

TO SUSTAINABLE FINANCIAL STABILITY IN IRAQ: READING IN THE ROLE OF SUSTAINABLE FINANCE

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Abstract:

The research aims to analysis the role of sustainable finance in achieving and supporting financial stability in Iraq during the period (2010 – 2023), in light of economic and financial challenges the country has witnessed, especially volatile oil prices, political instability, and environmental crises. Research addresses the theoretical framework of sustainable finance and dimensions of economic, environmental, and social, in addition to focusing on how to integrate sustainability standards into financial and banking policies. Research also reviews reality of financial sector in Iraq and its level of commitment to principles of sustainable finance, through an analysis of financial data and indicators, and relevant governmental and banking that initiatives.

Research found that sustainable finance is essential tool for supporting financial stability by reducing systemic risks, diversifying funding sources, stimulating green investment, and enhancing investor confidence. Also analysis revealed that Iraq is still in the early stages of adopting concept of sustainable finance and faces multiple challenges, including weak legislative framework, lack of institutional awareness, and weak financial infrastructure.

Keywords: Sustainable Finance, Financial Stability, Iraq.

Introduction

Sustainable finance is considered one of the main axes in formulating more comprehensive economic and financial policies, particularly in economies that seeking to achieve balance between economic growth and keeping financial stability within sustainable development framework, and it has become necessary to integrate sustainability principles into financing mechanisms to ensure the effectiveness of financial institutions and enhance their ability to withstand economic, environmental, and social shocks. This topic is gaining increasing importance to Iraqi economy, especially in light of multiple economic challenges it faces, which require reconsideration of traditional financing principles and adoption of more flexible and sustainable financing tools and strategies..

From this standpoint highlighted importance of this study in analyzing relationship between sustainable financing and achieving financial stability in Iraq during the period (2010-2023), through evaluating contribution of sustainable finance instruments to strengthening the financial system, increasing its resilience to shocks, and achieving balance between economic growth, environmental protection, and social justice. Also study seeks to reveal the challenges facing the implementation of sustainable finance in the country, and proposing practical recommendations to enhance its role as strategic tool for financial stability in future.

Scientific Methodology of research :

First : Importance of research:

The importance of this research is highlighted by its emphasis on the interrelationship between sustainable financing and financial stability, especially in country like Iraq, that faces multiple economic, environmental, and political challenges. In light of global shifts towards green economy and environmental responsibility, it has become necessary to study the potential of applying sustainable finance principles in Iraqi financial system to reduce systemic risks and achieve more balanced and stable economic development. Also importance of the research lies in its theoretical and applied contributions to modern literature on sustainable finance in rentier economies.

Second: Problem of Research:

Problem of research is represented by the following main question:

To what extent can sustainable financing contribute to achieving financial stability in Iraq during period (2010–2023)?

Third: Aims of Research :

The research seeks to achieve the following aims:

- Analysis the theoretical framework of sustainable finance, its concepts, and its economic, environmental, and social dimensions.
- Measuring relationship between sustainable finance and financial stability using relevant economic and financial indicators.

Fourth: Research Hypothesis:

Research is based on the following main hypothesis:

"There is statistically significant positive effect of sustainable financing for achieving financial stability in Iraq during period (2010–2023).

Fifth: Time and spatial limits of research:

Time limits of research: Research covered period (2010-2023).

Spatial limits of research: It moves within framework of Iraqi economy.

Sixth: Research Structure:

For scientific information on the research title and to achieve its objectives, the research was divided into three axes. The first axis included theoretical concepts of sustainable finance and financial stability, While the second axis included the role of sustainable finance in meeting the requirements of financial stability in Iraq for period (2010-2023). The third axis included sustainable financing and the requirements for financial stability in Iraq: Sustainable finance trends and analysis of developments in Iraq.

First Axis: Sustainable Finance and Financial Stability: Conceptual and theoretical basics

First: What is sustainable financing?

Sustainable finance has become topic attracting the attention of many researchers and economists at present time, because it highlights ways to help society by providing adequate financing that better meets the needs of present and ensures that future generations can meet them, with the goal of achieving sustainability [1]. In recent years, the term finance has been associated with phenomenon of sustainability and sustainable development, which has rapidly entered the economic and financial literature.

Second: Definition of sustainable finance:

Due to the importance that sustainable finance has become since the Paris Agreement on Climate Change in 2015 and United Nations 2030 Agenda for Sustainable Development, many official and unofficial bodies and agencies have established the challenge by definition and general framework for sustainable finance, in order to accelerate the transition to low-carbon, circular and inclusive economy.[2]

As depending to (European Commission), sustainable finance is: Providing investment with taking into account environmental, social and governance in consideration. Sustainable finance includes strong green finance component that aims to support economic growth, alleviate pressure on the environment, combat greenhouse gas emissions, address pollution, reduce waste and improve efficiency of use of natural resources.[3]

It can also be said sustainable finance is finance that aims to achieve balance between economic, environmental and social dimensions [4]. This definition focuses on the need to develop and update financial instruments that support sustainability and benefit environment and society.

Third: Elements of sustainable financing [5](ESG)Environmental-Social-Governance

Three elements of sustainable finance indicate, that known as (ESG) Environmental, Social, and Governance, refer to the factors that companies should consider when managing their financial performance, as follows:

- 1- Environmental Element: It includes environmental factors such as climate change, gas and carbon emissions, air and water pollution, water scarcity, and global warming.
- 2- Social Element t: It includes socially influential factors such as providing job opportunities, improving working conditions that include health and safety, workers' rights, and the impact on communities of residents surrounding the projects concerned, etc.
- 3- Governance Element: It deals with factors related to how the institution is managed, such as the independence of the board of directors, composition, shareholders' rights and transparency.

Fourth: Importance of sustainable financing:

There are three interconnected perspectives supports the rationale for importance of sustainable finance represented by: [6]

1- Sustainability Perspective:

Sustainable finance deals with the requirements of moving towards sustainable social, economic and environmental path to bridge the financial gap. The financial sector plays an important role in mobilizing and directing financial resources towards investments that take into account ESG factors. This is done by converting existing financial assets into sustainable and resilient low-carbon investments, this enables investors, banks, and financial markets to align their financial and investment strategies with sustainable development goals.

2- Perspective on Redirecting Capital Flows:

Sustainable finance is considered prerequisite for achieving the sustainable development goals and Paris Agreement, where will be no public or traditional funding sources enough to bridge this funding gap.

3- Risk Perspective:

Sustainability-related risks (environmental, social, and governance risks) are considered increasingly, physical financial risks. Such risks therefore affect the financial and economic performance of any entity in value chain, including investee companies. Sustainable financing by including ESG factors in the investment decision, works to reduce them in way that ensures continuity of companies while maintaining certain level of performance.

Sustainable financing maintains financial stability in the long term. For example, climate risk management could reduce banks' exposure to financial risks related to climate change in way that enables it to face expected changes in policies and investor desires. Also various financing activities contribute to increasing banks' ability to attract savings and provide financial services to various societal groups. It is working to diversify its credit portfolios, that enhances economic and social development and financial stability, especially those activities related to financial inclusion and financing small and medium-sized enterprises, which reduces poverty, unemployment, and inequality rates. In addition to the above, sustainable financing applications lead to enhancing investment opportunities and injecting more foreign currencies by attracting new segment of investors who target this type of financing.[7]

Fifth: Definition of Financial Stability:

Financial stability is defined as "the state of the financial system when it is able to facilitate (not disability) economic performance and disperse financial imbalances (imbalances of financial system)." that appears as result of negative and unexpected events that appear internally" [8]. Also defined as "the absence of financial crises, because financial crisis is loss of confidence in country's currency or other financial assets, which causes foreign investors to withdraw their capital from that country" [9]

Sixth: Importance of Financial Stability:

The importance of the stability of the financial and banking system is appeared due to its connection to all economic activities and providing the necessary funding for these activities, starting from investments, through exchange, and ending with consumption. The financial system is embodied in many aspects, the most important of which are:[10]

- 1- Contributes to the implementation of best banking practices.
- 2- It is considered necessary condition for development of financial system.
- 3- Improves the transmission of monetary policy effect to the real sector.
- 4- Contributes to increased financial inclusion and economic development.

Second Axis : Role of Sustainable Financing in Meeting Requirements of Financial Stability in Iraqi Economy for Period (2010-2023)

First: Sustainable Finance Strategy in Iraq:

The Sustainable Finance Strategy in Iraq is considered part of targeted initiatives to promote economic development, taking into account environmental, social, and

governance (ESG) aspects, this strategy falls within the directives of the Central Bank of Iraq efforts to promote financial inclusion and sustainability in financial sector.

1. Issuing National Framework for Sustainable Finance:

- In October 2022, Central Bank of Iraq announced the launch of "Sustainable Finance Framework in Iraq," in cooperation with German Agency for International Cooperation (GIZ).
- The framework aims to integrate sustainable finance principles into bank's policies, that enabling financial system to support projects that take into account, environment, society, and governance (ESG).

2- Role of Central Bank of Iraq:

- The Central Bank seeks to integrate environmental, social, and governance (ESG) standards into the banking sector.
- Developing policies that encourage banks to support financing environmental and renewable energy projects.
- Enhancing innovation in financial sector and directing investments towards achieving sustainable development.

3- International Cooperation:

- Cooperating with international organizations such as GIZ, United Nations Development Programme (UNDP), and international financial institutions to develop sustainable financing programs.

4- Objectives of Sustainable Finance Strategy:

- Reducing the effects of climate change.
- Enhancing financial stability.
- Supporting sustainable small and medium enterprises.
- Improving financial inclusion, especially for vulnerable groups and deprived areas.

Within the framework of sustainable financing strategy in Iraq, we review the following axes:

First: Principles of Iraq Declaration on Sustainable Finance:

Iraq Declaration on Sustainable Finance highlights the importance of integrating environmental, social, and economic factors to promote green economy. This approach is necessary to face the challenges that related to financial sustainability in the country, especially given its dependence on oil revenues. Among the basic principles included in the declaration:

1- Transition to green economy:

- Iraq seeks to transition towards green economy, as shown by the initiatives, such as Green Belt Strategy launched in 2011, that focuses on promoting green spaces and adopting sustainable practices. [11]
- The country possesses significant material and human resources that can facilitate this transformation, with highlighting potential for sustainable development.

2-Financial Sustainability:

- The declaration highlights the importance of financial sustainability, which ensures implementation of government programs without affecting future financial capabilities. [12]

- The declaration calls for reducing dependence on oil revenues and diversifying sources of income, with the aim of mitigating the risks associated with external debt and budget deficit. [13]

3- Ethical Investment:

- In the context of achieving global sustainability goals, this declaration promotes responsible investment practices that focus on ethical considerations and support initiatives related to sustainable development..[14]

Second: The objectives of Iraq Declaration for Sustainable Financing:

Iraq Declaration on Sustainable Finance aims to enhance financial sustainability and support the transition to green economy, and developing innovative financing mechanisms. These goals are essential to ensure long term economic stability, and enhancing environmental resilience in face of challenges such as oil dependence and climate change. At forefront of these goals, review the following:

1-Financial Sustainability:

- Focus is on reducing dependence on oil revenues and external borrowing, where this may lead to financial instability.
- Government seeks to implement work programs while preserving future spending capabilities and ensuring the rights of future generations.[15]

2- Transition to green economy:

- Iraq continues effectively implementing initiatives aimed at shifting towards green economy, among these are strategies such as Green Belt Initiative, launched in 2011.
- The state seeks to exploit its abundant resources for promote environmental sustainability and processing issues such as waste management and water resource distribution.

3- Innovative financing steps :

- Entering partnerships between two sectors public and private (PPPs), that is considered basic strategy for attracting investments in sustainable projects.
- These partnerships can contribute to accelerating development of green finance tools,such as green bonds and crowd funding, to support environmental initiatives.[16]

Although these goals are considered ambitious,however, it faces challenges such as political instability and need for effective governance structures to ensure successful implementation.It is still achieving balance between immediate economic needs and long term sustainability goals represents major concern for future of Iraq.

Third: Reality of Sustainable Finance in Iraq: [17]

In 2022, Central Bank of Iraq launched document entitled"Sustainable Finance Framework in Iraq," that is considered first official step towards integrating sustainable finance principles into national banking policies. This framework aims to support financial institutions in adopting Environmental, Social and Governance (ESG) standards through establishing financing policies that promote green projects, renewable energy, and sustainable entrepreneurship.

Fourth: Iraqi Economy: Reasons for the Economy's Strength and Challenges

First: Economic strengths:

Iraq is considered that name is historically associated with oil wealth,now at crucial stage of his economic career. It has natural resources which value exceeds 16 trillion dollars

that makes it ranked ninth in the world in terms of resource reserves. Iraq has ability to transform its economy from oil dependence to diversified and sustainable economy. The future of Iraqi economy depends on transforming its natural resources into productive assets. This transformation will be essential for long term economic growth and economic diversification.

The most prominent strengths of Iraqi economy can be summarized as follows:

1. Huge oil wealth.
2. Strategic geographic location.
3. Other natural resources.
4. Young population base.
5. Agricultural capabilities.

Second: Most prominent challenges facing the economy:

In World Bank report Iraqi economy faces serious and urgent challenges through : [18]

- 1- Falling oil prices and Iraq continues to be exposed to fluctuations in the oil market.
- 2- Financing needs are accompanied resulting from the resurgence of terrorist gangs and repercussions of deadly coronavirus, in addition to poor management and planning, and spread of great corruption. All these factors led to sharp deterioration in economic and public financial activity and the balance of payments.
- 3- The challenges are represented in maintaining on macroeconomic stability and carry out structural reforms that aims to improve the quality of public services, in addition to restructuring the basic infrastructure, that is in light of increasing risks resulting from the escalation of conflict.
- 4- Deterioration of economic and security situation, which this resulted in high rates of poverty, instability and unemployment, in addition to contraction in the rate of economic growth.
- 5- Economic decline Non-oil by (7%).
- 6- Impact of the oil price crisis, in addition to the emergence of terrorist organizations and political instability, on private sector consumption and investments, as well as on limited government spending on investment projects.
- 7- High levels of poverty, where number of people increased living below the poverty line about (2.8) million people by the end of 2014. This trend continued in 2020, which witnessed financial, economic, and health crises.
- 8- Increase in the number of unemployed people, And migration of more than (3) million Iraqis.

Third Axis : Sustainable Financing and Financial Stability Requirements in Iraq: Sustainable Financing Trends and Analysis of Developments in Iraq

First: Sustainable financing trends:

The basic steps for sustainable finance trends to achieve financial stability in Iraq revolves around set of policies and reforms, which aims to balance economic, environmental and social requirements. The following are most prominent:

1- Economic diversification:

The Iraqi economy depends heavily on oil revenues, where oil exports is considered main source of revenue. This makes it vulnerable to weakness if prices fall. Also the contribution of non-oil revenues remains limited, as it forms non-oil resources (only 4%) of budget. [19]

2- Impact of monetary policy:

Effective monetary policy is considered essential element for achieving economic stability, where it plays pivotal role in managing money supply, and confront inflationary pressures. Central Bank interventions have proven, Such as adjusting treasury transfers and controlling the money supply effectiveness in enhancing financial sustainability, especially during times of low oil prices.[20]

3- External Debt Management:

Iraq's dependence on foreign debt has not been exploited effectively, where it is directed most of money towards consumer spending rather than productive investments, which threatens financial sustainability. Also increase in domestic debt as result of public borrowing increases the financial burdens, which highlights the importance of adopting a strategic approach in debt management and investment in infrastructure projects.[21]

4- Diversifying sources of public revenue:

Iraq is highly dependent on oil revenues (more than 90% of revenues), this exposes public finances to global price shocks. The sustainable trend is: Expanding the tax base through reforming the tax system, and activation of income tax and added value. In addition to stimulating non-oil sectors such as agriculture, tourism, and manufacturing, and also encouraging partnerships with private sector to reduce the burden on public finances.

5- Reforming public spending :

Improving spending efficiency is done through review of energy subsidies and government salaries, and transferring support to the deserving categories. Also aims to enhance transparency and financial oversight to reduce waste and corruption, In addition to shifting towards Production spending rather than operating spending.

6- Green and climate finance :

Adopting green financing instruments (such as green bonds) is considered important for financing clean energy projects, and treatment of effects climate change in southern governorates, and integrating environmental dimension in financial policies to ensure sustainability of resources.

7- Enhancing monetary and financial stability:

Coordination between fiscal and monetary policy it is necessary to control inflation and exchange rate, also important to develop sustainable financial market that supports the financing of long term projects.

8- Moving towards financial digitization:

The shift towards digital financial system is important for increasing financial inclusion, reducing tax evasion and enhancing efficiency, as well as supporting small and medium-sized financial institutions to provide financing to the productive private sector.

9- Activating the institutional and legislative role:

To support sustainable finance trends it is necessary to enact legislation that supports sustainable financing, and enhance independence regulatory institutions, in addition to establishing specialized bodies following up on the Sustainable development goals.

The above trends each reflect a move toward financial stability, but challenges remain in each direction, especially in the areas of economic diversification and effective debt management.

Second: The nature of the prevailing financial system: reality and challenges

The financial system in Iraq is characterized by banking sector dominated by government institutions, and faces major challenges in the areas of regulation and market development. Also financial landscape requires continuous updating and integration between private banks, which is still in development in terms of its practices. In this regard, it is necessary to provide an overview of several important aspects that define financial system environment in Iraq, which will be done through the following:

1- Bank dominance of state-owned :

Iraqi financial system is based mainly on banks, where state-owned banks control most of the assets. Although private banks began to emerge there, however, it needs further strengthening to adopt modern banking practices.[22] Although these private banks are moving towards progress and development, but it needs more development.

And at time when the stock market is suffering from lack of capital, the insurance sector remains small and unorganized, and the financial infrastructure is lacking in strength, As the government works hard to enhance transparency and improve access to financial information, that helps investors make informed decisions and enhances confidence in the financial system. These efforts aim to build more sustainable and resilient financial system, which enables Iraq to attract the foreign and local investments necessary to support sustainable economic development.[23]

2-Weak financial infrastructure:

Iraq's financial infrastructure is suffering from clear delay, which hinders access to finance, especially for small and medium enterprises and microfinance initiatives, and the current financial system is also dysfunctional, and is characterized by weak regulatory framework and ineffective institutions. Rebuilding strong and modern financial sector, especially the banking sector, it is complex and long term process that requires significant resources and ongoing technical support, and to achieve these goals it is necessary the government should implement comprehensive reforms that treats regulatory gaps and enhance the operational efficiency of financial institutions. These reforms are considered vital step towards achieving economic stability, it will contribute to improving the business environment, and attract more investors looking for promising opportunities.[24]

But it is worth noting, the insurance sector remains limited and largely unregulated, adding complexity to the financial landscape.[25]

3- Need for organizational reform:

Financial system in Iraq suffering from dysfunction, where is characterized by weak regulatory framework and ineffective institutions. Despite the importance of banking sector, however, it suffers from significant delay, and lacks primary market for government debt and an interbank market, which complicates the implementation of monetary policy, and reconstruction process is expected to take long time and requires significant technical and financial resources to treats these challenges. That makes it necessary to adopt innovative strategies, that includes enhancing transparency and implementing strict governance standards, which will contribute to building public and investor confidence in the financial system.[26]

Third: General features and challenges of financial stability:

Central Bank of Iraq defined financial stability, it is the situation in which the financial and banking sector is able to confront risks, or any negative effects that may affect the current or future status of the growth and development of the national economy.[27]Also financial stability can be defined as: The effectiveness of all components of the financial system in working in an integrated manner, and that in light of absence of fluctuations and tensions that may negatively affect the economic situation in general.[28]

Despite the diversity of financial stability concepts, however, there is great consensus on it. The main characteristics of financial stability can be identified in several points, includes ability of financial system to provide financial services efficiently and direct credit towards productive investments,also financial stability represents flexibility of the system, which enables it to withstand internal and external shocks,such as economic crises and epidemics. In addition, financial stability requires the stability of financial markets, and absence of sharp fluctuations in stock and bond markets, as well as exchange markets, in addition to transparency through the availability of accurate and reliable information about the performance of financial institutions and markets.[29]

Financial stability in Iraq is suffering from clear weakness due to excessive dependence on oil revenues.This dependence leads to sharp fluctuations in the general budget, where fiscal deficit increases during periods of low oil prices during periods of significant decline in global prices, such as the period from (2014 – 2016). Iraqi government faced significant challenges in financing its public expenditures, negatively impacting development spending and services.

Iraqi economy suffers from lack of diversification, where relies heavily on oil as its main source of revenue.Non-oil sectors contribute small percentages to the gross domestic product, which makes the country vulnerable to oil price fluctuations and reduces its ability to achieve sustainable economic stability.[30]

Fourth: Analysis of developments in sustainable financing indicators:

Analysis of sustainable finance indicators in Iraq during the period (2010 to 2023) reveals on existencesignificant challenges and gradual improvements in financial inclusion and preparing sustainability reporting. Despite the efforts made, Iraq's performance remains below international standards, which requires taking more strategic initiatives. Below is follow-up of some sustainable financing indicators at the level of Republic of Iraq, as shown in the following table:

Table (1): Developments in sustainable financing indicators at level of Iraq for period (2010-2023)

Year	Fossil Fuel indicator	Renewable indicator in Electricity Production	Hydropower Consumption indicator	Inflation rate
2010	97.2 %	0.0 %	1.8 %	2.4 %
2011	97.4 %	1.4 %	1.9 %	5.6 %
2012	96.8 %	0.0 %	1.7 %	6.1 %
2013	96.4 %	0.10 %	1.5 %	1.9 %
2014	96.6 %	0.10 %	1.3 %	2.2 %
2015	96.3 %	0.10 %	1.2 %	1.4 %

2016	97.6 %	0.10 %	1.0 %	0.5 %
2017	98.1 %	0.10 %	0.9 %	0.2 %
2018	98.7 %	0.40 %	0.9 %	0.4 %
2019	97.9 %	0.30 %	0.7 %	-0.2 %
2020	97.8 %	0.30 %	0.7 %	0.6 %
2021	98.2 %	1.0 %	0.6 %	6.0 %
2022	98.7 %	1.0 %	0.6 %	5.0 %
2023	----	----	----	4.4 %

Source: The table was prepared based on:

- World Bank Data Set.
- Central Bank of Iraq, Department of Statistics and Research, Annual Statistical Bulletin, various years.

Table above shows some indicators of sustainable financing at level of Iraq during the period (2010-2023), which developments can be followed as follows:

First, data show that there is still almost complete reliance on fossil fuels for electricity generation, where percentage ranged between 96.3% and 98.7% throughout the study period. This reflects the limited diversity in the energy mix, and absence of an actual shift towards clean energy sources, despite the environmental and economic challenges associated with this type of energy.

Second, Renewable energy sources recorded very low rates, it did not exceed (1.4%) in any year indicating that investment in this area is still limited, and not risen to level required to keep pace with global transformations in the energy sector.

As for hydroelectric power, it recorded gradual decline, that decreased from 1.8% in 2010 to 0.6% in 2022. This decline may indicate a relatively lower reliance on it, or to increase the total energy consumption in excess of its fixed contribution.

In terms of inflation rate, it recorded significant fluctuations, where recorded significant increase in 2011 and 2012 (5.6% and 6.1% respectively), then it gradually declined to low levels during period from 2013 to 2019, which reached (-0.2%) in 2019, indicating the presence of deflationary pressures. Since 2020, inflation has been on the rise again, that reached 6.0% in 2021 and 5.0% in 2022 likely driven by effects of COVID-19 pandemic, and Supply chain disruptions and rising global energy prices. As for 2023, despite the absence of energy data, the inflation rate reached 4.4%, which indicates the continuation of price pressures.

Fifth: Analysis of developments in financial stability indicators:

The analysis of banking sector stability indicators is somewhat consistent with analysis of financial soundness indicators known in this field. These indicators are used to reveal the soundness of banking performance, and its function is not limited to evaluating and classifying banks' performance, and discovering weaknesses in financial and banking performance only, but also includes monitoring and controlling various banking operations for guidance and early warning ,and warning of financial and banking instability before risks occur.[31]

Central Bank of Iraq has sought to develop financial stability indicators, where it issued the first annual financial stability report in year (2010). The report was based on set of indicators, the assets included, such as cash credit, non performing loans, and bank investments, in addition to liabilities, which included bank deposits, legal reserves, and

capital. Also the report addressed capital adequacy and liquidity ratio. Central Bank continued to use these indicators until 2017, then it was adopted during the period from 2016 to 2021 based on indicators proposed by International Monetary Fund in its financial stability reports. Below is follow-up of some financial stability indicators at the level of Iraq, as shown in the following table:

Table (2) Development of financial stability indicators in Iraqi economy for period (2010-2023)

Year	Capital adequacy ratio indicator	Profitability indicator	Asset Quality indicator	Liquidity indicator
2010	% 77	% 0.21	% 9.63	% 24.2
2011	% 89	% 0.59	% 11.32	% 56.2
2012	% 131	0.01%	% 8.47	% 50.5
2013	% 146	% 1.16	% 26.02	% 52.8
2014	% 100	% 0.82	% 26	% 52.2
2015	106 %	0.76 %	% 30.34	% 45
2016	% 128	0.85 %	% 28.5	% 42
2017	224 %	% 1.19	% 30.26	% 52.2
2018	285 %	% 0.53	% 32.41	% 46.7
2019	% 173	% 0.81	27.01%	7% 43.
2020	% 385	% 0.90	% 26.29	% 38.1
2021	% 243	% 0.57	% 26.16	40.58%
2022	% 341	% 1.07	% 24.36	% 54.9
2023	% 419	% 1.30	% 22.75	47.50%

Source: Prepared based on:

- Central Bank of Iraq, Central Statistical Organization, Early Warning Report for Iraqi Banking Sector, various years.
- Central Bank of Iraq, General Directorate of Statistics and Research, various issues of Annual Statistical Bulletin (2004-2021).
- Central Bank of Iraq, Financial Stability Report (2022), Issue Thirteen, Baghdad, 2023.

The period from 2010 to 2023 witnessed significant developments in the performance of financial sector by tracking four key indicators: **Capital adequacy ratio**, **profitability indicator**, **asset quality**, and **liquidity indicator**. This analysis provides an accurate reading of these indicators in order to assess the financial stability and performance efficiency during period under study.

First :Capital adequacy ratio

The capital adequacy ratio recorded gradual and significant growth, where rose from (77%) in (2010) to (419%) in 2023. This improvement reflects an increase in ability of financial institutions to face risks and bear potential losses. The most notable jumps were in the years 2017 (224%), (2020) (385%), and 2023 (419%), which indicating significant improvement in capital strength compared to risk weighted average, this indicates clear commitment to financial soundness standards and improved capital structure.

Second: Profitability indicator:

The profitability indicator was relatively volatile during the period, it reached (0.21%) in 2010, and decreased significantly in 2012 to (0.01%). Indicating a sharp decline in profitability performance, Perhaps as result of stressful economic or operational conditions, then the indicator began to improve gradually, and reached its peak in 2023 at (1.30%). This exponential growth in profitability reflects an improvement in operating efficiency and ability to generate returns, and is considered positive indicator of strength of financial performance.

Third: Asset quality

Asset quality has improved significantly, where the percentage increased from (9.63%) in 2010 to (32.41%) in 2018. This is the highest level during period, reflecting an improvement in quality of credit portfolio and decrease in the risks associated with default. After that, the percentage began to gradually decline to reach (22.75%) in 2023, which may indicate an increase in credit risks or slowdown in asset quality control. Despite this slight decline, however, the percentage remains higher than before 2013 levels, that indicating that asset quality remains relatively stable compared to the past.

Liquidity indicator recorded significant improvement in some years, where rose from (24.2%) in (2010) to (56.2%) in 2011, that indicating high ability to meet short term obligations, however, this indicator experienced some decline in later years, and reached lowest levels in 2020 at (38%), this may reflect liquidity challenges faced by institutions during the COVID-19 pandemic, then indicator improved again to reach 47.5% in 2023, indicating gradual restoration of financial flexibility.

Conclusions and Recommendations:

First: Conclusions:

- 1- Weak application of sustainable finance principles.
- 2- Financial stability remained fragile and unsustainable.
- 3- Lack of integration between financial policies and sustainable financing.
- 4- Limited contribution of banking system to financing sustainable activities.
- 5- Existence of potential positive relationship between sustainable financing and financial stability.
- 6- Future opportunities Still standing.

Second: Recommendations:

Based on findings and conclusions of research on “Role of Sustainable Financing in Meeting Requirements of Financial Stability in Iraqi Economy for Period (2010-2023)” the following is proposed:

1. Preparing comprehensive national framework for sustainable financing.
2. Enhancing the role of banking sector in supporting sustainable development.
3. Aligning monetary and fiscal policies with sustainability goals.
4. Strengthening awareness and education about sustainable finance.
5. Issuing legislation related to green and sustainable financing.
6. Supporting entrepreneurship and green projects.
7. Building partnerships with international financing institutions.

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