

# Analyzing Financial Failures: A Study of Iraqi Banks and Key Financial Indicators

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## ABSTRACT

This research addresses the financial failures occurring in the Iraqi financial market. An in-depth analysis is conducted on the practices that contribute to financial failure in Iraq. The research objectives and questions focus on the issue of financial failure within the economic context of Iraq. Additionally, an analysis is performed on the key financial factors exacerbating the situation. A literature review highlights secondary data sources that reflect the key financial indicators contributing to failure risks for banks in Iraq. Low contributions to GDP, high cash dependency, and elevated debt levels were identified as prominent key performance indicators (KPIs) in the research, based on both secondary and primary data sources. The research method employs a mixed-method approach, utilizing questionnaires and five interviews to analyze the impact of poor financial performance on the financial failure of banks in Iraq. Data collection is conducted through both primary and secondary sources, increasing the validity and reliability of the conclusions drawn. The data is analyzed using SPSS, with methods including descriptive statistics, regression, and correlations. The significance level is noted to be greater than 0.05, indicating a clear link between poor financial performance and financial failure. In conclusion, the research emphasizes the necessity for both private and government-owned banks to understand the key factors responsible for their success and failure.

**Keywords:** Compound annual growth rate, CAGR, economy, SOPs, key financial indicators, KPIs, cash dependency, low contribution, overreliance.

## IDENTIFY THE SPECIFIC CONTRIBUTION:

The contribution of this article lies in understanding the impact of banking financial failures and the indicators that can help highlight these issues in advance. Conducting this study provides an opportunity to focus on the financial failures that have occurred in Iraq, a country that has faced multiple financial and economic challenges. The contribution of this study is not only for academic purposes; it will also aid in assessing factors that can indicate economic and financial issues beforehand. The findings of this research can be utilized by individuals in the global banking sector to evaluate specific financial indicators that predict financial failures. Another significant contribution involves informing policymakers in the financial banking industry; this research will address areas of weakness within banks and prepare risk mitigation strategies in advance to tackle the issue of financial failure.

## INTRODUCTION

Iraq is a country that is progressing and focusing on its betterment after the war crisis. The prime contributor to Iraq's economy is oil, and by the end of 2024, the country's dependence on the exchange reserves related to oil is expected to be 89%. This means that if there is no proper measurement in the financial sector, then the risk of economic failure in Iraq is also significant [7]. Financial failure means that the banks will have the ability to pay their financial obligations as they fall due. This issue is significant for growing economies like Iraq because if the financial banking systems do not operate at their maximum efficiency, then it will have negative implications on society as well [20]. less economic progression means that the people will suffer in managing their standard of living. Banks, in general, are an essential component of the financial market in a country, and a similar situation is applicable to Iraq [8]. The net income generated from the banking sector is expected to be US\$11.19bn by the end of 2024. Although the compound annual growth rate (CAGR) for banks in Iraq is -0.07%, there is still an expectation that it will be better in future [1].

## LITERATURE REVIEW:

### 1 Overview of financial failure and its impact on the economy

The financial failures are related to the financial issues that are faced by the banking sector of Iraq and have a significant impact on its economy as well. Although most of the revenue for the economy of Iraq has been generated through oil, the dependency on the financial services sector cannot be negated. Unfortunately, the banking sector only contributes 1.94% to Iraq's economy, which reflects the country's declining economic performance [6]. The low contribution also means that the baking sector does not have enough financial resources in place to use for economic progression, and limited investments made by the bank also make it difficult for the economy to sustain its expected growth levels by the end of 2030 [2].

The financial failure of the banking sector is also dependent on the internal debt situation of the banking sector, and this is worse in Iraq. The internal debt has increased from 38.3 trillion IQD (US\$29.4 billion) in 2019 to 73.2 trillion IQD (US\$56.3 billion) in 2024, which means that the bank is facing failure in managing its internal funds. The high level of mismanagement is also indicated, which means that there are fewer chances of success in terms of economics in Iraq in 2025 [3].

## **2 Key financial indicators related to Iraq's banking sector.**

Key financial indicators (KPIs) represent material issues and are expected to have a significant impact on the financial performance of the banking sector. KPIs mentioned within the newsletter issues by institutions of Iraq reflect that the country has been facing major issues. One of the most prominent issues mentioned is the extreme reliance on state-owned banks (SOBs). In total, there are 74 banks in Iraq, out of which 7 are SOBs [5]. Fifty-four are private, and 14 are international banks, and among all of them, the banking sector relies significantly on the 7 SOBs [4]. The high reliance means that the chances for failure for the banking sector are also high because any default in SOBs will make it nearly impossible for the economy to recover [9].

The financial failure of banks is also represented by the number of users, and in recent times, it has been observed that only 23% of people living in Iraq have bank accounts [10]. Cash reserves are an issue for financial banks, and this also is among the main reasons for failure [5]. The limited working cash flow for banks is also a reason why Iraq is not capable of making direct investments in its service and infrastructure for banking as well [21].

### **1. Define Research Objectives and Questions:**

The research objectives will focus on:

1. To understand the meaning and impacts of financial failure on Iraq's economy.
2. To understand the need for key financial indicators in analyzing the risk of financial failures.
3. To evaluate the extent to which financial failures will result in poor financial performance of Iraqi banks.

Research questions are related to the objectives and will be used to analyze the expected context of research. For this research, the questions outlined are as follows:

1. What are the meaning and impacts of financial failure on Iraq's economy?
2. Why is there a need for key financial indicators to analyze the risk of financial failures?
3. What is the extent to which financial failures will result in poor financial performance of Iraqi banks?

### **RESEARCH METHODOLOGY:**

Analyzing data is an integral aspect of the research because it is used to identify the expected methods that will help gather data and form valid and reliable conclusions. For this research, the selected methodology is a mixed-method approach [11]. The analysis focuses on the mixed method approach due to the high level of subjectivity involved in research. It is evident that the entire focus of the research is on analyzing the key financial indicators that will impact the financial performance of banks in Iraq. This failure is expected to have an adverse impact on the ability of economies to succeed [22].

The mixed method approach will focus on quantitative and qualitative data analysis. In terms of the quantitative analysis method, the questionnaire will be used to gather relevant information from individuals working in the financial banks of Iraq. The questionnaire will be based on a Likert scale basis so that the responses gathered can be conveniently analyzed. Similarly, in terms of the questionnaire, the quantitative factor will focus on 100 participants as the sample size of individuals working in the banking sector [12]. Their opinion with reference to the financial failure and financial performance is analyzed. Another important aspect of the research is the key financial indicators. The analysis and understanding of the KPIs are also subjective and cannot be managed through the questionnaire; thus, the use of qualitative methods is also appropriate [13]. In terms of qualitative research design, interviews will be conducted with the individuals working in the financial sector of Iraq, specifically banks. A total of 5 interviews will be conducted so that there will not be any risk related to biases and false information in concluding the research [15]. These interviews will focus on the financial performance and financial failures of banks, but a thorough analysis will also be made of the key financial indicators that will be used to highlight any risk of failure in advance [23].

### **DATA COLLECTION AND ANALYSIS:**

Within any research, data collection is not only a crucial part, but it is also equally difficult to deal with, especially when the financial performance evaluation is involved. For the part data collection processes specifically, it is vital to focus on ways through which appropriate, reasonable and reliable data is gathered and thus, for this research, both the secondary and primary data collection methods are used. The primary data is gathered from interviews and on-file surveys from people working in the banking sector in Iraq, which will help assess the impact of poor financial

performance on the failure of banks. On the contrary, interviews will also be conducted to focus on key financial indicators related to Iraq's banking sector. During the interviews, varied individual opinions about the expected key financial indicators related to banks will be determined, and then the conclusion will be formed based on the consistency of factors. The secondary data from Iraq's economy and banking sector statistics will be evaluated from the journal articles and official databases of the country. This data will help analyze the responses generated from primary data and the level of consistency among data [24].

Data analysis is integral when the appropriate data is gathered. SPSS, which is a statistical tool, is used to analyze the responses of participants. These responses are based on the Likert scale and are analyzed through tests such as descriptive analysis, ANOVA, model summary, and regression. For the interviews, consistent results will be mentioned that are also relevant to the financial indicators of banks in Iraq [25].

## RESULTS:

### 8.1 Descriptive Analysis

Table 1: Descriptive analysis Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
FinancialFailures	100	1.00	4.00	1.6100	.74769
financial performance	100	1.00	3.00	1.5967	.61280
Valid N (listwise)	100				

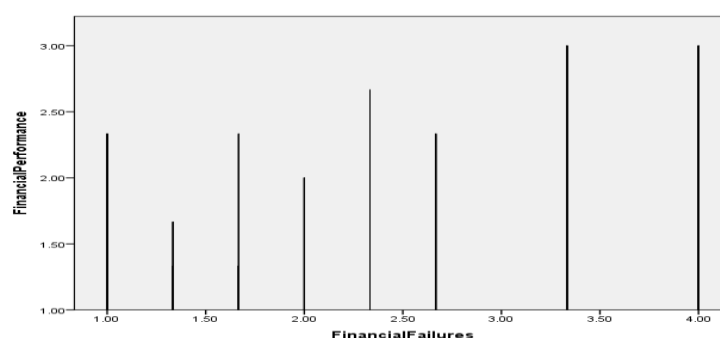


Figure 1: Histogram

This table is an analysis of the descriptive statistics of the two variables, namely Financial Failures and Financial Performance. In the table method for Financial Failures, there are 100 notices, the minimum value is 1, the maximum value is 4, the average value is equal to 1.61 +, and the standard deviation is 0.75. Regarding Financial Performance, the corresponding coefficients are 1,60 and 0,61, respectively. The "Valid N (listwise)" means that 100 observations were included in the analysis.

### 8.2 Correlations Analysis

Table 2: Correlation analysis

Correlations			
		FinancialFailures	financial performance
FinancialFailures	Pearson Correlation	1	.846**
	Sig. (2-tailed)		.000
	N	100	100
financial performance	Pearson Correlation	.846**	1
	Sig. (2-tailed)	.000	
	N	100	100
**, Correlation is significant at the 0.01 level (2-tailed).			

The relationship between the two variables is shown in the following table. We find that the correlation between financial failures and financial performance is 0.846, which is a strong positive correlation. The p-value is, in fact, 0.000, which makes it clear that this type of correlation is statistically highly significant.

### 8.3 Regression Analysis

H1 – Financial failures results in poor financial performance of Iraqi banks

Table 3: Model summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.846 <sup>a</sup>	.716	.713	.32826
a. Predictors: (Constant), FinancialFailures				

Model Summary: The fit of the regression model is demonstrated in this table. According to the result of standardized regression coefficient, R-square of 0.716 = 71.6 % of Financial Performance is explained by Financial Failures. The measure of explained variation, adjusted R-square, equals 0.713 like the R-square and, therefore, is considered a good fit.

Table 4: ANOVA

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.617	1	26.617	247.008	.000 <sup>b</sup>
	Residual	10.560	98	.108		
	Total	37.177	99			
a. Dependent Variable: FinancialPerformance						
b. Predictors: (Constant), FinancialFailures						

ANOVA has a table that presents the test for the overall significance of the regression model. With p value <  $\alpha$ , the overall model is statistically significant with F value = 247.008.

Table 5: Coefficients

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.480	.078		6.136	.000
	FinancialFailures	.693	.044	.846	15.716	.000
a. Dependent Variable: FinancialPerformance						

This table depicts the standardized and the unstandardized regression coefficients, otherwise termed beta weights of Financial Failures on Financial Performance. The unstandardized coefficient is 0.693, which suggests that for every one-unit change in Financial Failures, the Financial Performance will change by 0.693 units. The coefficients of determination for both models are almost equal and range between 0.267 and 0.293. The standardized coefficient is 0.846, which shows that the connection between financial failures and financial performance is quite robust. The constant term we obtain for the model is 0.480, which can be understood as the value of financial performance when financial failures are nil. These results could be significant at a 0.05 level given the rather large t-test statistic of 15.716, which indicates that the relationship between the two variables is statistically significant. The p-test statistic of 0.000 also supports the above conclusion.

### INTERVIEW RESULTS

The interviews with five financial experts in the banking industry further pointed out that the failure of Iraqi banks to record positive financial statements was basically due to governance failure, mismanagement and lack of

transparency in financial reporting. Weak regulatory oversight and the inadequacy of risk management frameworks were key factors contributing to these failures among many of the participants. An interviewee observed that the way a company does not have a robust internal auditing system leaves the financial discrepancies unidentified until they are large. This is due to a lack of oversight via oversight bodies or even political interference, which exacerbates chronic liquidity problems in some Iraqi banks and has a direct impact on such a bank's stability and credibility in the market.

The key contribution of macroeconomic indicators to the financial instability of Iraqi banks was another major finding from the interviews. Participants pinpointed the fact that these financial institutions are torn between their home country policies and the policy of the country where the banks are headquartered and discussed how fluctuating oil prices, inflation, and exchange rate volatility come into play in the operations. Poor monetary policies and the instability of the wider economic environment have made it impossible for the banks to maintain enough capital reserves and handle foreign exchange risks in the best way. While the underlying issues cannot be completely removed, one suggested that these underlying issues can be addressed through financial reform, such as modernizing banking infrastructure, having better risk management practices and, in turn, commitment to regulatory transparency for restoring investor confidence and ensuring financial failures don't happen again.

During the interviews, participants were asked to share their opinions regarding key financial indicators that provide an overview of the risk of financial failure of businesses. There has been observed a high consistency among the responses given by five participants as they mentioned high reliance on state-owned banks, low contribution to GDP, and high debt levels as prime factors. These factors were also evident within the secondary data source gathered, which included the financial information about the banks in Iraq. If these financial risks are analyzed for the coming financial year of 2025, then the chances of recovery from -0.07% for the banking sector of Iraq will not be an issue.

### **DISCUSSION:**

For quite a while now, the financial position and efficiency of the Iraqi bank have been in question, especially due to exposure to financial risks. Many of these banks look to have been stressed due to various reasons like poor political environment, no clear policies governing the banking sector, and poor monitoring and auditing of the banks, among others, due to the sanctions from other countries that they are facing currently. These have culminated in the poor financial performance of the banks and, by extension, the overarching banking system. Therefore, understanding the basis and implications of this severe problem defined in this hypothesis (H1) that financial failures lead to poor financial performance of Iraqi banks. Regarding the fact that financial failures in the banking sector provoke negative long-term effects, it is necessary to find out whether financial failures have a direct positive impact on financial performance.

In order to validate the research hypothesis (H1), the financial statements and performances of the Iraqi banks over time will have to be reviewed. This could be done by analyzing statistics and comparing data over two or more periods. The results would be more interesting if it were established that such financially failing banks exhibit poor financial performance. On the contrary, if the data hub indicates that other than the financial performance indicators, something else could also be the reason for the Iraqi bank's status, then it is. These might include fluctuations in the macroeconomy, on which banks do not have the ability to control and change laws governing banking or the risk management strategies of banks. Also, it first provides advice on developing strategies aimed at combating this failure and avoiding adverse results for the economy and for the people of Iraq. A sound banking system is central to the growth of the economy and increased employment and financial development. Therefore, awareness of the causes of financial failures and low performance in the development of a financial policy would be useful for policymakers and interested parties to improve and develop the banking system of Iraq.

### **CONCLUSION AND RECOMMENDATIONS:**

The analysis of the issue of financial failure for Iraq concludes that it is vital for the banking sector to focus on its development. Significant issues such as high cash dependency and high reliance on SOBs were mentioned, which is a key financial indicator that the banks in Iraq will not be able to manage their working capital. In order to deal with the financial failure, the following are the recommendations:

The management of banks should focus on making investment initiatives so that their contribution towards Iraq's economy will increase. If the contribution is enhanced, then there is a high chance of the country's economic recovery.

It is also recommended that banks start campaigns to educate the people living in Iraq regarding the need for bank accounts. If the rate of people holding bank accounts increases from 23% to 50% in the coming year, then there are high chances for better financial and economic conditions.

For future studies, it is also recommended that a comparative analysis between SOBs and private banks should be done to better understand the rate of dependence, and factors such as customer satisfaction should also be analyzed to limit the level of subjectivity in research.



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