



Early Warning Report for the Banking Sector

Q4 2025



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Statistics and Research Department

Monetary and Financial Stability Division

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

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Early warning: is a report 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 increased to 76% in the fourth quarter of 2025 compared to the same quarter of 2024, when the ratio was 75.2%, which is greater than the standard ratio of 20%. Additionally, the ratio of net foreign reserves import cover reached 14 months in the fourth quarter of 2025, which is higher than the standard ratio set at 6 months.

As for the second chapter, which includes an analysis of banks' performance indicators, the ratio of total cash credit to total deposits reached 68% in the fourth quarter of 2025, remaining below the standard ratio of 75% set by the Central Bank of Iraq (CBI).

Capital Adequacy Ratio (CAR) reached 36.1% in the fourth quarter of 2025, compared to 39.4% in the previous period. Despite this decline, the ratio remains above the regulatory minimum standard ratio set at 12.5%. Regarding the non-performing loans (NPLs) to total cash credit indicator, it rose to 7.3% in the fourth quarter of 2025, compared with 7.1% 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 -0.9% in the fourth quarter of 2025, with 2022 adopted as the new base year for calculating the price index instead of 2012.

As for total public debt, it increased by 4.4% in the fourth quarter of 2025 compared with the same quarter of 2024, driven by the rise in internal debt, despite a decrease in external debt. Iraq's GDP in current prices also recorded a decline by 11.7% in the fourth quarter of 2025, reaching IQD 82.2 trillion, down from IQD 93.1 trillion in the same quarter of 2024.

In conclusion, stress tests were conducted on selected indicators within the report to demonstrate the resilience of the banking system in confronting crises.

Chapter One: Analysis of Reserve Adequacy and Interest Rate Indicators



Chapter One: Analysis of Reserve Adequacy and Interest Rates Indicators

The stability of a currency's value is inferred by monitoring a group of significant indicators. Remaining within acceptable ratios without significant fluctuations indicates that the national currency is not exposed to external or internal shocks, and consequently, the path of the currency's value remains stable.

Conversely, the appearance of significant fluctuations in all or part of these indicators serves as a warning sign of potential fluctuations in the currency's value 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:

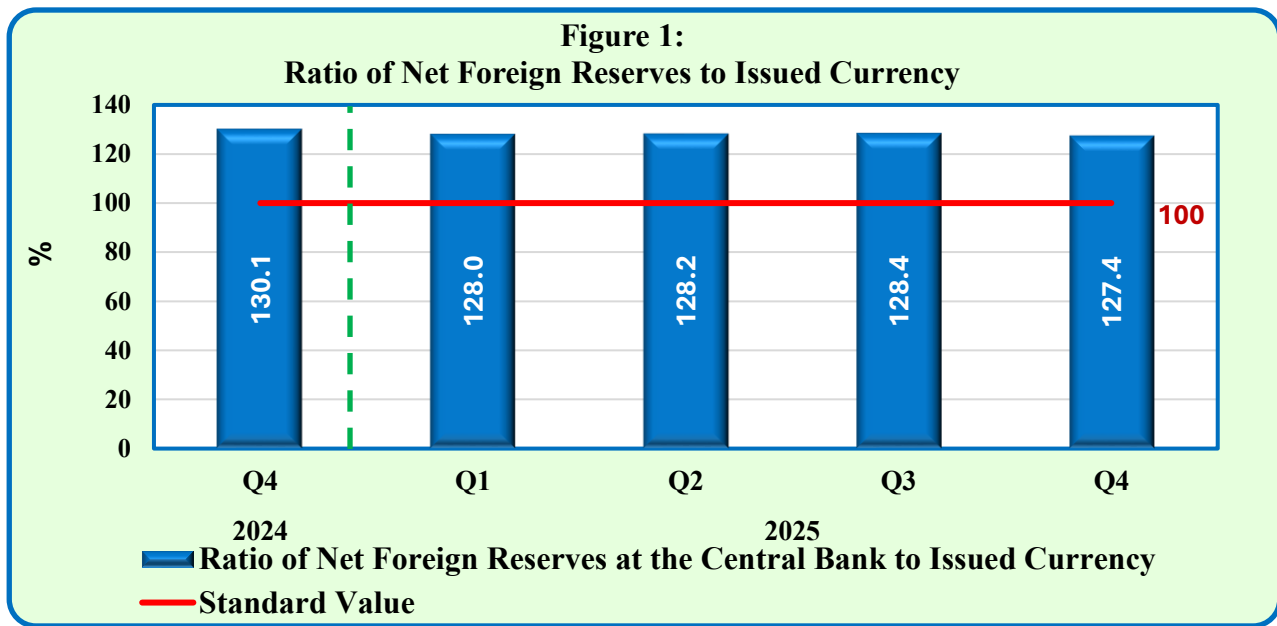
First: Foreign Reserves Adequacy:

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 confront 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 Issued Currency Indicator:

Net foreign reserves constitute 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 confront fluctuations in the foreign exchange market and protect the value of the national currency under such fluctuations. This requires maintaining an appropriate level of these reserves.

The ratio of this indicator reflects the relationship between net foreign reserves and the value of the national currency, and an increase in this ratio above the standard ratio is considered a positive indicator. As illustrated in Figure 1, the coverage ratio of net foreign reserves to the issued currency decreased to 127.4% in Q4 of 2025, compared to 130.1% in the same quarter of 2024. This decrease is attributed to the Central Bank of Iraq (CBI)'s continued defense of the Dinar's value by providing foreign currency to cover the import bill and maintaining the volume of the monetary aggregate at acceptable levels, as the issued currency decreased from IQD 100.5 trillion to IQD 99.8 trillion for the same period. Despite the decrease in net foreign reserves by 2.1%, reaching IQD 127.1 trillion in Q4 of 2025 compared to IQD 130.8 trillion in the same quarter of 2024, the ratio of adequacy of net reserves to the issued currency remained higher than the specified standard ratio of 100%.



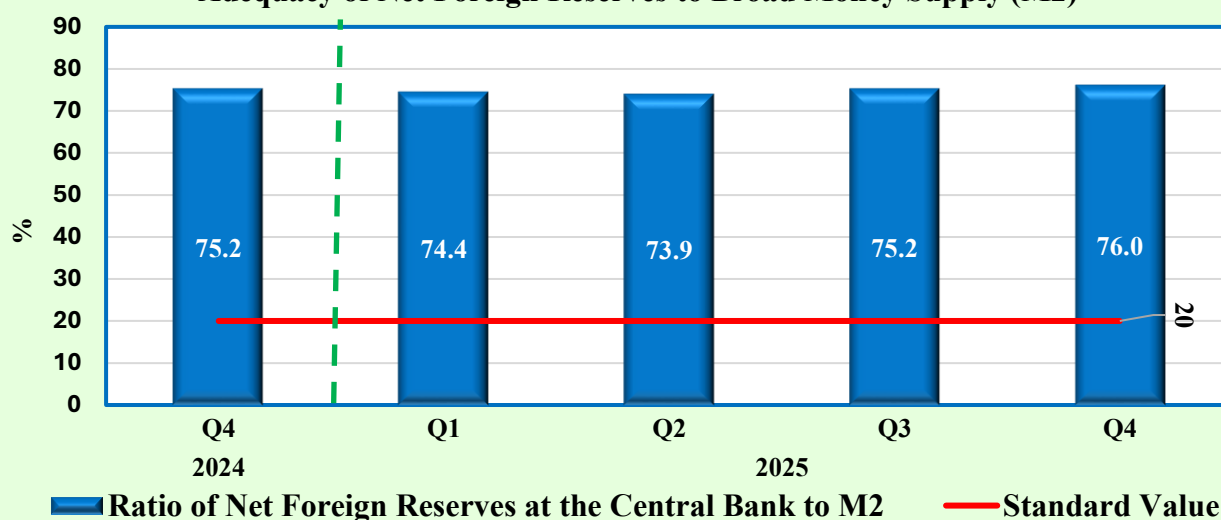
Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

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 in Q4 of 2025 reached 76%, which is significantly higher than the specified standard ratio of 20%, recording an increase of 1.1% compared to the same quarter of 2024, when it stood at 75.2%. This is due to a 3.9% decrease in M2, which reached IQD 167.3 trillion after having stood at IQD 174.0 trillion. Although net reserves decreased by 2.1% during the same period, the decline in the broad money supply was greater than the decline in net reserves.

Figure 2:

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



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

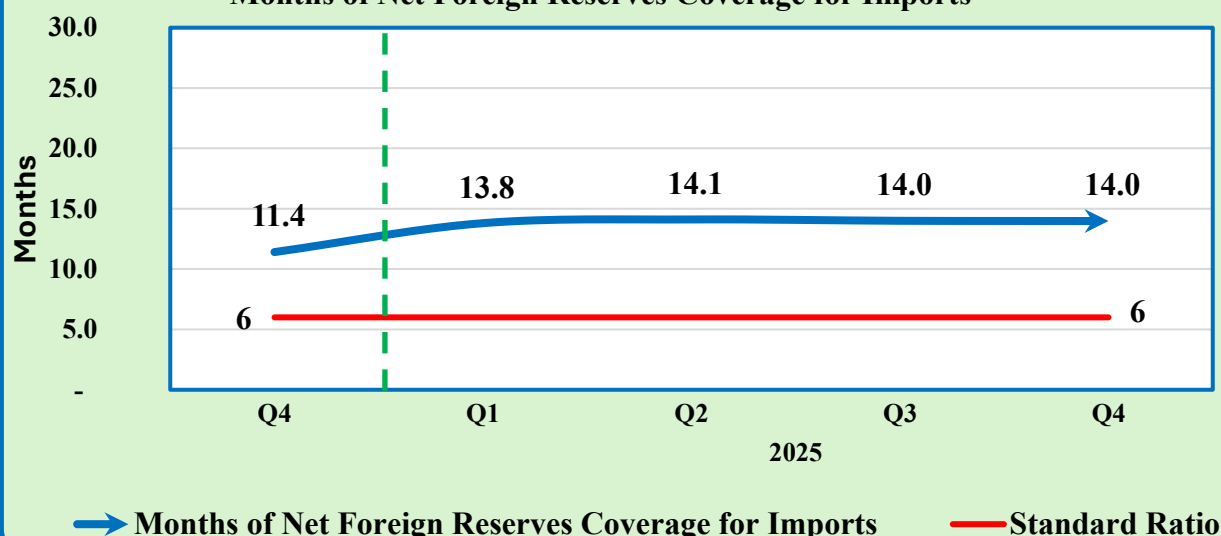
3. Net Foreign Reserves Coverage to Total Imports Indicator:

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), closely monitor this indicator to guide financial support when needed. The minimum threshold for this indicator ranges between 3 to 6 months in some countries, varying from one nation to another depending on the economic situation. In Iraq, the acceptable minimum threshold for this indicator is 6 months¹.

The coverage period of net foreign reserves to total imports witnessed an increase in Q4 of 2025, reaching 14 months, compared to 11.9 months in the same quarter of 2024. This increase resulted from a decline in total imports on a (CIF) basis, which recorded USD 20.9 billion after having stood at USD 25.5 billion in the same quarter of 2024. This occurred despite a 2.1% decrease in net foreign reserves, which reached IQD 127.1 trillion in Q4 of 2025, compared to IQD 130.8 trillion during Q4 of 2024. It is worth noting that this ratio is high and significant as it exceeds the specified standard ratio of (6 months), as illustrated in Figure 3.

¹ For more details, see the Early Warning Report, Issue No. 19, Q1 2022, p. 6.

Figure 3:
Months of Net Foreign Reserves Coverage for Imports



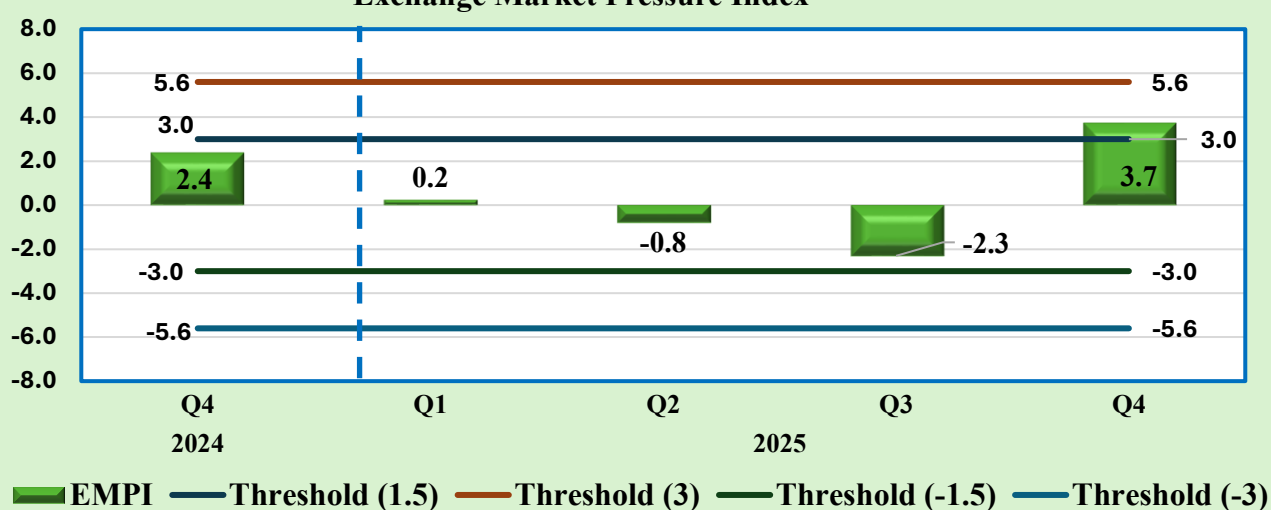
Source: Central Bank of Iraq, Statistics and Research Department, Balance of Payments and Foreign Trade Statistics Division.

4. Exchange Market Pressure Index (EMPI):

The Exchange Market Pressure Index (EMPI) is a measure used to assess the exchange market demand pressure on foreign currencies against the national currency, which is generated in the foreign exchange market when the demand for foreign currencies exceeds their supply. It takes into account the parallel market exchange rate and foreign exchange reserves. A depreciation in the value of the national currency, resulting from an increase in the foreign exchange rate in the forex market, leads to a rise in the prices of imported goods. This may cause a decrease in demand for them, and consequently, a reduction in the quantity imported.

Figure 4 illustrates an increase in the value of the EMPI from 2.4% in Q4 of 2024 to 3.7% in Q4 of 2025. However, it remained within the upper limits of the index, which stand at (-5.6%, 5.6%). The increase in the index value is attributed to the 2.1% decrease in net foreign reserves, despite the parallel market exchange rate remaining at an average of IQD 1515 per USD in Q4 of both 2024 and 2025.

Figure 4:
Exchange Market Pressure Index



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

Second: Changes in Interest Rates:

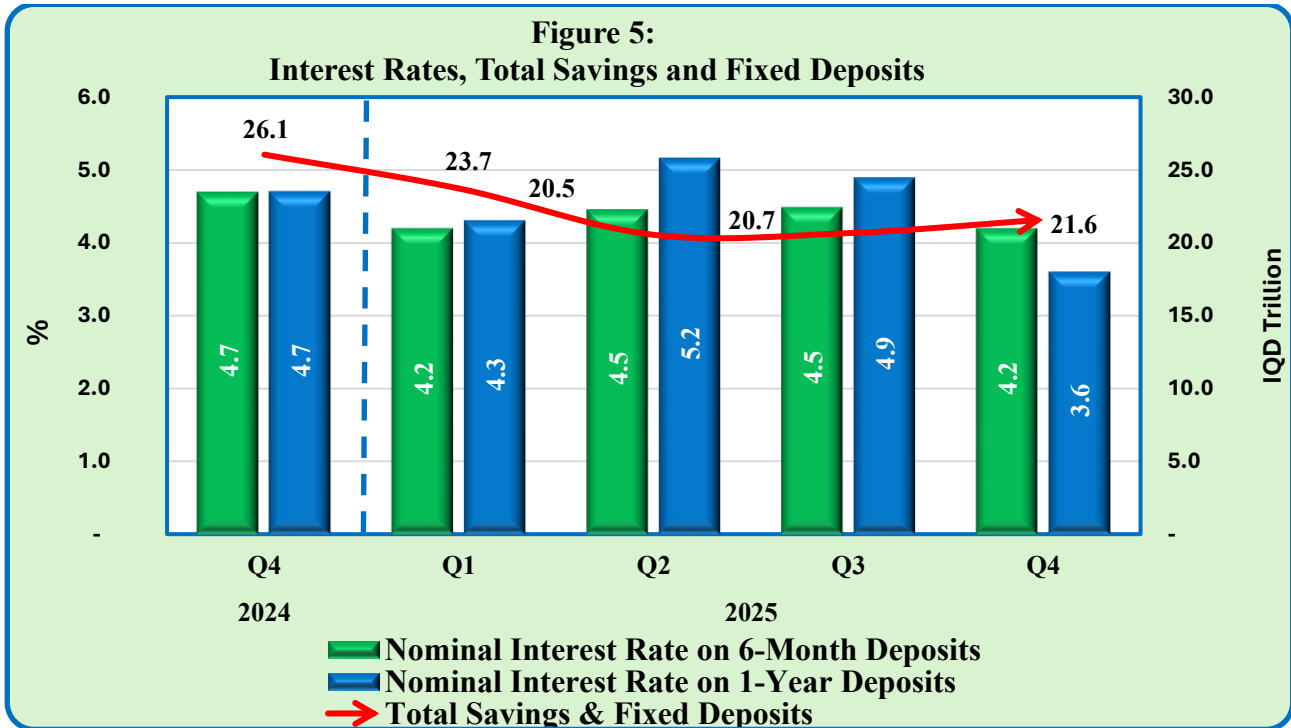
The indicator of changes in interest rates is one of the vital indicators that reflect the overall direction of the economy. An increase in interest rates on deposits is theoretically expected to act as an indicator for drawing currency out of circulation and hoarding by individuals in favor of bank deposits. This, in turn, enhances the banks' capacity to extend credit and stimulate the economy as a result of increased financial depth. Conversely, a decrease in interest rates leads to a decline in deposits at operating banks due to lower returns on them, which increases currency in circulation and consequently reduces financial inclusion levels.

1. Short-Term Interest Rates and Deposits²:

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 quality of services provided by the banking system. Figure 5 illustrates that the decline in interest rates has an impact on the volume of deposits. The nominal interest rate on 6-month deposits decreased to 4.2% in Q4 of 2025 after having stood at 4.7% in the same quarter of 2024. Meanwhile, the nominal interest rate on 1-year deposits decreased, reaching 3.6% in Q4 of 2025, down from 4.7%. Concurrently,

² Interest rate data for 6-month and 1-year deposits are preliminary data.

total savings and fixed deposits recorded a decrease, reaching IQD 21.6 trillion in Q4 of 2025 compared to IQD 26.1 trillion in the same quarter of 2024. It is evident that the decline in interest rates impacted on the volume of fixed and savings deposits at operating banks, as shown in Figure 5 below.



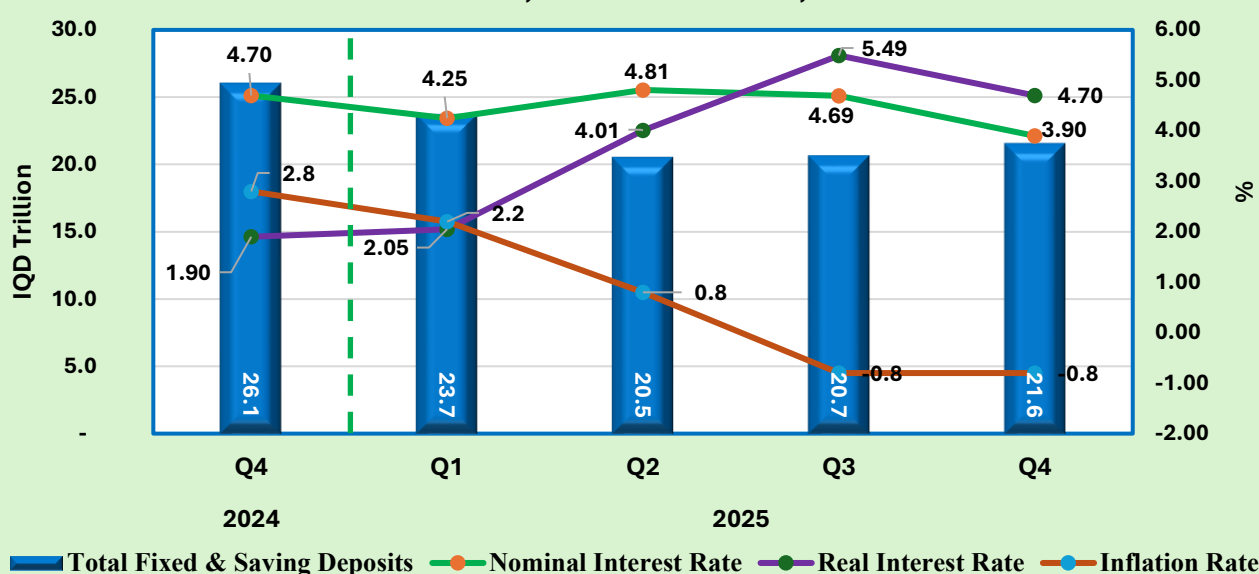
Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

* Interest rate data for 6-month and 1-year deposits are preliminary data.

2. Real Interest Rates:

The real interest rate is considered an important indicator as it takes into account inflationary pressures and their effects on nominal interest rates. As shown in Figure 6, there was an increase in the real interest rate during Q4 of 2025, reaching 4.80% compared to 1.90% in the same quarter of 2024. This increase was influenced by a decline in the inflation rate, which stood at -0.9%. It is worth noting that the base year for calculating the Consumer Price Index (CPI) was changed depending on the year 2022 instead of 2012, in accordance with the announcement made by the Ministry of Planning, which reflected in the increase of the real interest rate in Q4 of 2025.

Figure 6:
Nominal Interest Rate, Real Interest Rate, and Inflation Rate



Source: Central Bank of Iraq, Statistical Website.

* Nominal Interest Rate data are preliminary data.

Table 1: Reserve Adequacy and Interest Rates Indicators

Indicator Name	Q4 2024	Q4 2025	Change Rate %
Net Foreign Reserves at the Central Bank (IQD Trillion)	130.8	127.4	- 2.1
Issued Currency (IQD Trillion)	100.5	99.8	- 0.7
Ratio of Net Foreign Reserves at the Central Bank to Currency Issued (%)	130.1	127.4	- 2.1
Broad Money Supply (M2) (IQD Trillion)	174.0	167.3	- 3.9
Ratio of Net Foreign Reserves at the Central Bank to Broad Money Supply (M2) (%)	75.2	76	1.1
Months of Net Foreign Reserves Coverage for Imports (Months)	11.9	14	17.6
Total Fixed and Savings Deposits (IQD Trillion)	26.1	21.6	- 17.2

The table was prepared based on data from:

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



Conclusion:

It is evident from the foregoing that the currency stability indicators remained positive through the end of Q4 of 2025, as detailed below:

1. Despite the decline in net foreign reserves, issued currency, broad money supply, and total deposits, the coverage ratios remain strong and significantly above the minimum thresholds.
2. Nominal interest rates for both maturities decreased during Q4. Notably, a sharp decline was observed in the 1-year interest rates, bringing them below the 6-month interest rates.
3. The decline in inflation and its shift into negative territory played a significant role in causing real interest rates to rise during this quarter.

Chapter Two: Analysis of Operating Banks' Performance Indicators

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Analyzing the performance indicators of operating banks is an essential instrument for assessing the efficiency and effectiveness of banking activities. This analysis contributes to enhancing transparency regarding financial performance, allowing readers to gain deeper insight into banking indicators and to use them as analytical tools to promote sustainability and competitiveness within the Iraqi banking sector.

This assessment is based on a specific set of metrics, including the total cash credit to total deposits indicator, the money multiplier indicator, the banks' profitability indicator, the non-performing loans (NPLs) to total cash credit indicator, and the 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 to Total Banks' Liabilities:

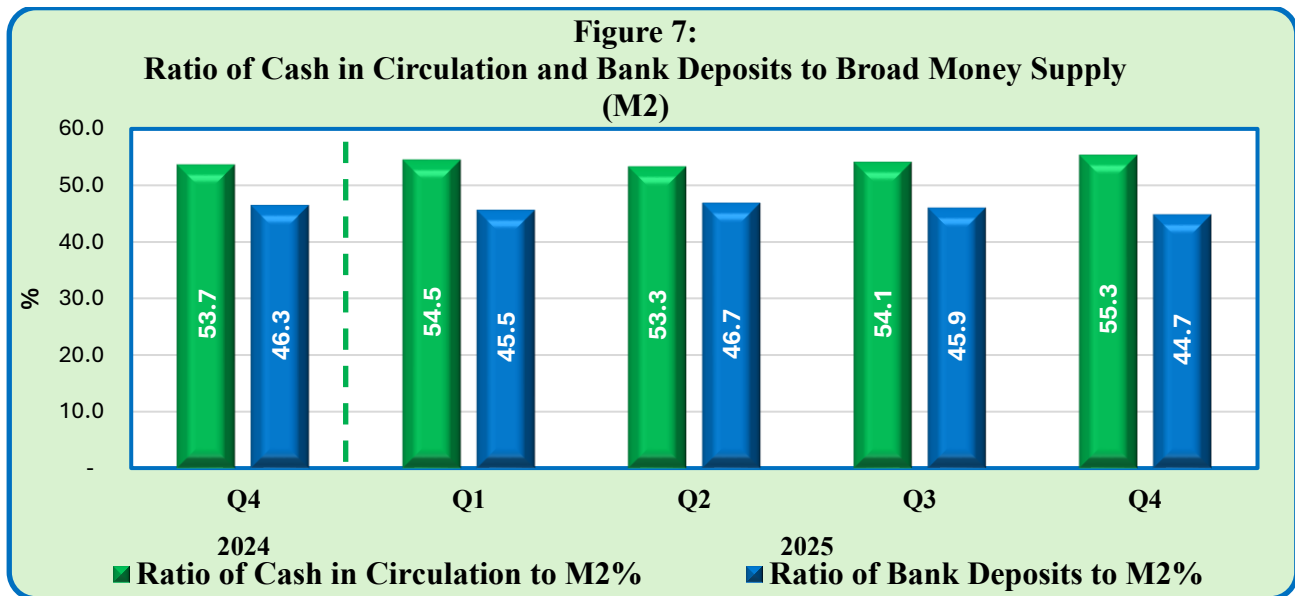
Outstanding lending facilities extended by the Central Bank of Iraq (CBI) to operating banks in its capacity as the lender of last resort vary depending on the financial distress encountered by these banks. While these facilities provide critical financial support to banks, Article 30 of the Central Bank of Iraq Law No. 56 of 2004 stipulates the legal conditions for assisting banks facing financial crises. The CBI maintains that operating banks must possess sufficient liquidity to meet depositors' withdrawals and safeguard the banking system from systemic collapse.

Consequently, any request for emergency assistance must be strictly justified by a need to improve liquidity, given that a liquidity crisis reflects the scale of distress within the banking sector. Notably, the CBI did not extend any loans to operating banks during Q4 of 2025, either due to a lack of immediate need for emergency liquidity or exceptional withdrawals, or because the banks failed to meet the requisite statutory conditions.

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

Bank deposits reflect the financial solvency of banks, which is achieved through the banking services they provide to the public. This ratio serves as a key indicator of public engagement and attraction in dealing with banks, as well as the quality of services they provide. In addition to being an indicator of banking activity on the one hand and of the extent of the spread of banking services on the other. This indicator is measured by dividing bank deposits by M2.

Figure 7 shows that the ratio of bank deposits to M2 decreased from 46.3% in Q4 of 2024 to 44.7% in the same quarter of 2025, reflecting a decline in bank deposits during this period. In contrast, the ratio of cash in circulation to M2 rose from 53.7% for Q4 of 2024 to 55.3% for the same quarter of 2025, indicating that considerable proportion of the issued currency goes as cash in circulation rather than as bank deposits. A sizable proportion of transactions in the real sector continue to be conducted in cash despite the gradual improvement in the use of electronic payment instruments.

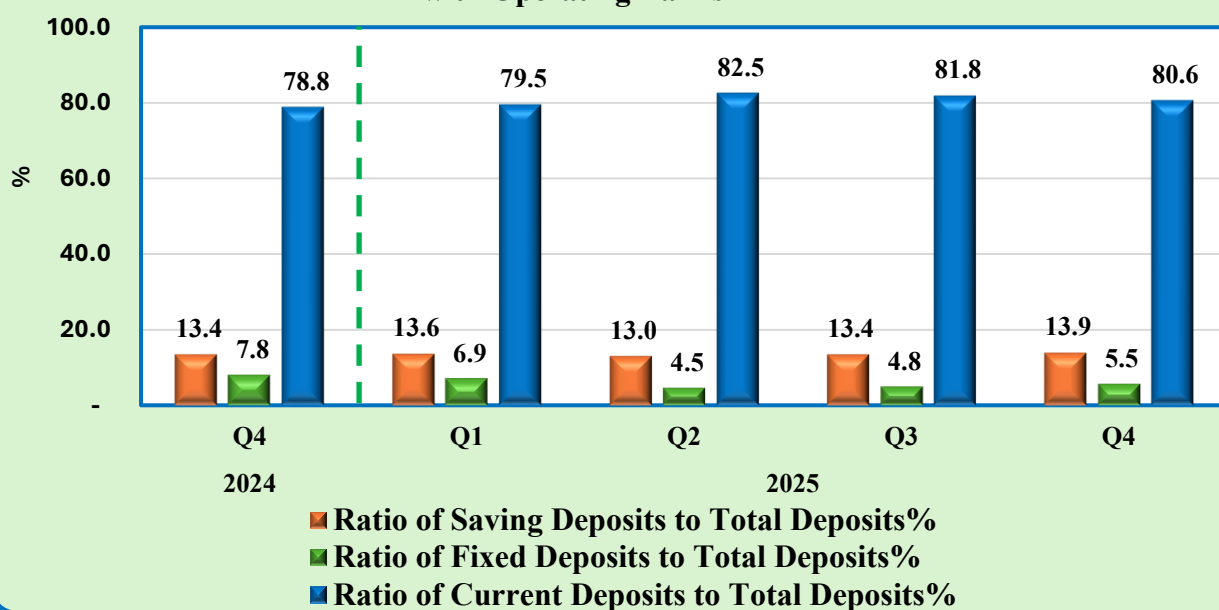


Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

3. Types of Deposits at Operating Banks in Iraq:

Current deposits accounted for the largest percentage of total deposits at operating banks, rising from 78.8% in Q4 of 2024 to 80.6% in the same quarter of 2025. The ratio of fixed deposits decreased from 7.8% in Q4 of 2024 to 5.5% in the same quarter of 2025. As for the ratio of savings deposits to total deposits, it increased from 13.4% in Q4 of 2024 to 13.9% in the same quarter of 2025. According to the ratios and what we mentioned previously regarding the currency in circulation to M2, it is necessary for banks to work to attract deposits by improving their services as well as diversifying their banking products. Figure 8 shows the volume of deposits in operating banks.

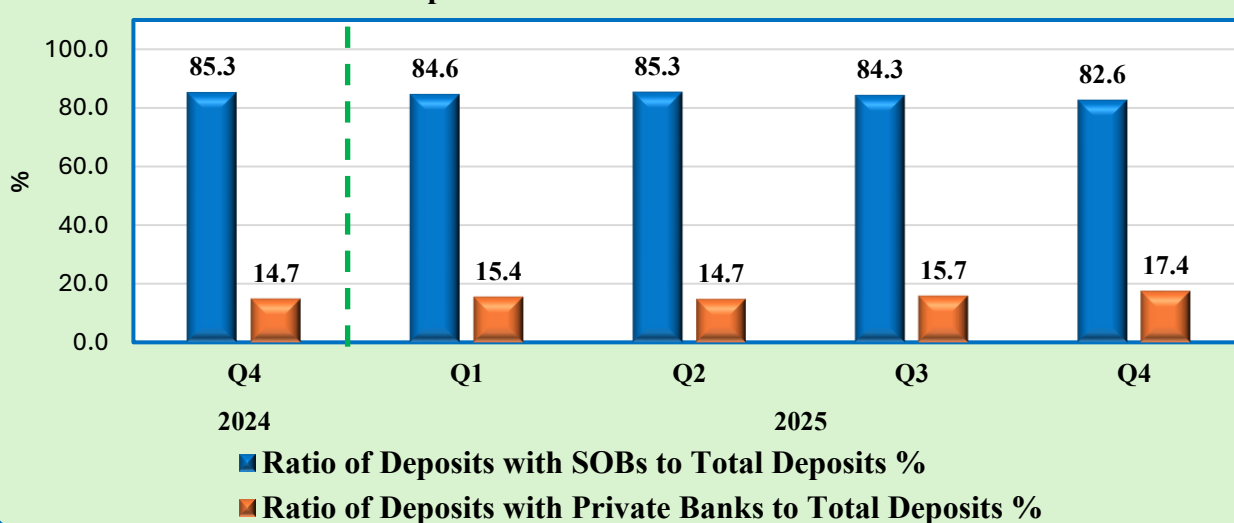
Figure 8:
Ratio of Fixed, Current, and Savings Deposits to Total Deposits with Operating Banks



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

Figure 9 illustrates the ratio of deposits held by State-Owned Banks (SOBs) and private banks compared to the total deposits in operating banks. The ratio of SOBs declined to 82.6% in Q4 of 2025, down from 85.3% in the same quarter of 2024. In contrast, the ratio of private banks increased to 17.4% in Q4 of 2025, up from 14.7% for the same quarter of 2024. Despite the higher ratio in private banks and its decrease in SOBs, the difference remains large due to the public's strong confidence in SOBs.

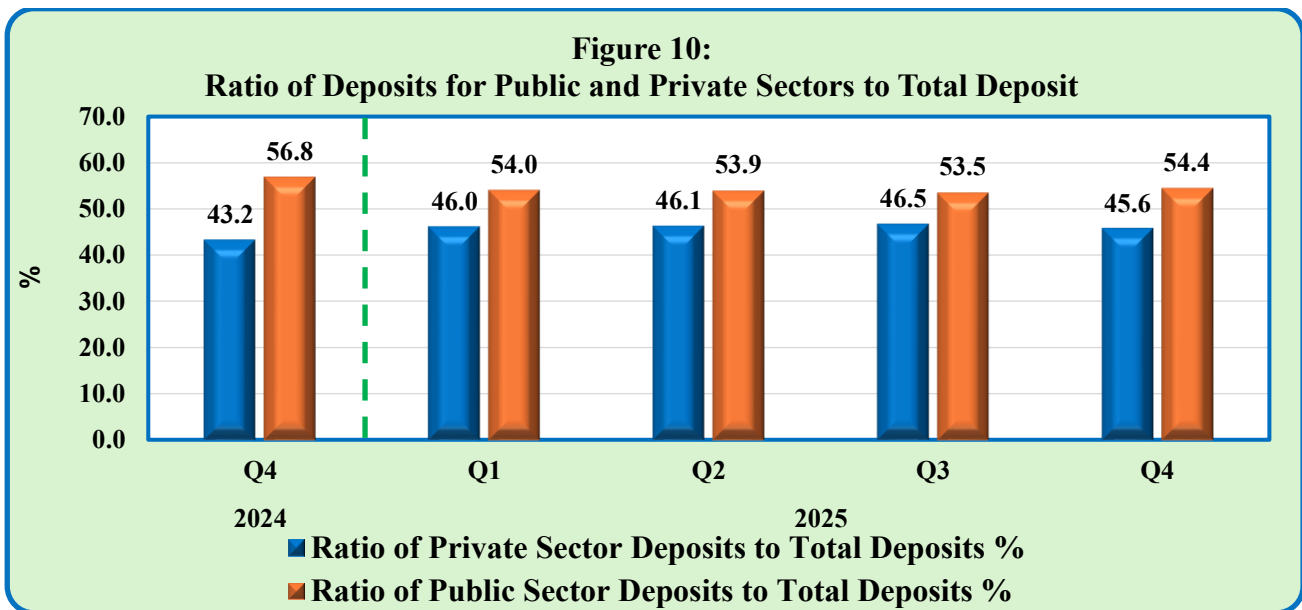
Figure 9:
Ratio of Deposits with SOBs and Private Banks



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

Based on the ownership of deposits, Figure 10 shows that the ratio of public sector deposits to total deposits declined to 54.4% in Q4 2025, after reaching 56.8% in the same quarter of 2024.

As for the ratio of private sector deposits to total deposits, it recorded an increase reaching 45.6% for Q4 of 2025 compared to 43.2% for the same quarter of 2024. Despite this growth in private deposits, the public sector continues to hold the largest share of total deposits, with current deposits accounting for 95.7%.



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

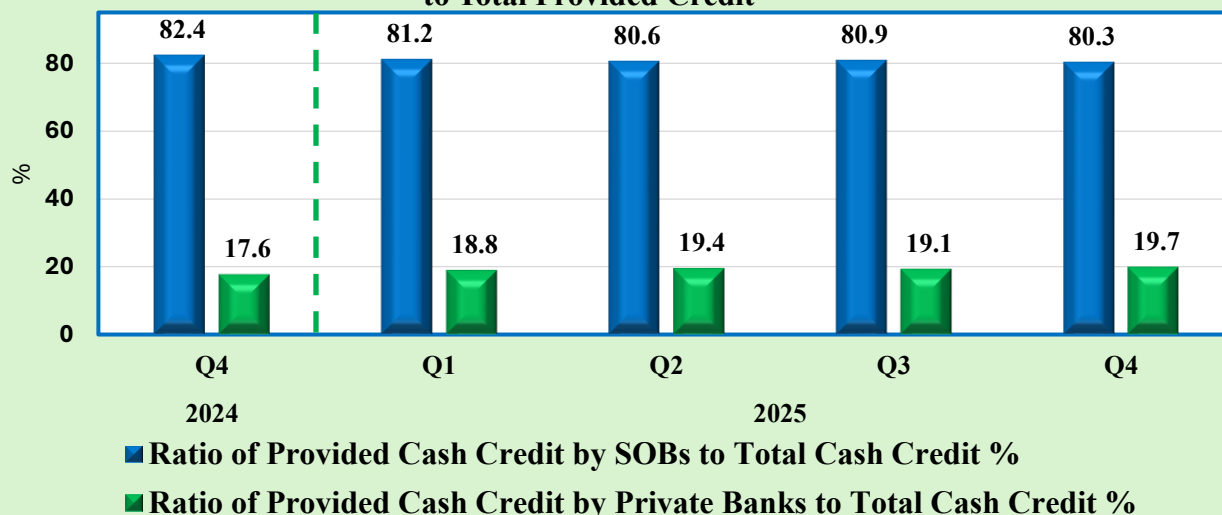
4. Total Cash Credit:

This indicator shows total cash credit extended by operating banks, it measures the ratio of credit provided by SOBs alongside the cash credit provided by private banks. It serves as a metric to evaluate the contributions of both SOBs and private banks to economic development. The indicator reflects direct impacts, such as investment loans granted to clients, as well as indirect effects stemming from consumption loans that stimulate overall economic activity through a multiplier effect.

In Q4 of 2025, total credit provided by operating banks reached IQD 75.6 trillion, up from IQD 73.5 trillion in the same quarter of 2024, marking a growth rate of 2.9%. As shown in Figure 11, the ratio of credit provided by SOBs to total cash credit was 80.3% in Q4 of 2025, down from 82.4% in Q4 of 2024. In contrast, the portion of credit provided by private banks increased to 19.7% in Q4 of 2025, up from 17.6% during the same period last year. Despite the decline in the percentage of credit granted by

SOBs and its increase among private banks, cash credit granted by SOBs remains the main nerve of financing. Consequently, this requires private banks to work to increase public confidence in dealing with them while working to attract deposits diligently.

Figure 11:
Ratio of Provided Cash Credit by SOBs and Private Banks to Total Provided Credit

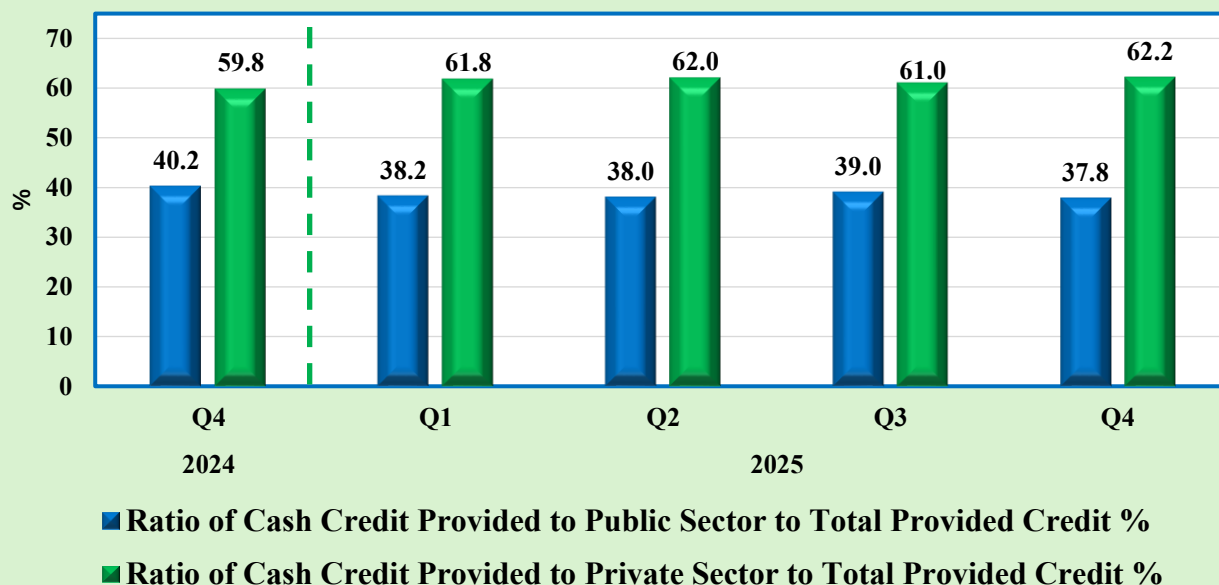


Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

The following section illustrates the ratio of provided cash credit to both the public and private sectors. Figure 12 shows that the ratio of provided cash credit to the public sector reached 37.8% to total credit for Q4 of 2025, after reaching 40.2% for the same quarter of 2024.

The ratio of cash credit provided to the private sector reached 62.2% for Q4 of 2025, after reaching 59.8% for the same period of 2024. These ratios clearly demonstrate that the largest proportion of cash credit is directed toward the private sector, which serves as a positive indicator that fosters economic development, considering that due diligence measures are thoroughly applied to mitigate credit risks and prevent subsequent shocks that could impact the banking sector.

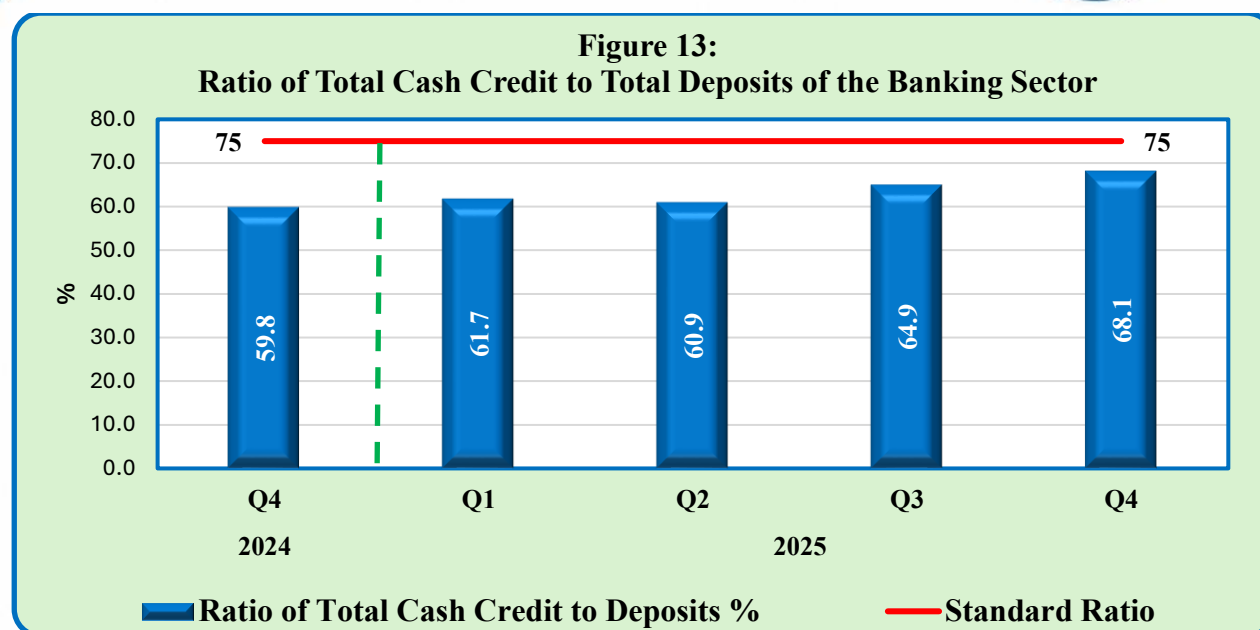
Figure 12:
Ratio of Cash Credit Provided to Public and Private Sectors to Total Provided Credit



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

5. Total Cash Credit to Total Deposits:

This indicator reflects banks' ability to utilize deposits to meet customers' credit needs while maintaining sufficient liquidity to satisfy bank's obligations. CBI has set this ratio at 75% to preserve adequate liquidity with banks to meet customer withdrawals and conduct their banking activities. This ratio is measured by dividing total cash credit to total deposits with operating banks. Figure 13 shows that the ratio of total cash credit to total deposits increased by 13.9%, up from 59.8% in Q4 of 2024 to 68.1% for the same quarter of 2025. This increase resulted from a decline in deposits at operating banks by 9.6% in Q4 of 2025 compared with the same quarter of 2024, alongside an increase in cash credit provided by banks by 2.9% during the same period. It is worth noting that the ratio of total credit to total deposits did not exceed the standard ratio set by CBI.

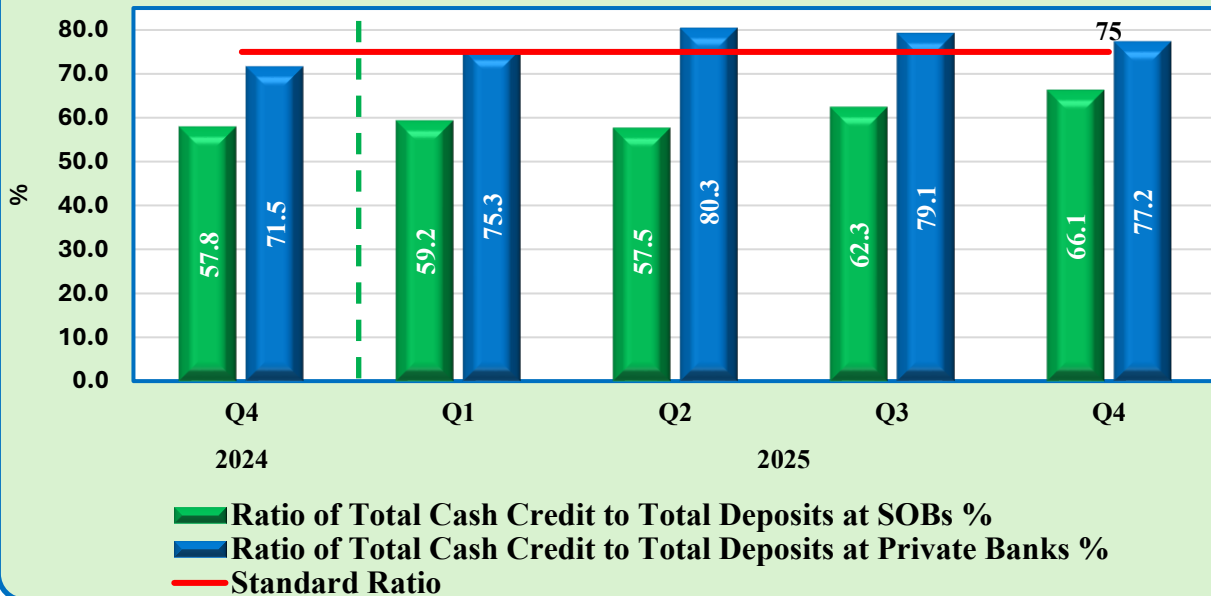


Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

It is noted that the ratio of total cash credit to total deposits at private banks is higher than the ratio at SOBs, despite the fact that volume of deposits at SOBs exceeds that of private banks. Figure 14 shows that the ratio at private banks increased from 71.5% for Q4 of 2024 to 77.2% for the same quarter of 2025. This increase is attributed to a rise in credit provided by private banks by 15.1%, alongside an increase in total deposits at private banks by 6.7%, which indicates that private banks continued providing credit despite the decline in their total deposits, thereby exceeding the prescribed ratio. Such a situation may expose them to credit risk; therefore, it is necessary to work on increasing deposits in a manner that provides banks with sufficient liquidity to avoid liquidity risks, while ensuring the quality of the provided credit.

As for SOBs, the ratio increased from 57.8% in Q4 of 2024 to 66.1% in the same quarter of 2025, due to a 12.4% decline in deposits at SOBs by for Q4 of 2025 compared with the same quarter of 2024, accompanied by a 0.3% decrease in credit.

Figure 14:
Ratio of Total Cash Credit to Total Deposits of SOBs and Private Banks



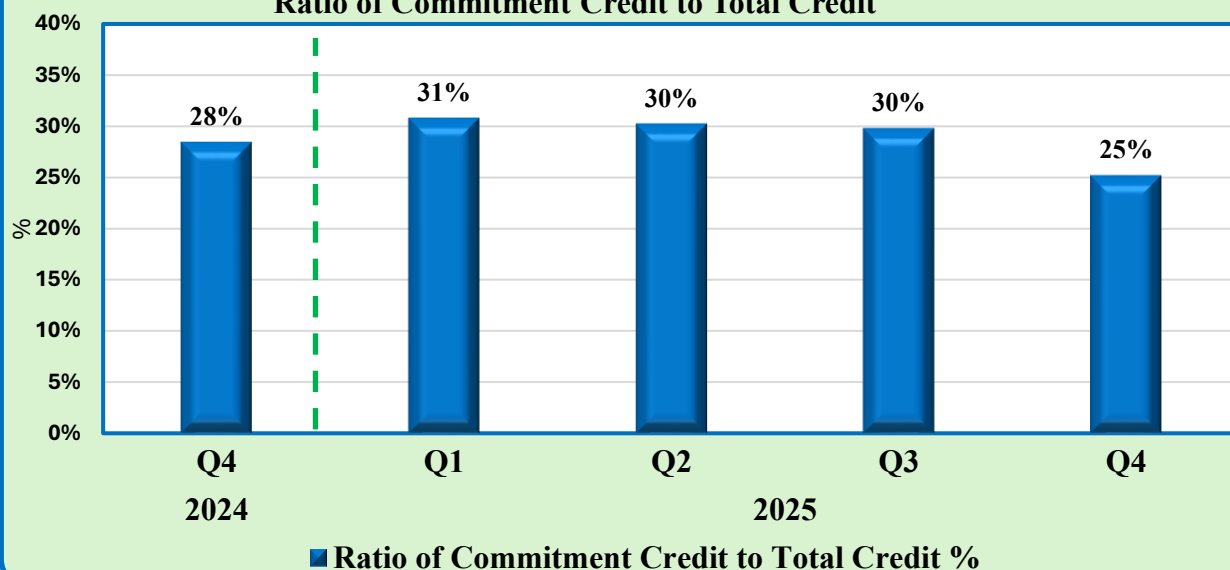
Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

6. Total Commitment Credit:

Commitment credit is considered an important indicator of soundness of operating banks because it represents an off-the-balance obligation for the bank. This means that the bank becomes liable for payment if the customer fails to repay the third party. Commitment credit can be measured as a ratio to total credit. Figure 15 shows that the ratio of commitment credit to total credit declined to 25% in Q4 of 2025 after reaching 28% for the same quarter of 2024. Letters of credit accounted for 60.4% of commitment credit in Q4 of 2025, while letters of guarantee represented the remaining 39.6%

Although this type of credit is non-cash in nature, larger proportion of letters of credit may still pose risks to banks if customers are unable to meet their repayment obligations. Therefore, it is essential to verify the financial position of each customer carefully.

Figure 15:
Ratio of Commitment Credit to Total Credit



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

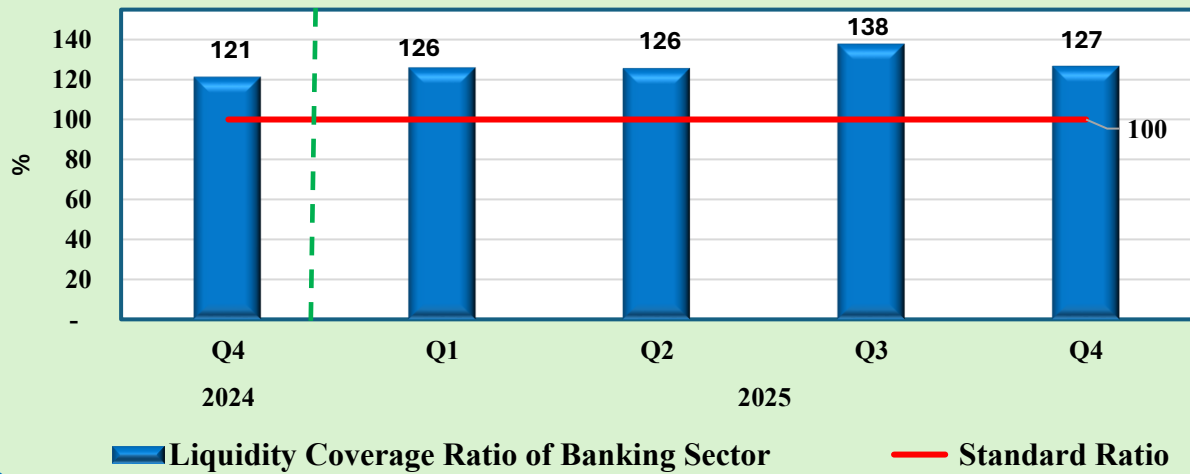
7. Liquidity Indicators:

Liquidity risks have a significant impact on the banking sector, as their danger lies in sudden and large deposit withdrawal requests by customers in the event of a bank or one of the banks faltering or due to political and economic circumstances in the country. Therefore, it is necessary to have a sufficient level of liquidity with banks to meet large and sudden deposit withdrawal requests. To measure liquidity with banks, two indicators will be used as follows:

a. Liquidity Coverage Ratio (LCR) Indicator:

This indicator measures the ability of banks to meet their required short-term liquidity obligations for 30 days. The ratio of this indicator can be extracted by dividing high-quality liquid assets by net cash outflows over 30 days. Figure 16 shows LCR of the banking sector, as it increased from 121% for Q4 of 2024 to 127% during the same quarter of 2025 due to a decrease in net cash outflows of 5% during the same period.

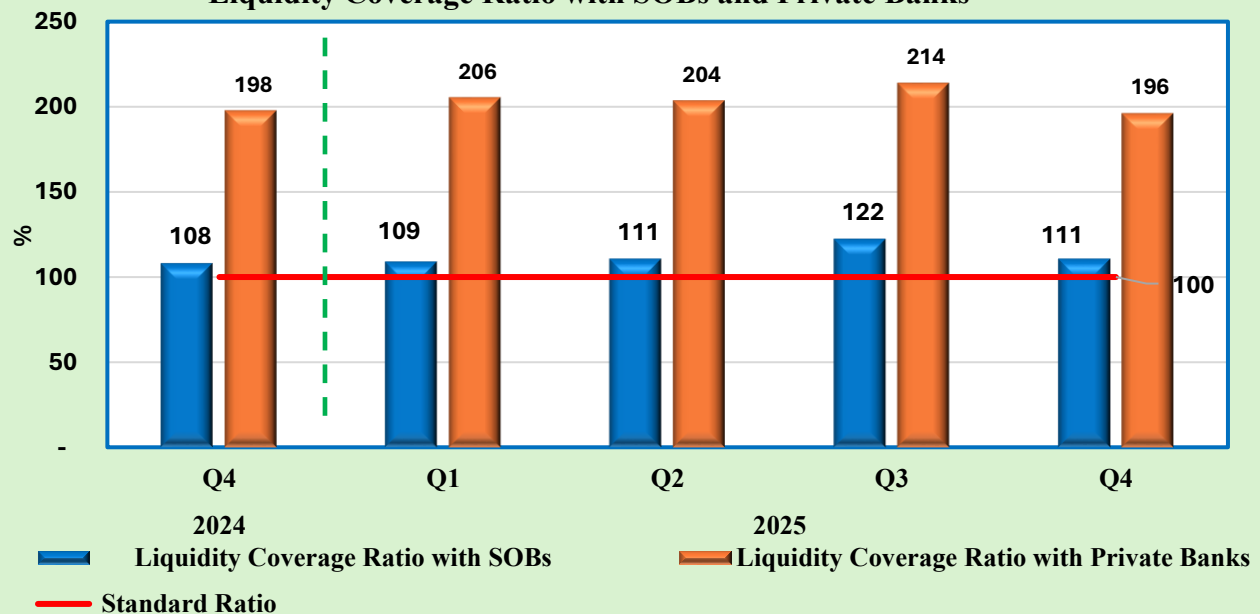
Figure 16:
Liquidity Coverage Ratio of the Banking Sector



Source: Central Bank of Iraq, Banking Supervision Department.

Regarding the LCR for both SOBs and private banks, Figure 17 shows a decrease in the LCR for private banks, as it decreased from 198% for Q4 of 2024 to 196% for Q4 of 2025. Although the ratio decreased within the specified period, still it is considered very high and close to double the ratio set according to Basel standards. As for SOBs, the LCR recorded 111% for Q4 of 2025, after reaching 108% for the same quarter of 2025. Although the ratio exceeded the minimum level of 100%, it still considered low when considering the sensitivity of the Iraqi economy. It is necessary to raise it to higher levels to ensure avoiding liquidity shocks.

Figure 17:
Liquidity Coverage Ratio with SOBs and Private Banks

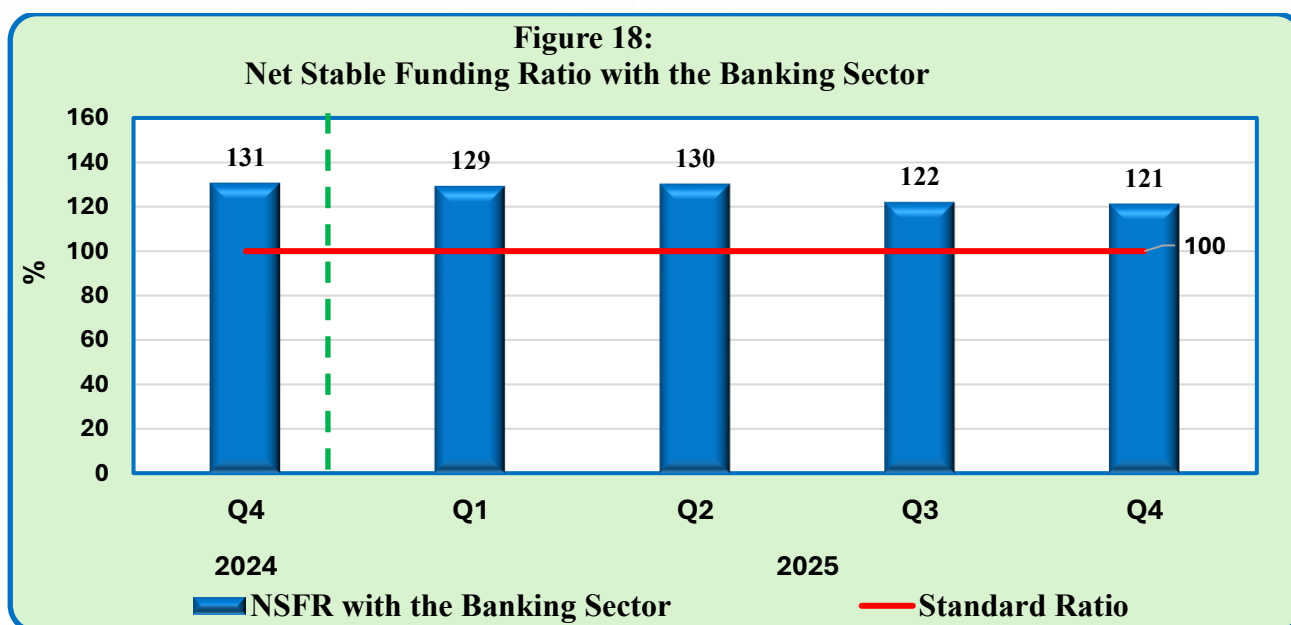


Source: Central Bank of Iraq, Banking Supervision Department.

b. Net Stable Funding Ratio (NSFR) Indicator:

This indicator shows the ability of banks to have sufficient net stable funding to cover their assets and liabilities for a whole year, meaning a ratio of funding sources that banks have which can be used to finance liabilities for a period of one year. Thus, the indicator ratio must be higher than the standard ratio of 100% to ensure that a liquidity crisis does not occur if demand for sudden deposit withdrawals increases significantly.

Figure 18 shows that the ratio of stable funding for operating banks reached 121% for Q4 of 2025, after reaching 131% for the same quarter of 2024. Despite the decrease in the ratio, it is still higher than the standard ratio of 100% and is considered a good ratio in view of the Iraqi economy. It indicates the ability of banks to finance obligations within a whole year.

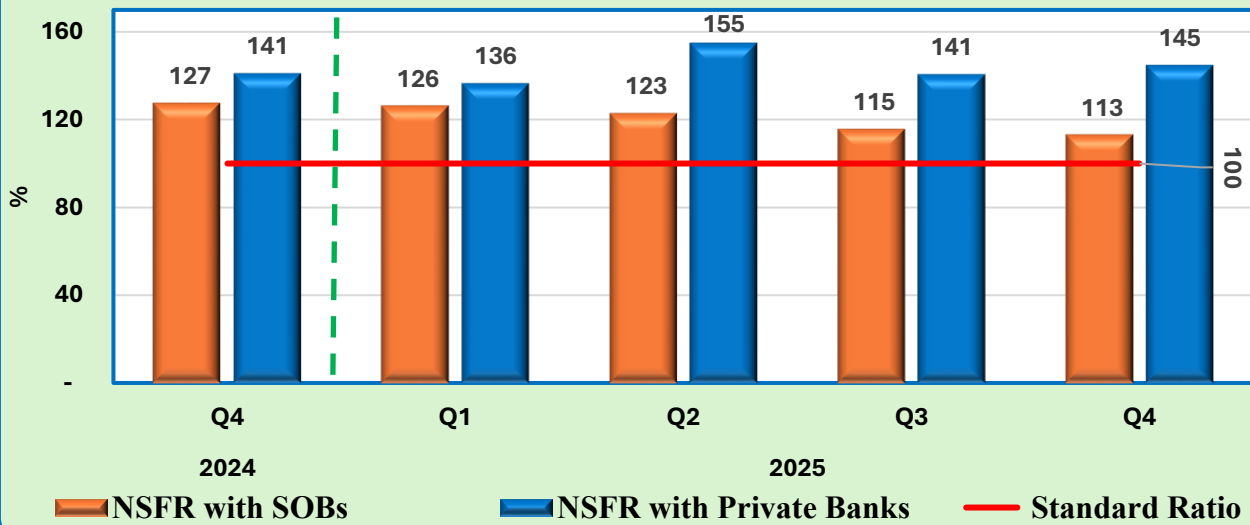


Source: Central Bank of Iraq, Banking Supervision Department.

Figure 19 shows NSFR with SOBs and private banks, as it reached 145% with private banks for Q4 of 2025, after reaching 141% for the same quarter of 2024. As for SOBs, it decreased to 113% for Q4 of 2025 after reaching 127% for the same quarter of 2025 due to the decrease in stable funding available by 8.8% during the same period.

The NSFR indicator with private banks is better than that with SOBs, despite exceeding the standard ratio. The sensitivity of the Iraqi economy requires the presence of additional buffers to enhance the ratios of risk measurement indicators for banks to be higher than the global standard ratio to ensure the safety of the banking sector.

Figure 19:
Net Stable Funding Ratio for SOBs and Private Banks

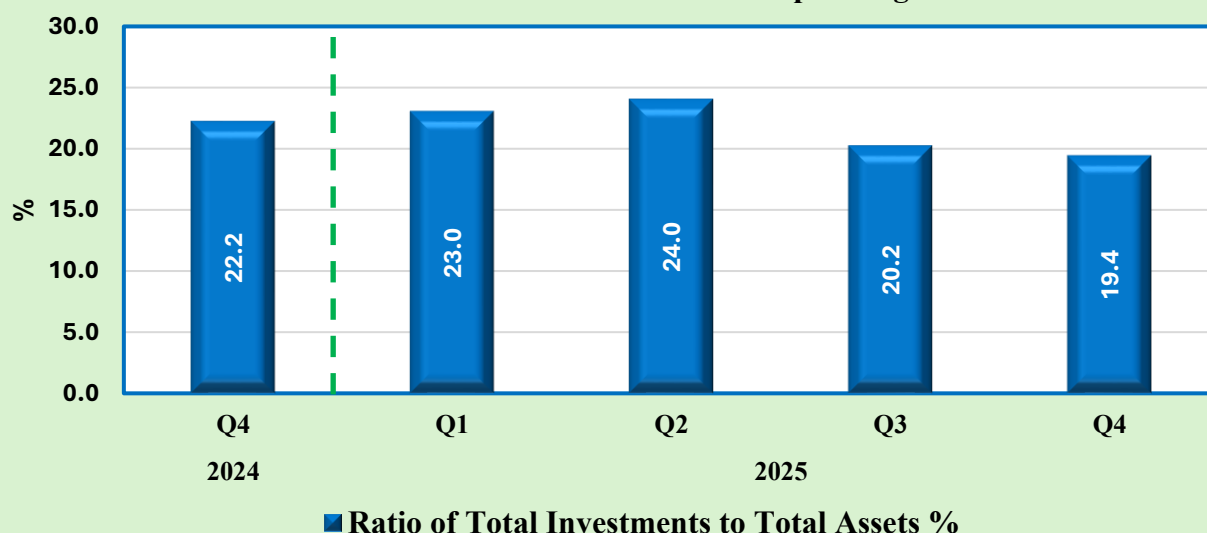


Source: Central Bank of Iraq, Banking Supervision Department.

8. Banks' Investments to Total Assets:

This indicator is one of the important indicators that show the volume of actual investments within the balance sheets of operating banks. The importance of investments is highlighted in the returns they provide to the bank and increasing its profits, especially if these investments are within high revenues activities. Investments are financed by bank's capital and available deposits; they are on the assets side of bank's balance sheet. Therefore, they are measured against the bank's total assets for the purpose of knowing their volume with the bank. Figure 20 shows that the ratio of total investments to total assets with operating banks has decreased from 22.2% for Q4 of 2024 to 19.4% for the same quarter of 2025 due to a decrease of investments at banks by 17.1%, with an increase of total assets at banks by 5.0% for Q4 of 2025 compared to the same quarter of 2024.

Figure 20:
Ratio of Investments to Total Assets at Operating Banks

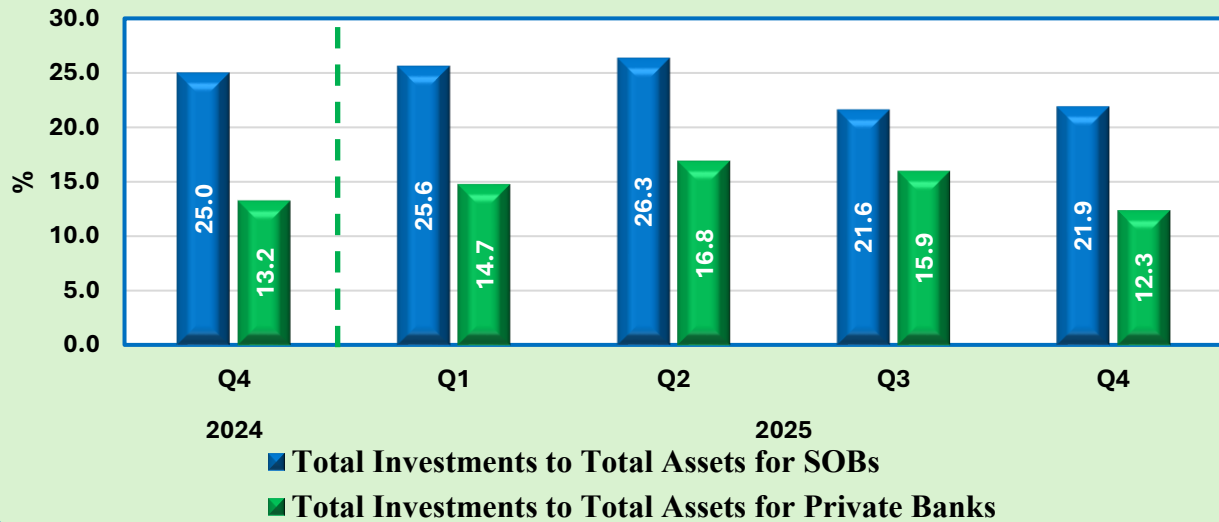


Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

As for the classification of banks in terms of ownership, it appears that the ratio of total investments to total assets in SOBs is greater than its counterpart in private banks. Figure 21 shows that the ratio of total investments to assets at SOBs has decreased from 25.0% for Q4 of 2024 to 21.9% for the same quarter of 2025. The ratio of investments at private banks to total assets also decreased from 13.2% for Q4 of 2024 to 12.3% for the same quarter of 2025. It is worth mentioning that the ratio of investments at SOBs constitutes 83.7% to total investments with operating banks for Q4 of 2025.

Figure 21:

Ratio of Total Investments to Total Assets for SOBs and Private Banks

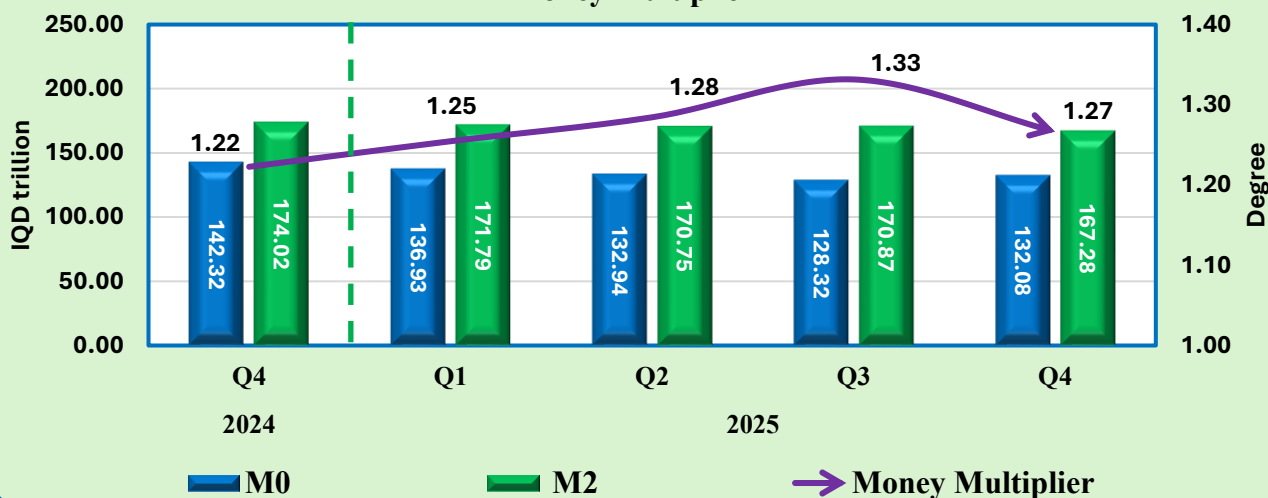


Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

9. Money Multiplier:

The money multiplier is defined as the ratio that expresses the amount of new funds that banks can create through their available deposits. It is measured by dividing M2 by the monetary base. The money multiplier recorded an increase for Q4 of 2025, reaching 1.27 after reaching 1.22 for the same quarter of 2024. This increase came because of the decrease in monetary base for Q4 of 2025, reaching IQD 132.08 trillion after reaching IQD 142.32 trillion for the same quarter of 2024, as well as the decrease in M2, which reached IQD 167.28 trillion after reaching IQD 174.02 trillion. Despite the decrease in these two indicators, the decrease in the monetary base is still greater than that of M2. Figure 22 shows the values of the money multiplier for the same period.

**Figure 22 :
Money Multiplier**



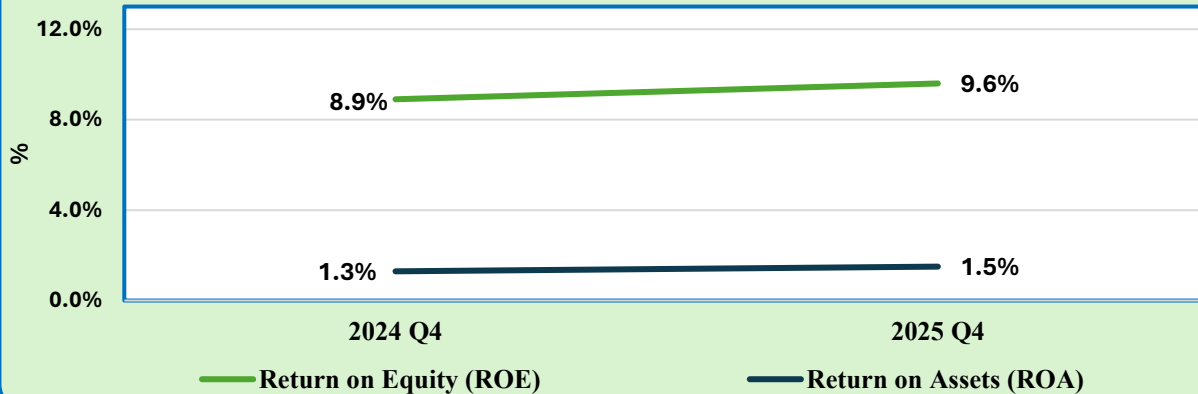
Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

10. Banks' Profitability:

Profitability indicators are measurements to evaluate the extent of a bank's ability to achieve profits and returns to shareholders over time across its various operations, as these indicators help provide a comprehensive picture of banks' ability to expand, grow, and achieve targeted returns on investment. It is mainly intended to determine the feasibility of their investments and financial plans. Figure 23 shows that there is an increase in the return on assets ratio from 1.3% for Q4 of 2024 to 1.5% for the same quarter of 2025, indicating an improvement in banks' use of their assets. On the other hand, the return on equity ratio increased from 8.9% for Q4 of 2024 to 9.6% for the same quarter of 2025, indicating that banks clearly rely on leverage to generate profits.

Figure 23:

Return on Equity and Return on Assets at Operating Banks in Iraq



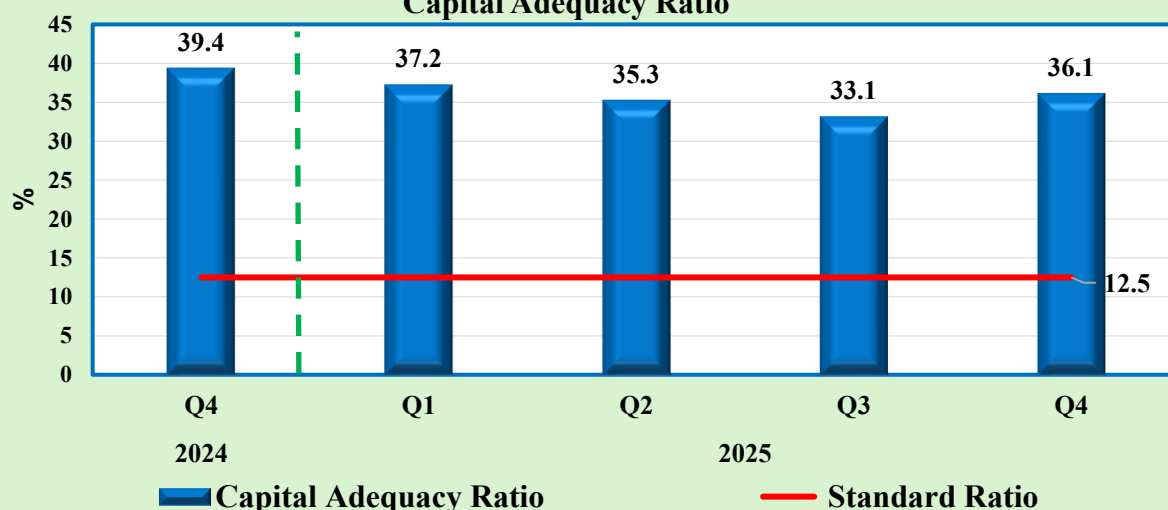
Source: Central Bank of Iraq, Statistics and Research Department, Monetary and Financial Statistics Division.

11. Capital Adequacy Ratio (CAR):

This indicator shows banks' ability to bear losses resulting from risks, such as credit risks & operating risks, and thus banks' ability to protect depositors' funds. It also enhances confidence in the banking sector and ensures continued support for economic development by providing credit for productive projects. It is measured by dividing regulatory capital by banks' assets after giving them a degree of risk. The Central Bank of Iraq has set, in accordance with Basel requirements, a minimum CAR of no less than 12.5%¹ for operating banks. Figure 24 shows that CAR reached 36.1% for Q4 of 2025, after reaching 39.4% for the same quarter of 2024. Although the CAR decreased during the specified period because of the increase of risk-weighted assets ratio by 18%, which is higher than the increase in regulatory capital of 8.2%, the CAR remains high and significantly higher than the minimum set by the CBI.

¹ Central Bank of Iraq, Banking Supervision Department, regulatory controls for the capital adequacy standard in accordance with Basel requirements.

Figure 24:
Capital Adequacy Ratio



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

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

This indicator is measured by dividing NPLs by total cash credit. Figure 25 shows that the ratio of NPLs to total cash credit for Q4 of 2025 rose to 3.7% after reaching 7.1% for the same quarter of 2024, because of the increase in NPLs by 5.6%, which is higher than the growth rate of granted cash credit, which amounted to 2.9%.

Figure 25:
Ratio of Non-Performing Loans to Total Cash Credit



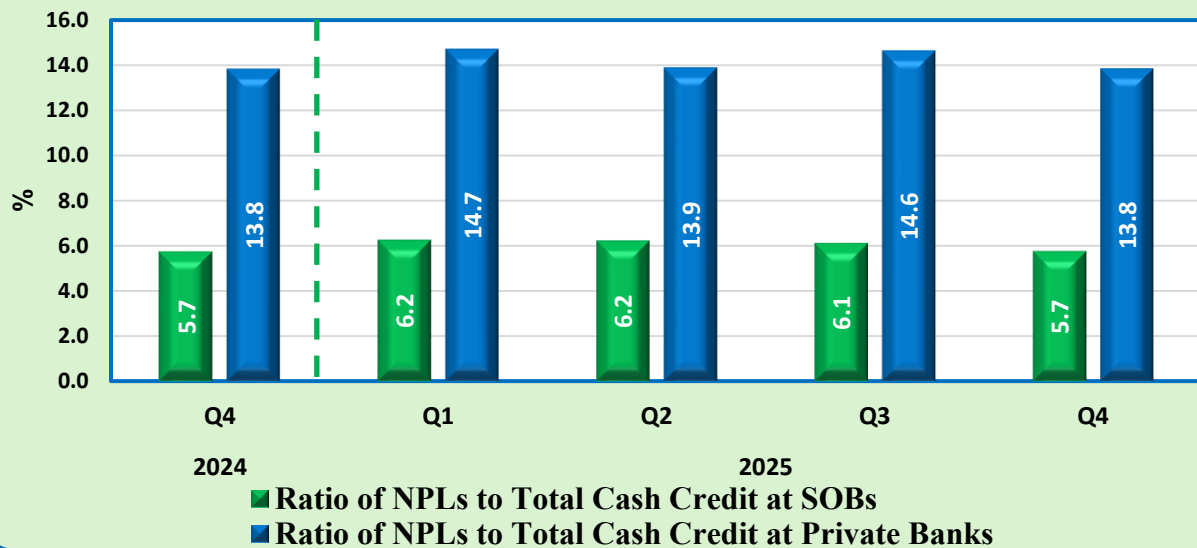
Source: Central Bank of Iraq, Statistics and Research Department, Annual Statistical Bulletin.

As for the classification of banks in terms of ownership, we find that the ratio of NPLs to total cash credit is higher in private banks compared to SOBs. Figure 26 illustrates that the ratio of NPLs to total cash credit in private banks remained at 13.8%

in Q4 of both 2024 and 2025. This is a result of a 15.1% growth in cash credit alongside a 15.3% growth in NPLs during the same period, while the ratio of NPLs to total cash credit for SOBs remained stable at 5.7% in Q4 of both 2024 and 2025. This stability resulted from a 0.6% growth in NPLs, coupled with a 0.3% decrease in total granted cash credit.

It is worth noting that the provisions for NPLs at SOBs cover 162% of their NPLs, compared to 76% at private banks. This is a positive indicator showing that these provisions are backed by physical collateral whose value exceeds the credit amount, thereby providing banks with a safety buffer in the event of borrower defaults.

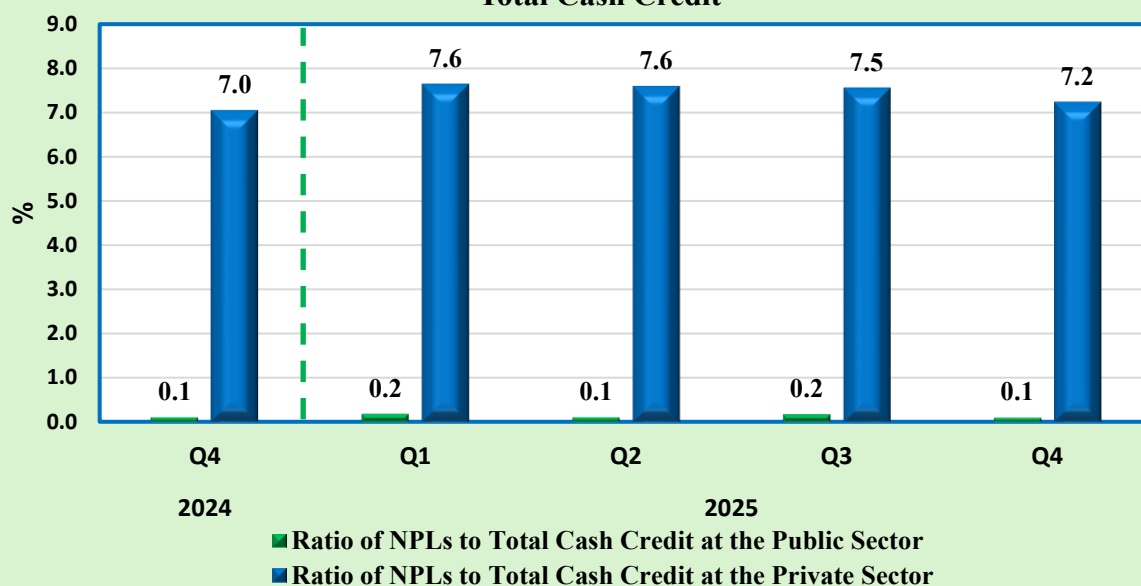
Figure 26:
Ratio of Non-Performing Loans to Total Cash Credit at State- Owned Banks and Private Banks



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

As for the ratio of NPLs for both the private and public sectors to total cash credit, the NPL ratio in the private sector is higher than that of the public sector. This ratio in the private sector reached 7.2% for Q4 of 2025, up from 7.0% in the same quarter of 2024. Meanwhile, this ratio for the public sector remained stable at 0.1% for Q4 of both 2024 and 2025, as illustrated in Figure 27.

Figure 27:
Ratio of Non-Performing Loans at the Public and Private Sectors to Total Cash Credit

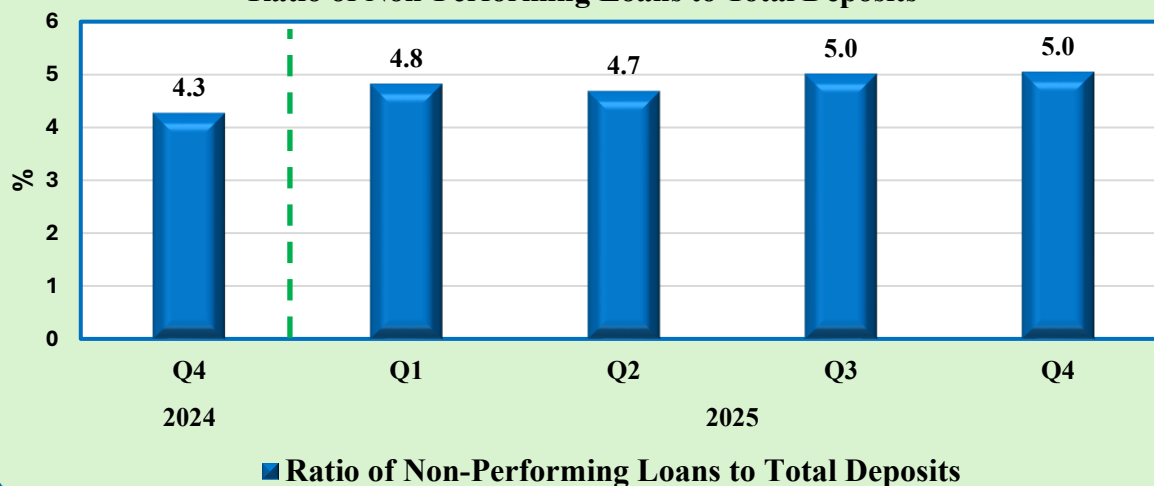


Source: Central Bank of Iraq, Department of Statistics and Research, Annual Statistical Bulletin.

13. Non-Performing Loans to Total Deposits:

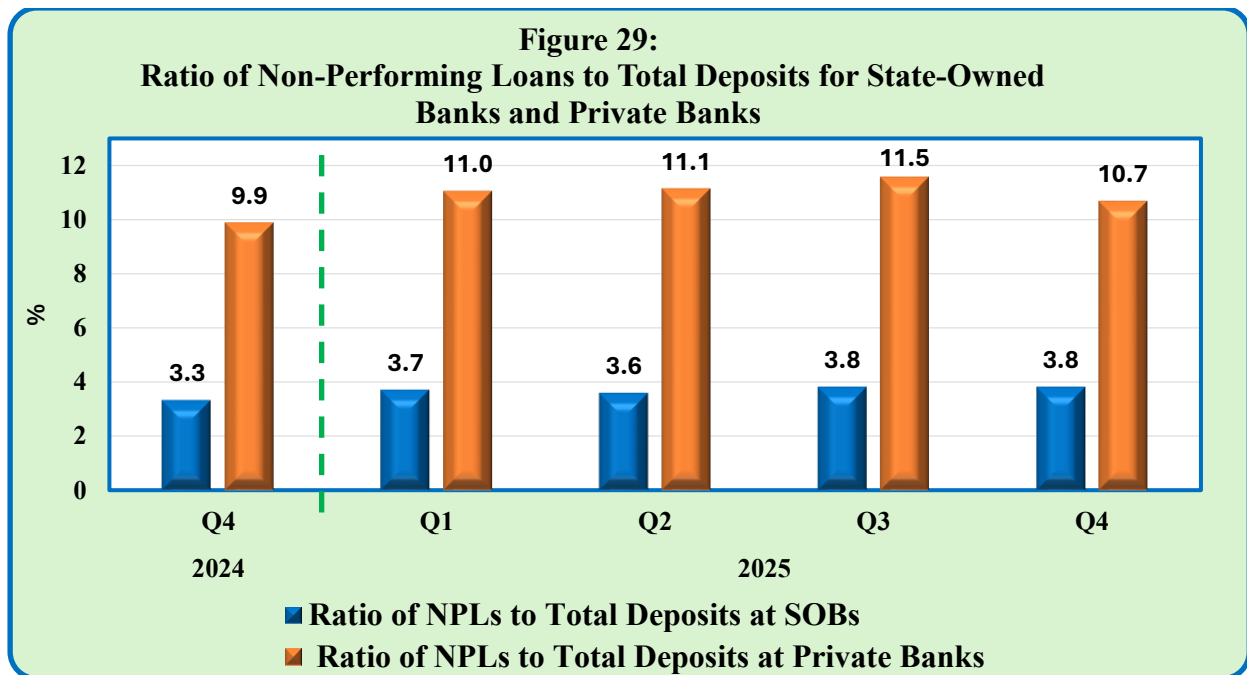
This indicator measures the extent of credit risk relative to the resources financed by depositors. Figure 28 shows that the ratio of NPLs to total deposits rose to 5.0% in Q4 of 2025, up from 4.3% in the same quarter of 2024. This increase is the result of a 5.6% increase in total NPLs, despite a 9.6% decrease in total deposits. Therefore, banks should pay attention to the quality of their credit portfolios, as these drain profits due to the need for building provisions to protect depositors' funds.

Figure 28:
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 by ownership, it is noted that there was an increase in this ratio among private banks, as the ratio of NPLs to total deposits in private banks rose to 10.7% for Q4 of 2025 after it was 9.9% for the same quarter of 2024. While this ratio among SOBs rose to 3.8% for Q4 of 2025, after it was 3.3% for the same quarter of 2024. This increase is attributed to an increase in total deposits at private banks by 6.7%, While it decreased by 12.4% at SOBs.



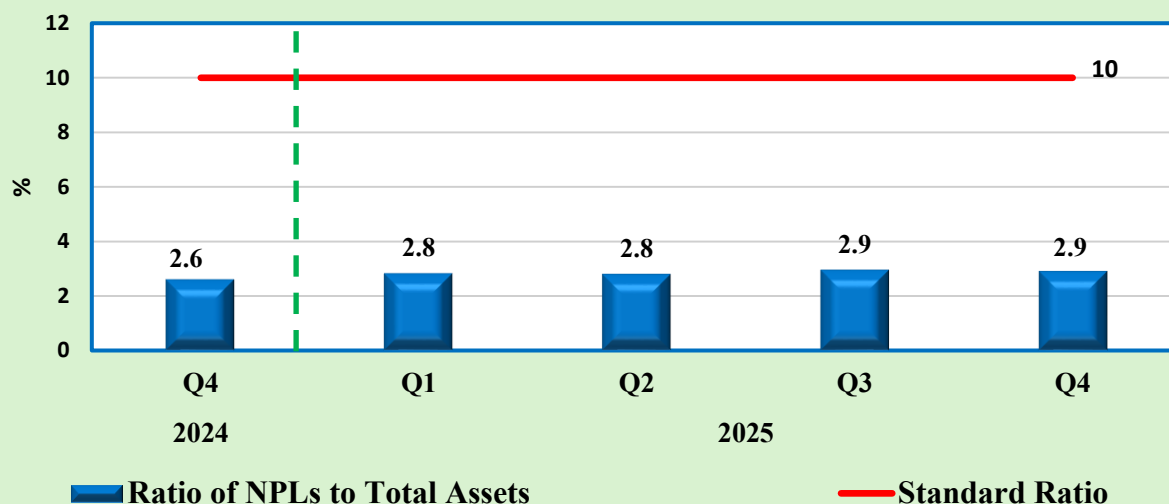
Source: Central Bank of Iraq, Statistics & Research Department, Annual Statistical Bulletin

14. 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 NPLs². Figure 30 illustrates the ratio of NPLs to total assets held by banks operating in Iraq. This ratio increased to 2.9% for Q4 of 2025 compared to 2.6% 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.

² For further details, see, Central Bank of Iraq 2020, Early Warning Report for the Banking Sector, Issue 13, p. 23.

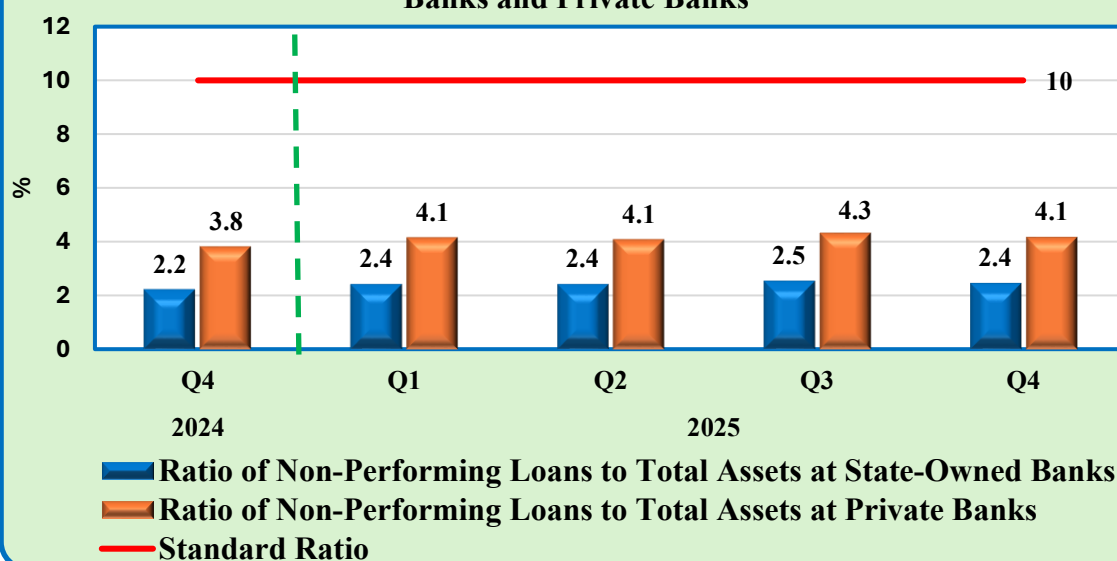
Figure 30:
Ratio of Non-Performing Loans to Total Assets



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 standard ratio, as Figure 31 shows this. However, it is noted that this ratio is higher for private banks than its counterpart for SOBs, as it reached 4.1% for Q4 of 2025 compared to 3.8% for the same quarter of 2024, While the ratio for SOBs stood at 2.4% for the same period. It is worth noting that this ratio does not cause concern regarding financial stability, since it did not exceed the standard ratio.

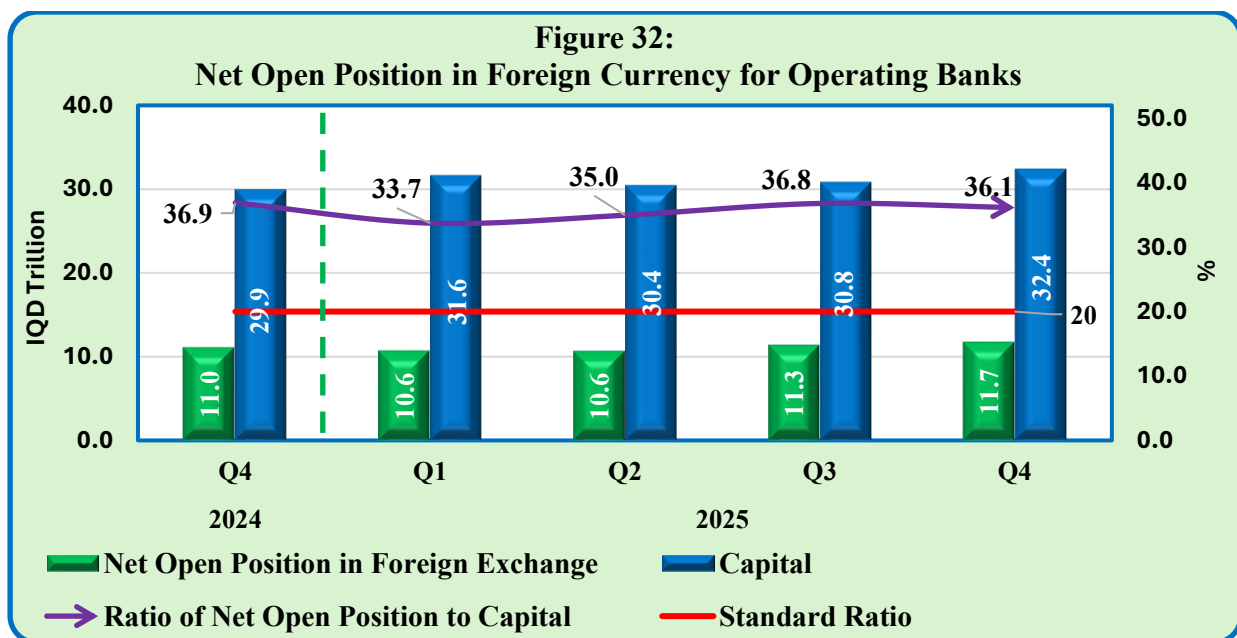
Figure 31:
Ratio of Non- Performing Loans to Total Assets at State- Owned Banks and Private Banks



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

15. 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 32 illustrates a decline in this indicator's ratio for operating banks from 36.9% for Q4 of 2024 to 36.1% for the same quarter of 2025, as a result of a 6% decrease in net foreign currency positions, combined with an 8.2% increase in capital during the same period. This indicates a decreased desire among operating banks to retain foreign assets, despite this decline, operating banks must adhere to the standard ratio of 20% to ensure financial stability.



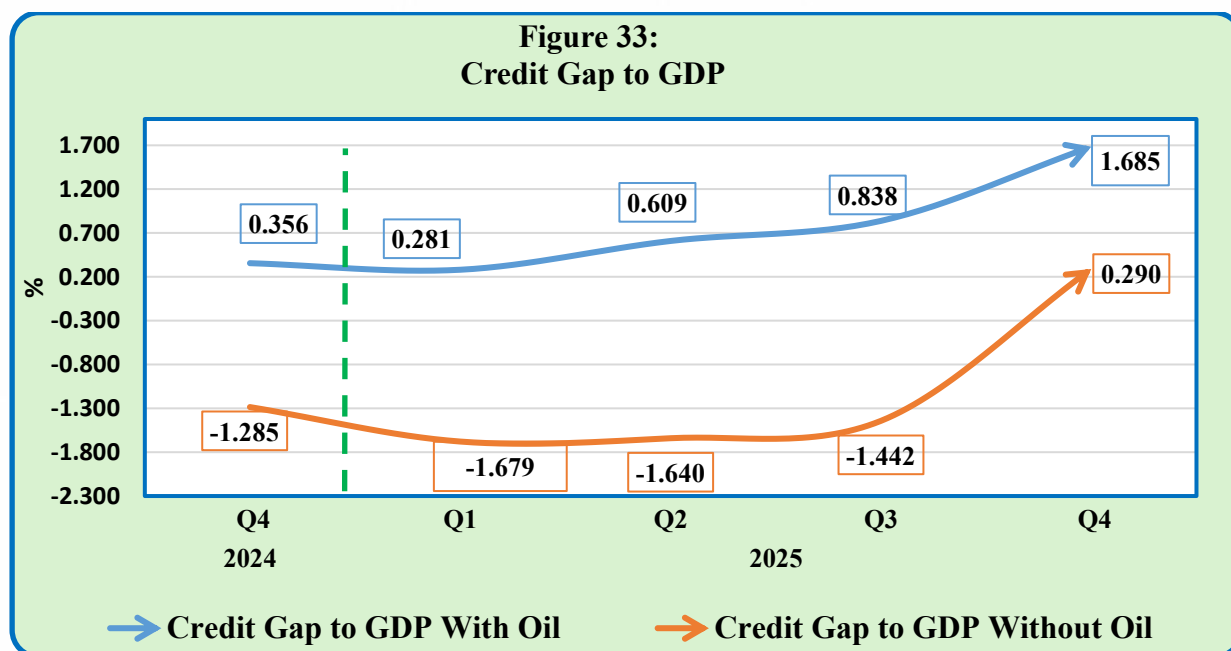
Source: Central Bank of Iraq, Department of Statistics and Research, Monetary and Financial Statistics Division.

16. 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 to GDP ratio (Targeted at the private sector) at current prices³. This indicator's standard ratio value typically ranges from 2.5% to 10%. When the estimated ratio approaches this standard ratio, banks are required to build additional capital buffers, known as counter-cyclical capital buffers, due to credit growth outpacing GDP growth.

³ For more information on the method of calculating the GDP gap, see: Central Bank of Iraq, Iraqi Early Warning Report, Issue No. 18, Q1 2020, p. 23.

Figure 33 illustrates the credit to GDP gap, both with and without oil. This gap, excluding oil, reached 0.290% for Q4 of 2025, after it was -1.285% in the same quarter of 2024. while the gap when measuring GDP data with oil reached 1.685% for Q4 of 2025, after it was 0.356% in the same quarter of 2024. From the above, it is evident that although both gaps in Q4 of 2025 have increased, they remain below the standard ratio. This implies that it is possible to increase the cash credit provided to the private sector without undermining financial stability



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



Early Warning Report for the Banking Sector

Table 2: Banks' Performance Analysis Indicators

Indicator Name	Q4 2024	Q4 2025	Growth Rate (%)
Bank Deposits to M2 (%)	46.3	44.7	-3.5
Currency in Circulation to M2 (%)	53.7	55.3	3.0
Total Cash Credit to Total Deposits (%)	59.8	68.1	13.9
Liquidity Coverage Ratio (LCR)	121	127	5.0
Net Stable Funding Ratio (NSFR)	131	121	-7.6
Total Investments to Total Assets (%)	22.2	19.4	-12.6
Money Multiplier	1.22	1.27	4.1
Return on Equity (ROE) (%)	8.9	9.6	7.3
Return on Assets (ROA) (%)	1.3	1.5	15.4
Capital Adequacy Ratio (CAR) (%)	39.4	36.1	-8.4
Non-Performing Loans (NPLs) to Total Cash Credit (%)	7.1	7.3	2.8
NPLs to Total Deposits (%)	4.3	5.0	16.3
NPLs to Total Assets (%)	2.6	2.9	11.5
Net Open Foreign Currency Position for Operating Banks (%)	36.9	36.1	-2.2

The table was prepared based on data from:

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

Conclusion:

Based on the foregoing, the performance of operating banks can be summarized as follows:

1. The banking sector witnessed a 2.9% increase in cash credit during Q4 of 2025 compared to the same quarter of 2024, despite a 9.9% decrease in deposits. This led to a 13.9% increase in the ratio of total cash credit to deposits, and a 2.8% increase in the ratio of non-performing loans (NPLs) to total cash credit during the same period.
2. Operating banks achieved an acceptable level of operational performance in Q4 of 2025, as the Return on Equity (ROE) rose to 9.6%, up from 8.9% in the same quarter of 2024. Additionally, the Return on Assets (ROA) increased to 1.5%, compared to 1.3% previously.
3. The key performance indicators remained good compared to standard ratios. The Liquidity Coverage Ratio (LCR) reached 127%, and the Net Stable Funding Ratio (NSFR) reached 121%, exceeding the standard ratio at a minimum of 100%. The Capital Adequacy Ratio (CAR) reached 36.1%, which is also significantly higher than the standard ratio of minimum 12.5%.
4. The ratio of NPLs to total assets reached 2.9% in Q4 of 2025, which is below the standard ratio minimum of 10%.

Consequently, the banking sector's performance can be considered good, as evidenced by the rise in the cash multiplier to 4.1%. However, the sector needs to develop its customer services to attract deposits and enhance financial inclusion, which will contribute to supporting economic development.

Chapter Three: Analysis of Macroeconomic Performance Indicators

Chapter Three Analysis of Macroeconomic Performance Indicators

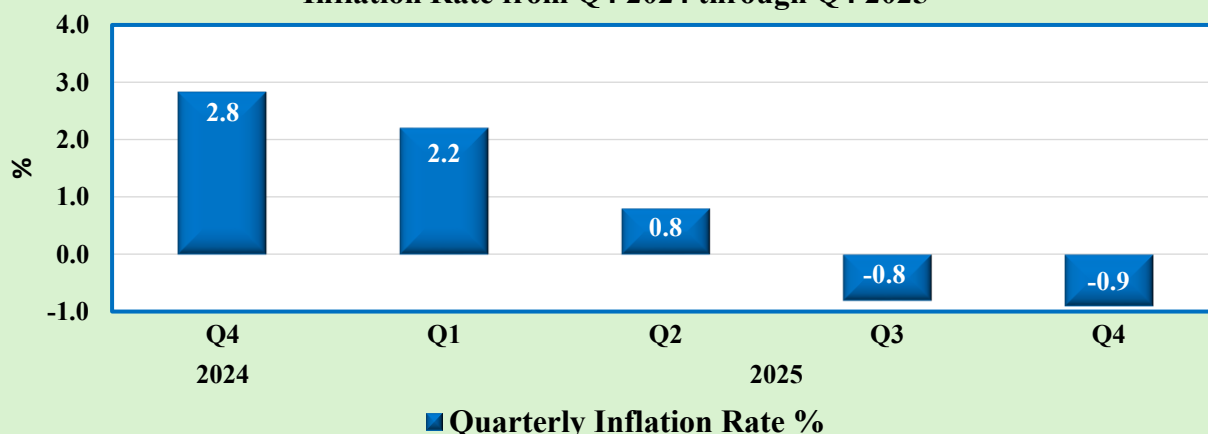
Macroeconomic variables are among the most prominent factors influencing the financial system, as they exert both direct and indirect impacts on the banking sector as well as the broader financial sector. Therefore, the Early Warning Report provides an analysis of the key macroeconomic indicators for Q4 of 2025, including the inflation rate, the implicit Gross Domestic Product (GDP) deflator, and the total public debt.

1. Inflation Rate:

Inflation is defined as the sustained change in the general price level of goods and services over a specific period. The inflation rate is measured using several indices, among which the Consumer Price Index (CPI) is the most significant. This is because it reflects changes in the prices of most goods and services consumed by individuals, whether locally produced or imported. It is worth noting that the inflation rate for Q4 of 2025 was calculated using 2022 as the base year for the CPI, replacing the year 2012, as announced by the Ministry of Planning.

In Q4 of 2025, the inflation rate recorded -0.9%, down from 2.8% in the corresponding quarter of 2024. This decline was driven by the non-ratification of the 2025 budget, which led to a contraction in public expenditure. Actual spending for 2025 stood at IQD 141.2 trillion, compared to IQD 150.5 trillion in 2024. Government spending constitutes the cornerstone of Iraqi economic activity, and this contraction was coupled with a general slowdown in economic activity. Figure 34 below illustrates the inflation rates for the year 2025 and Q4 of 2024.

Figure 34:
Inflation Rate from Q4 2024 through Q4 2025



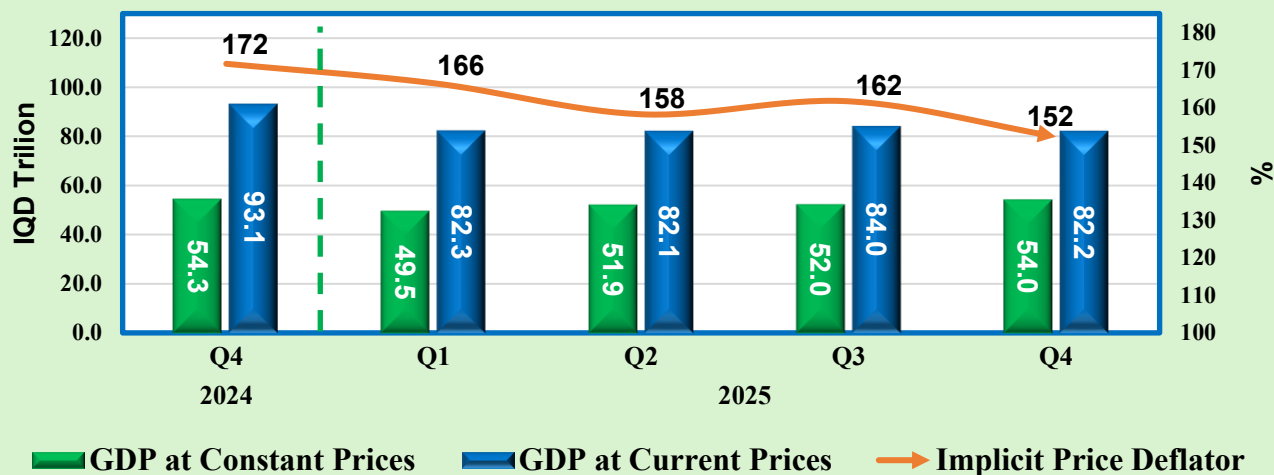
Source: Central Bank of Iraq, Basic Financial Data.

2. Implicit Price Deflator:

The implicit price deflator is one of the primary tools used to measure the inflation rate, as it reflects price changes for all goods and services produced within the domestic economy over a specific period. It is calculated by dividing GDP at current prices by GDP at constant prices, thereby providing an accurate measure of price changes over time.

Figure 35 below illustrates a decrease in the implicit deflator to 152% in Q4 of 2025, down from 172% in the corresponding quarter of 2024. This decline was driven by an 11.7% drop in GDP at current prices, which outweighed a minor 0.5% contraction in GDP at constant prices.

**Figure 35:
GDP and Implicit Price Deflator**



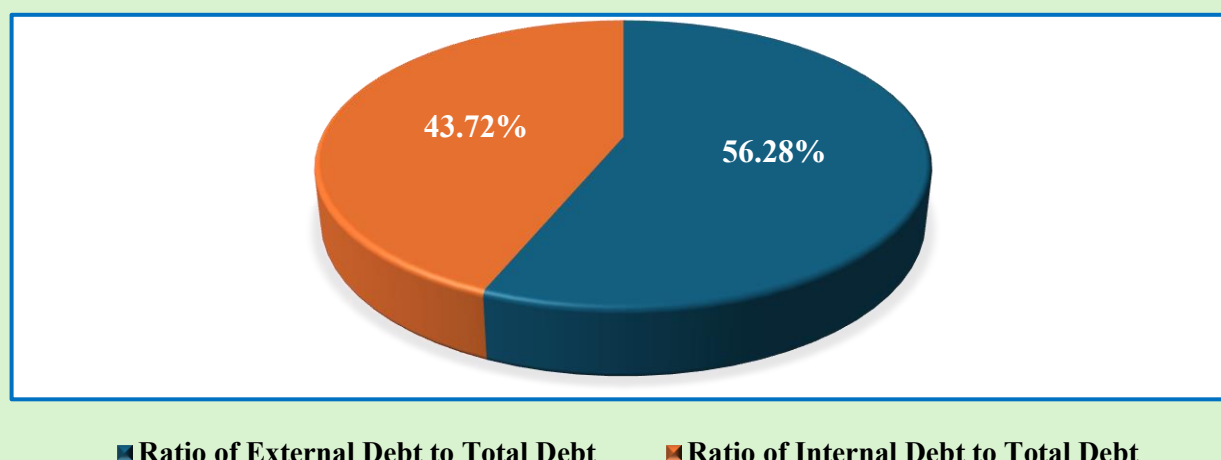
Source: Central Bank of Iraq, Statistical and Economic Data Website

3. Total Public Debt Growth Rate:

Public debt represents the government's liabilities to commercial banks and the Central Bank of Iraq (CBI). This is divided into internal debt, which constitutes internal obligations within the country, and external debt, which represents overseas obligations. The government relies on borrowing to finance public expenditure and support economic development when public revenues experience a shortfall.

In Q4 of 2025, total public debt grew by 4.4% compared to the corresponding quarter of 2024. This increase was driven by a 9.0% rise in internal debt, which offset a 1.0% decline in external debt during the same period. As illustrated in Figure 36, internal debt accounted for 56.28% of total public debt in Q4 of 2025, while external debt constituted the remaining 43.72%.

Figure 36:
Ratio of Internal and External Debt to Total Debt for Q4 of 2025



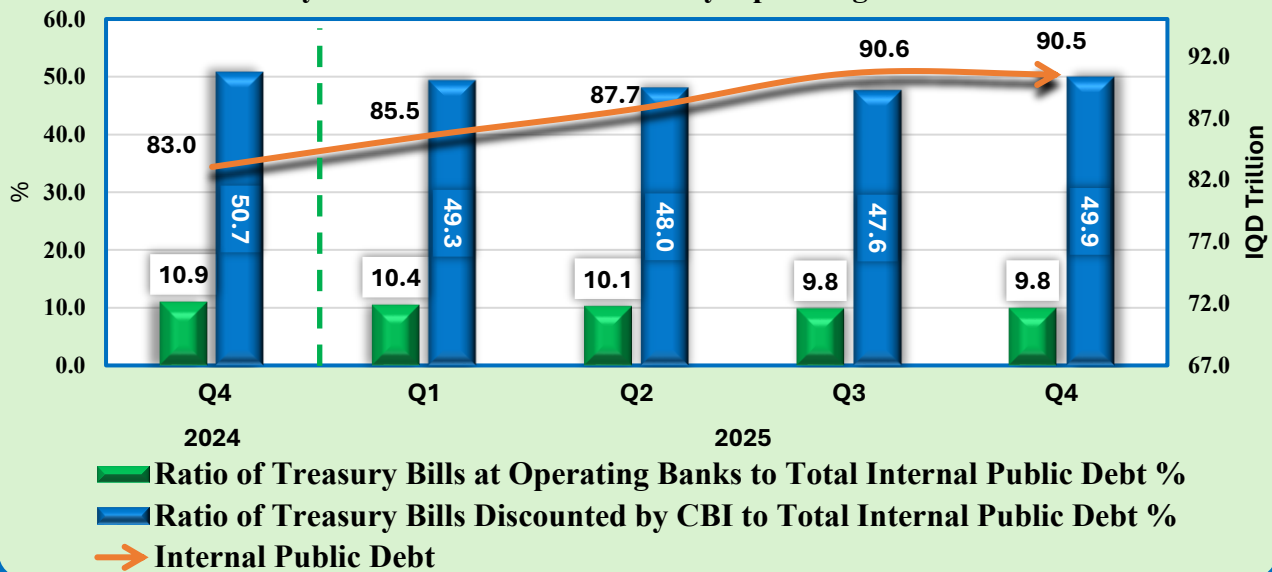
Source: Central Bank of Iraq, Statistics and Research Department.

- a. External Debt Growth Rate:** This refers to the Ministry of Finance's obligations to international lenders, such as foreign governments, financial institutions, or foreign investors. The external debt rate decreased by 1.0% during Q4 of 2025 compared to the corresponding quarter of 2024, driven by the timely settlement of obligations to external entities.
- b. Internal Debt Growth Rate:** This refers to the government's liabilities to operating commercial banks and the CBI. As illustrated in Figure 36, internal debt increased in Q4 of 2025, reaching IQD 90.5 trillion, up from IQD 83.0 trillion in the same quarter of 2024, to finance the budget deficit. Conversely, the ratio of Treasury bills (T-bills) held by operating banks to total internal public debt dropped to 9.8% in Q4¹ of 2025, down from 10.9% in the corresponding quarter of 2024.

Similarly, the ratio of T-bills discounted by the CBI to internal public debt decreased to 49.9% in Q4 of 2025, compared to 50.7% in Q4 of 2024, which contributed to the increase in total internal public debt. Despite the decline in the ratio of T-bills held by operating banks, the value of government bonds rose, reaching IQD 13.1 trillion.

¹ Treasury bills discounted by SOBs were restructured as loans to Rafidain Bank effective December 2025.

Figure 37:
Treasury-Bills and Discounted Bills by Operating Banks



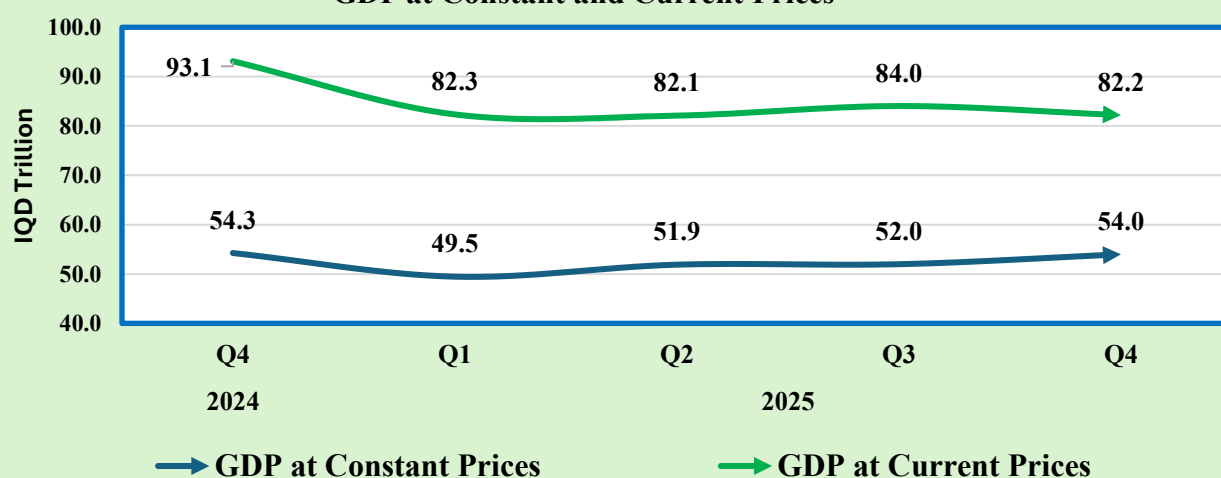
Source: Central Bank of Iraq, Statistics and Research Department.

4. Gross Domestic Product (GDP) Growth Rate:

Gross Domestic Product (GDP) is one of the most critical economic tools used to reflect the strength and growth of an economy. It illustrates the level of economic activity and performance within a country over a specific period, thereby assisting in evaluating economic performance and identifying future trends.

In Iraq, GDP at current prices recorded an 11.7% contraction in Q4 of 2025, dropping to IQD 82.2 trillion compared to IQD 93.1 trillion in the corresponding quarter of 2024. This decline was caused by a 5.2% decrease in oil GDP during the same period. Given that the oil sector accounted for 34.1% of total GDP in Q4 of 2025, this downturn heavily weighed on the overall GDP.

**Figure 38:
GDP at Constant and Current Prices**



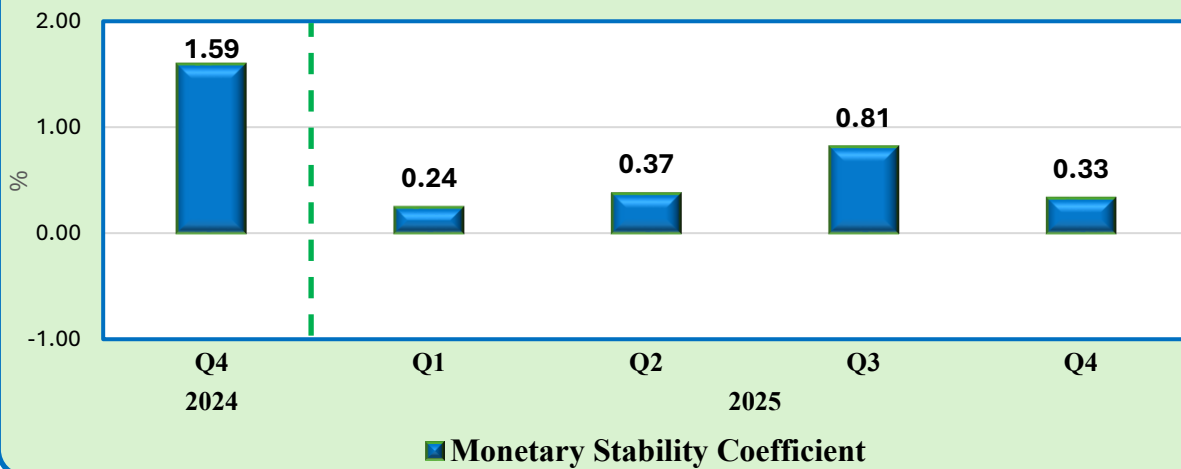
Source: Ministry of Planning, Commission of Statistics and GIS, GDP Data.

5. Monetary Stability Coefficient:

The monetary stability coefficient is an indicator that reflects the equilibrium between the money supply and the volume of goods and services in the economy. It is calculated by dividing the growth rate of the broad money supply (M2) by the growth rate of GDP at current prices. Monetary stability is considered achieved when the value of this coefficient equals exactly one (1.0). A value greater than one indicates that the money supply exceeds the supply of goods, which disrupts economic equilibrium. Conversely, a value less than one signifies that the economy requires an expansion in the money supply to restore balance.

Figure 39 can be utilized to illustrate the shifts in this indicator. The coefficient experienced a sharp decline, dropping to 0.33% in Q4 of 2025, compared to 1.59% in the corresponding quarter of 2024. This contraction was driven by an 11.7% decrease in GDP compared to Q4 2024, which outweighed a 3.9% contraction in M2 during the same period.

**Figure 39:
Monetary Stability Coefficient**



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

Table 3: Key Macroeconomic Performance Indicators

Indicator Name	Q4 2024	Q4 2025	Rate of Change (%)
Inflation Rate (%)	2.8	- 0.9	132.1-
Ratio of Treasury Bills held by Operating Banks) to Total Internal Public Debt (%)	10.9	9.8	- 10.1
Ratio of Discounted Bills held by the Central Bank of Iraq to Total Internal Public Debt (%)	50.7	49.8	- 1.8
Gross Domestic Product (GDP) at Current Prices (IQD Trillion)	93.1	82.2	- 11.7
Gross Domestic Product (GDP) at Constant Prices (IQD Trillion)	54.3	54.0	- 0.5
GDP Implicit Deflator	172	152	- 11.6
Monetary Stability Coefficient (%)	1.59	0.33	- 79.2

Source:

- Central Bank of Iraq, Statistics and Research Department.
- Ministry of Planning, Commission of Statistics and GIS, GDP Data.



Conclusion:

Based on the foregoing, it is evident that the contraction in GDP at current prices has weighed heavily on economic activity. Its impact can be outlined as follows:

1. **A decline in the inflation rate** during Q4 of 2025 compared to the corresponding quarter of 2024, with a rate of change reaching -132.1%.
2. **internal public debt** experienced a significant expansion in Q4 of 2025 relative to the previous year. This growth was primarily driven by a substantial concentration of discounted treasury bill (T-Bills) held by the Central Bank of Iraq (CBI), reaching 49.8% during Q4 of 2025. In contrast, the share of T-Bills held by operating banks fell progressively to 9.8%, reflecting the restructuring of these instruments into a direct loan to Rafidain Bank, effective December 2025.
3. **An 11.7% contraction in GDP at current prices** in Q4 of 2025 compared to Q4 of 2024, which explains the disinflationary trend observed during the same period. Consequently, the first quarter of 2026 is projected to remain insulated from major economic shocks. However, despite the decline in both GDP at current prices and the inflation rate, these indicators remain highly volatile; this is evidenced by the performance in Q2 and Q3 of 2026, which witnessed a downturn in both indicators followed by a subsequent rebound.

Stress Tests

Stress Tests

The Early Warning Report is considered one of the vital reports through which the risks that operating banks may be exposed to can be measured, as well as the risks that the economy in general may be exposed to. The report highlights key indicators which demonstrate the adequacy of net foreign reserves, which serve as the first line of defense for economic activity by maintaining acceptable levels of issued currency and broad money supply (M2) in accordance with standard ratios.

Additionally, the report details specific indicators for operating banks to identify the presence or absence of credit and liquidity risks according to the standard ratio. It presents banking indicators across five quarters to track banks' performance trajectories, whether positive or negative, by comparing the performance ratios of operating banks with standard ratios, or through analyzing banking indicators based on economic theory and banking-specific analysis.

To enhance supervision and ensure the soundness of operating banks, the following stress tests have been introduced to assess banks' resilience and vulnerability to shocks. These Indicators were selected for comparison against international standards to forecast banking soundness in the subsequent quarter. Note that the indicator ratio is calculated by dividing the numerator by the denominator, as follows:

Scenario 1¹: A stress test applied to the numerator of each indicator by reducing it by 10% to assess its impact on the overall indicator ratio.

Scenario 2: A stress test applied to the denominator of each indicator by increasing it by 10% to assess its impact on the overall indicator ratio.

Scenario 3: A stress test applied to both the numerator and denominator of the indicator, where the numerator is decreased by 10% and the denominator is increased by 10%, to assess the impact of this dual shock on the indicator ratio.

¹ Jobst, Andreas A., Ong, Li Lian, and Schmieder, Christian. (2013). A Framework for Macroprudential Bank Solvency Stress Testing: Application to S-25 and Other G-20 Country FSAPs. IMF Working Paper No. WP/13/68, International Monetary Fund.

Following the application of stress tests to each indicator under the above scenarios, the resulting ratios are compared with the standard ratios, as shown in Table 4, to measure the resilience of operating banks against shocks. These tests cover a one-quarter horizon, given that the actual data utilized for the banks is on a quarterly basis.

Table 4: Stress Tests

No.	Indicator	Real Value	Shock Scenarios	Post-Shock Indicator	Standard Value	Description
1	Ratio of Net Foreign Reserves at CBI to Issued Currency (%)	126.9	Shock: 10% reduction in net foreign reserves.	114.7	> 100%	The ratio of net foreign reserves to issued currency is high and will remain above the standard value, even if the indicator is subjected to a severe shock (reduction in net reserves + issued currency) in Q1 of 2026.
			Shock: 10% increase in Issued Currency.	115.5		
			Severe Shock: 10% reduction in net foreign reserves + 10% increase in Issued Currency.	104.2		
2	Net Foreign Reserves Coverage of Total Imports (Month)	13.9	Shock: 10% reduction in net foreign reserves.	12.5	> 6	This is a crucial indicator given that the Iraqi economy relies significantly on imported goods. Stress tests show that the indicator will remain above the standard value of (6) months, even under a dual shock in Q1 of 2026.
			Shock: 10% increase in total imports.	12.7		
			Dual Shock: 10% reduction in net reserves + 10% increase in total imports.	11.4		

3	Capital Adequacy Ratio (CAR) (%)	34.3	Shock: 10% reduction in total regulatory capital.	32.5	> 12.5	This indicator highlights banking soundness and capital adequacy against risk-weighted assets. Stress tests show that even under a dual shock, the ratio (29.6%) remains comfortably above the standard ratio of (12.5%).
			Shock: 10% increase in Risk-Weighted Assets (RWA).	32.8		
			Dual Shock: 10% reduction in total regulatory capital + 10% increase in RWA.	29.6		
4	Net Open Position in Foreign Currency (%)	36.1	Shock: 10% reduction in net open foreign currency position.	32.5	< 20	Stress tests demonstrate the ability of operating banks to maintain a ratio exceeding the standard value, even when subjected to a dual shock. This indicates that operating banks retain a high proportion of foreign currency.
			Shock: 10% increase in capital.	32.8		
			Dual Shock: 10% reduction in net open position + 10% increase in capital.	29.5		

5	Liquidity Coverage Ratio (LCR) Indicator (%)	127	Shock: 10% reduction in net High-Quality Liquid Assets (HQLA).	114	> 100%	This vital indicator measures banks' capacity to cover cash outflows over a 30-day horizon. Stress tests indicate that operating banks will face no liquidity crisis in Q1 of 2026, even under a dual shock scenario.
			Shock: 10% increase in net cash outflows.	115.1		
			Dual Shock: 10% reduction in net HQLA + 10% increase in net cash outflows.	103.6		
6	Net Stable Funding Ratio (NSFR) Indicator (%)	121	Shock: 10% reduction in Available Stable Funding (ASF).	109.1	> 100%	The indicator reveals that operating banks would face a minor liquidity deficit of 1% in 2026 if exposed to a dual shock. Therefore, banks should preferably work on increasing their available required stable funding to guarantee avoiding a liquidity crisis if the shock materializes, assuming all other factors remain constant.
			Shock: 10% increase in Required Stable Funding (RSF).	110.2		
			Dual Shock: 10% reduction in ASF + 10% increase in RSF.	99.1		

7	Ratio of Non-Performing Loans (NPLs) to Total Assets (%)	2.9	Shock: 10% increase in non-performing loans.	3.2	10%	Stress tests indicate that if operating banks face a dual shock in Q1 of 2026, the ratio of NPLs to Total Assets will remain well within the acceptable standard ratio, representing a positive indicator when viewed in the context of total assets.
			Shock: 10% reduction in total assets.	3.2		
			Dual Shock: 10% increase in NPLs + 10% reduction in total assets.	3.5		

Following the application of stress tests to the indicators utilized in the Early Warning Report, it is evident that the banking system enjoys high resilience and is well-equipped to withstand any of the stress testing scenarios. Consequently, it can be concluded that operating banks during Q1 of 2026 will function efficiently without exposure to high risks, as detailed below:

1. Stress tests demonstrate the adequacy of net foreign reserves relative to both issued currency and total import coverage for 6 months, even after assuming the indicator is subjected to a dual shock, as shown in Table 4. This provides an optimistic outlook for the Iraqi economy regarding the value of the national currency.
2. In the event that operating banks are exposed to a dual shock, the Capital Adequacy Ratio (CAR) will remain above the regulatory standard of 12.5%. Specifically, the adequacy ratio will stand at 29.6% in Q1 of 2026 under a dual-shock scenario, as demonstrated in Scenario 3.
3. Banks' liquidity levels will remain high even if exposed to a dual shock, as the Liquidity Coverage Ratio (LCR) will reach 103.6%, which is above the regulatory standard of 100%. Furthermore, although the Net Stable Funding Ratio (NSFR) would drop slightly to 99.1% under the assumption of a dual shock, banks can easily mitigate



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this deficit by increasing their available net stable funding or reducing assets that require funding. Consequently, it can be concluded that operating banks will face no liquidity risks in Q1 of 2026.

4. Regarding credit risk, it can be stated that operating banks will maintain a secure position, remaining insulated from such risks during Q1 of 2026. Under a dual-shock scenario, the ratio of Non-Performing Loans (NPLs) to total assets at banks will reach 3.5%, remaining comfortably well below the standard ratio of 10%.



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