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Research paper

Analysis of The Relationship between Oil Revenues and Bank Credit in Iraq

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Abstract

Oil constitutes the primary source of public revenue in Iraq, accounting for more than 90% of total government income. This heavy reliance on oil renders the Iraqi economy highly susceptible to fluctuations in global oil markets. Such dependence has had adverse effects on vari-ous economic sectors, particularly the banking sector, which plays a critical role in supporting economic activity and providing necessary financing.
This study aims to examine the impact of oil revenue fluctuations on bank credit in Iraq during the period 2004–2023. The research analyzes the relationship between oil revenues and credit activity through a three-part structure: the first section discusses the concept and volatility of oil revenues; the second explores the nature and significance of bank credit; and the third analyzes the relationship between oil revenues and bank credit in the Iraqi context.

Keywords: *Oil Revenues; Bank Credit; Iraqi Economy; Oil Price Volatility; Credit Expansion.*

1. Introduction

The oil sector is the backbone of Iraq's economy, with the country almost entirely dependent on oil revenues as the main source of funding for the public budget and various economic activities. These revenues represent more than 90% of total government revenues, making the Iraqi economy vulnerable to oil price fluctuations in global markets and financial, financial, and banking stability.
The banking sector is one of the main pillars that contribute to achieving economic development, as it provides the necessary financing for various investment and commercial projects, and plays a fundamental role in stimulating market movement and stimulating investments. Banks in Iraq rely heavily on domestic deposits as a primary source of financing, and these deposits are in turn affected by the volume of oil revenues, given that a large percentage of the liquidity in the Iraqi economy is linked to government spending that is based on oil revenues. Thus, any sharp fluctuations in these revenues may affect the ability of banks to provide loans and financing, which poses significant challenges to banking credit activity.

2. Recent literature

Recent studies have explored the impact of oil price volatility on financial stability and banking systems in oil-dependent economies (Alotaibi et al., 2022; World Bank, 2023; Hassan & Ismail, 2021). For instance, Alotaibi et al. (2022) found that financial sector reforms and fintech adoption enhance credit supply and resilience to shocks, while both the World Bank (2023) and Hassan & Ismail (2021) emphasize that governance, financial innovation, and diversification are key to reducing vulnerabilities associated with oil dependency.

3. Research methodology

This study adopts a descriptive and analytical approach to examine the relationship between oil revenues and bank credit in Iraq during the period 2004–2023. The analysis relies on annual data published by the Central Bank of Iraq, including statistics on oil export revenues and banking sector credit activity. The research methodology consists of calculating annual growth rates, conducting trend analysis, and utilizing tables and figures to highlight empirical patterns in both oil revenues and bank credit. No advanced econometric or statistical modeling (such as regression analysis or time series econometrics) has been employed, primarily due to the limitations and structure of the available data. Instead, the focus is on empirical observation, direct descriptive statistics, and comparative analysis with similar oil-dependent economies, particularly Gulf Cooperation Council (GCC) countries. This approach allows for practical insights into the interplay between oil price volatility and banking sector developments within the specific Iraqi context.

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4. The concept of oil revenues and their fluctuations

4.1. The concept of oil revenues

There are those who believe that oil revenues are the revenues or financial returns that the countries producing and exporting of crude oil in the world receive in exchange for the production and export of a natural resource, which is oil, and in return they receive cash amounts as part of the real value of this resource, and that the volume of oil revenues is directly proportional to the rise in oil prices, the degree of national control, and the level of production (Ibrahim, 2004, p. 121). It is also defined as the taxes paid to the state that owns the land in order to obtain a license to exploit the underground in the stages of the production process (research and production), as it varies from one country to another according to the amount of its production (Idris, 2003, p. 14), there is another definition of oil revenues: it is the amount of revenues or monetary returns that oil countries receive in exchange for exporting natural resources, especially oil. Oil revenues represent one of the most important pillars of the Iraqi economy, as they are considered a source of foreign resources that contribute to the development of various sectors. The rentier economy of a country depends on the extraction of a natural resource from the ground, such as oil, so the economy of this country will be mostly loose and weak, because it depends on trade exchanges and produces a consumer society in which the import sector is the dominant party, as this sector does not give any importance to agriculture and manufacturing industries, and you may find a model of this type of economy in the economies of Arab countries in general (Al-Saadi, 2009, p. 43). A state that relies on revenues from abroad, whether it obtains these revenues through the sale of crude oil in the state, is called a rentier state, or in exchange for providing strategic services, or by imposing taxes on remittances of expatriates abroad (a semi-rentier state).

4.2. Fluctuations in oil revenues

Oil is one of the strategic commodities that cannot be dispensed with, as it contributes significantly to the revenues of producing and exporting countries, as well as contributes to the GDP, the balance of payments and their external exports, as oil prices are characterized by fluctuations due to the linking of these prices to the strength of supply and demand and the mechanism of the free market (Hussein, 2018, p. 283). The basis must explain the rapid decline in the same way (Ali, 2011, p. 214). The price of oil is subject to constant fluctuations, due to the dynamic and unstable nature of the international oil market, which has been reflected in oil prices and made them unstable and subject to constant fluctuations, until it has become a worrying phenomenon at the global levelsince the early 1970s and continues until now (Al-Bassam, 2013)., p. 5), that the stability of crude oil prices is closely related to the environment that produces and consumes it. Hence, the fluctuations that occur in oil prices from time to time are the result of the changes that occur in the countries exporting and importing oil, whether these changes are positive or negative, as the political and economic conditions as well as the security conditions of these countries contribute to the impact on the global prices of crude oil, whether by falling or rising (Mahdi, 2015, p. 109).

4.3. There are a number of factors that affect oil revenues, the most important of which are

4.3.1. Production volume

There are many factors that affect oil production (supply), and these factors include the following

4.3.1.1. Global oil reserves

It is one of the main factors affecting the level of crude oil production globally, as data shows that there is an inverse relationship between the size of reserves and production levels, as the higher the production, the lower the reserves. However, this relationship is not absolute, as increasing reserves through new oil discoveries or the development of extraction techniques does not necessarily lead to a reduction in production. Oil reserves are classified into three main categories: Proven Reserves, Weighted Reserves, and Potential Reserves (Al-Sammak, 1980, pp. 22-23).

4.3.1.2. Alternative energy sources

Developed countries seek to discover an alternative source of oil to take power at low prices by financing research and production studies and the development of energy centers, as they spend millions of dollars on these studies, and these sources are multiple and diverse, including renewable energy such as (solar energy, wind energy, waves, wind...etc. (and non-renewable, such as) shale oil, bitumen sands, coal, and natural gas) (Al-Shammari, 2009, pp. 87-88).

4.3.1.3. Transportation costs

This type of costs greatly affects the volume of production, because it affects the interest of both the seller and the buyer, as it affects the selling price and the purchase price, in the case of the distance between the place of production and the place of marketing, it means an increase in the cost of transportation and then an increase in the selling price, and the buyer's goal is to achieve the greatest possible benefit at the lowest possible cost, so the volume of demand for oil decreases, forcing the producer to reduce prices and increase production to compensate for the difference in the volume of revenue. (Shaka, 2015, p. 22).

4.3.1.4. The state of peace and war in the world

The demand for oil increases in times of war, because it is the basic material that enables the war machine to march and fight battles, and in such times oil prices also rise because of the inability of the oil producer to meet the rapidly growing demand, due to the lack of flexibility of the oil production system in the short term.

4.3.1.5. Technological level

The technology used in various production processes, such as exploration and extraction, plays a positive role in increasing production. The more technologies used, the more efficient production will be, reflecting a direct relationship between technological progress and the volume of oil production.

Geopolitical factors: Oil exporting countries, especially the Gulf states, have used oil as an effective weapon to pressure major Western consuming countries, in pursuit of specific political and economic gains. This was clearly demonstrated during the 1973 crisis, when the Arab oil-producing countries imposed an export ban to the United States and a number of European countries supporting Israel, which led to a sharp rise in oil prices and a strong impact on Western economies.

4.3.2. Crude oil price

One of the most important international prices for commercial commodities at all is the oil prices, as these prices are monitored by all countries of the world and its economic institutions, whether in oil-producing or oil-consuming countries, because of the serious implications of these prices on the future of costs, prices and growth around the world. Oil prices have become one of the most volatile international trade commodities, due to many reasons and variables that affect their price, which include economic, political, climatic or Speculation based on expectations The most important factors affecting oil prices can be summarized as follows (Abdulreza, 2011, p. 111)

4.3.2.1. The size of oil reserves

The issue of the scarcity of crude oil depends mainly on the proven amount of oil reserves. When geological studies indicate an increase in the size of these reserves, the sense of oil depletion decreases, prompting producers to reduce operating expenses and thus a decline in oil prices. On the other hand, if estimates emerge indicating a decrease in available reserves, producers tend to raise prices to protect their interests, and these movements continue until new estimates emerge that change this view.

4.3.2.2. Synthetic crude oil

thats includes raw pads resulting from the distillation of the stone of sajila, bitumen sands, coal, and gas, which are important in providing another sources of energy and in place their impact on the price of conventional crude oil.

4.3.2.3. Relative inertia in oil demand

Oil is generally characterized by low price elasticity, in other words, a rise in the price of crude oil does not result in a significant decrease in the quantity required. A decrease in the price does not result in an increase in the quantity of oil required. Unlike many other commodities whose price changes result in a large response to the quantities demanded of them. Developments in oil prices and global consumption of crude oil indicate that there is a limited reaction of the consumer to Changes in crude oil prices, as well as the need for a long time for the consumer to adapt to the high price level. This time wait increases the uncertainty factor in the long-term price elasticity of demand. Producers believe that long-term demand is more resilient than previously expected, as consumers are not asking for quantities, leading to a sudden drop in price.

4.3.2.4. Relative inertia in supply

The relative elasticity of supply (the response of production to price changes) is characterized by a decrease, especially when it comes to increasing supply with a rise in price, as oil production depends mainly on the ability to extract from wells, and the optimal rate of oil extraction from the well, and therefore the increase in the price of oil is not matched by a significant increase in the oil exhibition, which increases the pressure on the prices and pushes them towards a further increase, because in order for oil prices to decrease, there must be an increase in the price of oil. The volume of oil supply is a very difficult issue, especially when production reaches its maximum, as increasing oil production and then increasing supply requires the development of existing wells and enhancing the rate of exploration for new wells, which requires a long time.

4.3.2.5. Economic growth rate

It is one of the main factors that determine the volume of global consumption of crude oil. If producers expect oil consumption to rise as a result of increased economic growth rates, this leads to higher costs of obtaining oil. Increased economic growth contributes to a rise in demand for crude oil, which pushes its prices higher. Conversely, if the forecast points to a slowdown in economic growth, it leads to a decrease in demand for oil, which in turn leads to a decline in oil prices.

4.3.2.6. Alternative opportunity

It is the return or profit that the investor can get from the best alternative investment
He can choose it, and this return is considered a benchmark for comparison when evaluating the feasibility of any investment project. In the oil industry, the rate of return (or opportunity of the alternative) is around 12% according to real estimates, and the investor's profit depends on how much the return of the project exceeds this percentage.

4.3.2.7. The exchange rate of the USD

Crude oil is priced in US dollars in the global markets, so any change in the exchange rate of the dollar directly affects the price of crude oil, the decline in the dollar exchange rate leads to a rise in the prices of crude oil through the direct and indirect effect, the direct or short-term effect of the decline of the dollar in the oil markets is to increase the intensity of speculation in oil contracts, which contributes to the rise in oil prices, as oil, like other raw materials, are priced in dollars, so investors accept them. The indirect or long-term effect is that they receive their revenues in dollars, but pay their costs in different currencies, for example, oil companies in the North Sea pay their workers' wages in euros while receiving their revenues in dollars. This means that the costs are higher than revenues, because the decline of the dollar in the global oil markets changes the fundamentals of the market, through its impact on the supply and demand for oil. One of the consequences of the long-term depreciation of the dollar is that production capacity decreases or does not grow in proportion to the increase in prices. This is due to the decrease in the purchasing power of exporting countries, which prevents them from securing the necessary funds to increase production capacity. This means that supply decreases compared to demand, and therefore higher oil prices The same applies to international oil companies, which prevents them from increasing investment in additional capacity, despite the rise in oil prices. This also reduces supply, and raises oil prices.

4.3.2.8. The spread of speculation on oil

It is one of the new phenomena that the oil industry is currently exposed to, as speculative funds have been formed in it, which has made oil one of the speculative commodities, and speculative operations in oil are based on future expectations of prices, which are based on a set of macroeconomic, political and climatic variables, and when these expectations about the variables affecting oil indicate the possibility of rising prices, speculators start buying oil, and its prices rise even more, and when those expectations are reversed, they start Selling oil prices fall further, which leads to an increase in the range of price fluctuations in oil due to speculative trends.

4.3.2.9. The level of global oil inventories

The rise in the levels of crude oil or refined oil stockpiles indicates that supply exceeds the level of demand, and this often has a negative impact on the
Prices and vice versa.

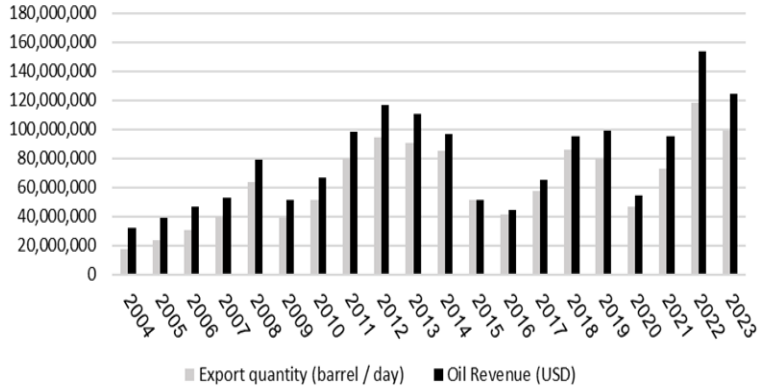
4.3.2.10. Political factors

This is one of the main characteristics of the oil production process, as its production is mainly concentrated in the Gulf, which is a very hot region from a political point of view, and it is exposed to extreme volatility from time to time in this aspect. As a result, any change in the political situation in this region is directly reflected on the global prices of crude oil.

4.3.2.11. Fluctuations in climate

Since oil is the main input in power generation operations, violent changes in temperatures in terms of their rise or fall result in a rise or decrease in the demand for energy for heating purposes, which leads to a rise or decrease in the demand for oil, which is directly reflected in the prices of crude oil

4.3.3. Operational costs



Operational costs are one of the factors affecting the volume of oil revenues, as supply is directly related to the price with the constant impact of other factors, the most important of which are costs, and here it distinguishes between total costs, which include all capital expenditures for development and what affects the barrel produced, in addition to operating costs, and marginal costs in the short term. The latter is the variable cost of producing an additional barrel in the producing fields, and in this sense, the total costs They have been achieved regardless of the production decision now or in the future, and most operating costs are variable and include some fixed costs in the short term due to contractual obligations or because they are related to operation and not to the size of the resources themselves (Douri, 1983, p. 13).
Estimating the project's operating costs and revenues.
The key elements to consider when evaluating a project, particularly in terms of its profitability, include the process of balancing its costs with the expected revenues from its products. This can be illustrated as follows (Saeed, 2003, p. 82):

4.3.3.1. Operating costs (outflows)

As is well known, these are those costs resulting from the operation of the project and the exploitation of its energy, and can be limited to the following

4.3.3.1.1. The cost of purchasing the raw materials needed for production

In addition to the costs of obtaining them before the costs of transportation, insurance, purchase commission, and storage costs.
Until they are used.

4.3.3.1.2. Wages of employees and workers, as well as social and health benefits and insurance

4.3.3.1.3. Other expenses such as energy, water, ...etc.

4.3.3.2. Revenues (internal flows)

Revenues include all the revenues generated by the project, whether from the value of the realized production or from other sources such as renting the surplus capacity of machinery and equipment to others. Forecasting these revenues is more complex compared to other elements, as they are affected by external and future conditions. Therefore, their estimation is mainly based on marketing studies

4.3.4. Causes of oil>revenues fluctuations

One of the most important reasons that pushed oil prices towards volatility and instability is geopolitical turmoil, such as wars and military crises. The quantities of Iraqi oil exports and prices witnessed a period of stability and then improvement after 2003, peaking at their highest levels in 2022, as shown in Table (1) (Mohammed, 2024, p. 8).

Table 1: Export Quantities and Revenues Fluctuations Iraqi Crude Oil Prices for the Period (2004-2023)

years	Oil prices (USD/Barrel)	Export Quantity (Barrel/day)	Oil revenues (USD)	Change in Revenue %
2004	36.05	17,810,000	32,627,203	98
2005	50.64	23,697,000	39,480,069	97
2006	61.08	30,529,000	46,908,043	95
2007	69.08	39,587,000	53,162,592	97
2008	94.4	63,726,000	79,131,752	98
2009	61.06	39,430,000	51,719,059	93
2010	77.45	51,764,000	66,819,670	96
2011	103	79,681,000	98,090,214	98
2012	107	94,209,000	116,597,076	97
2013	103	90,587,000	110,677,542	97
2014	94.9	85,370,000	97,072,410	92
2015	44.7	51,338,000	51,312,621	77
2016	36	41,298,000	44,267,063	81
2017	49.3	57,559,000	65,071,929	84
2018	65.6	86,360,000	95,619,820	89
2019	60.38	80,211,000	99,216,318	92
2020	40.69	46,863,000	54,448,514	89
2021	68.4	73,084,000	95,270,298	87
2022	95.6	118,045,000	153,623,277	95
2023	75.55	99,147,000	124,428,747	91

Source: Central Bank of Iraq, General Directorate of Statistics and Research, Annual Bulletin (2004-2023).

Interpretation: Table 1 highlights the significant fluctuations in Iraq's oil export revenues during 2004–2023. Revenues peaked in 2012 and 2022 following international price surges, while marked declines are seen in 2008, 2014–2017, and 2020—coinciding with the global financial crisis, ISIS occupation, and the COVID-19 pandemic respectively.

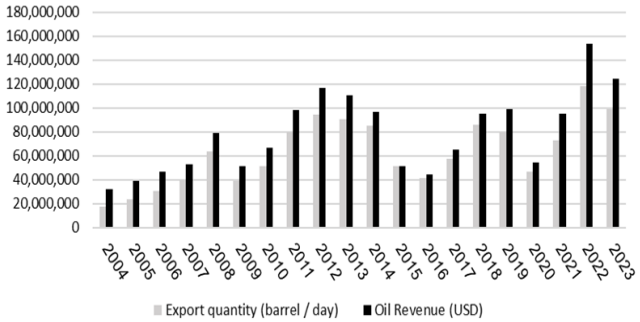


Fig. 1: Export Quantities and Revenues of Iraqi Crude Oil.

Source: Prepared by the researcher based on the data of the table (1).

Caption: Figure 1 visually demonstrates the co-movement between export volumes and total revenues. Notable dips and recoveries align with major geopolitical and economic shocks during the period.

Table 1 and Figure 1 clearly illustrate the pronounced fluctuations in Iraqi crude oil prices and export revenues from 2004 to 2023. These fluctuations correspond to key geopolitical and economic events: revenues rose significantly in 2008 driven by surging Asian demand (particularly China, consuming nearly 11% of global production), and peaked in 2012 and 2022, reflecting global price surges and the impact of the Russia-Ukraine war. In contrast, sharp declines occurred during the 2008 global financial crisis, the ISIS occupation period (2014–2017) which damaged oil infrastructure and reduced exports, and the COVID-19 pandemic in 2020, which paralyzed major sectors of the world economy. Notably, the relationship between export quantity and oil revenues was not always direct; global shocks and political crises played a decisive role in shaping both prices and revenues (Al-Tamimi, 2011, p. 40; Mudumbai, 2003; Mabro, 2006).

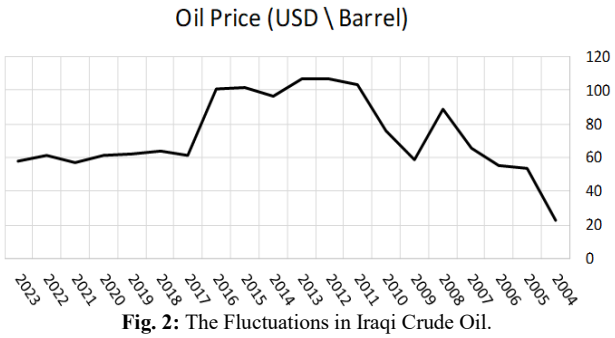


Fig. 2: The Fluctuations in Iraqi Crude Oil.

Source: Prepared by the researcher based on the data of the table (1).

Caption: Figure 2 displays the annual fluctuations in Iraqi oil prices from 2004 to 2023. The lowest price was recorded at $22.9 per barrel in 2004, while the highest was $107 per barrel in 2013. Overall, prices showed a sharp increase through 2011–2013, followed by a decline after 2014, with noticeable volatility in subsequent years.
The early period (2004–2007) saw a rapid rise in oil prices from the lowest point of $22.9 per barrel in 2004, coinciding with Iraq's recovery from conflict and improved global demand. The peak in 2013 at $107 per barrel reflects strong international market conditions and regional tensions. After 2014, prices declined significantly, with 2017 seeing a substantial drop to $61.5 per barrel—mirroring the impact of the ISIS conflict and oversupply in the global oil market. Despite a moderate recovery between 2018 and 2023, prices remained well below their historical highs, fluctuating mostly between $56 and $64 per barrel, indicating persistent market uncertainty and vulnerability to external shocks.
These trends have not only destabilized Iraq's public finances but also constrained the ability of banks to extend credit, emphasizing the urgency of diversification and sound fiscal management

5. The concept of bank credit

5.1. The concept of bank credit

The concepts of bank credit are varied and multiplied, as are many other concepts
In the economic, administrative and social fields, credit has been generally defined as (the process of providing individuals, institutions and establishments in the society with the necessary funds, provided that the debtor undertakes to pay those funds and their interest in one payment or in installments on specific dates). by paying in cash (Al-Samarrai, 2006, p. 74).

5.2. Objectives of bank credit and its economic functions

The objectives of bank credit are as follows

5.2.1. At the level of the bank (development of banking activity)

The bank's aim is to make a profit, which is the difference between the loan value and the interest rate on loans and advances that it grants to its customers.
This difference between the interest receivable and credit interest rates of the bank provides a margin
It allows to cover the administrative and operational expenses of the bank, in addition to the profit of distribution to the shareholders, the formation of reserves and the financing of the expansion plans necessary to develop and modernize the bank's activity to be able to compete, expand and grow in the future, as the demand for banking services is a function of the degree of economic progress, while the offer of banking services is a function of the degree of economic welfare of the country.(Al-Alfi, 1997, pp. 7-8). Credit activity is considered one of the most profitable and risky activities in the event that the customer or borrower is unable to meet his obligations towards the bank on the due dates (Othman, 2013, p. 23).

5.2.2. At the level of the economy

Bank credit plays an important role in modern economies because both the investor, the consumer, the seller and the merchant do not have the necessary funds to complete their business, so everyone has to resort to banks to obtain loans in order to accomplish their business and plans, and thus these operations contribute to the GDP in the form of economic growth or a decline in the level of economic growth, so credit achieves the following objectives (Ali, 2012, pp. 178-180):

5.2.2.1. Financing of manufacturing and production processes

At the beginning of their industrial renaissance, developing countries worked to achieve the goal of industrialization, and this goal could not be achieved at the beginning of the renaissance at the level of the government or at the level of the private sector due to the lack of the necessary capital for the financing process in that.
Credit plays a vital and important role in financing industrial projects, which are the basis for starting point and the engine of growth in the national economy, as the lower the financing costs, the higher the growth rate in the economy, and on the other hand, the higher the financing costs, the lower the production processes and the growth movement in the country is slow or faltering

5.2.2.2. Financing consumption

Consumers can obtain consumer goods that are present by paying their prices, and individuals may not be able to obtain those goods through their current income, so credit enables them to acquire those goods, and thus consumers' access to credit provides them with purchasing power, and this ability will contribute significantly to the discharge of goods and products, which encourages businessmen and producers to increase production due to the speed of discharge of products, so the credit granted to individuals raises their inputs and thus increases consumption, which in turn helps to increase Production and speed of goods disposal.

5.2.2.3. Increasing the size and role of money in the national economy

The evolution of the level and size of credit in the economy encourages producers and consumers to use cheques in their financial transactions, settle payments through banks, and finance import, export, and foreign remittances through them. This, in turn, enhances the role of money in the economy, which accelerates production, exchange, and distribution compared to term sales.
Accordingly, the central bank is able to implement effective monetary policies that support economic growth and development, especially when relying on modern payment instruments and credit. If the level of credit is low and the means of cash payment are limited, this will hinder the central bank's ability to properly implement its monetary policies. In an underdeveloped economy that does not rely on modern payment instruments or credit, the central bank may have to increase the volume of legal tender or withdraw it from circulation, which is a process costly that does not meet the monetary goals of the national economy.

5.2.3. Economic functions of bank credit

Technological and economic developments, the growth of the institutions of the banking system and the expansion of the monetary and financial markets have given great importance to bank credit through the possibility of accumulating financial resources and mobilizing them towards economic activities in order to reach full employment in economic activity.
Thus, the importance of banks and their role in the work, development and development of the economy is highlighted through the functions performed by the credit granted by banks, which are represented in the following (Al-Samarrai, 2006, p. 77):

5.2.3.1. Increasing production

Large agricultural and industrial projects, whether new, existing or newly formed, always need financial resources that exceed the projects themselves, so they must apply for credit, and here comes the role of specialized lending institutions in providing credit according to each activity that requests credit, and according to the time that these projects need to complete their work, credit contributes to providing investment opportunities to increase and expand production..

5.2.3.2. Increasing consumption

by activating the demand side of goods and services, which stimulates the national production units to increase their production, as bank credit gives additional or new purchasing power to low-income people to obtain some consumer or durable goods to meet their needs.

5.2.3.3. Benefiting from idle financial

resources by operating them in the form of credit granted to productive or consumer units in a way that makes the user of the credit benefit from it, as well as the credit grantor obtaining a return by exploiting his idle savings.

5.2.3.4. Bank credit in order to obtain

A return from various economic activities contributes to the efficient distribution of resources and the highest efficiency in the use of these resources.

5.2.3.5. Bank credit

Also contributes to the distribution of available financial resources among the various areas. Economic activities, as it contributes to financing the economic sectors that suffer from a deficit in financing their activities in order to ensure the optimal use of these funds.

5.2.3.6. The ability of bank credit

To settle commercial exchanges, i.e. exchanges between two parties.

6. The relationship between oil revenues and bank credit

6.1. The impact of oil revenues fluctuations on bank credit

Rentier countries that depend on oil revenues are characterized by economic instability as a result of the dependence of various economic sectors on the oil sector and the resulting fluctuations, shocks and instability in economic activity coupled with the fluctuation in oil revenues, and the activity of the banking sector with oil dominance is affected by changes in oil revenues as it is the main source of money supply and abundance of liquidity (Ali, 2008, p. 11) When there is a decline in oil prices in an economy that relies on oil exports as a main source of foreign exchange earnings and as a main source of government revenues, as is the case in Iraq, it is reflected in the decline in export revenues and the deterioration of the trade balance and the balance of payments, which is known as the external gap, and the decline in net foreign assets occurs in the banking system, and this leads to a decline in monetary growth and is reflected in an internal gap, as domestic savings become less than the required investment, and the problem of financing and increasing tightening in the markets appears. In parallel, the decline in export revenues directly affects government revenues, which leads to a rise in the general budget deficit, and the government responds to such a situation by reducing public spending, especially productive (investment) expenditures, where investment projects are postponed or reduced, resulting in a decline in economic growth and employment growth and the emergence of a new wave of recession. If the fall in oil prices is temporary, the monetary authorities can offset the effects of this decline in the monetary and credit field by injecting liquidity into the banking sector and financial markets, and the government can borrow or use the stock markets Futures are a means of protection against negative changes in oil prices, resulting in a reduction in volatility in economic activity and growth rates with increased economic and financial stability (Al-Anbaki, 2008, pp. 76-77). The increase in government revenues in the developing oil countries leads to an increase in the government agreement in both the consumption and investment aspects, and this leads to an increase in the income of individuals, which pushes them to increase their consumption spending, and thus this leads to an increase in aggregate demand and thus an increase in the total output, and the increase in government expenditure as a result of the increase in government revenues will lead to an increase in the incomes of individuals, which also pushes them to reduce withdrawals from their balances that they keep with banks, which leads to Increasing the cash reserves of banks, which leads to an increase in the ability of banks to grant credit, thus increasing aggregate demand, thus increasing output and raising the level of economic activity (Al-Najjar, 1991, p. 235), and increasing the volume of government expenditures of the state in general leads to an increase in the volume of income of individuals through the state's current expenditure represented in increasing the salaries of employees or through increasing spending on new or existing investment projects, which leads to an increase in the number of government expenditures. The impact of government spending on savings is a direct effect, i.e. the increase in government spending leads to an increase in income in general, and since individuals tend to save when their incomes increase, so there is a direct relationship between the increase in government spending and savings, and all of this will contribute to increasing the volume of deposits in the banking sector as a result of individuals depositing part of their increased income due to the increase in government spending. Thus, the ability of the banking sector to grant bank credit increases due to the availability of bank liquidity, and vice versa occurs in the case of the state reducing the volume of government spending, as incomes and cash balances in the

society decrease, deposits decrease, and thus the cash balances with banks decrease, and thus commercial banks are forced to reduce the granting of bank credit (Greta Keliuotyte, 2015, p29-28).
The general government expenditures in the oil countries are the engine of most economic sectors and a major generator of jobs, and even for the private (non-oil) sector, it depends on oil indirectly by relying on the salaries of state employees and contracting mainly with government institutions, which has generated a tight correlation between the movement of the oil sector and the non-oil sector in these countries. Other sources such as taxes, fees, and revenues of public economic institutions and weaker than their contribution to financing the public budget, and this reality has generated a serious exposure of the public budget to oil rents revenues, which is mainly related to oil price fluctuations directed by global economic and political factors and variables (Al-Tohme, 2017).

6.2. Following fluctuations in oil revenues on economic growth and liquidity

Oil prices affect the economy through two channels, directly and indirectly. Oil price shocks can have a direct impact on banks' profitability through increased oil-related credit, expansion of business activities, or excess liquidity in the banking system. Oil revenues generated affect
The other indirect channel operates through the forecast and general business position in the economy (2006, p23, Carlstrom), where higher oil prices can contribute to increasing government revenues from oil exports, creating a favorable economic environment that promotes of the level of domestic demand, which reflects positively on the confidence of banks and stimulates lending activity, as well as reducing non-performing loan rates. High oil prices also stimulate public and private investment and thus increase the productive capacity of economies. This can be seen in particular in the example of the pre-crisis boom in2008, with oil prices rising, as oil-exporting countries strengthened investment programs to diversify their domestic economies and improve human capital. However, higher oil prices in oil-exporting countries often lead to higher inflation (p12, 2016, Taghizadeh).
Given the dependence of resource-rich countries, especially oil, on extractive industries to make up the bulk of their exports, it is important to study the relationship between oil prices and the financial system, including the performance of the banking sector, whether in periods of crisis or during periods of economic prosperity associated with what are known as (rust oil) cycles. This relationship raises a number of fundamental questions, most notably: to what extent do oil price fluctuations affect the financial system, its stability and efficiency, and if so, what is the The channels through which this influence is further (p58, 2021, Ehouman), is there a correlation between oil prices and bank performance, and how this is reflected in SMEs' access to sources of financing? The decline in oil prices negatively affects the macroeconomic performance of oil-exporting countries and their banking systems. In light of the current conditions of the global economy, international markets may witness an extended period of decline in oil prices. Although the macroeconomic effects of low oil prices on the economies dependent on oil have been documented, the repercussions of this decline on financial stability have not received sufficient attention for the economies that depend on it, but the repercussions of this decline on financial stability have not received sufficient attention (p32 Alodayni, 2016). Therefore, this paper highlights the impact of lower oil prices on bank credit and consumption in Iraq.
Some empirical studies suggest that the response of credit volume to crude oil price shocks varies greatly depending on stock market conditions. In particular, oil prices have a negative impact on stock market returns when the economy is in a normal credit state (p21, 2017, Shahzad). In contrast, this relationship is reflected when the economy is in a tight credit state. This provides evidence that credit reacts differently according to prevailing economic conditions. The impact of oil price fluctuations is also seen in the stock market across various sectors, such as manufacturing, consumer, healthcare, and high-tech, as well as other sectors. In general, higher oil prices have been shown to lead to an increase in stock returns. However, increased oil price shocks lead to lower stock returns under the normal credit system (Wang, 2013). Thus, the impact of oil price shocks on stock returns is stronger in the short term than in the long term. It also shows that the variation in oil prices leads to a variation in the amount of credit granted by banking institutions.

7. Interdisciplinary insights

In addition to economic analysis, integrating perspectives from financial governance, digital banking, and ESG frameworks is increasingly important. Recent developments in fintech and regulatory reform can mitigate the adverse effects of oil revenue volatility by improving credit access and risk management. Adopting digital banking platforms and aligning with ESG standards are global trends that can help the Iraqi banking sector achieve greater resilience and stability (World Bank, 2022; IMF, 2023).

8. Conclusions and recommendations

8.1. Conclusions

8.1.1. It The near-total dependence on oil

Rents has led to the fragility of the economic structure and has increased the vulnerability of banking credit activity to the fluctuations in oil prices in the Iraqi markets, which has limited the ability of banks to perform their developmental role.

8.1.2. Despite the increase in the number of banks

Banking density in Iraq remains very low compared to neighboring countries, which limits financial inclusion and restricts the financing role of banks.

8.1.3. The study revealed that there is a direct relationship between oil revenues and bank credit

As the increase in revenues leads to an increase in bank liquidity and the expansion of credit grants, while a decrease in the volume of credit contributes to a decline in the volume of credit and a slowdown in economic activity

8.2. Recommendations

8.2.1. It is necessary for the economic decision-maker

To adopt development policies aimed at diversifying the sources of national income, by activating the agriculture, industry, and tourism sectors, with the aim of reducing the excessive dependence on oil revenues as a main source of income, and thus reducing the impact of their fluctuations on economic activity and bank credit.

8.2.2. Developing monetary and fiscal policy tools

To be more flexible and responsive to external shocks, especially oil price fluctuations, in order to ensure the stability of credit activity and contribute to protecting the macroeconomy from cyclical imbalances

8.2.3.3. Promoting the principles of governance and transparency in the management of oil revenues

And working to establish a sovereign fund concerned with employing oil surpluses in strategic investments that ensure the achievement of financial stability and long-term sustainability.

8.2.4.4. Comparative perspective

Compared to Iraq, Gulf countries such as Saudi Arabia and the UAE have implemented sovereign wealth funds, proactive fiscal policies, and diversified their economies to reduce dependence on oil revenues. These strategies, along with digital transformation in banking and robust financial governance, have improved the resilience of their banking sectors to external shocks. Iraq could benefit from similar reforms, particularly by investing in digital infrastructure and establishing a sovereign wealth fund for oil surpluses (IMF, 2022; Saudi Arabian Monetary Authority, 2023).

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