

The Role of the Banking Sector in Stimulating Financial Markets: An Analytical Study in the Iraqi Stock Exchange

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Abstract— *The banking sector is a crucial cornerstone of a country's economic development, as it is vital in providing the necessary funds to other entities, such as economic units. These funds primarily come from the deposits made by the state, institutions, and individuals. These deposits are regarded as funding sources when the economic entity needs capital. This is achieved by issuing securities in the financial market, allowing the economic entity to expedite the process of obtaining funding based on the value of the assets and the borrower's creditworthiness. Hence, the banking sector serves as a crucial economic and financial entity, exerting a substantial influence on bolstering the financial market's performance using market indicators. This study, focusing on the Iraqi Stock Exchange, aims to investigate the banking industry's impact on the promotion of financial markets. An analytical technique was used to analyze data obtained from a sample of banks registered in the Iraq Stock Exchange. The findings indicate a correlation between the banking industry and the financial market.*

Keywords— *Banking Sector, Financial Markets, Iraqi Stock Exchange, Iraqi banks.*

I. INTRODUCTION

The banking sector in Iraq has undergone significant transformations, particularly after 2003, marked by the establishment of private banks and the shift from traditional to electronic banking, which has positively impacted the stock market and investment financing [1]. Despite these advancements, financial inclusion indicators in Iraq remain below international standards, although there has been relative improvement due to efforts by the Central Bank of Iraq to enhance financial inclusion through better access, use, and quality of services [2]. The sector faces challenges such as financial crowding out, where increased public debt and government spending impact total bank deposits and credit, necessitating diversified funding sources to sustain banking resources [3]. Within the framework of the economies of every nation, the banking industry serves as a significant foundational component. The deposits that belong to the savings units are the primary source of funds. The state, institutions, and companies that operate within the economy of a particular country, as well as individuals, families, or families, are at the forefront of these units. This is because deposits are the most important source of funds. After all, they provide the funds that economic units require. The individuals who require these deposits might use them as a funding source in exchange for them. This economic and financial activity has

a significant impact on the activation of financial markets and their functioning, which is reflected in the economic indicators of financial markets. This activity originates from various economic units and involves offering securities in the financial market to obtain financing for both borrower and owner types. Within this study's scope, the banking industry's function in the stimulation of financial markets is investigated. In light of the rapid developments that have taken place in the world, the emergence of international companies with their various economic and financial activities, the growing competition between important sectors that constitute an essential component within the economies of their countries, and the emergence of the phenomenon of competition, which constituted an essential incentive for financial institutions to take an important role within the economic activity of their countries, and among the most prominent of these roles is the role of the financial institution. Contributing to the financing of a variety of economic activities, whether they are current ones seeking growth or renewal or new agricultural, industrial, or service projects, which is reflected in the activity of the financial market in terms of higher exchange volume and trading of securities. This study attains its significance as a result of the subject matter that it investigates, which is a subject that is associated with the movement of investment activity. This activity is recognized to play a significant part in developing the economy and society. These savings, on the other hand, make up deposits with financial institutions. Because the financial markets are concerned with mobilizing national funds and preparing them for those in need who seek them, who are businesses and investors, banks are the lending agencies responsible for providing loans to investors and businesspeople. These individuals are the ones who interact with financial institutions the most often. The study focuses on the banking sector's role throughout the research period. throughout this time, the banking sector contributed by providing investors with bank credit. This group of banks is not all banks since some of them did not contribute to financing, as evidenced by the reports of the Iraq Stock Exchange. On the other hand, the indicators of the Iraqi financial market were examined in the context of a market model. This is the sole location in Iraq where securities are traded.

II. LITERATURE REVIEW

The banking sector plays a pivotal role in stimulating financial markets through various mechanisms. Firstly, the development of the banking sector positively influences stock market development by increasing liquidity and providing necessary financial services, as evidenced in the Indian context where banking improvements have been shown to enhance capital market growth [4]. This relationship is further supported by the broader economic theory, which posits that financial sector development, including banking, is crucial for economic growth, particularly in earlier stages of development [5]. Additionally, banking sector reforms, such as those in India, have aimed to create a more efficient and competitive banking environment, thereby enhancing the overall financial system's performance and contributing to economic growth [6]. The efficiency of the banking sector is also critical during economic crises, as efficient banks can better support industries needing external financing, thus fostering economic resilience and growth [7]. Moreover, the openness of the banking sector to international competition can improve access to financial services and the efficiency of financial intermediaries, reducing financing costs and stimulating capital accumulation and economic growth [8]. Banks also play a significant role in financial innovation, offering new products and services that reduce costs and risks, thereby better meeting the needs of financial market participants [9]. Furthermore, competition within the banking sector can influence financial market activity, with perfect competition leading to lower interest rates and higher lending volumes, while monopolistic conditions can restrict fund availability and increase borrowing costs [10]. Lastly, banks and insurance companies are key drivers of the global economic and financial system, contributing significantly to national GDPs in developed economies [11]. Thus, the banking sector's multifaceted role is integral to stimulating and developing financial markets. The source of bank credit is a state that finances companies and investors of all kinds, whether they are companies, businessmen, investors, or government institutions [12]. Banks are specialized financial institutions that are among the most important financial institutions within the national economy of any country. Banks are also the source of bank credit. Banks play a significant role in practical economic life. The problem facing banks is the escalating challenges from competitors, including non-banking units. Still, they practice banking business, and banks play different roles in the national economy. Some believe that banks play a narrow role in the economy, that is, take deposits and provide loans, while modern banks have new trends and roles that contribute to meeting public needs and have modern roles:

A. *The Intermediation role*

The role of mediation is to receive money from savers and transfer it through bank credit to loan applicants or those in need, not invest it in new projects and in various commodity fields.

B. *The Payment Role by Agency*

In cases where goods are purchased from external or internal sources, the bank pays on behalf of the buyer and, according to the agreement, makes payments to external sources and carries out issuance, clearing, and electronic payment.

C. *The guarantor's role*

Banks stand with their customers when they cannot pay debts and, therefore, work to issue letters of guarantee.

D. *The risk management role*

Banks cooperate with customers and stand with them to avoid loss exposure, address potential risks, and work to minimize their consequences.

E. *The savings/investment advisor*

Banks contribute to helping customers, not managing their savings and investments, and providing advice and guidance in these two areas to ensure success and achieve the goals that customers seek to achieve.

The banking sector has a significant role in the course of the economic activity of the state and thus influences the movement and activity of the financial markets, where banks in turn, grant loans to their applicants from investors and businessmen, whether for capital investment or portfolio investment, and both types have an impact on activating the movement of trading in the financial market through the investment carried out by banking institutions and dealing with them in the financial markets, and this activity has a positive impact on activating the trading movement of shares offered in the financial markets [13].

the reflection of this activity on the national economy by lending to companies and economic institutions of different activities, whether new or existing, which are being expanded by adding new production lines in order to increase production to meet the growing demand for a particular product, which requires the request for funds for investment and expansions and banks are the concerned authorities to provide funds in the form of loans to all economic units in an economy.

The transfer of funds from their sources to banks depends on certain reliable and legally approved channels [14]. So, financial intermediation is the channel for the period of transfer of these funds, or directly between the owner and the bank, especially if the path of the flow of funds to banks is known, as shown in Figure (1), where it indicates that the government's income, which is the largest source, the income of economic units and household income, and these three parties spend from their income what they need to meet their requirements and obligations and the other part is deposited in the banks of the sector. Banker, that is, the sources of funds are:

- Country
- Economic Units
- Families and individuals

These three units are the main source of deposits and are the largest source of bank funds, in addition to the paid-up capital for the first time, i.e. the beginning of the establishment of the financial institution, to which the profits held by the

bank are later added in case of need, so that the owned capital, which was confirmed by the decisions of the Basel Committees 1, 11 and 111, which determined its percentage in Basel, 8% of the assets weighted in the brain. This percentage has been raised to 10.5% in its recent decisions, which are known as the decisions of the Basel 111 Committee.

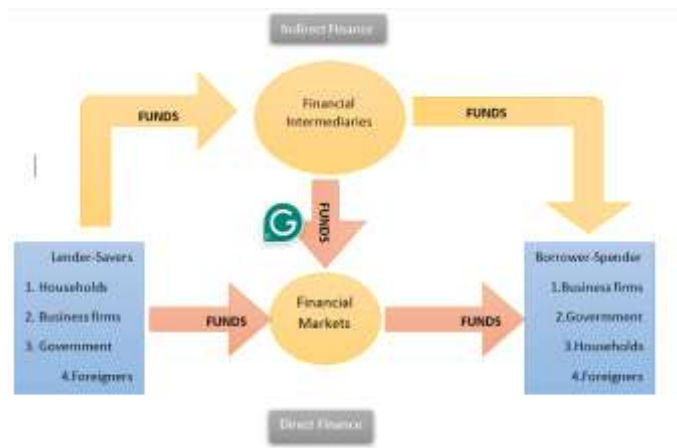


Figure 1. Money flow path

Financial markets are a specific place or location as a financial market in which the securities offered by their issuers are traded, and the changes that occur in the financial markets and financial institutions affect the level of economic activity and the allocation of funds to various economic sectors, that the developed financial system is the hallmark of advanced economies, as the markets Financial institutions form the financial system that provides facilities for the establishment of a system of production of goods and services that contribute to meeting the needs of society, where investors request funds in the form of loans through the issuance of debt bonds to facilitate the implementation of their investment projects, (Henning, et. al. 1988) or offering ordinary shares for subscription by interested investors, where each investor provides what he wants from a certain amount of funds Or what he is capable of and at the end of the period specified for subscription is conducted so-called division of the debtors and under which the share of each investor of the shares that become one of the owners in the company is determined under a document of ownership bearing the name of the owner and the number of shares and their nominal value and shows part of the liabilities and right of ownership of the balance sheet of the company as the reason for the existence of assets [15].

III. METHOD AND HYPOTHESES

The research deals with the role of the banking sector, which contributed during the research period, to grant bank credit to investors, a group of banks, and not all banks as some of the others did not contribute to financing as indicated by the reports of the Iraq Stock Exchange, and on the other hand was analyzed Iraqi capital market indicators as the only market in which securities are traded in Iraq.

The research is based on the premise that banks contribute to the activation of financial markets expressed through

financial market indicators and branch out from this hypothesis sub-hypotheses:

- The relationship between banks and the general index of the financial market is positive and moral.
- The relationship between banks and the market value in the financial market is positive and moral.
- The relationship between banks and trading volume is positive and significant.
- The relationship between banks and the number of transactions is a positive and moral relationship.
- The relationship between banks and the number of trading days is a positive and moral relationship

IV. RESULTS

There are a set of indicators expressing the performance of the Iraq Stock Exchange, the most important of which are:

1- Market Capitalization Index: Market Capitalization Index

The market capitalization index expresses the values of shares of companies listed on the stock market in Iraq according to the market price, and this indicator reflects the level of market activity. The financial data in Table (2) on the development of the financial market activity in Iraq indicates an increase in the market value in the Iraqi market, as it reached (11.476) in 2013 after it was (3.160104) in 2005 with a percentage change of (-38.34). The index rose during the years 2012, 2011, and 2010, reaching (5.597, 4.930232, 3.446713) respectively, as in the table, as the table shows the decrease of the index in 2006 to reach (1.948548) after it was (3.160104) in 2005. Where a significant decrease was recorded. It is also noted that the years in which the market value rises are in contrast to the years in which the rate of loans provided by banks increases, as well as the years in which the market value decreased within the research period are the years in which the rate of loans decreased, this indicates that the higher the rate of loans, the greater the market value in the financial market and the lower the market value. Figure 2 illustrates this.

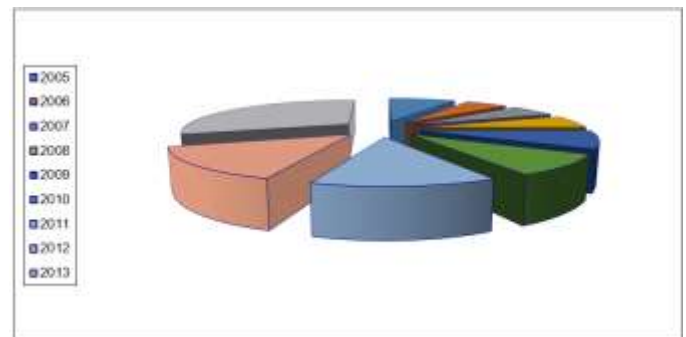


Figure 2. The Market value index in Iraq for the period 2005-2013

2- Trading Volume Index

The trading volume index expresses the stocks that have been traded in the financial market during a certain period, meaning that this indicator expresses the liquidity of the financial market. It is noted from the table that the index of trading volume in the Iraq Stock Exchange during the research

period (2005-2013) has increased to reach (871.1821033) in 2013, after it was (55.63919492) in 2005 with a change rate of (4.19). As shown in Table (2), it was found during the research period that the trading volume index decreased slightly in 2008 to reach 150.8531024) (with a change rate of (40.06) and then gradually rose to reach in 2009 (211.2906012). A change rate of (20.99), then the index rose in the last period, where it achieved the highest rise in a year.2013 as mentioned earlier. The graph below shows this, and we note from this that in the event of an increase in the volume of trading in the financial market, there is an increase in the rate of loans, it is also mentioned when the data indicate that there is a decrease in some years in this indicator also offset by a decrease in the rate of loans. Figure 3 illustrates this.

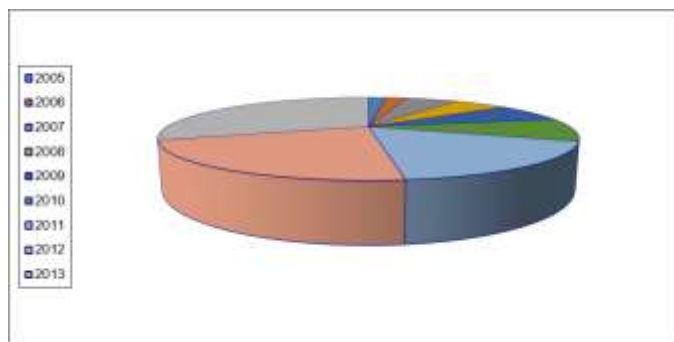


Figure 3. The Trading Volume Index in Iraq 2005-2013

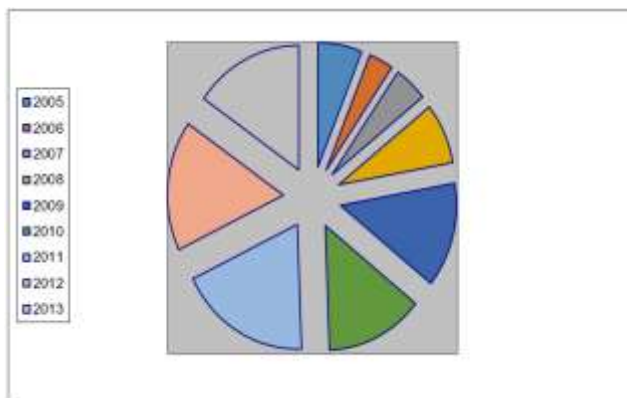


Figure 4. The General Index in Iraq 2005-2013

3- Stock Prices Index

This indicator expresses the average prices of shares of local companies listed on the Iraq Stock Exchange. This indicator helps identify investment opportunities, compare the efficiency of financial markets, and identify market activity through comparing it with previous years. It is clear from the data of Table (1) that the general index of stock prices in the Iraq Stock Exchange began to decline in the first years of the period (2008-2005), where it amounted to (58.360-34.590.25.288-45.644) respectively, below the average of (80.4918) and then began to rise gradually until 2013 reaching (113.15) in the said year. However, it achieved the highest value within the period and that was in 2011, as it reached (136.03), This corresponds to the rate of loans in the Iraqi market, which it began to decline during the research period

and then began to rise until it reached (157383.12) in 2013, and this means that the higher the rate of loans leads to an increase in the general index of stock prices. Figure 4 illustrates this.

4- Number of days Index

The number of days indicator expresses the number of days in which stocks were traded during the year, and this indicator reflects the efficiency of the stock market activity, Which shows that the increase in the number of trading days during the year is a positive indicator of the market. Table (1) shows that the number of trading days in the Iraqi Stock Exchange, over the research period of (2005-2013), where the number of trading days increased in (2010) and amounted to (237)Also, the loan rate was high, as well as the market value and trading volume in a state of increase, which indicates that in the case of an increase in the number of days, it means an increase in the volume of trading and the rate of loans, and Figure (5) shows that.

The increase in the number of days indicates that the general situation of the financial market is good, and trading is encouraged without security, political or economic problems, or events that hinder market activity.

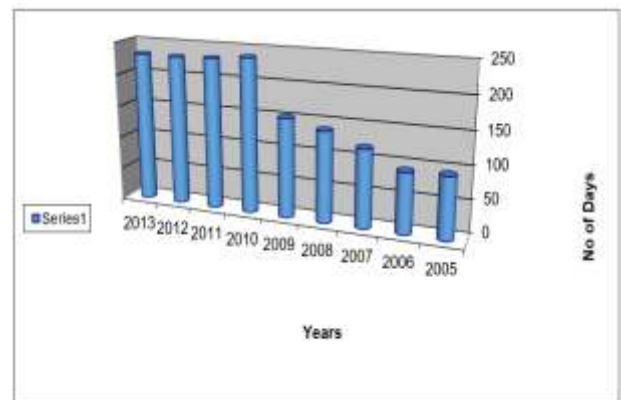


Figure 5. Index of the number of days in the Iraqi Stock Exchange 2005-2013

Total Number of Transaction Index

The indicator of the number of transactions shows the total number of transactions made with the shares of companies listed on the market during the business year and reflects the movement of the market and the efficiency of operations. Therefore, the higher the number of trades, the more positive the market situation. It is noted from Table (1) that the index of the number of transactions during the research period (2005-2013) has increased to reach (126570) in 2013 from 55062 (in 2005). During the research period, it was found that the index of the number of transactions began to decrease in the years (2009-2005) to reach respectively (49339, 31108, 30885, 55062, 19324), where it recorded a decrease from the average of (69125). Then it began to rise again, and it is noticeable that when the number of deals decreased in 2005 The rate of loans was low. The volume of trading was also within the research period, while the years in which the number of transactions was high witnessed the rate of loans provided by banks and the volume of trading, as evidenced by

2013, as the rate of loans had reached (157383.12). The data indicates that the trading volume in the same year was (871.1821033) and the number of transactions had reached (126570) and Figure (6) clarifies it.

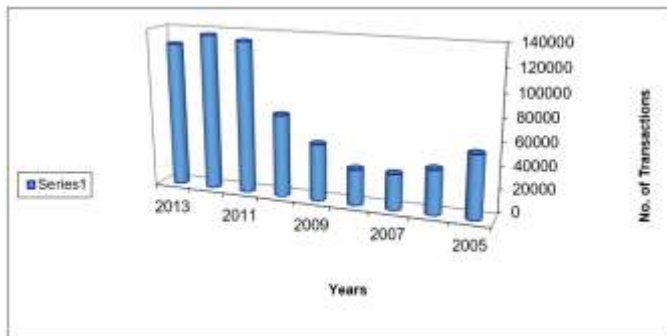


Figure 6. Index of the number of transactions in the Iraqi Stock Exchange 2005-2013

Statistical analysis

A- Testing the hypotheses of correlation relationships for the main and sub-research variables:

This part of the research deals with a statistical presentation through which the correlations between the two research variables (loan rate and financial market indicators) are tested and analyzed.

The first main hypothesis: There is a significant correlation and effect between the loan rate and the market value at the macro level. Through the data of Table (1), it was found that there is a high and positive correlation (0.895) and a statistically significant value at the level of significance (0.05), so the hypothesis is not rejected at the research level and that there is the effect of the first variable (loan rate) on the second variable (market value) and that the degree of moral (0.001).

TABLE I. Matrix of correlation and influence relationships for main and sub variables.

Loan rate	R	Calculated T-value	R2	Beta	Morale level
Market Cap	0.895	5.317	0.802	0.895	0.001

Source: Prepared by the authors based on the program (SPSS, vev.20)

It also indicates a significant regression value of (0.001) and a determination coefficient of (0.773). This shows that the linear relationship between the two variables (loan rate and market value) shows an increase by an amount that causes the value of the regression, and figure shows this.

The second main hypothesis: There is a significant correlation between the loan rate and the trading volume at the aggregate level. Through the data of Table (2), it was found that there is a high and positive correlation (0.982) and a statistically significant value at the level of significance (0.05), so the hypothesis is not rejected at the research level. And that there is the effect of the first variable (the rate of loans) on the second variable (trading volume) and the degree of moral (0.000).

It also indicates that there is a significant regression value of (0.000) and a determination coefficient of (0.958). This indicates that the linear relationship between the two variables

(loan rate and trading volume index) shows an increase by an amount that causes the regression value, and figure shows this.

TABLE II. Matrix of correlation and influence relationships for main and subvariables.

Loan rate	R	Calculated T-value	R2	Beta	Morale level
Volume indicator	0.982	13.619	0.964	0.982	0.000

Source: Prepared by the authors based on the program (SPSS, vev.20)

The third main hypothesis: There is a significant correlation between the loan rate and the general indicator at the macro level. It was illustrated in Table (3), where it was found that there is a high and positive correlation (0.794) and a statistically significant value at the significance level (0.05), so the hypothesis is not rejected at the research level. And that there is the effect of the first variable (the loan rate) on the second variable (the general index) and the degree of significance of (0.011).

TABLE III. Matrix of correlation and influence relationships for main and variables.

Loan rate	R	Calculated T-value	R2	Beta	Morale level
General Index	0.794	3.455	0.630	0.794	0.011

Source: Prepared by the authors based on the program (SPSS, vev.20)

It also indicates a significant regression value of (0.011) and a determination coefficient of (0.578). This indicates that the linear relationship between the two variables (loan rate and general index) increases by an amount that causes the regression value.

4- The fourth main hypothesis: To study the relationship between the loan rate and the number of days index at the macro level, the results were obtained illustrated by Table (4), where it is clear that there is a high and positive correlation (0.857) and a statistically significant value at the level of significance (0.05), so not to reject the hypothesis at the research level. And that there is the effect of the first variable (the rate of loans) on the second variable (the number of days) and the degree of moral (0.000)

TABLE IV. Matrix of correlation and influence relationships for main and subvariables.

Loan rate	R	Calculated T-value	R2	Beta	Morale level
Number of days indicator	0.857	4.394	0.734	0.857	0.000

Source: Prepared by the authors based on the program (SPSS, vev.20)

It also indicates a significant regression value of (0.000) and a determination coefficient of (0.696). This indicates that the linear relationship between the two variables (loan rate and number of days index) increases by an amount that causes the regression value.

5. Fifth main hypothesis: There is a significant correlation between the loan rate and the number of transactions at the macro level. Table (5) found that there is a high and positive

correlation (0.897) with a statistically significant value at the significance level (0.05), so the hypothesis was not rejected at the research level. And that there is the effect of the first variable (the rate of loans) on the second variable (the number of transactions) and the degree of significance of (0.001).

TABLE V. Matrix of correlation and influence relationships for main and subvariables.

Loan rate	Number of trades	Calculated T-value	R Square	Beta	Morale level
Number of trades indicator	0.897	5.378	0.805	0.897	0.001

Source: Prepared by the authors based on the program (SPSS, sev.20)

It also indicates a significant regression value of (0.001) and a determination coefficient of (0.777). This indicates that the linear relationship between the two variables (loan rate and number of transactions indicator) shows an increase in the amount that causes the value of the regression.

By discussing the previous results, it is clear to us that the loan rate has the most impact on the trading volume through the level of morality and the coefficient of determination of (0.958), and the level of morale is less than (0.001), $0.001 P <$, and there are equal indicators in the degree of their impact on the rate of loans (market value and the number of transactions and the probability of error (0.001), and there are other equal indicators in the degree of their impact are (trading volume and number of days and the probability of error (0.000),

V. CONCLUSIONS AND RECOMMENDATIONS

The Iraqi banking sector significantly impacts the financial markets, reflecting both its potential and challenges. The establishment of private banks post-2003 marked a positive shift, enhancing banking activity and influencing the stock market by financing investments crucial for economic development. The Iraqi Stock Exchange (ISX) plays a vital role in mobilizing savings and distributing them to various investments. However, it has faced sharp fluctuations due to unstable security and economic conditions, which negatively affect market performance. Voluntary disclosure by banks has been shown to improve financial performance, attract more investors, and enhance market efficiency, although its impact on earnings per share can be negative. Cash flows are particularly influential on the financial performance of private commercial banks, more so than returns on equity, highlighting the importance of cash flow statements for decision-makers. Financial crowding out, driven by public debt and government spending, directly impacts total bank deposits and credit, suggesting a need for diversified funding sources to sustain banking resources. The results show a positive moral relationship between the banking sector through the loans and advances it provides (bank credit) and the financial markets. There is a relationship of influence of the banking sector on the financial markets through the

volume of banking facilities provided to investors and businessmen. Financial market indicators are affected by the size of credit facilities for the banking sector. The general economic situation has a clear impact on both the banking sector and the financial markets, given that the banking sector and the financial market studied are unstable. The banking sector does not expand in investment activity and is limited to loans and advances. Therefore, expanding the banking sector by granting loans and advances is necessary. Investment expanded into areas and investment opportunities beyond the banking sector's traditional activity. Spreading the culture of investment in securities in the Iraqi Stock Exchange and the state's support for these two sectors, obliging the bodies responsible for establishing companies (investors) to offer shares for subscription in the financial market and not assigning banks to carry out these tasks.

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