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The possibility of financial stability in Iraq after 2003

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Abstract: *- Interest in financial stability issues is usually increasing in the wake of financial crises, One of the reasons for the interest in issues of financial stability as well is the speed and strength with which the contagion of external financial crises spreads to the domestic financial system, and from it to the real economy, and in a short period of time, especially in the case of crises related to the banking system, where the collapse of a bank leads to a decline in the value of financial assets in the markets to low levels, because banks are often the biggest holders.*

The concept of financial stability is not limited to how to deal with financial crises at the time they occur, but also works mainly to rehabilitate the financial sector to absorb and absorb these crises, reduce the likelihood of them occurring, and reduce the chances of their repercussions being transferred to the main components of the domestic financial sector, and thus the rest of the economic sectors in the country.

The research reached several conclusions, the most important are:

1. Financial stability requires monetary stability, which is the ability of the monetary sector to stabilize the overall level of prices at target levels.

2. The challenges of achieving financial stability are the decline in transparency, the increased degree of expansion and complexity of the financial system.

The most important recommendations are

The general framework for financial stability is included in a set of criteria and indicators, which contribute to the detection of weaknesses and strengths of the system, and so that they are monitored and followed up periodically, through specific entities with the authority to take corrective action for weaknesses in normal situations.

Keywords: *- Financial Stability, Banking Stability, Central Bank of Iraq*

Introduction

Interest in financial stability issues is usually growing in the wake of financial crises, with studies on financial stability taking up much of the attention after the Asian financial crisis (1997-1999), and the imf and the World Bank introduced the Financial Sector Assessment Program in 1999, primarily aimed at identifying weaknesses and strengths in member states' financial systems.

One of the reasons for the concern for issues of financial stability, the speed and strength with which the contagion of external financial crises spread to the domestic financial system, and from it to the real economy and in a short period of time, especially crises related to the banking system, where the collapse of a bank leads to the decline of the value of financial assets in the markets to low levels, because banks are often the biggest holders. The concept of financial stability is not limited to how to deal with financial crises at the time they occur, but also serves to rehabilitate the financial sector to absorb and absorb those crises, reduce the likelihood of them occurring, reduce the chances of their repercussions to the main components of the domestic financial sector, and thus the rest of the economic sectors in the country, which requires a great deal of transparency and governance of institutions and financial markets, in addition to the need to link financial stability indicators and achieve performance discipline in the financial markets, and to ensure the viability of payments and adjustment and clearing. Time of crisis in doing its addition efficiently.

At the central bank level, many of them after the Asian financial crisis set up independent financial stability units. These units adopted the publication of a series of reports highlighting the importance of achieving financial stability, and increasing the visibility of the parties involved in the financial sector and the public, in a positive way to the overall national economic performance. The focus was on identifying the potential risks to the financial sector and drawing up a range of scenarios for potential crises, and in this context some central banks conducted a series of endurance tests, to determine the ability of financial institutions and markets to cope with the potential repercussions of the crises.

Firstly: The problem of research: the banking system in Iraq is exposed to many challenges, the most important of which is to move away from its main role in financing development, and the tardiness in the performance of many of its banking units and the failure in others, which has become a concern for the banking system and not a factor for stability in it. This helped the absence of a clear methodology for the Central Bank and its regulatory body in monitoring the work of banks, as well as their lack of an internal system that defines their objectives, duties, responsibilities and powers, and the Law of the Central Bank of Iraq No. 56 of 2004 did not include a clear structure that explicitly refers to its regulatory body and statement of its objectives, and the criteria on which it is based in evaluation and oversight.

Secondly: The importance of research lies in highlighting the positive role of financial stability indicators as enhanced indicators of financial stability, while at the same time highlighting the importance of banks in achieving financial stability in Iraq.

Thirdly: Research objectives: The research aims to:

1. To determine the stability enjoyed by the banking system in Iraq, as this is important in maintaining financial stability by contributing to price stability and keeping inflation rates low.
2. Review the most important indicators that measure the extent of financial stability in Iraq.

Fourthly: The hypothesis of research: economic factors and variables and their stability are directly linked to financial stability, which in turn reflects positively on macroeconomic performance.

Fifthly: Research methodology: The research adopted the descriptive analytical approach while the descriptive approach was used to present the main concepts, and then adopted the analytical method in reviewing the financial stability indicators used in the banking sectors in Iraq.

Sixthly: The structure of research: the research is divided into two axes, the first is the theoretical framework for financial stability, and the second axis deals with indicators of financial stability in the Iraqi banking system, down to the conclusions and recommendations.

The first axis: the theoretical framework for financial stability:

The concept of financial stability

If the concept of monetary stability can be defined relatively easily, it is quite different for financial stability, and in general the financial system can be stable in the absence of volatility, tensions or severe crises, but this definition is narrow because it does not determine the positive contribution of a well-performing financial system to overall economic performance. Such definitions highlight the economic dimension of financial stability, interactions between the financial and real sectors, and then the monetary sector, as long as monetary conditions are affected by asset prices, and vice versa. From this perspective, financial stability can be defined as a particular circumstance in which the financial system is able to withstand shocks and address financial imbalances (Saadi, 2015:3).

In view of the multiplicity of international and regional actors concerned with financial stability, which resulted in the lack of agreement on a single definition of it, where economic literature included multiple concepts of financial stability, many of which focused on defining it in terms of being the case corresponding to the situation of financial instability, which is characterized by the inadequacy or turmoil in the sector's function of financial intermediation in accordance with the principles and ideal standards, and another group of economists criticized this trend, noting that the financial sector's function as a financial intermediary does not imply that the financial sector's function as a financial intermediary does not optimally mean Necessarily its ability to cope with financial crises that move from one country to another, and is unavoidable as the world turns into a small village with highly complex financial and economic relations (Shinassi, 2005: 1).

The following is a presentation of a set of common concepts of financial instability and stability, and criticisms that may be directed at these concepts in order to try to reach a comprehensive definition from the researcher's point of view of financial stability:

1. Concepts of financial stability in economic literature

Mishkin knew the financial instability, in which the financial sector became unable to function fully as a financial intermediary, flowing through financial resources from the owners of the heads of the funds to the claimants, to exploit possible investment opportunities. This definition ignores the reality, as the greatest financial crisis occurred in the light of the financial sector doing this function, such as the financial crisis that broke out in East Asian countries 97/1999, and even during the financial crises, the financial sector does not stop entirely in the performance of its main function. It is highly relied upon in the implementation of remedial plans to counter its repercussions, injecting more liquidity or by taking advantage of its role as a financial intermediary in reorienting resources in the affected sectors. Davis has known financial instability as a situation where the risk of crisis increases, a situation in which the financial sector is experiencing a major collapse that prevents payments and settlement services from being directed to productive and effective investment opportunities, and therefore relies heavily on the role of the financial system in Supporting the real economy through its primary function of providing credit and facilitating payment services, Good hart (2009) defines financial instability as "a situation where there is a significant increase in demand for money, a decrease in the level of real output, an increase in inflation, a rise in the real interest rate", and suggests that there are no delays in calculating previous indicators to reflect financial instability.

(Andrew Crochett) points out the need to differentiate between two concepts of financial stability, namely, institutional stability and market stability, and banks are at the forefront of the institutions of the financial sector. The collapse of the corporate sector and markets at the same time.

In general, financial stability from crochett's point of view is the situation in which institutions in the financial sector have a great deal of confidence in their ability to continue as a task without the need for external assistance, and the traders of major markets conduct their transactions with a degree of confidence, at prices that reflect the real value of the financial products in circulation, and that the prices of these products do not reflect the forces of supply and demand with the stability of other factors unchanged.

This definition reflects the focus on financial intermediation and markets and ignores the role that payment systems and monetary policy play in influencing financial stability. Rogoff, on the other hand, sees financial instability as "a situation that is achieved at a significant loss of real output and considers that the loss of real output as an indicator of financial stability does not require a period of slowness in its calculation (Afan, 2011:4).

2. Concepts of financial stability from the point of view of some central banks:

Concepts of financial stability may vary from one central bank to another, although they agree on the need to work to stabilize all key components of the financial sector in a balanced way. It should be noted that some central banks give relatively more weight to one component at the expense of the other depending on the impact of developments in the financial and real sectors, and the European Central Bank adopts the view of some economists who believe that financial stability is achieved when financial institutions are able to withstand shocks and financial imbalances that can negatively affect the efficiency of the distribution of savings to profitable investment opportunities.

The Bank points out that this process requires continuous follow-up of the continuous submission of a number of macroeconomic indicators related, as the Bank considers that there is a great correlation between financial stability and price stability, and enhances the presence of each of them from the chances of achieving the other, on the one hand contributes to the efficiency of financial institutions and their ability to allocate resources and the distribution of financial observation, and enhances their ability to assess risks and on the other hand financial stability promotes price stability by contributing effectively and gradually the impact of monetary policy is being transferred to the real sector.

While the Us Federal Reserve takes the view that the financial instability is characterized by three consecutive major phenomena, namely, the deviation of the prices of a group of the most important securities from their prices that correspond to the fundamental elements of the financial institutions issuing these securities, and the distortion of credit trends at the local and global levels, which leads to the concentration of inactivity and increased risk of inability to pay and deviation from the levels of spending on the balance level of Reduces opportunities for economic growth.

The Central Bank of Canada defines financial stability as "a situation where there are no threats that could affect macroeconomic performance, the performance of the financial and other sectors."

From the central bank's point of view, financial stability is "the state of balance in which the financial system is able to carry out its basic economic functions of allocating economic resources and balancing risks, adjusting payments with the necessary efficiency, and being able to continue to perform these functions properly even with some shocks, crises or situations that require significant structural changes." (Shazli, 2014: 14-17).

According to a senior economist at the Bank for International Settlements, the state of "financial stability" is "a situation where there are no factors that would cause sudden and unjustified fluctuations in the prices of financial assets or affect the ability of financial institutions to meet their contractual obligations."

The government's policy of reducing the number of people living in poverty is a matter of concern. In the values of financial assets with growth in the real economy, and the growth of productive and employed jobs, the degree of financial stability can be determined by the ability of the financial system to mitigate the impact of crises on the real economy (Al-shathli, 2014:19).

Financial stability can be defined as a situation in which the financial system is not subject to any organized risks and is able to resist disruptions that amount to crises. This situation can be inferred by several indicators, the most important of which are the change in the ratio of liabilities to assets of the banking system, credit granted to the private sector for gdp, change in the discount rate, change in the nominal interest rate on deposits, change in the supply of money to GDP, rate of growth of demand for money, and other indicators taking into account appropriate slow periods for each indicator.

Secondly: Challenges to financial stability

The most important challenges to financial stability are (Global Financial Stability Report, 2015: p2):

1. Lack of transparency: The lack of transparency is one of the most important reasons behind many financial crises, as a result of the lack of information necessary to make sound investment decisions, fairness and objectivity in asset pricing, and to reduce the negative effects of illegal practices by corporate officials in the light of the information they have not available to other investors (insider trialing), which contributes to the interlocking of various economic activities in making financial systems more vulnerable to crisis contagion.

In light of the mutual effects between the components of the financial sector and the fact that any imbalance in one of these components is directly and indirectly reflected in the instrument of other components, the failure to disclose the imbalance as a result of generalization, lack of transparency or the non-disclosure of data in an unreal or misleading manner, presents a challenge to financial stability and the officials cannot know the risks carried correctly, and therefore appropriate precautionary measures are not taken to hedge against their repercussions and to deal with them if they occur.

2. Increasing the degree of expansion and complexity of the financial system: The increased degree of expansion and complexity of the financial system in relation to the mechanisms and financial instruments in circulation, and the diversity of activities and risks associated with them have made it difficult to keep up with developments in the prices of financial assets in circulation, especially in light of the large expansion of these assets in many advanced economies to constitute more than double the annual gross domestic product at times. Despite this development in financial instruments and mechanisms, it has strengthened economic efficiency and strengthened financial systems, but has created new types of risks that have challenged financial stability, given the rapid pace and change of their occurrence, making it difficult to follow up, measure and hedge against their occasional collapse.

3. Increasing the levels of market development and dynamics: Increasing the degree of market dynamics is a difficult phenomenon in economies, as it leads to a rapid transition following the use of monetary policy instruments for the economy, and the emergence of the results of changes in these instruments on economic performance in a short period of time, and in order to enable traders in the markets, it is possible to make some decision-making based on reliable expectations.

In light of the high dynamics of the markets, it is possible to conduct a huge amount of information in a very short time, resulting in a huge increase in price movements, requiring high technical and technical capabilities to follow up. Despite the positive aspects of market dynamics, the downside, which remains a challenge in order to achieve financial stability, is the rapid transition of problems from a troubled market to another market very quickly in light of the globalization of the economy, and the openness witnessed by many domestic financial markets to markets in other countries worldwide.

4. Moral risk: Financial authorities are quick to provide more money to prevent the weakening of financial institutions, such as those provided by the Central Bank to support deposit insurance programs, and to provide facilities to banks as a last lender. Some Governments may also inject liquidity into the market, and the expectation of financial institutions for these measures will almost certainly contribute to the weakening of financial discipline, in those institutions, the ineffectiveness of market mechanisms, and the reduced incentive of market participants to be cautious in their transactions. This is a challenge as governments are less able to continue to provide support to institutions and companies in the event of long-term crises, depending on the magnitude of the crisis and its repercussions, as well as on the financial and economic situation of the state at the time of its occurrence. If enterprises and companies do not have the own capacity to cope with crises and reduce their repercussions, it is a disaster for the economy as a whole.

5. Technological and knowledge gap: There may be a technological knowledge gap between institutions, companies or markets, and between regulatory and supervisory bodies. This is because the high cost of keeping pace with rapid technological developments is not borne by their budgets, which depend on government allocations, which are predetermined and do not need to be adjusted for lengthy and complex procedures. Foreign investments are often accompanied by a tremendous development of modern technology and knowledge, and the technological gap may be reflected in terms of instruments used or transactions, which may not be present in the financial systems receiving those investments in the inability of supervisory and regulatory bodies to play their role efficiently.

Thirdly: The role of monetary policy in achieving financial stability

Monetary policy is one of the most important short- and medium-term economic policies affecting the real and monetary economy, which regulate and control the overall economic balance, external balance, external shocks, and financial stability. The 1997 World Development Report emphasizes that monetary policy instruments are among the most important instruments that contribute to economic and financial achievement, provided they are flexible in choosing between their instruments and rules to achieve the desired goal. The above confirms that the description of monetary policy varies according to the desired objective, the monetary policy aimed at achieving economic stability, differs from the monetary policy aimed at achieving financial stability, and thus the desired objective variable is a dividing point in the choice between the instruments and rules of monetary policy (Afan, 2011: 5).

Financial stability requires monetary stability, which is the ability of the monetary sector to stabilize the overall level of prices at target levels, a clear interest rate structure consistent with domestic and international economic developments, and an appropriate degree of efficiency, regulating the size, prices and conditions of credit, in a manner that supports economic growth and prevents the concentration and accumulation of credit risk, especially for the sector most vulnerable to volatility.

The relationship between monetary policy and financial stability is illustrated by the impact of instruments used in monetary policy such as the interest rate on the ability of companies operating the economy to service their indebtedness to banks, as well as the impact of interest rate developments on the prices of financial assets and commodities, and thus on the wealth of the family sector. In addition, activating the role of monetary policy instruments to promote economic growth, such as using the interest rate to stimulate growth, and the existence of an exchange rate policy that reduces volatility and prevents currency speculation, supports efforts to achieve economic stability and enhance international competitiveness. The integration and interlocking situation between the role of the financial sector and the role of monetary policy emphasizes the inability to achieve financial stability independently of monetary stability.

As an example, during the global financial crisis that broke out in late 2008, interest rates played a major role in the decline in real estate prices, and the difficulty of family-sector holders fulfilling their commitment to the direction of banks – which was negatively impacted on the banking sector and financial markets, causing a collapse and instability not only in the financial sector but also at the level of the real economy as a whole. The changes in the wealth of the family sector are at the forefront of the transfer channels of the impact of changes in asset prices to the economy, reflected in the consumption and investment of banks, and in the ability of banks to grant credit, for example, the rise in the value of stocks and bonds, which are part of the wealth of the family sector, may postpone the consumer to consume it into the future, and the preference to acquire these assets to take advantage of the expected increase in capital returns, which affects consumption, which is considered a major driver of economic growth.

It can be said that the excessive rise in the prices of asset values or the so-called price bubble, increases the expectations of the financial sector to be exposed to a future crisis as a result of the high value of guarantees, provided for loans from banks, which does not reflect their real value, and therefore causes an imbalance in both sides of the budget of the family sector and banks, in terms of withholding indebtedness to total assets, which in the case of low prices leads to a crisis not only financial sector but also real shock. Markets are also negatively affected by sharp and unjustified fluctuations in asset prices. In the corporate sector, although the demand for stock and bond holdings is reflected in the increase in corporate financial flows, the absence of an increase in consumption and conserving in conjunction with these flows may be a burden on companies and thus lead to the occurrence of long-term occurrences (Al-shathli, 2014:17).

The second axis: indicators of financial stability in the Iraqi banking system

Firstly: Financial stability indicators

A wide range of financial indicators are important in expressing financial stability in the banking system, and we will use the indicators used by the Central Bank of Iraq and regulators to evaluate the performance of banks to test the soundness of banking performance of the banking sector as a whole.

1. Aggregate indicator of banking stability:

The assessment of the level of banking stability by the aggregate indicator is based mainly on the components and trends of the aggregate index, and the estimated aggregate index values recorded slight fluctuations between up and down during the period (2013-2016), but the overall trend shows that they are relatively stable, indicating the stability of the banking system. It is not expected to experience crises or problems in the short term, as the estimated values indicate a state of stability in the Iraqi banking system during the period (2013-2016) despite the decline in the value of the aggregate banking stability index from (0.41) in the fourth quarter of 2013 to (0.31) in the fourth quarter of 2016 as shown in table (1), and that the President is due to the increase in the value of the asset quality index reflecting the high risk of higher risk It seems that the impact of the high-trend liquidity quality index also did not guarantee a rise in the banking stability index, i.e. the excess liquidity of Iraqi banks may not be sufficient to cope with banking crises in the event of a rise in banking stumbles in the coming years, on the other hand, the decline in the capital adequacy and profitability index contributed to the decline of the aggregate index of bank stability in 2016 compared to 2013, as well as the depreciation of the banking concentration index in 2016 compared to its value in 2014 and 2015 in the decline of the aggregate index of bank ingested stability, while noting that the depreciation of the foreign exchange risk index is a positive factor and reflects the low risk that may result from exchange rate fluctuations. This reflects the ability of the Central Bank of Iraq to ensure the stability of exchange rates and inflation rates during the period (2013-2016), which contributed positively to reducing the risks from this aspect.

Table 1:- Estimates of the 2013-2016 Aggregate Banking Stability Index in Iraq

2016	2015	2014	2013	General indicator
0.314	0.341	0.399	0.414	Assembly indicator
0.134	0.028	0.106	0.489	Capital adequacy
1.062	1.018	0.777	0.751	Quality of assets
0.666	0.637	0.824	1.226	Profitability
1.213	1.192	1.043	0.925	Quality of liquidity
0	0.354	0.825	0.849	Foreign exchange risk
0.377	0.524	0.820	0.318	Banking concentrations

Reference: Central Bank of Iraq, Directorate General of Statistics and Research Data years (2013-2016).

2. Measuring the Aggregate Index of Banking Stability in Iraq:

Increasing reliance on the measurement of the aggregate indicator of banking stability by many central banks around the world in its view gives a better picture of the safety and performance of the banking system rather than relying on individual indicators, because banking stability is not measurable and evaluated on the basis of only one indicator without taking into account further indicators reflecting the performance of the banking system, and for the purpose of measuring the aggregate indicator of banking stability in Iraq will be used a range of financial ratios that are thought to have an impact on the level of banking stability in Iraq. Iraq, these ratios are capital adequacy, liquidity, profitability, asset quality, foreign exchange risk and banking concentrations detailed in Table 2, as these indicators reflect the integrity of the Iraqi banking system as well as the analysis of the level of risk to the banking system as a whole.

Some indicators are expected to be linked to a package disaggregated index (capital adequacy, profitability, liquidity quality and banking concentrations) while others will have the opposite effect on the financial stability index (asset quality and foreign exchange risk).

Table 2:- Indicators for measuring the aggregate indicator of banking stability in Iraq

Type of relationship	Weights	Variables	Sub-Indices
+	0.166	Base capital + supported capital / risk-weighted assets within the budget + assets weighted by off-budget risk	Capital adequacy
-	0.166	Net non-performing loans/supported capital	Quality of assets
	0.166	Non-performing loans / total loans	
+	0.166	Return/Assets	Profitability
	0.166	Return / Equity	
+	0.166	Liquid assets/ total assets	Quality of liquidity
	0.166	Liquid assets/short-term liabilities	
-	0.166	Net open position in foreign currency / capital	Foreign exchange risk
	0.166	Foreign currency liabilities/ total liabilities	
+	0.166	Central government deposits and public institutions / total deposits	Banking concentrations
	0.166	Loans to the central government and public institutions / total loans	

Reference: Central Bank of Iraq, Directorate General of Statistics and Research

Secondly: The Strategy of the Central Bank of Iraq in supporting and achieving financial stability

The Central Bank of Iraq's Law provides full legal independence and a clear mandate to seek price stability and effective supervisory powers to implement all the rules contained in the Iraqi Banking Act. The Central Bank reflects the government's role in financial and economic activity by controlling monetary policy trends in the market, controlling monetary policy, directing resources and areas of production towards optimal and effective use according to its available resources to states, issuing securities, maintaining income and price levels, controlling exchange and taking measures to stabilize economic and financial life in general, using the means of using prices, using the means of using the prices of the currency, using the means of the countries. The means to enable him to perform these tasks efficiently and effectively according to legal articles no. (56) For 2004, and thus takes a central and important role in the representation of the state and extends its sovereignty over the activities of daily life (financial, economic, investment, commercial and social) both for the individual and society as a whole.

The Central Bank of Iraq can be briefed on the following points (Central Bank of Iraq.2016-2020:6):

Establishing the Financial Stability Department:

To proactively support financial stability, to strengthen the central bank's role in reducing systemic risks, and to take precautionary measures at the macro and micro levels supported by appropriate early warning systems, adapted to the variables of the economic environment for the purpose of facing various crises, the Bank's keenness within its strategy to establish a financial stability and risk assessment department to assess weaknesses, which affect the financial system and identify and follow the necessary moves to address them, as well as serve as a nucleus of the Financial Stability Board through its contribution to the coordination and exchange of information between the bank. Those responsible for financial stability, adopting common strategic views of their policy-making roles, drawing up directives and formulating contingency plans for crisis management and overcoming financial turmoil.

The department's work in general aims to develop policies and tools, share experiences and experiences with international organizations and counterpart selections in the field of policies and procedures related to the promotion of financial stability, and also contribute to raising awareness of issues of financial stability through holding seminars and workshops, preparing research and studies and issuing periodic reports on this.

Strengthening comprehensive risk-based control systems:

The Central Bank is keen to establish systems of supervision and supervision of banking with the aim of ensuring stability and the integrity of the financial system and ensure its efficiency in accordance with the changes and developments of the developed and renewable environmental, to have a financial and banking system, sound and healthy, free from crises works and monitors in accordance with the best international standards and practices issued by the Basel Committee for Banking Supervision.

3. Protecting the financial system:

In order to avoid the banking sector in particular and the Iraqi economy in general, the law against money laundering and terrorist financing was recently passed in light of the latest banking developments in the international arena and the deterrent measures required to combat money laundering crimes that threaten the financial stability of countries and the collapse of their banking systems. The kind of crime.

4. Establishing a credit information office:

In accordance with the overall precautionary approach and in order to help banks to select their customers with a high degree of confidence and professionalism, and reduce credit risk, the initiative has been developed to build a modern and sophisticated database that includes a set of automated systems, which is available for use by all banks and the office provides a database in which financial and personal data about borrowers and their sponsors are collected, allowing the possibility to inquire about the credit history of any customer, regardless of the amount of credit granted to them, thereby reducing credit risk and making specialized lending institutions more capable of making the right credit decisions.

5. Promoting financial inclusion:

Financial services are an essential pillar of shared prosperity and a catalyst for poverty reduction, and the aim is to promote financial inclusion in Iraq to enable all social segments to access banking services, and to provide access to basic services provided by the formal financial system for all, and the Central Bank will work to achieve this through ambitious goals and reforms led by the Bank through the use of technology, innovations and data to bring about fundamental transformations in business models, and through joint initiatives with the public and private sectors aimed at Integrate efforts towards the concept of financial inclusion, which enables the poorest social segments excluded from traditional banking sectors to participate in the economic cycle, by providing the necessary infrastructure and mobilizing the necessary financing based on savings, cash transfers and microfinance (Central Bank of Iraq.2016-2020:8).

A. Microfinance: As a mechanism to combat poverty and enable the poor to access a range of financial services, to create micro-enterprises that increase individual incomes, provide the economy with more jobs, improve living standards and narrow poverty, and integrate the informal sector into the formal economic sector, we at the Central Bank of Iraq are aware that the Iraqi banking sector cannot (as it stands) do this job separately, so a separate initiative has been developed within the Central Bank's strategic plan. To consolidate the culture of microfinance and activate the change required to build a comprehensive banking system that accommodates the economically active segments, unable to access and benefit from traditional financing in banking institutions, taking into account the negative factors associated with the demand for loans according to the current regular banking formulas, since many of the target segments fall within the target group as a result of security and political, this created a situation of continuous social mobility that doubled the demand side, with entire populations abandoned, leading to their exit from the formal economy as producers, farmers and artisans to the informal economy, as street vendors and unstable in the workplace and housing. This has negatively impacted the readiness of these segments to access banking services in addition to the weak banking and credit awareness and the association of these segments with the culture of support and government and non-governmental subsidies, and the inability to organize individually and collectively to benefit from standard banking financing, because of their work in the informal sector, which does not conform to the foundations and controls of microfinance in the current banking sector.

B. Consumer Financial Protection: In the framework of strengthening the central bank's efforts to protect customers of the Iraqi banking sector and create a balanced relationship between banks and their customers, and to integrate this with financial inclusion and financial education policies, the Bank seeks within its strategic plan to develop a general framework for the concept of customer protection with a focus on the banking sector, in order to contribute to strengthening the regulatory objectives supporting financial stability, by preparing legal frameworks and formulating general principles and instructions and directives to the banking sector, which aims to provide a safe environment. The rights of customers will be reserved in order to enhance the role of oversight, and will be created a section to protect customers and receive complaints and proposals and follow up the extent of banks compliance with the instructions and controls issued by the Central Bank, as well as the process of spreading banking awareness and establishing a culture to protect customers, and strengthening the professional practices of financial service providers.

6. Exchange rate stability

The exchange rate is central to the financial economy, important in addressing balance-of-payments imbalances, and is a central bank's monetary policy priority as it leads to an investment-friendly environment, as well as stability at the overall price level. It is useful to ensure that monetary policy alone can achieve the required stability of the exchange rate of the national currency, which will result in a depletion of the central bank's reserves of hard currency, due to the economic principle of the interaction of the forces of supply and demand for the national currency. National policies should be oriented in harmony with monetary policy to support the national currency by encouraging investment and raising productivity and export level.

Conclusions

1. Financial stability requires monetary stability, which is the ability of the monetary sector to stabilize the overall level of prices at the target levels.

2. The challenges to financial stability are the decline in transparency, increased expansion and complexity of the financial system, increased financial market dynamics, risks involved, and the technological and knowledge gap between the economic units dealing in the financial sector and the regulators and supervisors of those units.

3. Working to achieve financial stability requires concerted efforts at the local and global levels, as a collective responsibility that must be shared by all relevant international institutions and entities, and even by major economies.

4. In the case of Iraq, the indicators, including the spread of banking density, showed that this indicator is weak compared to the world indicators.

5. With regard to assets and liabilities, the research showed that this percentage increased in Iraq after 2003.

Recommendations

1. The process of achieving financial stability is an ongoing process, where it is necessary to take care of it and work to achieve it under normal circumstances, in which the financial sector operates efficiently where the financial authorities concerned need to take preventive measures that enhance the ability of the financial sector to cope with the repercussions of crises once they occur and continue to carry out the basic function of financial mediation efficiently during and after crises.

2. The general framework for financial stability should include a set of criteria and indicators, which contribute to the detection of weaknesses and strengths of the system, and so that they are monitored and followed up periodically, through specific entities with the authority to take corrective action for weaknesses in normal situations. This framework should also include a set of mechanisms and procedures that enable the financial sector in the event of crises to overcome its repercussions, continue to function as a financial intermediary efficiently and effectively, and reduce the chances of these disruptions passing on to other economic sectors. Pre-scenarios of external shocks and their implications for the real economy must also be developed.

3. Take care of the data and build a database through which you can reach correct indicators of financial stability.

4. Focus on the banking sector to perform its tasks more by increasing the number of banks and improving the quality of services provided.

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