

Bank cash credit trends and its relationship to inflation in Iraq for the period (2008–2020)

The two researchers:

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Abstract

Commercial banks are of great importance in different economic systems due to their connection with the national economies of all countries because of their role through providing cash credit, whether to governments or institutions and individuals, and on this basis the research seeks to identify the trends of bank cash credit and analyze it with a statement of its role and its relationship to inflation in Iraq for the period (2008–2020), It has been reached by the two researchers that excessive monetary credit has a role in influencing inflation, but through data analysis, it found weak impact in this area in Iraq during the research period due to the role of monetary policy through its other tools to control inflation, and on this Basis The researchers recommend the need to adopt a credit policy that would deal with inflation into consideration, especially when granting credit to the public and private sectors.

Keywords: bank cash credit, inflation, the public sector, the private sector

Introduction;

Bank credit is effective and stands out within the effectiveness of the banking sector, as well as being a sensitive tool that has positive effects that are better used and negative ones. Excessive use of it may lead to inflationary pressures, and that its contraction leads to recession, and both cases have serious economic effects that may be difficult to address, and credit Banking as a banking activity that is very important, as it is one of the most attractive banking activities for managing commercial banks and other intermediary financial institutions. It suffers from distortions in its economic growth, not to mention the rise in the price level.

Research importance:

The importance of the research stems from describing bank credit in Iraq as one of the important and vital topics through which it influences the macroeconomic variables, especially inflation, as the Iraqi banking sector, through its credit policy, plays a role in bringing about changes in the price level.

Research problem:

The problem of the research lies in identifying the effect of the effectiveness of bank credit on inflation in Iraq, and it is manifested in the question about what is the impact that the effectiveness of bank credit has on the phenomenon of inflation in Iraq for the period (2008–2020).

Research aims:

1. Recognize the concept and importance of both bank credit and inflation.
2. Analysis of the trends of bank credit and inflation and analysis of the relationship between them in Iraq for the period (2008–2020).

Research Hypothesis:

The research adopts a hypothesis that “there is a direct relationship between cash credit granted to the public and private sectors and inflation in Iraq during the period (2008–2020).

Research Methodology:

The research depends on the deductive approach based on the extrapolation of reality, data analysis and descriptive results.

Search structure:

The research includes the following investigations:

The first topic: the path of monetary credit in Iraq for the period (2008–2020)

First: the conceptual framework of bank credit

There are many concepts of bank credit, like many other concepts in the economic, administrative and social fields. Credit has been defined in general as the process of providing individuals, institutions and establishments in society with the necessary funds, provided that the debtor undertakes to pay those funds and their interests at once or in installments on specific dates ⁽¹⁾.

Bank credit has an effective role in the national economy, as bank credit represents an important source of satisfying the financing needs of various sectors, from cultivating a trade and service industry. Credit helps support production processes, which in turn helps to expand the exploitation of available economic resources. Bank credit can also contribute to Economic activity and the progress of prosperity for the society it serves,

in the case of excessive lead to inflationary pressures. And that both cases cause serious economic effects and need to be addressed ⁽²⁾.

Bank credit is also defined as the trust that the bank attaches to a person, whether it is natural or moral. By giving him a sum of money to be used for a specific purpose during an agreed period of time and under certain conditions ⁽³⁾. As defined by others as the contract concluded between two parties: the bank and its customer, whereby the bank undertakes to place at the customer's disposal, directly or indirectly, a tool of payment in the form of a cash amount for a specified period to be used for a specific purpose in return for the customer's pledge to pay the commission or the specified return ⁽⁴⁾.

The importance of bank credit;

Bank credit plays an important role in economic life, as interest in bank credit and its rational practice leads to better economic developments, and on the contrary, neglecting it causes damage to the level of banking activity and then to economic activity ⁽⁵⁾.

The importance of credit can be viewed from different angles. Its importance to the bank is the bank's provision of credit to economic units as one of their most prominent activities, due to the financial returns it generates on them, which constitute the largest percentage of its revenues. And its importance to the borrower, whether individuals or companies. Obtaining credit and banking facilities enables the borrower to cover the financial deficit that hinders the movement of his activity, so he opens the way for growth and production in the various fields of work and continuity in the practice of their work and enables economic units to achieve their goals.() The credit also works However, the development of industry and the diversity that it provided through opening documentary credits facilitates and expands specialization, training and job opportunities.

Second: Analysis of monetary credit trends in Iraq (2008–2020)

By tracking the balance of direct cash credit granted by the banking sector to the private and government sectors to know its size, developments and the extent of the effectiveness of monetary policy in achieving its objectives through this tool, it is noted from Table (1) that bank cash credit witnessed a clear development during the period (2008 – 2020). After the total cash credit granted to the private and public sectors amounted to about (4596.42) billion dinars in 2008, it increased to reach (49817.74)

billion dinars in 2020, achieving annual growth rates that fluctuate between high and low at other times, which were on average about (25.21) for the period (2008). – 2020), in which the average relative contribution for the research period (2008–2020) to the credit granted to the private sector was about (60.6%), which is much greater than the credit granted to the public sector, which amounted to about (39.4%) on average for the entire period, in general and despite the decline The growth of total monetary credit after 2010, but its amounts tend to increase due to the increase in cash reserves with the Central Bank as a result of the increase in the export of oil products, as well as the reduction in interest rates on loans provided to commercial banks by the Egyptian Bank. This increased to about 6%, which led to an increase in the cash reserves of commercial banks, and this in turn led to an increase in their ability to grant credit, especially granted to the private sector, not to mention the increase in the number of government and private banks from one in 2011 to one in 2014, as well as an improvement in prices. International oil, on the one hand, and the reform measures followed by the Central Bank of Iraq by limiting credit in accordance with the provisions of paragraph 13 of Article 4 of the Central Bank of Iraq Law No. 56 of 2004 and the trend towards canceling credit plans and moving towards market mechanisms and expanding the activities of banks through participation with foreign banks.

Table (1)**Total cash credit granted to the economic sectors in Iraq for the period (2008–2020)**

Billion dinars

Years	cash credit granted to the government			Cash credit to the private sector			total cash credit	
	amount	annual growth%	relative contribution%	amount	annual growth%	relative contribution%	amount	annual growth%
2008	618	-42.3	13.4	3978	66.6	86.6	4596.42	32.9
2009	1044	68.9	18.3	4646	16.8	81.7	5690.12	23.8
2010	3194	206.0	27.3	8527	83.5	72.7	11721.54	106.0
2011	8988	181.4	44.2	11365	33.3	55.8	20353.14	73.6
2012	13789	53.4	48.5	14650	28.9	51.5	28438.69	39.7
2013	13004	-5.7	43.4	16948	15.7	56.6	29952.01	5.3
2014	16378	25.9	48.0	17745	4.7	52.0	34123.07	13.9
2015	18683	14.1	50.8	18070	1.8	49.2	36752.69	7.7
2016	18999	1.7	51.1	18181	0.6	48.9	37180.12	1.2
2017	18501	-2.6	48.7	19452	7.0	51.3	37952.83	2.1
2018	18271	-1.2	47.5	20216	3.9	52.5	38486.95	1.4
2019	21010	15.0	50.0	21042	4.1	50.0	42052.51	9.3
2020	23951	14.0	48.1	25867	22.9	51.9	49817.74	18.5
average		47.58	39.4		18.6	60.6		25.21

Source:

1. The Central Bank of Iraq, the General Directorate of Statistics and Research, Economic Reports, various bulletins.
2. Ministry of Planning, Central Statistical Organization, Directorate of National Accounts, Consolidated Accounts.

The second topic: the path of monetary inflation and its relationship to inflation in Iraq for the period (2008–2020)**First: the conceptual framework of monetary inflation**

The problem of inflation is one of the most complex problems affecting the economies of developing and developed countries. It is a multidimensional phenomenon that began to be studied after the Second World War. The economies of the world

constantly persisted, and its impact depends on a group of factors and variables that contribute to causing inflationary pressures and pushing price levels to rise. Thus achieving economic, social and political effects, and most of the definitions of inflation were built on the basis of the quantity theory of money that he adopted in the monetary field, and which classical economists recognize through quantity theory that every increase in money issuance ⁽⁶⁾, what Keynes defined as the increase in aggregate demand and not matched by an increase in production ⁽⁷⁾. That is, any increase in aggregate demand leads to an increase in prices, and that the increase in consumer spending and investment spending in society will not translate into an increase in production but rather into an increase in prices.

While (Friedman) came through his interpretation of a new problem in the American economy, which is (stagflation), that the money supply as specified by the monetary authority, its changes are what determine the volume of goods and services in the short term and determine the general level of prices, and that inflation leads to a decrease in the value of Money, which reduces the motivation to keep money, and thus the rise of this level leads to inflation ⁽⁸⁾.

In general, inflation is meant as a continuous rise in the general level of prices, and leads to a decrease in the real value of money and then a decrease in the real income of the individual and the state ⁽⁹⁾.

Over the past decade, a number of economists have found evidence that inflation negatively affects the rate of economic growth, as inflation creates a state of uncertainty about future economic conditions, which affects and delays investment decisions, as well as affects the incentive to save, and the productivity and enthusiasm of workers. As a result of their lower real incomes ⁽¹⁰⁾.

Second: Analysis of monetary inflation trends and its relationship to monetary credit in Iraq for the period (2008–2020)

It is clear from Table (2) that post-2008 Iraq and in view of the monetary policy measures through the currency sale window on the one hand, and the achievement of stability in the security aspect on the other hand, inflation recorded a decrease in 2010, reaching about 2.46% and then rising in 2012 to reach About 6.06%, down to a negative rate of about -0.20% in 2019 and then about 0.61% in 2020, as the decline in inflation rates significantly after 2008 is due to reducing subsidies on oil derivatives and resorting to the application of economic policies to address the issue of the scarcity of oil derivatives and reduce The increase in the money supply contributed to

the decline in inflation rates, as well as the development of the financial and monetary markets, and the monetary governorate of the Central Bank of Iraq by curbing inflation and bringing it to acceptable levels.

Table (2)

**Inflation rates in Iraq according to the price index for the year 2007
for the period (2008–2020)**

Years	a Record	Inflation rate%
2008	112.7	12.70
2009	122.1	8.34
2010	125.1	2.46
2011	132.1	5.60
2012	140.1	6.06
2013	142.7	1.86
2014	145.9	2.24
2015	148	1.44
2016	148.1	0.07
2017	148.4	0.20
2018	149	0.40
2019	148.7	-0.20
2020	149.6	0.61

Source; The Central Bank of Iraq, the General Directorate of Statistics and Research, Economic Reports, various bulletins.

With regard to the relationship between monetary credit and inflation, it is necessary to clarify the logic of economic literature, which indicates that since bank credit is one of the most important sources of satisfying the financing needs of the various economic sectors, and a sensitive tool that may lead to many damages to the economy if it is not used properly, bank credit in A case of deflation leads to a recession, and in the case of excessive inflation, it leads to inflationary pressures, and both cases cause very dangerous economic effects, as it may be difficult in many cases to address this (11).

Table (3)**Annual growth of bank cash credit and inflation rate in Iraq for the period (2008–2020)**

Years	Annual growth of cash credit granted to the government%	Annual growth of cash credit to the private sector%	Total cash credit annual growth%	Inflation rate%
2008	-42.3	66.6	32.9	12.7
2009	68.9	16.8	23.8	8.34
2010	206	83.5	106	2.46
2011	181.4	33.3	73.6	5.6
2012	53.4	28.9	39.7	6.06
2013	-5.7	15.7	5.3	1.86
2014	25.9	4.7	13.9	2.24
2015	14.1	1.8	7.7	1.44
2016	1.7	0.6	1.2	0.07
2017	-2.6	7	2.1	0.2
2018	-1.2	3.9	1.4	0.4
2019	15	4.1	9.3	-0.2
2020	14	22.9	18.5	0.61
average	47.58	18.6	25.21	3.213846

Source: Relying on the Central Bank of Iraq, the General Directorate of Statistics and Research, Economic Reports, various publications.

It is clear from Table (3) that bank cash credit decreased from about 32.9% in 2008 to about 18.5% in 2020, and this is offset by a decline in the inflation level from 12.7% in 2008 to about 0.61% in 2020, and this indicates that there is a relationship between Bank cash credit and monetary inflation in Iraq, as the increase in the volume of credit leads to the creation of inflationary pressures, and vice versa, as in Iraq during the period under discussion that the decline or decline in credit growth led to a decline in the inflation rate in general, despite the fluctuations between creating inflationary pressures In some years, this is due to the role of monetary policy in this area.

Conclusions and Recommendations**First: the conclusions**

1. Concern for bank credit and its rational and planning practice lead to better economic developments, and on the contrary, neglect of credit causes damage to the level of banking activity and thus to economic activity.
2. Bank cash credit witnessed a clear development during the period (2008 – 2020), achieving annual growth rates that fluctuate between high and low at other times.
3. Post–2008 Iraq witnessed monetary policy measures through the currency sale window, until inflation recorded a significant decline in inflation rates and reached acceptable levels.
4. There is a decline in credit growth that has led to a decline in the inflation rate in general, despite the fluctuations between creating inflationary pressures in some years, and this is due to the role of monetary policy in this field.

Second: Recommendations

1. Requires the central bank to reform the banking sector to form large–scale banks through banking merger and credit expansion
2. Encouraging the role of banks and financial institutions, especially private ones, in implementing the strategy of the Central Bank of Iraq to support credit granted to the private sector
3. Adopt financial policies to absorb the excess cash liquidity, and take appropriate measures to remedy the imbalance in the structure of the distribution of domestic credit to commercial banks among the economic sectors, in a way that contributes to increasing the volume of credit granted to the productive sectors.

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