



Early Warning Report for the Banking Sector

Q1 2025



No. Thirty One

Monetary and Financial Stability Division

**Early Warning Report for the Banking Sector
(The First Quarter – 2025)**

Central Bank of Iraq

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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 instruments in this sector 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 (74%) for the first quarter of 2025, compared to the same quarter of 2024 as it reached (82%), which is higher than the standard ratio of (20%). The decrease in this ratio is attributed to a (10.0%) 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 (61.7%) for the first quarter of 2025, which remained below the standard ratio of (75%) set by the Central Bank Of Iraq. Additionally, the money multiplier ratio witnessed an increase for the first quarter of 2025, reaching (1.25) compared to (1.19) for the same quarter of 2024 due to the growth in the volume of cash credit extended by banks during that period reaching (0.8%). As for the non-performing loans to total cash credit ratio, it increased to (7.8%) for the first quarter of 2025, up from (6.7%) recorded for the same quarter of 2024.

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 (2.2%) for the first quarter of 2025, with 2022 being used as the base year for calculating the price index instead of 2012. Concerning the total public debt, an increase of (7%) is observed for the first quarter of 2025 compared to the same quarter of 2024. This rise is attributed to an increase in internal debt, despite a decrease in external debt, which constituted (45.25%) of total debt for the same quarter. Furthermore, Iraq's nominal Gross Domestic Product (GDP) at current prices achieved a decrease of (4.2%) for the first quarter of 2025, reaching IQD (83.0) trillion after being IQD (86.6) 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 during 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:

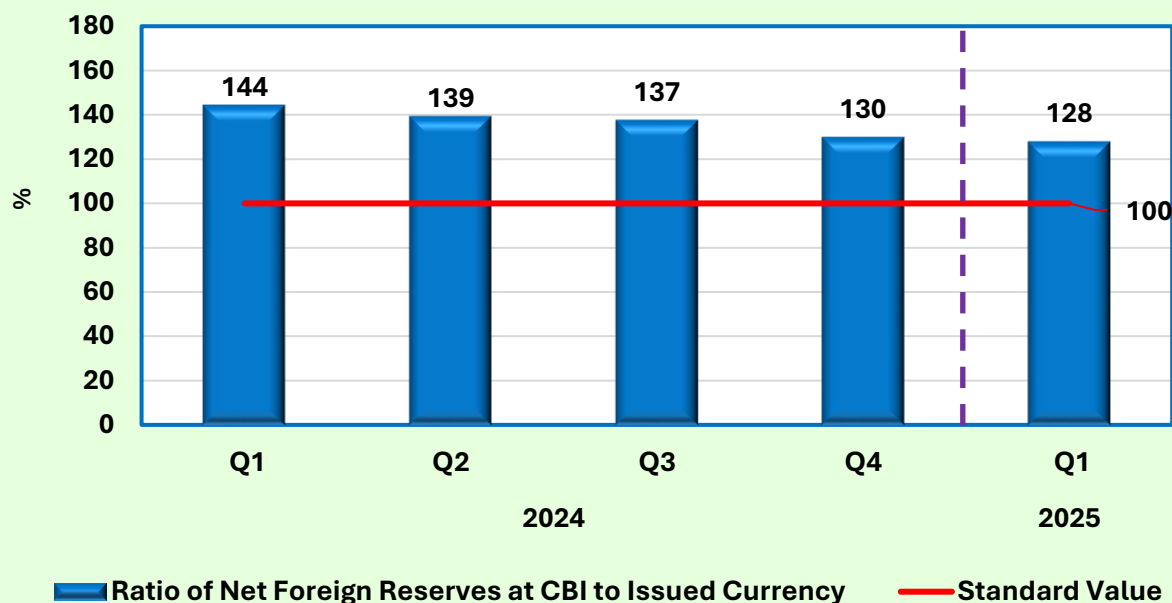
The adequacy of foreign reserves in central banks is a key index of the stability of the financial and banking system and its ability to face external challenges. These reserves enhance the protection of the national currency from fluctuations and increase investor confidence in the economy. There are 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 (128%) for the first quarter of 2025 compared to (144%) for the same quarter of 2024. 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 first quarter of 2025. Despite the decrease of net foreign reserves by (10%), reaching IQD (127.5) trillion for the first quarter of 2025, after it had reached IQD (141.7) trillion for the same quarter of 2024. Still the ratio remained positive and influential because it is higher than the standard ratio set at (100%).

Figure (1) Ratio of Net Foreign Reserves to Issued Currency

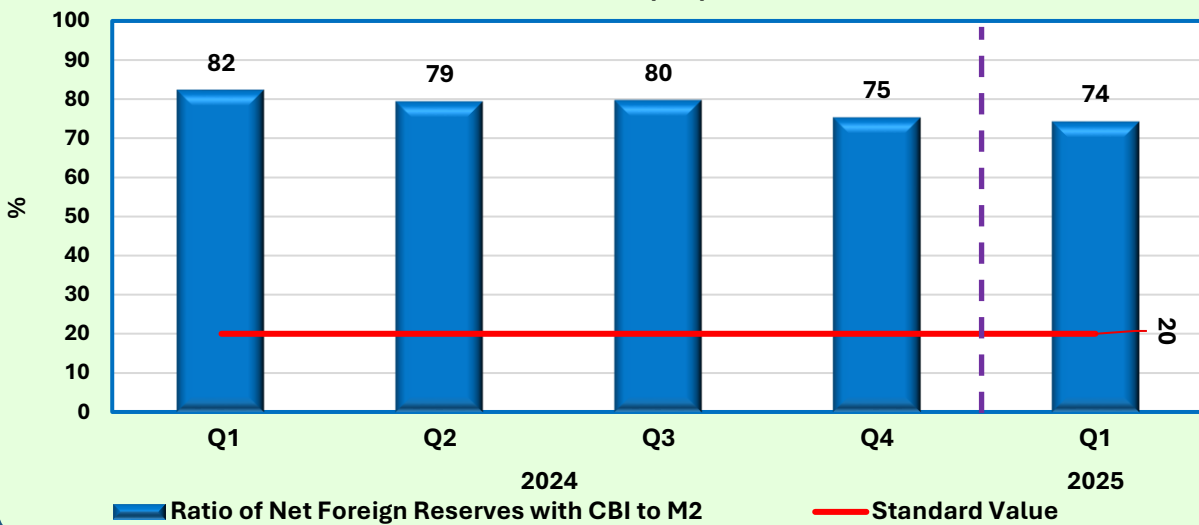


Source: Central Bank of Iraq, Statistical Website.

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 first quarter of 2025 was (74%), which is well above the standard ratio set at (20%), although it decreased by (9.5%) compared to the same quarter of 2024, when it was (82%) as a result of a decrease of net foreign reserves by (10%) to reach IQD (127.5) trillion for the first quarter of 2025 after it reached IQD (141.7) trillion for the same quarter of 2024. It affected the decline in the ratio of net foreign reserves to M2 despite a decrease of broad money supply (M2) by (0.5%) reaching IQD (171.8) trillion after it was IQD (172.7) trillion during the same period.

Figure (2) Adequacy of Net Foreign Reserves to Broad Money Supply (M2)



Source: Central Bank of Iraq, Statistical Website.

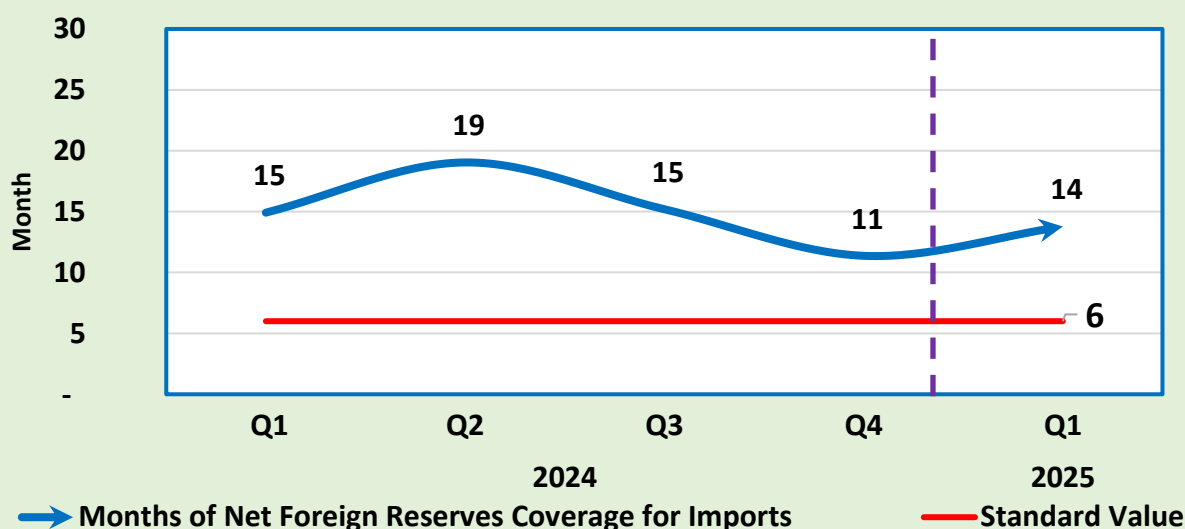
3-Net Foreign Reserves Coverage to Total Imports Index:

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 for the first quarter of 2025 witnessed a decrease to reach (14) months compared to (15) months for the same quarter of 2024. despite the decrease of total imports on a (CIF) basis, recording IQD (27.8) trillion after being IQD (28.5) trillion during the same quarter of 2024, however the decrease of net foreign reserves by (10.2) affected this ratio that amounted to IQD (127.5) trillion for the first quarter of 2025 compared to IQD (141.7) trillion during the same quarter of 2024. 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).

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

Figure (3) Months of Net Foreign Reserves Coverage for Imports.



Source: Central Bank of Iraq, Statistical Website.

Second: Change of Interest Rate Levels:

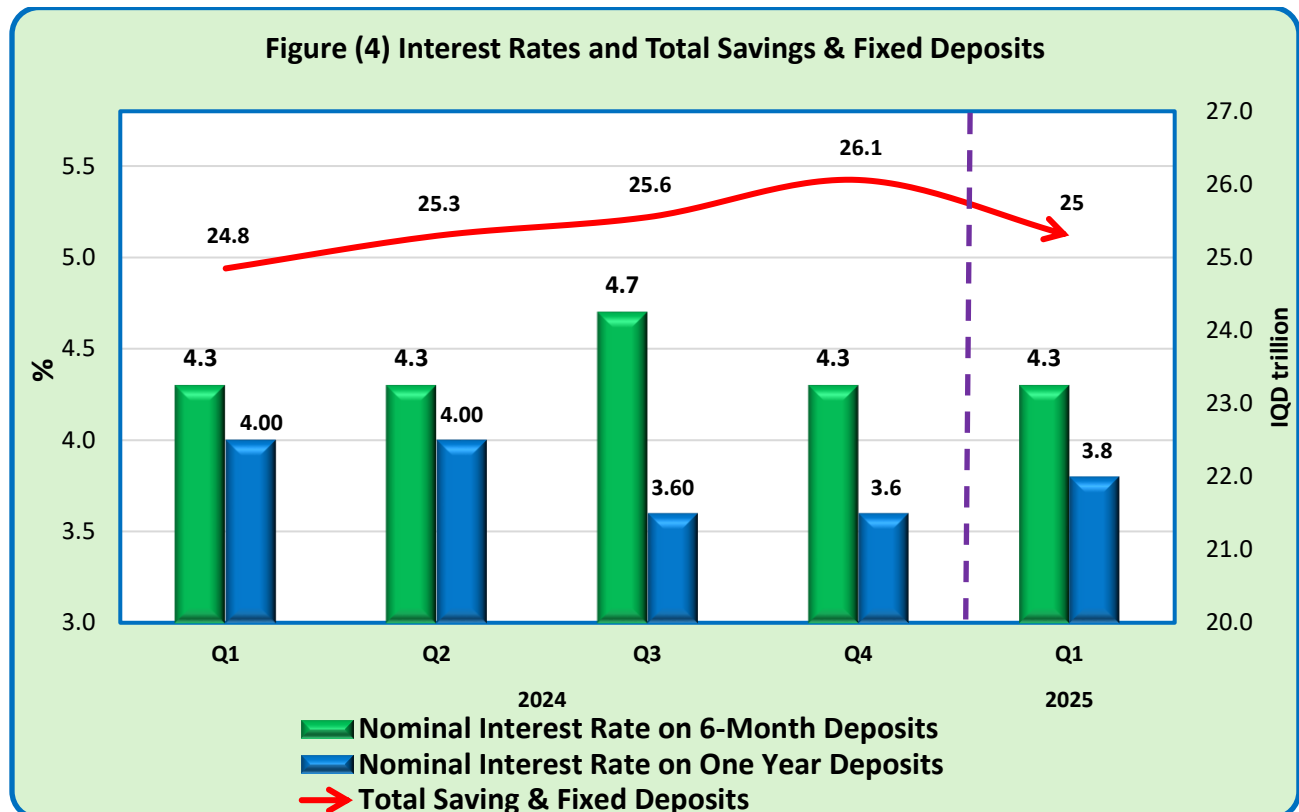
The index of change in interest rate levels is a vital index that shows the general direction of the economy. As higher interest rates on deposits are supposed to be an indicator of attracting currency from circulation and hoarding by individuals in favor of deposits at banks. Therefore, increasing the 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 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 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 first quarter of 2024 and 2025, while it decreased on one-year deposits to reach (3.8%) for the first quarter of 2025, after it had reached (4.0%). The total savings and fixed deposits recorded a rise of

IQD (25.0) trillion for the first quarter of 2025 compared to IQD (24.8) trillion during the first quarter of 2024.

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.



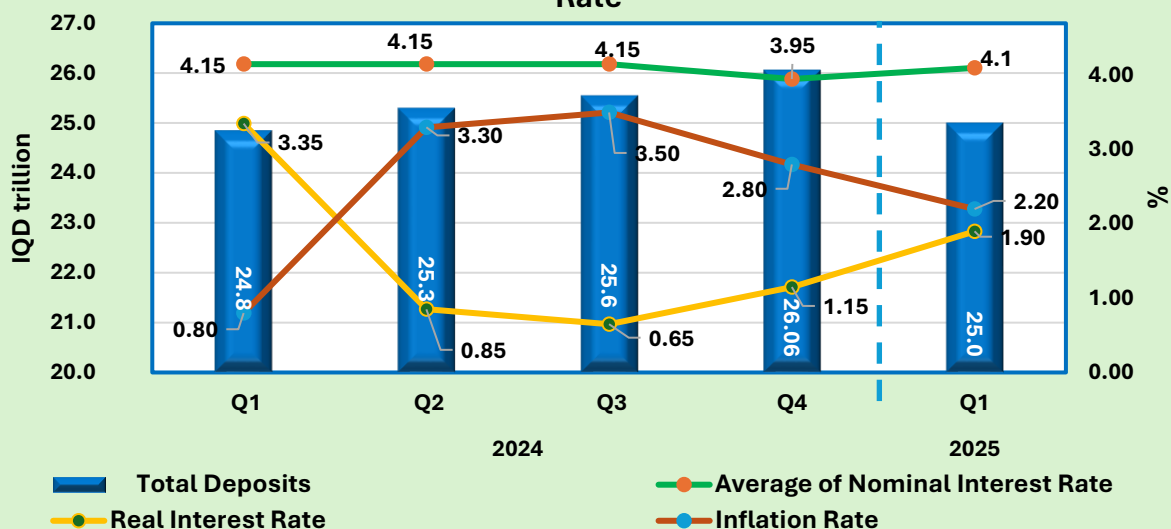
Source: Central Bank of Iraq /Statistical Website.

* Interest rate data for six-month and one-year deposits is preliminary data.

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 first quarter of 2025, reaching (1.19%) compared to (0.80%) for the first quarter of 2024. It is necessary to indicate the change of the base year for calculating the Consumer Price Index, as the inflation rate reached (2.20%) during the first quarter of 2025. Data of 2022 was relied upon instead of data of 2012 as announced by the Ministry of Planning, which was reflected in an increase in the real interest for the first quarter of 2025.

Figure (5) Nominal Interest Rate, Real Interest Rate, and Inflation Rate



*Data of average nominal interest rate is preliminary.

Table (1)			
Currency Value Stability Indices			
Index Name	Q1 2024	Q1 2025	Change Rate %
Net Foreign Reserves at the Central Bank of Iraq (IQD Trillion)	141,693	127,516	-10.0
Issued Currency (IQD Trillion)	98,334	99,867	1.6
Ratio of Net Foreign Reserves at the Central Bank of Iraq to Issued Currency (%)	144	128	- 11.1
Broad Money Supply (M2) (IQD Trillion)	172,696	171,788	- 0.5
Ratio of Net Foreign Reserves at the Central Bank of Iraq to Broad Money Supply M2 (%)	82	74	- 9.8
Months of Coverage of Net Foreign Reserves for Imports (Months)	15	14	- 6.7
Total Fixed and Saving Deposits (IQD Trillion)	24.8	25.3	2

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 instruments to assess the efficiency and effectiveness of banking activities. This analysis contributes to enhance the transparency of banks' financial performance by enabling specialists to gain deeper understanding of bank performance indices and how to use them as an analytical instrument 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:

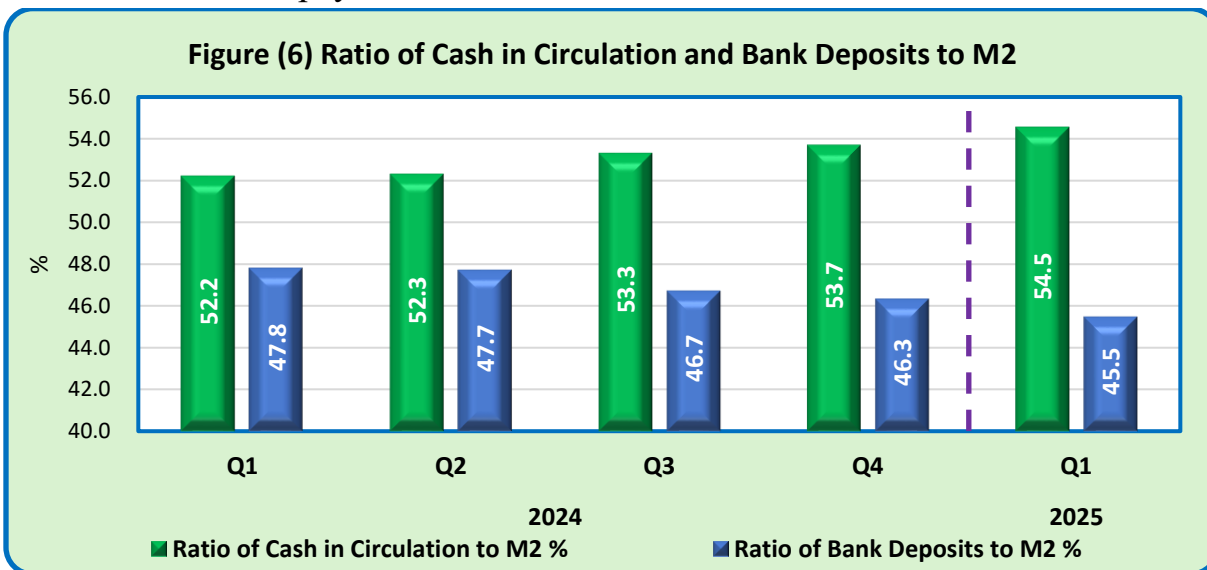
1-Outstanding Lending Facilities from the Central Bank of Iraq to Total Banks' liabilities:

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 first quarter of 2025, 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. Thus, this index represents the public's interaction and attraction in dealing with banks and the quality of services they provide as well. In addition to being an indicator of banking activity on the one hand and the extent of the spread of 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 (47.8%) for the first quarter of 2024 to (45.5%) for the same quarter of 2025 as a result of the

decrease in current deposits. In contrast, the ratio of cash in circulation to (M2) rose from (52.2%) for the first quarter of 2024 to (54.5%) for the same quarter of 2025, indicating that a considerable proportion of the issued currency goes as cash in circulation rather than as bank deposits. A sizable proportion of transactions within the real sector continue to be conducted in cash despite the gradual improvement in the use of electronic payment tools.

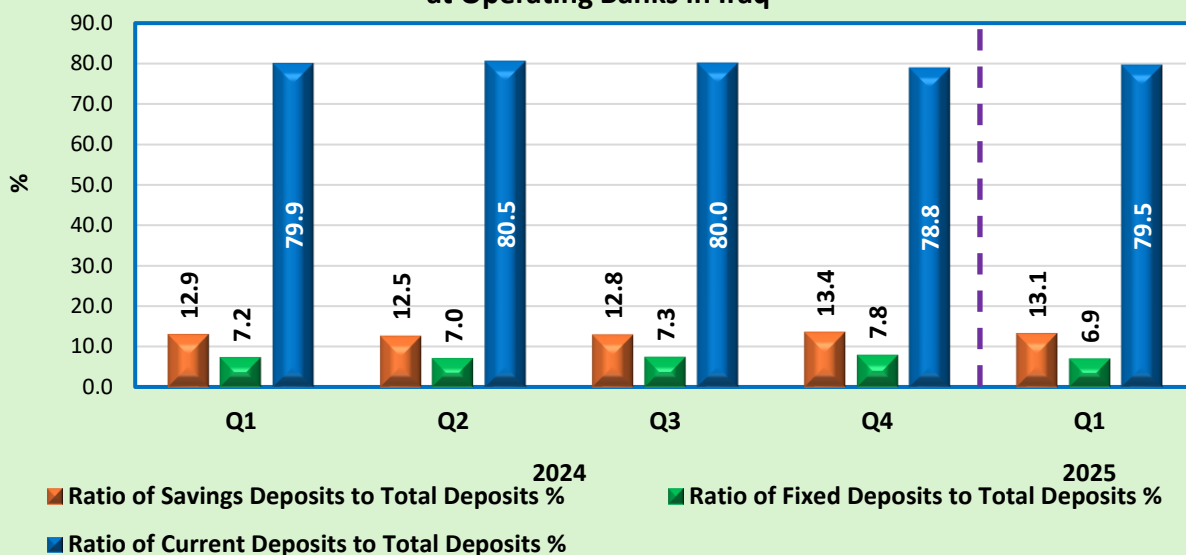


Source: Central Bank of Iraq, Statistical Website.

3-Types of Deposits at Operating Banks in Iraq

The current deposits accounted for the largest percentage of total deposits at operating banks, despite the decrease of their percentage to total deposits from (79.9%) for the first quarter of 2024 to (79.5%) for the same quarter of the year 2025. The ratio of fixed deposits to total deposits decreased from (7.2%) for the first quarter of 2024 to (6.9%) for the same quarter of 2025. As for the ratio of savings deposits to total deposits, it increased from (12.9%) for the first quarter of 2024 to (13.7%) for the same quarter of 2025. Therefore, it is necessary for banks to be more effective in attracting deposits by providing more banking services. Figure (7) clarifies deposits volume at operating banks.

Figure (7) Ratio of Fixed, Current, and Savings Deposits to Total Deposits at Operating Banks in Iraq

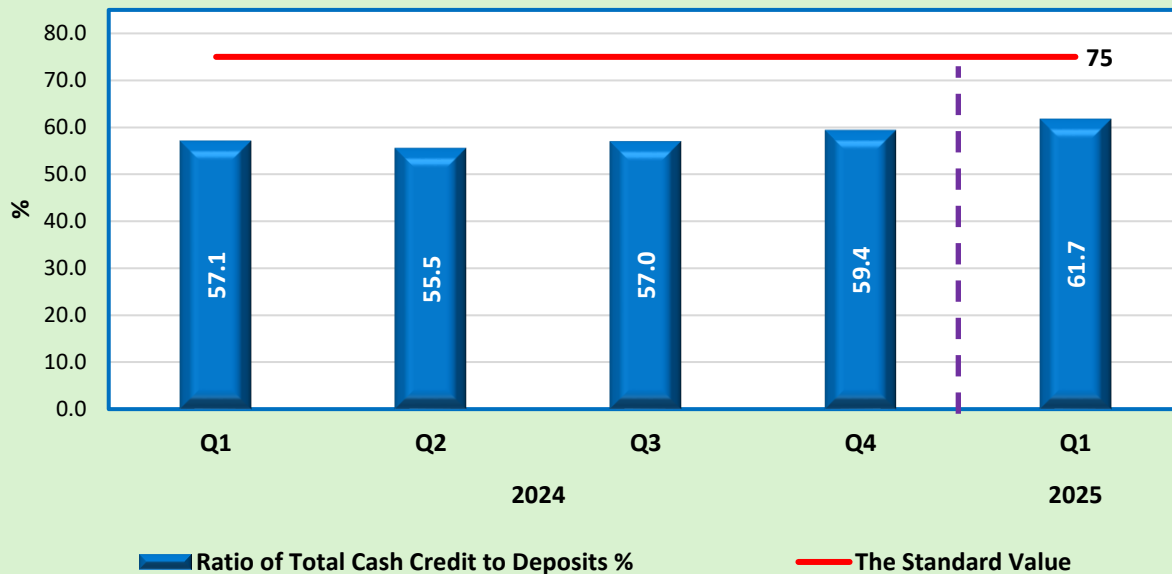


Source: Central Bank of Iraq, Statistical Website.

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 at operating banks. Figure (8) shows that the ratio of total cash credit to total deposits increased from (57.1%) for the first quarter of 2024 to (61.7%) for the same quarter of 2025 due to an increase of granted cash credit by (0.8%) against a decrease of deposits volume by (6.6%) 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.

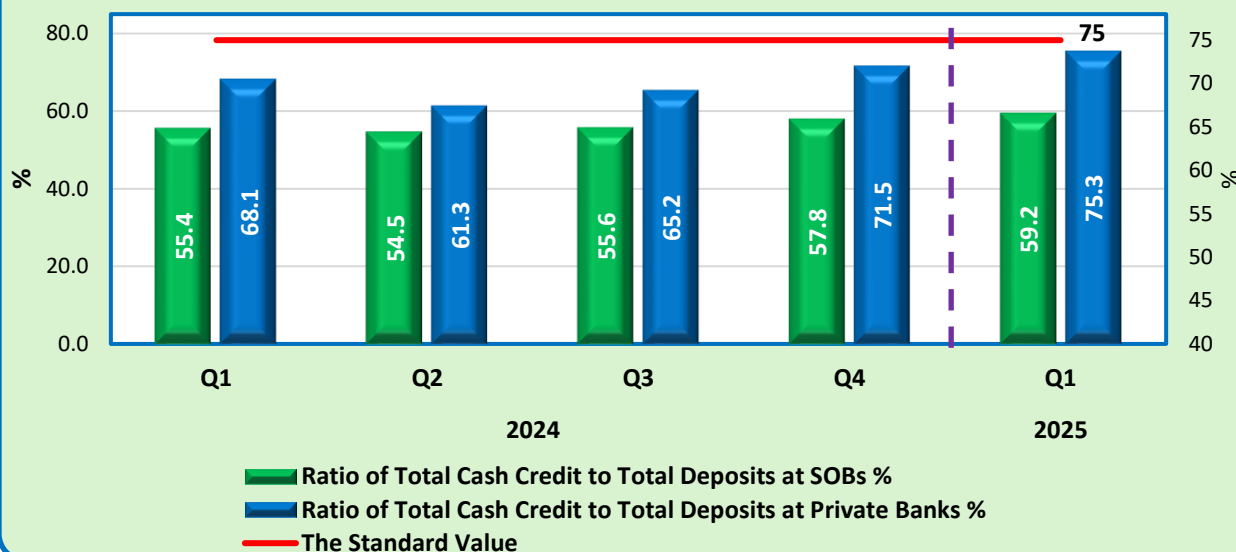
Figure (8) Ratio of Total Cash Credit to Total Deposits of the Banking Sector



Source: Central Bank of Iraq, Statistical Website

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 (68.1%) for the first quarter of 2024 to (75.3%) for the same quarter of 2025 owing to the increase of granted credit by private banks by (17.7%) with a decrease of total deposits at private banks by (6.5%), which shows that private banks continue to grant credit despite a decrease of their total deposits. As for SOBs, the ratio increased from (55.4%) for the first quarter of 2024 to (59.2%) for the same quarter of 2025.

Figure (9) Ratio of Total Cash Credit to Total Deposits at State-Owned Banks and Private Banks

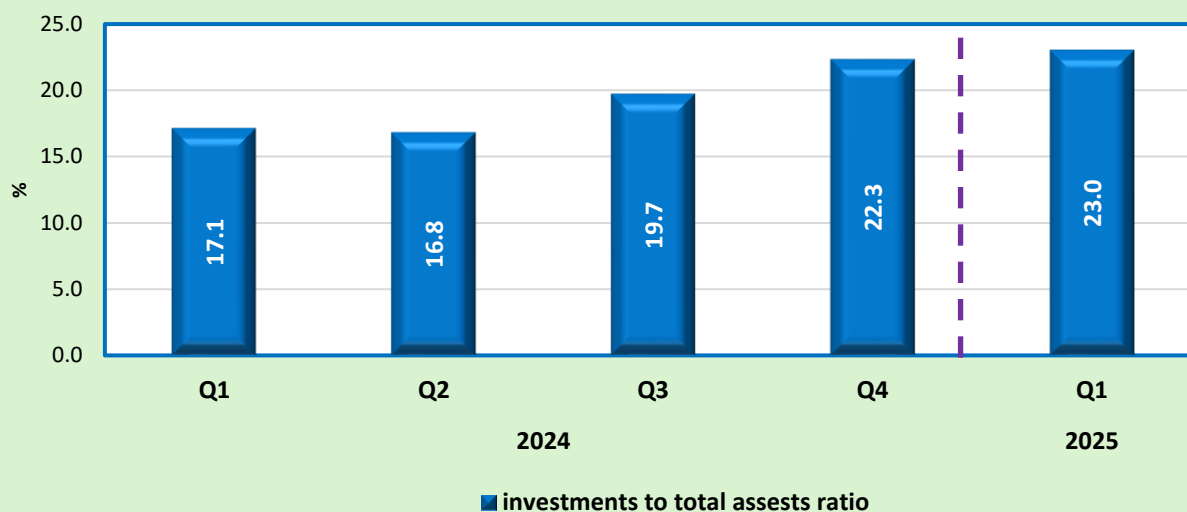


Source: Central Bank of Iraq, Monetary and Financial Statistics Division.

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 investment 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 (17.1%) for the first quarter of 2024 to (23.0%) for the same quarter of 2025 due to an increase of (34.3%) of total investments compared to a decrease of (0.3%) of total assets.

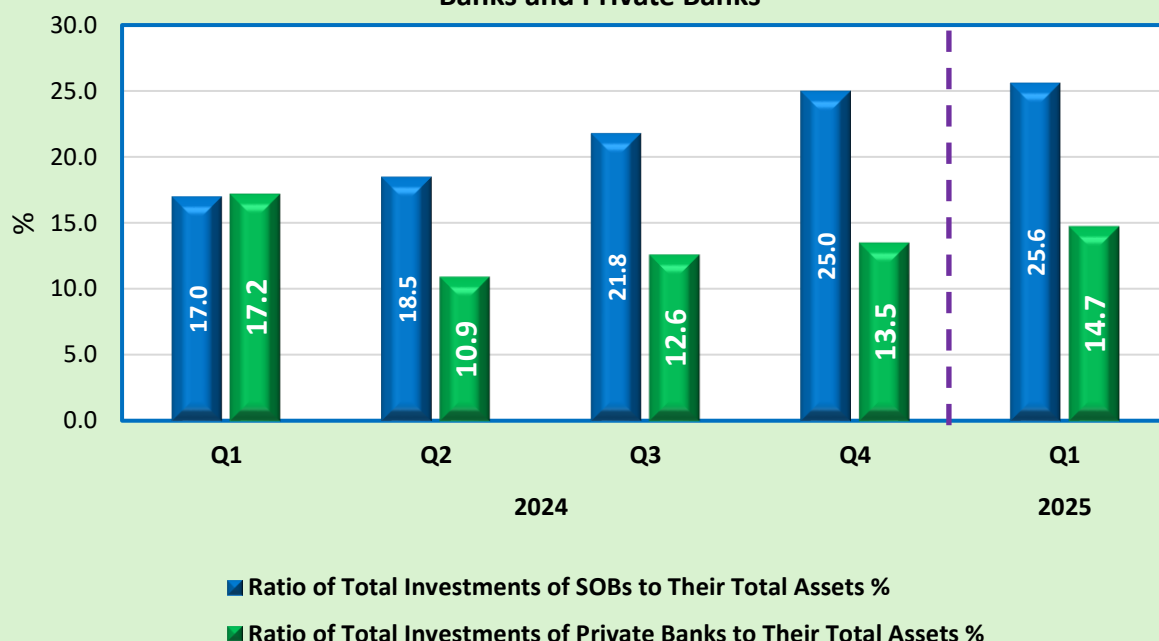
Figure (10) Ratio of Investments to Total Assets at Operating Banks



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

As for the classification of banks by ownership, the ratio of investments to volume of assets of SOBs is greater than that of private banks. Figure (11) shows that the ratio of total investments to assets at SOBs increased significantly from (17%) for the first quarter of 2024 to reach (25.6%) for the same quarter of 2025. While the ratio of investments to total assets at private banks increased from (17.2%) for first quarter of 2024 to (14.7%) for the same quarter of 2025. It is worth mentioning that the ratio of investments at SOBs constitutes (84.6%) to total investments at operating banks for the first quarter of 2025.

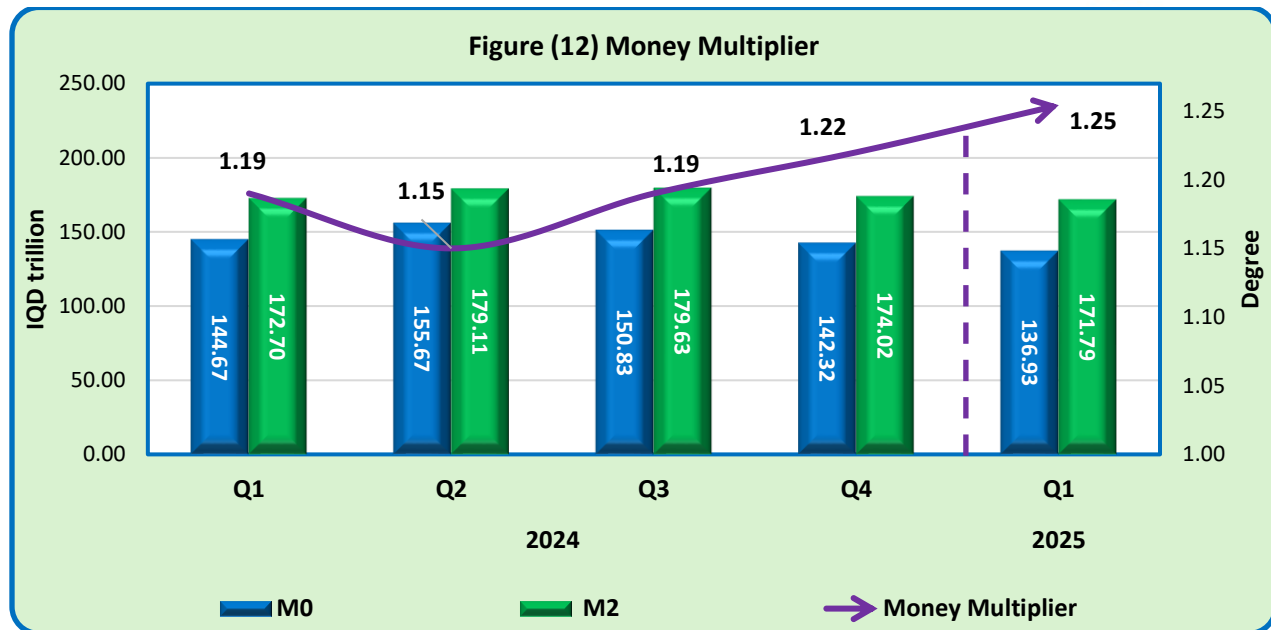
Figure (11) Ratio of Total Investments to Total Assets for State-Owned Banks and Private Banks



Source: Central Bank of Iraq, Monetary and Financial Statistics 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) on a cash basis. Money multiplier recorded an increase for the first quarter of 2025 as it reached (1.25) from (1.19) for the same quarter of 2024. This increase came as a result of the decline in the cash basis for the first quarter of 2025, amounting to IQD (136.93) trillion, after it had reached IQD (144.67) trillion for the same quarter of 2024 despite the decrease in broad money supply (M2) to IQD (171.79) trillion after reaching IQD (172.70) trillion. Figure (12) shows money multiplier values over the same period.

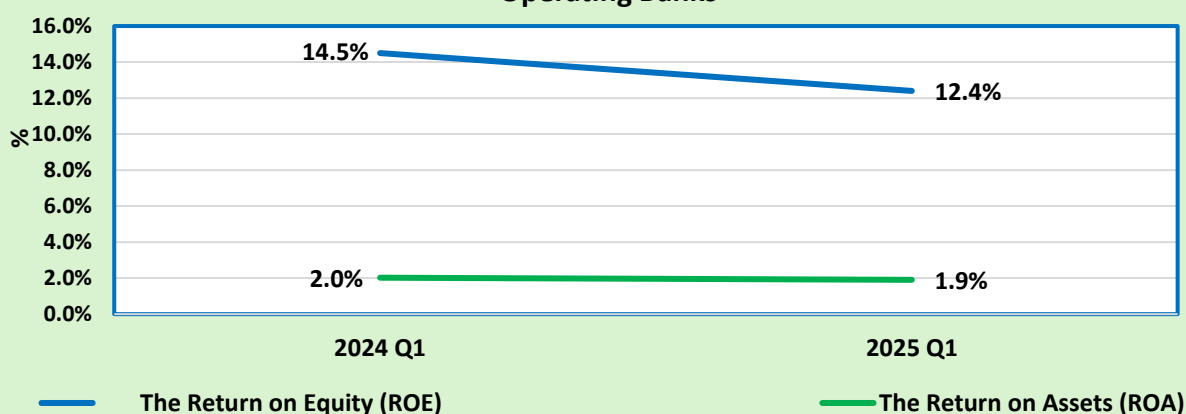


Source: Central Bank of Iraq, Statistics and Research Department, Estimates of Monetary and Financial Stability Division.

7- 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 a decrease in the return on assets ratio from (2.0%) for the first quarter of 2024 to (1.9%) for the same quarter of 2025. Also, the return on equity ratio decreased from (14.5%) for the first quarter of 2024 to (12.4%) for the same quarter of 2024 due to capital and total assets growth at a higher rate than that of net income.

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

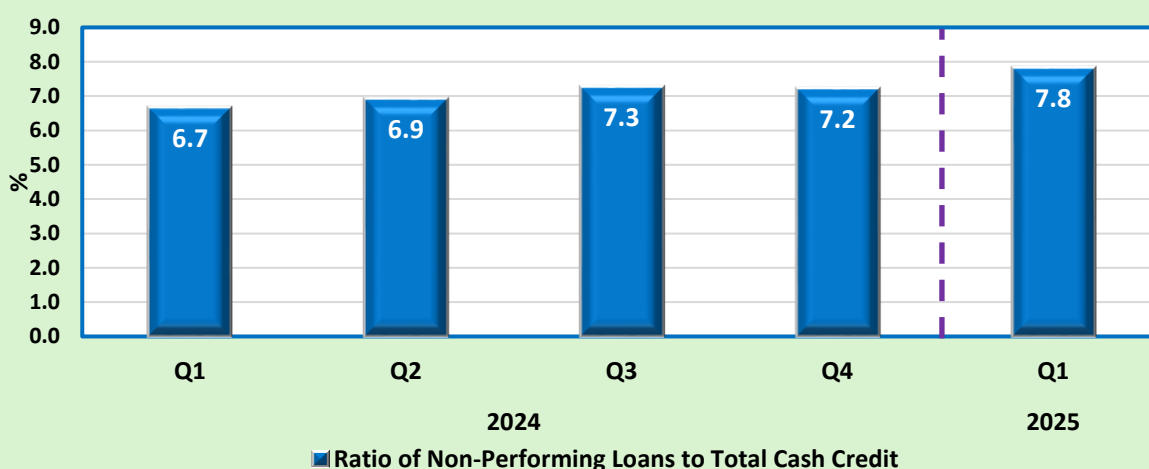


Source: Central Bank of Iraq, Department of Statistics and Research, Monetary and Financial Statistics Division.

8. Non-Performing Loans to Total Cash Credit:

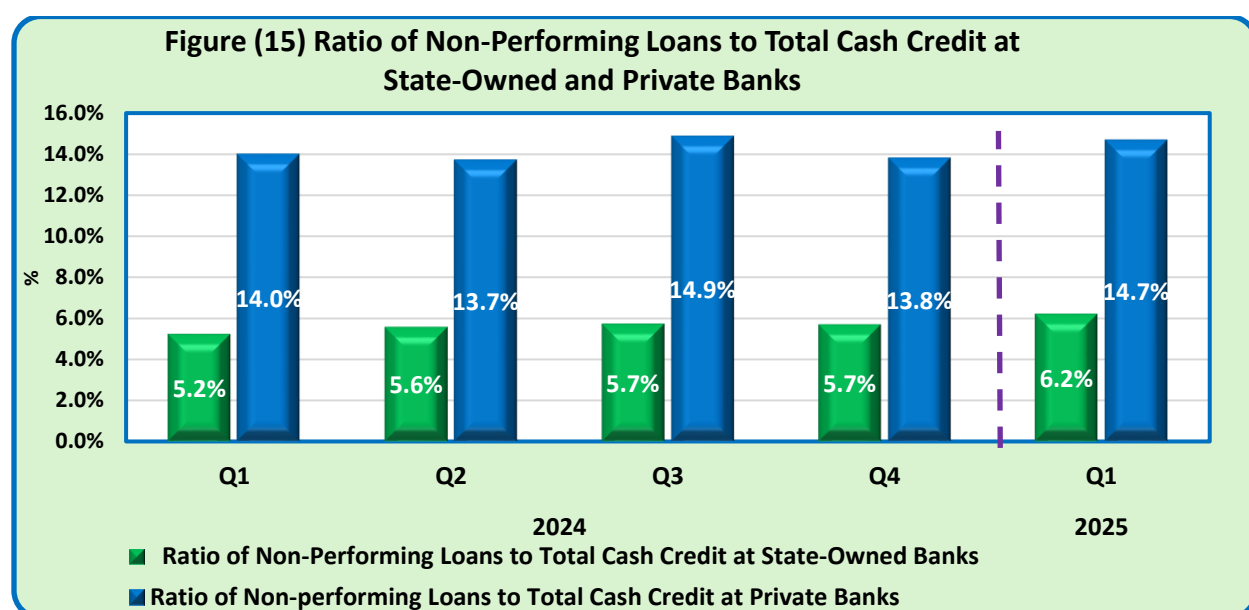
This index is measured by dividing non-performing loans by total cash credit. Figure (14) shows that the ratio of non-performing loans to total cash credit for the first quarter of 2025 increased to (7.8%) after reaching (6.7%) for the same quarter of 2024. This increase is a result of a (18.3%) growth in non-performing loans, which is higher than the (0.8%) growth in granted cash credit.

Figure (14) Ratio of Non-Performing Loans to Total Cash Credit



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

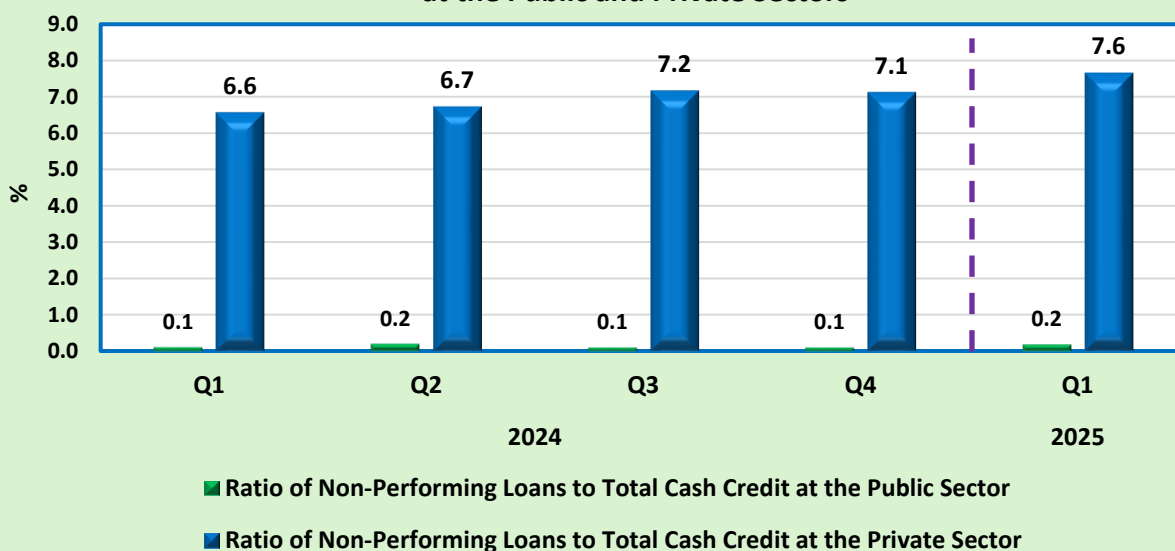
Regarding the classification of banks by ownership, it is noted that the ratio of non-performing loans to total cash credit is higher in private banks compared to SOBs. Figure (15) illustrates that the ratio of non-performing loans to total cash credit at private banks increased to (14.7%) for the first quarter of 2025, up from (14.0%) for the same quarter of 2024, as a result of the growth in non-performing loans at private credit, which increased by (23.4%), that is higher than the increase in total granted credit by private banks reaching (17.7%). As for SOBs, the ratio of non-performing loans to their total cash credit increased to reach (6.2%) for the first quarter of 2025, after it was (5.2%) for the same quarter of 2024, as a result of the growth of non-performing loans by (15.7%) with a decrease in total granted cash credit by (2.4%).



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

As for the non-performing loans at the private and public sectors to the total cash credit, it is noted that the percentage of non-performing loans at the private sector is higher than its counterpart at the public sector, as this ratio reached (7.6%) at the private sector for the first quarter of 2025, after reaching (6.6%) for the same quarter of 2024. While this ratio at the public sector reached (0.2%) during the same period, as shown in figure (16).

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

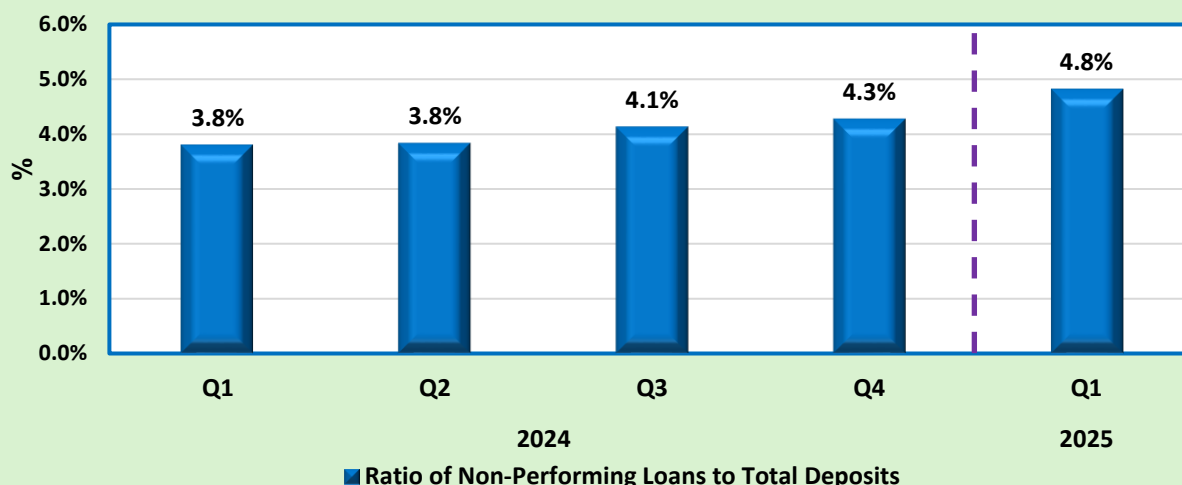


Source: Central Bank of Iraq, Statistics and Research Department, Annual Statistical Bulletin.

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 (4.8%) in the first quarter of 2025, up from (3.8%) in the same quarter of 2024. This increase is the result of a (18.3%) increase in total non-performing loans, This is greater than the decrease in total deposits, which amounted to (6.7%).

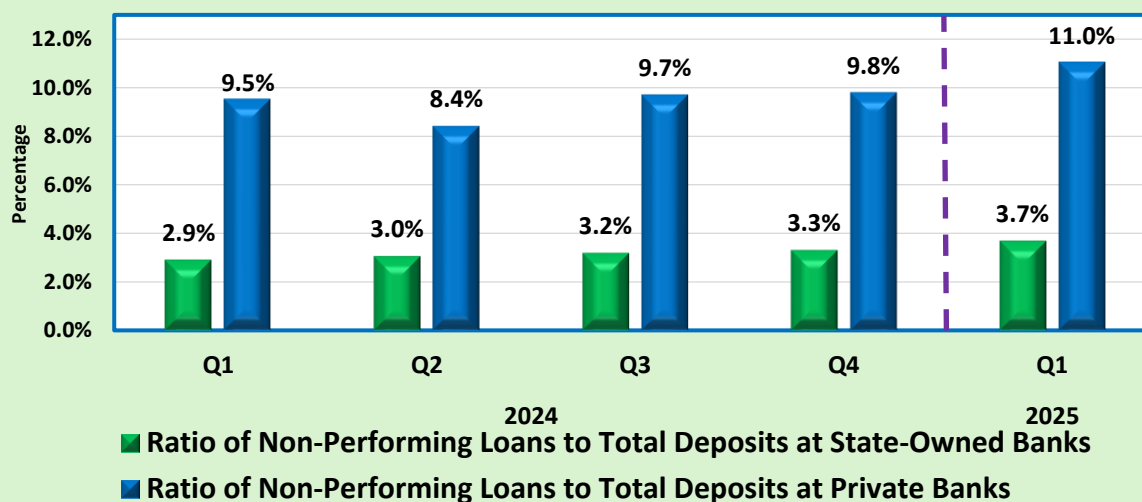
Figure (17) Ratio of Non-Performing Loans to Total Deposits



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

As for the classification of banks in terms of ownership, it is noted that there is an increase of this ratio among private banks, as the ratio of non-performing loans to total deposits at private banks rose to (11.0%) for the first quarter of 2025, after it was (9.5%) for the same quarter of 2024. While this ratio among SOBs rose to (3.7%) for the first quarter of 2025, after it was (2.9%) for the same quarter of 2024. This difference between private banks and SOBs is due to an increase in deposits at private banks by (6.5%) compared to a decrease in deposits at SOBs by (8.7%).

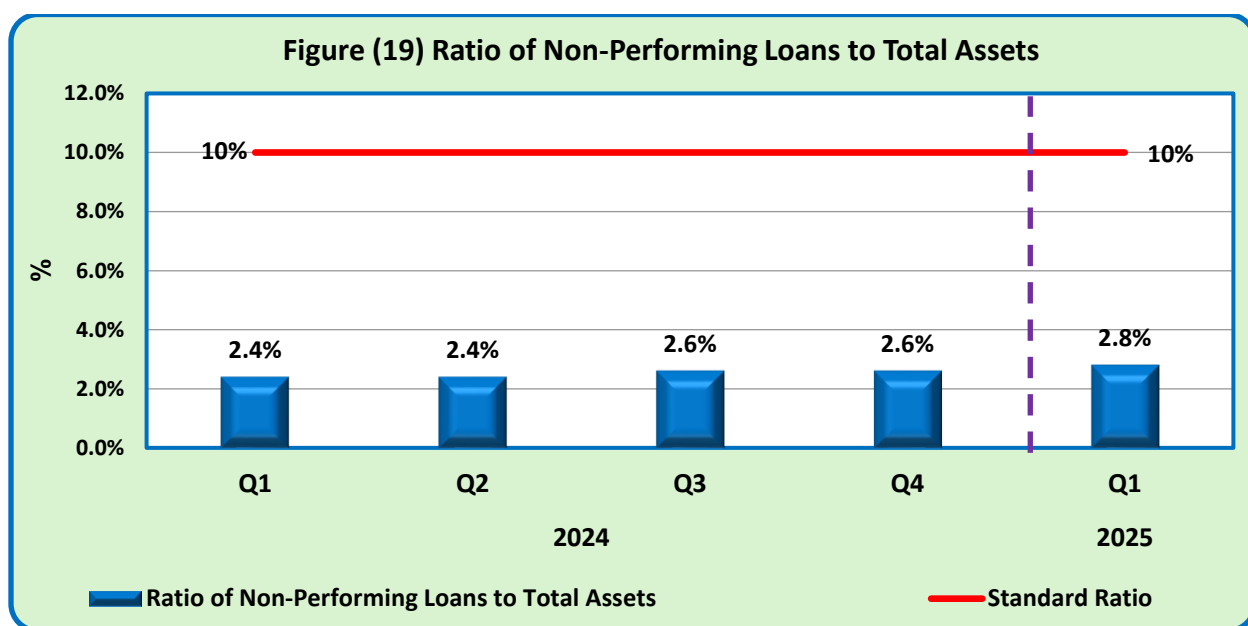
Figure (18) Ratio of Non-Performing Loans to Total Deposits for Private and State-Owned Banks



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

10 - Non-Performing Loans to Total Assets:

This index is measured by dividing non-performing loans to total assets at banks. The standard ratio is set at (10%). When the ratio of non-performing loans to total assets exceeds the standard ratio, it 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 (2.8%) for the first quarter of 2025, compared to (2.4%) for the same quarter of 2024. It is worth noting that the ratio of non-performing loans to total assets did not exceed the mentioned standard ratio. This is a positive indicator that demonstrates banks' ability to confront any potential financial crisis in the coming period.

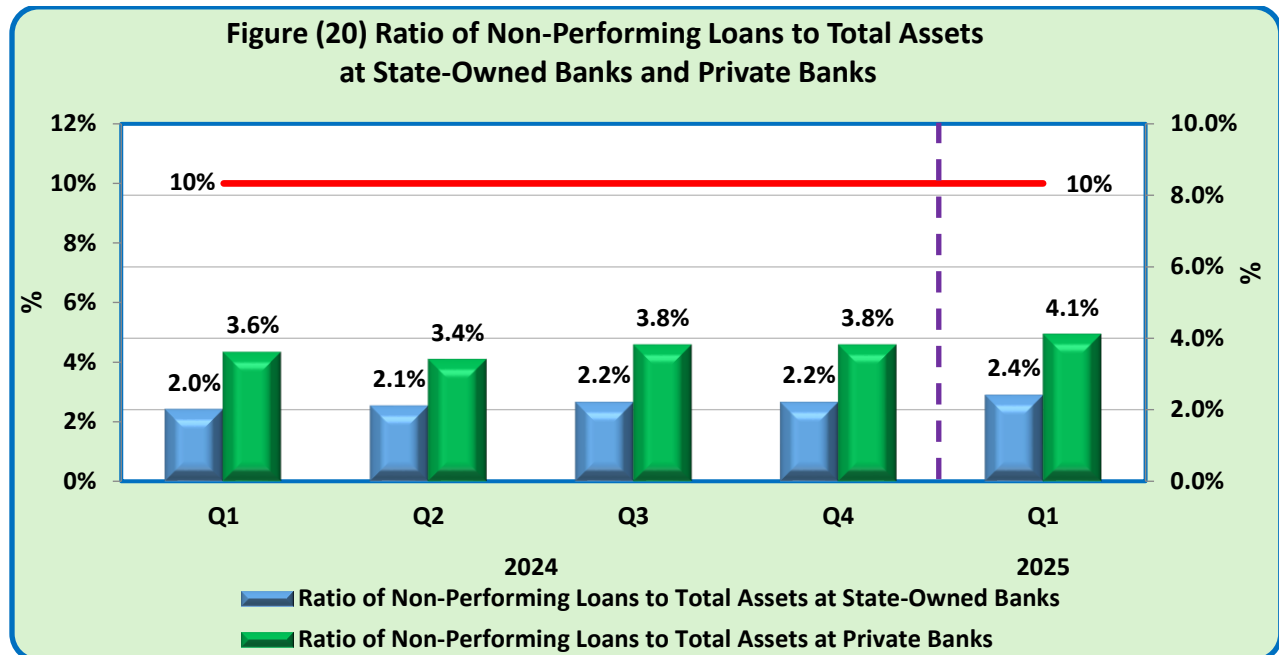


Source: Central Bank of Iraq, Statistics and Research Department, Statistical Website.

Looking at the breakdown of banks according to ownership, it is noted that both private banks and SOBs did not exceed the aforementioned ratio. Figure (20) illustrates this, noting that this ratio is higher at private banks than its counterpart at SOBs, as it reached (4.1%) for private banks for the first quarter of 2025, after reaching (3.6%) for the same quarter of 2024. While it reached (2.4%) at SOBs after

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

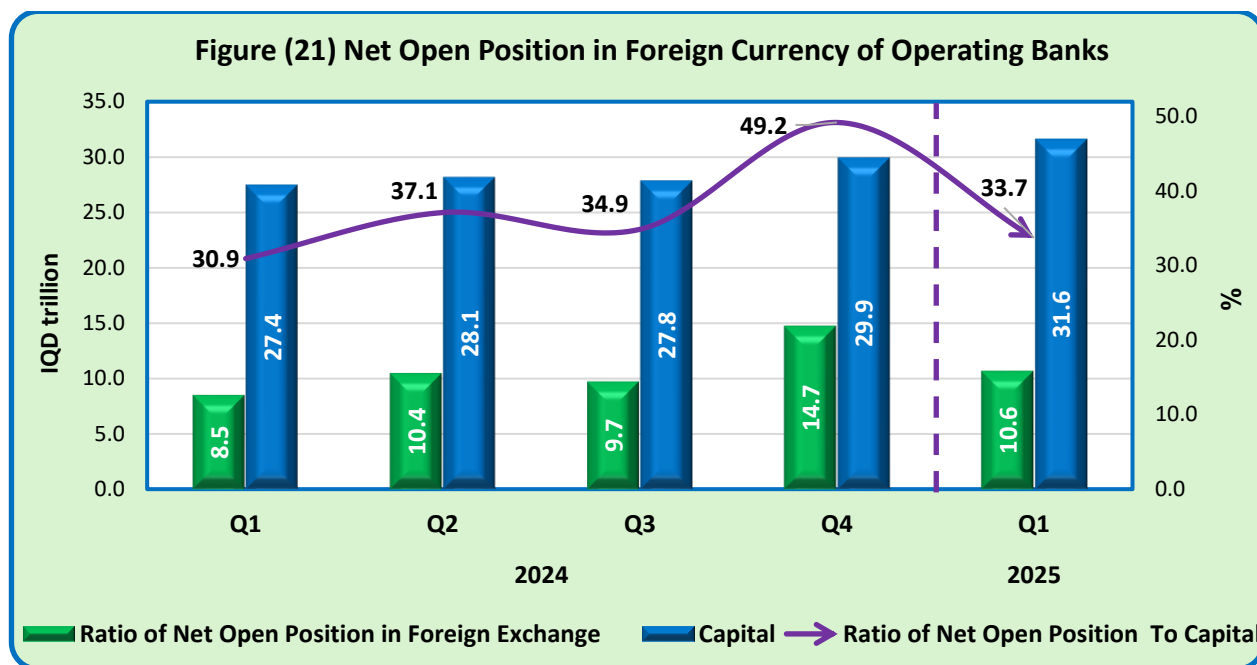
it was (2.0%) for the same period. It is worth mentioning that this ratio does not cause concern regarding financial stability, since it did not exceed the standard ratio.



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 decrease in foreign asset holdings at operating banks or an increase in foreign liabilities, and vice versa. Figure (21) shows the high index ratio at operating banks from (30.9%) for the first quarter of 2024 to (33.7%) for the same quarter of 2025, as a result of the increase in net foreign assets by (25.4%) with the increase in capital by (15.0%), reflecting a strong desire among operating banks to boost their holdings of assets, such as deposits and foreign currency securities.



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

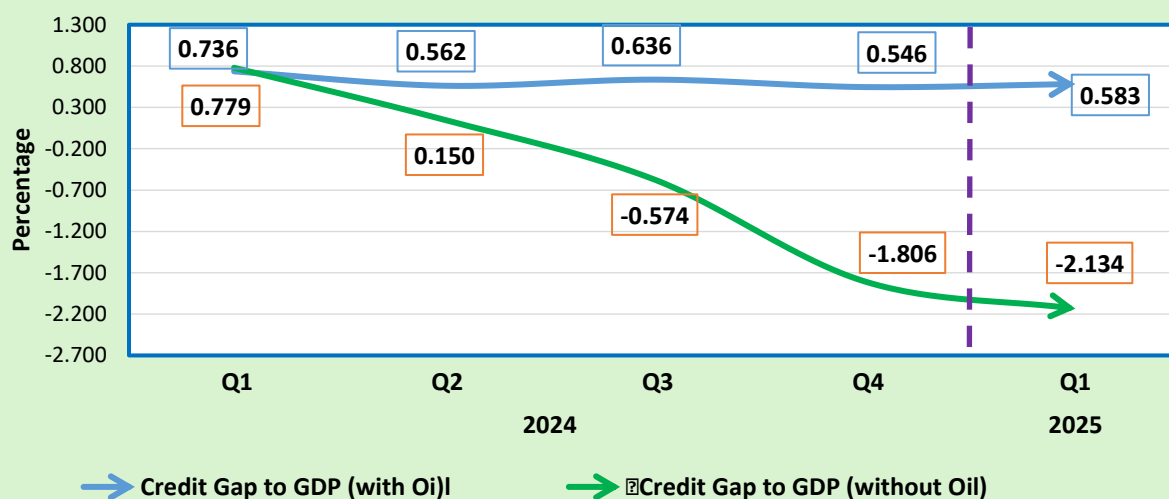
12. Private Sector Cash Credit to GDP Gap

The credit gap is defined as the ratio of cash credit extended to the private sector to GDP at current prices, minus the general trend of credit ratio (extended to the private sector) to GDP² at current prices. 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 (-2.134%) for the first quarter of 2025, after it was (0.779%) for the same quarter of 2024. While the gap when measuring GDP data with oil reached (0.583%) for the first quarter of 2025 after it was (0.736%) in the same quarter of 2024. From the above, it became clear that the two gaps for the first quarter of 2025 are below the standard ratio, meaning that it is possible to increase cash credit provided to the private sector without destabilizing financial stability.

² For more information on how to calculate the output gap, see Central Bank of Iraq, Early Warning Report, issue No. 18, Quarter One 2020, p. 23

Figure (22) Cash Credit to GDP Gap



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

Table (2)			
Indices of Banks' Performance Analysis			
Index Name	Q1 2024	Q1 2025	Growth Rate%
Bank Deposits to M2 (%)	47.8	45.5	-4.8
Cash in Circulation to M2 (%)	57.2	54.5	4.4
Total Cash Credit to Total Deposits (%)	57.1	61.7	8.1
Total Investment to Total Assets (%)	17.1	23.0	24.0
Money Multiplier	1.19	1.25	5.0
Return on Equity (ROE) (%)	14.5	12.4	-14.5
Return on Assets (ROA) (%)	2.4	1.9	-5.0
Non-Performing Loans to Total Cash Credit (%)	6.7	7.8	16.4
Non-Performing Loans to Total Deposits (%)	3.8	4.8	26.3
Non-Performing Loans to Total Assets (%)	2.4	2.8	19.2
Net Open Foreign Currency Position of Operating Banks (%)	30.9	33.7	9.1

The table was prepared based on data from:

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

Chapter Three

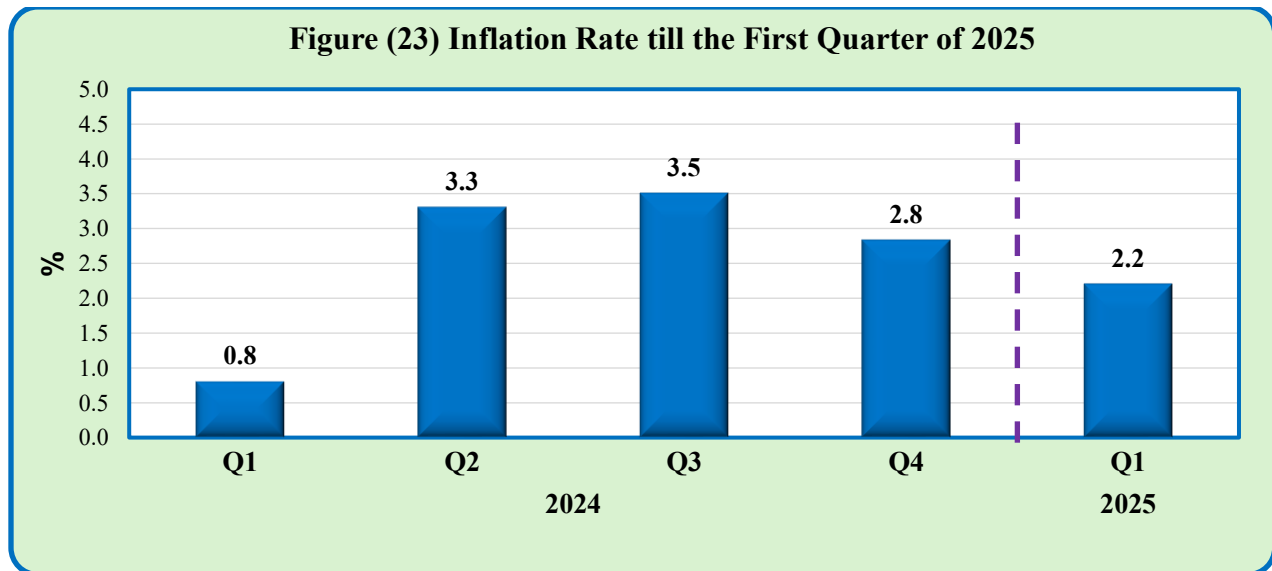
Analysis of Macroeconomic Performance Indices

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 first quarter of 2025, 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 because it reflects changes in the prices of most goods and services consumed by individuals, whether locally produced or imported. It is worth mentioning that the inflation rate for the first quarter of 2025 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 for the first quarter of 2025 was (2.2%) after being (0.8%) for the same quarter of 2024, despite this increase in the inflation rate, it is still within acceptable limits, as shown in figure (24).

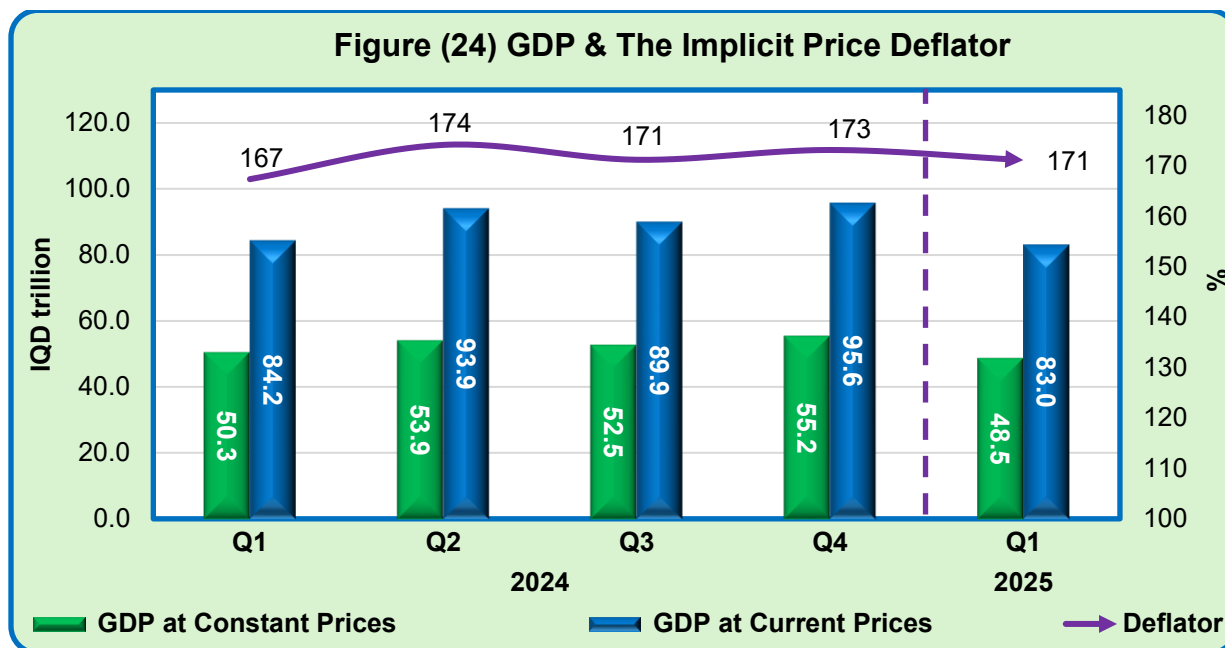


Source: Central Bank of Iraq, Basic Financial Statements.

2. Implicit Price Deflator:

The implicit price deflator is considered one of the main instruments to measure 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 Gross Domestic Product (GDP) at current prices to GDP at constant prices, thus providing an accurate measure of price changes over time. Figure (25) shows an increase in the value of the implicit deflator to reach (171%) for the first quarter of 2025, after it was (167%) for the same quarter of 2024, although GDP at current prices fell by (1.4%).



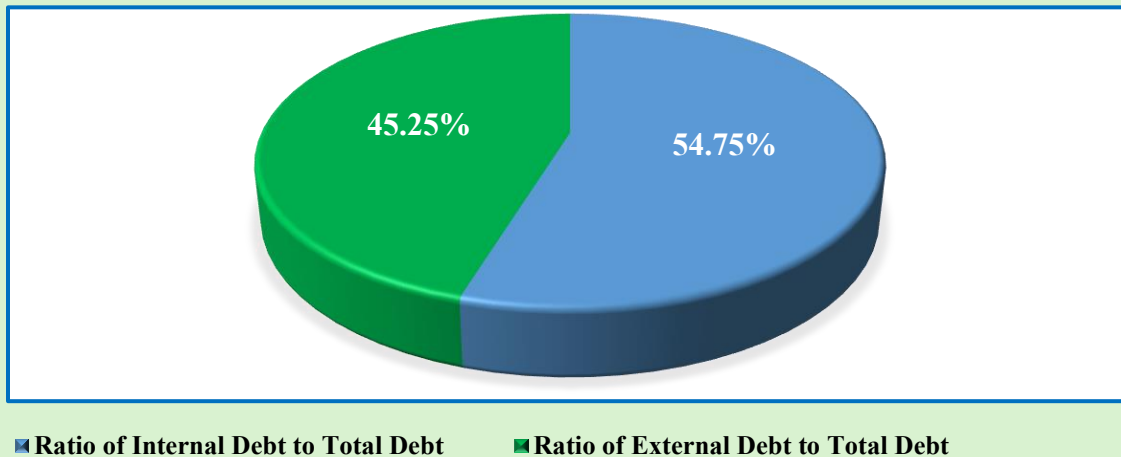
Source: Central Bank of Iraq, Statistical Website.

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 (7%) for the first quarter of 2025 compared to the same quarter of 2024 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 first quarter of 2025 reached (54.75%) of the total debt, while the external debt ratio for the first quarter of 2025 reached (45.25%) of the total debt.

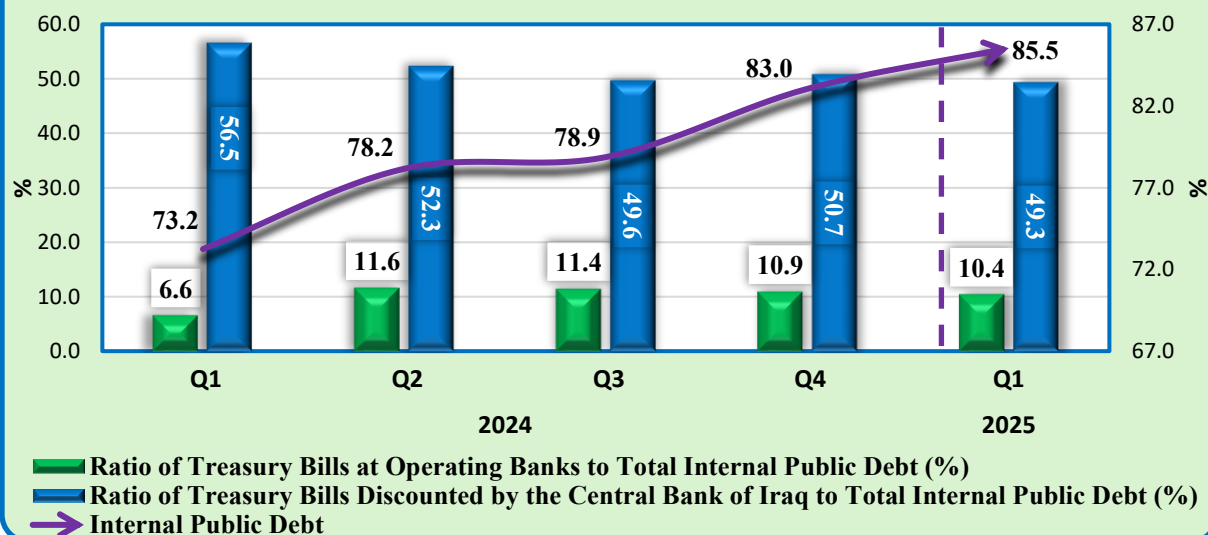
Figure (25) Ratio of Internal & External Debt to Total Debt For The First Quarter of 2025



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

- A. External Debt Growth Rate:** 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 (2.7%) during the first quarter of 2025 compared to the same quarter of 2024, reflecting the Iraqi government's efforts to free the Iraqi economy from external obligations that impact national development.
- B. Internal Debt Growth Rate:** indicates the government's commitment to operating banks and the Central Bank of Iraq. Figure (27) shows that internal debt increased for the first quarter of 2025 to IQD (85.5) trillion after it was IQD (73.2) trillion for the same quarter of 2024 in order to finance public spending, as the proportion of treasury bills at operating banks to the total internal public debt rose to reach (10.4%) for the first quarter of 2025 after it was (6.6%) for the same quarter of 2024. 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 (49.3%) for the first quarter of 2025 after it was (56.5%) for the same quarter of 2024 due to the government payment of part of these bills.

Figure (26) Treasury-Bills & Discounted Treasury-Bills by Operating Banks

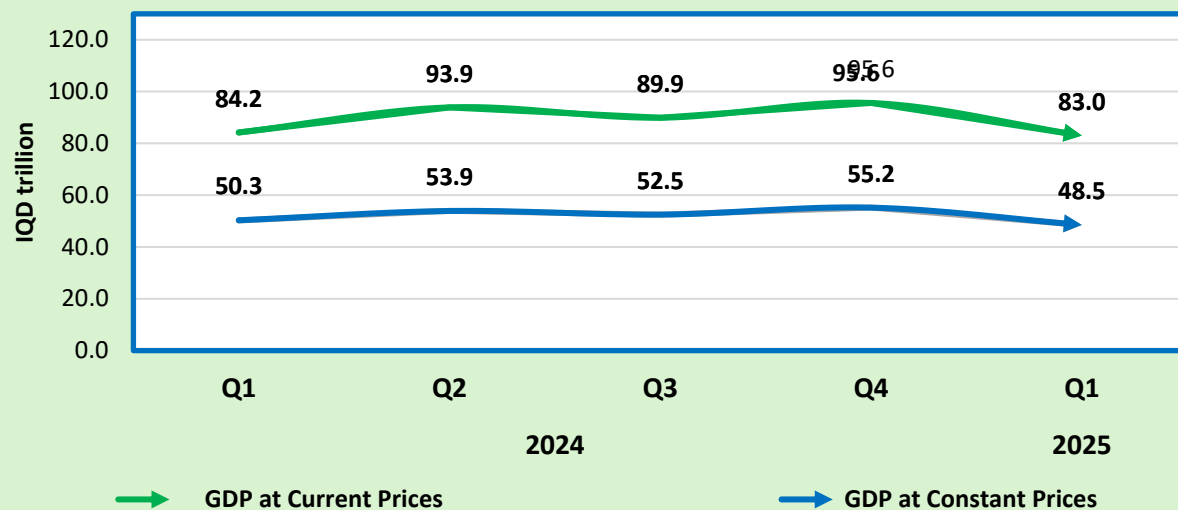


-Source: Central Bank of Iraq, Statistics and Research Department.

4- Gross Domestic Product (GDP) Growth Rate:

Gross Domestic Product (GDP) is considered one of the most important economic instruments 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. Iraq's GDP at current prices indicates a decrease for the first quarter of 2025 to reach IQD (83) trillion, recording a decrease of (1.4%) compared to the same quarter of 2024, as it reached IQD (84.2) trillion, as a result of a decrease in total public revenues by (12.73%) during the same period, as shown in Figure (27) below.

Figure (27) GDP Growth Rate at Constant & Current Prices



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

Table (3)			
Macroeconomic Performance Indices			
Index Name	Q1 2024	Q1 2025	Change Rate %
Inflation Rate (%)	0.8	2.2	175.00
Ratio Of Treasury Bills at Operating Banks to Total Internal Public Debt (%)	6.6	10.4	57.58
The Ratio of Treasury Bills Discounted by the Central Bank of Iraq to Total Internal Public Debt (%)	56.5	49.3	-12.74
GDP At Current Prices (IQD Trillion)	84.2	83.0	- 4.16
GDP At Constant Prices (IQD Trillion)	50.3	48.5	-7.79
Implicit GDP Deflator	167	171	3.64

Source:

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



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