

Role of Commercial Banks in Stimulating Investments Amid Exchange Rate Fluctuations in Iraq¹

Dr. Sabah Nema Ali, Dr. Nibras Jassim Kazem

College of Administration and Economics - Baghdad University

DOI:10.37648/ijrssh.v13i01.013

Received: 10 December 2022; Accepted: 21 January 2023; Published: 25 January 2023

ABSTRACT

When it comes to boosting the economy, development, and allocation of financial resources from accessible savings to be employed in all economic sectors (industrial, agricultural, and service), commercial banks in developing and Arab countries are seen as one of the tools. Foreign and domestic investment play critical roles in the economies of both established and developing nations by providing much-needed capital, allowing for the more efficient use of available natural and human resources, and allowing for the more rapid adoption of cutting-edge technologies. Investment success depends on the presence of institutions and capacities of a developed financial and banking type. The significance of this study can be seen in how it examines the reality of commercial banks and their function in promoting and activating domestic and international investment in the context of exchange rate fluctuations, taking into account the financial resources and financial surpluses that commercial banks have available to them to lend money and credit to promote local investment. The banking system, including commercial banks, suffers from challenges since the eighties and nineties of the last century due to wars and the effects of the economic blockade, up to the after 2003 political and security events, in addition to accumulations in banking laws and regulations that did not contribute to the development of the banking sector in Iraq. Also, commercial banks did not contribute effectively to financing investment, and this is evident from the low level of funding for local investments. In addition, the structural imbalances in the Iraqi economy, the deterioration of infrastructure, and the repercussions of Corona led to the reluctance of investors to invest in Iraq. The investment environment available in Iraq is a suitable environment for investment and provides capacity. However, the political and security challenges facing the country and the administrative and financial corruption in most parts of the state have negatively affected the volume of investments in a way that is not commensurate with the volume of available natural and human resources and available investment opportunities. The most important conclusions of this research were as follows:

- 1- The inadequate banking services offered by Iraq's commercial banks have an unavoidable impact on their ability to draw in international investment and promote local investment.
- 2- Governmental commercial banks predominate in the banking industry, but they have a problem with their administrative and organizational structure.
- 3- The private commercial banks are unable to keep up with the changes occurring in the global banking industry.
- 4- Poor infrastructure, including roads and bridges, and imbalances in the communications and transport sectors, whether by land, air or sea.
- 5- The spread of financial and administrative corruption in most of the administrative and economic sectors, which inevitably affects the flow and attraction of investments and the reluctance of investors to go towards investing in Iraq.
- 6- Commercial banks have a role in revitalizing and stimulating domestic and foreign investments in Iraq by granting credit and borrowing to the private sector in light of challenges such as fluctuations in exchange rates.

Keywords: *commercial banks, investment activation, exchange rates*

INTRODUCTION

Financial and banking services provided by commercial banks in developing and Arab countries are widely regarded as an important factor in enhancing the economic reality, development, and

allocation of financial resources from available savings for use in all economic sectors (industrial, agricultural, and service). As for investment, both foreign and domestic, it has an important role in the economies of developed and developing countries as

¹ How to cite the article: Ali S.N., Kazem N.J., Role of Commercial Banks in Stimulating Investments Amid Exchange Rate Fluctuations in Iraq, IJRSSH, Jan-Mar 2023, Vol 13, Issue 1, 146-153, DOI: <http://doi.org/10.37648/ijrssh.v13i01.013>

an important source of financing and a means of exploiting the available natural and human resources as well as a means of benefiting from advanced technology, and the success of investment requires the availability of capabilities and institutions of a developed financial and banking nature. The banking system, including commercial banks, suffers from challenges since the eighties and nineties of the last century due to wars and the effects of the economic blockade, up to the after 2003 political and security events, in addition to accumulations in banking laws and regulations that did not contribute to the development of the banking sector in Iraq. Also, commercial banks did not contribute effectively to financing investment, and this is evident from the low level of funding for local investments, unlike what has been achieved by developed countries or developing countries that seek to achieve development.

The International Monetary Fund and the World Bank emphasized the banking sector and banking services and emphasized the positive effects of financial liberalization, interest rate liberalization, and banking transactions on domestic investment and domestic saving rates.

Significance

The research's significance can be seen in an analysis of the reality of commercial banks and their function in promoting and stimulating both domestic and international investment in the context of exchange rate fluctuations, taking into account the financial resources and financial surpluses held by commercial banks to support lending and credit to promote local investment.

Problem Statement

The banking system, including commercial banks, suffers from challenges since the eighties and nineties of the last century due to wars and the effects of the economic blockade, up to the after 2003 political and security events, in addition to accumulations in banking laws and regulations that did not contribute to the development of the banking sector in Iraq. Also, commercial banks did not contribute effectively to financing investment, and this is evident from the low level of funding for local investments.

Hypotheses

Commercial banks have a role in to invigorating and stimulating domestic and foreign investments in Iraq by granting credit and borrowing to the private sector in light of challenges such as fluctuations in exchange rates.

Objectives

- 1- Recognizing the significance of commercial banks and trends in funding placement.
- 2- Recognizing the contribution that commercial banks make to boosting and supporting both local and international investment.
- 3- Determining how exchange rate changes will affect bank credit and lending to the private sector.

CONCEPTUAL FRAMEWORK: DEVELOPMENT OF COMMERCIAL BANKS

The intellectual framework for the development of commercial banks

The banking system, including commercial banks, has changed, and comprehensive banks have appeared that carry out additional tasks like contributing to the basic functions of banks as well as investment. Rather than being limited to banking work, these banks instead contribute to investment projects with the aim of promoting economic development, through the pattern of managing financial assets and offering banking services that have an impact on appropriate fin (Karam, 2010, p. 4).

The banking system, including commercial banks, has changed, and comprehensive banks have appeared that carry out additional tasks like contributing to the basic functions of banks as well as investment. Rather than being limited to banking work, these banks instead contribute to investment projects with the aim of promoting economic development, through the pattern of managing financial assets and offering banking services that have an impact on appropriate fin (Karam, 2010, p. 4).

Ideas and theories have also emerged stating that the bank's performance depends on the expected income, and therefore the funds should go to areas and projects that are expected to succeed. These banks can also offer medium and long-term loans such as real estate loans and housing loans for projects with medium and long-term investments (Buhous, 2019, p. 28).

Commercial banks depend in their activities on their assets and liabilities in terms of size and structure, and the commercial bank provides liquidity to depositors and borrowers, as loans represent the main source of profits. Commercial banks can also go down to the financial markets to offer stocks, bonds and securities, and borrow from other banks. In addition, it can enter into economic

projects, and therefore commercial banks have the possibility to enter into the fields of investment, financial markets, project creation, and investment in the commercial and marketing sector. Therefore, it is called universal banks (Shiha, 1998, p. 22).

Role of commercial banks within the mechanisms of development of the banking system

Commercial banks have become, in light of modern developments, Informatics and technological technologies, playing a role in stimulating investment and playing a major role in financial inclusion and providing banking services, which are suitable for members of society, and facilitating the movement of trade and electronic payment methods, not to mention the provision of cash financing for small and medium enterprises in addition to issuing documentary credits, letters of guarantee and re-discount mechanisms, and carrying out share promotion and underwriting management services. The commercial banks play a role in managing and promoting the IPO operations, as well as disbursing the necessary funds to stimulate investment. As for universal banks, they had a role in developing bank management, discovering and analyzing investment opportunities, promoting new investment opportunities, managing marketing operations, and preparing economic feasibility studies for projects that need loans to be provided as one of the basic requirements for providing commercial loans. Universal banks also create new forms of continuous cash flow payment methods that enjoy a kind of stability, adopt rehabilitation programs, rehabilitate existing companies, and direct investment in development projects. (Shiha, 1998, p. 34)

Commercial banks rely on several sources to create their resources, including capital, reserves, and loans obtained from other banks, in addition to various forms of deposits. Banks direct and allocate their funds to various uses in a way that ensures compatibility between needs and the liquidity available to them. They also carry out the process of balancing between resources and uses, i.e. allocating funds within banks, through distributing funds between cash resources, investments in securities, bank credit, and investment in financial assets. The main objective of allocating funds in banks is to spend those funds in assets that achieve the highest possible amount of profit and the lowest rate of risk. There are several restrictions and obligations imposed by the monetary authorities in terms of monitoring and supervising the allocation of funds in banks and distributing them to various assets, including the policies of employing financial resources to allocate part of the funds to create initial financial reserves and to perform the functions of the bank, as well as predicting the size of loans and the

size of deposits and using the remaining funds to meet the credit reserves of the bank. In addition to the entry of banks into the stock market to achieve an acceptable profit from financial assets (Banque Misr, 1994, p. 7). The other method is the method of asset allocation by distributing financial resources to different assets according to the structure and size of the resources. Banks seek to establish centers of liquidity and profitability within banks by allocating each resource to a group of available assets. Achieving profit is closely related to the sources from which the money is obtained, as in each center the assets are allocated independently in the other centers. When these centers are established, the banks management sets policies related to the method of asset allocation (Abdel Hamid, 1986, p. 280).

ANALYSIS OF THE RELATIONSHIP BETWEEN COMMERCIAL BANKS AND INVESTMENT IN IRAQ

Development of Commercial Banks in Iraq

There has been a history of commercial banking in Iraq dating back to the time of the Babylonians and Assyrians. Deposits and loans were two of the banking services offered by the Pal temple. Banks and commerce flourished after the Babylonians' downfall thanks to the widespread use of silver bullion as a medium of exchange and a store of value (Jedran et al., 2015).

Modern banks appeared in Iraq since 1890, when two banks were opened in Baghdad, one of which was a British bank. In 1912 another British bank was opened under the name of the Eastern Bank, then branches were opened in Basra, Mosul, Erbil and Amarah. In 1918, a branch of the British Bank of Iran was opened in Baghdad and two branches in Basra and Mosul, and the Arab Bank in Jerusalem opened branches in Baghdad, Basra and Mosul in 1941. In 1941, the Rafidain Bank was opened under Law No. 33 of 1941, and it serves as a government commercial bank and agent in terms of accounting. It is the nucleus of the central bank, but it was not a bank for issuing currency (Al-Hijami, 2014, p. 120). The Commercial Bank of Iraq was opened in 1951. Some branches of Arab and foreign banks were also opened, including the United Lebanese Bank in 1953, the Arab Bank in 1954, and the National Bank for Trade and Industry. In 1957, a branch of the National Bank of Pakistan was opened, noting that these banks practice commercial banking. In 1964, foreign commercial banks were nationalized, and four commercial banks were merged within the Rafidain Bank. Rasheed Bank was established in 1988 to deal with indebtedness and the inability to pay debts. In 1991, under Law No. 12, private commercial banks were allowed to be established by the private sector. The Bank of Baghdad was

established in 1992, the Iraqi Bank for Investment and Development, the Iraqi Investment Bank, the Middle East Investment Bank and the United Bank for Investment. In 2004, under Law No. 94, foreign banks were allowed to operate in Iraq by participating in the capital of Iraqi banks without limits and opening representative offices to introduce the services provided by these banks and promote those services and study the local market as well as treat Iraqi banks in terms of rights and obligations so that the number of banks reached Foreign about four banks. (Al-Hijami, 2014, p. 120).

Commercial Banks' Credit to-GDP Ratio in Iraq

Bank credit includes cash credit, which includes loans, advances, overdrafts, and bill discounting, and commercial banks accept deposits, extend bank credit, and invest in securities on the financial markets. One of the factors limiting the size of bank credits and the ability of banks to grant them is the amount of money that customers deposit with the banks (Central Bank of Iraq, 2007, 45). Table 1 shows the ratio of cash credit to money supply and GDP in Iraq for the period 2003-2021 and the size of the decline in the credit granted ratio during the period, as well as its ratio to GDP. Whereas, Table 2 shows the ratio of bank deposits and capital formation to GDP in Iraq for the period 2003-2021.

Table 1. Credit to money supply ratio and GDP in Iraq for the period 2003-2021

Year	GDP	money supply	Cash Credit	Credit to money supply ratio	credit-to-GDP ratio
2008-2003	2291972018	21546432	1544875217	71.7	67.4
2012-2009	1886822845	1654859025	5381335475	32.5	28/6
2016-2013	2332172326	1654859025	5381335475	32.5	23.2
2021 -2017	243536783	3574127733	7426268033	20.7	30.4

Source: Central Bank of Iraq, Directorate-General of Statistics and Research, Annual Statistical Bulletins for the period 2003-2021

Table 2. Ratio of Bank Deposits and Capital Formation to GDP in Iraq for the Period 2003-2021

Year	Total Commercial Bank Deposits	Gross Capital Formation of Commercial Banks	Total Bank Deposits to GDP Ratio	Gross Capital Formation to GDP Ratio
2008-2003	15125567	3551474	0.659937	0.154953
2012-2009	51171435	9250148	2.712042	0.49025
2016-2013	67417904	17052673	2.890777	0.731193
2021 -2017	71971279	20533851	29.55253	8.431519

Source: Central Bank of Iraq, Directorate-General of Statistics and Research, Annual Statistical Bulletins for the period 2003-2021

Challenges Facing Commercial Banks in Iraq

Commercial banks in Iraq face a number of difficulties due to their inability to keep up with the technical and professional advancements being made in international and Arab banks. Chief among these difficulties is the country's relatively low banking density, which stands at around 45,000 person per bank compared to the global banking density of 10,000 person per bank. Iraqi banks also suffer from the weakness of the administrative apparatus, including financial and banking expertise, and the incompatibility of banking services provided with economic requirements, which amount to 20 services compared to what Arab and international banks provide, which may reach 60 banking services. Iraqi banks also suffer from a weak relationship with the higher authorities

(Central Bank of Iraq) with regard to dealing with private commercial banks, which stems from the dominance of government banks over the structure of the banking system, not to mention the absence of effective banking strategies, annual future plans, and contingency plans, and the lack of clarity and availability of policies, laws, and instructions issued by it.

Investment sector in Iraq

One of the most influential factors in the global economy, investment stimulates various sectors, develops both human and material resources, and boosts commodity reserves in both developing and developed nations (Saudi, 1999, p. 250). Investment is defined as the allocation of capital to obtain and develop productive means for the purpose of

increasing production capacity and bringing about structural changes to achieve economic growth (Abdul Ghaffar, 2001, p. 13). Therefore, there is a need to provide an appropriate climate to attract

domestic and foreign investment in terms of the availability of infrastructure and the provision of a stable political, legislative and legal environment.

Table 3. Foreign-Direct-Investment in Iraq for the Period 2004-2020 in Millions of Dollars

Year	Foreign-Direct-Investment	Year	Foreign-Direct-Investment	Year	Foreign-Direct-Investment
2004	435900	2010	1633320	2016	7034090
2005	756535	2011	2201940	2017	5988080
2006	561861	2012	3964400	2018	3392690
2007	1219860	2013	5982746	2019	3891300
2008	2214208	2014	5575812	2020	3934521
2009	1874454	2015	4128110		

Source: Central Bank of Iraq, Directorate-General of Statistics and Research, Annual Statistical Bulletins for the Period 2004-2020.

It is noted from Table 3 that there is a relative and fluctuating development in the volume of foreign direct investment for the period 2004-2011. However, due to security and political challenges, especially after 2014, the volume of investment decreased from \$7,034,090 million in 2016 to about \$3,934,521 in 2020. In addition to the imbalances, the structural in the Iraqi economy, the deterioration of the infrastructure and the repercussions of Corona led to the reluctance of investors to invest in Iraq.

The Main Ingredients for Encouraging Foreign and Domestic Investment

Iraq is characterized by many elements and characteristics that enable it to attract domestic and foreign investments, including natural and human resources, as the arable area is about 480 million dunums, despite the challenges facing the agricultural sector, such as lack of water resources, despite the presence of the Tigris and Euphrates rivers, which are important tributaries for agriculture and an important source of water resources. Another challenge facing the agricultural sector is the lack of agricultural equipment and fertilizers. The agricultural sector constitutes about 30% of the area of Iraq. Livestock and fish also constitute a major source of food security, in addition to some important agricultural products such as dates and some agricultural products that are used in the food industry. (Ministry of Planning 2020, p. 40).

Iraq is characterized by a large percentage of oil reserves, which are estimated at 114 billion barrels of oil, ranked third in the world, while gas reserves are estimated at 3000 billion cubic meters. The production costs of one well of oil are low compared to an increase in productivity and a decrease in the depth of oil wells. There are also raw materials of sulfur, phosphate, iron, fertilizers, lime, and others, which are used in many industries, and which have

a comparative advantage, such as cement, chemical fertilizers, and oil derivatives.

As for human resources, the population has increased to about 40 million, and there are large proportions of skilled labor and graduates looking for work, which means that there is an urgent need for foreign and local investment to absorb them. As for the legislative and legal frameworks, many laws have been issued that can prepare the investment environment, including Banking Law No. 4 and Resolution 13 on foreign investment, in addition to laws related to foreign investment, tax, guarantees, procedures and advantages that can contribute to attracting foreign investments, encouraging local investment and saving energy. Capacity to attract investments in all fields. The Iraqi market is also able to absorb the available resources and local products for disposal in the local market, as those markets lack local products due to structural imbalances in the economic sectors, which can be improved and activated by increasing income and providing job opportunities (Al-Fatlawi, 2012, p. 17).

Challenges Facing Foreign and Domestic Investment in Iraq

The investment sector, both foreign and local, faces many challenges and obstacles, including the unavailability of the environment, communication networks, transportation in all its forms, and the unavailability of the electrical network. These challenges affect production costs. There are also problems such as weak banking services and the banking sector and the ineffectiveness of commercial banks in dealing efficiently with investment, whether foreign or domestic. Also, weak banking and investment awareness is one of the obstacles that prevent attracting investment, in addition to the security and political challenges and the increase in financial and administrative

corruption in most sectors, which constitute a serious phenomenon that hinders the process of attracting these investments, given that Iraq occupies the last ranks in the global level of transparency. There are also other challenges facing investments, such as the level of inflation, weak domestic saving, and the high exchange rate of the dollar, which greatly affected the level of prices, both consumer and productivity, and thus high investment costs, which led to weakness and reluctance of investors to invest in the country (Allawi, 2017, p. 20). In addition to the weakness of the private sector and the government's control over banking policies and its monopoly over the banking sector, especially commercial banks, in order to impose government investments in large investment projects in competition with the public sector. Laws and regulations have hindered the development of the private sector.

Exchange Rate Fluctuations in Iraq

The exchange rate is the exchange of a number of units of the local currency for one unit of the foreign currency, and thus the exchange rate is a linking tool between the local and international economy through the relationship between total exports and imports (Al-Atrash, 2007, p. 95) or it is the ratio of the exchange of a number of local currency units with foreign currency units. The exchange rate represents a reflection of the country's position in terms of trade and dealing with the outside world, and from it, it is possible to achieve internal equilibrium through the stability of exchange rates and the external equilibrium represented by the balance of payments (Morsi, 1985, p. 205).

There are several types of exchange rate, including the nominal exchange rate, which is the price of foreign currency in terms of the number of local currency units, and it can be an official or parallel rate. The second type is the real exchange rate, which measures the amount of change in the

currency exchange rate against several currencies during a certain period of time. It is considered an appropriate indicator of the country's competitiveness towards the outside world (Sayd, 2013, p. 25). A distinction can be made between the current spot rate, through which currencies are delivered upon purchase, and the forward exchange rate, which represents a current agreement and a future receipt date.

There are several factors that affect the exchange rate, including monetary factors linked to the interest rate, money supply and inflation. As for the financial factors, they are linked to the public expenditures and public revenues that make up the general budget. Public expenditures should be less than public revenues to avoid deficits in the public budget. Also, tax policies affect exchange rates through the percentage of tax exemptions provided to capital investments, which encourage investment and make foreign capital flow into the interior, which increases the demand for the local currency and thus the rise in the exchange rate. The exchange rate is the factor most affecting the achievement of the balance of payments through its impact on the value of the local currency, and the exchange rate of the local currency is unstable for reasons related to political and security changes and fluctuations in the global exchange markets. Table 3 shows the exchange rate of the Iraqi dinar in dollars for the period 2003-2022, noting that the exchange rate of the dinar before 2003 witnessed severe fluctuations and the collapse of the local currency due to the effects of the economic blockade, a sharp decline in oil exports and a continuous deficit in the balance of payments to exceed, on average, about three thousand dinars in certain periods. While the exchange rate reached about 1452 in 2003, to continue to fluctuate, to settle at 1170 dinars for the period 2008-2011 and to 1190 dinars for the period 2015-2020, to rise to about 1450 in 2021, noting that the parallel price in the market continued to rise above the official price throughout the period.

Table 4. Iraqi Dinar Exchange Rate in Dollars for The Period 2003-2022

Nominal Exchange Rate	Nominal Exchange Rate	Year	Nominal Exchange Rate	Nominal Exchange Rate	Year	Nominal Exchange Rate	Nominal Exchange Rate	Year
1258	1190	2017	1186	1170	2010	1453	1936	2003
1253	1190	2018	1196	1170	2011	1472	1469	2004
1258	1190	2019	1233	1166	2012	1475	1467	2005
1257	1190	2020	1232	1166	2013	1475	1255	2006
1470	1450	2021	1214	1188	2014	1267	1193	2007
1480	1450	2022	1247	1190	2015	1203	1170	2008
			1275	1190	2016	1182	1170	2009

Source: Central Bank of Iraq, Directorate-General of Statistics and Research, Annual Statistical Bulletins for the Period 2003-2021.

THE PROPOSED MECHANISMS FOR COMMERCIAL BANKS TO ACTIVATE THE INVESTMENT SECTOR

Enhancing banking services through modern means of services such as certificates of deposit, joint loans, derivatives and electronic commerce is one of the necessary means to create the investment, legislative and regulatory environment with the aim of laying approved foundations for attracting foreign investments and encouraging local investment, which is reflected in the financing of savings and investments in Iraq.

It should also increase competitiveness and orientation towards a market economy through merging with banks, which can lead to support for their capital to cover liquidity and risks, strengthen their financial positions, and develop skills for banking cadres through holding training courses for workers in the banking sector and introducing modern technology in the field of commercial banks such as Modern linking devices, automated teller machines and service cards that provide facilities to customers, and this raises banking efficiency, creates an appropriate competitive environment, and gives incentives to workers in the banking sector with high efficiency.

The available investment environment in Iraq is a suitable environment for investment and provides capacity. However, the challenges facing the country in terms of politics and security and the administrative and financial corruption in most parts of the state have negatively affected the volume of investments in a way that is not commensurate with the volume of available natural and human resources and available investment opportunities.

Increasing the number of commercial banks, multiplying banking branches, improving the legislative environment and facilitating instructions in line with international laws and global developments in the banking sector, passing through the best standards, disclosure and transparency in the banking sector, can contribute to increasing banking density to approach global levels. Therefore, these measures can contribute to enhancing the activation of investments, both foreign and domestic, to be in light of fluctuations in exchange rates and fluctuations in the parallel exchange market, which was actually affected, whether by global developments and the repercussions of Corona, in addition to the internal, security and political challenges that work to disrupt investments despite the existence of the capacity of these investments. in Iraq.

CONCLUSIONS

- 1- The inadequate banking services offered by Iraq's commercial banks have an unavoidable impact on their ability to draw in international investment and promote local investment.
- 2- Governmental commercial banks predominate in the banking industry, but they have a problem with their administrative and organizational structure.
- 3- The private commercial banks are unable to keep up with the changes occurring in the global banking industry.
- 4- Poor infrastructure, including roads and bridges, and imbalances in the communications and transport sectors, whether by land, air or sea.
- 5- The spread of financial and administrative corruption in most of the administrative and economic sectors, which inevitably affects the flow and attraction of investments and the reluctance of investors to go towards investing in Iraq.
- 6- Commercial banks have a role in revitalizing and stimulating domestic and foreign investments in Iraq by granting credit and borrowing to the private sector in light of challenges such as fluctuations in exchange rates.
- 7- The Iraqi economy is characterized by the available capacity and its possession of oil resources and reserves, human resources, in addition to natural resources and arable land, all of which constitute an attractive factor for foreign and domestic investments.
- 8- The Iraqi economy faces many challenges and problems represented by the lack of water resources and imbalances in the economic sectors (industrial, agricultural and service), which directly and indirectly affects the investment sector.
- 9- Relative stability in the exchange rates of the dinar, compared to their prices before 2003, despite the fluctuations that the period witnessed in the parallel market.
- 10- Investment in Iraq was affected by the security challenges and the frequent wars, which greatly contributed to the lack of investment in the economic sectors.
- 11- Laws, legislation and regulations related to investment, banking and tax law did not contribute effectively to improving investment.

- 12- Low cash credit ratio to money supply and GDP. This indicates the weakness of commercial banks in meeting investment requirements, despite the presence of capacity.
- 13- The cash credit has a role in the formation of capital by providing the necessary funds for the investment sectors by granting them by the commercial banks.
- 14- The exchange rates in Iraq were characterized by fluctuation in the parallel market, and the recent devaluation in the exchange rates of the Iraqi dinar in 2021 greatly affected price levels, including consumption and productivity, which in turn affected production costs.

RECOMMENDATIONS

- 1- Work should be done to create an investment environment and encourage investment through laws, guarantees and incentives that can encourage investment in Iraq.
- 2- Banking services should be improved in an appropriate manner and in harmony with the services provided by Arab and international banks.
- 3- Work must be done to stimulate commercial banks, including private commercial banks, by increasing the banking density in order to be supportive of local investment.
- 4- Foreign investment should be encouraged and negotiating power raised in the field of roads, bridges and the electricity sector, which the investment budget cannot cover.
- 5- Work must be done to combat financial and administrative corruption, put in place laws and legislations that limit it, and activate laws that stimulate investment, both foreign and domestic.
- 6- Financial and monetary policies must be developed that maintain exchange rate stability for the purpose of improving the balance of payments and pursuing a more flexible exchange policy by linking currency to a basket of foreign currencies.

Financial support and sponsorship: Nil

Conflict of Interest: None

REFERENCES

1. Abdel Hamid, T. A. (1986). Fundamentals of Banking Management. Central Library of Ain Shams University, 28.
2. Al-Atrash, T. (2007). Banks Fluctuations (6th ed.). University Press Office.
3. Al-Fatlawi, K. A., & Abd-Radi H. (2012). Studying and Evaluating the Investment Environment in Iraq (6th ed.). *Al-Kout Economic and Administrative Journal*.
4. Al-Hijami, A. S. (2014). Role of Banks in the Development of the Iraqi Economy: A Case Study of the Real Estate Bank in Wasit Governorate. *Al-Kut Journal of Economic and Administrative Sciences*, 13.
5. Allawi, S. M. (2017). Activating the role of commercial banks in encouraging local investment in Iraq. *Journal of the University College of Economic Sciences*, (53).
6. Banque Misr (1994). Methods of Fund Allocation in Commercial Banks: Theoretical Directions. *Economic Bulletin*. (2), 7.
7. Buhous, B. (2014). Theories related to the interpretation of the work of banks with a detailed study of the modern theory: The model of conclusion of loans and then their distribution and an attempt to simulate the application of theories to the Algerian Local Development Bank. *Journal of Finance and Markets*, (3).
8. Central Bank of Iraq, Directorate-General of Statistics and Research. Annual Statistical Bulletin for the Year 2007.
9. Jedran K. K. et al. (2015). Evaluating the adequacy of the performance of commercial banks: An applied study in the Rafidain Bank for the period 1997-2001. *Wasit Journal of Human Sciences*, (12).
10. Karam, A. (2010). The Egyptian Banking System and Global Banking Crises [Master's thesis, Faculty of Commerce and Business Administration, Helwan University].
11. Mahmoud, R. F. (2019). The impact of the liberalization and development of the Egyptian banking system on the development strategy in Egypt. *Egyptian Journal of Commercial Studies - Mansoura University, Faculty of Commerce* 2019.
12. Morsi, F. (1985). International Economic Relations (2nd ed.). Dar Al-Maarif.
13. Romain Buoy - Banks' Holdings of Government Securities and Credit to the Private Sector in Emerging Market and Developing-IMF Working Papers-No. 19/224-October 11, 2019
14. Sayd, A. (2013). Exchange Policy as a Tool to Settle the Imbalance in Payments (1st ed.). Hassan Al-Asriyyah Library for Printing and Publishing.
15. Shiha, M. R. (1998). Monetary Economy - New University Publishing House – Alexandria.