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

Early Warning Report for the Banking Sector

(The Second Quarter – 2025)

No. Thirty-two

Statistics and Research Department

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(The Second Quarter – 2025)

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Early warning: is an indicator that provides a comprehensive view of the magnitude of potential risks facing the financial sector and economy in general. Thus, it enables decision-makers to undertake necessary measures and formulate policies in a timely manner to avoid a financial crisis.

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Introduction:

The early warning report for the banking sector is considered one of the most important direct supervisory tools for this sector through the indicators it contains that are capable of forecasting imminent and potential crises in general, even if they do not materialize, in addition to measuring possible deviations that may affect the banking sector and the variables influencing it.

The report consists of three chapters that cover most indicators, impacting the functions of monetary authority.

The first chapter of the report included an analysis of currency value stability indicators through several indicators, most notably the ratio of net foreign reserves to broad money supply (M2), which decreased to 73.9% in the second quarter of 2025 compared to the same quarter of 2024, when the ratio was 79.7%, which is greater than the standard ratio of 20%. The reason for the decrease in this ratio is due to the decrease in net foreign reserves by 11.6% during the same period.

As for the second chapter, which includes an analysis of bank's performance indicators, the ratio of total cash credit to total deposits reached 60.9% in the second quarter of 2025, remaining below the standard ratio of 75% set by the Central Bank. The money multiplier also increased in the second quarter of 2025 to 1.28, up from 1.15 in the same quarter of 2024, due to a 14.6% decrease in the monetary base over the same period.

Regarding the non-performing loans to total credit indicator, it rose to 7.7% in the second quarter of 2025, compared with 6.9% recorded in the same quarter of 2024.

The third chapter addresses the analysis of several macroeconomic indicators that affect the Iraqi banking sector. Regarding the inflation rate, it recorded 0.8% in the second quarter of 2025, with 2022 adopted as the new base year for calculating the consumer price index instead of 2012.

As for total public debt, it increased by 6.1% in the second quarter of 2025 compared with the same quarter of 2024, driven by the rise in both internal and external debt. External debt accounted for 44.86% of total public debt during the same period.

Iraq's nominal GDP in current prices also declined by 11.9% in the second quarter of 2025, reaching IQD 82.7 trillion, down from IQD 93.9 trillion in the same quarter of 2024.

Chapter One: Analysis of Currency Value Stability Indicators

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Currency value stability can be assessed by monitoring a set of important indicators. If all indicators remain within acceptable ratios and without significant fluctuations, this indicates that the national currency is not exposed to external or internal shocks, and therefore the currency value remains stable.

However, if significant fluctuations appear in all or some of the indicators, this is a warning sign of possible currency fluctuations in the coming months. Among the most important of these indicators, which provide an accurate analysis of fluctuations in the value of the national currency, are the following:

First: Foreign Reserves Adequacy

The adequacy of foreign reserves in central banks is a key indicator of the stability of the financial and banking system and its ability to withstand external challenges. These reserves strengthen the protection of the national currency against fluctuations and increase investor confidence in the economy. The adequacy of these reserves can be measured through several Indicators, including:

1. Net Foreign Reserves Adequacy to the Issued Currency Indicator

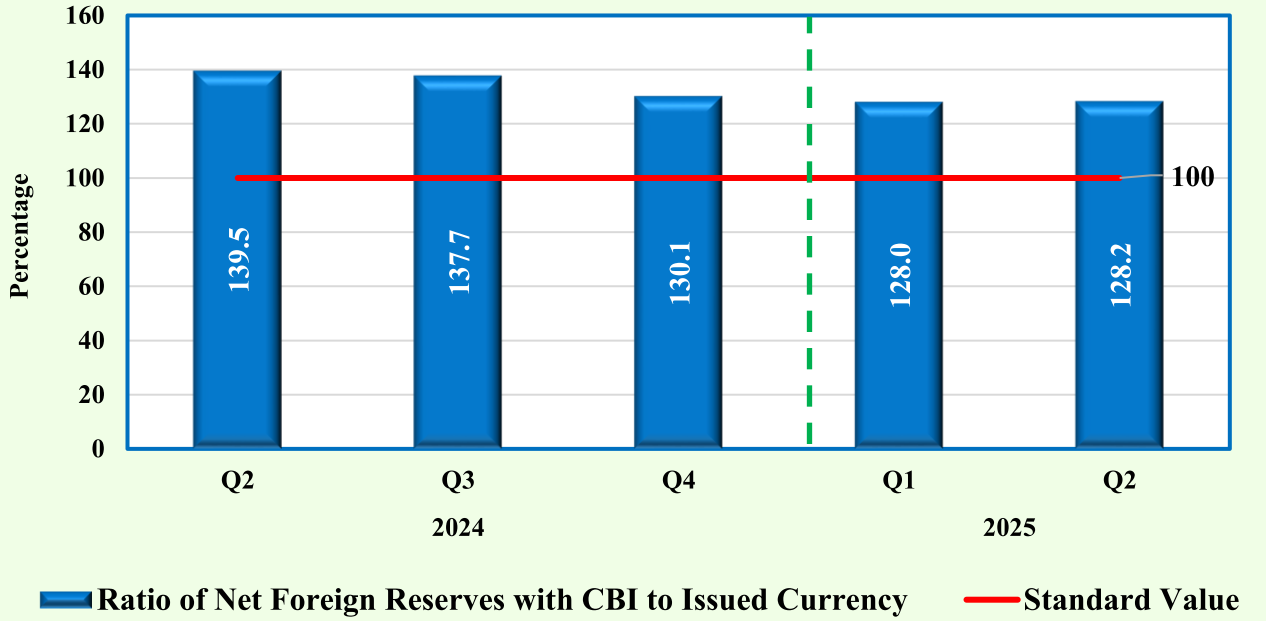
Net foreign reserves are the first line of defense for stabilizing the value of the national currency and supporting the domestic economy, as they enable the central bank to cope with fluctuations in the foreign exchange market and protect the value of the national currency in light of these fluctuations. This requires maintaining an adequate level of these reserves.

The ratio of this indicator reflects the relationship between net foreign reserves and the value of the national currency. A high ratio is considered a positive indicator. Figure 1 shows a decline in the ratio of net foreign reserves to the issued currency to 128.2% for Q2 of 2025, compared to 139.5% in the same quarter of 2024.

This decline is attributed to the Central Bank of Iraq's continued defense of the dinar's value by providing foreign currency to cover the import bill and maintaining the money supply at acceptable levels.

The issued currency decreased from IQD 102.3 trillion to IQD 98.4 trillion for the same period, despite a decrease in net foreign reserves by 11.6%, reaching IQD 126.2 trillion for Q2 of 2025, down from IQD 142.7 trillion in the same quarter of 2024, the ratio remained positive and influential because it was higher than the standard ratio of 100%.

Figure 1:
Ratio of Net Foreign Reserves to Issued Currency



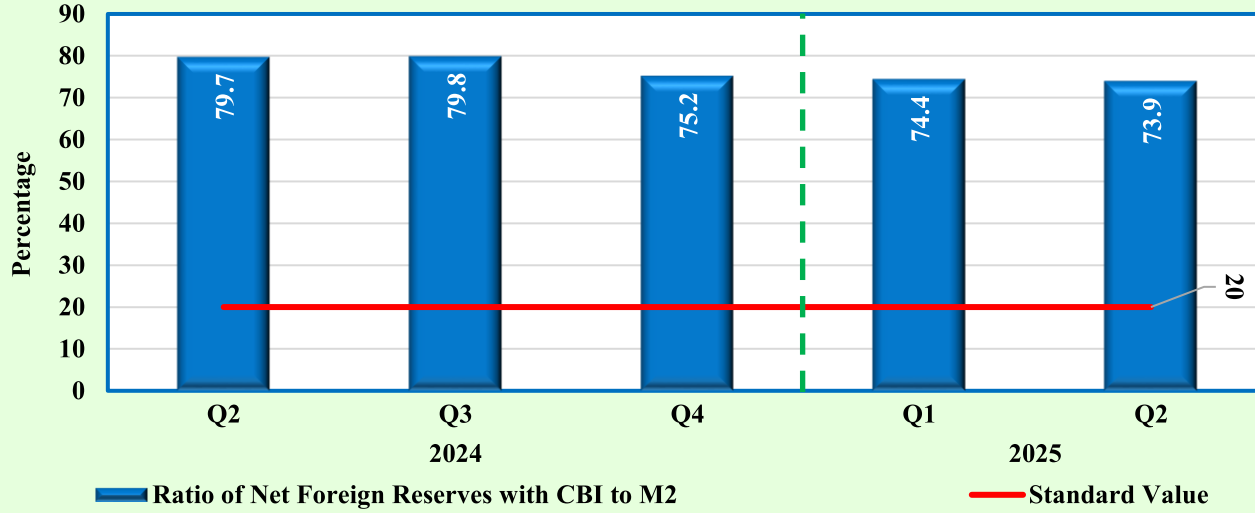
Source: Central Bank of Iraq, Statistical Website.

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

This indicator is measured by dividing net foreign reserves by M2. Figure 2 shows that the ratio of net foreign reserves to M2 for Q2 of 2025 reached 73.9%, which is well above the standard ratio of 20%. Despite a decrease of 5.8% compared to the same quarter of 2024, when it was 79.7%.

This was a result of financing the budget deficit through internal debt, with reserves reaching IQD 126.2 trillion for Q2 of 2025, compared to IQD 142.7 trillion in the same quarter of 2024, which affected the decline in the ratio of net foreign reserves to M2, despite a 4.7% decline in M2 to IQD 170.7 trillion, down from IQD 179.1 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 Indicator

This indicator is used to assess the quality of a country's economy and the stability of its financial system. International financial institutions such as the International Monetary Fund (IMF) and the World Bank (WB) monitor this indicator to direct financial support when needed.

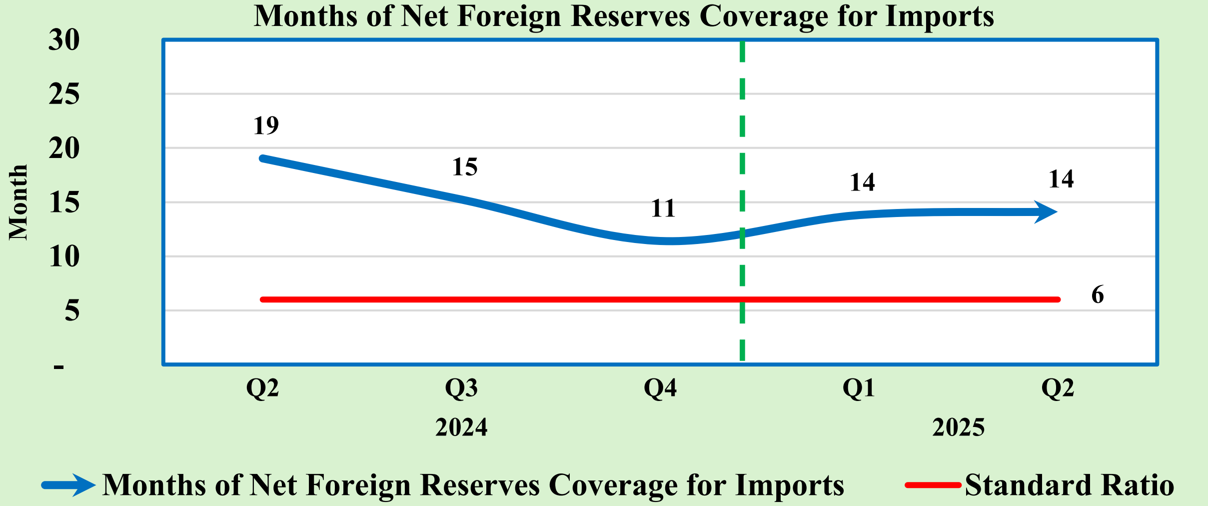
The minimum level for this indicator in some countries ranges from 3 to 6 months, varying from one country to another depending on the economic situation. In Iraq, the minimum acceptable level for this indicator is 6 months[1].

The coverage period of net foreign reserves to total imports for Q2 of 2025 decreased to 14 months, compared to 19 months in the same quarter of 2024. Despite the increase in total imports on a CIF basis to IQD 26.8 trillion, up from IQD 22.5 trillion during the same quarter of 2024.

The decline in net foreign reserves by 11.6% affected the decline in the ratio, reaching IQD 126.2 trillion for Q2 of 2025, after reaching IQD 142.7 trillion during Q2 of 2024. It should be noted that the ratio is high and significant because it is greater than the standard ratio set at 6 months, as shown in Figure 3.

[1] For more, see the Early Warning Report, Issue Nineteen, Q1 2022, p. 6.

Figure 3:
Months of Net Foreign Reserves Coverage for Imports



Source: Central Bank of Iraq, Statistical Website.

Second: Changes In Interest Rates

The change in interest rates is one of the vital indicators that show the general direction of the economy. It is assumed that high interest rates on deposits are an indicator of attracting currency from circulation and hoarding by individuals in favor of deposits with banks, thereby increasing the ability of banks to grant credit and stimulate the economy as a result of increased financial depth.

On the other hand, if interest rates fall, deposits with operating banks will decline due to lower returns and an increase in currency in circulation, thereby reducing levels of financial inclusion.

1. Short-Term Interest Rates and Deposits

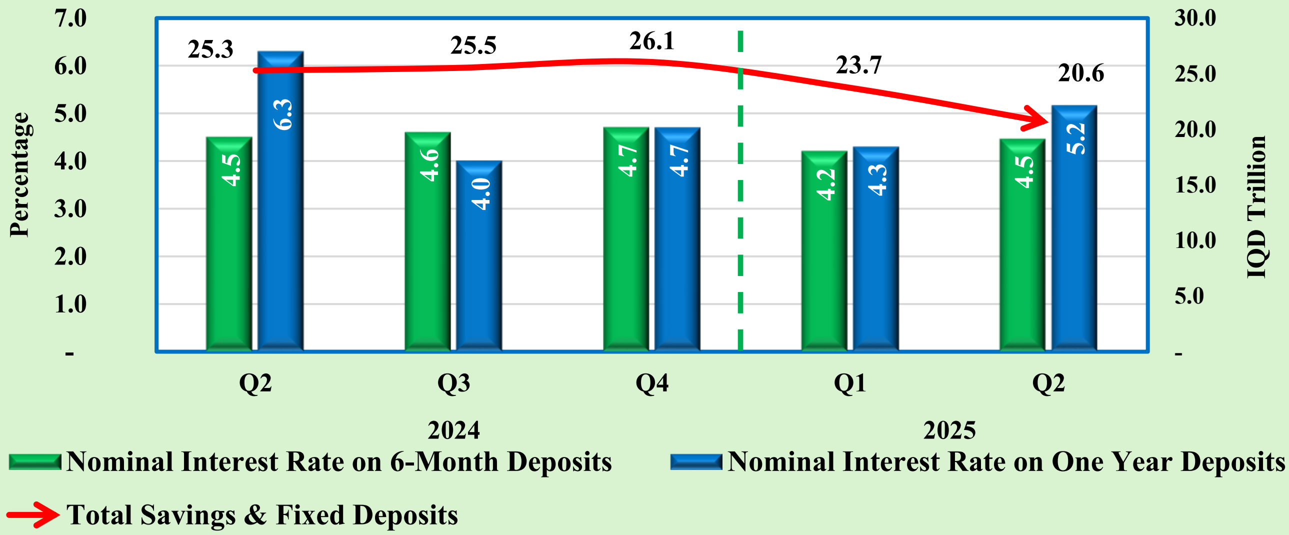
The impact of interest rates on the volume of deposits depends on several factors, including the inflation rate, the level of banking awareness among the public, and the level of services provided by the banking system.

Figure 4 shows that rising or falling interest rates have little effect on the volume of deposits as a result of individuals' tendency to hoard rather than deposit their money in banks. The nominal interest rate on six-month deposits remained at 4.5% for Q2 of 2024 and 2025.

While the nominal interest rate on one-year deposits fell to 5.2% for Q2 of 2025, down from 6.3%. The total amount of savings and fixed deposits also decreased to IQD 20.6 trillion for Q2 of 2025, compared to IQD 25.3 trillion during the same quarter of 2024.

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

Figure 4:
Interest Rates, Total Savings and Fixed Deposits

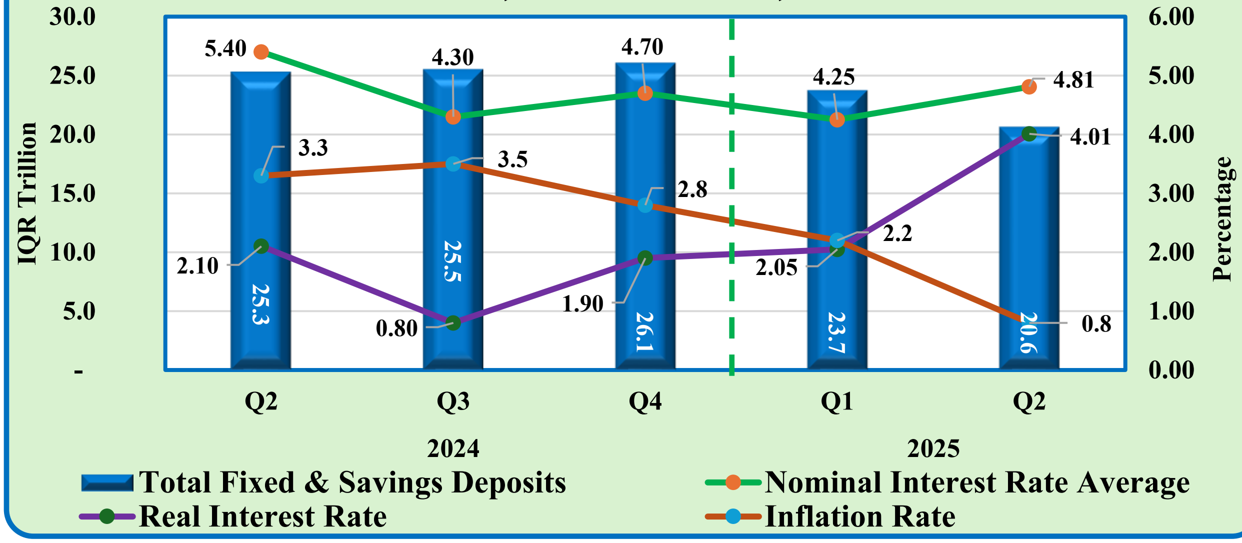


Source: Central Bank of Iraq, Statistical Website.
***Interest rate for six-month and one-year deposits are estimated data.**

2. Real Interest Rates:

The real interest rate is considered an important indicator because it takes into account inflationary pressures and their impact on nominal interest rates. Figure 5 shows that there is an increase in the real interest rate during Q2 of 2025, reaching 4.0% compared to 2.1% in the same quarter of 2024, it should be noted that the base year for calculating the consumer price index has changed, with inflation reaching 0.8% during Q2 of 2025, based on 2022 instead of 2012, as announced by the Ministry of Planning. This was reflected in an increase in real interest rates for Q2 of 2025.

Figure 5:
Nominal Interest Rate, Real Interest Rate, and Inflation Rate



Source: Central Bank of Iraq, Statistical Website.

* Nominal Interest Rate Average Data are preliminary.

Table 1:
Currency Value Stability Indicators

Indicator Name	Q2 2024	Q2 2025	Change Rate %
Net Foreign Reserves with the Central Bank	142.7	126.2	-11.6
Issued Currency (IQD Trillion)	102.3	98.4	-3.8
Ratio of Net Foreign Reserves at the Central Bank to Issued Currency (%)	139.5	128.2	-8.1
Broad Money Supply (M2) (IQD Trillion)	179.1	170.7	-4.7
Ratio of Net Foreign Reserves at the Central Bank to Broad Money Supply M2 (%)	79.7	73.9	-7.3
Months of Net Foreign Reserves Coverage of Imports (Monthly)	19	14	-26.3
Total Fixed and Savings Deposits (IQD Trillion)	25.3	20.6	-4.7

The table was prepared based on data from:
- The Central Bank of Iraq, Statistics and Research Department, Statistical Website.
- The Central Bank of Iraq, Statistics and Research Department, Balance of Payments and Foreign Trade Statistics Division.

Chapter Two: Analysis of Operating Banks' Performance Indicators

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Analyzing the performance indicators 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 readers to gain deeper understanding of bank performance indicators and how to use them as an analytical instrument to improve sustainability and competitiveness of the Iraqi banking sector. It is achieved by depending on a set of indicators such as total cash credit to total deposits indicator, money multiplier indicator, banks’ profitability indicator, non-performing loans to total cash credit indicator, and non-performing loans to total deposits indicator, as well as other indicators which shall be shown as follows:

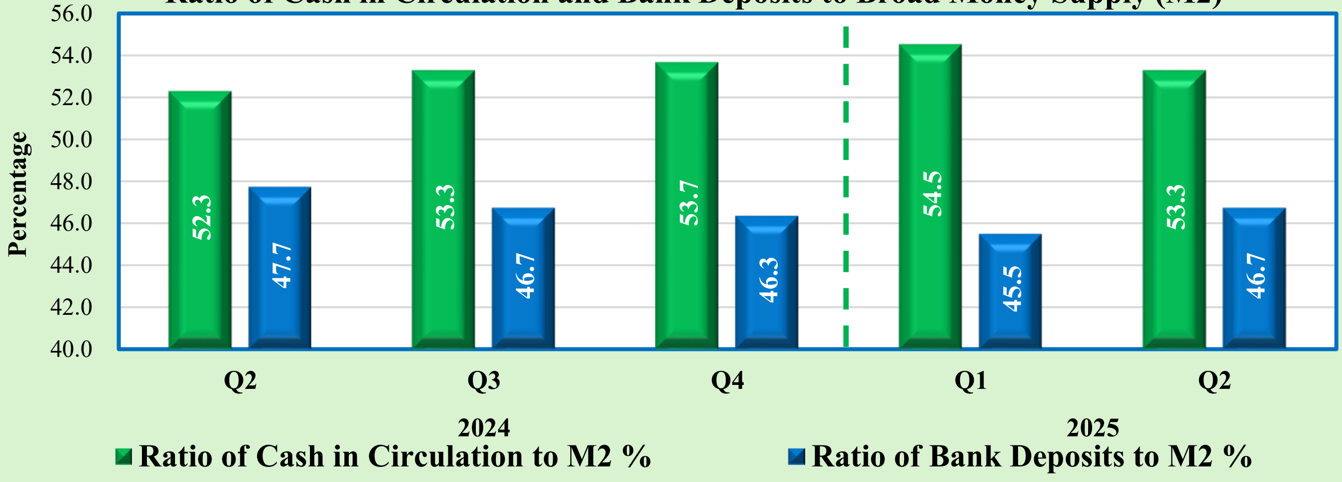
1. Outstanding Lending Facilities from the Central Bank of Iraq to Total Banks’ Liabilities

Outstanding lending facilities provided by CBI to operating banks as the last resort lender vary according to the impediments experienced by operating banks. As facilities provide more financial support to banks, CBI Law No. 56 of 2004, under Article 30 sets out the legal conditions for assisting banks experiencing financial crises. CBI considers that banks must possess sufficient liquidity to cope with their depositors' withdrawals and to safeguard the banking system from collapse. Consequently, requests for aid must be driven by a genuine need to bolster liquidity, given that a liquidity crisis is often the most direct manifestation of banking sector instability. It is noted that CBI did not provide loans to operating banks during Q2 of 2025, as they did not need urgent liquidity or extraordinary withdrawals, or because they did not meet the above-mentioned conditions**.**

2. Bank Deposits to Broad Money Supply (M2)

Bank deposits express the extent of financial solvency with banks, which can be achieved through the services provided to the public. Thus, this indicator 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 banks` activity on one hand and the extent of the spread of banking services on the other hand. This is measured by dividing bank deposits by M2. Figure 6 illustrates that the ratio of bank deposits to M2 decreased from 47.7% for Q2 of 2024 to 46.7% for the same quarter of 2025 because of the decrease in current deposits during the same period. In contrast, the ratio of cash in circulation to M2 rose from 52.3% for Q2 of 2024 to 53.3% 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 instruments.

Figure 6:
Ratio of Cash in Circulation and Bank Deposits to Broad Money Supply (M2)

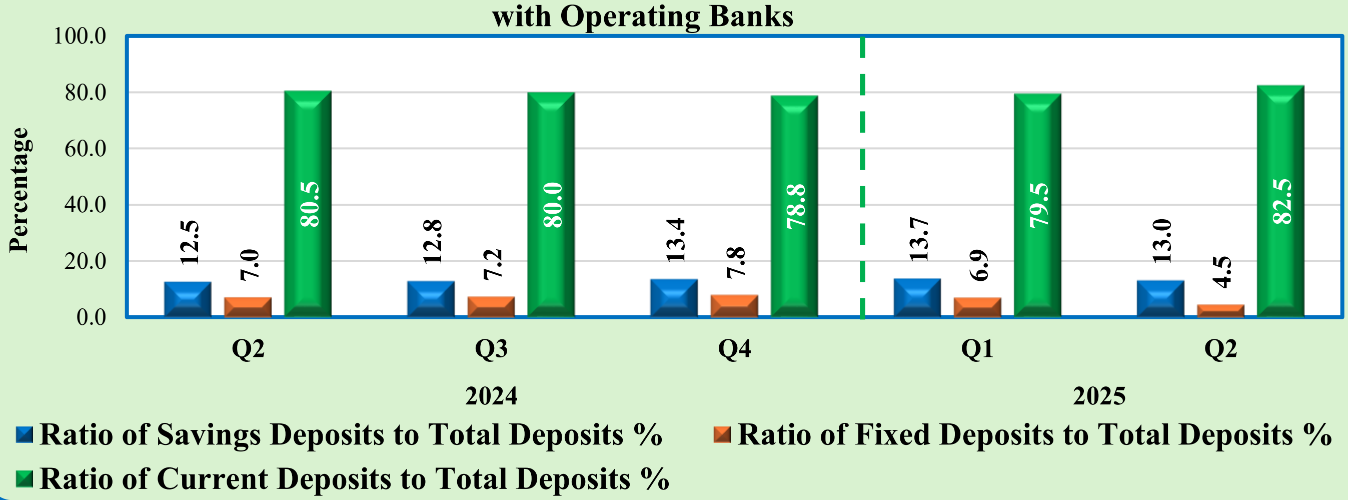


Source: Central Bank of Iraq, Statistical Website.

3. Types of Deposits with Operating Banks in Iraq

Current deposits accounted for the largest percentage of total deposits with operating banks, as their percentage to total deposits increased from 80.5% for Q2 of 2024 to 82.5% for the same quarter of 2025. The ratio of fixed deposits to total deposits decreased from 7.0% for Q2 of 2024 to 4.5% for the same quarter of 2025. As for the ratio of savings deposits to total deposits, it increased from 12.5% for Q2 of 2024 to 13.0% 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 with operating banks.

Figure 7:
Ratio of Fixed, Current, and Savings Deposits to Total Deposits with Operating Banks

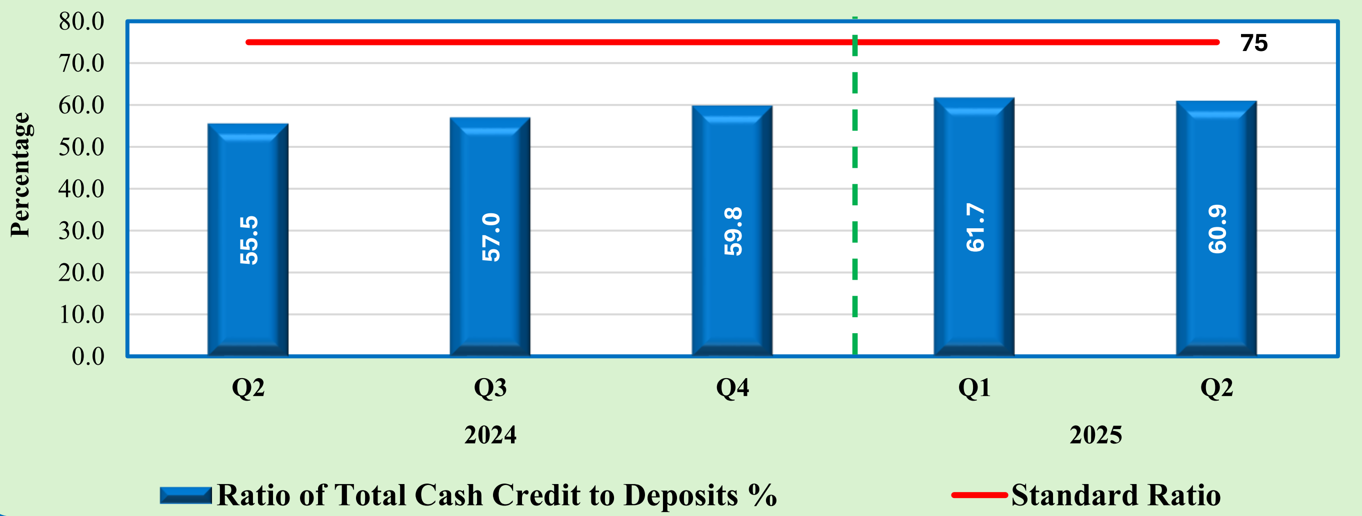


Source: Central Bank of Iraq, Statistical Website.

4. Total Cash Credit to Total Deposits

This indicator shows banks' ability to utilize deposits to meet customers' credit needs while retaining liquidity to enable the bank to meet its different requirements. CBI has set this ratio at 75% to maintain sufficient liquidity with banks to cope with customers' withdrawals and conduct bank's financial activities. This ratio is measured by dividing total cash credit by total deposits with operating banks. Figure 8 illustrates that the ratio of total cash credit to total deposits increased from 55.5% for Q2 of 2024 to 60.9% for the same quarter of 2025. Although the volume of cash credit granted decreased by 0.8%, the volume of deposits decreased by 9.6% for the same period. Therefore, the increase in this ratio is not a positive indicator of banking activity, but rather the result of a decrease in deposits with a percentage greater than the decrease in credit. It is worth noting that the ratio of total credit to total deposits did not exceed the standard ratio set by the CBI.

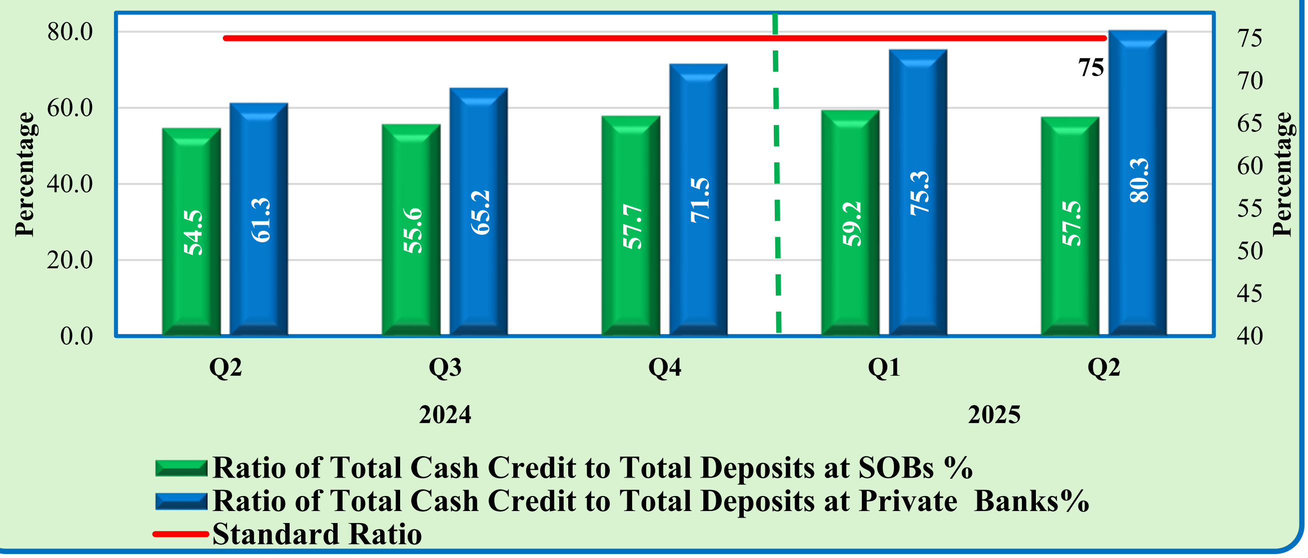
Figure 8:
Ratio of Total Cash Credit to Total Deposits of the Banking Sector



Source: Central Bank of Iraq, Statistical Website.

It is noted that the ratio of total cash credit to total deposits at private banks is larger than that of state-owned banks (SOBs), although deposits volume is greater than that with private banks. Figure 9 shows that the ratio for private banks increased from 61.3% for Q2 of 2024 to 80.3% for the same quarter of 2025 owing to the increase of granted credit by private banks by 18.1% with a decrease of total deposits at private banks by 9.8%, which shows that private banks continue to grant credit despite a decrease of their total deposits. As for SOBs, the ratio increased from 54.5% for Q2 of 2024 to 57.5% for the same quarter of 2025.

Figure 9:
Ratio of Total Cash Credit to Total Deposits of State-Owned Banks and Private Banks

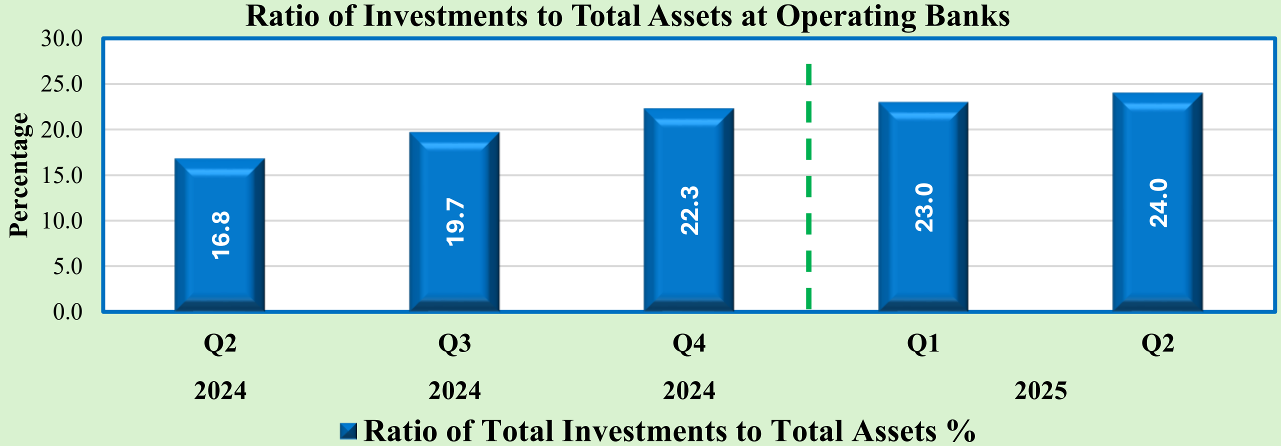


Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

5. Banks' Investments to Total Assets

This indicator 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 to total assets for the purpose of determining their volume with the bank. Figure 10 explains that the ratio of total investments to total assets with operating banks increased from 16.9% for Q2 of 2024 to 24.0% for the same quarter of 2025 due to an increase of 36.0% of total investments.

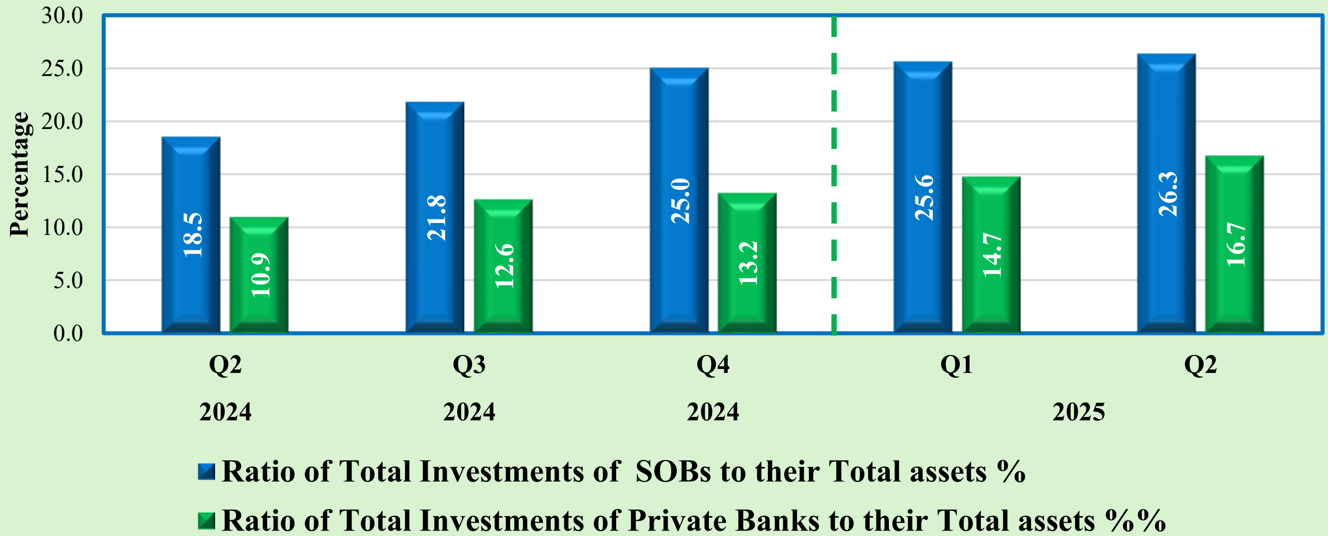
Figure 10:
Ratio of Investments to Total Assets at Operating Banks



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 at SOBs is greater than that of private banks. Figure 11 shows that the ratio of total investments to assets at SOBs increased significantly from 18.5% for Q2 of 2024 to record 26.3% for the same quarter of 2025. While the ratio of investments to total assets with private banks increased from 10.9% for Q2 of 2024 to 16.7% for the same quarter of 2025. It is worth mentioning that the ratio of investments at SOBs constitutes 86.5% of total investments with operating banks for Q2 of 2025.

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

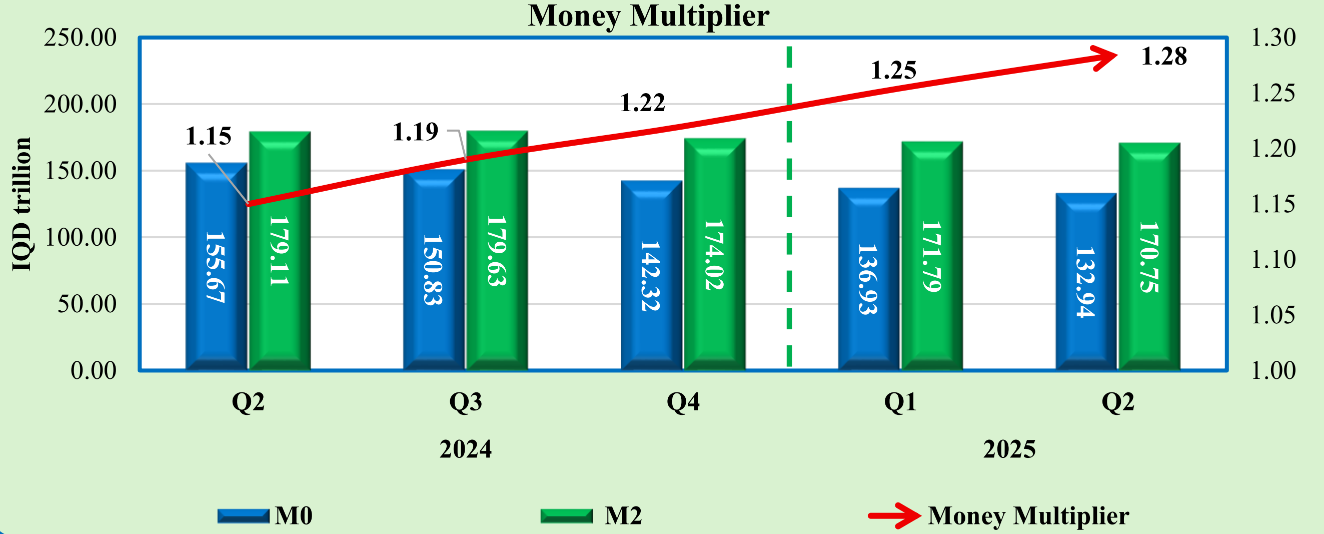


Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

6. Money Multiplier

The money multiplier is defined as the ratio that expresses the amount of new funds that banks can create through the available deposits. It is measured by dividing M2 on the monetary base. Money multiplier recorded an increase for Q2 of 2025 reaching 1.28 from 1.15 for the same quarter of 2024. This increase resulted from the decline of monetary base for Q2 of 2025 reaching IQD 132.94 trillion, after it had reached IQD 155.67 trillion for the same quarter of 2024 and the decrease of M2 to IQD 170.75 trillion after reaching IQD 179.11 trillion. Figure 12 shows money multiplier values over the same period.

Figure 12:
Money Multiplier

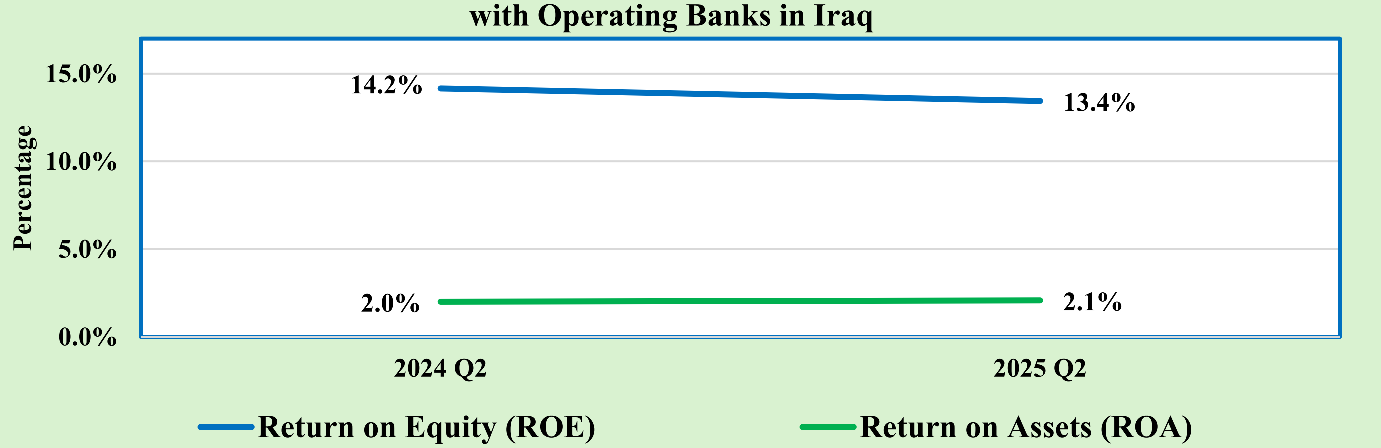


Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

7. Banks' Profitability

Profitability Indicator is considered a measurement to evaluate the extent of bank's ability to achieve profits and returns for shareholders overtime through its various operations. These indicators help provide a comprehensive picture of banks' ability to expand, grow, and achieve targeted investment returns; they are viewed primarily to determine the feasibility of their investments and financial strategies. Figure 13 shows that there is a slight increase in the return on assets ratio from 2.0% for Q2 of 2024 to 2.1% for the same quarter of 2025, indicating an improvement in how banks are utilizing their assets. On the other side, the return on equity ratio decreased from 14.2% for Q2 of 2024 to 13.4% for the same quarter of 2025 due to capital growth at a higher rate than that of net income growth.

Figure 13:
Return on Equity (ROE) and Return on Assets (ROA)
with Operating Banks in Iraq

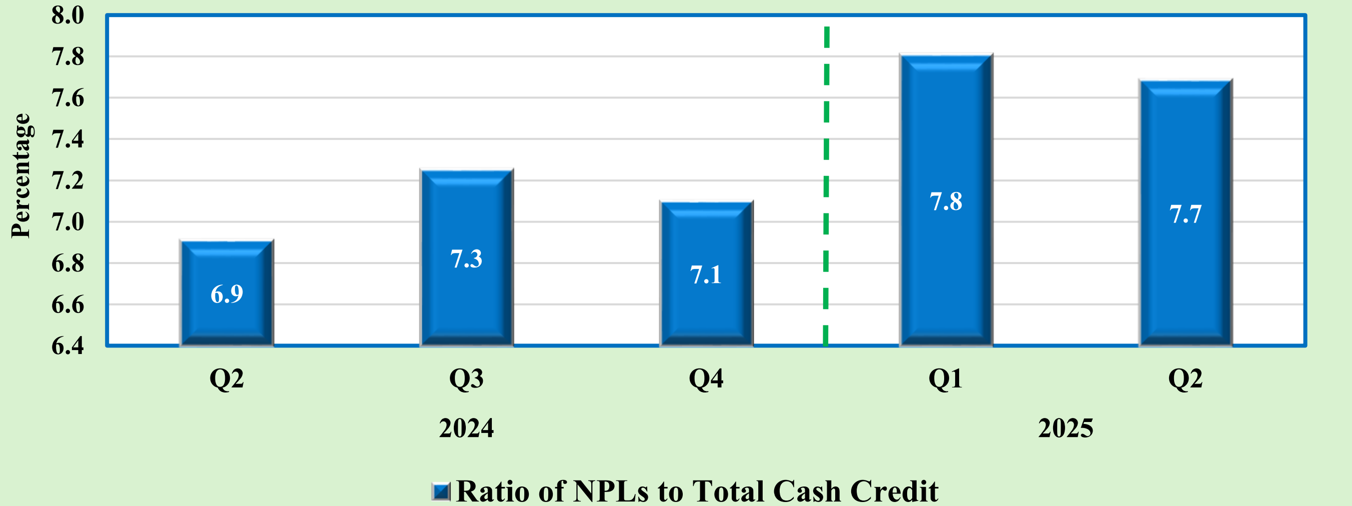


Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

8. Non-Performing Loans (NPLs) to Total Cash Credit

This indicator is measured by dividing non-performing loans to total cash credit. Figure 14 shows that the ratio of NPLs to total cash credit for Q2 of 2025 increased to 7.7% after reaching 6.9% for the same quarter of 2024. This increase is a result of the growth of NPLs reaching 10.3% compared to a decrease in the growth of granted cash credit reaching 0.8%.

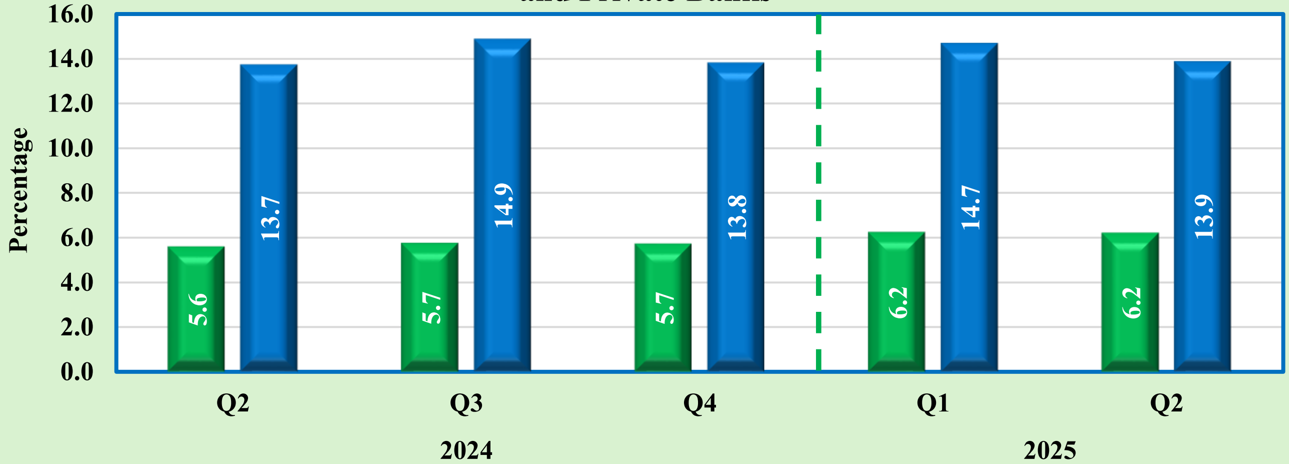
Figure 14:
Ratio of Non-Performing Loans to Total Cash Credit



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

Regarding the classification of banks in terms of ownership, it is noted 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 13.9% in the second quarter of 2025, up from 13.7% for the same quarter of 2024. As a result of the growth in non-performing loans of private banks, which increased by 19.5%, that is higher than the increase in total credit granted by private banks, reaching 18.1%. As for SOBs, the ratio of non-performing loans to their total cash credit increased reaching 6.2% for the second quarter of 2025, after it was 5.6% for the same quarter of 2024, as a result of the growth of non-performing loans by 6% with a decrease in total granted cash credit by 4.5%.

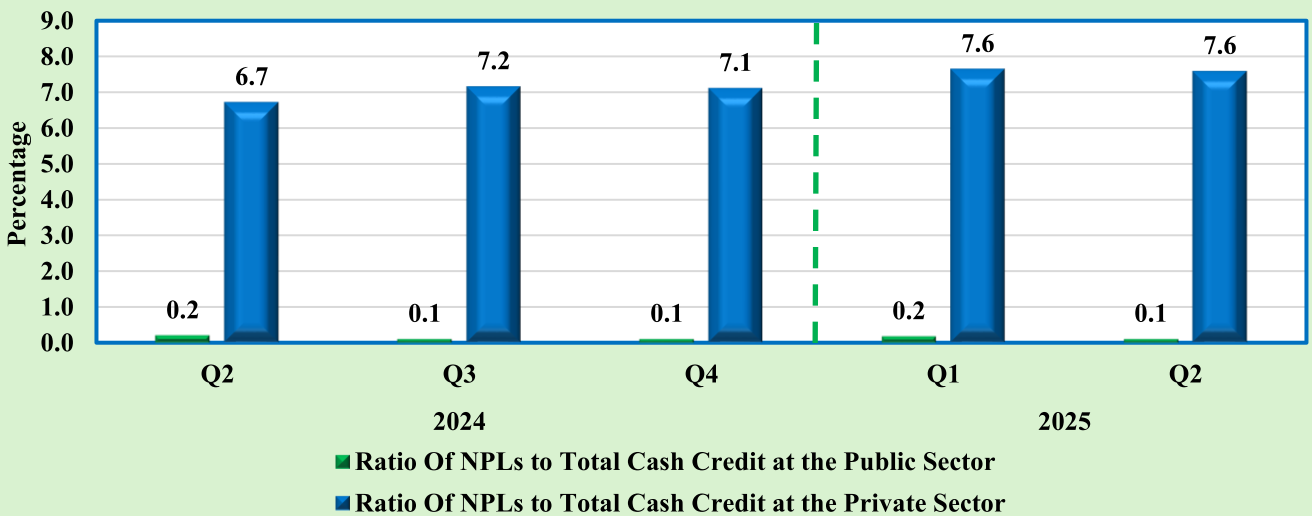
Figure 15:
Ratio of Non-Performing Loans to Total Cash Credit at State-Owned Banks and Private Banks



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

As for the NPLs at the private and public sectors to the total cash credit, it is noted that the ratio of non-performing loans at the private sector is higher than its counterpart at the public sector. This ratio reached 7.6% during the second quarter of 2025, after reaching 6.7% for the same period of 2024. This ratio at the public sector decreased slightly to reach 0.1% for the second quarter of 2025 after reaching 0.2% during the same quarter of 2024, as shown in Figure 16.

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

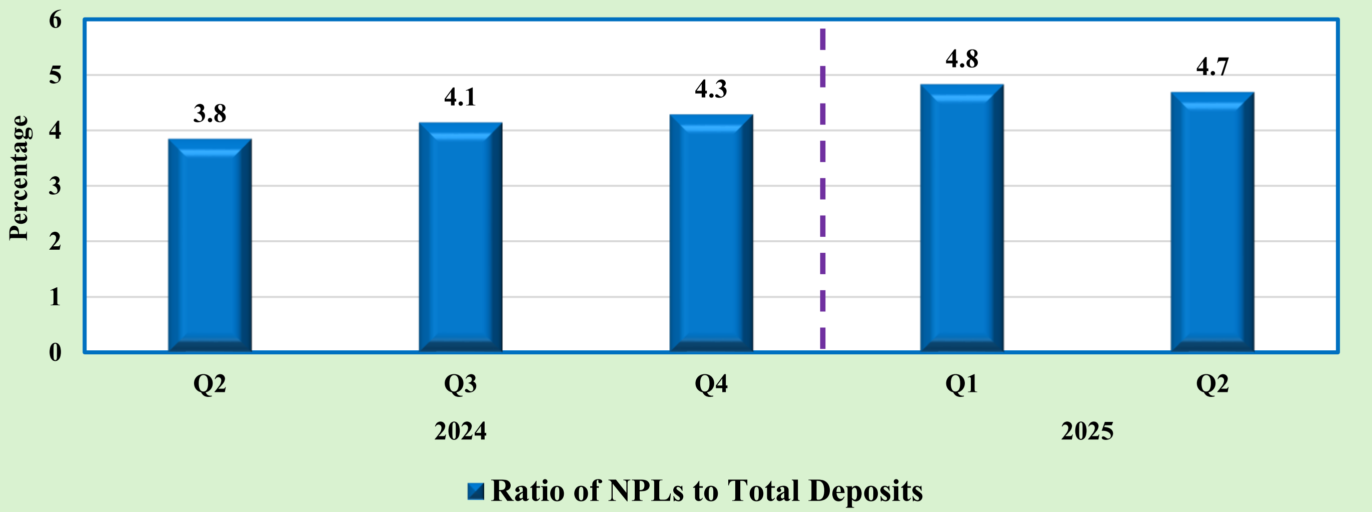


Source: Central Bank of Iraq, Statistics & Research Department, Annual Statistical Bulletin.

9. Non-Performing Loans to Total Deposits

This indicator measures the extent of credit risk relative to resources financed by depositors. Figure 17 shows that the ratio of NPLs to total deposits rose to 4.7% for the second quarter of 2025, up from 3.8% in the same quarter of 2024. This increase is the result of a 10.3% increase in total NPLs, this is greater than the decrease in total deposits, which amounted to 9.6%. Therefore, banks should pay attention to the quality of their credit portfolios, as this drains profits in order to build provisions to protect depositors' funds.

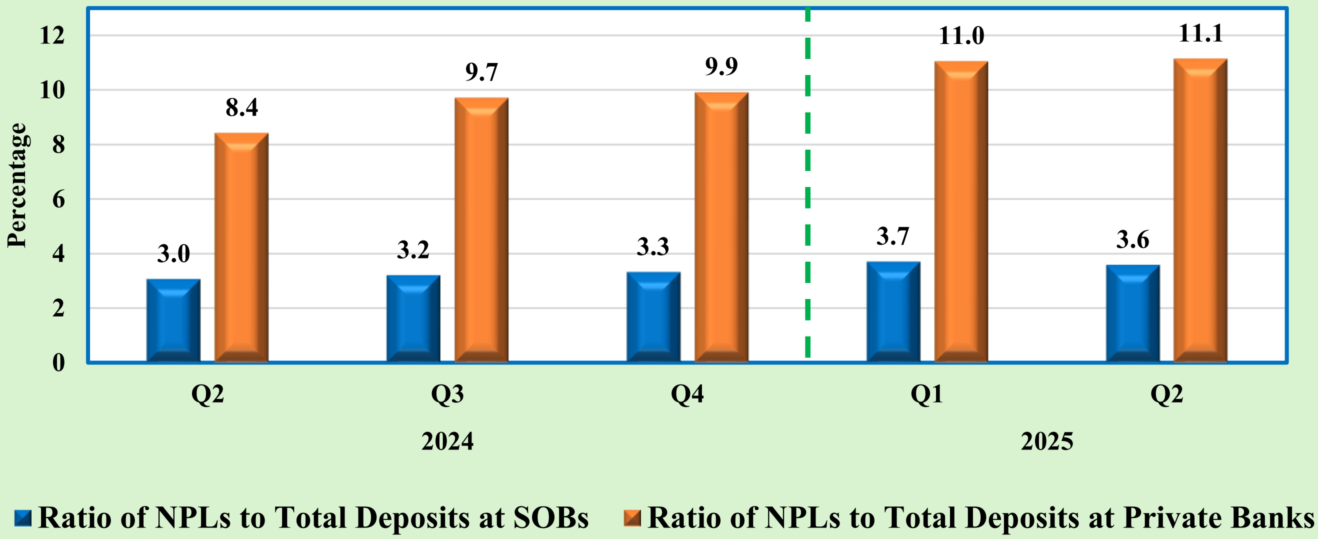
Figure 17:
Ratio of Non-Performing Loans to Total Deposits



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

As for the classification of banks in terms of ownership, it is noted that there is an increase in this ratio among private banks, as the ratio of non-performing loans to total deposits at private banks rose to 11.0% for the second quarter of 2025, after it was 8.4% for the same quarter of 2024. While this ratio among SOBs rose to 3.6% for the second quarter of 2025, after it was 3.0% for the same quarter of 2024. This increase is attributed to a decrease in deposits at private banks by 9.8%, compared to a decrease in deposits at SOBs by 9.6%.

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



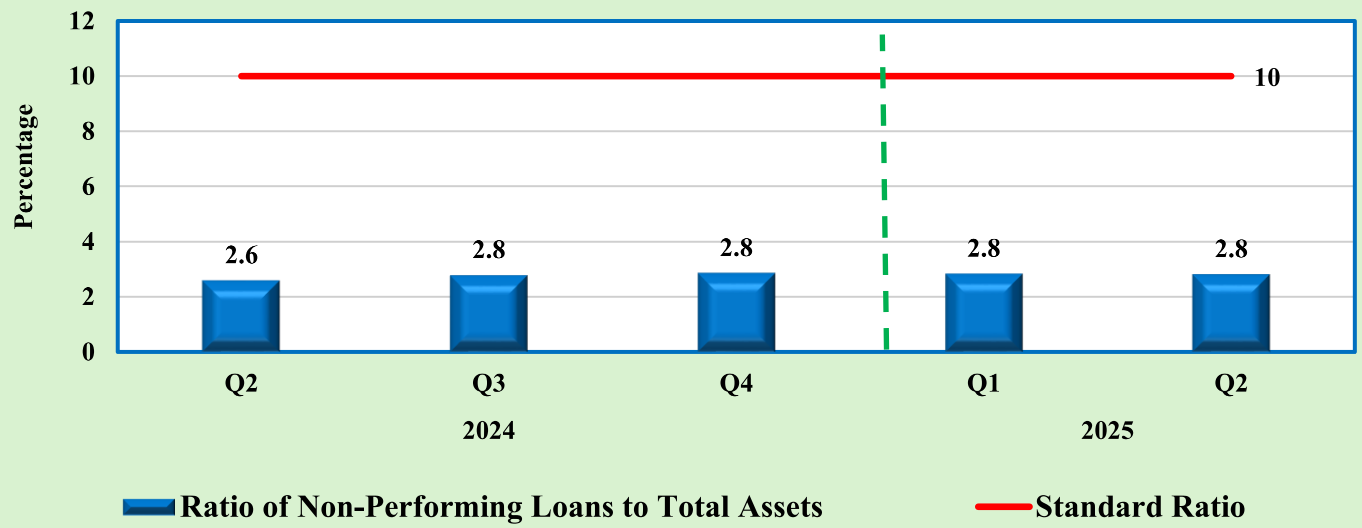
Source: Central Bank of Iraq, Statistics & Research Department, Annual Statistical Bulletin.

10. Non-Performing Loans to Total Assets

This indicator is measured by dividing NPLs by the banks' total assets. The standard ratio is set at 10%. When the ratio of NPLs to total assets exceeds the standard ratio, it indicates a significant increase in the volume of NPLs[1]. Figure 19 shows the ratio of NPLs to total assets held by banks operating in Iraq. This ratio increased to 2.8% for the second quarter of 2025, compared to 2.4% for the same quarter of 2024. It is worth noting that the ratio of NPLs 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.

[1] For further details, see, Central Bank of Iraq, Early Warning Report for the Banking Sector, Issue 13, p. 23.

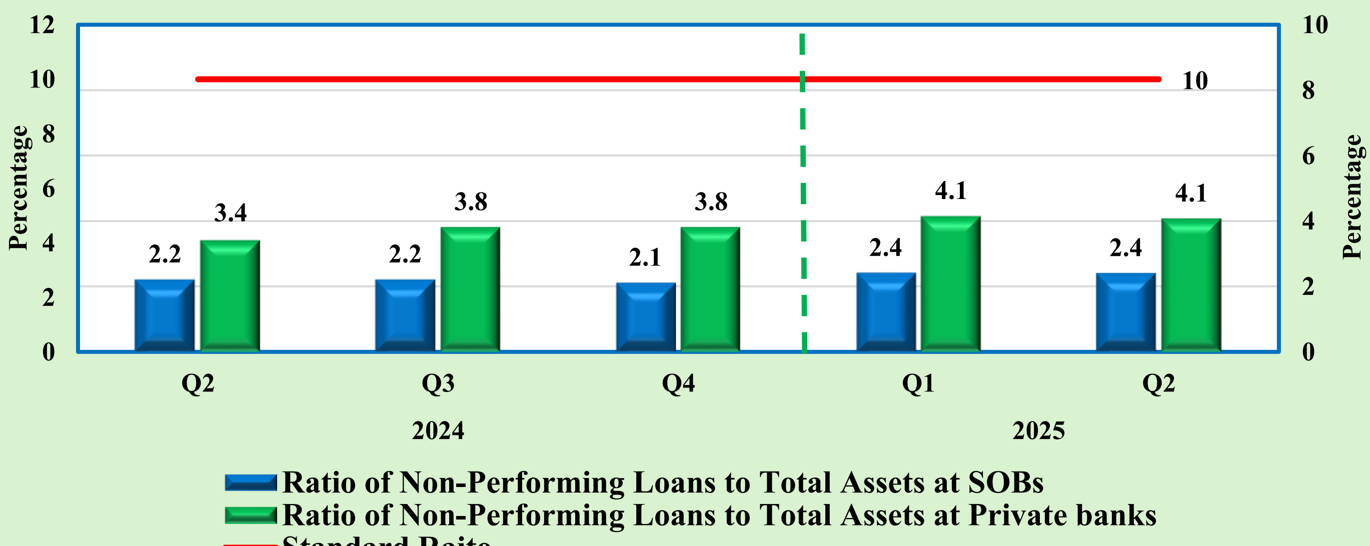
Figure 19:
Ratio of Non-Performing Loans to Total Assets



Source: Central Bank of Iraq, Statistics & 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 ratio. Figure 20 shows this, noting that this ratio is higher for private banks than its counterpart for SOBs, as it reached 4.1% for private banks for the second quarter of 2025, after reaching 3.4% for the same quarter of 2024. While it reached 2.4% at SOBs after it was 2.2% 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.

Figure 20:
Ratio of Non-Performing Loans to Total Assets at State-Owned Banks and Private Banks

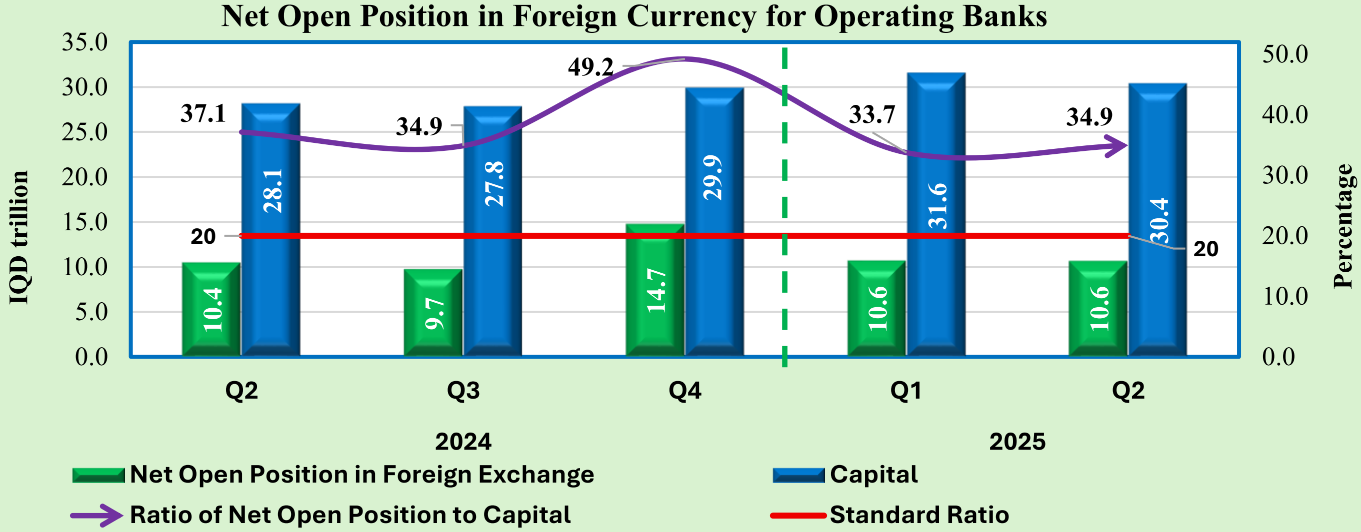


Source: Central Bank of Iraq, Statistics & Research Department, Annual Statistical Bulletin.

11. Net Open Position in Foreign Currency for Operating Banks

This indicator measures the net foreign assets of operating banks by calculating the difference between their foreign assets and foreign 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 a decrease in the indicator's ratio for operating banks from 37.1% for the second quarter of 2024 to 34.9% for the same quarter of 2025, as a result of an increase in net foreign currency positions by 1.7% with an increase in capital by 8.0%, and thus operating banks must adhere to the standard ratio to ensure financial stability.

Figure 21:
Net Open Position in Foreign Currency for Operating Banks



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

12. Private Sector Cash Credit to Gross Domestic Product Gap

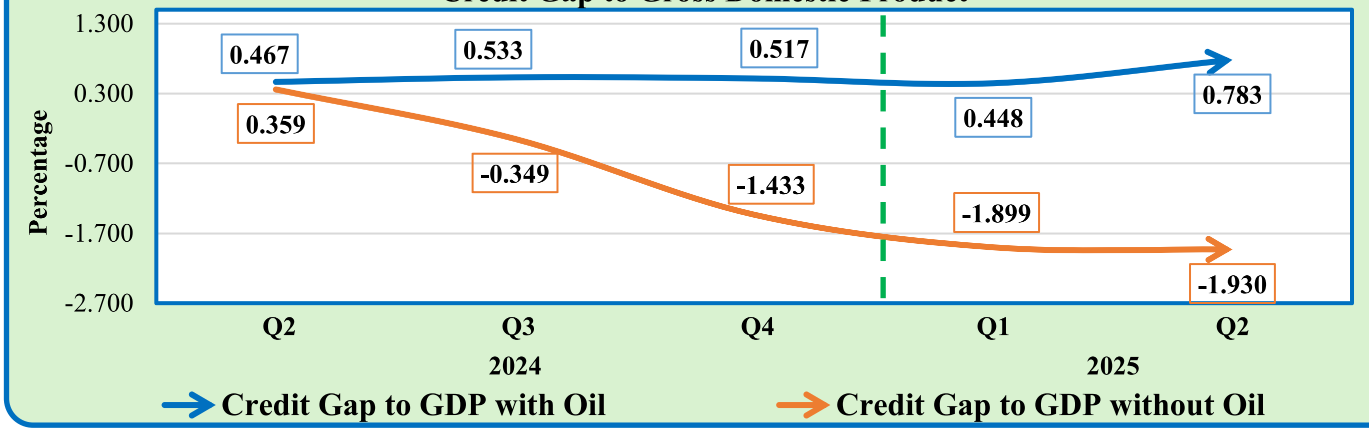
The credit gap is defined as the ratio of cash credit extended to the private sector to GDP at current prices, minus the general trend of credit ratio (extended to the private sector) to GDP[2] at current prices. This indicator's standard value typically ranges from 2.5% to 10%. When the estimated ratio 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 at -1.9930% for the second quarter of 2025, after it was 0.359% for the same quarter of 2024. while the gap when measuring GDP data with oil reached 0.783% for the second quarter of 2025 after it was %0.467 for the same quarter of 2024. From the above, it became

[2] For more information on how to calculate the GDP gap, see Central Bank of Iraq, Early Warning Report, Issue No. 18, Q1 2020, p. 23

clear that the two gaps in the second quarter of 2025 are below the standard ratio, and this means that it is possible to increase the cash credit provided to the private sector without destabilizing financial stability.

Figure 22:
Credit Gap to Gross Domestic Product



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

Table 2:
Banks' Performance Indicators

Indicator Name	Q2 2024	Q2 2025	Growth Rate%
Bank Deposits to M2 (%)	47.7	46.7	-2.1
Cash in Circulation to M2 (%)	52.3	53.3	1.9
Total Cash Credit to Total Deposits (%)	55.5	60.9	9.7
Total Investment to Total Assets (%)	16.9	24.0	42.0
Money Multiplier	1.15	1.28	11.3
Return on Equity (ROE) (%)	14.2	13.4	-5.6
Return on Assets (ROA) (%)	2.0	2.1	5.0
NPLs to Total Cash Credit (%)	6.9	7.7	11.6
NPLs to Total Deposits (%)	3.8	4.7	23.7
NPLs to Total Assets (%)	2.4	2.8	16.7
Net Open Foreign Currency Position of Operating Banks (%)	37.1	34.9	-5.9

The table was prepared based on data from:
- Central Bank of Iraq, Statistics and Research Department, Statistical Website.

Chapter Three: Analysis of Macroeconomic Performance Indicators

Chapter Three: Analysis of Macroeconomic Performance Indicators

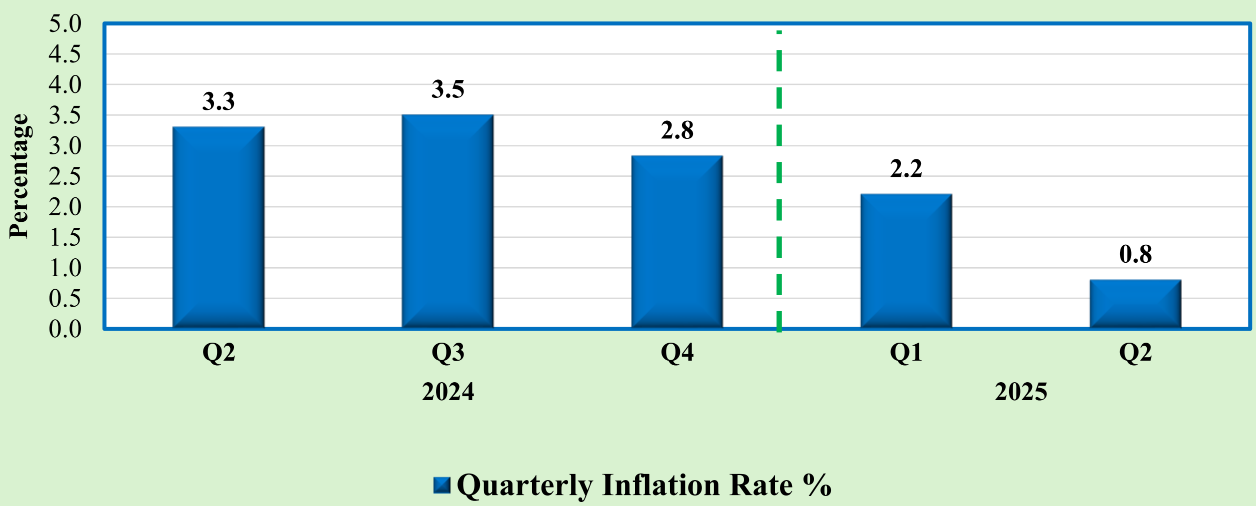
Macroeconomic variables are among the most prominent factors influencing the financial system, as they directly and indirectly affect the banking sector as well as the financial sector. Therefore, the Early Warning Report presents an analysis of the key macroeconomic indicators for Q2 of 2025, such as the Inflation Rate, the Implicit GDP Deflator, in addition to the Total Public Debt.

1. Inflation Rate

Inflation is defined as the change in the general price level of goods and services over a specific period. The inflation rate is measured using several indicators, with the Consumer Price Index (CPI) being the most important among the adopted indicators. This is because it reflects changes in the prices of most goods and services consumed by individuals, whether domestically produced or imported. It is noteworthy that the inflation rate for Q2 of 2025 was calculated by designating 2022 as the base year for computing the Consumer Price Index, instead of 2012, as previously announced by the Ministry of Planning.

The inflation rate recorded a level of 0.8% in Q2 2025, down from 3.3% in the same quarter of 2024. This decrease is a result of the economy being affected by the non-approval of the 2025 budget and the subsequent decline in public spending. Figure 23 illustrates this trend.

Figure 23:
Inflation Rate up to Q2 of 2025



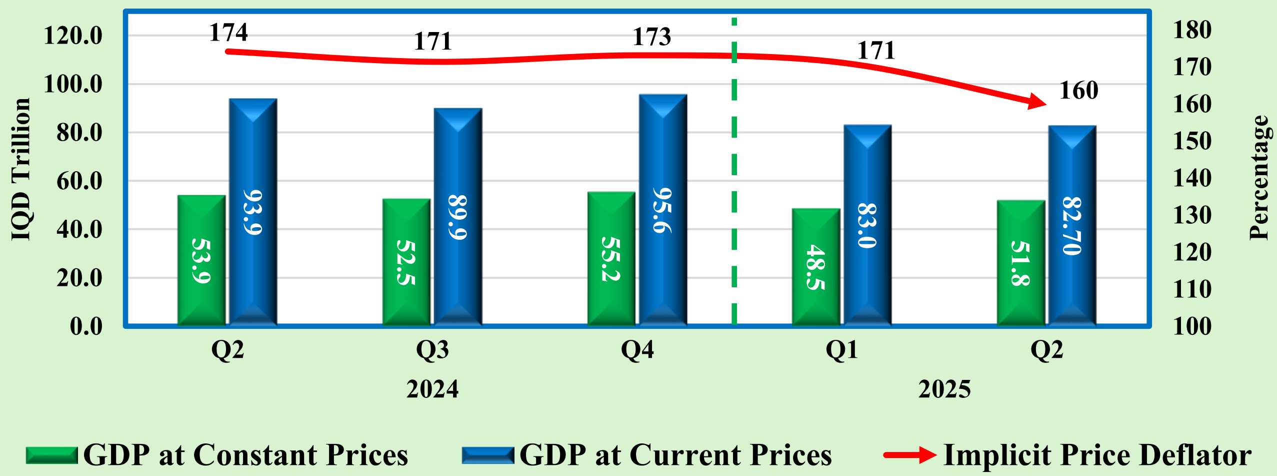
Source: Central Bank of Iraq, Basic Financial Data.

2. The Implicit Price Deflator

The Implicit Price Deflator is considered one of the primary instruments for measuring the inflation rate, as it reflects the 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 by the GDP at constant prices, which provides an accurate measure of price changes over time.

Figure 24 shows a decrease in the implicit deflator to 160% in Q2 of 2025, after it had been 174% in Q2 of 2024. This decrease resulted from a reduction in GDP at current prices of 11.9%, a percentage higher than the reduction in GDP at constant prices which was 3.9%.

Figure 24:
GDP and Implicit Price Deflator



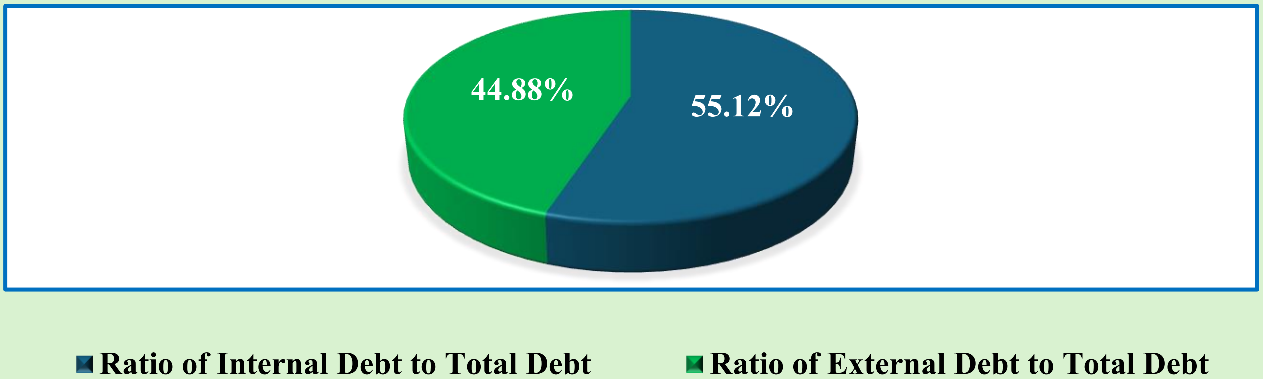
Source: Central Bank of Iraq, Statistical Website.

3. Growth Rate of Total Public Debt

Debt represents the government's obligation to banks and CBI through (internal debt), which is an obligation within the country, and (external debt), which is an obligation to outside the country. The government relies on borrowing to finance public expenditure and support economic development when public expenditures exceed public revenues.

The total public debt achieved a growth rate of 6.2% in Q2 of 2025 compared to Q2 in 2024. This resulted from an increase in internal debt by 12.1%, despite a decrease in external debt by 0.4% during the same period. Figure 25 illustrates that internal debt constituted 55.12% of the total debt in Q2 of 2025, while external debt accounted for 44.88% of the total debt.

FIGURE 25:
RATIO OF INTERNAL AND EXTERNAL DEBT TO TOTAL DEBT FOR Q2 OF 2025



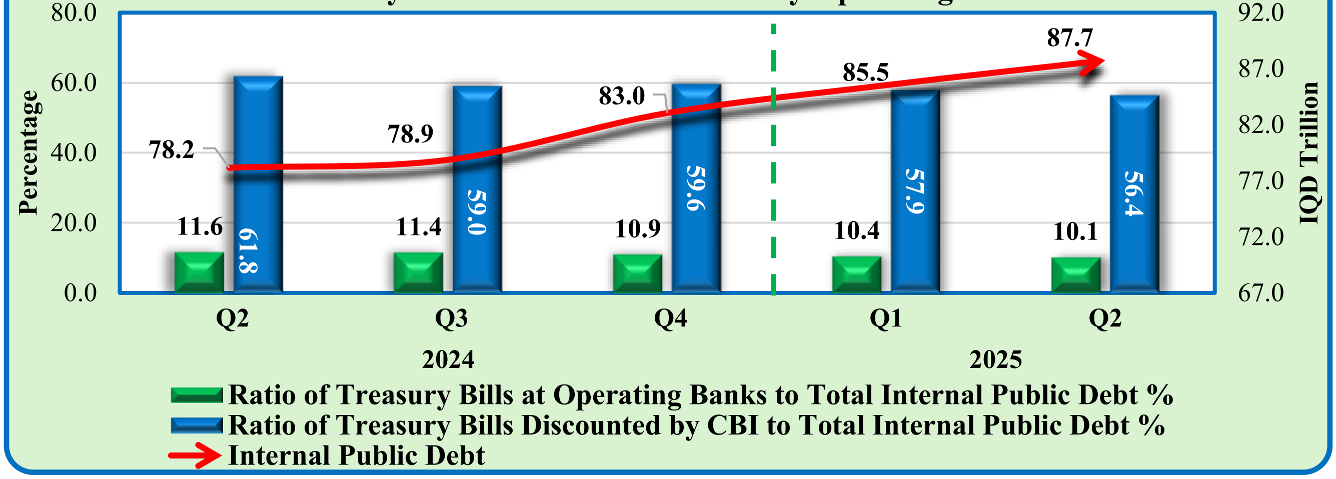
Source: Central Bank of Iraq, Statistics and Research Department.

a. **External Debt Growth Rate:** This rate refers to the Ministry of Finance's obligations to international creditors, such as foreign governments, financial institutions, or foreign investors. The external debt rate increased by 0.4% during Q2 of 2025 compared to Q2 in 2024. The Iraqi government's revenues were negatively affected by the decline in oil prices below the break-even point where revenues equal expenditures.

b. **Internal Debt Growth Rate:** This refers to the government's obligations to operating banks and Central Bank of Iraq. As shown in Figure 26, internal debt rose in Q2 of 2025 to IQD 87.7 trillion, compared to IQD 78.2 trillion in Q2 of 2024. This increase was necessary to finance public expenditure. The ratio of treasury bills held by operating banks to total internal public debt decreased, reaching 10.1% in Q2 2025, down from 11.6% in Q2 2024.The ratio of discounted treasury bills by Central Bank of Iraq to total internal public debt also decreased, reaching 56.4% in Q2 2025, down from 61.8% in Q2 2024. However, the significant increase in government bonds by 132.7% to reach IQD 14.8 trillion had an amplifying effect on the overall domestic public debt. This was further compounded by the issuance of government securities totaling IQD 2.0 trillion through the Central Securities Depository (CSD)[1].

[1] It is a system that operates under the supervision of the Ministry of Finance in coordination with the Central Bank of Iraq for the management, registration, and settlement of securities.

Figure 26:
Treasury-Bills and Bills Discounted by Operating Banks

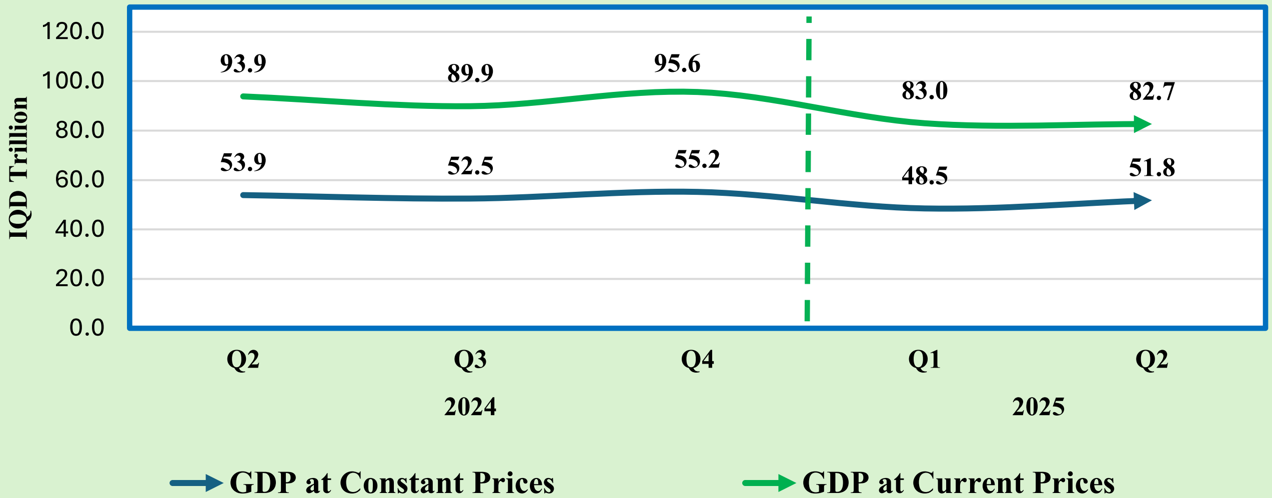


Source: Central Bank of Iraq, Statistics and Research Department.

4. Gross Domestic Product Growth Rate

GDP is considered one of the most vital economic tools, representing the economy's capacity and growth. It demonstrates the level of economic activity and effectiveness within a country during a specific period, which helps in evaluating economic performance and identifying future trends. GDP at current prices in Iraq showed a decline in Q2 of 2025, reaching IQD 82.7 trillion. This figure records a decline of 11.9% compared to the same quarter in 2024, when it stood at IQD 93.9 trillion. This decrease resulted from a decline in total public revenues by 5.9% and a decline in public expenditure by 2.6% during the same period, as indicated in Figure 27 below.

Figure 27:
Gross Domestic Product at Constant and Current Prices



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

Table 3: Key Macroeconomic Performance Indicators			
Indicator Name	Q2 2024	Q2 2025	Rate of Change (%)
Inflation Rate (%)	3.3	0.8	-75.8
Ratio of Treasury Bills (Held by Operating Banks) to Total Internal Public Debt (%)	11.6	12.2	5.2
Ratio of Discounted Bills (Held by the Central Bank of Iraq) to Total Internal Public Debt (%)	61.8	56.4	-8.7
Gross Domestic Product (GDP) at Current Prices (IQD Trillion)	93.9	82.7	-11.9
Gross Domestic Product (GDP) at Constant Prices (IQD Trillion)	53.9	51.8	-3.9
GDP Implicit Deflator	174	160	-0.8

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

Ministry of Planning, Central Statistical Organization, GDP Data.

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