5.50%) in eight meetings from 26/7/2023 till 12/6/2024, as it reduced interest rates by (25) basis points in its meeting on 18/9/2024, reaching a range of (4.50% - 4.25%) – the third reduction respectively during 2024. Similarly to the Federal Reserve's announcement, many central banks reduced interest rates, as the European Central Bank reduced the standard interest rate on deposits for the first time by (25) basis points since 2019, indicating the end of its strict policy to control inflation. While the Gulf central banks moved interest rates, as the Central Bank of the Emirates decided to reduce the basic rate on overnight deposit facilities by (50) basis points to record (4.9%) compared to (5.4%). whereas the Saudi Central Bank reduced the repurchase agreement (repo) rate by (50) basis points as well as the reverse repo agreement by (50) basis points. Also, the Board of Directors of the Central Bank of Kuwait decided to reduce the discount rate by (25) basis points and the Central Bank of Bahrain reduced the overnight deposit interest rate by (50) basis points. The statement of the Central Bank of Qatar included a reduction of the main interest rates by (55) basis points.

Third: Development of Domestic Interest Rates on Credit and Deposits Interest Rates of the Central Bank of Iraq:

The Central Bank of Iraq relies in formulating its monetary policy within its current philosophy on what is called the rules resulting from information or signals to generate stability in the financial market. The signal means in conducting monetary policy are based on the central bank interest rate indicator (policy rate), which represents an indicative rate that helps to launch signals that affect the trends and development of interest rates structure and time terms of its components according to the existing facilities with which the Central Bank of

Iraq receives banks' deposits, and grants the required credit, though it is limited. Central banks use interest rates to control inflation rates at the targeted ratio and withdraw liquidity surplus.

Table (1) shows the development of interest rates and the Central Bank's policy rate (7.5%) for the months from January to June 2024. It is noted that the real interest rate ranges between (3.9% - 7.4%) with a downward trend. On the other hand, interest rate on lending facilities in Iraqi dinar recorded (9.5%) for primary credit, (10.5%) for secondary credit, and (11%) for the last resort loan.

Table (1) Development of CBI Interest Rates till June 2024

Month				Interest Rates on Lending Facilities in Iraqi Dinar %		
	Policy Rate	Inflation Rate	Real Interest Rate	Primary Credit	Secondary Credit	Last resort Loan
Jan	7.5	0.1	7.4	9.5	10.5	11
Feb	7.5	0.6	6.9	9.5	10.5	11
Mar	7.5	1.6	5.9	9.5	10.5	11
Apr	7.5	3	4.5	9.5	10.5	11
May	7.5	3.4	4.1	9.5	10.5	11
Jun	7.5	3.6	3.9	9.5	10.5	11

Source: Central Bank of Iraq, Statistical Website www.cbi.iq.

Box (1)

Central banks determine short-term interest rates in countries that follow a central banking model, since monetary policy relies on interest rates as a direct monetary tool that restricts the outlets of monetary and financial imbalance in the economy. Here, opinions and ideas began to multiply about the necessity of liberalizing interest rates according to appropriate requirements of the economy direction, which makes the role of the central bank essential in this area. Raising the interest rate may be the most prominent monetary tool for all central banks to curb inflation through withdrawing excess liquidity.

Fourth: Calculating the Weighted Interest Rates till June 2024

1. Weighted Interest Rate on Deposits till June 2024:

It is noticed through **table (2)** that the general weighted interest rate on deposits for all time durations in national currency was stable at (4.4%, 4.5%). Appendix (1) and tables (1-6) show that the movement of the weighted interest rate on deposits in national currency for (less than a month) had changed ranging between (1.7% - 2.2%). The weighted interest rate for (1-3) months recorded changes ranging between (4.4% - 5.1%) and for (3-6) months recorded changes ranging between (4.2% and 4.9%), which are minor changes. The weighted interest rate for (6-12) months witnessed price stabilization ranging between (4.0% - 4.3%), while it recorded changes ranging between (6.2% - 6.5%) for (1-5) years.

Table (2) shows that the general weighted interest rate on foreign currency deposits for all time durations fluctuated ranging between (2.0%-3.0%). Appendix (1) and tables (1-6) show that the average weighted interest rate on foreign currency deposits for the period of (less than a month) recorded instability ranging between (0.4%-2.4%). While for (1-3) months, it recorded fluctuations ranging between (3.3%-3.9%). The interest rate for (3-6) months recorded instability and fluctuations ranging between (3.5%-4.8%) and the weighted interest rate for (6-12) months recorded fluctuations ranging between (1.8%-3%). Whereas for (1-5) years, it recorded fluctuations ranging between (2.7%-5.6%).

From the forementioned, it is concluded that the changes of the average weighted interest rate on credit and deposits are constantly fluctuating for both dinar and dollar currencies, which reflects the lack of stable credit schemes implied in banks' policies regarding adopted mechanisms for granting credit, accepting deposits and attracting them to the banking sector.

Table (2) General Average of Weighted Interest Rate for All Time Durations on Deposits and Credit at Banks till June 2024

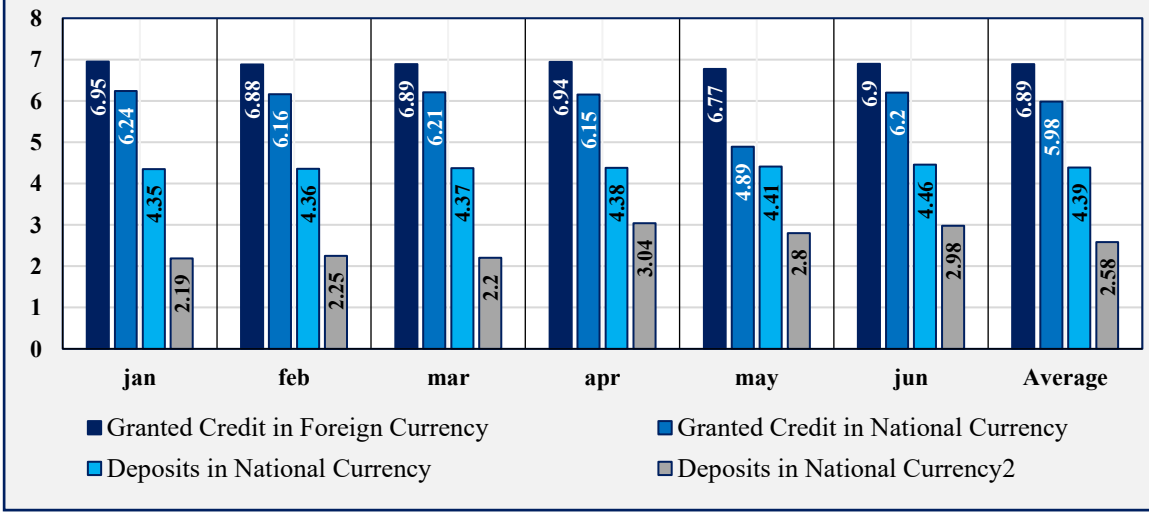
Month	Granted Credit		Deposits	
	In National Currency	In Foreign Currency	In National Currency	In Foreign Currency
Jan	6.2	7.0	4.4	2.2
Feb	6.2	6.9	4.4	2.2
Mar	6.2	6.9	4.4	2.2
Apr	6.2	6.9	4.4	3.0
May	4.9	6.8	4.4	2.8
Jun	6.2	6.9	4.5	2.9

2. Weighted Interest Rate on Credit till June 2024:

It is noted through **table (2)** that the general weighed interest rate on granted credit for all time durations in national currency changed ranging between (4.9%-6.2%). Appendix (1) and tables (1-6) show the movement of the average weighted interest rate on the granted credit in national currency for the period of (less than a month) changed ranging between (13.5%-14.7%). While for (1-3) months, it changed ranging between (8.9%-10.2%). The interest rate for (3-6) months recorded slight fluctuations ranging between (9.7% - 9.9%) and the weighted interest rate for (6-12) months witnessed slight fluctuations ranging between (7.4%-8.1%). Whereas the weighted interest rate for (1-5) years recorded changes ranging between (8.7%-9.1%), while the weighted interest rate for (5 years and more) changed ranging between (3.8% - 5.8%).

The general weighted interest rate for all time durations on granted credit in foreign currency recorded changes ranging between (6.8%-7.0%) as shown in **table (2)**. Appendix (1) and tables (1-6) show that the duration of (less than a month) witnessed minor changes ranging between (11.1%-11.6%), while the weighted interest rate for (1-3) months recorded changes ranging between (10.3%-12.1%). The interest rate for (3-6) months recorded minor changes ranging between (8.6%-8.9%). The weighted interest rate for (6-12) months recorded minor changes ranging between (6.9%-7.1%), while the weighted interest rate for (1-5) years recorded stability ranging between (6.2-6.3%) and the weighted interest rate for (5 years and more) recorded changes ranging between (7.3%-7.9%).

Figure (1) General Weighted Interest Rate for All Time Durations on Credit and Deposits in (Dinar and US Dollar) 2024



3. Weighted Interest Rate of State Owned and Private Banks:

Figure (2) shows the calculation of weighted interest rate on granted credit to state owned and private banks, as the average of granted credit to state owned banks in national currency recorded (5.3%) and reached (6.3%) in foreign currency on average, while the average granted credit to private banks in national currency recorded (10.4%) and reached (10.1%) in foreign currency on average.

Figure (2) Weighted Interest Rate on Credit of State Owned and Private Banks till June 2024

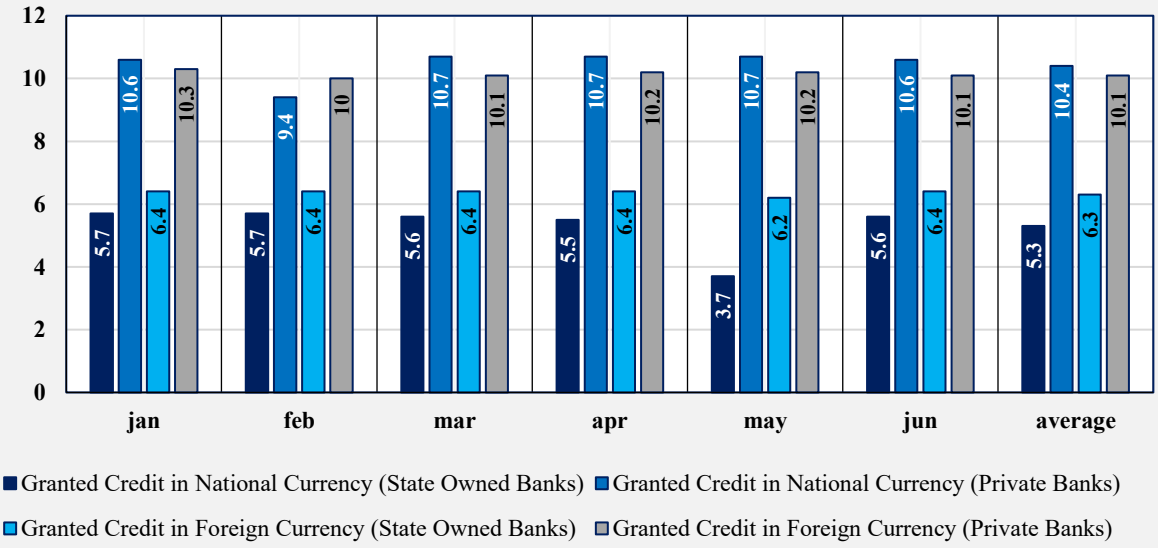
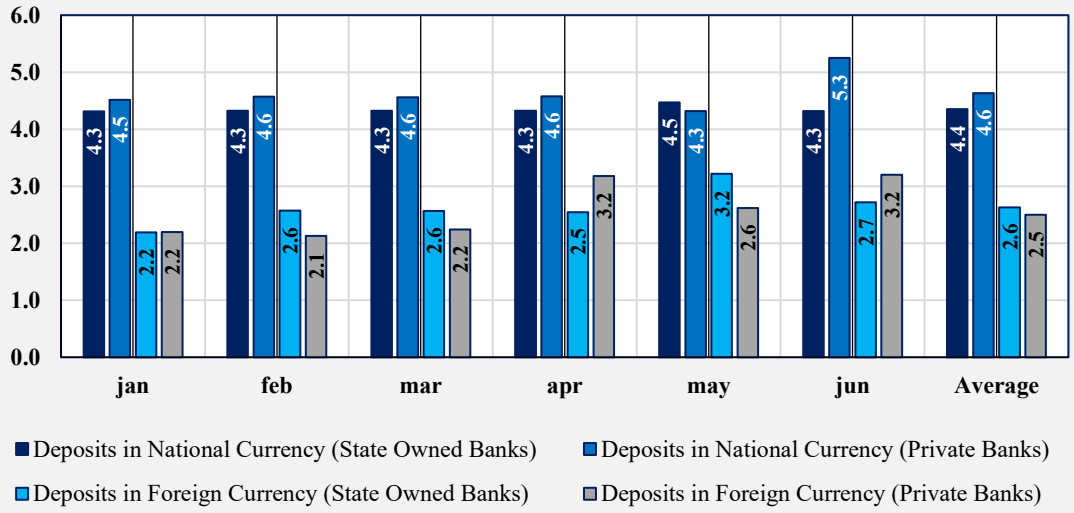


Figure (3) shows the calculation of weighted interest rate on deposits of state owned and private banks, as the average of state-owned deposits in national currency recorded (4.4%) and in foreign currency (2.6%). The deposit average of private banks in national currency recorded (4.6%) and (2.6%) in foreign currency on average.

It is noted through appendix (2) that the spread factor for state owned banks in dinar recorded (0.95%) and in US dollar (3.71%), while it reached (5.80%) in dinar and (7.55%) in US dollar for private banks.

Figure (3) Weighted Interest Rate on Deposits of State Owned and Private Banks till June 2024

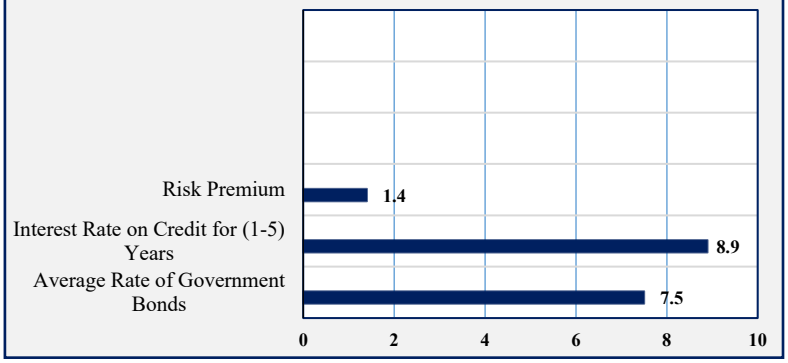


Fifth: Calculating Risk Premium Under the Weighted Interest Rate:

1. Risk Premium on Credit

It was measured through banks' interest rates on the granted credit and policy interest rate on the existing facilities. It is noted that banks compare between interest rates they receive from government bonds that are risk-free, and interest rates they receive while granting credit to individuals that are at risk of individuals' failure to pay. It is noted here that the interest rate of government bonds[1] for the period of (1-5) years was (7.5%) against the average weighted interest rate of credit till June 2024 reached (8.9%) for the same period, meaning the existence of risk premium on credit reaching (1.4%) as shown in **figure (4).**

Figure (4) Risk Premium on Credit in Iraqi Dinar till June 2024

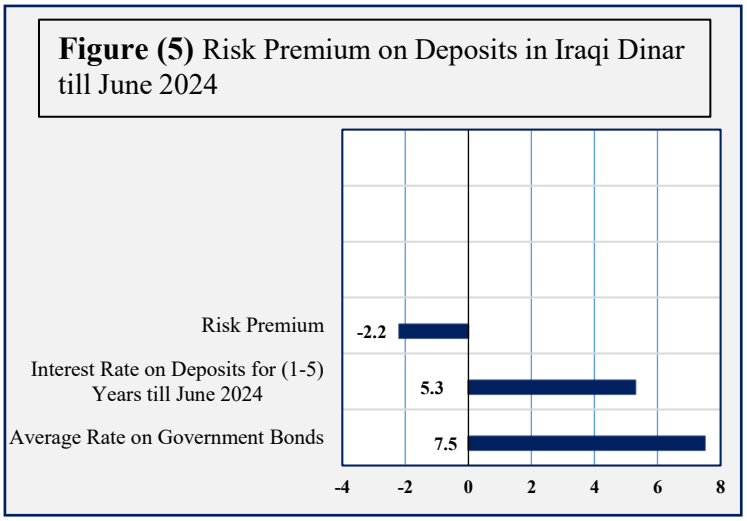


(1) The adopted rate of return on government bonds for "Enjaz Bonds" (second issue) was under our circular on 22/7/2024.

2. Risk Premium on Deposits:

It was measured according to the difference between the interest rate set by banks on deposits and the interest rate on government bonds issued by the Central Bank, which is risk-free. Here, individuals will compare the returns they will receive on the investment in government bonds or by depositing with banks that may be struggling to pay interest or return the principal of the deposit. Through comparison between the return rate of government bonds for (1-5) years reaching (7.5%) against weighted interest rate on deposits in H1 of 2024 for (1-5) years reaching (5.3%), it is noted that the risk premium was (-2.2%) as shown in **figure (5)**. That is the opposite of economic theory. It is the result of the lack of public awareness of the trade-offs between financial products on the one hand, and banks' low reliance on deposits in their operation, on the other.

Figure (5) Risk Premium on Deposits in Iraqi Dinar till June 2024



Sixth: Interest Rate Margin on Deposits and Credit (Spread Factor or Interest Rate Gap):

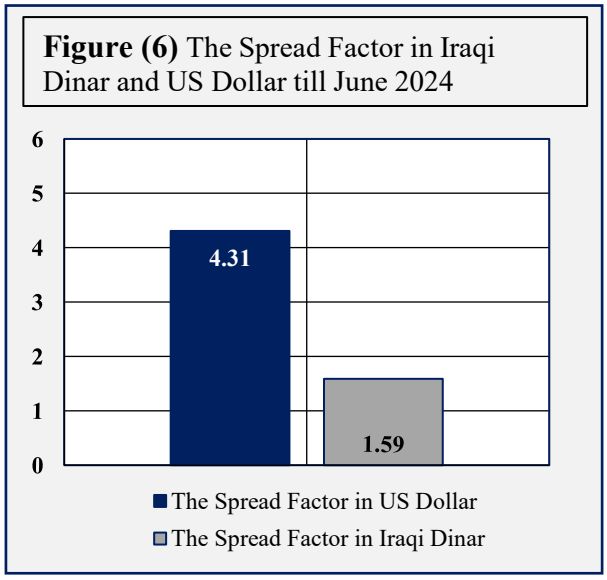
The interest rate margin (spread factor or interest rate gap) is the difference between interest rates on credit and deposits, as it reflects the bank's efficiency to control the liquidity level. It is also considered a real standard to achieve optimal market competition through attracting as many customers as possible who are seeking to maximize profits on their deposits. Also, those who are looking for the lowest cost of loans to finance their projects to achieve the collective benefit of both sides of the equation (depositor and lender). This indicator reflects the difference between the interest rate on credit (loans) received in favor of the customer from the bank and the interest rate granted by the bank on deposits in favor of the customer. In some countries of the world, the interest rate margin varies, ranging between lending and deposits at a level of (2.5%); not exceeding

(3%). It is noted through **table (3)** that the spread factor between received and paid interest rates by commercial banks is lower than the standard ratio of (3%), as it reached (1.60%) in Iraqi dinar and (4.31%) in US dollar for H1 of 2024.

Table (3) The Spread Factor in Iraqi Dinar and US Dollar till June 2024 %

Month	Weighted Interest Rate on Deposits in Iraqi Dinar %	Weighted Interest Rate on Credit and Loans in Iraqi Dinar %	Spread Factor in Iraqi Dinar %
Jan	4.35	6.24	1.89
Feb	4.36	6.16	1.80
Mar	4.37	6.21	1.84
Apr	4.38	6.15	1.77
May	4.41	4.89	0.48
Jun	4.46	6.20	1.74
Average	4.39	5.98	1.59
Month	Weighted Interest Rate on Deposits in US Dollar %	Weighted Interest Rate on Credit and Loans in US Dollar %	Spread Factor in US Dollar %
Jan	2.19	6.95	4.76
Feb	2.25	6.88	4.63
Mar	2.20	6.89	4.69
Apr	3.04	6.94	3.91
May	2.80	6.77	3.97
Jun	2.98	6.90	3.92
Average	2.58	6.89	4.31

Source: Official letters on monthly interest rates of operating banks in Iraq for 2024**.**



According to the forementioned, banks did not respond in drawing up their lending and deposit policy to raising the monetary policy rate to (7.5%) at the end of June 2023 to withdraw liquidity and address the inflation rate, since the monetary policy rate is an indication of the structure and time durations of market interest rates as well as credit. As the bank's policy rate determines the direction and course of short-term interest rates that overshadow long-term interest rates and credit, as shown in **table (4)**. It is noted that the actual interest rate on deposits is low, which is not encouraging to deposit. In contrast, there is a rise in real interest rate on credit, which made the investment cost high and discouraging to invest. Consequently, it implies lower interest rate on deposits that led to high rate of out-of-bank currency reaching (93.6%) of issued currency by end of June 2024, high ratio of hoarding, and low ratio of investment-oriented savings.

Table (4) Nominal and Real Interest Rates on Deposits in Iraqi Dinar till June 2024%

Month	Inflation Rate	Interest Rate on Deposits	Real Interest Rate on Deposits	Interest Rate on Credit	Real Interest Rate on Credit
Jan	0.10	4.35	4.25	6.24	6.14
Feb	0.60	4.36	3.76	6.16	5.56
Mar	1.60	4.37	2.77	6.21	4.61
Apr	3.00	4.38	1.38	6.15	3.15
May	3.40	4.41	0.01	4.89	1.49
Jun	3.60	4.46	0.86	6.20	2.60
Semi Annual Average	2.05	4.39	2.34	5.98	3.93

Seventh: Margin Difference of Interest Rates on Deposits and Credit in Iraqi Dinar and US Dollar:

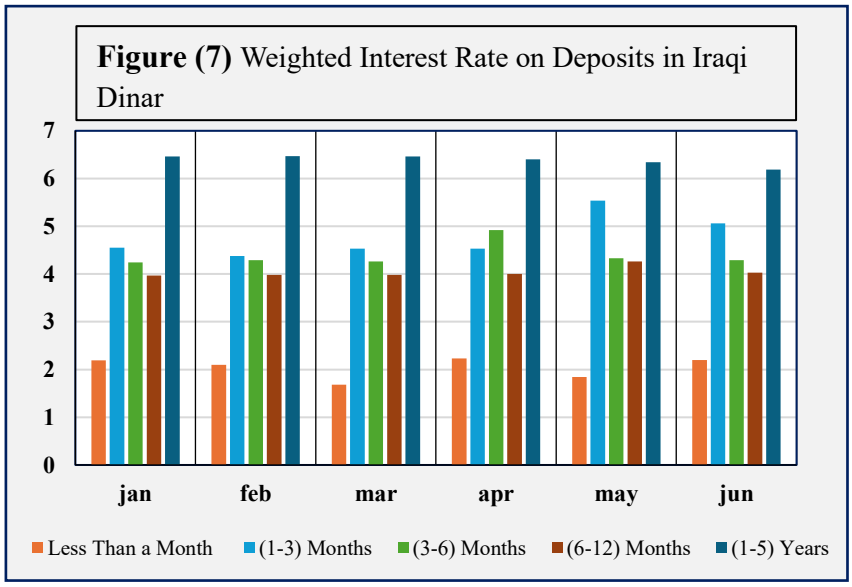
The margin difference of deposit interest rates between the foreign currency and national currency is used to indicate the national currency strength. The larger the margin in favor of the foreign currency, the demand for national currency declines and pushes its price down against other foreign currencies. Conversely, the lower the margin in favor of the national currency, it indicates stronger national currency and increases demand for it.

1. Differences of Deposit Interest Rates between Iraqi Dinar and US Dollar

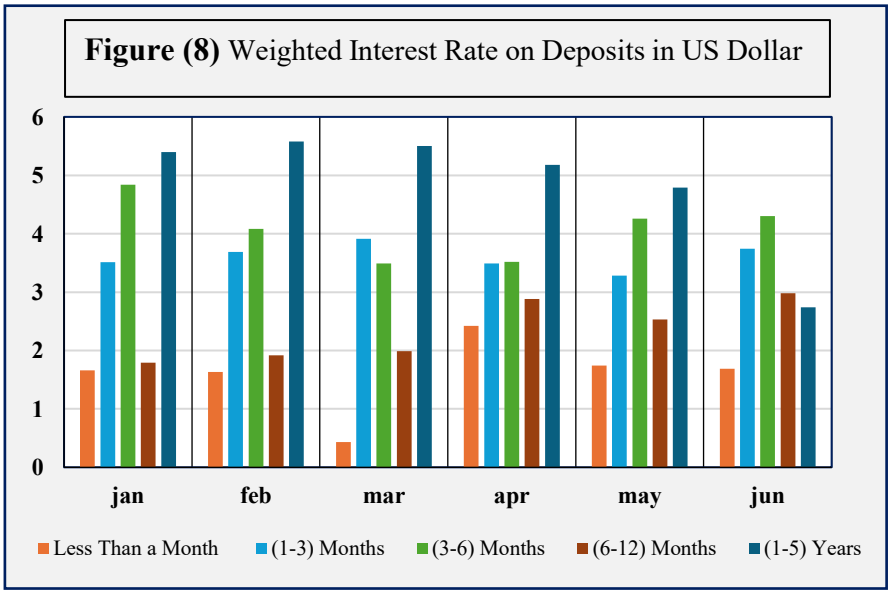
Table (5) shows the differences of deposit interest rate margins in Iraqi Dinar and US Dollar according to the following details:

- Differences of deposit interest rate margins for (less than a month) between Iraqi dinar and US dollar recorded an increase of (0.53%, 0.47%, 1.25%, 0.19%,

0.10%, and 0.51%), respectively, through the period from January to June, except for April.

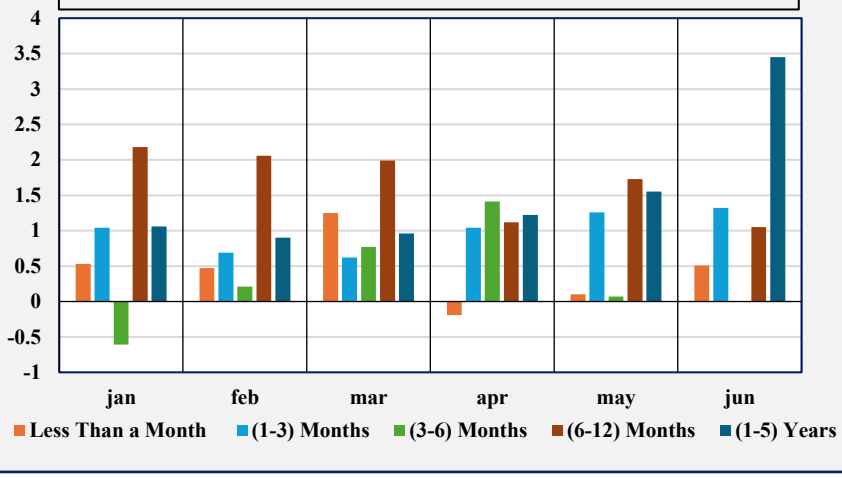


- Differences of deposit interest rate margins for (1-3) months between Iraqi dinars and US dollars recorded an increase of (1.04%, 0.69%, 0.62%, 1.04%, 1.26%, and 1.32%), respectively, through the period from January to June.
- Differences of deposit interest rate margins for (3 - 6) months between Iraqi dinar and US dollar recorded a decrease for January reaching (0.61%). While it increased by (0.21%, 0.77%, 1.41%, 0.07%), respectively, through the period from February to May, as the impact was equal in June (0.0%).
- Differences of deposit interest rate margins for (6 -12) months between Iraqi dinar and US dollar recorded an increase of (2.18%, 2.06%, 1.99%, 1.12%, 1.73% and 1.05%), respectively, through the period from January to June.



- Differences of deposit interest rate margins for (1- 5) years between Iraqi dinar and US dollar recorded an increase of (1.06%, 0.90%, 0.96%, 0.22%, 1.55%, and 3.45%), respectively, through the period from January to June, as shown in figures (7, 8, and 9).

Figure (9) Differences of Deposit Weighted Interest Rate Margins



Deposit interest rate margins for different time durations fluctuated by a small proportion that did not exceed (3%) in favor of the Iraqi dinar, which is small proportion compared to inflation rates in H1 of 2024. However, with a margin in favor of the dinar, still it is not rewarding to attract deposits to the banking sector compared to alternative opportunity cost (such as the acquisition of US dollar instead of the dinar). It's worth mentioning that the acceptance of deposits in banks, whether fixed or saving, is conducted after the deduction of the legal reserve requirement ratio imposed by the Central Bank of Iraq. Thereafter the interest rate is calculated on the net remaining amount deposited at banks, which also affects the attraction of deposits to the banking sector.

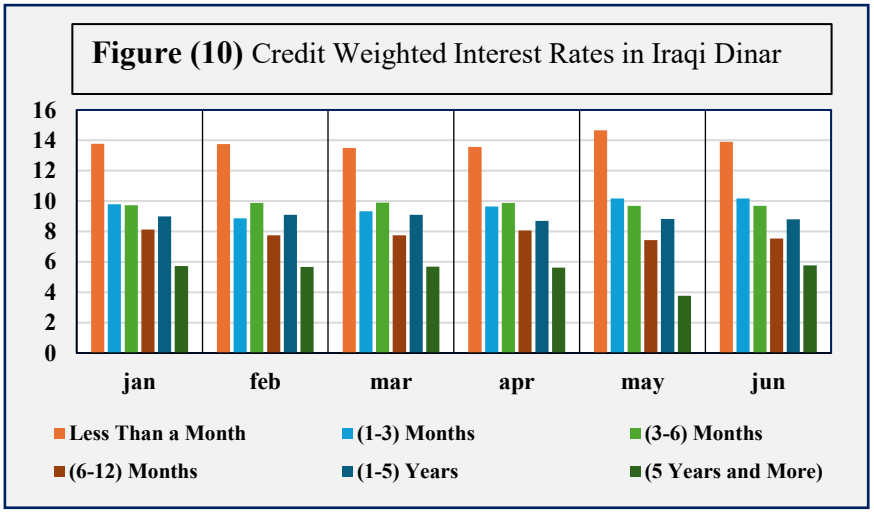
Table (5) Differences of Deposit Weighted Interest Rate Margins till June 2024						
Deposit Interest Rate in US Dollar %						
Month	Less Than a Month	(1-3) Months	(3-6) Months	(6-12) Months	(1-5) Years	(5 Years and More)
Jan	1.66	3.51	4.84	1.79	5.40	
Feb	1.63	3.69	4.08	1.92	5.58	
Mar	0.43	3.91	3.49	1.99	5.50	
Apr	2.42	3.49	3.52	2.88	5.18	
May	1.74	3.28	4.26	2.53	4.79	
Jun	1.69	3.74	4.30	2.98	2.74	
Deposit Interest Rate in Iraqi Dinar %						
Month	Less Than a Month	(1-3) Months	(3-6) Months	(6-12) Months	(1-5) Years	(5 Years and More)
Jan	2.19	4.55	4.24	3.97	6.46	
Feb	2.10	4.38	4.29	3.98	6.47	
Mar	1.68	4.53	4.26	3.98	6.46	
Apr	2.23	4.53	4.92	4.00	6.40	
May	1.84	5.54	4.33	4.26	6.34	
Jun	2.20	5.06	4.29	4.03	6.19	
Differences of Interest Rate Margins %						
Month	Less Than a Month	(1-3) Months	(3-6) Months	(6-12) Months	(1-5) Years	(5 Years and More)
Jan	0.53	1.04	− 0.61	1.04	1.06	
Feb	0.47	0.69	0.21	0.69	0.90	
Mar	1.25	0.62	0.77	0.62	0.96	
Apr	− 0.19	1.04	1.41	1.04	1.22	
May	0.10	1.26	0.07	1.26	1.55	
Jun	0.51	1.32	0.00	1.32	3.45	

* Difference of deposit weighted Interest rates margin = deposit interest rate in Iraqi dinar - deposit interest rate in US dollar.

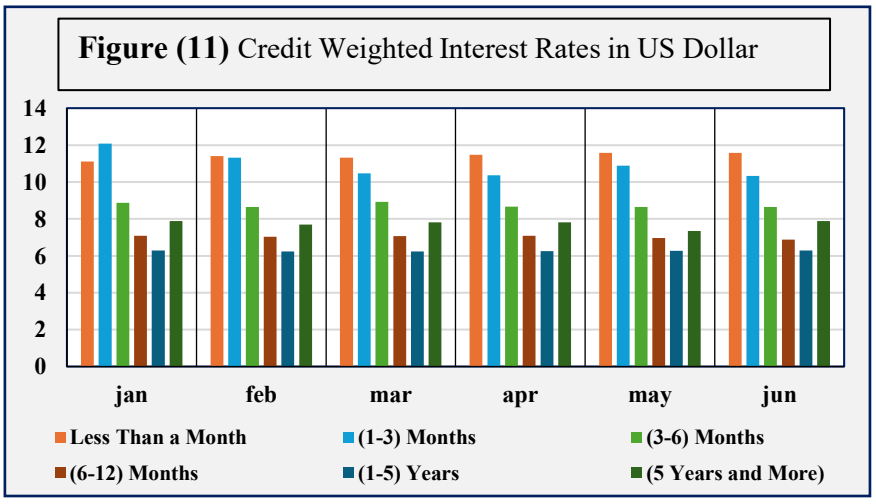
2. Differences of Credit Interest Rates between Iraqi Dinar and US Dollar:

Table (6) shows the differences of credit interest rates margin in Iraqi Dinar and US Dollar according to the following details:

- Differences of credit interest rate margins for (less than a month) between Iraqi dinar and US dollar recorded an increase of (2.67%, 2.36%, 2.19%, 2.09%, 3.10%, and 2.32%), respectively, through the period from January to June.



- Differences of credit interest rate margins for (1-3) months between Iraqi dinar and US dollar recorded a decrease of (2.29%, 2.45%, 1.12%, 0.71%, 0.71%, and 0.16%), respectively, through the period from January to June.
- Differences of credit interest rate margins for (3-6) months between Iraqi dinar and US dollar increased by (0.86%, 1.24%, 0.97%, 1.21%, 1.05%, and 1.03%), respectively, for the months from January to June.
- Differences of credit interest rate margins for (6 -12) months between Iraqi dinar and US dollar recorded a rise of (1.04%, 0.70%, 0.70%, 0.97%, 0.47%, and 0.66%), respectively, through the period from January to June.



- Differences of credit interest rate margins for (1- 5) years ranging between Iraqi dinar and US dollar recorded a rise reaching (2.71%, 2.87%, 2.86%, 2.43%, 2.55%, and 2.53%), respectively, through the period from January to June.
- Differences of credit interest rate margins for (5 years and more) between Iraqi dinar and US dollar recorded a decrease reaching (2.17%, 2.02%, 2.12%, 2.20%, 3.58%, and 2.13%) respectively, through the period from January to June, as shown in figures (10, 11, and 12).

Figure (12) Differences of Credit Weighted Interest Rate Margins

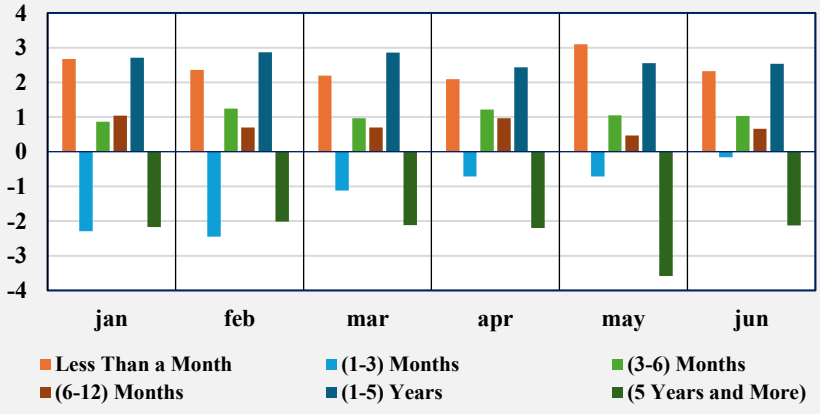


Table (6) Differences of Credit Weighted Interest Rate Margins till June 2024

Credit Interest Rate in US Dollar %						
Month	Less Than a Month	(1-3) Months	(3-6) Months	(6-12) Months	(1-5) Years	(5 Years and More)
Jan	11.11	12.08	8.87	7.08	6.29	7.88
Feb	11.40	11.32	8.64	7.04	6.23	7.70
Mar	11.32	10.46	8.93	7.06	6.24	7.81
Apr	11.47	10.36	8.67	7.09	6.26	7.82
May	11.57	10.89	8.64	6.96	6.27	7.34
Jun	11.58	10.32	8.65	6.88	6.28	7.89
Credit Interest Rate in Iraqi Dinar %						
Month	Less Than a Month	(1-3) Months	(3-6) Months	(6-12) Months	(1-5) Years	(5 Years and More)
Jan	13.78	9.79	9.73	8.12	9.00	5.72
Feb	13.76	8.87	9.88	7.74	9.10	5.67
Mar	13.51	9.33	9.90	7.76	9.10	5.68
Apr	13.57	9.64	9.88	8.06	8.69	5.62
May	14.66	10.17	9.69	7.43	8.82	3.76
Jun	13.90	10.17	9.69	7.53	8.81	5.77
Differences of Interest Rate Margins %						
Month	Less Than a Month	(1-3) Months	(3-6) Months	(6-12) Months	(1-5) Years	(5 Years and More)
Jan	2.67	−2.29	0.86	1.04	2.71	−2.17
Feb	2.36	−2.45	1.24	0.70	2.87	−2.02
Mar	2.19	−1.12	0.97	0.70	2.86	−2.12
Apr	2.09	−0.71	1.21	0.97	2.43	−2.20
May	3.10	−0.71	1.05	0.47	2.55	−3.58
Jun	2.32	−0.16	1.03	0.66	2.53	−2.13

* Difference of credit weighted Interest rate margin = credit interest rate in Iraqi dinar - credit interest rate in US dollar.

Summary:

- Changes of weighed interest rates on credit and deposits are constantly fluctuating for both the dinar and dollar currencies, which reflects the lack of stable credit schemes implied in banks' policies through pursued mechanisms for granting credit, accepting deposits and attracting them to the banking sector.
- Banks did not respond in drawing up their lending and deposit policy to central bank's raising its monetary policy rate to (7.5%) at the end of June 2023 to draw down liquidity and address the inflation rate, since the monetary policy rate is an indicator for the structure of market interest rates and their time durations, as well as credit.
- The interest rate margins on deposits for different time durations fluctuated by a small proportion that did not exceed (3%) in favor of Iraqi dinar; it is considered low compared to inflation rates in H1 of 2024. However, with the existence of a margin in favor of the dinar, still it is not rewarding to attract deposits to the banking sector as compared to the alternative opportunity cost (i.e. the acquisition of US dollar).
- The acceptance of deposits at banks, whether fixed or saving, is made after the deduction of legal reserve requirement ratio imposed by the Central Bank of Iraq, then interest rate is calculated on the net remainder of the deposit, which also affects the attraction of deposits to the banking sector and reduces depositors' interest margin.
- It is noted that the risk premium on deposits is negative, which is the opposite of economic theory, due to lack of public awareness of the trade-offs among financial products, on the one hand, and banks' low reliance on deposits in their operation with weak attraction to deposits, on the other hand.

Recommendations:

- It is necessary to adopt the weighted interest rate in monetary statistics as an indicator that is extracted periodically and annually.
- Adopt the weighted interest rate on deposits and credit as a basis to be relied upon when setting and changing the policy rate.
- The weighted interest rate can be adopted as a tool to assess the quality of banking services provided by different banks, as the radicalization of this rate is a negative situation, whether it was high or low.
- The guidance of the weighted interest rate by policy rate is a critical indicator of the central bank's success in directing the financial market, achieving its price stability and economic growth objectives.

Appendix (1) Average of Weighted Interest Rate by Time Durations on Credit and Deposits at Banks						
Table (1) January						
Type of Credit and Deposits	Less Than a Month	(1-3) Months	(3-6) Months	(6 Months-1 Year)	(1-5) Years	(5 Years and More)
Granted Credit in National Currency	13.8	9.8	9.7	8.1	9.0	5.7
Granted Credit in Foreign Currency	11.1	12.1	8.9	7.1	6.3	7.9
Deposits in National Currency	2.2	4.5	4.2	4.0	6.5	
Deposits in Foreign Currency	1.7	3.5	4.8	1.8	5.4	
Table (2) February						
Type of Credit and Deposits	Less Than a Month	(1-3) Months	(3-6) Months	(6 Months-1 Year)	(1-5) Years	(5 Years and More)
Granted Credit in National Currency	13.8	8.9	9.9	7.7	9.1	5.7
Granted Credit in Foreign Currency	11.4	11.3	8.6	7.0	6.2	7.7
Deposits in National Currency	2.1	4.4	4.3	4.0	6.5	
Deposits in Foreign Currency	1.6	3.7	4.1	1.9	5.6	
Table (3) March						
Type of Credit and Deposits	Less Than a Month	(1-3) Months	(3-6) Months	(6 Months-1 Year)	(1-5) Years	(5 Years and More)
Granted Credit in National Currency	13.5	9.3	9.9	7.8	9.1	5.7
Granted Credit in Foreign Currency	11.3	10.5	8.9	7.1	6.2	7.8
Deposits in National Currency	1.7	4.5	4.3	4.0	6.5	
Deposits in Foreign Currency	0.4	3.9	3.5	2.0	5.5	
Table (4) April						
Type of Credit and Deposits	Less Than a Month	(1-3) Months	(3-6) Months	(6 Months-1 Year)	(1-5) Years	(5 Years and More)
Granted Credit in National Currency	13.6	9.6	9.9	8.1	8.7	5.6
Granted Credit in Foreign Currency	11.5	10.4	8.7	7.1	6.3	7.8
Deposits in National Currency	2.2	4.5	4.9	4.0	6.4	
Deposits in Foreign Currency	2.4	3.5	3.5	2.9	5.2	
Table (5) May						
Type of Credit and Deposits	Less Than a Month	(1-3) Months	(3-6) Months	(6 Months-1 Year)	(1-5) Years	(5 Years and More)
Granted Credit in National Currency	14.7	10.2	9.7	7.4	8.8	3.8
Granted Credit in Foreign Currency	11.6	10.9	8.6	7.0	6.3	7.3

Deposits in National Currency	1.8	4.5	4.3	4.3	6.3	
Deposits in Foreign Currency	1.7	3.3	4.3	2.5	4.8	

Table (6) June						
Type of Credit and Deposits	Less Than a Month	(1-3) Months	(3-6) Months	(6 Months-1 Year)	(1-5) Years	(5 Years and More)
Granted Credit in National Currency	13.9	10.2	9.7	7.5	8.8	5.8
Granted Credit in Foreign Currency	11.6	10.3	8.7	6.9	6.3	7.9
Deposits in National Currency	2.2	5.1	4.3	4.0	6.2	
Deposits in Foreign Currency	1.7	3.7	4.3	3.0	2.7	

Appendix (2) Weighted Interest Rate on Credit and Deposits of State Owned and Private Banks for H1 of 2024												
Month	Granted Credit in National Currency		Granted Credit in Foreign Currency		Deposits in National Currency		Deposits in Foreign Currency		Spread Factor of National Currency		Spread Factor of Foreign Currency	
	SOBs	Private	SOBs	Private	SOBs	Private	SOBs	Private	SOBs	Private	SOBs	Private
Jan	5.7	10.6	6.4	10.3	4.3	4.5	2.2	2.2	1.4	6.1	4.19	8.08
Feb	5.7	9.4	6.4	10.0	4.3	4.6	2.6	2.1	1.4	4.8	3.80	7.87
Mar	5.6	10.7	6.4	10.1	4.3	4.6	2.6	2.2	1.3	6.1	3.82	7.86
Apr	5.5	10.7	6.4	10.2	4.3	4.6	2.5	3.2	1.2	6.1	3.84	7.04
May	3.7	10.7	6.2	10.2	4.5	4.3	3.2	2.6	-0.8	6.3	2.93	7.56
Jun	5.6	10.6	6.4	10.1	4.3	5.3	2.7	3.2	1.3	5.3	3.65	6.92
Average	5.30	10.43	6.34	10.15	4.35	4.63	2.63	2.59	0.95	5.8	3.71	7.55