

Ways to Improve the Financial Stability of The Banking System of Iraq

Maneras de mejorar la estabilidad financiera del sistema bancario de Irak

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ABSTRACT

The current economic situation in the world financial markets has a significant impact on the banking system in Iraq while reducing its financial stability. Therefore, the article is devoted to the main ways to improve the financial system of Iraq. The subject of the study is the banking system of Iraq. The purpose of the study is to develop ways to improve the financial stability of the Iraqi banking system. When writing the article, the following methods were used: the biographical method.

The article provides recommendations on the financial stability of the banking system in Iraq. The results can be applied to enhance the sustainability of Iraq's banking system. The measures developed can be applied in practice and can enhance the stability of the Iraqi banking system.

Keywords: banking system, profit, Bank, financial stability.

RESUMEN

La situación económica actual en los mercados financieros mundiales tiene un impacto significativo en el sistema bancario en Irak al tiempo que reduce su estabilidad financiera. Por lo tanto, el artículo está dedicado a las principales formas de mejorar el sistema financiero de Irak. El tema del estudio es el sistema bancario de Irak. El propósito del estudio es desarrollar formas de mejorar la estabilidad financiera del sistema bancario iraquí. Al escribir el artículo, se utilizaron los siguientes métodos: el método biográfico.

El artículo proporciona recomendaciones sobre la estabilidad financiera del sistema bancario en Irak. Los resultados pueden aplicarse para mejorar la sostenibilidad del sistema bancario de Irak. Las medidas desarrolladas pueden aplicarse en la práctica y pueden mejorar la estabilidad del sistema bancario iraquí.

Palabras clave: sistema bancario, beneficio, banca, estabilidad financiera.

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1. Introduction

The current financial crisis, which had influenced a serious impact on the Iraqi banking sector and market relations in the country, hindering its socio-economic progress, had confirmed the failure of forecasting measures and stressed the need for continuous monitoring, analysis and modernization of the banking system in order to maintain its financial stability. It is necessary to understand the importance of the ability of banks to respond to changes in the economic, political, social and internal environment and the need to organize the activities of banks, which is based on these summaries.

The financial crisis highlighted the need to develop a set of methods to overcome the crisis in the banking sector in Iraq, identify ways and means to improve the financial stability of banks, restore confidence in the banking system and further develop the banking system in Iraq. With the success of these methods and management techniques, banks can compete and develop, and this determines the future of the Russian economy (Kireev, 2018).

No commercial Bank is fully insured against financial losses that may not be planned. Therefore, for commercial banks in Iraq, to improve their functioning and regulate banking risk, it is necessary to create mandatory reserves.

Obligatory reserves represent funds of the commercial Bank, the existing as a spare to solve the financial problems. The introduction of a mandatory reserve system in the banking system of Iraq is necessary to secure obligations on existing deposits, and, of course, to be able to regulate the amount of money that is in circulation.

Obligatory reserves of the commercial Bank formed according to the following scheme: a natural or legal person entered cash in a Bank account, on the basis of the deposited amount the Bank calculates the percentage of required reserve and not transferred to a special account for compulsory reserves of the Bank.

The introduction of a mandatory reserve in the banking system of Iraq should solve the following tasks (Olhova, 2018):

1. Commercial banks are given the opportunity to use the funds that are on the accounts of customers. As a rule, they are used to issue a loan. Provision of loans to individuals and legal entities from the amount of reserves is necessary to maintain liquidity. They are necessary in order that in case of need there was a possibility of urgent return of money.
2. The banking system generates non-cash funds with the help of a Bank multiplier. In this case, the regulatory authorities are given the opportunity to control this process and the amount of money that is in circulation.

Thus, the introduction of a mandatory reserve in the banking system of Iraq will be used as an instrument of monetary policy.

To improve the economic and financial activities of banking institutions of Iraq at the moment of the critical state, threatening the revocation of the license, it is proposed to use a complex procedure of reorganization. Reorganization of the Bank literally means the improvement of the institutions to avoid bankruptcy.

The decision on the feasibility of the rehabilitation should be taken by the Central Bank of Iraq. It is the Central Bank that determines that a sanitized credit institution has a chance to restore its effective financial activity. To avoid bankruptcy, the assets of the sanitized Bank are replenished with public and private invested capital in exchange for shares (Andrushin, 2017).

The reorganization should be applied to banks that have an important impact on the economy of the state as a whole, as well as necessary for the functioning of the General banking system. If the chances of recovery are assessed as insufficient, the Central Bank of Iraq must revoke the Bank's license.

The Bank's management has the right to ask the Central Bank of Iraq for rehabilitation on its own, if the functioning of the credit institution has deteriorated. This procedure may be necessary if the balance between assets and liabilities of the Bank is violated. As a result, the loan portfolio deteriorates due to the increase in the percentage of overdue loans to bankrupt customers, which the Bank is forced to send for write-off, as hopeless.

For the renovation of the Central Bank of Iraq is allocated the required number of assets to invest in the reorganized Bank. Also, additional funds can be raised with the help of another Bank, which can act as an investor. In addition to the Central Bank of Iraq, the Central Bank may be one of the economically significant and financially strong banks, for which this procedure is a promising opportunity to expand its activities (Udina, 2016). Also, the possibility of further absorption of all assets of the sanitized Bank by a large Bank and their merger into a single structure is not excluded.

Most often, banks after rehabilitation restore their financial activities and continue to work. There are occasions when after the recovery of radically changing the system of management of the Bank and is in process of merging with the insulating Bank. In this case, it is possible to significantly increase the authorized capital and resume active activities.

Results

The result is effectively carried out redevelopment of the Bank:

- all deposits of individuals and legal entities that are clients of the Bank are retained;
- new investment funds are attracted;
- there is a possibility of full rehabilitation;
- restored solvency;
- stabilizes the usual financial and economic activity.

Thus, the introduction of this procedure will help to improve the efficiency and financial stability of both the individual Bank and the banking system as a whole.

The intensification of banking activities is impossible without the development of measures for attraction of deposits and extension of the structure of the lending, because they are the most important tasks in improving the financial stability of the banking system.

To increase the financial stability of the banking system in Iraq, it is necessary to attract customer funds through mortgage lending (Hovalid, 2018).

Mortgage is a special case of lending and the emergence of such a banking product has allowed many Russian citizens to become owners of their own homes.

The lending process is associated with the issuance by the lender of a certain amount of money for a certain period and at a certain interest. Such mutually beneficial cooperation allows the Bank to make a profit, and the borrower receives money for the realization of their goals. All issues of cooperation between key parties to the transaction clearly defined in current legislation (Kireev, 2018).

Mortgage lending will reduce the risks of overdue debts. The risk is reduced due to the fact that this type of lending is targeted. As practice shows, real estate transactions are considered less risky when compared with other types of lending to individuals.

Currently, mortgage lending is a promising area of banking. Mortgage Bank is considered to be more financially stable and profitable. Therefore, the more banks in the Iraqi banking system that provide mortgage lending, the higher its financial stability will be.

Another important aspect of the positive impact of mortgage lending on the financial stability of the banking system is the functioning of the secondary lending market, which is provided by mortgages. The secondary market allows to diversify the Bank capital, that is to make the capital more profitable. Lending in the secondary market makes it possible to reduce the difference between interest rates in different regions, which allows to form a single price of capital in the whole country (Hovalid, 2018).

The most common mortgage for the purchase of residential real estate, which refers to a variety of targeted credit. The popularity and demand for such proposals of banks is largely due to the advantages that the borrower receives when making a contract. After attracting credit funds for the purchase of housing, a person immediately becomes the owner of the property and does not feel the need for long-term accumulation and saving of own funds.

The collateral for this type of mortgage is the acquired property, and you do not need to look for other security for the loan. Due to the large number of mortgage offers of this type, individuals have the opportunity to receive funds for the purchase of ready-made or under construction housing, for the construction or purchase of a private house. In the market of financial services, you can find offers for the purchase of a room or a share in the apartment.

Mortgage is one of the legal institutions that can ensure the effective functioning of market institutions.

The author decided to conduct a factor analysis of the impact of mortgage lending on the Bank's income.

In practice, it is possible to use different methods of profit forecasting. However, the most universal method of profit forecasting, in our opinion, are economic and mathematical algorithms.

Consider one of the economic and mathematical algorithms for forecasting the financial results of the organization: profit forecasting using correlation and regression analysis to determine the most closely influencing factors on the profit of the enterprise.

With this method, you can predict how the profit will change under the influence of not only internal but also external factors, which is necessary in the current economic conditions of instability and uncertainty.

The main factors influencing the income of the Central Bank of Iraq are presented in table 1.

Table 1 - Data for economic and mathematical model construction

Year	Income, thousand Iraqi dinars	Receivables, thousand Iraqi dinars	Mortgage loans, thousand Iraqi dinars
2014	329490	39909	84569
2015	475657	39799	86791
2016	929922	39619	88337
2017	1479181	39619	91806

Receivable is an essential factor, because it reflects the risk of the lowering or raising revenues.

Mortgage loans are the most important factor to understand whether its implementation in the activities of banks in Iraq is effective.

When performing multiple regression analysis, there is a major obstacle – multicollinearity. To determine it, a matrix of paired correlation coefficients was used, the program “Correlation” in Microsoft Excel was used for the calculation.

This matrix allows you to determine the correlation between the effective and each of the factors. The calculated matrix is presented in table 2.

Table 2 - Matrix of paired correlation coefficients of the Bank's Income factor with the selected set of independent factors.

	y	x1	x2
y	1		
x1	-0,88494	1	
x2	0,98898	-0,88481	1

This matrix shows that there is multicollinearity between some factors.

Next, you need to determine the regression analysis coefficients (table. 3).

Table 3 - Results of regression analysis by factors x1, x2

Regression statistics	Value
Multiple R	0,999983
R-square	0,999965
Normalized R-square	0,999896
Standard mistake	5279,383
Observations	4
df	2

Y-intersection	39890099
Variable X1	-999,255
Variable X2	1,720129
Variable X3	

Table 3 shows that R-square is 0.999965, this suggests that the constructed model explains almost all the variability of the corresponding variables. Factors that are included in the model explain the dependent variable by 99.9965%.

Multiple R is 0.999983, this indicates that the relationship between the variables is very high. The number of degrees of freedom is 4. From the analysis we can make the regression equation, which has the following form:

$$Y = 39890099 - 999,255X1 + 1,720129X2$$

The equation shows that the growth of receivables leads to lower costs, and the growth of mortgage loans leads to an increase in income.

Table 4 presents the Bank's income forecast, provided that accounts receivable will decline, mortgage loans grow.

Table 4 - income Forecast of the Central Bank of Iraq

Year	Income, thousand Iraqi dinars	Receivable, thousand Iraqi dinars	Mortgage loans, thousand Iraqi dinars
2017	1479181	39619	91806
2018	1546997	38036	95679
2019	1722947	37861	96307
2020	1981904	37604	97556
2021	2023799	37563	98094
2022	2535215	37061	103785

Thus, the analysis showed that with the growth of mortgage lending, the income of the Central Bank of Iraq will increase, which will lead to an increase in financial stability.

Recommendations

Thus, in order to increase the financial stability of Iraq, the author of the article proposes to create mandatory reserves. They allow to reduce the risk of fluctuations in the profit of a commercial Bank because of emerging losses on loans. The procedure of reorganization of banks will allow commercial banks to recover, which are in a difficult situation and have prospects for further existence, as well as the elimination of banks that hinder the development of the banking system as a whole. Mortgage as the most risk-free type of lending will attract additional funds and make capital more profitable. Therefore, all the proposed measures should improve the financial stability of the Iraqi banking system.

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