

THE INTERMEDIATION FINANCIAL AND LOSS DEVELOPMENT OPPORTUNITIES TO RESTORE CONFIDENCE IN THE IRAQ BANKING SECTOR

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ABSTRACT

The research is an attempt for the scenario of exploiting lost opportunities in economic development in Iraq by taking advantage of the financial intermediation function in banks, this lost job as a result of the lack of laws supporting its work, trust is lost among depositors because there is no law to protect depositors, offset by a lost confidence in the owners of money and banks, fear exists They have weak guarantees and the possibility of non-return of incoming loans with the loss of security and political, economic and social instability. Therefore, it seems an urgent and definite need to dissect the deposit protection laws, and loan guarantee institutions to be supportive and effective to increase the volume of deposits and the volume of loans provided to various small, medium and large projects.

Keywords: Financial, Banking Sector, Iraq

INTRODUCTION

There is no doubt that the economic situation in Iraq does not develop and does not progress except with the improvement of the financial and banking sector, as the contribution of the banking sector to the gross domestic product has decreased to 1.85% compared to neighboring countries, as the contribution rate reached, at last, 11.9 in the Kingdom of Saudi Arabia and 7.12% in the UAE and 14.96% in Egypt, and this reflects a significant weakness in the contribution as well as the weakness of the banking sector and the low developmental and developmental role in the Iraqi economy, and this indicates the weakness of the financial intermediation function, especially indicators indicating that the proportion of hoarding outside banks is 23% and the proportion of hoarding is 77%, and the question posed by the research? How to overcome difficulties and challenges in order to restore confidence in the banking sector, how will the course be corrected in light of spreading the culture of financial inclusion, expanding banking investment and creating an infrastructure that helps develop the banking sector? Is there an opportunity to work on the issuance of appropriate legislation that enhances the compliance of the banking sector with international organizations, and can the strategy of the Central Bank of Iraq help restore confidence in the banking sector by bridging the lack of laws supporting the work of this sector, such as the Deposit Protection Law and the Loan Guarantee Law from For the return of the financial intermediation function and an attempt to restore lost opportunities in sustainable economic development.

RESEARCH PROBLEM

The problem lies in the absence of the function of banks as “financial intermediation” and the loss of sustainable economic development opportunities caused by the lack of confidence in the Iraqi banking sector, and this is due to the lack of supporting and supportive laws for this sector, such as the Deposit Protection Law and the Loan Guarantee Institutions

Law, as well as the security situation and political and social developments. We did not see an effective contribution, as is the case in many countries, to the Iraqi banking sector in economic activity, as the contribution of the banking sector to the gross domestic product did not exceed 2%.

RESEARCH IMPORTANCE

The importance of the research comes from the importance of the role of the financial intermediation function to provide the necessary funds for the economic deficit units of investors and business owners, whether small, medium and large enterprises through increasing deposits that come through increasing confidence in the banking sector, especially with the existence of a law that protects depositors and protects deposits, corresponding to a law that protects credit and loans Provided by banks to the public with the possibility of guaranteeing these loans through loan guarantee institutions that we call for their establishment to be a guarantor of non-performing loans.

RESEARCH HYPOTHESIS

Anatomy of laws such as the Deposit Protection Law and the Loan Guarantee Law will have a significant impact on increasing the work of financial intermediation and will be a sure attempt to restore confidence in the Iraqi banking sector.

RESEARCH METHODOLOGY

In order to prove the validity of the hypothesis or not, and in order to reach the objectives of the research, the inductive method was relied on, using the descriptive and analytical method based on economic theory as a basis for conducting scientific analysis, and using specialized scientific sources in the banking field to demonstrate the role and importance of legislation for the protection of deposits and loan guarantee institutions in order to Restoring confidence in the banking sector and its role in sustainable economic development.

Research Structure

The subject was dealt with through two sections: the first was the theoretical framework of financial intermediation, as this topic was divided into three demands, the first dealt with general concepts of financial intermediation, while the second requirement dealt with the objectives and importance of financial intermediation, while the third requirement, financial intermediation tools and their expected role in restoring confidence in the banking sector.

As for the second topic, it was concerned with lost opportunities, mediation tools, and the scenario of restoring confidence in the Iraqi banking sector, by dividing the topic into three demands. The first requirement dealt with: the reality of deposit and loan guarantee institutions in Iraq, while the second requirement dealt with lost development opportunities in restoring confidence in the Iraqi banking sector. As for the third requirement, deposit and loan guarantee institutions are tools for the scenario of restoring confidence in the Iraqi banking sector.

Theoretical Framework for Financial Intermediation

The First Requirement

General Concepts of Financial Intermediation

Financial intermediation is: (those bodies and institutions that allow transforming the direct financing relationship between the economic and financial surplus units and between the economic and financial deficit units (the potential lenders and borrowers) into an indirect relationship, as it creates a new channel through which funds pass from the owners of the financial surplus to the owners of the financial deficit, In this way, it connects two parties to its future situation and goals.

The term financial intermediation expanded as in the past it expressed the collection of deposits and their distribution to economic dealers, but it developed and expanded to transform the rigid and written means of payment into liquid in light of the constant quest to meet their needs and achieve their goals. In fact, this term has evolved and expanded significantly to include a changing, diverse and controlling environment. In financial rules, banking tools and intervention tools in monetary, financial and international markets, but in our research, the concept of financial intermediation will be consistent in the banking sector, specifically the work of banks (commercial banks) whose main task (the main function) is to receive deposits from economic depositors, and in turn it grants loans, whether Long-term or short-term, through which development and economic growth occur, especially since this is the real actor in moving economic activity and achieving profits for banks and economic producers.

The Second Requirement

Objectives and Importance of Financial Intermediation

The objectives and importance of financial intermediation focus on the following:

- 1) Financial intermediation is based on the goal of profitability and maximizing capital accumulation and wealth for the individual and society.
- 2) Providing the necessary funds for the individual, the producer and the investor.
- 3) Collecting savings from the owners of capital and redistributing them to those who need them.
- 4) Financing and encouraging investments is one of the most important objectives that financial intermediation seeks to achieve through the redistribution of investment returns.
- 5) Dividing profit and loss and coordinating between partners in all transparency in order to lead the success of the economic project for the benefit of the nation
- 6) Increasing financial intermediation and activating its function with systems to protect deposits and institutions to guarantee loans will enhance the process of economic growth because this will mitigate the effects and consequences of the collapse of banks, especially in cases of recession, because the establishment of such institutions contributes to increasing the cash flows of the banking system and thus increases the ability of banks to enter into Investment and lending operations.
- 7) Contribute to the stability of the payments system, because the process of depositing funds with banks allows the public and institutions to move their accounts at any time without conditions, and for the payments system to work efficiently, the public must be reassured that their money deposited with banks is at the same level of security directed at cash.

The Third Requirement

Financial intermediation tools and their expected role in restoring confidence in the banking sector

Financial intermediation tools express those means that allow the relationship to be established between them and others, as well as the means of payment by which financial transactions take place, and the resources they employ in their various activities, and thus

represent a judgment for those with financial surplus to employ their surpluses and for those with financial deficit to meet their needs.

These tools represented by financial intermediation have a prospective role in restoring confidence in the banking sector by activating the infrastructure of the laws of deposit guarantee institutions and loan guarantee institutions. This sector in the Iraqi economy.

Therefore, efforts to continue renewing, modernizing and developing banking laws and scientific frameworks and benefiting from modern mechanisms and means in the banking sector to keep pace with the requirements of the times, and this is what is hoped for in the strategy of the Central Bank of Iraq (2016-2022) to play a major role in restoring confidence in the banking sector in order to put important touches and a role Prospects for sustainable economic development in Iraq.

The role of deposit and loan guarantee institutions in addressing the problems of bank deposits and non-payment of loans appears through the measures they take to protect these deposits and loans in order to support confidence in the banking system through their intervention to play the role for which they were established, whether by providing the necessary loans at low interest rates or placing the bank under control or compensate depositors, and this is done in cooperation with the monetary authority in the economy. The deposit and loan protection institutions may express their opinion on the bank manager and members of the board of directors, as well as review the technical controls for some banking operations.

The Second Topic

Missed opportunities, mediation tools, and the scenario for restoring confidence in the Iraqi banking sector

It seems that Iraq missed many historical opportunities to get out of the impasse of totalitarianism and extreme centralization, especially after the collapse of the political system after 2003. Economic activity after the failure of the socialist economy to establish an economic system that achieves progress and development for the country, and accordingly, the scenario of benefiting from the tools to restore confidence in the banking sector is possible through the application of the Deposit Protection Law, and the acceleration of the legislation of the Loan Guarantee Institutions Law.

The First Requirement

The Reality of Deposit and Loan Guarantee Institutions in Iraq

In Iraq, there is no culture of dealing with banks, so there is a discrepancy in the forgetfulness of liquidity in these banks, which ranges (23%) and its percentage outside the banking system (77%), simply because the Iraqi citizen does not deal with banks much, and does not deal with them unless he is forced, and this The reality is an unnatural, civilized, not even economic situation that the Iraqi citizen does not deal with banks, and the world is starting to think about using cash

Electronic, so it will be difficult to achieve economic development without the participation of the ethnic banking system. The company is one hundred billion dinars, as private and governmental private banks will contribute to financing (55) billion dinars, and the remaining (45) billion dinars is supposed to be put up for public subscription, but until today 6/15/20, we have not seen any activity for this company in reality and the banking and economic scene .

This project will undoubtedly contribute to the stability of the banking sector and increase the confidence of dealers with banks, and lead to the protection of deposits of companies and the public and enhance confidence among bank correspondents in Iraq (the Iraqi citizen or businessman and investor). The bank into bankruptcy.

As for the loan guarantee law, it is still in the list of decision-accompanying offices and has not seen the light of day, and therefore there becomes a big problem represented in the difficulty of recovering non-performing loans, in addition to the lack of liquidity in the daily market trading. After the crisis of low oil prices, and there are other reasons for the lack of liquidity and deposits is the weak confidence of citizens, depositors and companies in the banking system, which led to the withdrawal of 60% of the cash flow, in addition to withdrawing quantities of dollars from banks and hoarding them in homes for fear that banks would refrain from paying citizens' dues Times of necessity, and this matter may create imbalance and paralysis in economic life, which will have an impact on the reality of the Iraqi market, and may work to freeze economic activity, stop commercial operations and stop investment projects.

The Second Requirement

Lost Development Opportunities to Restore Confidence in the Iraqi Banking Sector

Achieving economic development is based on several main components, including the existence of a developed banking sector capable of circulating money between those who offer money and demand it from savers and investors. Countries from making huge qualitative leaps due to bank financing of their economic activities and programs and making many internal and external investments that contributed to developing the level of growth and development.

In a country like Iraq, especially after the transition from a totalitarian system in the management of state resources and a clear backwardness of the banking system, it was considered that this important sector witnessed a special importance in order to take its real role in building the country's economy in the right way, as the Iraqi banking sector is the most backward and less developed in the world. Middle East and North Africa According to statistics, more than 80% of the population does not have a bank account.

The state-owned banks dominate the Iraqi banking system, as they represent 75% of the financial system in terms of assets and 77% of the gross domestic product. The opportunity for change that occurred in 2003 to build a new banking system that is strong and effective in economic development was missed despite attempts to reform this sector, which It started in 2006, but the implementation was very slow. It was supposed to build a private banking sector, supported by the laws of deposit guarantee institutions and loan guarantee institutions, in order to restore confidence in the government banking sector and the private banking sector, but this thing did not happen and the opportunity to build an effective banking sector was lost to this day.

The level of professionalism in the work of banks, especially private ones, has been questioned with regard to their real capabilities and aspirations to support economic growth. Perhaps the real reason is the general scene in the country and the lack of laws protecting banks in order to increase loans to the public, and thus the motive behind the general lack of confidence in the system banking due to the lack of insurance on deposits and loans.

It should be noted that there are other reasons for distrust in the Iraqi banking system. Previous experiences in the dealings of individuals, companies and investors with government and private banks, especially the incident of withholding funds until the stability of the political and security situation in the period of the first Gulf War, as the former regime seized funds deposited with banks for a period of Time until the stability of the political and

security situation in the country and this incident is remembered bitterly by Iraqis, in addition to that, red tape and bureaucracy and the lack of speed in completing transactions and deals, especially in government banks, and the delay in completing deposit, payment and receiving transactions makes dealers reduce deposits in banks for fear of delaying deposits.

The Third Requirement

Deposit and Loan Guarantee Institutions are Tools for a Scenario to Restore Confidence in the Iraqi Banking Sector

There is no doubt that the absence of laws supporting the work of the banking sector led to a decrease in confidence in this sector and the result was a decrease in deposits provided by the public, which was reflected in the decrease in the provision of loans by banks, whether public or private, and consequently the absence of the role of the financial intermediary between savers and investors, and thus no development role. It is assumed that these banks offer to society, and one of the reasons for it is also the lack of laws to protect public deposits, as well as the absence of loan guarantee institutions, because banks also do not trust the public for lack of guarantee for many reasons. We are not going to discuss now.

For the purpose of identifying the reality of deposits and loans, it must be addressed through tables and data.

First: Bank Deposits and GDP

There is no doubt that the bank deposits index is important among the indicators due to the role it represents through the banking and financial institutions that mediate between the two sides of saving and investment.

Table (1) shows bank deposits and GDP at constant prices for the period from (2004 - 2016) trillion dinars.

Years	Total deposits	Private Sector Deposits	Public Sector Deposits	Central Government Deposits	gross Domestic Product	Total Deposits / Gross Product %	Private Sector Deposits / GDP %	Public Sector Deposits / GDP %
2004	11.8	0.2	2.3	9.3	44.27	35.01	0.44	5.01
2005	12.1	0.3	2.4	9.4	47.8	33.05	0.62	5.02
2006	12.4	0.4	2.5	9.5	48.8	35.21	0.83	5.21
2007	26.1	9.4	2.7	14	49.9	54.38	19.58	5.63
2008	34.5	11.6	5.8	17	51.7	66.73	22.44	11.22
2009	38.5	12.6	11.4	14.4	54.7	70.38	23.03	20.84
2010	47.9	5.4	42.4	11.6	58.4	82.02	9.25	72.6
2011	56.1	6.3	49.8	11.4	63.6	88.21	9.91	78.3
2012	62	8.6	53.3	16.3	70.7	87.69	12.16	75.39
2013	68.8	9.9	58.8	15.4	73.8	93.22	13.41	79.67
2014	65.96	8.8	51.17	14.6	66.9	93.5	13.15	76.38
2015	64.34	8.7	65.78	15.6	75.6	85.01	11.5	86.9
2016	62.39	8.9	65.67	15.5	77.8	80.19	11.43	84.44

2017	67	10.05	65.69	15.6	68.7	85.96	11.44	84.5
2018	76.89	10.08	65.77	15.07	64.00	85.67	12.68	84.54
2019	76.88	10.08	65.66	15.07	52.56	85.56	12.45	84.78

Republic of Iraq, Ministry of Planning, Central Statistical Organization, Early Warning Indicators, 2004 - 2019.

It is clear from the table that the total deposits in Iraq during the study period have taken an upward trajectory since 2004 and this has implications for economic development because it means the possibility of using these deposits in the business cycle, the economic activity cycle and in sustainable economic development, and this upward trajectory indicates a rise in the awareness of individuals and institutions. The importance of banking institutions and their role in economic activity that needs real support through an infrastructure of laws supporting the Iraqi banking sector, especially the law on the protection of deposits and institutions for guaranteeing and protecting loans from non-payment, but despite this rise in deposits during the years (2004 - 2012) this was affected. The rise in what happened in the events of the war against ISIS, as the volume of deposits decreased after 2013, and this is a normal case due to its impact on the conditions of the war, and this means that there are other reasons for the decrease in deposits that could be political and security stability, but it is also certain that the banking sector is active in the development process.

From Table (1), the indicator of the ratio of total deposits to GDP also shows that there is an increase in the path of that indicator and that it appears modest, and as is the case that the predominance in that indicator is in favor of the public sector and the central government, and the one allocated to the private sector is low due to the control of public banks over deposits. This indicates the modest role played by the Iraqi banking sector in contributing to the gross domestic product, which does not exceed 2%.

Second, the Credit Index

Financing and investment are in an inverse relationship with interest rates in line with investors' expectations of the climate and the economic environment, as credit is one of the most important changes that, if increased, have positive effects on output, income and economic development. and loans.

Table 2
CREDIT AND GDP AT CONSTANT PRICES FOR THE PERIOD FROM (2004 - 2019) TRILLION DINARS

Year	Total Credit	Private Sector Credit	Public Sector Credit	Central Government Credit	Gross Domestic Product	Gross Credit/GDP	Private Sector Credit/GDP	Public Sector Credit/GDP	Central Government Credit/GDP
2004	0.82	0.22	0.2	0.1	44.27	1.8	4.9	4.51	0.22
2005	1.71	0.99	0.5	0.1	47.8	3.57	2.07	1.04	0.2
2006	2.6	1.8	0.7	0.2	48.8	5.42	3.75	1.46	0.42
2007	3.4	2.3	1	0.6	49.9	7.08	4.79	2.08	1.25
2008	4.5	3.9	0.5	0.3	51.7	8.7	7.54	0.97	0.58
2009	5.6	4.6	0.6	0.3	54.7	10.24	8.41	1.1	0.55
2010	11.7	2.8	8.8	2.3	58.4	20.03	4.79	15.07	3.94
2011	20.3	3.7	16.5	7.3	63.6	31.92	5.82	25.94	11.48
2012	28.4	5	23.3	7.6	70.7	40.17	7.07	32.96	10.75
2013	29.8	6.5	23.3	6.3	73.8	40.38	8.81	31.57	8.54
2014	28.7	6.3	22.3	5.9	66.9	42.89	9.41	33.37	8.81

2015	28.6	6.4	22.2	5.6	75.6	0.37	8.46	29.4	7.4
2016	30.89	8.41	23.44	5.9	77.8	38.56	10.8	30.01	7.5
2017	37.78	8.43	23.45	5.8	68.7	37.67	10.6	30.07	7.51
2018	38.67	8.44	23.45	5.7	64	36.45	10.56	30.06	7.54
2019	38.68	8.54	23.45	5.8	52.56	35.56	10.76	30.67	7.65

Republic of Iraq, Ministry of Planning, Central Statistical Organization, Early Warning Indicators, 2004-2017.

It is clear from Table (2) that credit amounted to 4.9% of the “GDP” in 2004, and this indicates a significant weakness in the structure of the “banking system”, while credit amounted to 38.56% of the “GDP” in 2016, and this indicates a growing Slow in improving the banking environment and was modest according to this indicator, as the largest share was in favor of the public sector versus the private sector and the central government. It was in favor of the government banking sector, as it rose from 4.9% to 38.56%, and this is a positive indicator that can be taken into consideration.

There is no doubt that the decline in loans provided by public and private banks is due to the banks’ fear of non-return of loans, non-payment by borrowers and the absence of laws to protect loans. This does not mean that this is the main reason, but it takes a large proportion of this decline.

Third: The role of loan protection and guarantee institutions in increasing the effectiveness of financial intermediation in sustainable economic development... The experience of Algeria as a model.

There is a set of goals related to deposit and loan guarantee institutions, including the protection of deposits and bank funds, which is reflected on the stability of the banking system and the return of confidence. Protecting the rights of depositors and bank money contributes to the consolidation of confidence in the banking system and the increase of deposits and the stability of their movement. Thus, increasing the work of banks increases competition to attract deposits and provide bank credit. Any laws to support deposits and loans mean encouraging small depositors and investors to deal with banks, even if they are small private institutions. As the promotion of competition between small banking institutions, by giving space for banks and financial institutions to work and compete alongside large financial institutions, in the absence of deposit protection institutions and loan protection institutions, the majority of the public lose confidence in small institutions, believing that their own money will be more secure When deposited in large institutions, especially public banking institutions and this It means the loss of private banks the possibility of obtaining deposits and the possibility of providing loans, and thus the private banking sector loses the opportunity for growth, progress and development, and thus the opportunity of the government program to build an effective and supportive private sector for the Iraqi economy is lost.

The experience of Algeria can be presented because it is close to the Iraqi economic scene, an oil rentier state that converges with Iraq in many indicators. Accordingly, Algeria has been keen, through many laws, to protect banking activity and ensure its continuity, through the establishment of institutions that guarantee deposits and loans, as well as the establishment of institutions that undertake the task of refinancing Banks and giving them the privilege on all the assets of the defaulting borrower, as well as establishing funds and institutions that undertake the task of guaranteeing deposits and loans in the event of banks’ failure in non-exceptional circumstances. Commercial banks in Algeria play an important role in financing productive investments and activities outside the oil sector with the aim of achieving diversified sustainable growth. Important for this purpose, the Loan Guarantee Corporation was established in Algeria in 2004. The objective of its establishment was to support and develop small and medium enterprises by facilitating their access to loans.

The following is a table showing the size of GDP, growth rate, total deposits, total loans, non-performing loans, and the default rate in Algeria.

Year	Gross Domestic Product	Total Deposits	Total Loans	Percentage of Government Banks in Deposits %	Percentage of private banks in deposits %
2004	6150.4	2.705	1.967.9	%89	%11
2005	7563.6	2.961	1.969.9	%88.90	%10.90
2006	8520.6	3.517	1.968.9	%89	%11
2007	9306.2	5.162	2.298.6	89.2	10.8
2008	10993.8	4.732	2.708.9	89.5	10.5
2009	9968	5.395	3.139.63	%90	%10
2010	11991.6	6.283	3.565.3	%89.80	%10.20
2011	14526.6	6.281	3.919.3	%89.10	%10.90
2012	16115.4	7.238.0	3.929.4	%87.10	%12.90
2013	16569.3	7.787.4	3.938.6	%86.60	%13.40
2014	17205.1	9.117.5	3.945.8	%87.70	%12.30
2015	17178.9	9.216.9	3.989.9	%86.60	%13.40
2016	17267.6	9312.8	6.993.5	%85.80	%14.20
2017	17346.7	9412.4	7.994.8	%85.60	%14.40
2018	17458.8	9513.7	9.995.8	85.8	%14.20
2019	17489.9	9789.9	9.998.8	85.8	%14.20

Source: The table is from the researcher's work based on the Algerian macroeconomic data and annual reports 2003-2018 billion Algerian dinars

What concerns us from the table is the impact of the establishment of deposit and loan guarantee institutions in Algeria on the increase in the volume of deposits and the volume of loans for the period from 2004 to 2019, as there is an increase in total loans as a result of the increase in deposits and there due to the work of the law on the protection of deposits and loan guarantee institutions.

From Table (3) we note that the indicators of the Algerian banking sector are close to the indicators and the reality of the banking sector in Iraq, including that the ratio of cash circulation outside banks to the gross domestic product is on the rise. to keep their money in the form of liquid money and this is due to the fact that the Algerian banking system is backward and unable to withdraw individuals to deposit their money with banks, but there is a development that took place after the establishment of loan and deposit guarantee institutions through the increase in the volume of deposits and loans, and this indicates that there is a relationship between the establishment of laws To protect loans and deposits and between the increase in the volume of these loans and deposits, and this goal of research with regard to Iraq, which seeks to activate the Deposit Insurance Corporation Law and speed up the legislation of the Loan Guarantee Corporation Law

The preliminary reading of the data of Table (3) reveals the continuous increase in the total number of commercial banks in Algerian banks and shows the government banks' acquisition of the largest share of deposits, as the average share of the latter reached 88% of the total bank deposits during the period (2004-2019), which is what Reflects the control of government banks on deposits with the tendency of depositors to deal with government banks

because of their confidence in them in a greater proportion than private banks and this reality is very similar to the banking reality and its activities in the Iraqi experience, but this reality does not diminish the role of deposit and loan guarantee institutions in Algeria. This matter did not reduce the real role of the laws that protect deposits and protect loans, and thus the volume of these deposits and loans increases in order to activate the bank's function (financial intermediation), as well as the bank's developmental role in economic activity, protecting capital and motivating it to perform its real role in the market.

From the Algerian experience, practical evidence can be given of the importance of the role of financial intermediation and the role of laws protecting deposits and guaranteeing loans in restoring confidence in the Iraqi banking sector.

Many experiences have proven the efficacy of deposit and loan guarantee institutions in reducing banking insolvency, as these systems have broad oversight powers to the point of on-site supervision of banks operating in the concerned country. The role of these institutions is not limited to the supervisory and preventive role, but goes beyond it to the remedial role and provide solutions. Intervention to help banks in cases of default is represented by a number of measures, including trying to merge the faltering bank with another or pump liquidity to the faltering bank to correct its conditions and reorganize the bank administratively and financially and invite shareholders to support the bank.

CONCLUSIONS

- 1) There is an interrelationship between deposits and loans and this interdependence has an impact on supporting banking stability, so any risk that threatens the role of deposits and loans in supporting banking stability constitutes a direct threat to the banking system. Therefore, mechanisms must be put in place to protect and guarantee the rights of depositors (deposit guarantee), and mechanisms to protect banks from non-payment of bank credit and protecting it from bankruptcy and bankruptcy through the establishment of the Loan Guarantee Corporation, which represents a real requirement to ensure and stabilize the banking system and restore lost confidence in the Iraqi banking system.
- 2) Activating the Deposit Guarantee Law and approving the Loan Guarantee Corporation Law will contribute to restoring confidence in the Iraqi banking sector, and this will affect the degree of stability of deposits and attract more deposits, especially since the percentage of deposits within the banking system is 23%, while there is a percentage (77%) of The monetary mass outside the banking system, and thus activating the Deposit Guarantee Law and approving the Loan Guarantee Law, will contribute to the expected role in restoring confidence in the Iraqi banking system, and it represents the real problem of research, especially since the deposits law, despite its approval, has not been implemented so far.
- 3) Activating the function of financial intermediation, and activating the deposit and loan guarantee institutions expected to be added to the financial and banking system in Iraq. Its performance and effectiveness, which is reflected positively in the national economy.
- 4) Increasing economic activity, especially since most of the banking activity is dedicated to financing the public activity, which is characterized by inefficiency, disguised unemployment and accumulated losses, while the private sector activity has

been deprived of the necessary funding for capital accumulation. The investment base is narrow and is still limited to the tools of the federal government.

- 5) What affects the work of banks and threatens their work with bad debts and not paying them, knowing that there are (6) trillion out of (37) trillion non-performing debts that have not been paid by borrowers, which leads to banks deducting (2.5%) of the losses of bad debts, which includes (16) % of bank funds, so establishing institutions to protect and guarantee deposits and loans will reduce bad debts.
- 6) The recovery of investments can only take place within a macroeconomic framework that gives importance to the infrastructure of supporting and supportive laws to achieve efficiency in the payment and mobility of the necessary resources to achieve sustainable development, and this requires giving financial and banking reforms great importance, by restoring confidence in the banking sector to be able to Mobilizing local savings and directing it effectively towards investors to create a promising market for investment, profits and job opportunities.
- 7) The establishment of a system to guarantee deposits and loans is a double-edged sword, as on the one hand it contributes positively to enhancing financial stability in countries where there is a strong institutional environment and effective regulations and laws, and the work environment is characterized by transparency and accountability, and on the other hand, it may be a cause of instability if those countries are unable to for the fulfillment of these conditions.

RECOMMENDATIONS

- 1) Creating the banking environment through the monetary authority represented by the Central Bank of Iraq following up the activation of the Deposit Protection System Law that was approved by the legislative authority, and preparing a sound institutional environment for the work of these institutions characterized by transparency and accountability so that the work of these institutions is compatible with the needs, capabilities, local resources and employment This is in line with the banking environment.
- 2) Speeding up the approval of the Loan Guarantee Institutions Law, which is still locked up. There is a real problem that is summed up in the risk that banks are exposed to when granting loans, which is the failure to repay the loan, and therefore the application of the Loan Guarantee Law increases confidence in dealing with banks.
- 3) Placing deposit and loan guarantee institutions under the supervision of the government monetary authorities. The participation of commercial banks in these institutions is mandatory because of this decision's positive psychological impact on depositors and their reassurance of their savings in the government's possession of the federal budget.
- 4) The Central Bank of Iraq law, during its treatment of the issue of supervision of banks, did not mention the responsibility for compensating depositors in case of insufficiency of the bank's assets. For its work to ensure the success of these institutions, especially the lack of clarity in the position of the state and the monetary

authority on guaranteeing deposits and how to cover them, and this is what was found in Central Bank Law No. 56 of 2004 and Banking Law No. 94 of 2004.

- 5) The government should provide the required protection to depositors and banks, even in a moral or discretionary manner, because this contributes to increasing confidence in the governmental and private banking sector, and this would achieve achievement for the objectives of public policy, because the government is responsible for enhancing confidence by absorbing losses that depositors and banks cannot bear. It has a contributing role to participate in reducing losses.
- 6) The experience of Algeria must be taken into consideration, especially that there are approaches to the Iraqi economy with the Algerian economy and the search for participants and how deposit and loan guarantee institutions contributed to restoring confidence in the banking sector and increasing the role of the financial intermediation function in achieving economic development in Algeria and dropping these approaches and participants in this experience on The reality of Iraqi banking institutions.

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