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Analysis of factors affecting the stability of Iraqi commercial banks: The role of liquidity and capital

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Abstract

The research aimed to understand the factors affecting the stability of commercial banks in Iraq by analyzing the relationship between liquidity, capital, and bank stability. Data were collected from a sample of employees at Al-Rafidain Bank in Baghdad. A descriptive analytical method was used to analyze the data.

The results showed a significant positive relationship between liquidity levels and bank stability. Additionally, the findings indicated a significant positive relationship between capital and bank stability.

Keywords: Indicated, relationship, liquidity

Introduction

Commercial banks in Iraq may face significant challenges in achieving and maintaining their stability. Studying the factors affecting the stability of these banks is crucial to ensure the sustainability of their operations and to meet the needs of the local economy. Among the factors influencing the stability of Iraqi commercial banks, the roles of liquidity and capital are of primary concern.

Research Problem

The problem revolves around understanding and analyzing the factors affecting the stability of commercial banks in Iraq, with a focus on liquidity and capital. The research problem is as follows:

"Commercial banks are a prominent component of the financial system in Iraq, but they face substantial challenges related to financial and banking stability. These challenges include issues such as liquidity shortages and weak capital. This analysis aims to understand how these two factors affect the stability of commercial banks in Iraq and to identify the necessary measures and policies for improvement. Therefore, the research problem lies in investigating the significant impact of liquidity and capital on the stability of commercial banks and the factors influencing these variables in the Iraqi economic and banking context.

Research Objectives

The research aims to understand and analyze the factors affecting the stability of commercial banks in Iraq, with a focus on the roles of liquidity and capital. The main objectives of the research are as follows:

1. **Provide a comprehensive assessment of the stability of commercial banks in Iraq:** This includes understanding the stability level of the banks and their current challenges in the Iraqi banking market.
2. **Analyze the impact of liquidity on bank stability:** Study how liquidity levels in banks can affect their ability to handle financial challenges.
3. **Analyze the impact of capital on bank stability:** Understand how the size and quality of capital in banks can influence their stability and their ability to provide sustainable banking services.
4. **Analyze the interaction between liquidity and capital:** Understand how liquidity and capital can interact to achieve the highest levels of banking stability.

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5. **Provide recommendations and policies:** Derive conclusions and offer practical recommendations and evidence-based policies that can contribute to improving the stability of commercial banks in Iraq.

Research Hypotheses

1. There is a significant positive relationship between liquidity levels and the stability of commercial banks in Iraq.
2. There is a significant positive relationship between capital and the stability of commercial banks in Iraq.

Theoretical Framework

1. Definition of Stability of Iraqi Commercial Banks

The stability of Iraqi commercial banks is a crucial concept that refers to a bank's strong ability to remain in the market and achieve sustainable profits in the long term. Bank stability encompasses several aspects, including the ability to meet customer needs, respond to market changes, and effectively manage banking risks.

2. Importance of Studying Stability Factors in Iraqi Commercial Banks

Studying the factors of stability in Iraqi commercial banks is essential for several reasons. First and foremost, bank stability contributes to customer trust and satisfaction, which enhances the overall stability of the banking system and maintains the country's international reputation. Additionally, stable banks play a vital role in financing the private sector and promoting economic activity.

Liquidity and capital are among the main factors affecting the stability of Iraqi commercial banks. Liquidity plays a crucial role in ensuring that banks can meet withdrawal requests and fulfill their financial commitments. On the other hand, capital contributes to enhancing banking safety indicators and increasing the ability to withstand risks.

Therefore, identifying and evaluating the impact of liquidity and capital on the stability of Iraqi commercial banks is a vital task. This requires a thorough analysis of financial data and banking operations and an assessment of the effects of monetary and regulatory policies on these factors. By understanding the factors influencing the stability of these banks, effective strategies can be developed to enhance the overall stability of the banking sector in Iraq.

Third: Banking Stability Factors

Role of Liquidity in the Stability of Iraqi Commercial Banks

Banking stability is one of the most critical factors influencing any country's economy, and liquidity plays a pivotal role in achieving this stability. Liquidity represents the financial capability of banks to meet their financial obligations easily and promptly. In the Iraqi context, commercial banks face challenges that affect their available liquidity levels. Insufficient liquidity can hinder banks from providing banking services and financing the needs of corporations and individuals. Therefore, banks must manage liquidity effectively to ensure their stability.

Strategies for liquidity management include maintaining reserves at the Federal Reserve, avoiding inappropriate investments, and ensuring sufficient liquidity to meet increasing demand for banking services. Additionally, the

Iraqi government should enhance banking infrastructure and provide necessary support to bolster liquidity available to commercial banks.

Importance of Capital in the Stability of Iraqi Commercial Banks

In addition to liquidity, capital plays a crucial role in the stability of Iraqi commercial banks. Capital represents the amount invested by banks to cover risks and enhance their operations. Inadequate capital may pose difficulties for banks in meeting capital requirements set by regulatory authorities, potentially leading to instability.

Key strategies for capital management in Iraqi banks include increasing common equity capital, cost rationalization, financial risk control, and improving capital efficiency. Furthermore, the Iraqi government should incentivize banks to maintain adequate capital through supportive legislation and creating a conducive business environment.

In summary, the stability of Iraqi commercial banks relies on multiple factors, including liquidity and capital. Banks must adopt effective strategies to manage liquidity and enhance capital to ensure stability and meet the needs of the local economy. Conversely, the Iraqi government should support banking infrastructure and provide necessary support to enhance banking stability and promote economic growth.

Fourth: Liquidity and Stability of Iraqi Commercial Banks

Analysis of the Impact of Liquidity on the Stability of Iraqi Commercial Banks

Liquidity is a key factor influencing the stability of Iraqi commercial banks. It refers to the ability to meet immediate financial obligations without the need for borrowing or selling assets hastily. Maintaining an appropriate level of liquidity is essential for the stability and efficient operations of banks.

Liquidity affects the stability of Iraqi commercial banks in several ways. Firstly, adequate liquidity allows banks to meet customer demands, thereby enhancing confidence in the bank and increasing deposits. Deposits, in turn, contribute to increased lending and economic growth in the country.

Secondly, liquidity plays a crucial role in maintaining financial stability for banks. When banks face liquidity shortages, they may resort to borrowing from other financial institutions at high interest rates, increasing their financial risks. Therefore, maintaining an adequate level of liquidity reduces financial risks and contributes to bank stability.

Assessment of Challenges Related to Liquidity Management in Iraqi Commercial Banks

Iraqi commercial banks encounter several challenges in liquidity management. Firstly, the country experiences fluctuations in fiscal and economic policies, impacting liquidity availability and the banks' ability to meet customer needs. Additionally, the gap between supply and demand for liquidity in the financial market poses a significant challenge for banks.

Secondly, Iraqi commercial banks face legal and regulatory constraints in liquidity management. For example, the

Central Bank of Iraq imposes restrictions on the liquidity ratio that banks must maintain, which may affect their ability to meet liquidity demands.

Commercial banks in Iraq must seek solutions to improve liquidity management. This can be achieved through implementing effective policies and procedures for monitoring and analyzing liquidity, identifying weaknesses, and taking appropriate actions to enhance it. Additionally, commercial banks can work on strengthening their capital base to bolster their ability to deal with liquidity-related challenges.

- Assessing challenges related to liquidity management in Iraqi commercial banks
- Developing effective policies and procedures for monitoring and analyzing liquidity
- Strengthening the capital base to enhance the bank's capacity to deal with liquidity-related challenges

Insufficient liquidity exposes the bank to numerous risks that must be addressed, enabling the bank to maintain a suitable level of liquidity to meet customer needs and preserve its financial stability.

Fifth: Analysis of Factors Influencing the Stability of Iraqi Commercial Banks: Role of Capital and Liquidity

- Analysis of the Importance of Capital for the Stability of Iraqi Commercial Banks

In the face of fluctuating economic conditions confronting commercial banks in Iraq, investment in capital emerges as a critical factor in ensuring their stability. Capital owned by the bank serves as a strong indicator of its financial health and stability, contributing to meeting the necessary capital requirements for fulfilling its obligations, paying debts, and investing in growth and expansion.

Investing capital wisely helps strengthen the ability of Iraqi commercial banks to withstand financial risks and cope with sudden economic shocks. Furthermore, strong capital enhances trust between the bank and its customers and business partners, leading to increased transactions and improved financial performance of the bank.

- Assessment of the Effects of Strong Capital on the Stability of Iraqi Commercial Banks.

The strength of capital is one of the key factors influencing the stability of commercial banks in Iraq. One of the primary effects of strong capital is reducing the bank's risks and increasing confidence in its ability to handle challenging financial situations.

Capital also contributes to enhancing the bank's liquidity, serving as an important source to fund its activities and meet daily liquidity needs. The bank's ability to regularly meet liquidity requirements enhances its stability and maintains its capability to efficiently deliver banking services.

Additionally, strong capital allows Iraqi commercial banks to invest in technology and infrastructure, thereby improving efficiency and providing better services to customers.

In conclusion, investment in capital and maintaining strong capital is essential for the stability of commercial banks in

Iraq. Banks and financial authorities must collaborate to encourage capital investment and enhance their ability to achieve financial stability.

Summary

This article aims to highlight the importance of understanding the factors influencing the stability of Iraqi commercial banks and to provide recommendations for enhancing this stability. Liquidity and capital are key factors affecting bank stability, thus identifying their roles and improving them is crucial for enhancing the financial stability of commercial banks in Iraq.

Sixth: The Importance of Understanding Stability Factors in Iraqi Commercial Banks

Understanding the factors influencing stability in Iraqi commercial banks is necessary for several reasons. Firstly, financial stability of banks plays a crucial role in enhancing confidence in the banking system and encouraging both local and foreign investment. Secondly, understanding these influential factors can assist banks in identifying strengths and weaknesses, and implementing strategies to achieve sustainable financial stability. Lastly, it is important to understand these factors to effectively manage risks and make informed decisions to strengthen financial stability.

Seventh: Recommendations to Improve the Stability of Iraqi Commercial Banks

To improve the stability of commercial banks in Iraq, focus should be on liquidity and capital, and necessary actions should be taken to strengthen these factors.

Regarding liquidity, banks should diversify their funding sources and increase deposits. This can be achieved by attracting more customers and offering new and innovative products and services. Additionally, effective policies and procedures should be in place to control risks and ensure compliance with banking regulations.

As for capital, banks need to bolster their existing capital levels to mitigate financial risks and achieve stability. This can be achieved by attracting additional funding, increasing reserve capital, and improving the capital structure.

In conclusion, regulatory and governmental bodies must work to enhance the business environment, encourage innovation, and support commercial banks amidst the economic challenges they face (7).

- Clarifying the importance of understanding the factors influencing the stability of Iraqi commercial banks.
- Providing recommendations to improve the financial stability of banks.
- Focusing on liquidity and capital and their importance.
- Emphasizing the need for risk management and compliance with banking regulations.
- The role of regulatory and governmental bodies in enhancing the business environment and supporting commercial banks.

Practical Aspect Research Sample

Individuals working in Iraqi banks (Al-Rafidain Bank as a model) in Baghdad province were targeted for the study. A random sample of 55 bank employees was selected, and 50 questionnaires were collected. A descriptive-analytical approach was used to present the required results.

Demographic Analysis

Table 1: Demographic Analysis

Axis	Category	Number	Percentage
Gender	Male	20	40%
	Female	30	60%
Job Title	Department Manager	10	20%
	Unit Manager	5	10%
	Employee	35	70%
Years of Experience	1-5 years	10	20%
	6-10 years	15	30%
	11-15 years	20	40%
	More than 15 years	5	10%

Source: Researcher's preparation

- The above table is prepared by the researcher, where males represent 40% of the sample and females represent 60% of the sample.
- The sample included department managers, accounting for 20% of the sample, unit managers accounting for 10% of the sample, and the remaining percentage represented employees, accounting for 70%.
- The professional experience of employees varied, with 20% having 5 years or less of experience, 30% having 6

to 10 years of experience, 40% having 11 to 15 years of experience, and finally, individuals with more than 15 years of experience accounted for 10%.

Analysis of Hypothesis Questions

First Hypothesis: There is a statistically significant positive relationship between liquidity levels and the stability of commercial banks in Iraq.

Table No. (2) Descriptive analysis of the first hypothesis questions: There is a statistically significant positive relationship between liquidity levels and the stability of commercial banks in Iraq.

The axis	The question	Mean	Standard Deviation	t-test	Significant
There is a statistically significant positive relationship between liquidity levels and the stability of commercial banks in Iraq.	Liquidity levels in the bank play a crucial role in achieving stability of commercial banks in Iraq	3.528	1.088	25.95	Moral
	The level of liquidity in the bank that the customer deals with is highly appreciated for its importance.	3.857	0.987	27.27	Moral
	There have been changes in the stability of the bank with which the customer deals with during the recent period	3.516	0.991	26.69	Moral
	There is a need to enhance liquidity levels in Iraqi commercial banks in order to strengthen stability.	3.091	1.157	25.06	Moral
	The level of liquidity affects the ability of banks to provide sustainable banking services in Iraq	3.596	0.997	25.36	Moral
Total		3.54	0.857		

Source: Prepared by the researcher using SPSS software.

From the above results, we find that the mean values were moderate to high, and the standard deviations were close, indicating convergence of perspectives. The p-values were significant for all the questions, indicating a statistically significant positive relationship between liquidity levels and

the stability of commercial banks in Iraq.

Hypothesis 2: There is a statistically significant positive relationship between capital and the stability of commercial banks in Iraq.

Table 3: Descriptive analysis for hypothesis 2 shows a statistically significant positive relationship between capital and the stability of commercial banks in Iraq.

The Axis	The Question	Mean	Standard Deviation	t-test	Significance
There is a statistically significant positive relationship between capital and the stability of commercial banks in Iraq.	That the level of capital in commercial banks can affect their stability in Iraq	3.855	0.896	38.31	Moral
	That the size of capital affects the ability of banks to provide sustainable banking services in Iraq	3.745	0.995	37.01	Moral
	The need to enhance capital levels in Iraqi commercial banks to strengthen their stability	3.665	0.961	36.69	Moral
	The client estimates the importance of capital in the bank they deal with to be high	3.685	0.911	4.1	Moral
Total		3.735	0.777		

Source: Prepared by the researcher using SPSS.

From the above results, we find that the mean values ranged from moderate to high, and the standard deviation values were close together, indicating convergence of viewpoints. The p-values were significant for all questions, indicating a

statistically significant positive relationship between capital and the stability of commercial banks in Iraq.

Conclusions and Recommendations

Conclusions

1. Liquidity plays a crucial role in the stability of Iraqi commercial banks. This stability can be enhanced by maintaining an adequate level of liquidity and diversifying funding sources.
2. Capital is a critical element in ensuring bank stability. Strengthening capital levels can contribute to enhancing banks' ability to withstand financial risks and cope with economic challenges.

Recommendations

1. Iraqi commercial banks should work on enhancing liquidity levels by attracting more deposits and offering new and innovative products and services.
2. Banks should implement effective policies and procedures to monitor and manage financial risks and ensure compliance with banking regulations.
3. Regulatory and governmental authorities should support the business environment and encourage innovation in the Iraqi banking sector.
4. Capital base should be strengthened to enhance banks' capacity to deal with liquidity-related challenges and ensure stability.

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