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THE ROLE OF BANKS IN FINANCING ECONOMIC DEVELOPMENT PROJECTS IN IRAQ

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Abstract
The purpose of the study is to determine the propensity of Iraqi banks to finance economic development projects, examine the structure of the Iraqi banking system, and identify some development-related indicators. The main findings include the following: Iraq's banking system forms a highly concentrated network, with the top ten banks having 486 branches, accounting for 53.8% of all bank branches in the country, and the IM model is consistent with independent variables, including independent variables (total bank deposits, bank capital and bank credit) and the dependent variable (gross domestic product at current prices). Key recommendations include: Banking services related to loans must be referred to a specialized advisory office to determine the validity of these loans and the extent of their contribution to increasing the country's growth rate and economic development.

Keywords: economic development - banks – finance- ARDL model.

Introduction

The financial system is an integral part of the economy and one of its largest markets. Interest in services in GDP is mainly generated within the framework of the service, which constitutes the most critical link in the so-called "circulation" of the economy. The sector will inevitably become one of the main drivers of expected economic performance. The presence of intermediary financial institutions in the economy may lead to monetary savings, thereby reducing economic waste and risk for those who want to invest. Effective financial intermediation helps to increase the level of savings by expanding the range of savings instruments, increasing returns, and reducing risks, thereby increasing the level of investment and achieving economic growth and development.

The financial sector has become a mirror of the state of the economy, whether growth is increasing or slowing, as it represents the intersection between the corporate sector and the financial sector, as the former produces goods and services. The financial sector finances this production.

Economic development projects are financed from various sources, including direct financing from local governments and loans, aid, and grants from foreign governments, international development agencies, and the World Bank. Together with banks, they are the most important financial institutions that help to close the financing gap for economic projects in general and economic development projects in particular. Despite the economic and social importance of financing economic development projects, many challenges and

limitations are still associated with this financing method, such as B. Limited financial resources and weak policies and plans related to economic development projects. A heavy reliance on oil characterizes Iraq as its primary source of financing, and falling oil prices reflect soft funding to the economy. This requires finding sources of financing to meet the financing needs of economic projects, and banks play a vital role in filling the financing gap caused by weak financial resources.

The study begins with a basic thesis on the role of bank financing in economic development in Iraq. The research focuses on analysing the patterns and mechanisms of bank financing during the study period and the extent of their contribution to financed projects, in addition to determining the nature of the propensity of Iraqi banks to finance economic development projects and the factors that determine such financing.

Research problem:

Studying the economic logic of the banking industry is to understand its degree of development, especially the development of the commercial banking market, and how easy it is to obtain credit. The banking industry affects economic development by providing cash liquidity. Economic growth depends on technological progress, which requires support from the financial sector. Investment also requires a long-term commitment to provide capital, but savers are often unwilling to give up their savings in the long term, which is the role banks play in making investments less risky and more attractive. This is because it allows savers to acquire and sell assets quickly and allows the business sector to raise funds in various ways to help finance economic development projects.

Importance of research:

Financing economic development is extremely important and is the cornerstone of any government plan or strategy to achieve economic growth. Therefore, this study must provide insights into Iraq's mechanisms and barriers to financing economic development projects. In addition, recommendations are made to help strengthen initiatives and mechanisms to close financing gaps and mobilise and realign financial resources to support economic development activities.

Research objectives:

The research aims to:

1- Determine the direction of financing of economic development projects by Iraqi banks.

2- Study the structure of the Iraqi banking system and identify some development-related indicators.

3- Study the efficiency of the banking system using some indicators.

Research hypothesis:

Despite the weak financial development indicators of the banking system, there is a positive relationship between the financing of the Iraqi banking system and economic development

as represented by GDP. This hypothesis was tested using an ARDL model and associated data analysis.

Research methods and methods:

The study adopts a descriptive analysis approach, using statistical data and financial indicators from its sources to assess the performance efficiency of the banking system while using statistical procedures (SPSS) to determine the performance efficiency of the banking system—the relationship between finance and economic development.

Theoretical framework:

Topic 1: Finance and economic development concepts:

First :Financing concept:

Finance is the most important economic activity in every financial sector (individuals, institutions, governments), and it is impossible to survive without money. Finance also occupies an ample space in economic finance due to its direct connection with the economic development process. Finance has been defined in more than one place as ((including various activities of various kinds of work that enable (individuals - organizations - governments) to obtain the funds required to finance their multiple activities)) (Mukhtar, 2005, p. 14).

Economists define it according to monetary economics as "the provision of money when needed in exchange for a future amount (usually over the original amount) to offset the current value of the money and the risks of inflation and sacrifice" (Rady & Queen, 2020, p. 563).

While others define it as “a loan in which one party to a transaction (usually a financial institution) provides funds to another party (the borrower)” (King, p. 79).

Second: Economic development concept:

Economic development is a process aimed at increasing the economic growth of a country. This is achieved through the implementation of numerous development programs that further advance and develop the country, with a positive impact on society through the implementation of a series of successful economic programs, known as "Additional", where communities strive to improve economic performance and grow from the surrounding benefiting from the wealth, especially in areas lacking economic diversity, which hurts the overall local environment (Siddiqi, 2010, p. 42).

It is one of the technical and economic measures to move from one economic state to a new stage. For improvement, such as the transformation from an agricultural economy to an industrial economy or from a commercial economy to a technology-based commercial economy (El-Guindy, 2021, p. 5).

It also involves sustained and coordinated actions by policymakers and groups that help improve a region's living standards and economic security. Economic development can also refer to the quantitative and qualitative changes experienced by the economy (Sello & Ali, 2023, p. 436).

Section 2: Historical development of the Iraqi banking system:

From 1931 onwards, the Iraqi monetary system developed, with the Iraqi cash currency issued under Law No. 44 of 1931 and equal to the pound sterling (one pound per Iraqi dinar). The Bank of Iraq also entered banking for the first time in 1935.) passed the Iraqi Banking Law in the same year and established the first national bank (Industrial and Agricultural Bank) in post-independence Iraq, which was split into two banks the following year, the Industrial Bank and the Agricultural Bank, with foreign bank branches dominating Iraqi banking activities. Before establishing the National Bank of Iraq, the first commercial bank (Al-Rafidain) was established under Law No. (35) of that year (1941), and subsequently, the National Bank of Iraq (1947) began operations in (1949). His first work was to study the legislative and regulatory aspects of the Bank Control Act (1938). (Repeated by Law No. (34) of (1950), the bank began to issue the first batch of banknotes bearing the name of the bank in September of that year (1950). Subsequently, it began to establish Arab and Foreign Banknote Bank branches in Iraq (Lebanese Bank), Interbank (African Bank of Trade and Industry) and two Iraqi banks: Commercial Bank of Iraq (1952), Bank of Baghdad (1956) and Co-operative Bank (1959). Banking groups such as real estate and mortgage banks were established under 1956 By-Law No. 72. The National Bank was renamed the "Central Bank of Iraq". In the early sixties, all banks operating in Iraq were nationalised. The Public Banking Company was established in 1964, to which the Central Bank of Iraq was affiliated and authorised to carry out bank mergers. The number of commercial banks operating in Iraq is 1967 (Al-Rafidain - Iraqi Commercial - Iraqi Credit - Bank of Baghdad), which were also merged in 1970 to form two banks: Al-Rafidain and Commercial Bank, which merged into one in 1974 bank, namely (Al-Rafidain), the bank. In addition to having branches outside Iraq, it also started opening branches in the governorates. That year (1988), Al-Rafidain was divided into two banks, Al-Rafidain and Al-Rasheed. The purpose of the division was to create competition between them (Hamza, 2015, pp. 74-75).

In 1991, the Central Bank allowed the private sector to conduct banking operations and established several private banks. The central bank also approved an amendment in 1997 to allow private banks to carry out entire banking operations instead of traditional ones. Post-transformation (2003), the Iraqi banking sector is in the transition phase, part of the preparatory phase of the economy's transition to a market economy. Perhaps the most important in the banking sector is the Law on the Central Bank of Iraq (56) passed in 2004, which gives it complete independence from government interference in the management of... monetary policy, away from political pressure as well as financial policy; in addition to passing relevant regulations by The market mechanism purchased and sold securities in addition to the public debt law, and also completed within one year the replacement of the Iraqi currency that had been inflated due to errors in issuance policy (2004). The Iraqi Banking Law (94) of that year (2004) was also enacted to create a modern banking system operating by international standards (Radi & Quinn, 2020, p. 568).

Between 2004 and 2011, the Central Bank of Iraq continued its efforts to improve financial and regulatory legislation to strengthen the financial system. This also includes the obligation of commercial banks to increase capital and solvency by international standards,

diversify banking services, and issue instructions on capital flows. Foreign currency investment means that commercial banks can open foreign currency current accounts (investment accounts), and commercial banks can import foreign currencies with the central bank's approval. Thus, at the end of 2011, the total number of banks operating in the Iraqi banking market was (45), including (7) government banks, three specialised banks, and (42) private sector affiliated banks, including 9 Islamic banks and ten banks in partnership with foreign banks. Capital and participation rates of 23 private banks range between (8-75%) (Sello & Ali, 2023, p. 442).

There are now 74 banking institutions in Iraq, but their contribution to the national GDP in 2021 is only 1.94%. The banks have 904 branches nationwide, but most are concentrated in Baghdad, Iraq's economic centre. Moreover, Basra was 37.1% and 9.3%, respectively. According to World Bank data, the number of commercial bank branches per 100,000 adults reached 5.63 in 2020, far lower than those in neighbouring countries. For example, Turkey's figure is 16.1, Iran's is 31.1, and Kuwait's is 13.6.

Section 3: Characteristics of the Iraqi banking system:

The banking system in Iraq has many features and characteristics:

1- The scale of state-owned banks is vast, and there is a lack of clarity in future planning strategies. Various privatization methods need to be used to restructure the state-owned sector.

2- Private banks still account for the majority of the total capital of banks, amounting to (4) trillion dinars, of which the proportion of total capital allocated by private banks and Islamic banks is approximately (83.9%). The rest is determined by government banks (16.1%), but their banks are less efficient and non-participating. When providing banking services.

3- The share of demand deposits to total deposits is high, and most of the deposits in the banking system come from the public sector, then the private sector, and finally, the financial sector (Abdel Nabi et al., 2018, p. 16).

4- Most of the loans disbursed to the private sector go to individuals rather than companies, accounting for about (86%) of the total loans disbursed to the private sector compared to (14%) of the total loans disbursed to the private sector.

5- Legal frameworks such as the Corporate Governance and Insolvency Code need to be updated, and there are gaps in the transparency, completeness, and accuracy of financial statements and other disclosures.

6- The regulatory framework exists by regulations and laws, but professionalism is required to support its implementation.

7- Besides banks, intermediaries and non-bank institutions have smaller capital sizes, such as B. (investment companies, financial transfer companies, insurance companies, and pension funds). There is a severe shortage of non-bank intermediary companies, such as short-term and medium-term loan financing companies, and no banking activity exists. Rating agencies evaluate the performance of security issuers, hindering investors from making effective decisions. There is also a lack of information points that prevent banks

from withdrawing bad loans, while their presence helps provide complete information about the borrower.

8- Financial and banking instruments are still traditional and need to be updated in new ways, such as B. Introduction of instruments based on ((Securitization)); for example, the creation of new financial instruments for certain groups of society (e.g. university students), convert mortgages into bonds traded on financial markets, etc.

9- The banking system remains bureaucratic and based on central management. It needs to be restored through modernization to serve society by expanding the list of products and services and introducing new products with modern names (Hamza, 2015, pp. 81-82).

Practical part:

Use the ARDL model to measure and analysis the development of the banking sector and its impact on the financing of economic development in Iraq during the period 2006-2023:

Model description: As of the end of 2023, the number of banks operating in Iraq is approximately 73, including five banks currently in liquidation. These banks are diversified and include a group of types distributed as follows:

1- Government Banks: Includes seven banks, six commercial or conventional banks, and one Islamic bank.

2- Iraqi private commercial banks: There are 25 banks.

3- Islamic Private Banks: There are 28 banks.

4- Branches and Representative Offices of Arab and Foreign Banks: There are 13 branches and representative offices of foreign and Arab banks in Iraq.

As shown in the table below:

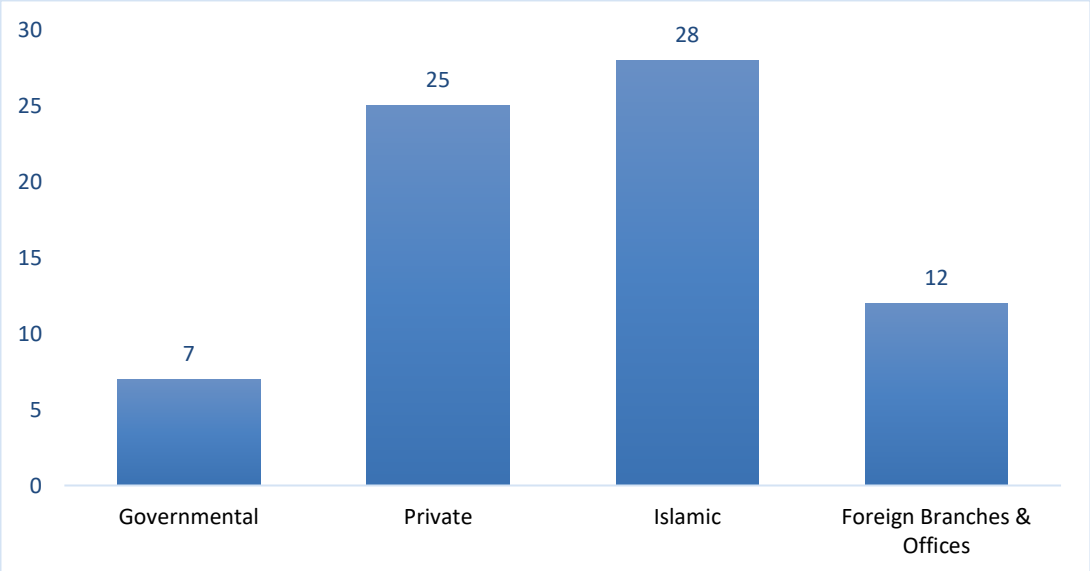

Figure (1): Types and Number of Banks Operating in Iraq as of the End of 2023

Source: Compiled by researcher based on statistical analysis results

Analyzing the latest data on the penetration rate of the banking industry in Iraq, the data shows that the total number of branches of operating banks reached approximately 904 by

the end of 2023. Of these, 411 branches are affiliated with government banks, while the number of branches belonging to the Islamic Bank of Iraq and foreign private banks is 493. 1 branch. State-owned commercial banks are the most extensive banking group in the country, accounting for 45.5% of the total number of branches. In second place is the Commercial Bank of Iraq, with an interest rate of 30.3%, followed by the Islamic Bank of Iraq, with an interest rate of 20.1%. In addition, foreign commercial banks accounted for 3.1% of the total branches, foreign Islamic banks accounted for 0.5%, and Islamic state banks accounted for 0.4% of the total branches.

Iraq's banking system is a highly centralized network, with the top ten banks having 486 branches, accounting for 53.8% of the country's total bank branches.

To measure the impact of banking sector development on the financing of economic development in Iraq between 2006 and 2023, three independent variables were identified based on previous studies: total bank deposits and capital and capital. On the one hand, there is the total amount of bank credit. To represent the degree of development of the banking sector in Iraq, the variable “GDP at current prices” is used, and on the other hand, to represent the economic development of the country, all figures are in millions of Iraqi dinars. The required annual data are obtained from the official website of the Central Bank of Iraq, as shown in the table below:

Table (1): Banking industry development and GDP indicators in Iraq from (2004 to 2023) million Iraqi dinar

The years	GDP	Total bank credit	Bank capital	total bank deposits
2004	53235359	8,587,044	1,157,708	903,057
2005	73533599	10,604,356	3,915,113	2,847,224
2006	95587955	24,027,105	8,692,070	8,324,434
2007	1.11E+08	32,452,095	11,194,759	10,733,183
2008	1.57E+08	42,840,436	16,310,449	18,360,225
2009	1.31E+08	49,977,012	21,541,913	20,198,177
2010	1.62E+08	81,694,318	26,234,296	29,142,306
2011	2.17E+08	103,173,256	31,051,996	35,817,249
2012	2.54E+08	134,381,139	39,636,829	40,129,175
2013	2.74E+08	303,285,065	68,928,367	73,158,513
2014	2.66E+08	347,370,151	82,184,271	92,082,072
2015	1.95E+08	406,662,688	89,618,056	112,647,693
2016	1.97E+08	418,171,075	99,582,153	128,956,078
2017	2.22E+08	438,848,736	117,115,263	155,456,967
2018	2.69E+08	461,616,134	134,369,626	176,815,833
2019	2.76E+08	472,357,545	141,361,819	181,960,627
2020	2.16E+08	539,499,433	160,667,864	200,495,804
2021	3.01E+08	640,359,261	172,340,309	207,380,399
2022	3.83E+08	654,935,956	174,349,330	176,055,839
2023			21,169,816	14,591,298

Source: Central Bank of Iraq, Statistical and Economic Data, available through the following link: https://cbiraq.org/

The standard model was estimated using the autoregressive distributed lag model (ARDL), and the results were obtained using EViews 12 software. The model is formulated using the following equation:

$GDP = B0 + \beta_1 Depos + \beta_2 Capit + \beta_3 Cred + \in_i$

Where it crosses:

The dependent variable is GDP per million Iraqi dinars at current prices, β_1 represents the coefficient of total bank deposits per million Iraqi dinars, β_2 represents the coefficient of bank capital per million Iraqi dinars, and β_3 represents the coefficient of Total bank loans per million Iraqi dinars. Moreover, $\in_i$represents the error term. Use the following test:

1- 1-Time series stationarity test (unit root test and Phillips-Perron test).
2- Cointegration test between variables to estimate the long-term relationship.
3- Non-stationarity test for homogeneity of variances.
4- Serial autocorrelation test.
5- 5-Stability test.

Test results are explained in order:

1- Unit root test – Extended Dickey-Fuller test (ADF): Test for stationary time series. According to the null hypothesis (H0:B=0), the time series of the variable is non-stationary and contains a unit root, and vice versa for the alternative hypothesis (H1:B=1).), which shows that the time series of the variable is stationary, which means that it does not contain a unit root. Table (2) below lists the results of this test.

Table (2) Results of the extended Dickey-Fuller (ADF) test

		With intercept		With Intercept& Trend		Without intercept& Trend	
		t- statistic	Prob.	t- statistic	Prob.	t- statistic	Prob.
At Level	GDP	-0.707	0.820	-2.663	0.261	1.435	0.956
	Depos	-2.504	0.131	-0.659	0.961	-2.829	0.0074
	Capit	-2.870	0.0686	0.252	0.996	-4.499	0.0001
	Cred	0.683	0.988	-2.233	0.445	3.005	0.998
At First Difference	d(GDP)	-3.359	0.029	-3.081	0.141	-2.793	0.008
	d(depos)	-	-	-	-	-	-
	d(Capit)	-	-	-	-	-	-
	d(Cred)	-3.435	0.0242	-3.441	0.0791	-2.219	0.029

Source: Prepared by the researcher based on the results of the EViews 12 program

It can be seen from the above table:(2)

For model variables with only constants (with intercepts), not all variables are stable at that level because the probability value (Prob) is larger than the typical significance level (significance level), usually (5%).). Therefore, the assumption that a time series has a unified root exists at this level. GDP, Cred are still not stationary at level with none (no trend, no intercept), whereas Depos, Capit are stationary. With trend and intercept the all variables are not stationary at level. At the first difference, the time series becomes stable for GDP, Cred because the probability value (Prob) is less than (5%) with none, intercept, but not stationary with trend and intercept. Therefore, the variables show stable behavior after the I (0), I (1).

2- Phillips-Perron test (PP).

Table (3) Phillips-Perron test (PP)

		With intercept		With Intercept& Trend		Without intercept& Trend	
		t-statistic	Prob.	t-statistic	Prob.	t-statistic	Prob.
At Level	GDP	-0.364	0.896	-1.94	0.593	1.908	0.982
	Depos	-1.486	0.519	-0.727	0.955	-0.871	0.325
	Capit	-1.378	0.571	-1.118	0.899	-0.852	0.334
	Cred	0.682	0.988	-2.233	0.445	2.740	0.996
At First Difference	d(GDP)	-2.997	0.0553	-2.828	0.207	-2.640	0.0117
	d(depos)	-0.0034	0.946	2.492	1	-0.477	0.495
	d(Capit)	2.324	0.999	9.366	1	-0.588	0.448
	d(Cred)	-3.435	0.0242	-3.441	0.0791	-2.141	0.0347

Source: Prepared by researcher based on results from the EViews 12 program

Table (3) is considered the second step to ensure the stationarity of the time series. It can be seen that the variables are not stationary after the first difference except GDP; that is, they did not show stable behaviour after the first difference. However, it cannot be ruled out that some variables have unified roots in levels when using only constants or constants and time trends and that there are unified roots in levels when using constants and time trends. Use becomes a model without constants and trends.

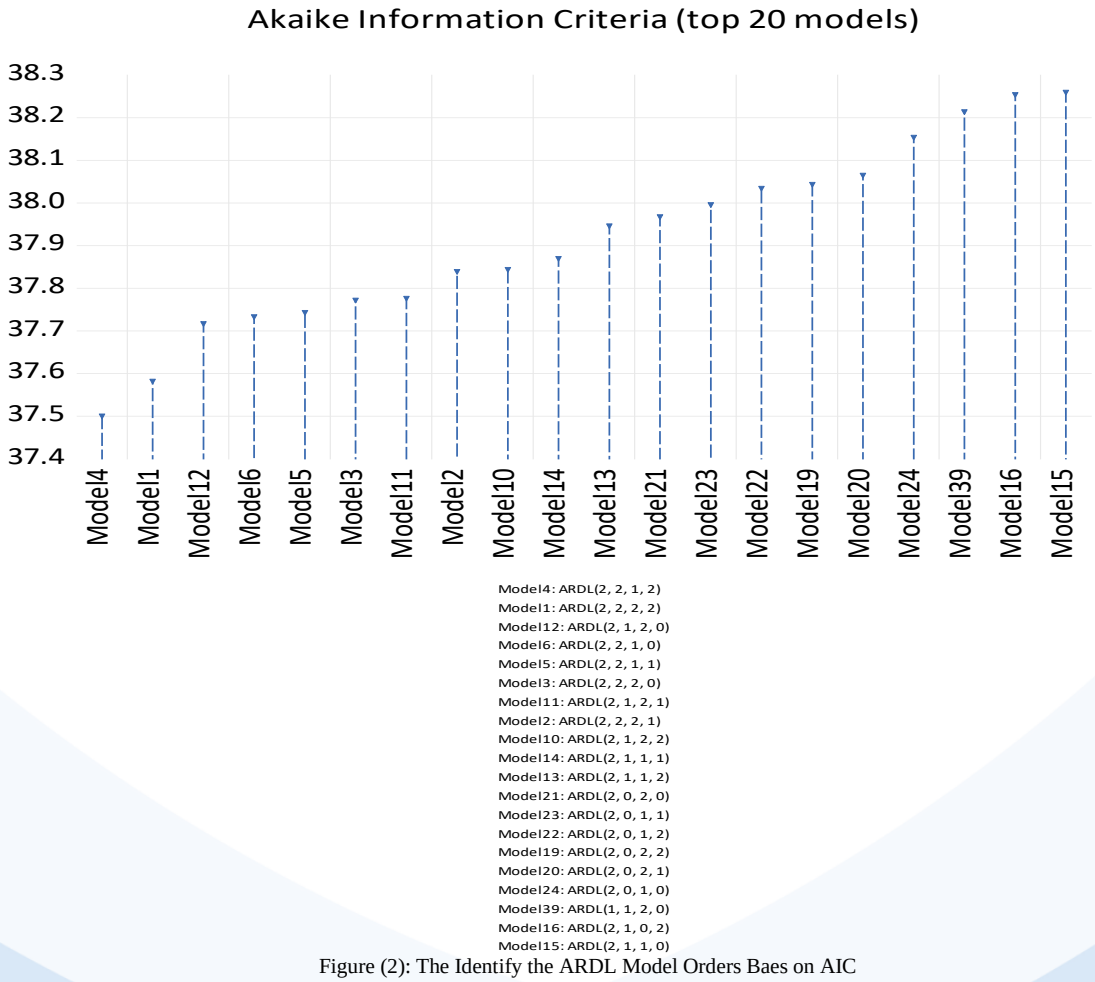

Figure (2): The Identify the ARDL Model Orders Baes on AIC

3- Cointegration Bounds Test: Table (4) shows the results of the Cointegration Bounds Test, an economic model used to determine whether a long-run relationship exists between variables. This table tests the hypothesis that no long-term relationships exist between the variables included in the model. The tests were performed using bounds tests and various significance measures (1%, 2.5%, and 10%). The null hypothesis (basic assumption) in bounds testing is that variables have no long-term relationship. This is done by comparing the value of the F statistic to its table value within its previously suggested critical limits. If this hypothesis can be rejected based on the results in the table, it means that there is a long-run relationship between the variables. Since the values of I(0) and I(1) are the values of the critical limits of the test, and the F statistic test value of the primary hypothesis is 8.26, which is greater than the upper limit, the null hypothesis is rejected, and the alternative hypothesis is accepted. That is, there is a long-term relationship between the variables included in the model.

Table 4: Cointegration bounds test

Null Hypothesis: No levels relationship				
Test Statistic	Value	Sign if.	I(0)	I(1)
F-statistic	8.260057	10%	2.37	3.2
k	3	5%	2.79	3.67
		2.50%	3.15	4.08
		1%	3.65	4.66

Source: Prepared by researcher based on results from the EViews 12 program

4- Test the estimate of the long-run relationship coefficient: Determine whether there is a long-run relationship between the independent variable and the dependent variable according to the cointegration model (ARDL); refer to Tables (5) and (6), which shows the long-run relationship coefficient) Moreover, the error correction model (ECM) is in the form of cointegration. Let us compare the independent variable's coefficient value with the dependent variable's coefficient value and the corresponding statistical significance value. We will find that they all have a solid and significant long-term relationship, H. Relationship. It is straightforward and economically logical in the long run, and changes in the independent variable have a lasting impact on the dependent variable.

Table (5): Long-term Relationship Balance (Model: ARDL (2, 2, 1, 2) Dependent Variable GDP)

Long run coefficients (ARDL)				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
DEPO	-3.1468	0.959038	-3.2812	0.0135
CAPIT	2.277909	0.745277	3.056459	0.0184
L(D(CR))	531680.6	208116.8	2.554722	0.0378
C	13383608	8006441	1.671605	0.1385
EC = D(GDP) - (-3.1468*DEPO + 2.2779*CAPIT + 531680.5698				

Source: Prepared by researcher based on results from the EViews 12 program

Table (6): Ensemble Error Correction Model (ECM) Mapping (ARDL).

Variable	Coefficient	St. Error	T-Statistics	P.value
D(DEPO)	4.432	1.597378	2.774547	0.0196
D(CAPIT)	-3.88845	1.246779	-3.1188	0.0109
L(D(CR))	1305694	518475.8	2.518331	0.0399
CointEq(-1)*	-1.39416	0.293341	-4.75268	0.0008

Cointegrating Equation:

D(GDP,2) = -2.455786049314*(D(GDP(-1)) - (-3.14679682*DEPO(-1) + 2.27790858*CAPIT(-1) + 531680.56976290*D((CR)^0.33) + 13383608.48146685))

Source: Prepared by researcher based on results from the EViews 12 program

5- Serial autocorrelation test: Table (7) shows the results of Breusch's serial autocorrelation test. This test is used to detect the presence of serial correlation (time series) in the data. As can be seen from the table, the F statistical coefficient value is 3.744. Suppose the value of the test probability is Prob. F(2,5) is equal to 0.1015 and more significant than (5%), the null hypothesis ((H0 = P = 0)) can be accepted, and the alternative hypothesis ((H1 = P ≠ 0) can be discarded, that is There is no autocorrelation in the residuals.

Table (7): Serial Autocorrelation Test According to the Breusch Method

Test	Value
F-statistic	3.743554
Obs*R-squared	9.593393
Prob. F(2,5)	0.1015
Prob. Chi-Square (2)	0.0083

Source: Prepared by researcher based on results from the EViews 12 program

6- Heteroskedasticity test: Table (8) below shows the results of the heteroscedasticity test using the ARCH method. This test uses a test for heteroskedasticity of the data over time. The null hypothesis states that there is a difference in variances, which means there is no homogeneity of variance problem. In contrast, the alternative hypothesis states that there is no homogeneity of variances, that is, H. Problem exists. As can be seen from the table, the value of Prob.f (2.239) is equal to (0.158) and more significant than (5%). Therefore, we accept the null hypothesis that the estimated model does not have variance heterogeneity issues at the significance level (5%) and reject the alternative hypothesis. In addition, the results of the R-squared Obs coefficient are also given in the table. And probability coefficients. Chi-square: These results are used to evaluate the model quality used in the test. Since the probability value of the chi-square coefficient is greater than the significance level (5%), the model is considered suitable for representing the data with homogeneity of variances.

Table (8): Heteroskedasticity Test Using (ARCH) Method

Test	Value
F-statistic	2.239143
Obs*R-squared	2.204005
Prob. F(1,13)	0.1584
Prob. Chi-Square(1)	0.1377

Source: Prepared by researcher based on results from the EViews 12 program

Conclusions:

1. In the ARDL (2, 2, 1, 2) model, analyzing the long-term relationship between GDP and independent variables reveals key insights. Deposits (DEPO) exhibit a significant negative impact on GDP, with a coefficient of -3.1468 and a p-value of 0.0135. Conversely, Capital (CAPIT) positively influences GDP, with a coefficient of 2.277909 and a p-value of 0.0184. The lagged difference of Credit (CR) also affects GDP positively, with a coefficient of 531680.6 and a p-value of 0.0378. Similarly, in the ECM mapping, changes in Deposits (D(DEPO)) and Capital (D(CAPIT)) significantly impact GDP, with coefficients of 4.432 (p = 0.0196) and -3.88845 (p = 0.0109), respectively. The lagged difference of Credit (L(D(CR))) and the lagged level of the cointegrating equation (CointEq (-1)) also exert significant influences, with coefficients of 1305694 (p = 0.0399) and -1.39416 (p = 0.0008), respectively. These findings highlight the importance of these variables in shaping GDP dynamics.
2. Financing refers to providing the necessary funds for the creation and expansion of new projects, and the role of financing sources is limited to bringing the perspectives of both parties closer to the financing process.
3. By the end of 2023, the number of banks operating in Iraq reached approximately 73, including five currently liquidated banks. The total number of operating bank branches is approximately 904. Of these, 411 branches belong to government banks, and 493 belong to private Iraqi Islamic and foreign banks.
4. State-owned Commercial Bank is Iraq's most extensive banking group, accounting for 45.5% of the total number of operating branches. In second place is the Commercial Bank of Iraq, with an interest rate of 30.3%, followed by the Islamic Bank of Iraq, with an interest rate of 20.1%. Foreign commercial banks contributed 3.1%, and foreign Islamic banks contributed 0.5%. In addition, Islamic State Bank accounts for 0.4% of the total number of branches.
5. Iraq’s banking system network is highly concentrated, with the top ten banks managing 486 branches, accounting for 53.8% of the total bank branches in the country.
6. Research shows a significant positive relationship between the independent variables included in the model (bank capital, total bank deposits, and bank credit) and the dependent variable (current GDP prices).
7. It is worth noting that in some years, the volume of bank deposits and bank loans increased significantly (except in 2014, 2015, and 2016), but this was offset by a decline in economic

development due to the lack of investment and production, considering to the difficulty of reducing government spending, especially given the government's growing need for more military and security spending and the coronavirus pandemic.

8. All diagnostic tests performed to demonstrate the validity of the standard model used in the estimation confirm that they are acceptable and that the model does not suffer from non-stationarity or homogeneity of variance problems. In addition to the stability of model parameters, there is also the problem of heterogeneity or serial autocorrelation between residuals in the long term.

Suggestions:

1. Deposits (DEPO): The positive coefficient of 4.432 suggests that changes in deposits have a significant positive impact on GDP, indicating the importance of maintaining favorable deposit inflows.
2. Capital (CAPIT): The negative coefficient of -3.88845 implies that changes in capital have a significant negative effect on GDP. This highlights the need to focus on stimulating capital investment through policies that foster innovation, entrepreneurship, and access to financing for businesses.
3. Credit Dynamics (CR): The coefficient of 1305694 indicates that lagged differences in credit have a substantial positive impact on GDP. Policymakers should closely monitor credit dynamics and ensure the availability of credit to support economic activities, while also implementing measures to mitigate excessive credit risks.
4. Improving banking infrastructure: The infrastructure required to provide modern and effective banking services needs to be improved and developed, such as electronic payment systems, internet, power supply, and security. There is also a need to improve and develop trained and qualified personnel to manage and operate these services.
5. Improve banking regulation: The supervision and control system of bank performance needs to be improved and developed, whether through the Central Bank of Iraq or the Banking Regulatory Authority.
6. Loan-related banking services must be submitted to a specialized advisory office to determine the validity of these loans and the extent of their contribution to increasing the country's growth rate and economic development.
7. The government must regularly review the financial reports it submits to reduce the misappropriation of public funds.

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