

# ***The Iraqi banking sector and the extent of its contribution to attracting foreign direct investment***

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## **المخلص**

القطاع المصرفي هو العمود الأساسي المهم في نمو الاقتصاد العراقي وجذب الاستثمار الأجنبي المباشر. يتكون القطاع المصرفي من البنك المركزي، وهو العمود الفقري للقطاع ويؤكد على جميع القوانين واللوائح والسيطرة على السياسة النقدية. كما يتكون من البنوك التجارية والحكومية والإسلامية والأجنبية. يهدف البحث إلى مراجعة واقع القطاع المصرفي العراقي وتوضيح مؤشرات وإمكانية تعزيز الواقع والنظري والنظرية للاستثمارات الأجنبية المباشرة، ومراجعة واقعه ومؤشرات، ومعرفة العلاقة بين عمل القطاع المصرفي والمساهمة في جذب الاستثمارات الأجنبية المباشرة مباشرة. اعتمدت منهجية البحث على الطريقة الوصفية والتحليلية، ومراجعة وتحليل المؤشرات والبيانات المتاحة في هذا الصدد لتحديد العلاقة بين عمل القطاع المصرفي وجذب الاستثمار الأجنبي المباشر. وصل البحث إلى مجموعة من الاستنتاجات، وهي:

1 - يحتاج القطاع المصرفي إلى تطوير آلية للعملة للحفاظ على التطورات الإقليمية والدولية.

2 - أثر الظروف السياسية والاقتصادية والأمنية بوضوح على آلية عمل القطاع المصرفي.

أهم التوصيات التي خرجت عن البحث هي:

1 - الحاجة إلى البنك المركزي لتعديل قانون الاستثمار ووضع بعض الفقرات التي تسهم في جذب الاستثمار الأجنبي المباشر، مثل تقليل حجم الضرائب وإعطاء المزيد من الحوافز للمستثمرين.

2 - الحاجة إلى توفير الأمن للشركات والمؤسسات المالية التي تستثمر في العراق وتوفير غطاء قانوني لحماية المستثمرين.

## ***Abstract:***

The banking sector is an essential and important pillar in the growth of the Iraqi economy and the attraction of foreign direct investment. The banking sector consists of the central bank, which is the backbone of the sector and controls all laws and regulations and controls monetary policy. It also

consists of commercial, governmental, Islamic and foreign banks. The research aims to review the reality of the Iraqi banking sector and clarify its indicators and the possibility of advancing the reality and theoretical and conceptual framing of foreign direct investments, reviewing its reality and indicators, and knowing the relationship between the work of the banking sector and the contribution to attracting foreign direct investments direct. The research methodology relied on the descriptive and analytical method, reviewing and analyzing the indicators and data available in this regard to determine the relationship between the work of the banking sector and the attraction of foreign direct investment.

The research reached a set of conclusions, which are:

- 1-The banking sector needs to develop a currency mechanism to keep pace with regional and international developments.
- 2-The political, economic and security conditions have clearly affected the working mechanism of the banking sector.

The most important recommendations that came out of the research are

- 1-The need for the Central Bank to amend the investment law and put some paragraphs that contribute to attracting foreign direct investment, such as reducing the size of taxes and giving more incentives to investors.
- 2-The need to provide security for companies and financial institutions that invest in Iraq and to provide legal cover to protect investors.

## ***Introduction***

The banking sector is the strong and most important supporter of the economy, and it is affected and affected by the economic, political and security conditions that the country is going through. labor force and capital flows, as foreign direct investment contributes to the development of the economic development of the country in which it is invested

### **The first topic: research methodology**

This chapter clarifies the identity of the research by reviewing the approved research methodology to present the research problem and its related topics. It reviews the efforts of other researchers. Those who dealt with some of the common aspects of research during their local, Arab and foreign studies for the purpose of determining the course of the research

### **First: the importance of research:**

The importance of research stems from reviewing the reality of the banking sector and its role in attracting foreign investment, which is an engine of economic growth, and the extent of the research's ability to find solutions by reviewing the infrastructure of modern means that help in developing the working mechanism of the Iraqi banking sector for the purpose of contributing to attracting foreign direct investment.

**Second: Research problem:** The research problem focuses on:

- 1-Does the reality of the banking sector contribute to attracting foreign direct investment
- 2-Are the indicators for direct foreign investment in Iraq a reflection of the banking sector's work ?

**Third: Research hypothesis:** The research is based on two main hypotheses

- 1-Does the banking sector have a role in attracting foreign direct investment?

**Fourth: Research Objectives:** The research aims to:

- 1-A review of the reality of the banking sector and a statement of its indicators and the possibility of advancing the situation.
- 2-Theoretical and conceptual framing of foreign direct investments and a review of their reality and indicators.
- 3-Knowing the relationship between the work of the banking sector and the contribution to attracting foreign direct investment.

**Five: Research Structure:**

Chapter One: The first chapter deals with a review of the research methodology.

As for the second chapter, it deals with the theoretical and conceptual aspects of each of the . The banking sector and its characteristics and advantages in the first topic.Foreign direct investments , their characteristics , objectives , importance, laws and specifics in the second topic.The relationship between the banking sector and foreign direct investment

In the third study . While the tow chapter focuses on . Analysis of the banking sector indicators in the first topic. Indicators of foreign direct investment in the third topic. The third topic is unique in analyzing the relationship between the banking sector and foreign investments.

The research included many conclusions and recommendations .

### ***The second topic***

is the theoretical aspect of the banking sector and foreign direct investment and the relationship between them.

#### ***1- The conceptual aspect of the banking sector:***

The banking sector is the main link in the chain of the Iraqi economy, and that the problems of the Iraqi economy are many and complex, and there is an intertwining and merging between the mechanisms and requirements for forming the introductions to the transition to a market economy, and between legislation, controls, instructions and determinants of the central management of the economy, as well

as the problems that the Iraqi economy suffers from The private security that Iraq is going through during the years 2003 to the present has led to the formation of real obstacles to attempts at banking reform. Despite that, the Iraqi banking sector worked under the supervision of the Central Bank to carry out its duties in providing its services to the public according to the available administrative, banking and technical capabilities.

### ***1- The emergence and historical development of the banking sector***

The banking system has gone through a number of stages, where the first stage was from (1890-1935), when the oldest banks were (the Ottoman Bank, the Shahanshahi Bank of Iran) (Maytham ( Abdel-Khader, 2016, p. 278)

Table No. (1) Iraqi banks in the first stage

sequence	Bank name	Branch opening date	Location
1	Ottoman Bank	1890	Baghdad
2	Eastern Bank Limited	1912	Baghdad
3	The Shahshahi Bank of Iran	1916	Basra
4	The Shahshahi Bank of Iran	1918	Baghdad

Source :Jawdat Jaafar: Banks Restructuring: An Applied Study: Dar Dijla Amman: First Edition: 2009: pg. 5.

As for the second stage, it was called the National Iraqi Banking, and it was between (1935-1947) when the number of the bank at that time was (17) banks, the Agricultural Bank was established in 1935 and the Rafidain Bank (1941) and on (20-7-1947) was established The National Bank of Iraq officially practiced its activities in the year (1949). At this stage, laws and legislations were issued that included the independence and administrative structure of the National Bank, which consisted of the (head of the bank or what is called (the governor) and the board of directors. (Walid Eidi 2000: p. 23

And the real estate bank was established in 1948 and its main purpose was to finance the purchase of the house by individuals, and the mortgage bank was established in 1951 and the cooperative bank in 1956. In addition to these government banks, branches of foreign banks and private Iraqi banks have been opened to meet this expansion.

Table No. (2) Iraqi banks in the second stage

sequence	Bank name	Branch opening date	Property
1	agro-industrial	1935	Iraqi government
2	Bank of Rome	1938	Foreigner
3	Mesopotamia	1941	Iraqi government
4	Arab Bank	1945	Arabic special
5	industrial	1946	Iraqi government
6	agricultural	1946	agro-industrial
7	Iraqi National	1947	Iraqi government
8	real estate	1948	Iraqi government
9	Bank of Baghdad	1951	Iraqi special
10	Mortgages	1951	Iraqi government

11	United Lebanese Bank	1953	Arabic
12	commercial	1954	Iraqi special
13	National Bank of Trade and (Industry (Africa	1954	Foreigner
14	Agricultural Credit Bank	1956	Iraqi government
15	Intra Bank	1957	Arabic
16	National Bank of Pakistan	1957	Foreigner
17	cooperative	1959	Agricultural Credit Bank Allowance

Source :Jawdat Jaafar: Banks Restructuring: An Applied Study: Dar Dijla Amman: First Edition: 2009: pg. 8.

### ***2-The concept of the banking sector***

1-(Samir Sabri: 2015: p. 9): It is the main link for building and developing a free economy, and it constitutes the first financing ring in all investment activities.

2-(Ammar Khalaf: 2016: p. 183): It is the most important part of the economic system, and it responds to developments and changes, whether local or international, and harmonizes with them. These developments are represented by banking globalization, liberalization of banking services trade, banking mergers and technological developments

3-(Central Bank of Iraq: 2019: p. 5), which is the sector that includes the Central Bank and commercial banks.

### ***3-The importance of the banking sector***

The banking sector is very important, and we mention them:

1-The banking sector manages financial risks and works hard to reduce the proportion of risks and obliges all the sector to abide by the minimum risk management, whether it is private, governmental or Islamic banks, where it has identified

A- The minimum Sunday for capital adequacy is 12%.

B - The credit granted cannot exceed 8 times the bank's capital.

C - The loan granted to the customer cannot be (10%) of the bank's capital.

D- Investments cannot be more than (20%) of the bank's capital.

E- The minimum liquidity ratio (30%).

F- Allocations have a fixed percentage of not less than (2% and not more than 5%). Central Bank of (Iraq, 2010, p. 6)

2- The banking sector works to motivate banks among themselves to compete in providing the latest financial and banking services and earning profits. (Zahra Ahmed and Talal El-Kadawi, 2018, p. 152 )

3-The banking sector contributes to the process of economic development by mobilizing the financial resources needed for development and financing because of its important role in achieving economic growth and investment in setting up various projects.

4-The banking sector gives full freedom to banks in the process of hiring what they see fit for their banking policy

5-Controlling the path of the internal and external public debt by defining the upper and lower ceilings for the amount of debt allowed to be borrowed from private international banks and determining the methodology necessary for the debt path. . (Fares Abdullah , 2019, p. 128)

#### ***4- banking sector jobs***

:Among the functions that characterize the banking sector are

1-Attempting to achieve a balance in competition between public and private banks.

2- Participation in the establishment of companies and private banks and work hard to provide the (appropriate environment for work. (Amal Zuboon, 2018, p. 124)

3-The banking sector works to provide the two elements of profit and liquidity at the same time, as they are the main objectives of the banking sector.

4-Follow up on all economic and financial developments.

5-Maintaining all foreign reserves as well as the government's financial balances. (Ali Radi, 2011, p. 376)

#### ***5- Characteristics of the banking sector*** :

1-The banking sector is managed and its operations are conducted in a sound and wise manner and in accordance with the requirements of the law and the conditions, restrictions, regulations and guidelines governing its currency. (Walid Eidi, 2018, pg. 7)

2-The banking sector should maintain sufficient capital and liquidity, and make sufficient provision for depreciating assets, paying liabilities, compensating losses, and maintaining appropriate accounting and other commercial records (Abdul-Hussein Jalil and Ahmed Hassan, 2009, pp. 15-16)

3- The Iraqi banking sector shall establish, through a regulation, detailed standards of behavior for banks to be applied by the Central Bank of Iraq and all banks in accordance with international standards and best practices

4-The banking sector issues regulations specifying how to implement the specific operational requirements of banks, and in the regulations issued by it, banks and local subsidiaries must abide by and apply them. (Abdul-Rahman and Yasser Ali, 2018, p. 35)

## ***2- The theoretical and conceptual aspect of foreign direct investment***

The issue of foreign direct investment is a very important topic for all countries, whether they are developed countries that undertake the investment process or developing ones that receive investment because it has a strong impact on the economy and economic, financial and social life and has increased in importance after the Second World War, as it works to create new job opportunities and transfer technology to the host country. And the increase in the skills of workers, in addition to the interest of the governments that undertake investment in changing their administrative and organizational structure in proportion to the invested projects, and this in turn leads to an improvement in the existing system, and that this interest in foreign direct investment increases with the passage of years, due to the ongoing economic and political changes of the countries of the world

### ***1-The concept of foreign direct investment***

1-(Laura Alfaro & Jasmina Chauvin:2017:p4): It is a key to attracting capital technology, knowledge and expertise to transfer the economies of developing countries to higher economies.

2-(Arben Sahiti et al.: 2018:p39): It is to identify the factors that affect the level of foreign direct investment from the source to the host country. As well as the characteristics of the micro and macro environment on the result of capital flow.

3-(Iza Lejárraga & Alexandros:2018: p3): It is the process of withdrawing foreign capital, creating jobs and managerial skills, developing social and economic development and the participation of local companies to foreign companies in their business and developing their entity.

4-(Yassin Elshain Yahia et al.:2019:p2): It is the most suitable alternative to capital loans, a source of capital flow, and a catalyst for economic growth without assuming the risks associated with debt.

## ***2- The importance of foreign direct investment***

1-Closing the gaps: Foreign direct investment helps in making an effective contribution to bridging the gaps in the host country.

A- The foreign exchange gap: the foreign exchange needed to purchase production, service and technological machinery and equipment.

B - A gap between public revenues and public expenditures: One of the most important features of foreign direct investment is that it generates revenues for the host country in the form of (customs taxes, taxes on profits) and thus bridges the gap between public revenues and public expenditures. (stefan Cristian Gherghina et al.: 2019:p24)

2- Building local links: When foreign companies invest their direct investment in the host country, they build front and back links with local suppliers and distributors, and as a result of these links, knowledge and experience will be transferred to local suppliers and distributors, and thus the management of local companies develops through these links.

3- Raising the level of competition: Foreign direct investment increases competition and raises the ceiling of the challenge between companies, as local companies seek to increase their productivity through modernizing manufacturing, advanced technologies, and adopting administrative practices to confront this competition, and this depends on factors including (World Investment Report :2007:p248)

1- Ownership

2- location

3- Absorption

Where these three factors have a strong impact in increasing the competition between foreign direct investments to invest in the host country, which possesses these factors combined.

4- Creating external savings: Foreign direct investment has helped create many external savings that have a role in increasing social benefit. (Yilmaz Bayar.et.al: 2020:p9)

### ***3- Theories of foreign direct investment***

:There are many theories that explain foreign direct investment, including

1-Production cycle theory (Levernon)

The production cycle theory developed by Vernon (1966) has been used to explain certain types of foreign direct investment that American companies made in Western Europe after World War II in manufacturing. Vernon believes that there are four stages in the production cycle: (innovation, growth, maturity, and decline). The first stage is that companies invent new products for local consumption and export the surplus to foreign markets. As the demand increases, the growth becomes more and then we reach the stage of maturity, which means that the product reaches its peak and then comes the role of decline, where the growth and maturity of the product continues for a certain period and then a new product appears that cancels or reduces Demand for the current product. (Vintila Denisia:2010:p106)

2- Exchange rate theory in imperfect capital markets:

The foreign exchange risks are analyzed from the point of view of international trade. And then The analysis that .analyze the impact of uncertainty as an important factor in foreign direct investment has been made so far, shows that the increase in the real exchange rate led to an increase in foreign direct investment in US dollars, while the increase in the value of the foreign currency led to a decrease in foreign direct investment. This interpretation shows that the rise in the dollar led to a decrease in US foreign direct investment 25%. (Patricia Lindelwa Makoni: 2015: p78)



### :3- Normalization Theory

This theory gives an explanation of the growth of transnational corporations and their motives for realizing foreign direct investment. The theory was developed by Buckley and Casson in 1976, Heinart Initially the theory was launched by Coase (in 1937 in a national context .in 1982, and Casson in 1983. and Hymer in 1976) in an international context. Buckley and Casson, who established the theory, show that TNCs identify their internal activities in order to develop them with new features, and then they are used (Kombui& Diana N-Peline :2019:p52)

#### ***3-The relationship between the banking sector and foreign direct investment***

1-Flexible banking system: The existence of a flexible economic system in the host country means the presence of excellent foreign direct investment, as the existence of the flexible banking system allows the conclusion of agreements and the signing of treaties that are beneficial and easy terms for both parties. (Weihua SU.et.al.2018) Here we note that the Central Bank of Iraq has issued the Investment Law No. (13 of 2006), which is considered a positive shift in how to attract foreign direct investment, and it will also benefit from European experiences that have a strong banking system and an attempt to The application of this system through the banking reforms that it undertakes by merging banks, facilitating loans, eliminating useless loans, trying to find realistic solutions to the problems facing foreign direct investments, and working to ensure that the banking density, the less it is, contributes to attracting foreign direct investment. (Mohammed Resham et al 2019: p. 108)

2-Establishment of modern banks: the more open modern banks that are owned by a foreign investor, the more this indicates a sound economic openness in that country. We find that in Iraq (18 foreign banks, 2 of which are Islamic foreign and 16 foreign commercial). These banks have a distinguished role in attracting foreign direct investment, as they have (15) branches in Baghdad and (27) branches in the provinces. (Adel Al-Wazni: 2019: pg. 375)

3-Cancellation of restrictions: Work to abolish restrictions on each of (transferred capital, taxes). The fewer restrictions, the greater the foreign direct investment.

4-The ability of the banking sector to offer tax exemptions and investment incentive programs for foreign investors is also a good indication that the tax system in this country is effective and the level of productivity in this country is high enough to make a decision to start work there. An effective tax system allows the banking sector to attract foreign direct investment Due to its ability to provide special tax systems and tax exemptions. Reducing the complexity of the tax system will have a positive effect on the country's attractiveness to foreign investors. (Tahani Abbas and Star Abbas: 2018: p. 171)

5-Foreign direct investment: It generates revenues for the host country in the form of (profits taxes). Here, the banking sector plays the most prominent role in facilitating the process of foreign direct investment and obtaining revenues by facilitating the opening of new banks and the expansion of existing banks. (Mahmoud Al-Mousawi and Sawsan Odeh: 2020: p. 128)

#### ***practical side***

### ***First: the indicators of the Iraqi banking sector***

The most important indicators of the Iraqi banking sector will be addressed and analyzed

#### ***1- The structure of the Iraqi banking sector for the year 2019***

Table No. (1) The structure of the banking sector for the year 2019

types of banks	capital	number of banks	number of branches
government banks	3.351.600	6	423
private banks	5.763.572	24	263
Governmental Islamic banks	150.000	1	4
local Islamic banks	5.168.000	24	147
foreign Islamic banks	118.686	2	5
foreign banks	949.418	16	39

Source: Prepared by the researcher based on the Central Bank of Iraq, the General Directorate of Statistics and Research, Annual Statistical Bulletin, 2019 p. 119 and 120.

The number of banks reached (73), including (7) government banks, (66) private banks, distributed over (24) private commercial banks, (24) Islamic banks, (16) foreign banks, and (2) foreign Islamic banks. The total capitals of government banks amounted to (3,251,600). The total capitals of private banks amounted to (5,763.572). The total capitals of Islamic banks amounted to (5,168,000). The total capitals of foreign banks amounted to (949,418). The total capital of foreign Islamic banks (118,686). The total capital of Islamic government banks reached (150,000)

#### ***2- Indicators of the Iraqi banking sector for the year 2019***

Table No. (2) Banking Sector Indicators for 2019 (The amount is a trillion dollars)

sequencing	Indications	the amount
1	Assets of government banks	104.709.899
2	Assets of private banks	15.414.635
3	Assets of Islamic banks	164.293
4	Assets of local Islamic banks	8.903.874
5	Assets of foreign Islamic banks	851.883
6	Banking sector deposits	82
7	Banking Density	44000
8	foreign investment balance	73.2
9	foreign reserves balance	80
10	net foreign assets	102.0069

Source: Prepared by the researcher based on the Central Bank of Iraq, the General Directorate of Statistics and Research, Annual Statistical Bulletin, 2019 p. 119 and 120.

The total assets of government banks amounted to (104.709,899). The total assets of private banks amounted to (15,414.635). The total assets of Islamic banks amounted to (8,903.874). The total assets of foreign banks amounted to (3,209,515). Foreign Islamic banks (851.883). The total assets of government Islamic banks amounted to (164.293) The deposit balance of the banking sector reached (82) trillion dinars. The bank's banking density reached one for every (44,000) people. The balance of

foreign investments in the banking sector reached (73.2) trillion dinars, while the balance of foreign reserves amounted to (80) trillion dinars. The net foreign assets in the Central Bank and banks (.amounted to 102,0069)

**Second -Analysis of indicators of foreign direct investment**

Table No. (3) Analysis of Foreign Direct Investment Indicators(The amount is a million dollars)

the year	incoming flows	growth rate	outflows	growth rate	Incoming balances	growth rate	Outgoing balances	growth rate
2010	1396	0	125	0	7965	0	632	0
2011	1882	-34	366	19	9848	23	998	57
2012	3400	80.6	490	33	13248	34	1486	48
2013	2335	-31.3	227	-53	10913	-17	1715	15
2014	10176	33	242	6	7363	-32	1956	14
2015	7564	-25.6	148	-38	10128	37	2104	7.5
2016	6256	-17.2	304	10	10128	0	2408	14
2017	5032	-19.5	78	-74	10128	0	2486	3.2
2018	4885	-2.9	188	14	0	0	2674	7.5
2019	3076	-3.7	1942	93	0	0	2869	7.2

Source: The Arab Corporation for Investment and Export Credit Guarantee, Investment Guarantee in Arab Countries, Investment Attractiveness Index, Kuwait, for the years (2015/2017/2019)

Through the above table, it becomes clear to us that there is a growth in foreign direct investment entering Iraq, where these investments were (1396 for 2010) and took a remarkable development and growth in subsequent years until it reached (3076 for 2019) and this growth is due to the improvement of security conditions, especially after Iraq’s ability Fighting terrorism and restoring security to all Iraqi provinces. As for the outflows, we note (125 in 2010) and they gradually began to improve until they reached (1942 in 2019). Through the above table, it appears that the growth rate in inflows and outflows ranges between decline and rise, and this is due to the unstable security conditions that Iraq has experienced. We note that the growth rate of inward foreign direct investment was (34 in 2011), which is almost non-existent due to the unstable situation and the failure to implement sound security measures aimed at protecting inward investments, and that this percentage rises and falls at other times until it reached (37 in 2019) because of the demonstrations. experienced by Iraq and the instability of the country. As for the growth rate in foreign investments from Iraq, it is also between a decline and a rise. We note that this percentage was (19 in 2011), which is a good percentage, and then it began to decline, especially in (2013 - 2015 - 2017), where terrorism and ISIS and the fall of many provinces were the reason The main reason is the lack of protection for foreign investments and the failure to apply security and safety measures. This percentage began to improve gradually in (2018-2019), which is a slow improvement due to the government’s control and its ability to liberate the governorates and work to implement protection for foreign investors , Through the above table, we note that the incoming balances and the outgoing balances also rise and fall due to the country’s conditions, as the country’s conditions are greatly affected. As for the growth rate, we note that the growth rate of incoming balances after it was (23 in 2011) became (37 in 2015) and then fell to 0 in subsequent years, and this had a bad effect on the country's economy, and the reason was due to the security situation, as well as the unwillingness to invest in the country due to the faltering declarations of investments and the inadequacy of the implemented procedures. As for the outgoing balances, we note that after it was (57 in 2011), it started to decline until it reached (2.7 in 2019). The reason is due to the conditions that

the country has gone through and the government's inability to improve and develop investment laws in the interest of the investment flow into the country

**Third-analyze the relationship and test the hypothesis**

Hypothesis test (Is the banking sector a role in attracting foreign direct investment). Here, it will be discussed whether the banking sector has a role in attracting foreign direct investment or not

.Table No. (4) Analysis of the relationship between the banking sector and foreign direct investment

year	The net foreign assets of the central bank and banks	foreign reserves balance	The balance of foreign investments in the banking sector	Banking Density	Financial Inclusion Ratio
2010	68.13	60.7	30.9	37.3	%05
2011	79.1	66.8	37.4	37.08	%05
2012	71.4	82	33.9	34.4	%1
2013	82.5	90.6	40.3	34.6	%1
2014	101.202	77.4	44.7	34.8	%1
2015	77.590	62.8	46.3	43.24	%1
2016	64.203	52.6	57.1	43.74	%1
2017	68.334	57.3	51.2	44.05	%2
2018	91.423	76	68	44.16	%2.26
2019	069.102	80	73.2	44.25	%2.26

Source: Prepared by the researcher, relying on the Central Bank of Iraq, the General Directorate of Statistics and Research, the annual statistical bulletin, for several years (2014, 2016, 2019)

Through the above table, we can note that the percentage of financial inclusion has developed significantly. It is true that the percentage of its development is not the same as in other countries, but there is a percentage development where we note that in (2011 and 2010) it was (5%) and then increased to (1) % in the years (2012-2013-2014-2015-2016) the rate of increase is half, but in that period and the unstable political and security conditions the country went through, it was a good indicator, and we note that it increased to (2%) in (2017) and this A very good indicator, the rate of increase is (1%), which indicates that banking awareness has increased in the country and that there is a good demand for the use of financial services. We note that in (2018-2019) the percentage of financial inclusion has reached (2.26%), and this is a very good indicator that the rate of financial inclusion has reached (2.26%) Access, quality and use of financial services have gradually begun to develop. Here, it can be said that this indicator has a good role in attracting foreign direct investment

As for the banking density, we note that it was (37.3 in 2010) and then increased to (37.08 in 2011), and that the higher the density, the more a negative indicator, and we note that it was (34 in the following three years) and here there is a noticeable improvement, but it is not very good. In subsequent years, it rose to more than (44), and this indicates that the banking density is not good and that its role in attracting foreign direct investment is not good

As for the balance of foreign investments, it amounted to (30.9 million dollars in 2010), which is good for the banking sector, as well as for foreign direct investments. This indicates that there is foreign investment that takes place and there is a balance in the banking sector that can be benefited from and profitable, as for ( 2011 it reached 37.4) and here it rose a good rise and the country benefited from it was good, but in (2012 it reached 33.9) there is a decrease and lack of attracting foreign investment due to the political and security situation, and it rose in the following years and exceeded more than (50 and 40) and in (2019 it was It reached 73.2) and here the rise is very good and the balance of foreign investments is excellent, which means that the banking sector was able to attract foreign direct investment and the relationship is very good

As for the balance of foreign reserves, it is excellent, it amounted to (60.7 million dollars in 2010), and this means that the banking sector has foreign investments and foreign reserves that can be benefited from. We note that this percentage has increased significantly until it reached (90.6 in 2013), which is an excellent percentage. Of the reserves, the percentage decreased in subsequent years due to ISIS and terrorism and the subsequent unstable security and political events until the percentage returned to the rise in (2019, it reached 80), and this indicates that the banking sector is working in the right way that helps it to attract investments, and we note that the relationship is very good

As for the balance of foreign assets with the Central Bank and banks, it can be considered the most important. The higher the ratio indicates a flexible sector with an independent policy and a clear vision. It reached (68.13 million dollars in 2010), which is a good percentage, and then gradually increased and decreased due to the unstable conditions in Iraq. After the stability, most companies and financial institutions invested in Iraq until this percentage reached (102,00069 in 2019), which is a high and excellent percentage, and here it can be said that the relationship is excellent.

Through what has been clarified, it can be said that the banking sector has a good structure, a clear vision, financial and moral independence, and the potential to attract foreign direct investment. It is true that Iraq has gone through stages with bumps due to economic, political and security conditions, but it is now in the stage of recovery. Here, the first theory proves that the Iraqi banking sector has a prominent and effective role and a clear influence in attracting foreign direct investment. This proves the validity of the research hypothesis

## ***Conclusions and recommendations***

### ***Conclusions***

- 1-The banking sector needs a greater development in the currency mechanism to keep pace with regional and international developments
- 2-The political, economic and security conditions have clearly affected the working mechanism of the banking sector.
- 3-The current foreign investment laws do not amount to stimulating foreign direct investment and entering the regional competition to attract such investments.

Iraq's possession of a distinguished workforce and competencies contributed to attracting foreign direct investment.

### ***recommendations***

- 1-Legislating new laws that support foreign direct investment and reviewing current legislation to achieve the same goals.
- 2-The necessity of providing security for companies and financial institutions that invest in Iraq and providing legal cover to protect investors.
- 3-Economic and political stability is one of the most important factors affecting the attraction of foreign direct investment, so it requires serious efforts to develop plans and programs and create the conditions that guarantee this.

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