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SPECIFICS OF INVESTING IN IRAQ CAPITAL MARKETS

Diploma Thesis

2024 **Hussein Ali Neamah**

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ABSTRACT

NEAMAH, Ali Hussein: *Specifics of Investing in Iraq Capital Markets* – University of Economics in Bratislava. Faculty of Economics and Finance; Department of Finance. – Thesis Supervisor: assoc. prof. Ing. Jana Kotlebová, PhD. – Bratislava, NHF EU, 2024.

This thesis delves into the intricacies of investing in Iraq's stock market, spotlighting the challenges faced by an economy heavily reliant on oil revenues and marked by scant diversification. The primary objective is to assess the structural challenges impeding the growth of the stock market and to suggest strategic enhancements to cultivate a more resilient investment climate. Utilizing quantitative analysis of Iraq Stock Exchange (ISX) data and a qualitative review of pertinent literature, the study evaluates the influence of economic policies on market performance and the volatility of the ISX index. It pinpoints key investment obstacles, including financial instability and the detrimental impacts of oil price volatility. The thesis advocates various strategies aimed at improving financial literacy, promoting economic diversification, and instituting policy reforms to stabilize the economic environment. These initiatives aim to boost investor confidence and broaden the market's potential, offering an analytical framework with practical recommendations that contribute to discussions on economic reform and market development in Iraq.

Key words: Iraq Stock Exchange (ISX), Capital Market Development, Investment Opportunities in Iraq

ABSTRAKT

NEAMAH, Ali Hussein: *Špecifiká investovania na kapitálových trhoch v Iraku* – Ekonomická univerzita v Bratislave. Národohospodárska fakulta; Katedra bankovníctva a medzinárodných financií. – Školiteľ: doc. Ing. Jana Kotlebová, PhD. – Bratislava, NHF EU 2024.

Táto diplomová práca skúma zložitosti investovania na irackom akciovom trhu a poukazuje na výzvy, ktorým čelí ekonomika, ktorá je silne závislá na príjmoch z ropy a je charakterizovaná malou diverzifikáciou. Hlavným cieľom je posúdiť štrukturálne prekážky brániace rastu akciového trhu a navrhnúť strategické zlepšenia na vytvorenie odolnejšieho investičného prostredia. S využitím kvantitatívnej analýzy údajov z Irackej burzy cenných papierov (ISX) a kvalitatívneho preskúmania príslušnej literatúry štúdia hodnotí vplyv hospodárskych politík na výkonnosť trhu a volatilitu indexu ISX. Identifikuje kľúčové investičné prekážky vrátane finančnej nestability a škodlivých dopadov volatility cien ropy. Táto práca navrhuje rôzne stratégie zamerané na zlepšenie finančnej gramotnosti, podporu ekonomickej diverzifikácie a zavedenie politických reforiem na stabilizáciu ekonomického prostredia. Tieto iniciatívy majú za cieľ zvýšiť dôveru investorov a rozšíriť potenciál trhu, pričom ponúkajú analytický rámec s praktickými odporúčaniami, ktoré prispievajú k diskusii o hospodárskej reforme a rozvoji trhu v Iraku.

Kľúčové slová: Iracká burza cenných papierov (ISX), Rozvoj kapitálového trhu, Investičné príležitosti v Iraku

Contents

Introduction

The capital markets of Iraq, an economy predominantly driven by oil exports, present a unique blend of challenges and opportunities for investors. The intricacies of these markets are less explored, especially in contrast to the country's well-documented oil sector. This thesis aims to shed light on the lesser-known aspects of Iraq's financial markets, focusing on the stock exchange. The central inquiry of this study revolves around identifying the investment opportunities within these frameworks, understanding the volatility of the Iraq Stock Exchange (ISX) index, and envisaging potential avenues for market progress amidst necessary structural reforms and financial stability.

Historically, Iraq's economy has faced significant hurdles, not least due to its heavy reliance on oil revenues, which has subjected it to the whims of global oil price fluctuations. This dependency has stifled the economic diversification necessary for a robust investment environment. Furthermore, the aftermath of conflicts and political instability has left the financial markets in a nascent state, struggling with issues of governance, regulation, and transparency.

This thesis, therefore, explores the pivotal elements that influence investment in Iraq, including economic fundaments economic diversification, and the impact of external economic shocks such as changes in oil prices. By doing so, it seeks to offer insights into the mechanisms that could drive the evolution of Iraq's capital markets towards greater stability and growth.

Through a comprehensive review of existing literature and analysis of market data from the Central Bank of Iraq (CBI) and Iraq Stock Exchange, this study adopts a mixed-methods approach, blending quantitative data analysis with qualitative insights. The goal is to construct a detailed picture of the current market conditions, identify the barriers to investment, and recommend strategic interventions that could benefit investors and policymakers alike.

1. Theoretical Framework and Empirical Studies

1.1 The Significance of the Capital Market

The capital market is a financial marketplace where players engage in the purchasing and selling of financial products. Capital markets typically consist of bond markets and stock markets, often known as equity markets. Capital market players primarily consist of various entities such as commercial banks, investment banks, credit unions, mutual funds, pension funds, insurance companies, leasing businesses, and stock exchanges.

The capital market, in conjunction with bank financing, is seen as a potent mechanism for attracting financial resources for enterprises. A well-established capital market fosters a competitive atmosphere and enables a more effective distribution of funds. In situations when bank loans are limited, the bond or long-term securities market may serve as a stabilizing force (Levine & Zervos, 2010; Sundar & Al Harthi, 2015).

The concepts of financial markets, particularly the capital market which deals with long-term securities, have been extensively studied by accomplished researchers, globally renowned economists, top-tier business schools/universities, and reputable international organizations. Multiple studies, research articles, and academic publications on this issue demonstrate the growing scientific importance of the subject (Alfaro, Chanda, Kalemli-Ozcan, & Sayek, 2004; Burki, 2017; Hoang, 2015; Pagano, 1993).

The capital market serves as a supplementary method for individuals to save money and as a significant avenue for enterprises to attract investments (Choudhry, Joannas, Landuyt, Pereira, & Pienaar, 2010).

Capital markets that are developed, deep, transparent, and well-regulated have a positive impact on long-term economic development and the overall welfare of society (Government of Georgia, 2017). Hence, achieving substantial economic advancement and growth in the present day has become almost unattainable without the effective operation, clear visibility, and well-governed financial markets.

Typically, various market sectors develop in a certain sequence, advancing from basic instruments to more complex ones. The operation of the capital market necessitates the presence of a well-operating money market, which includes mechanisms for managing liquidity by the central bank. Attaining a well-established, easily traded, and highly sophisticated market, including all its sectors and intricate financial instruments, within a limited timeframe is unfeasible (The Capital Markets Working Group, 2015; Paresishvili, 2017). This disparity in development levels across various sectors of developing nations is precisely attributable to the need to develop more deeper firm market. Certain portions are more sophisticated, while others are still inoperative. Typically, emerging nations already have functioning foreign currency, cash, and government securities markets. It is anticipated that the corporate bond market will see significant expansion in the near future. Furthermore, the development of the corporate bond market will help enhance the functioning of the stock market (The Capital Markets Working Group, 2015). The expansion of the monetary system, government securities, corporate bonds, and stock market will pave the way and stimulate the need for the growth of the derivatives market. Initially, less complex financial instruments, currency exchange rates, and swaps are expected to be used, followed by interest rate swaps, and ultimately options. However, it is important to note that although this sequence is not necessarily rigid, it is likely to be seen based on evidence from other nations.

Trading in financial instruments should be permitted in both exchange and non-exchange sectors, however some instruments will naturally be traded on the stock market while others will be traded in the non-market segment. By using the aforementioned method, it is crucial to provide all instruments with enough opportunities for growth and development (Dicle & Levendis, 2013). In addition to the aforementioned difficulties, another significant obstacle is the management of big data, which has become a crucial concern for capital market corporations. These firms have been undergoing transformations in order to effectively address this issue. It is evident that the use of business intelligence tools is progressively promoting the trading process and managing massive volumes of data. This phenomenon occurs in both major trading corporations and investment banks, as well as in smaller corporate units and even individual traders. An essential concept of the methods to capital market development is to create a financial hub in the rising nation. This entity provides investors with a robust and equitable legal structure, a contemporary investment environment based on institutional governance, cutting-edge and competitive services, and top-tier financial infrastructure. To do this, a nation must possess a contemporary infrastructure, a well-structured tax system, and a diverse array of financial services that will confer upon the country a competitive edge within the area. The future performance of the capital market will heavily rely on the level of transparency shown by public securities issued by companies. This, in turn, will enhance the market's capacity to attract both domestic and international investors. Hence, it is crucial to emphasize the significance of openness and stringent corporate governance norms, as they serve as essential prerequisites for a more appealing capital market.

Hence, the recommended course of action for countries is to implement a comprehensive strategy that focuses on enhancing and expanding the current sectors of the financial market (such as interbank money, government securities, and foreign exchange) while also promoting the growth and consolidation of new sectors (such as corporate bonds, equity, and derivative instruments).

It is important to mention that due to a significant expansion of the digital universe and a rise in electronic commerce, data is now experiencing an exceptional growth rate. Nevertheless, the growth in data quantity alone is not a significant issue. The real concern is in the rise of unstructured data as a proportion of the total data volume, which is worrying many stakeholders, including major exchanges. Due to the intricate nature and vast amount of information that has to be handled, capital market organizations are progressively using computers and machine learning to handle a larger portion of the tasks (Bank of International Settlements, 2016).

Capital market corporations are using large amounts of unorganized data in three primary domains:

- Financial Data Management - Involves storing and analyzing financial data over time;
- Risk Analytics - Focuses on preventing money laundering, reducing fraud, and managing overall risks inside a company;
- Trading Analytics and Compliance - Utilizes predictive analytics and decision-support tools to monitor and reconcile transactions at an enterprise level.

Capital market businesses mostly use the following data technologies:

- Data grids refer to a system that allows for the storage and processing of large amounts of data over many computers or servers.
- Compute grids are a kind of system that enables the distribution of computational tasks across multiple computers or servers.
- Massive parallel processors are powerful computing devices that can do several tasks simultaneously, allowing for faster data processing.

- Hadoop is a software framework that facilitates the storage and processing of large datasets across clusters of computers.
- In-Memory databases/Specialized databases (Wang & Wiebe, 2014)

Numerous organizations in the financial industry have distinct criteria for software and hence endeavor to create in-house big data solutions. The proficiency of data engineers is evidently crucial for this undertaking. Small firms without skilled data engineers typically solve this problem by outsourcing fintech development. This may lead to an increased need for financial competence in software companies (Boonvut, 2017; Lee & Shin, 2018).

Macroeconomic policies that prioritize long-term economic development are creating advantageous circumstances for financial markets. It facilitates investment decision-making for investors and enterprises. Assists in decreasing and maintaining long-term interest rates and lures international investors (Schinasi & Prati, 1997).

A Central Bank, which has a well-defined responsibility to ensure price stability, is an essential element of a stable macroeconomic setting. Ensuring the preservation of the rights of consumers and investors - It is crucial to ensure the protection of the interests of small, less knowledgeable investors to the greatest extent feasible. Ensuring the protection of small investors is crucial, particularly in the context of capital market growth, namely in the equities market. The involvement of the regulator, together with the enhancement of educational and corporate governance standards, as well as the achievement of complete transparency in financial accounting, are crucial in this context.

1.1.1. Securities Traded on Capital Market

Bonds are financial instruments that are issued by various organizations, such as businesses, towns, and governments. They are used as a means for these institutions to obtain capital by borrowing money from investors. Investors that buy bonds are essentially providing a loan to the issuers. In return, they get regular interest payments over the bond's duration and the full repayment of the bond's initial value upon maturity. The bond market plays a crucial role in the financial system by enabling long-term financing requirements and providing investors with a comparatively steady investment alternative. Bonds exhibit significant variations in their risk and return characteristics, which are contingent upon the creditworthiness of the issuer as well as the bond's length and interest rate (Fabozzi, 2018).

Equities, sometimes known as stocks, symbolize ownership stakes in a firm. Shareholders own ownership rights that allow them to a percentage of the corporation's income, often distributed as dividends, and provide them with voting privileges on certain corporate matters. Equities, which are traded on stock exchanges, are a crucial element of investment portfolios due to their ability to provide significant profits. shares, while their potential for high returns, are also susceptible to substantial market volatility. This volatility is impacted by both internal business activities and wider economic factors, which may impact the valuation of shares and increase the total investment risk (Bodie, Kane, and Marcus, 2021).

Derivatives are intricate financial products that draw their value from the performance of an underlying asset, such as commodities, equities, bonds, interest rates, or currencies. Standard examples of derivatives include futures, options, swaps, and forwards. These instruments are widely used for the purpose of mitigating risk, making speculative bets on future price fluctuations of the underlying assets, and amplifying leverage. Derivatives may be traded either on regulated exchanges or over-the-counter (OTC). While they are essential for managing risk in contemporary finance, they also carry significant dangers, mostly due to their leverage and complexity (Hull, 2020).

Exchange-Traded Funds (ETFs) are investment vehicles that are exchanged on stock markets, much like stocks. An Exchange-Traded Fund (ETF) is a financial product that contains various assets like stocks, commodities, or bonds. It typically functions with an arbitrage mechanism that aims to maintain its trading price in close proximity to its net asset value. ETFs have several benefits, including reduced cost ratios in comparison to conventional mutual funds, tax efficiency, and the capacity to engage in margin trading and short selling. Investment vehicles such as this provide investors an easy method to get diverse investment portfolios without the need of purchasing the individual components of the portfolio directly (Investment Company Institute, 2022).

The capital markets provide a wide range of assets that meet the different requirements and preferences of investors, allowing them to successfully handle risk and accomplish their investment objectives. Comprehending the distinct attributes and applications of each category of asset, such as bonds, shares, derivatives, and ETFs, is essential for any investor aiming to effectively traverse the intricacies of the financial markets.

1.2 Challenges and Current State of Emerging Capital Markets

In developing economies, the level of activity in the stock market is often lower. Only a limited number of firms have been listed on the stock market, with some offering stocks and others offering bonds. The market capitalization, expressed as a proportion of GDP, is quite low when compared to other nations that have well-established capital markets (Bascom, 1994). The trading volume on the exchanges is quite small in proportion to the size of the economy. Typically, the market for derivative products, such as currency markets, swaps, interest rate swaps, and options markets, is also not well-developed. Although occasional individual transactions are done, their bulk is negligible. FX futures are often used as hedging products due to the rising demand caused by higher volatility (The Capital Markets Working Group, 2015; Paresishvili, 2017).

1.2.1 The government's role in market development

The growth and progress of financial markets heavily rely on the establishment and maintenance of confidence. Trust is essential for individuals to entrust their money to competent financial intermediaries and engage in a range of financial instruments and investments. To establish such trust, the most effective approach is primarily to enhance the collective knowledge of the people. It is necessary for them to get more knowledge about various methods of investing capital, comprehend their benefits, and be aware of the corresponding hazards. The second element is educating financial intermediaries and promoting professionalism. The trust of financial industry as a whole is primarily determined by the good faith mix of functions of those who have direct contact with a broad variety of investors. Instances in which ill-informed investors are recommended to acquire financial goods that include concealed expenses or hazards that are not adequately disclosed beforehand may erode such trust. While seldom in the capital market, such incidents are increasingly prevalent owing to its underdevelopment and the participation of influential groups. This problem will become more significance in the future. The government of a growing nation should exercise caution in its decision-making process, since its involvement may have a significant impact on the growth of the capital market. Through the examination of several nations, the following fundamental aspects have been discerned:

Both financial markets and any other market need transparency in terms of pricing, issuer, transaction risk, and cost reduction. Hence, it is essential for the government to provide a competitive atmosphere, equitable access to all sectors, simplified procedures for entering and exiting the market, and establish trustworthiness for both issuers and players in the market. Within this context, it is unacceptable to engage in discrimination against certain market categories, instruments, or players, or to establish a dominating or monopolistic position. It is essential for both state and market authorities to guarantee the equitable and transparent functioning of market players, guided by the notion of fairness (Jothimani, Shankar, & Yadav, 2014).

The government's objective should be to impose taxes on net investment profits rather than on individual transactions. This amendment does not include implementing tax exemptions. Instead, its main objective is to provide fair circumstances for all players in the market, therefore promoting the equalization of various kinds of investments and sectors. Education plays a crucial role in the growth of financial markets, since there is often a strong correlation between the two. The quality of financial education in a nation directly impacts the development of its financial markets. Hence, it is imperative for the government to enhance the educational standards of the populace and emphasize the significance of capital markets in fostering economic growth and the overall welfare of the people. Conversely, it is important to acknowledge that capital markets are inherently volatile and risky, as these fluctuations are essential for the periodic functioning of the market. It is crucial that these changes do not disrupt or distort market principles.

As the market evolves, the demands placed on the market regulator will increase. The supervisor must use increasingly intricate methodologies to oversee a broader market that involves sophisticated financial products. Supervisors must possess a comprehensive understanding of the principles governing market operations, as well as the potential hazards inherent in various financial products and market categories. Supervisors' education should be given specific emphasis, in addition to market participants. The autonomy of the supervisor should be preserved and enhanced. Their resources must adequately and effectively meet the demands of the market's degree of growth and the issues that occur (The Capital Markets Working Group, 2015; Paresishvili, 2017).

1.2.2 Infrastructure of Capital Market

An essential element required for the advancement of the capital market is the infrastructure, which includes information technology systems that include trading, settlement, and reporting. Aside from government assets, the infrastructure for other securities in developing economies is often antiquated. Processes are not automated, paper documents are still used, operational risks are high, and the whole process is inefficient. The hazards mentioned may not occur when there is little market turnover. However, obsolete and dysfunctional infrastructure hinders market growth, has a negative impact on foreign investors, and constitutes a significant threat to market activation (Levine & Zervos, 2010).

Additional features such as the establishment of a clearing house and a Central Counter Party (CCP) should also be included. Infrastructure encompasses processes that guarantee the seamless operation of the market, including the development of specific business continuity plans. Efficient use of current infrastructure and incorporation of global standards are crucial when it comes to urban development. Consequently, this suggests the potential for all securities to be settled inside the Central Bank system.

The establishment and growth of investment funds, such as money market funds, play a crucial role in the advancement of the capital market (Guerard, Rachev, & Shao, 2013). In order to do this, it is necessary to develop a Law on Investment Funds that adheres to worldwide best practices and Euro directives. It may be beneficial to seek support from donor organizations during this process (Paresishvili, 2017).

Households mostly participate in the financial markets as savers and investors. Households enhance their future financial stability by investing their savings in assets such as stocks, bonds, and mutual funds, which generate income streams in the form of dividends and interest payments. Households also enhance the liquidity of financial markets, hence increasing their efficiency. Households typically engage in market activities with the assistance of financial intermediaries, who play a role in reducing the information imbalance and expenses associated with transactions that individual investors would otherwise encounter (Merton & Bodie, 1995).

Enterprises, especially corporations, play a crucial role in the capital markets by acting as both issuers and investors. They obtain funds for expanding, innovating, and carrying out other business operations by issuing stocks and bonds. This not only facilitates the advancement of economic development but also contributes to the creation of employment opportunities. On the other hand, businesses allocate their surplus capital in financial markets to control their cash flow and generate profits from unused money, so enhancing the total market activity. The link between firms and financial markets is mutually beneficial, since it promotes economic progress and the development of the market (Allen & Gale, 2000).

Financial institutions, including banks, play a vital role in the functioning of capital markets. They serve as mediators by aggregating savings from consumers and providing loans to firms and other organizations in need of financing. In addition, banks enable transactions in the financial markets by providing services such as brokerage, custodial, and asset management. Their participation guarantees the effective transfer of money from individuals who save to those who borrow, resulting in a decrease in the cost of capital and an improvement in economic development (Diamond & Dybvig, 1983). Moreover, the banks' function as market makers in certain securities enhances market liquidity, guaranteeing that transactions may be executed swiftly and at consistent rates for both buyers and sellers.

Insurance firms, pension funds, and investment banks are examples of other financial organizations that have specific functions in the capital markets. Insurance firms and pension funds are often major investors in bonds and other fixed-income instruments. They strategically manage their portfolios to align with their long-term obligations and achieve consistent returns. Investment banks play a role in the process of issuing new securities by underwriting them. They also provide strategic advising services for activities such as mergers, acquisitions, and other financial transactions. The knowledge and actions of these organizations improve the variety and ability to recover of the financial market, hence adding to its extent and scope (Guerard et al., 2013).

The relationship between these market participants and the financial markets is mutually advantageous. The participants in the markets play a crucial role in enhancing the market's depth, liquidity, and efficiency, while also benefiting from investment possibilities and risk management. The symbiotic link between these factors is crucial for the general well-being of the economy, as it improves the allocation of capital, promotes economic stability, and encourages growth.

An efficient market infrastructure facilitates these exchanges by guaranteeing seamless and safe execution of transactions. Aligning investment laws and regulations with global standards not only attracts foreign investors but also enhances the country's economic resilience (Paresishvili, 2017).

Essentially, the interconnectedness between individuals involved in the market and the financial markets is fundamental to the growth of the economy. Every individual involved in the market has a distinct role in shaping its behavior, which helps in efficiently distributing wealth and maintaining economic stability. Ongoing improvement of market infrastructure and compliance with international regulatory standards are crucial to sustain this ecosystem, guaranteeing its resilience and ability to facilitate economic expansion.

1.3 Financial Theories in Capital Markets Analysis

The exploration of capital markets through the lens of financial theories provides invaluable insights into the mechanics of market operations and investor behavior. These theories, foundational to the field of financial economics, offer frameworks for interpreting market efficiency, investment strategies, and the dynamics of asset pricing. By applying these theoretical constructs, researchers can dissect the complex interactions between market participants and the economic environment in which they operate. This approach is particularly pertinent when examining emerging markets, where unique local factors influence market characteristics and investment outcomes. The subsequent analysis employs seminal theories including the Efficient Market Hypothesis, Portfolio Theory, and Behavioral Finance Stock Exchange and Over-the-Counter markets. This theoretical backdrop not only enriches our understanding of market phenomena but also enhances the empirical investigation into market behaviors, providing a robust basis for evaluating the effectiveness of current investment practices and potential market reforms.

1.3.1 Market Efficiency Theory

The Efficient Market Hypothesis (EMH), a foundational concept in financial economics, asserts that asset prices in a market swiftly and comprehensively reflect all available information pertinent to their valuation (Fama, 1970). This principle implies that, for instance, stock prices encapsulate all known data regarding a company's financial health, industry dynamics, and macroeconomic factors. Market prices adjust near-instantly as new information emerges, inhibiting investors from systematically acquiring undervalued assets or divesting overvalued ones. The notion of arbitrage proves crucial in grasping how EMH sustains market efficiency. Arbitrage transpires when investors capitalize on price disparities for identical assets across separate markets or in varying forms (Jensen, 1978). Should a stock trade at a lower price on one exchange compared to another, arbitrageurs might purchase it on the lower-priced exchange and concurrently sell it on the more costly one, benefiting from the transitory mispricing. This sort of arbitrage action aids in guaranteeing price uniformity and alignment with all available information, hindering enduring price divergences.

Eugene Fama (1970) categorized the Efficient Market Hypothesis (EMH) into three distinct forms, each with varying implications regarding the degree of informational efficiency present in a market:

Weak-Form: In weak-form efficiency, historical prices and trading data, such as past returns and volume, hold no predictive power for future price movements. Technical analysis strategies, which rely on identifying patterns in past prices, are deemed ineffective in this context (Fama, 1970). Semi-Strong: Semi-strong efficiency posits that all publicly available information, including financial statements, corporate announcements, and news events, is instantaneously incorporated into asset prices (Jensen, 1978). This suggests that investors cannot gain a consistent advantage through fundamental analysis, which focuses on interpreting such public information. Strong-Form: The most stringent form of EMH, strong-form efficiency, contends that all information, both public and private (including insider information), is fully reflected in market prices (Malkiel, 2003). Consequently, even those with access to non-public information cannot consistently outperform the market.

The Efficient Market Hypothesis (EMH) carries far-reaching implications for investment strategies, the interpretation of market anomalies, and the importance of risk management:

Active vs. Passive Investing: EMH poses a challenge to the effectiveness of active management strategies, which seek to outperform the market by identifying mispriced assets (Fama, 1970). Since prices are assumed to reflect all available information, consistently outperforming the broader market becomes exceptionally difficult. This supports the use of passive index funds, which aim to mirror market performance at a lower cost, as a more rational approach for many investors (Malkiel, 2003).

Market Anomalies: The existence of apparent market anomalies, such as the momentum effect (where stocks that have performed well recently continue to do so) or the January effect (where stocks tend to outperform in January), presents a conundrum for proponents of strict EMH (Shiller, 2003). These anomalies suggest potential opportunities for investors to exploit market inefficiencies, potentially contradicting the theory.

Portfolio Diversification: Regardless of the extent to which EMH holds true, diversification remains a fundamental risk management principle. Spreading investments across various asset classes and sectors helps mitigate the impact of fluctuations in specific assets or markets (Malkiel, 2003).

A central premise of the Efficient Market Hypothesis (EMH) is the notion of perfectly rational investors, whose decisions are driven by objective information analysis and the pursuit of wealth maximization (Fama, 1970). However, the field of behavioral finance offers a contrasting view, positing that human psychology, with its inherent emotions and cognitive biases, significantly influences investor behavior (Shiller, 2003). Specific biases can distort decision-making and contribute to asset mispricing. Overconfidence, for instance, can lead investors to overestimate their analytical abilities, while herding behavior might incentivize investors to follow prevailing trends rather than conduct independent research (Lo and MacKinlay, 2002). Loss aversion can induce investors to hold onto losing positions or sell profitable ones prematurely. These deviations from strict rationality create potential market inefficiencies. Investors adept at identifying behavioral patterns may be able to capitalize on these inefficiencies. A contrarian approach, for example, might seek to exploit market overreactions driven by fear or panic, pinpointing stocks whose prices have become temporarily detached from their underlying fundamentals (Shiller, 2003). Thus, an understanding of behavioral finance provides a framework for recognizing opportunities where psychological factors, rather than pure information, drive market prices.

While the Efficient Market Hypothesis (EMH) provides a valuable theoretical framework, its applicability might face limitations in emerging markets . Key factors can make the assumptions of EMH less likely to hold in these contexts:

Emerging markets often have less robust financial reporting standards and a smaller pool of analysts providing research coverage. This makes obtaining reliable and timely information about companies more challenging, hindering the rapid price adjustments EMH suggests (Malkiel, 2003).

Emerging markets may exhibit reduced transparency compared to developed markets. This can create informational asymmetries, where some investors possess private information unavailable to others. Weaker regulations might also permit practices, such as insider trading, that directly contradict EMH's principles (Fama, 1970).

In markets with less information flow and potentially less regulatory oversight, investor sentiment and behavioral biases can exert a stronger influence on asset pricing (Shiller, 2003). This might lead to more pronounced market overreactions, bubbles, and deviations from prices justified by fundamentals.

1.3.2 Portfolio Theory

Modern Portfolio Theory (MPT) provides a quantitative framework for understanding the inextricable relationship between risk and return in investment decision-making. Risk, in this context, refers to the potential variability of investment returns, often measured by statistical metrics such as standard deviation (Markowitz, 1952). Return, conversely, represents the anticipated profit or loss from an investment, typically expressed as a percentage of the initial investment. A central tenet of MPT is the recognition of an inherent trade-off: investors seeking higher potential returns must generally accept a correspondingly higher degree of risk.

The efficient frontier is a cornerstone concept of MPT, representing the graphical depiction of portfolios offering the highest possible expected return for a specified level of risk (Markowitz, 1952). Portfolios situated along the efficient frontier are deemed optimal from a risk-return perspective. Diversification plays a pivotal role in MPT. By strategically combining assets with varying risk-return characteristics, investors have the potential to mitigate overall portfolio risk without compromising expected returns (Sharpe, 1964).

Markowitz diversification, established a mathematical method that is frequently used by financial analysts, investors, and corporations (Josefy et al., 2017). After academics (Karandikar & Sinha, 2012) discovered several techniques for constructing and assessing investment portfolios, the contemporary portfolio theory emerged as the foundational framework for subsequent theories (Kautsar et al., 2019). Nevertheless, the contemporary portfolio theory faced significant criticism in the 1970s since it failed to explain several market events resulting from the advent of new market variables (Josefy et al., 2017; Kennedy & Baum, 2012). A new theory with novel theoretical and practical interpretations was necessary to stabilize the emerging market phenomena and demonstrate more adaptability compared to the prior theory (Lee & Shin, 2018). In the 1980s, the American

Research and Pension Institute uncovered the postmodern portfolio theory (Lee & Eid, 2018). This theory is based on the computation of risk and reward using the SHARP scale. The postmodern portfolio theory mainly focuses on the computation of risk and returns using the SORTINO scale (Mahabadi et al., 2018; Matthies et al., 2019).

1.3.2.1 Portfolio Theory and an Oil-Dominated Economy

The heavy reliance of the economy on a single sector – oil – presents distinct challenges from a portfolio diversification standpoint. The financial performance of many listed companies will likely exhibit a strong correlation with fluctuations in oil prices, potentially increasing systemic risk within portfolios. This sector concentration underscores the limited availability of assets with uncorrelated return profiles within the Iraqi domestic market. To address this challenge, portfolio theory suggests diversification beyond Iraq's geographical boundaries. Incorporating international investments with differing risk-return characteristics can potentially enhance portfolio efficiency and reduce overall risk exposure. MPT offers a robust analytical toolkit for your exploration of investment opportunities within the Iraqi market. Key considerations informed by this theory include:

- Risk Quantification: Employ appropriate risk metrics (e.g., standard deviation, beta) to assess the risk profiles of both individual Iraqi assets and the broader market context (Sharpe, 1964).
- Optimal Portfolios: Investigate the feasibility of constructing portfolios that demonstrate favorable risk-return characteristics under the constraints of Iraq's economic structure. Consider potential strategies for maximizing available diversification within the Iraqi market.
- International Diversification: Assess the potential benefits and practical considerations of international diversification for Iraqi investors. Factors such as currency risk and accessibility to foreign investment instruments warrant careful analysis.

1.3.3 Behavioral Finance

While the Efficient Market Hypothesis (EMH) assumes rational market participants, behavioral finance challenges this notion by emphasizing the significant role of psychological factors in investment decision-making (Shiller, 2003). This field aims to understand how cognitive biases and emotions influence investor behavior, often leading to deviations from purely rational choices and creating potential market anomalies.

The field of behavioral finance, also known as BF, originated in the 1980s as a result of various factors, including the noticeable disparity between financial theory and its practical implementation. This discrepancy piqued the interest of economists such as Werner De Bondt, Andrei Shleifer, Richard Thaler, Meir Statman, and Robert Shiller, as well as psychologists led by Daniel Kahnmen. Together, they embarked on an investigation into this concept (Antony, 2019). The reason behind such interest can be traced back to the fact that traditional financial theory has become unable to explain many of the experimental methods, including financial illusion, added to that, many of the books in the finance and investment field did not discuss the impact of behavioral finance in the financial markets, so behavioral finance is a new model of financial theory that seeks to understand and predict the impact of organized financial markets through the understanding of human psychology that affect in investment decision-making (Sattar, et.al,2020), to that (Chris Meier) developed a concept that BF is a branch of behavioral economics, and confirms that behavioral finance is considered one of the modern theories of economic analysis, which attempt to approach the behavior of individuals with psychological insight, in order to describe and analyze the financial market and try to produce results that are more consistent with reality (Meier, 2018). Building upon the previous reference to Nair and Antony, it is important to note that financial behavior can be categorized into three dimensions. The first dimension pertains to the cognitive psychology of investor behavior, the second dimension relates to investors' attitudes towards ambiguity and risk, and the third dimension encompasses the role of emotions in investor decision-making (Nair & Antony, 2015).

The investor's conduct in the financial market may be attributed to many aspects, which are outlined below:

Inference theory refers to the process of using experience and practical attempts to answer issues or enhance performance. It encompasses several biases that might influence this process. In this theory, the beneficiary of the inference is the one who assists in market interpretations for situations involving irrational behaviors. This is in contrast to the financial markets model, which interprets new information by rationalizing decision-making rules.

Expectation theory is a significant method in the investing decision-making process for investors. Tversky and Kahneman (1979-1981-1986) suggested that individuals react differently to identical situations based on whether they are framed as losses or gains. Investors, in particular, tend to be influenced by the potential for losses and experience satisfaction when they achieve expected or guaranteed gains. However, there are some investors who, despite not being inclined towards risk-taking, are willing to take risks when faced with certain losses. The expectation theory encompasses many biases, such as loss aversion, regret, and mental responsibility (Maheran & Muhammad, 2009).

Market factors, including market information, price fluctuations, historical stock price trends, the fundamentals of preferred stocks, focus on popular stocks, overreaction to prices, customer preferences, and seasonal price cycles, have a significant impact on investors' decision-making in the financial market. These biases are influenced by herd behavior, causing investors to behave similarly to others when prices fluctuate (Al-Najjar, 2017).

Collective behavior, often known as herd behavior, refers to the phenomenon where individuals in a group tend to act in a similar manner, often influenced by the actions and decisions of others in the group. The biases encompassed in this study are related to the size of traded shares, buying and selling decisions, the duration of holding shares, and the selection of shares for trading. These behavioral biases, collectively known as herd behavior, compel investors to imitate and emulate others when making investment decisions in the financial market (Sattar, et.al,2020). Additionally, herd behavior can give rise to other emotional biases such as matching, compatibility, cognitive conflict, and gossip. Investors may find this behavior favorable if they believe that the collective group can assist them in obtaining valuable and dependable information. This is particularly true when the group is composed of fund managers or financial analysts who are regularly assessed in relation to their peers (Abdelkader, et. al., 2019).

Behavioral financial patterns primarily examine the psychological behaviors of different kinds of investors. Some investors are willing to take on more risks in their investments, while others prefer to minimize risks, resulting in lower profits. The relationship between risk and returns is inversely proportional.

Key Psychological Biases Affecting Investor Decisions

- Overconfidence: Investors might overestimate their ability to analyze stocks or time the market, leading to excessive trading, unjustified risk-taking, and potentially sub-optimal returns (Barber & Odean, 2000).

- Herd Behavior: Investors might disregard their own research and instead follow the crowd, buying or selling assets simply because others are doing so (Devenow & Welch, 1996). This can fuel asset bubbles or contribute to market panics.
- Other Biases: Additional biases relevant to your analysis of Iraqi markets could include loss aversion (holding onto losing stocks too long), anchoring (fixating on an initial price), or the representativeness heuristic (overreacting to recent events and assuming they predict the future).

Behavioral biases can contribute to market pricing anomalies that contradict the predictions of EMH. For example:

- Momentum and Reversals: Herding and overconfidence can lead to short-term momentum effects (prices continue to rise or fall) or longer-term price reversals as the market corrects previous overreactions.
- Bubbles and Crashes: Herd behavior, fueled by narratives around specific sectors (like oil in Iraq's case), can inflate asset prices far beyond their fundamental value, ultimately leading to market crashes.
- Volatility: Behavioral biases can exacerbate market volatility as investors overreact to news or trends, even if underlying company fundamentals remain unchanged.

1.3.4 Capital Market Development Theory

Capital Market Development Theory posits that financial markets evolve through a series of progressive stages (World Bank, 2018). These range from nascent markets characterized by limited scale and a lack of instrument diversity, to fully developed markets featuring robust liquidity, sophisticated regulation, and a wide array of financial instruments. Understanding these stages sheds light on the current state of Iraq's financial markets and offers a framework for identifying potential growth areas. Several factors are crucial drivers of capital market development. A strong legal framework that safeguards property rights, mandates transparent disclosures, and protects investors is fundamental for fostering market trust (La Porta et al., 1998). Transparent and well-enforced regulations mitigate uncertainty and bolster investor confidence. Additionally, a wider spectrum of financial instruments, including not only traditional stocks and bonds but also derivative products, enhances investors' risk management abilities and deepens market activity. Finally, the maturity of financial institutions, such as banks, pension funds, and investment firms, plays a pivotal role. These institutions encourage market participation, facilitate transactions, and drive innovation within capital markets.

1.3.5 The Capital Asset Pricing Model (CAPM)

The Capital Asset Pricing Model (CAPM) offers a foundational approach in finance to determine the expected return on an investment, correlating it directly with the risk involved. Initially introduced in the works of Sharpe, Lintner, and Mossin during the mid-1960s, CAPM essentially argues that the expected return on an investment should compensate for the risk-free rate plus a risk premium, based on the market's excess return proportionate to the investment’s sensitivity to market fluctuations.

This model operates under several core assumptions, such as market perfection, homogenous expectations among investors, and absence of taxes and transaction costs, which simplify real-world complexities to create a more manageable framework (Fama & French, 2004). While CAPM has been integral in academic studies and financial industry practices, it faces significant scrutiny due to these simplifications, which often do not hold in practical scenarios.

Critically, empirical studies have frequently pointed out CAPM’s limitations in capturing the variegated nature of returns across different investments, prompting scholars and practitioners to propose more inclusive models that account for factors like size and book-to-market equity, which have demonstrated better empirical performance (Fama & French, 1993).

Despite its limitations, CAPM’s conceptual framework remains a cornerstone in financial theory, providing essential insights into the pricing of risky securities and the trade-offs between risk and return. It has significantly shaped the development of more sophisticated asset pricing models, enriching the discourse on investment strategies in financial markets (Pástor & Stambaugh, 2003).

The dialogue surrounding CAPM underscores the dynamic interplay between theoretical finance and its real-world application, illustrating the need for continuous evolution of financial theories to better cater to the complexities of global financial markets (Sharpe, 1964; Lintner, 1965; Mossin, 1966).

1.3.6 The Arbitrage Pricing Theory (APT)

The Arbitrage Pricing Theory (APT), developed by Stephen Ross in 1976, provides a multi-factor approach to understanding the nuances of asset returns. Unlike the Capital Asset Pricing Model (CAPM), which considers only a single market risk factor, APT introduces a framework where returns are influenced by several systematic risk factors. These factors could include macroeconomic elements such as inflation, GDP growth, interest rates, and others, each contributing uniquely to the asset's risk and expected return (Ross, 1976).

APT is grounded in the idea that the returns of an asset are a linear function of various factors, plus an error term that is uncorrelated across assets. This linear relationship means that returns can be somewhat predicted if the relationships between the factors and returns are understood and stable over time. The theory asserts that these factors are pervasive influences on the financial markets and can be either macroeconomic factors or firm-specific variables.

One of the strengths of APT is its flexibility; it allows for the inclusion of various factors tailored to specific analyses, making it a powerful tool for portfolio managers and financial analysts. This flexibility also means that APT can adapt to different market conditions and remain relevant where CAPM might not adequately describe return behaviors because it considers a broader spectrum of influences (Connor & Korajczyk, 1986).

However, identifying and measuring these factors poses significant challenges. The theory itself does not specify which factors should be included, leaving it to the practitioner to determine and justify the selection of relevant factors. This can lead to model specification errors where incorrect or irrelevant factors are included, potentially leading to inaccurate assessments of expected returns.

Moreover, while APT assumes no arbitrage opportunities in the market—meaning that no investment should provide a risk-free profit—the reality of market conditions can sometimes deviate from this ideal. Market inefficiencies, behavioral finance aspects, and the complexity of financial systems can create scenarios where arbitrage opportunities briefly exist, challenging the practical application of APT (Chen, Roll & Ross, 1986).

Despite these challenges, APT remains a cornerstone of financial theory, providing a complex yet comprehensive framework for analyzing asset prices in relation to multiple risk factors. Its application in risk management and portfolio optimization continues to be of paramount importance, particularly in diversifying investment strategies and managing risk in fluctuating economic climates.

Empirical tests of APT, such as those conducted by Fama and French (1992), have provided mixed results, sometimes supporting the theory's predictions about how well factors explain the variations in returns and other times suggesting the need for additional factors or alternative models. The ongoing evaluation of APT in empirical research reflects its adaptability and the need to refine the model as new economic data and patterns emerge.

1.4 Return, Risk, and Liquidity as Trilemma in Investing

The main objective of every investment undertaken by a successful firm is to get returns, since returns are crucial for the long-term viability of the organization. The investment activities of survival, development, and expansion are influenced by possible hazards, which may have either favorable or negative effects on the returns (Rasiah, 2012; Robertson, 2019). Today, we see that the average lifespan of items has significantly decreased compared to a decade or several decades before. Investment departments or portfolios are required to develop prudent investment strategies that aim to maximize profits while minimizing risks. This is the primary objective for any investor or portfolio manager (Rom & Ferguson, 1993). The return is the primary goal of the investing process, aiming to create financial benefits. It is contingent upon the invested amounts exceeding their initial value. If the value does not surpass the initial investment, it is deemed a loss for the investor (Sullivan, 2011). A risk is the potential for variations in the anticipated earnings of an investment activity. Continuous monitoring and analysis of this component is crucial for owners and portfolio managers, since it is linked to the selection of any investment instrument (Todoni, 2015). For example, Postmodern portfolio theory (PMPT) posits that investors exhibit rational behavior when making investment choices and that all investors possess precise expectations about the future trajectory of the market.

Liquidity is a crucial factor in investing choices as it has a significant impact on the risk and return characteristics of investment portfolios. Liquidity pertains to the level of ease with which an asset may be readily changed into cash without having a substantial impact on its market value. During periods of market volatility, having high liquidity is essential. It allows for rapid access to funds, which may help avert possible losses and enable the exploitation of new possibilities. Adequate liquidity allows for fast adjustments in investments in reaction to changing economic conditions, giving investors with both psychological reassurance and improved ability to successfully manage their risk exposures. Liquidity is essential for limiting possible losses and ensuring that investors can fulfill their financial responsibilities and make timely strategic choices (Chordia, Roll, & Subrahmanyam, 2001).

The investor always takes into account the minimal and acceptable amount of return in order to provide psychological comfort and avoid tension. The investor experiences anxiety and pledges contentment if the portfolio's return falls below the anticipated return (Tsai & Wang, 2012).

2. Objectives, Methodology and Contributions

2.1. Objectives

The principal aim of this thesis is to thoroughly explore the investment landscape within the Iraqi capital markets, particularly focusing on the Iraq Stock Exchange (ISX). This includes:

- Mapping investment opportunities available within Iraq’s stock exchange markets.
- Measuring the volatility of the ISX index to understand the risk dynamics within the Iraqi capital markets.
- Proposing strategic pathways and necessary structural reforms to enhance the growth and financial stability of Iraq’s capital markets.

Secondary Objectives

To support the main objective, this thesis will also aim to:

- Introduce the Theoretical Framework: Provide a comprehensive review of the literature that forms the basis of the research question, discussing key concepts and previous studies relevant to capital market investments and financial stability.
- Analyze Iraq’s Macroeconomic Environment: Present a detailed macroeconomic analysis to depict the broader economic setting of Iraq, highlighting the impact of economic diversification, or lack thereof, and the dominance of the oil sector.
- Identify Specific Challenges: Explore specific problems within Iraq's financial markets, including regulatory, operational, and market-specific challenges that impact the investment climate.

Each of these objectives will contribute to a holistic understanding of Iraq’s capital markets, providing insights into both the opportunities present and the challenges to be addressed. This structured approach will ensure a comprehensive exploration of the intricate dynamics that define investing in Iraq’s evolving market landscape.

2.2 Methodology

The empirical analysis in this thesis primarily utilizes secondary data collected from various reputable sources. The data concerning Iraq’s capital markets, particularly trading volumes, market volatility, and economic indicators, were primarily sourced from the

Central Bank of Iraq (CBI) and the Iraq Stock Exchange (ISX). These institutions regularly publish detailed reports and datasets that track the economic and financial dynamics within Iraq.

This thesis incorporates findings from several pivotal studies available through the CBI and ISX, which provide insights into the financial stability and investment climate in Iraq. Additional academic papers and market analyses published in financial journals and by economic research institutions were also reviewed to ensure a comprehensive understanding of the context.

The approach to this thesis combines both quantitative and qualitative research methods, focusing on the context of Iraq's capital markets:

This involves leveraging historical data obtained from the Central Bank of Iraq (CBI) and the Iraq Stock Exchange (ISX). The data analysis will focus on identifying trends in market volatility and assessing the impacts of various economic events on market dynamics. The primary tool for this analysis will be Microsoft Excel, which will be used to organize data, perform statistical tests, and create visual representations to help in interpreting the data effectively. A comprehensive review of existing literature relating to Iraq’s economic environment and its capital markets is planned. This will include analyzing published studies, reports, and other relevant documents to understand better the challenges and operational characteristics of the Iraqi capital market.

The study will integrate various theoretical perspectives and empirical evidence to form a structured understanding of the Iraqi capital market's intricacies. Insights derived from both quantitative data and qualitative reviews will be used to draw conclusions about the market's behavior and potential future trends. Recommendations for investors and policy implications will be formulated based on these analyses. All data analysis tasks will be conducted using Microsoft Excel. This includes data sorting, calculation of descriptive statistics, and the creation of charts and graphs to illustrate findings clearly.

This thesis enhances understanding of investment dynamics within Iraq's capital markets by analyzing historical data and literature, focusing on the effects of economic and political changes in a post-conflict environment. It aims to provide investors and policymakers with insights into market volatility and investment opportunities, facilitating more informed decision-making. Additionally, the findings will offer valuable policy recommendations to help stabilize and develop Iraq’s financial markets, contributing to broader economic stability.

3. Results and Discussion

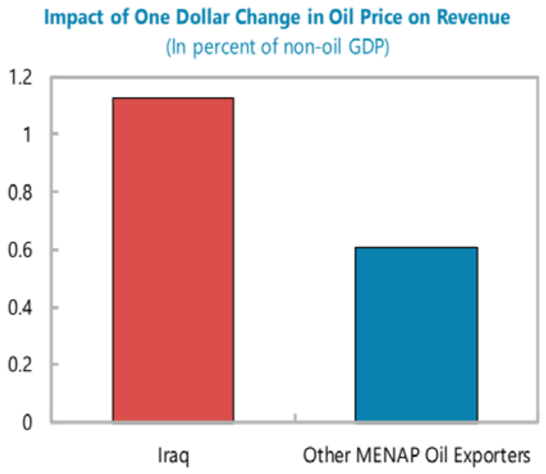
Iraq exhibits a classic case of an oil-dominated economy. For context, depending on the year, oil production and exports can account for upwards of 60% of Iraq's gross domestic product (GDP) and a staggering 90% of government revenue (World Bank, 2022). This heavy reliance on a single commodity creates a distinct set of opportunities and challenges for investors seeking to participate in the country's capital markets.

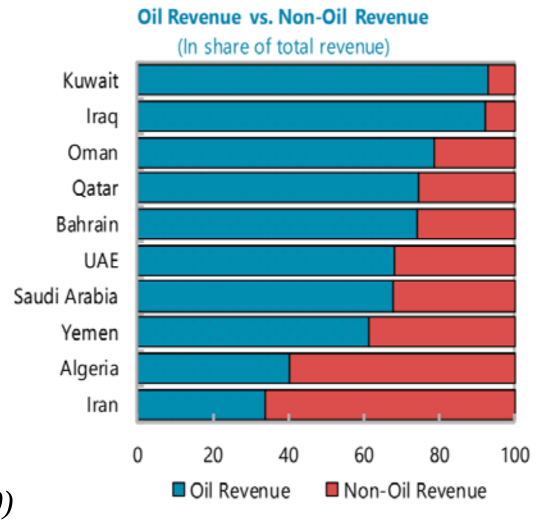
3.1 Macroeconomic volatility of Iraq economy

The Iraqi economy is intrinsically linked to the fate of the global oil market. When oil prices surge, as they did during the early 2000s and again in the 2010s, Iraq's GDP experiences a corresponding boost. High oil revenues fuel government spending, infrastructure projects, and can even lead to a trickle-down effect that expands the consumer market. This type of economic expansion creates fertile ground for investors looking to capitalize on growing businesses and a rising stock market. Conversely, when oil prices plunge, as they have periodically throughout history, Iraq's GDP can contract, potentially leading to recessionary conditions. Declining government revenue can stifle investment projects, reduce consumer purchasing power, and introduce high levels of uncertainty into the markets. The oil sector's outsized influence on the Iraqi economy introduces inherent volatility. Even with attempts at economic diversification, Iraq remains highly vulnerable to external shocks stemming from geopolitical events, fluctuating global demand, and actions taken by OPEC. Investors must carefully consider how this volatility translates into increased market risk when evaluating stocks and other assets in Iraq. Historically, periods of uncertainty surrounding oil prices or political instability in the region have led to sharp downturns and heightened instability within the Iraqi capital markets.

While Iraq's substantial oil reserves undeniably offer opportunities for investors in energy-related industries, the economy's structural imbalance highlights the importance of diversification. Efforts are underway to foster growth in other sectors, such as agriculture, manufacturing, and services, but progress has been slow. Successful diversification would reduce the economy's vulnerability to oil shocks and offer investors a broader range of potential investment avenues. Until diversification becomes more substantial, investors may consider hedging their Iraqi market exposure with investments in other sectors or regions, as well as utilizing risk management strategies designed for volatile markets. Understanding the intricate relationship between Iraq's GDP and the oil sector is a critical first step for investors assessing the country's capital markets. Awareness of the inherent boom-bust cycles, the structural risks created by over-reliance on oil, and the ongoing efforts towards diversification enables investors to make informed decisions that align with their risk tolerance and investment goals.

Figure 1: Iraq's reliance on oil earnings and its comparison to other oil-exporting countries (2020)





Source: IMF Country Report No. 19/249 (2020)

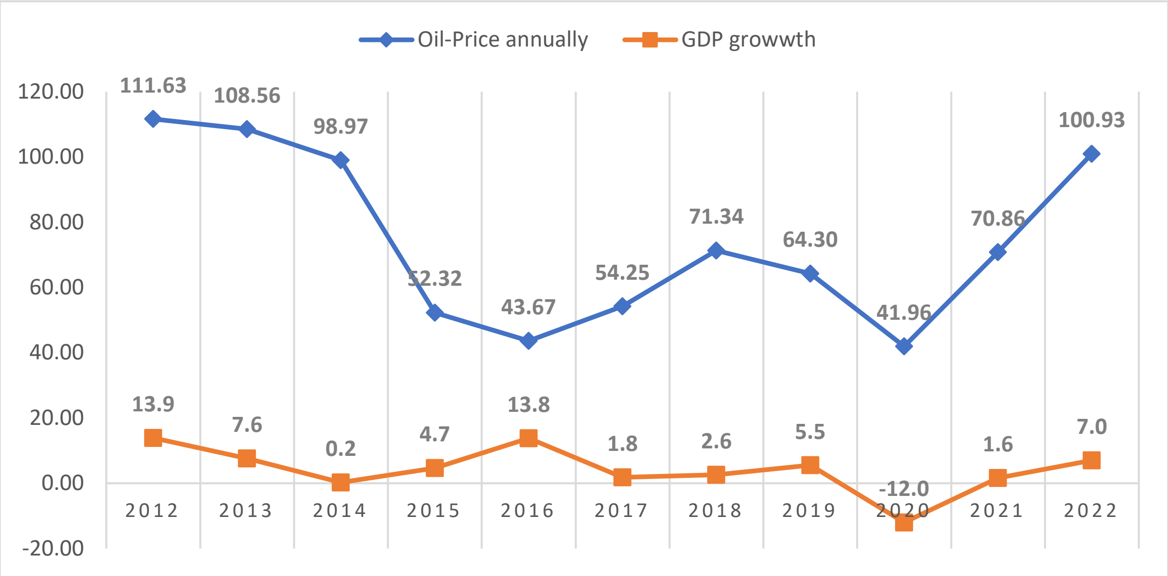
The figure illustrates Iraq's dependency on oil revenue compared to other oil-exporting countries within the MENA region. The first part of the graph shows that Iraq's revenue is significantly impacted by changes in oil prices, suggesting that for every dollar change in oil prices, there's a sizable effect on the nation's non-oil GDP. This implies a high sensitivity to oil price volatility.

The second part of the graph compares oil and non-oil revenue across several MENA countries. It highlights that Iraq, second only to Kuwait, has one of the highest dependencies on oil revenue. This heavy reliance suggests potential economic vulnerability to market shifts and underlines the importance of economic diversification strategies to mitigate such risks. The contrast with non-oil revenue also reflects the limited development of other economic sectors.

3.1.1 Weak Economic Diversification

In examining the economic fabric of Iraq, a critical point of analysis is the country's heavy reliance on the oil sector, which underscores the challenge of weak economic diversification. This reliance manifests itself through the pronounced impact oil price fluctuations have on the country's economic performance, particularly its real GDP growth. The forthcoming Figure 2 presents a detailed account of Iraq's real GDP growth, adjusted for inflation, for the year 2022. It also situates this growth within the broader fluctuations of global oil prices, offering a lens through which to view the interplay between a single-commodity-dependent economy and the volatile nature of international markets.

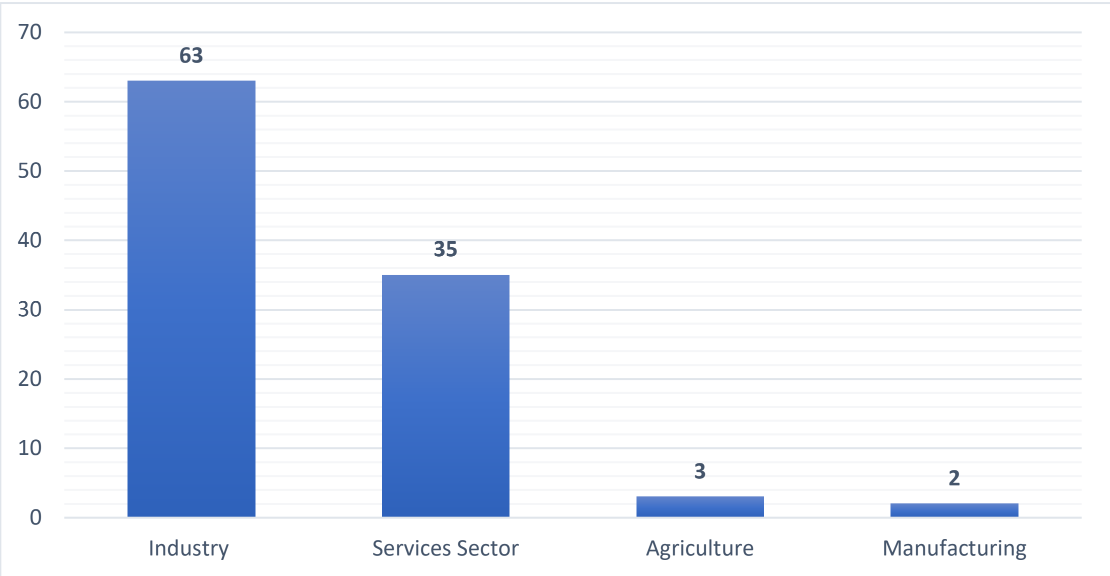
Figure 2: Real GDP Growth adjusted for inflation in Iraq for 2022: Impact of Oil Prices



Source: Auther's own creation, based data form World Bank (2022)

Iraq's economy has experienced varied growth trajectories over the last decade, with an average Real GDP growth rate of 4.24% up to 2022, measured in fixed prices. This rate has been somewhat above the Middle East & North Africa region's average. The year 2022 witnessed a notable GDP increase of 7.0%, reflecting a post-pandemic recovery as oil markets rebounded and Iraq's production increased. These figures represent a significant period of economic fluctuation that aligns with changes in global oil prices and domestic production levels. The economic growth, while positive in recent years, is part of a broader context of recovery and stabilization efforts within the country's economy. Iraq's GDP growth has experienced significant shifts from 2012 to 2022, reflecting the impact of pivotal events on the country's economy. The weaker growth in 2012 and 2013 is directly correlated to the increase in oil prices, enhancing the country's principal revenue source. In contrast, the decline in 2014 can be attributed to the emergence of ISIS, which not only disrupted oil production but also affected overall economic stability. The resurgence in 2016 is a direct consequence of the recapture of territories and the stabilization of the region post-ISIS, coupled with a recovery in global oil prices. During this period, the government also embarked on economic reforms to strengthen the economy. The drastic downturn in 2020 corresponds to the global economic crisis induced by the COVID-19 pandemic, which caused a slump in oil demand and a general contraction in economic activities. By 2022, the recovery is attributed to the rebound in oil prices and the relative control of the pandemic, allowing for economic activities to resume. This period likely also benefited from the implementation of economic reforms, including measures to diversify the economy and improve the investment climate. The GDP growth pattern over these years is reflective of Iraq's economic vulnerabilities to both external oil market volatility and internal security challenges.

Figure 3: Sectoral Contribution to Iraq's GDP in % (2022)

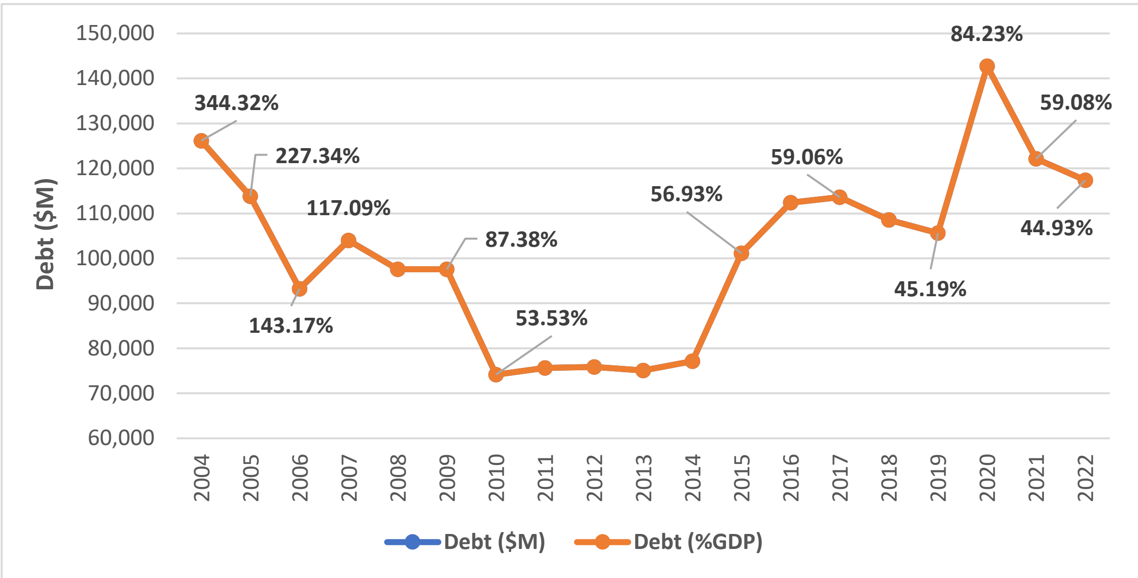


Source: Author's own creation, based on the data from the World Bank (2022)

The sectoral contribution to Iraq's GDP underscores the country's heavy reliance on the industry sector, primarily driven by oil production, which constitutes 63% of the GDP. The services sector, at 35%, is the second-largest contributor, reflecting the importance of services such as banking, telecommunications, and retail to the economy. Meanwhile, the contributions from agriculture and manufacturing are relatively small, at 3% and 2% respectively, highlighting the underdeveloped nature of these sectors in Iraq's economy. This data suggests that Iraq's economic activity is largely dependent on its industrial capabilities, with a significant need for diversification into other sectors to ensure long-term economic stability and growth.

Shifting focus from GDP growth to the debt landscape, we find that a country's debt profile is just as telling of its economic health and resilience. Debt, when managed well within the capacity of a country's GDP, can fuel growth and recovery; mismanaged, it can constrict it. The forthcoming graph illustrates the progression of Iraq's debt juxtaposed against its GDP, offering a window into the nation's fiscal prudence and economic strategy over the years. This analysis aims to elucidate the debt trends and the underpinning factors that have influenced these movements, setting the stage for a deeper understanding of Iraq's fiscal journey.

Figure 4: Evolution of debt as a percentage of GDP (2022)



Source: Author's own creation, based on the data from the CBI (2022)

In 2004, Iraq’s economy bore the brunt of a soaring debt-to-GDP ratio, which was the aftermath of years of conflict, a recent regime change, and comprehensive economic sanctions. This ratio was alarmingly high, symbolizing a nation encumbered by financial turmoil and the pressing need for reconstruction amidst a shift in governance and restrictive international trade policies. It was a direct consequence of years under an economic embargo that stifled the country's oil exports, coupled with the costs of war and the subsequent reparations.

However, the years following this period demonstrated a commendable trajectory of fiscal recovery and debt management. Strategic economic planning, significant debt forgiveness by various countries, and restructuring of financial obligations under international advisories were instrumental in mitigating the fiscal crisis. As Iraq worked to normalize its relations and reinstate its oil trade, the debt-to-GDP ratio began a steady descent, reflecting not only increased revenues but also a more disciplined approach to fiscal governance. This phase of rehabilitation was crucial, marking the transition from a debt-ridden economy to one striving for stability and growth.

By 2013, the ratio had significantly diminished, indicating the fruition of sustained efforts in debt management and economic expansion, with oil revenues playing a substantial role in bolstering the GDP. Yet, this progress was not without its challenges. The ensuing years up to 2022 were marked by a series of economic stresses, notably due to the fluctuating oil prices upon which the Iraqi economy heavily depends, and the emergent threat from ISIS, which destabilized not just the political landscape but also impacted economic certainty. These events necessitated a flexible approach to fiscal policy, which often led to an increase in state borrowing.

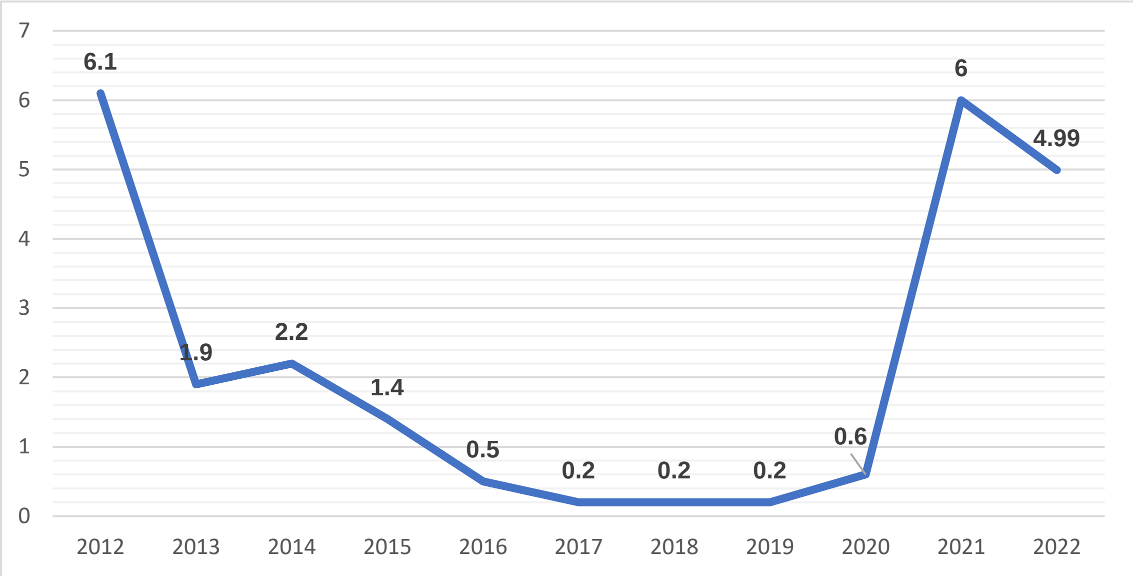
The debt-to-GDP ratio's sharp rise in 2020 is a stark reminder of the vulnerability of Iraq's economy to global crises, as the COVID-19 pandemic led to an unprecedented shock to both the global and Iraqi oil markets, necessitating increased state intervention and borrowing to support the faltering economy. However, the resilience of Iraq’s fiscal management was once again displayed in 2022 when the ratio contracted to 44.93%. This reduction is a testament to the country's recovery, buoyed by a resurgence in oil prices and a gradual return to normalcy post-pandemic. It also suggests that the Iraqi government has begun to reap the benefits of its diversification strategies and economic reforms implemented over the years.

In summary, the fluctuating debt-to-GDP ratio from 2004 to 2022 offers more than just numerical data; it serves as a reflection of Iraq’s economic pulse. The country’s journey from enduring an exorbitant debt burden to navigating through economic instability and arriving at a phase of recovery highlights the critical importance of a balanced approach to fiscal policy and economic planning. It underscores Iraq’s ongoing efforts to achieve fiscal sustainability while grappling with the dual challenges of domestic security issues and global economic trends, particularly in the oil sector.

3.1.2 Monetary Conditions

After discussing the GDP growth trends in Iraq, which reflect the resilience and challenges of the economy, we turn our attention to inflation rates. The shift from production and growth metrics to price stability indicators offers a more complete understanding of the economic landscape, where inflation trends provide insight into the purchasing power and cost of living that directly affect Iraqi citizens and businesses alike.

Figure 5: Annual inflation rate % of Iraq's economy



Source: Author's own creation, based on the data from the World Bank (2022)

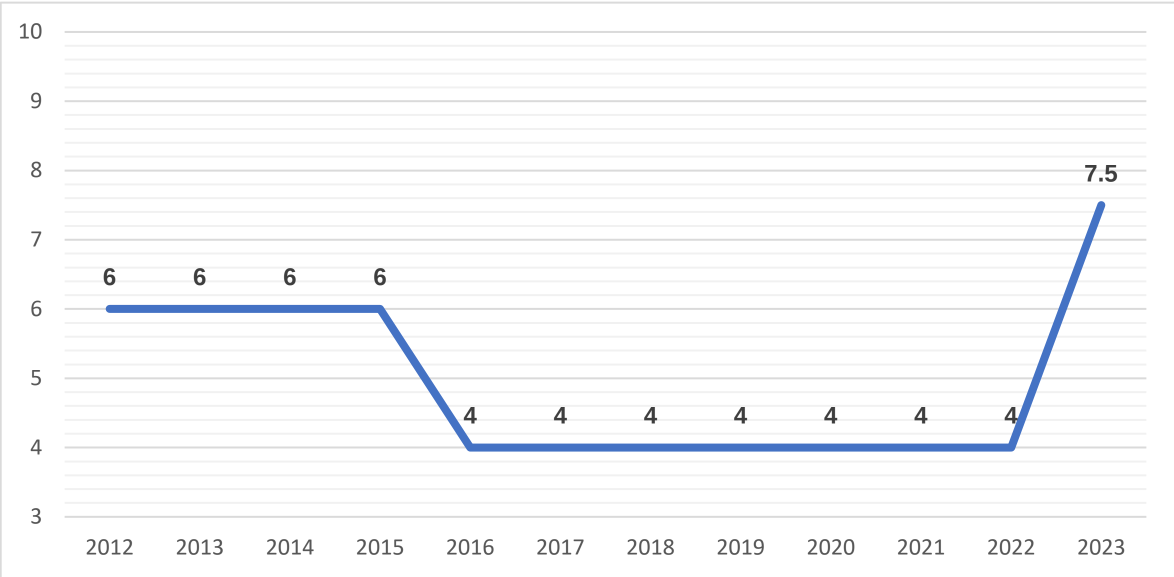
The elevated inflation rate in Iraq in 2012 can be primarily attributed to political instability within the country, which often leads to economic uncertainty and can affect currency valuation and consumer prices. Moreover, fluctuations in global oil prices would have a pronounced impact on Iraq's economy due to its heavy reliance on oil exports for revenue.

The stability in inflation from 2017 to 2019 coincides with a period of relative political stability and the stabilization of oil prices. Additionally, the country was recovering after its victory over ISIS, which helped to restore investor confidence and rebuild economic infrastructure, contributing to a more stable economic environment.

The spike in inflation in 2021 is directly linked to the global economic repercussions of the COVID-19 pandemic. The pandemic led to disruptions in supply chains, reductions in consumer demand, and changes in spending patterns, which in many countries resulted in inflationary pressures. Iraq, with its particular vulnerabilities, was not immune to these global economic trends.

As we consider the influence of inflation on the economy, it becomes relevant to examine monetary response, specifically through interest rates. The connection between inflationary pressures and the central bank's interest rate policy is a critical aspect of economic stewardship, influencing borrowing costs and investment decisions.

Figure 6: Central bank policy rates (%) for Iraq from 2012 to 2023



Source: author's creation, based on the data from the CBI (2023)

The data represented in Figure 6 portrays the policy interest rates set by the Central Bank of Iraq (CBI) from 2012 to 2023, which are indicative of the central bank's monetary policy stance over the years. The policy interest rate, also known as the discount rate, is the rate at which commercial banks are charged for borrowing funds from the central bank's discount window. This rate is a crucial tool used by the central bank to regulate the amount of money in circulation, thus influencing inflation and overall economic activity.

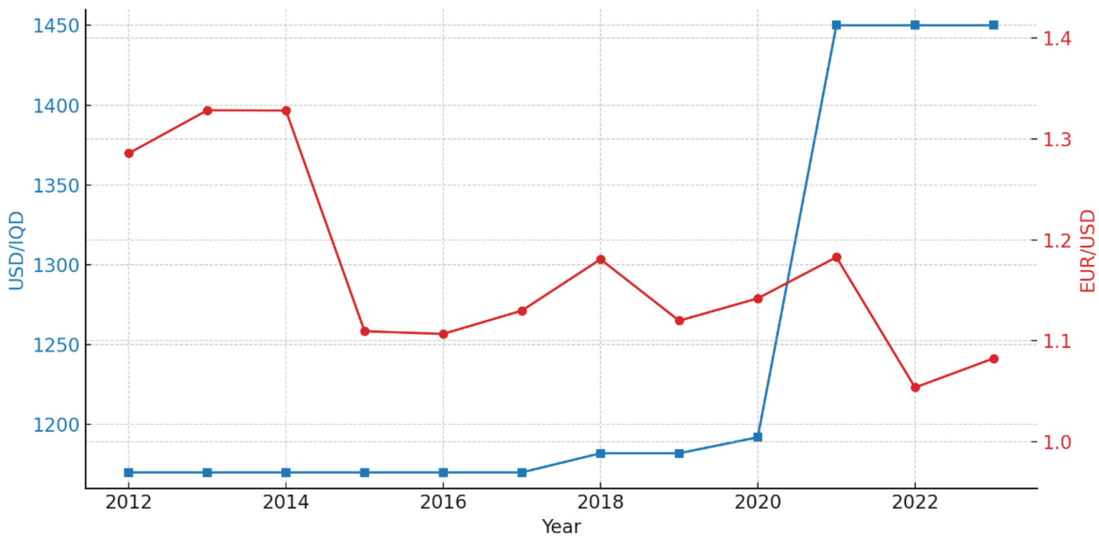
From 2012 to 2022, the CBI maintained a policy rate of 6%, followed by a reduction to 4%. This long-term low rate environment was intended to support the post-conflict economic recovery, providing cheap borrowing costs to stimulate business investments and consumer spending, a common practice in monetary policy aimed at fostering economic growth.

The steep increase to 7.5% in 2023 is an indication of a shift towards a contractionary monetary policy, typically implemented to address rising inflationary trends by discouraging excessive borrowing and spending. By increasing the policy rate, the CBI aims to drain excess liquidity from the economy, thereby stabilizing the national currency and controlling price levels.

It's important to note that this policy interest rate is used by the CBI not only to lend to commercial banks but also as a benchmark for other financial operations, including open market operations and the issuance of government bonds. These tools allow the CBI to manage liquidity levels and influence interest rates throughout the economy, which are vital for maintaining financial stability and steering the country towards sustainable economic growth.

By setting the policy interest rate, the CBI directly influences the cost of capital and the return on savings, making it a key determinant of both consumer and corporate financial decisions. As such, changes in the policy rate can have significant ripple effects across various sectors of the economy, including the capital markets, where it affects the yields on government securities and the overall attractiveness of investment in equities and other financial assets.

Figure 7: Dual Exchange Rate Trends: EUR/USD and USD/IQD (2012-2023)



Source: Author's creation, based on the data from the World Bank (2023)

The fluctuations in the Iraqi dinar's exchange rate from 2012 to 2023 encapsulate a tale of strategic economic maneuvers amid changing fiscal landscapes. In the early years, the dinar held a stable position against the dollar, maintaining a consistent rate that reflected a period of relative economic stability within the country.

By the end of 2020, the exchange rate had shifted, reflecting a strategic devaluation by the Central Bank of Iraq. This adjustment from 1,180 to 1,450 dinars per dollar was a response to dual pressures: the global dip in crude oil prices, Iraq's primary source of revenue, and the economic consequences of the COVID-19 pandemic. The devaluation was aimed at averting financial insolvency by facilitating the payment of public expenses and debts.

In constructing its financial budget, which is predominantly reliant on oil revenues—accounting for approximately 96%—Iraq's oil production metrics and export capacity are critical. The CBI indicated that the decision to raise the dinar's value in 2023 to 1,450 against the dollar is consistent with the increase in the current account of the balance of payments and the bolstering of foreign reserves, which reached a milestone of 115 billion dollars.

However, despite the recent move to enhance the dinar's value, economic experts within the Iraqi government emphasize the need to manage operational and investment expenditures within the budget effectively. This management is crucial to prevent an escalation in the fiscal deficit beyond the planned 60 trillion dinars. The adherence to the Financial Management Law, which caps the deficit at 3% of the GDP estimated at 250 trillion dinars, could emerge as an alternative fiscal strategy for the Iraqi government.

In this intricate economic context, the decisions surrounding the dinar's exchange rate have not occurred in isolation. They have been part of a broader economic dialogue on sustainability, revenue diversification, and fiscal prudence in the face of both endemic and global economic challenges. The trajectory from a stable exchange rate to a controlled devaluation, and a subsequent adjustment to reinforce the currency's value, charts a course of economic resilience and adaptability that has come to define Iraq's fiscal policy in recent years.

Iraq's economy is making strides in diversifying its exports beyond oil, with notable sectors such as refined petroleum products, gold, and agricultural products like dates contributing significantly, albeit still a small fraction compared to oil revenues. This diversification is enhanced by strategic trade relationships with major global markets, aiming to foster sustainable development and reduce the heavy reliance on fluctuating oil prices. Maintaining a competitive currency value and pushing forward with economic reforms are essential for ensuring Iraq's long-term economic stability and growth.

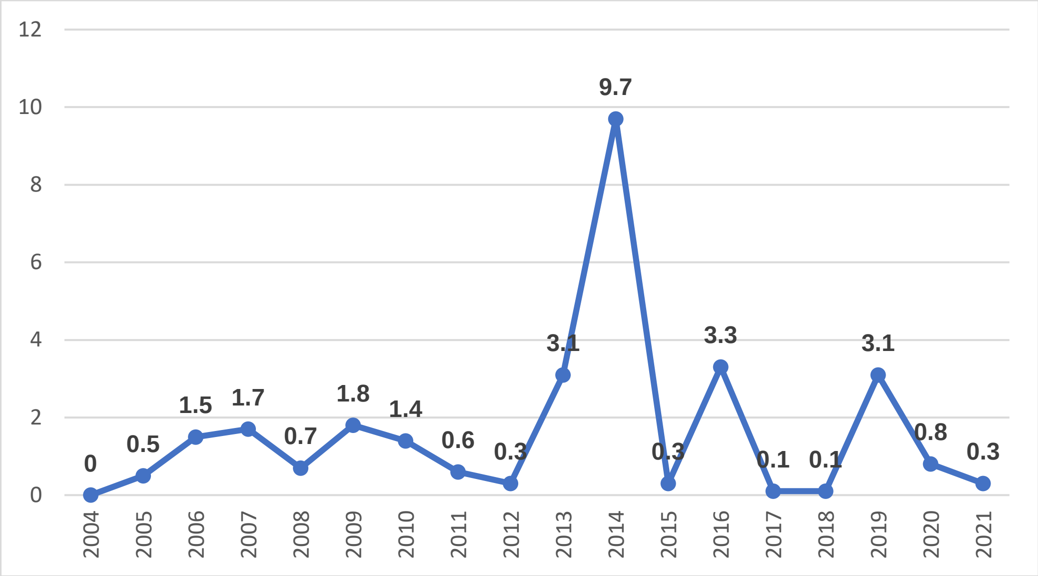
In conclusion, the recent depreciation of the Iraqi dinar underscores the complex interplay between short-term economic relief and the pursuit of sustainable growth. As Iraq navigates these fiscal challenges, understanding deeper measures of economic stability becomes crucial. The monetary stability coefficient, used by the International Monetary Fund, serves as a vital indicator in this context. This measure reflects the balance or imbalance of economic conditions, tracking inflationary and deflationary trends that directly impact monetary stability. A value of one in this coefficient indicates a state of equilibrium, which is ideal. In contrast, deviations from this value can signal underlying economic pressures that may require strategic adjustments in monetary policy.

Table (1) Analysis of the monetary stability coefficient in Iraq in bil. IQD

Year	Gross domestic product at current prices	Change in gross domestic product current prices	Money supply m2	change in money supply m2	monetary stability coefficien t
2004	53235359	-	12254	-	-
2005	73533599	38.1	14684	19.8	0.5
2006	95587955	29.9	21080	43.5	1.5
2007	111455813	16.6	26956	27.9	1.7
2008	157026061	40.9	34920	29.5	0.7
2009	130642187	16.8	45438	30.1	1.8
2010	162064565	24.1	60386	32.9	1.4
2011	217327107	34.1	72178	19.5	0.6
2012	254225490	16.9	75466	4.5	0.3
2013	267395614	5.2	87679	16.2	3.1
2014	266420384	0.36	90728	3.5	9.7
2015	199715699	25.03	84527	6.8	0.3
2016	203869832	2.1	90466	7.02	3.3
2017	225995179	10.9	92857	1.5	0.1
2018	268918874	18.9	95391	2.6	0.1
2019	276157867	2.7	103441	8.4	3.1
2020	219768798	20.4	119906	15.9	0.8
2021	301439533	37.2	132760	10.7	0.3

Source: Central Bank of Iraq, annual statistical releases for the period (2004-2021)

Figure 8: Monetary stability coefficient in Iraq for the period in %



Source: Central Bank of Iraq, annual statistical releases for the period (2004-2021)

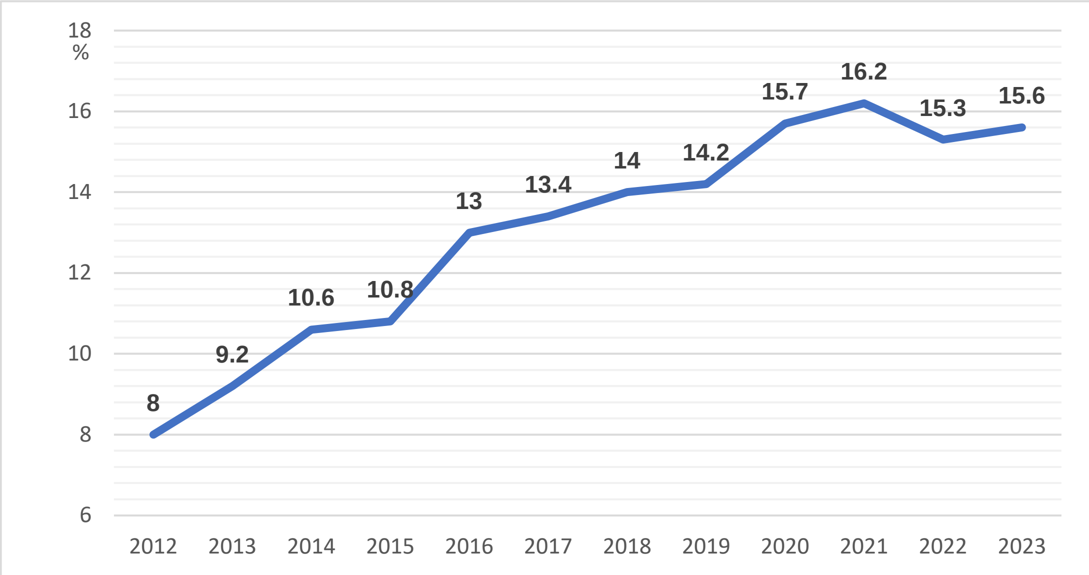
The period post-2004 in Iraq saw a noticeable shift in these economic dynamics, initially marked by inflationary pressures as oil prices surged and expansive fiscal policies were implemented. Data from 2005 to 2014 illustrate a significant rise in the monetary stability coefficient from 0.5 to a peak of 9.7, signaling robust inflationary pressures due to an increase in monetary supply outpacing GDP growth.

Conversely, following the drop in oil prices in 2014, a deflationary trend took hold, with the coefficient dropping to lower levels in subsequent years, reflecting reduced inflationary pressures within the Iraqi economy. This economic shift was compounded by various factors, including a liquidity crunch, fluctuations in oil prices, and changes in the exchange rate. Furthermore, measures recommended by the International Monetary Fund, such as cuts in current expenditures and hikes in taxes, have exacerbated cash hoarding behaviors among Iraqis. This lack of confidence in the banking system, due to its inadequate structure and the complexities involved in handling deposits and financial transfers, has led to a significant portion of money—estimated at around 40 trillion dinars or 44.4% of total monetary supply—being withdrawn from the economic cycle, stashed away in homes and businesses, adversely impacting economic activities, investment, and development efforts.

3.1.3 Labor Market’s Situation

In the context of these macroeconomic factors, we also must look at the labor market. The unemployment rate is not only a reflection of the economy's capacity to create jobs but also an indicator that has far-reaching effects on consumer spending, investment in capital markets, and social stability. Understanding this metric is essential for a holistic view of Iraq's economic health.

Figure 9: Unemployment Rate of the labor force (2023



Source: Author's creation, based on the data from the World Bank (2024)

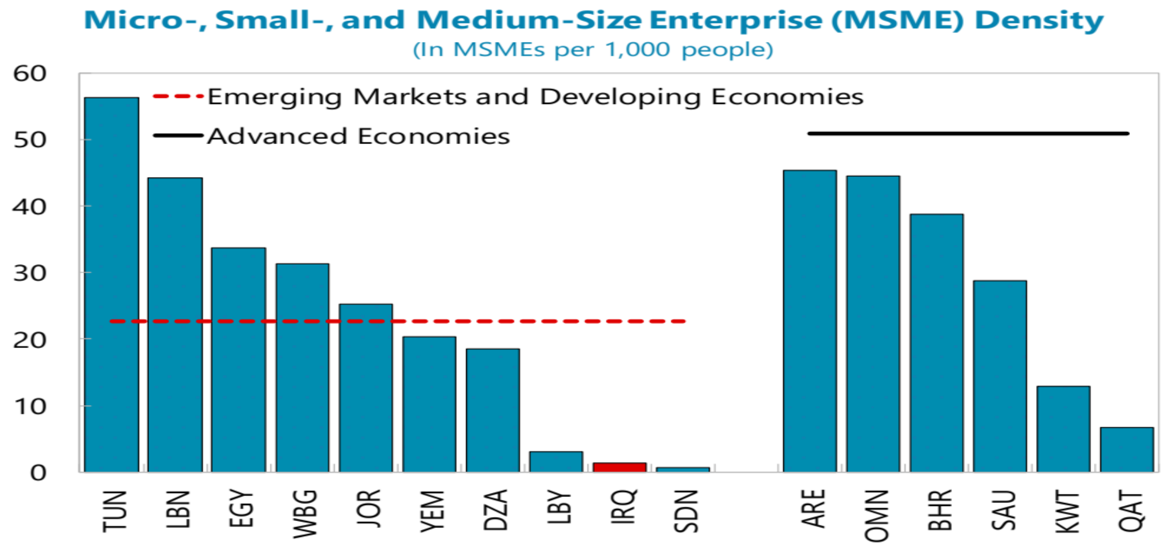
The unemployment trend in Iraq, as seen from the graph, shows an alarming increase in unemployment rates from 8% in 2012 to a high of 16.2% in 2021, before slightly dropping to 15.6% in 2023. This upsurge can be traced back to state policies that have emphasized the expansion of public sector roles, often at the detriment of infrastructure investment and private sector development. The extensive state bureaucracy, coupled with an overwhelming focus on the public sector, has curtailed the growth of private enterprises, which remain largely within the informal economy, contributing minimally to marketed goods.

The policies of expanding the state’s role in the economy and society have come at the expense of spending on public infrastructure and building up fixed capital, and have hindered the progress of the private sector. This shortage in spending on infrastructure, plus the complex administrative apparatus of the state - accompanying the increasing role of the public sector in the economy – has stifled the development and growth of the private sector, with the exception of a few private sector companies operating in specific fields such as oil and telecommunications. The private sector is mainly active in the informal economy, and this is represented by MSMEs, operating in trade, retail, construction and transportation, and in the fields of textiles, food, hospitality, engineering and chemicals, with almost no involvement by any of these MSMEs in the field of marketed goods.

The complication level in the state's policies, combined with the weak ability of the State to enforce the rule of law, increased militarization of society, and the influence of non-governmental actors in the public institutions, have led to the emergence of a repulsive environment for MSMEs, which are forced to remain within the informal economy. These SMEs accounts for more than (90%) of the private sector employment, the majority of which are unorganized, and have increasingly become a source of livelihood for the poor and vulnerable groups, which represented 20% of the population prior to this crisis. The vulnerability of this sector was more evident in the wake of the Corona pandemic (Covid-19). This is due to the fact that the vast majority of the population is actually daily- wage workers, and they lost their livelihood due to the lockdown, making the at risk of hunger. As a result, poverty rates among the population have increased by more than 31%, compared to (20%) before the lockdown. Afterward the vulnerable situation of low-income community members leaves hard choices for them.

To make matters worse, the small and medium size enterprise (MSMEs) sector is largely underdeveloped, with density - measured by the number of MSMEs per 1,000 people- is substantially lower than both the MENA region and emerging and developing countries (Figure 10).

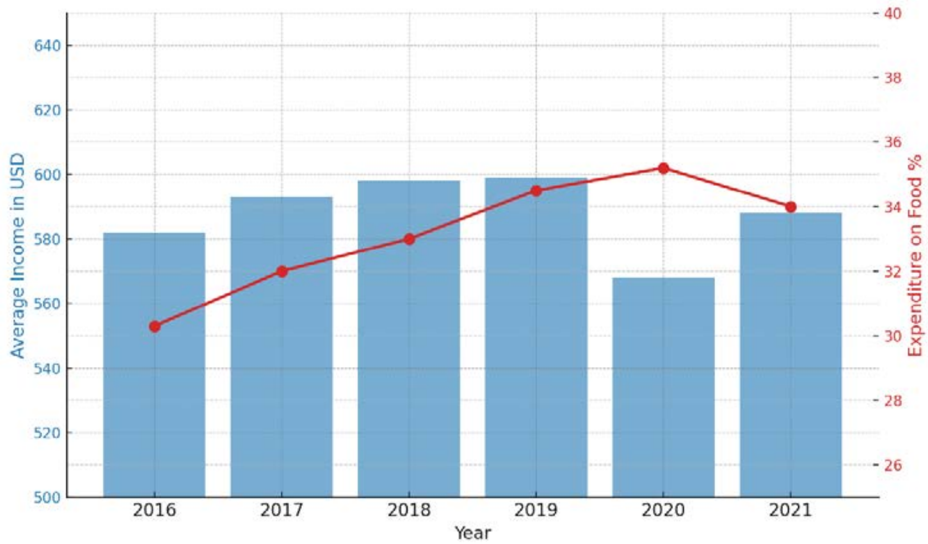
Figure 10: MSME Density in Iraq compared to some countries in (2021)



Source: IMF Country Report No. 19/249. Density of MSMEs in Iraq is very low in terms of absolute value and percentage, given that these companies account for more than (90%) of the private sector employment, and the majority of which are informal.)

The shifts in unemployment in Iraq highlight the broader economic struggles facing the nation, not only in terms of job availability but also in the economic well-being of its citizens. This leads us directly into examining how these economic conditions affect household finances. The following analysis focuses on average income levels and the proportion of expenditure dedicated to food, which can provide insights into the living standards and economic pressures faced by the average Iraqi household over recent years.

Figure 11: Analysis of Annual Average Income and Food Expenditure Trends (2016-2021)



Source: Author's creation, based on the data from the Ministry of Finance Iraq

The graph illustrates the trend in average incomes in Iraq alongside the percentage of income allocated to food expenses from 2016 to 2021. It reveals an upward trajectory in income levels, which suggests economic improvement or changes in wage structures. However, the proportion of income that households spend on food remains notably high compared to European countries. This indicates that, unlike their European counterparts, Iraqis face substantial economic constraints that limit their ability to save or invest, as a significant portion of their income is consumed by basic sustenance needs.

In conclusion, the macroeconomic indicators of Iraq's economy present a mixed landscape for investors in the country's capital markets. The nation's GDP growth has fluctuated, reflecting the volatility of oil prices and the impact of geopolitical and health crises, such as the rise of ISIS and the COVID-19 pandemic. Inflation rates, after a period of stability, spiked due to these events, affecting the cost of living and eroding purchasing power. Interest rate policies of the Central Bank of Iraq, notably the recent increase, are likely to influence the capital markets by affecting the attractiveness of savings versus investment and by altering borrowing costs. The exchange rate devaluation has been a strategic response to declining oil revenues and is poised to affect trade balance and investment flows. Looking forward, the high unemployment rate points towards structural issues within the economy, emphasizing the need for diversification and the development of the private sector. The government's policies and the Central Bank's measures must navigate these challenges to foster a conducive environment for investment and economic growth. Investors considering the Iraqi capital markets should be cognizant of these trends and their potential implications. While the resource-rich nation has significant investment potential, particularly in the energy sector, the economic reliance on oil presents risks that must be managed. Diversification efforts, if successful, may provide a broader array of investment opportunities and help stabilize the economy. In this context, the potential for Iraq’s capital markets remains contingent on strategic economic reforms that can enhance resilience, stimulate private sector growth, and provide a stable platform for investment. Investors are advised to keep a close eye on policy developments, economic diversification efforts, and the overall stability of the nation as they consider their investment strategies.

3.2 Analysis of the Iraqi Capital Market

In the context of Iraq's capital market, the Iraqi Stock Exchange (ISX) serves as the primary trading platform, facilitating the exchange of a diverse range of securities that are integral to the country's financial infrastructure and economic expansion. The securities traded on the ISX include equities, government securities, and exchange-traded funds (ETFs), each fulfilling distinct financial functions and catering to varied investment strategies.

Equities, representing shares of stock issued by companies, are the most prevalent securities traded. Investors in equities are essentially buying into the corporate earnings and growth potential of sectors pivotal to Iraq’s economy, such as oil, telecommunications, and manufacturing. This form of investment allows participants to share in the profits of major companies, contributing directly to and benefiting from Iraq's economic growth.

The market also extensively trades government securities, which encompass treasury bills and bonds. These instruments are pivotal for the government to raise capital necessary to fund public projects and manage the country’s fiscal policies efficiently.

Exchange-traded funds, though still emerging in Iraq, provide investors with the benefits of diversified portfolios through a single transaction. ETFs track indices but are traded like stocks on the ISX, offering a cost-effective means for achieving diversification and reducing investment risk.

The assortment of securities traded on the ISX highlights the sophistication and expansion of Iraq's financial markets. It underscores the strategic efforts to diversify the economy, reduce dependency on oil revenues, and stimulate sustainable development through enhanced market mechanisms. This comprehensive trading environment facilitates not only domestic economic growth but also positions Iraq as an increasingly attractive destination for global investors looking to tap into its diverse market opportunities.

3.2.1 Iraq’s Bonds: Overview

The Public Debt Law has authorized the Ministry of Finance to issue treasury bills guaranteed by the Government of Iraq, as the Central Bank of Iraq, as a financial agent for the Ministry of Finance, manages auctions of treasury transfers for the Government of Iraq on behalf of the Ministry of Finance, which, in accordance with the specifications of the annual budget law, issues treasury bills for government financing (the Bank Central Bank of Iraq, Annual Economic Report 2022).

In addition, the Ministry of Finance has specified a system for the auction of government treasury bills of the Iraqi government, which is held periodically.

In the sphere of Iraq's financial market, bonds are not just a means to manage public finance but a strategic tool to bridge budgetary deficits, particularly given the volatile nature of oil revenues and the socio-economic challenges faced by the country. The government, recognizing the bond market's potential, has engaged in the issuance of different types of bonds, including government bonds, treasury bills, and others aimed at infrastructure development.

Table (2): Annual Internal Debt, Bonds, and Treasury Bills in Iraq (2015-2023)

Year	Total Internal Debt (Million IQD)	Bonds (Million IQD)	Treasury Bills with Comm. Banks (Million IQD)	T.Bills With CBI (Million IQD)
2015	94288769	31420	51272648	23101568
2016	493817081	8313945	180488464	150704704
2017	567244985	29128753	189990504	194704704
2018	543077883	24896730	180797916	190204704
2019	495186442	34671694	152878975	174404704
2020	557324497	22871455	100090764	274775954
2021	789386192	18709824	69220436	497428704
2022	828724025	30773551	67203787	524371704
2023	833618719	25086544	65543896	526800954

Source: Author's creation, based on the data from the Ministry of Finance Iraq (2023)

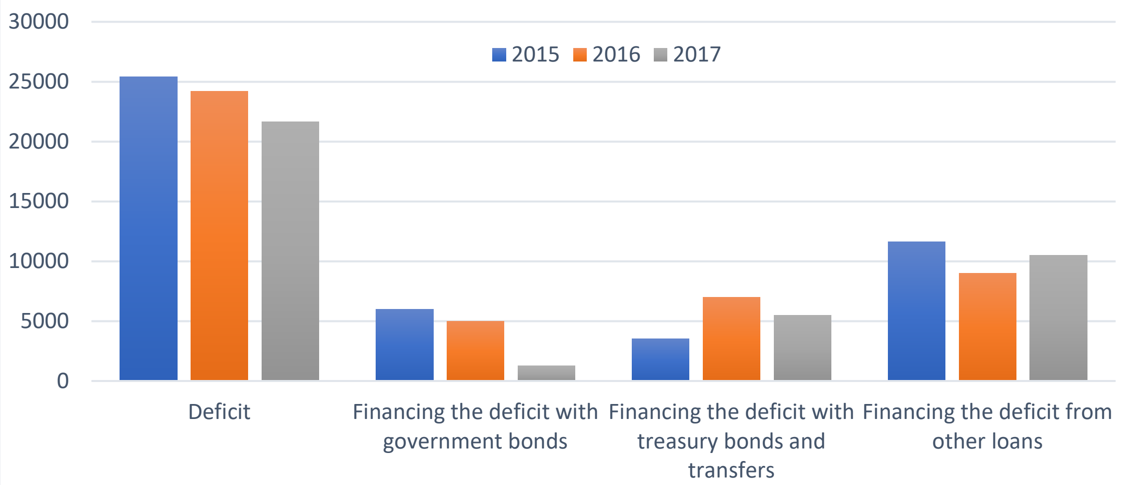
Reasons for issuing Treasury bonds include:

- Limiting Inflation: Inflation is defined as any increase in monetary circulation that results in an increase in the effective total demand over the total supply of goods and services within a specific time period (Care 2000 (52)). Accordingly, domestic borrowing, especially Treasury bonds, when issued, leads to the appropriation of purchasing power "retaining a portion of the monetary loan" among individuals and institutions by offering government bonds for public subscription either through direct sales to the public or through commercial banks. Inflation rates in Iraq were recorded at low levels ranging between (6%) and (4.99%) in the years (2021) and (2022) respectively (Central Bank of Iraq).

- Enhancing and preserving the economic, political, and military capacity of the state through individual contributions in emergencies (war, disasters, etc.).
- The issuance of treasury bonds or bills contributes to meeting the financing needs of the budget. In the mentioned field, during the years (2012-2022), the government turned towards domestic borrowing through the issuance of promissory notes and bonds. The domestic public debt in Iraq in (2022) was about (8.2 trillion dinars, thus recording an increase of 5%) to reach (7.89 trillion dinars in 2013) as shown in Table No. (2). Therefore, the domestic public debt for the year (2022) represents the remaining debt owed by the Ministry of Finance with a growth of (2.5 trillion dinars), and about

When examining the data from 2015 to 2017, it becomes apparent that the proportion of national bonds from the planned deficit was substantial. In 2015, bonds made up 23% of the deficit, signaling a reliance on this financial tool to manage the country's fiscal needs. By 2016, this figure slightly decreased to 20% and then sharply dropped to 5% in 2017.

Figure (12): Financing the deficit (2015-2017)



Source: author's creation, based on the data from the CBI (2019)

Table (3): Bond ratio of deficit

Year	Total Revenue	Total Expenditure	Deficit	Financing the deficit with government bonds	bonds % from deficit
2015	139640	163416	25414	6000	23%
2016	94048	11946	24194	5000	20%
2017	79011	100671	21659	1286	5%

Source: author's creation, based on the data from the CBI (2019)

The recent shift in Iraq's deficit financing strategies, marked by a reduced reliance on bond issuances, suggests a recalibration towards diversified debt instruments or alternative fiscal approaches. Despite this, bonds continue to play a crucial role, underlining their effectiveness in securing essential capital for governmental functions and developmental initiatives. Notably, the Iraqi bond market is primarily sustained by government issues, such as the "Iraq 2028" initiative, which aims to stabilize Iraq's position in the financial markets, primarily engaging local investors due to the market's current limitations. The enthusiastic reception of the $1-billion bond offering in 2017, which saw substantial oversubscription, reflects strong investor confidence and interest in Iraq's economic prospects.

In Iraq, the bond market is uniquely characterized by its reliance on government-issued securities. This exclusivity in bond issuance is partly influenced by considerations of Islamic finance. According to all Islamic schools of thought, traditional bonds are considered haram (forbidden) because they involve lending money at a predetermined interest rate, which is seen as usurious. Instead, Islamic finance recommends investment vehicles like Islamic investment certificates, or sukuk, which do not guarantee an interest rate and where the investor shares in the profit and loss. However, such Islamic financial instruments are not widely available in Iraq. Consequently, the government remains the sole issuer of bonds, using this mechanism to manage public finances under a structure that fits within the available legal and financial frameworks while still attempting to adhere to broader Islamic financial principles.

This government monopoly over bond issuance allows for direct control over the terms and supply of these financial instruments, which are strategically employed to finance public deficits and infrastructure projects. However, limiting bond purchases to Iraqi citizens reduces the potential for a diversified investor base and confines the bonds' influence within domestic boundaries, rather than in international markets. This approach requires careful management to balance effectively raising capital while maintaining sustainable debt levels.

Challenges persist, notably the necessity to expand beyond government securities into more diverse corporate bonds, enriching the investment landscape. The recent interest rate hike in 2023 from 4% to 7.5% by the Central Bank of Iraq highlights a strategic adjustment to attract greater market liquidity and uphold financial stability amid macroeconomic adjustments.

In conclusion, as Iraq navigates through economic redevelopment and tackles fiscal challenges, the evolution of its bond market is poised to play a significant role in shaping the nation’s economic future. Strategic financial planning and market-supportive policies will be pivotal in bolstering this sector, ensuring that Iraq’s financial markets mature and thrive in the coming years.

3.2.2 Equity Market in Iraq

The Iraqi Stock Exchange (ISX), a central pillar in Iraq's financial infrastructure, epitomizes the nation's pursuit of financial stability and economic prosperity. Incepted to channel savings into fruitful investments for Iraq's future, the ISX exemplifies Iraq’s dedication to crafting a resilient economic milieu. Serving as a centralized hub, it facilitates the trade of corporate shares, government securities, and diverse financial instruments, thus providing a transparent, regulated market for valuing corporate equity in Iraq.

The ISX's operations are emblematic of the confidence placed by investors, both domestic and international, in Iraq's economic potential. It furnishes a means to evaluate the nation’s economic temperature, using the stock market's performance as a gauge for investor sentiment and broader economic currents. Fluctuations within the ISX serve as indicators of the corporate sector’s vitality, the effectiveness of economic policies, and the prevailing trends in capital flows and investment strategies.

The transformative journey of the ISX, dating back to the early 20th century, illustrates its pivotal role in Iraq’s economy. The initial legislative framework established by the Trade Exchange Law in 1936 and the Trade Law in 1943 provided a regulated foundation for stock trading. The subsequent introduction of Law No. 24 in 1991 aimed at modernizing the market, and the monumental changes following the 2003 conflict, have all been instrumental in shaping the ISX.

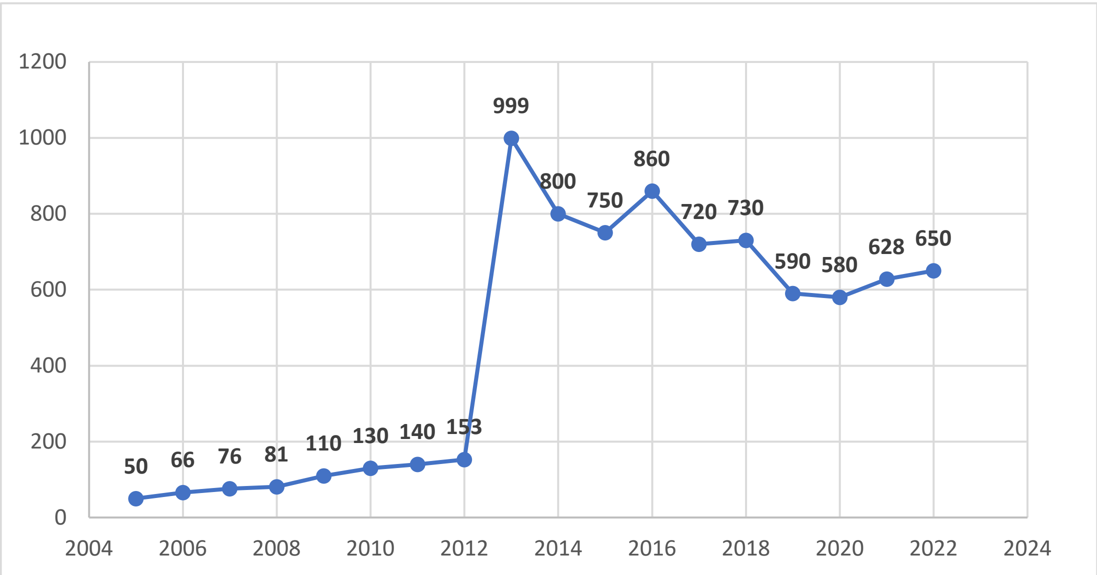
In the aftermath of the conflict, the Coalition Provisional Authority's Order No. 74 of 2004 gave birth to the Iraqi Securities Commission, revamping the governance of corporate structures and market transactions. This overhaul was geared towards aligning the ISX with global standards, paving the way for a more accessible and efficient marketplace.

The switch to electronic trading in 2009, facilitated by NASDAQ, marked a significant leap towards modernization, expanding accessibility and enhancing transactional efficiency. The ISX’s resilience is apparent through its recovery and growth, despite challenges like market volatility and geopolitical uncertainties. Today, the ISX’s regulation by the Iraqi Securities Commission underscores a market not just on the mend but also ripe for future expansion.

As the ISX maintains its momentum, Iraq moves closer to achieving a diversified economy and sustainable development. The stock exchange's effective functioning is crucial to this growth, providing companies with capital for expansion and offering investors a share in the profits of Iraq's burgeoning private sector. Moreover, it disseminates vital financial information, supporting a well-informed investor base and facilitating the efficient allocation of financial resources.

The ISX stands today as a catalyst for economic change and a facilitator of public investment. Its continuous development reflects Iraq's resolve to forge a financial system robust enough to meet global economic demands and adaptable enough to support the nation’s evolving economic objectives. Through this cohesive narrative, we appreciate the ISX as both a historical entity and a modern-day engine driving Iraq's economic revival.

Figure (13) Evolution of the Stock Price Index60 in the Iraq Stock Exchange



Source: Author's creation, based on the data from the ISX (2020)

The Index60 of Iraq comprises 60 companies representing a microcosm of the country's economic landscape across various sectors. This index is diversified across several key industries, ensuring a broad representation of the Iraqi economy. Specifically, the

Index60 includes 19 banks, making the financial sector the most heavily represented. This is followed by 10 companies in the tourism and hotels sector, reflecting Iraq's growing emphasis on boosting tourism as a revenue source. The industrial sector is represented by 8 companies, underscoring its role in Iraq's economic development. Additionally, there are 6 services companies, 5 in agriculture, 2 in insurance, and 1 in telecommunications, highlighting the range of economic activities contributing to the market dynamics. This composition offers insights into the sectorial shifts and economic priorities of the region.

In terms of market activity, the Index60 shows robust engagement with a volume of approximately 1.91 billion and a turnover of around 7.81 billion USD, indicating active trading and significant financial movements within the index. This level of activity not only demonstrates the liquidity of the Iraqi stock market but also reflects investor confidence and the potential growth trajectory of these sectors. The detailed sectoral breakdown and high market turnover position the Index60 as a crucial barometer for assessing the economic health and investment opportunities within Iraq.

The evolution of the Iraqi Stock Exchange (ISX) into its electronic form marked a significant milestone in the modernization of Iraq’s financial sector. This transformation began with the adoption of electronic trading on April 19, 2009, utilizing a platform provided by NASDAQ. This shift was not just a technical upgrade but also a strategic step towards integrating Iraq’s capital market with the global financial system.

The migration to electronic trading has brought numerous benefits to the ISX, enhancing its operational capabilities and service offerings. The most immediate benefit was the increase in efficiency; trades could be executed swiftly and accurately, without the delays inherent in manual processes. This digital leap brought about greater transparency as electronic trading platforms leave a clear audit trail, which is essential for regulatory compliance and investor confidence. Additionally, the ISX experienced better investor participation, as the convenience of online platforms attracted a broader demographic of investors, including international participants. Through this alignment with international best practices, the ISX bolstered its reputation and credibility on the world stage, positioning itself as a viable destination for global investment.

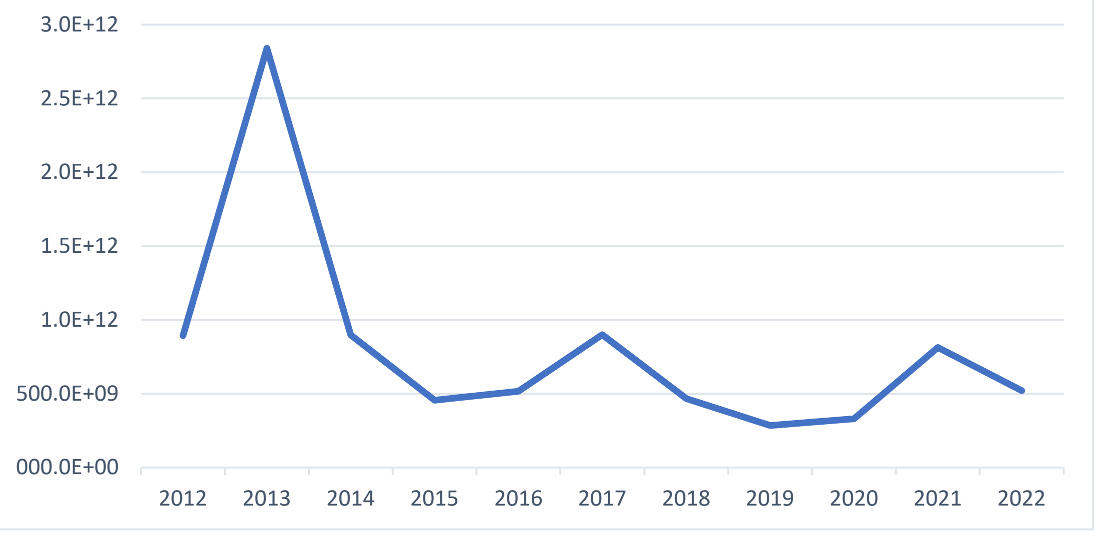
The transition, however, was not without its challenges. Adapting to a new system required significant changes in market operations, regulatory practices, and the behavior of market participants. Market players had to be educated on the new system, requiring training and continuous support. Additionally, infrastructure upgrades were necessary to support the new electronic system, demanding substantial investment.

The ISX and its stakeholders addressed these challenges proactively. Training programs were implemented for brokers and traders, ensuring that they were adept at using the new system. The ISX worked closely with technology partners to ensure the robustness of the IT infrastructure and the availability of technical support. Furthermore, the ISX established communication channels to keep investors informed and engaged throughout the transition.

The successful implementation of electronic trading on the ISX is a testament to the resilience and adaptability of Iraq’s financial sector. It demonstrates the market’s capacity to embrace change and its determination to overcome obstacles in the pursuit of progress. As the ISX continues to refine its electronic capabilities, it strengthens its role as a dynamic component of Iraq's economic

As we delve into the quantitative realm of the Iraqi Stock Exchange Market, it becomes imperative to understand the significance of its trading activities. The data presented offers a glimpse into the market's vitality and dynamism over the past decade. In this context, let's interpret the trends reflected in the trading volume, trading shares, and the ISX60 index, which collectively paint a picture of the market's trajectory. framework, enabling it to meet both current and future challenges.

Figure (14) Annual Trading Volume (IQD) on the Iraqi Stock Exchange (2012-2022)

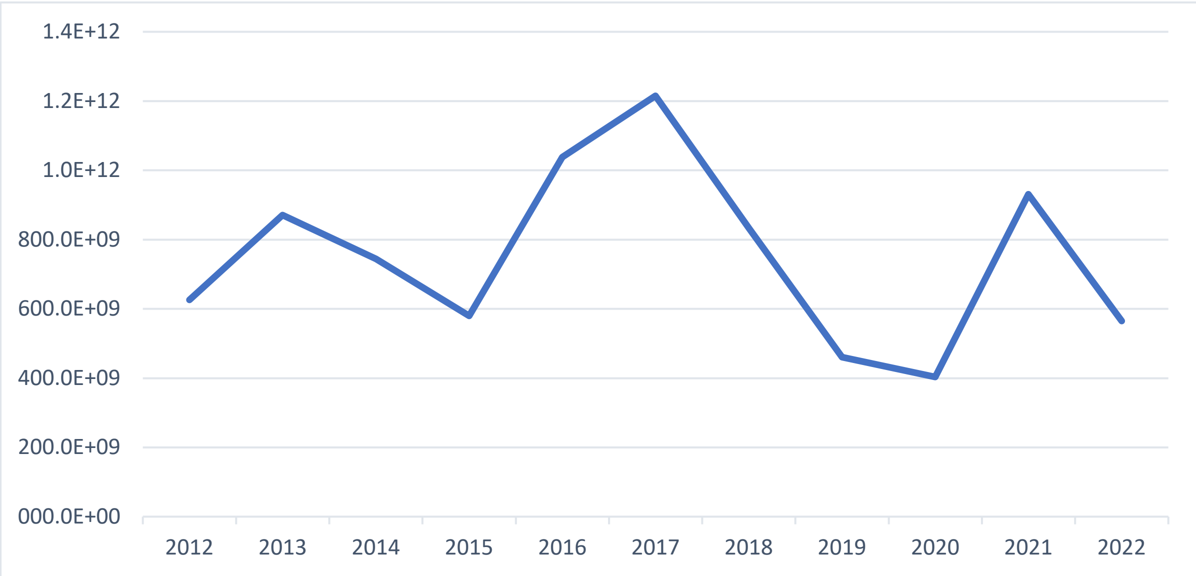


Source: Author's creation, based on the data from the ISX (2022)

The trading volume graph indicates a period of significant activity in 2013, with volumes reaching an all-time high. This surge may be attributed to a series of economic reforms or heightened investor interest. The sharp decline in trading volumes during these years correlates with the rise of ISIS in 2014, which significantly destabilized the region and impacted investor confidence. The security concerns and economic uncertainty generated by ISIS's activities likely led to a withdrawal of both domestic and international investment from the market. The trading volume after 2017 shows fluctuations which may be influenced by various factors including global oil prices, ongoing economic reforms, and the broader recovery of the global economy post-recession. Additionally, government initiatives to attract foreign investment and diversify the economy likely played roles in reviving market activity.

With an understanding of the trading volume's implications, we now shift our gaze to the trading shares graph, which offers a window into the breadth of market participation. Here we look at the number of shares traded, an essential metric for assessing market depth and the distribution of market activity across various securities.

Figure (15) Total Number of Shares Traded (unite) on the ISX (2012-2022)



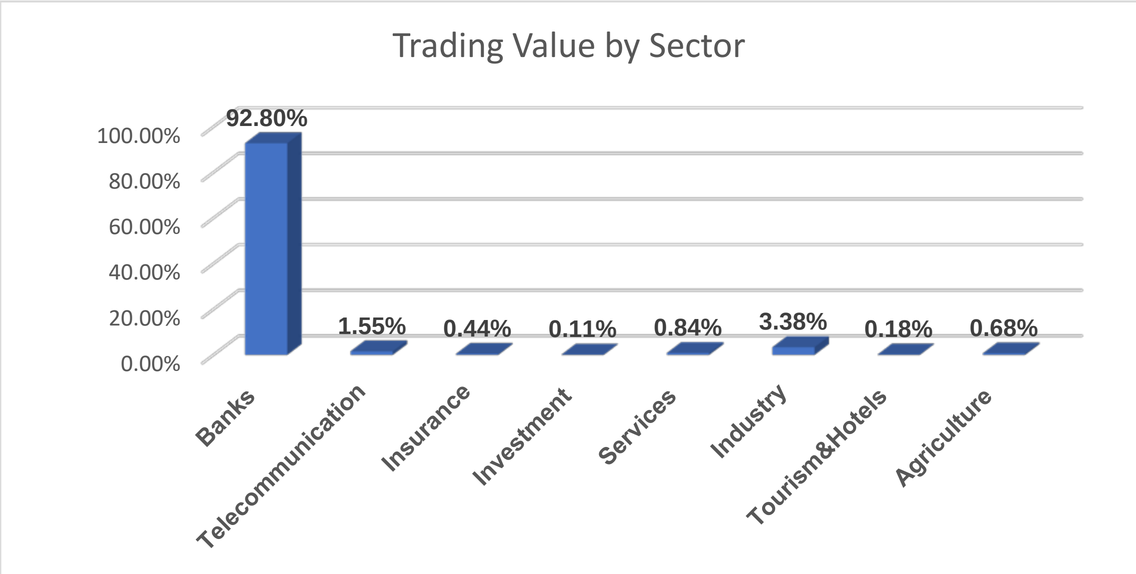
Source: author's creation, based on the data from the ISX (2022)

The trading shares graph for the Iraqi Stock Exchange displays a dynamic pattern of fluctuations, characterized by a significant increase in 2016. This upward trend suggests a diversification in the types of shares traded or an expansion in the investor base, potentially reflecting growing confidence in the market at that time. Following this peak, there is a noticeable decline in trading activity, which may be attributed to cautious investor behavior, changes in market regulations, or macroeconomic uncertainties.

The downturn becomes more pronounced in the later years, particularly in 2020, when the global onset of COVID-19 had a substantial impact on financial markets worldwide. The pandemic introduced high levels of economic uncertainty and volatility, leading to reduced trading activity as investors reevaluated their risk exposure and financial strategies in response to the unfolding global crisis. This period highlights how external global events, such as a pandemic, can significantly influence local market dynamics, affecting trading volumes and investor participation.

As we turn from examining the trading shares to scrutinizing the trading values across various sectors within the Iraqi Stock Exchange, the distinction in sectoral engagement becomes evident. The disparity in trading share percentages reflects the varied investor focus and capital distribution among the different industries that make up the market.

Figure (16) Total Value of Shares Traded By Sector (2022)



Source: author's creation, based on the data from the ISX (2022)

The Iraqi Stock Exchange presents a distinct picture of sectoral investment, with the banking sector claiming an overwhelming majority of 92.80% in trading shares. This figure illustrates a market that leans heavily towards banking, potentially viewing it as a bastion of stability or the most viable entry point for market participation. Other sectors like telecommunications and industry, while crucial to the economy, command a relatively minor presence, accounting for just 1.55% and 3.38% of trading shares, respectively.

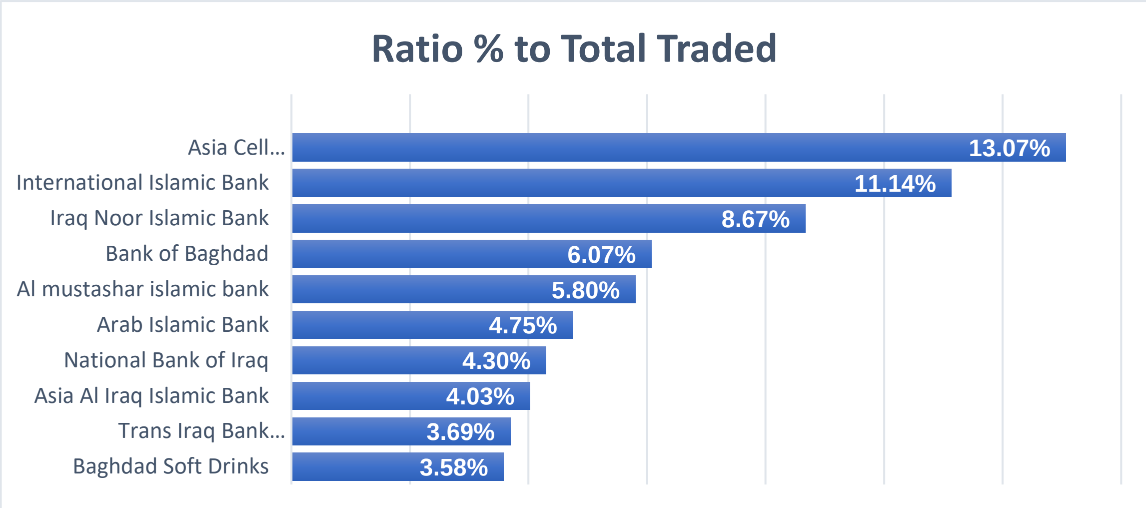
The data reveals that sectors such as insurance, investment, and services each capture less than 1% of the trading share, indicating that Iraq's capital market is still maturing in terms of sector variety. This suggests an over-concentration of investments in a few areas and points to the potential benefits of a more varied market, which would offer investors a wider array of choices and help distribute investment risks more evenly across diverse economic activities.

Agriculture, integral to Iraq’s economic fabric, surprisingly, has only a small share of trading volume, implying either a lack of market investment or limited visibility on the exchange. This sector's low trading share percentage could indicate untapped potential, inviting initiatives to bolster its market presence as part of a strategic move towards a more equitable sectoral representation in the market.

The minimal trading shares observed in the tourism, hotel, and investment sectors may reflect investor apprehension due to perceived risks or insufficient knowledge about the opportunities these areas hold. However, this also represents an opportunity for these sectors to enhance their market profile and draw investors’ attention to their growth prospects.

Shifting our focus from the overarching sectoral composition to the prime movers within the Iraqi Stock Exchange, we transition to an examination of the top-performing companies. This analysis will reveal not just the dominant players in the market but also offer insights into which corporations are shaping the economic narrative of Iraq's capital market. The performance and activities of these leading companies often serve as a microcosm of the wider economic health and investor sentiment. Their trading patterns, market capitalization, and share prices are reflective of the confidence investors place in Iraq’s corporate sector and are indicative of the market's depth and sophistication. By delving into the specifics of the top companies trading on the ISX, we can gain a clearer understanding of where capital is being concentrated and identify the industries and enterprises driving Iraq's economic engine. This segment of the market analysis will not only highlight the current market leaders but also shed light on the emerging contenders that promise to bring diversity and resilience to Iraq’s stock market.

Figure (17) Top Ten Companies by Trading Value of 2022



Source: Author's creation, based on the data from the ISX (2022)

The composition of top-traded companies within the Iraqi Stock Exchange reveals a heavy inclination towards the banking sector, which is less indicative of the sector's robustness and more a reflection of the limited variety in the market. The substantial trading percentages occupied by banks, particularly those in the Islamic banking sphere, are partly due to the sheer number of financial institutions listed on the exchange compared to other sectors.

Asia Cell Telecommunication, leading with a 13.07% ratio to total traded, stands as a notable exception in a list dominated by financial entities. Its prominent position points to investor interest in the telecommunications sector, which, while significant, pales in comparison to the trading activity surrounding banks.

The banking sector’s dominance, including that of International Islamic Bank and Iraq Noor Islamic Bank with ratios of 11.14% and 8.67% respectively, is a symptom of the market's current stage of development. With a more extensive representation of banks on the exchange, investors' options are skewed towards financial products, potentially overshadowing the opportunity to invest in other industries that contribute to economic diversity.

The presence of entities like Baghdad Soft Drinks with a trading share of 3.58% demonstrates investor appetite for diversification; however, the concentration on banking reflects the current market structure, where a larger number of banking entities, not necessarily offering substantial services, take precedence due to limited choices.

This skewed distribution raises questions about the depth and breadth of the Iraqi capital market. It suggests a need for a strategic approach to market development, focused on attracting a wider array of companies across various sectors. The goal would be to provide investors with a more diversified portfolio and stimulate economic growth by channeling capital into different industries, reducing the disproportionate emphasis on banking and fostering a more resilient economic structure.

3.3 Challenges for Iraqi Economy

The Iraqi economy, rich in resources and steeped in a history that spans significant political and social upheavals, faces a series of formidable challenges that impact its growth and development. While it boasts vast oil reserves, the nation's heavy reliance on oil revenue has rendered its economy vulnerable to global market fluctuations. This singular dependence not only limits fiscal capabilities but also hampers broader economic diversification. The challenges associated with such an economic structure hinder not just immediate financial stability but also the long-term sustainability of Iraq's economic landscape.

Iraq’s economic structure is heavily skewed towards oil, which accounts for the vast majority of national revenue. This dependency exposes the economy to risks like foreign exchange rate volatility and significant budgetary constraints when oil prices fluctuate. Furthermore, a lack of diversification affects the trade balance, heavily tilting it towards imports while stifling domestic production and export capacities outside of the oil sector.

The root causes of this economic monolith stem from a historical over-reliance on oil. Decades of state-led economic policies have prioritized immediate oil revenue over the development of other sectors, resulting in an underdeveloped private sector and inadequate industrial and technological infrastructure. This policy orientation has also been influenced by political factors where short-term gains through oil revenues were often prioritized over long-term economic planning and stability.

To counter the heavy reliance on oil, strategic diversification of the economy is essential. Potential strategies could include:

- Agricultural Development: Investing in modern agricultural technologies and systems to boost local production and exports.
- Manufacturing Sector: Establishing zones for manufacturing that can attract foreign investment and also serve the local markets.
- Technology and Innovation: Encouraging the growth of the tech sector through incentives for startups and the establishment of technology parks.
- Export Diversification: Enhancing support for non-oil exports through subsidies, tax incentives, and international trade agreements that open up new markets.

These approaches not only aim to reduce Iraq's economic vulnerability to oil price shocks but also strive to create a more balanced and resilient economic structure. By fostering growth in these areas, Iraq can stimulate job creation, reduce its import dependency, and build a more stable economic foundation that supports sustainable growth and development.

Transitioning from the overarching challenges facing Iraq's economy, we next delve into the specific aspects of the regulatory framework that governs Iraq's capital markets. The effectiveness and robustness of these regulations are pivotal for maintaining investor confidence and ensuring a stable investment environment. As we examine how Iraq's regulatory environment compares with more developed or regional markets, we'll also explore the necessary reforms to enhance transparency, compliance, and overall market attractiveness. This analysis is crucial for understanding how regulatory measures can support or hinder the growth and stability of Iraq's financial market.

The regulatory framework of Iraq's capital market is crucial for maintaining investor confidence and ensuring a stable investment environment. However, current regulations may be perceived as inadequate, lacking the robustness found in more developed markets. This can lead to issues with transparency, compliance, and ultimately, investor trust, which are essential for attracting both domestic and international investments.

When compared to the regulatory environments of developed markets or regional leaders, such as those in the MENA region or the United States, Iraq's regulatory framework may fall short in several areas including investor protection, corporate governance, and market oversight. These regions often have well-established, stringent regulatory practices that help in maintaining a fair and transparent market environment, fostering greater confidence among investors.

For a comparative perspective, consider the example of Jordan, which has made significant strides in reforming its capital market regulations. Jordan implemented comprehensive market reforms in the early 2000s, focusing on enhancing corporate governance, improving transparency, and protecting investor rights. These reforms helped increase market participation and boosted investor confidence, as evidenced by the growth in market capitalization and trading volumes (Jordan Stock Market).

Figure (18): Jordan Stock Market

Source: Jordan Stock Market (2023)

Iraq could benefit from similar reforms. Specific recommendations might include:

- Introducing stricter disclosure requirements and corporate governance standards.
- Establishing an independent regulatory body to oversee market operations.
- Enhancing the legal framework to ensure swift and fair enforcement of market regulations.

After examining the regulatory challenges within Iraq's capital markets, we now turn our attention to the broader issues of monetary and financial stability. These aspects are foundational to understanding the capital market's environment as they directly influence investor confidence and market functionality. By analyzing Iraq's financial system and monetary policy, we can identify key areas for improvement that could foster a more stable economic environment, crucial for the development of robust capital markets. This discussion will explore strategic recommendations aimed at enhancing Iraq's monetary stability, thereby supporting sustainable economic growth and expanding investment opportunities.

Iraq's financial instability, characterized by limited monetary tools and heavy reliance on volatile oil revenues, poses significant challenges to its economic environment. This instability can deter investment and stymie the growth of the capital markets.

Financial instability directly impacts capital market development by undermining investor confidence and increasing market volatility. The lack of a stable financial environment makes it difficult for the capital market to attract long-term investments, which are crucial for sustained economic growth.

Improving Iraq's monetary stability requires a multifaceted approach. Enhancing the capabilities of the Central Bank of Iraq to implement effective monetary policies is crucial. This could involve adopting more sophisticated monetary tools and improving the bank's ability to respond to economic shocks. Increasing financial literacy among the populace and strengthening the banking sector's infrastructure are also vital steps. These measures would help in stabilizing the currency and creating a more predictable economic environment conducive to investment. Moreover, promoting broader financial inclusion can encourage more domestic savings, reducing the economy's vulnerability to external shocks.

With a clearer understanding of the monetary and financial stability challenges, we now shift our focus to another pivotal aspect of Iraq's economic landscape: the impact of oil price shocks. Iraq's economy is significantly impacted by oil price fluctuations due to its heavy reliance on oil revenues, which account for the vast majority of national income. The volatility of global oil prices directly affects the fiscal stability of the government and the overall economic landscape. For instance, sharp declines in oil prices can lead to budget deficits, forcing cuts in public spending that can delay or halt infrastructure projects and other capital expenditures.

To mitigate the impact of oil price shocks, Iraq must diversify its economy. One effective strategy is investing in renewable energy sectors, such as solar and wind power, which Iraq has started but needs to expand significantly. This not only reduces dependency on oil but also aligns with global trends towards sustainable energy. Additionally, fostering industries like agriculture, manufacturing, and technology can create more stable income sources that are less susceptible to global commodity price swings.

Transitioning from the discussion on oil price shocks, it is crucial to address another pressing challenge that significantly affects the socioeconomic fabric of Iraq: poverty. Poverty in Iraq remains a profound challenge, exacerbated by political instability, corruption, and economic mismanagement. High unemployment rates, particularly among youth and in war-affected regions, contribute significantly to widespread poverty.

Effective economic policies are crucial in alleviating poverty. Initiatives to create jobs, especially in new and diversified sectors, can significantly improve income levels across the country. For example, investing in infrastructure, education, and healthcare not only provides immediate employment opportunities but also improves the overall human capital, which is essential for long-term economic growth. Economic reforms that include better financial regulations, support for small and medium enterprises, and incentives for private sector investment are vital. These policies should aim to create a more inclusive economy that offers opportunities to all Iraqis, regardless of their socioeconomic status.

After addressing the crucial issue of poverty and its implications on Iraq's socioeconomic landscape, it's pertinent to explore the structure and depth of the Iraqi capital market. The depth of a capital market refers to its ability to handle large transactions without significant impacts on prices. Iraq's capital market currently suffers from limited depth and breadth, with a narrow range of financial instruments available to investors. This limitation is largely due to the dominance of a few sectors, such as oil, and the nascent state of other financial sectors. The market's accessibility is also restricted, with stringent regulatory frameworks that may deter new entrants and limit the diversity of investment opportunities.

- Facilitating Bond Issuance: Encourage and facilitate more corporations and banks to issue bonds. This could involve simplifying the regulatory process for bond issuance and offering tax incentives to issuers. For instance, easing listing requirements on the Iraq Stock Exchange could make bond issuance more appealing for local corporations and banks.
- Encouraging Derivatives: Develop a regulatory framework that supports and governs the use of derivatives for risk management. Derivatives can provide investors and companies with tools to manage price, credit, and other financial risks, thereby enhancing the sophistication and appeal of the capital market.

- Expanding Investor Base: Implement policies that attract both domestic and foreign investors. This could include enhancing the legal protections for investor rights, improving the transparency and disclosure requirements for listed companies, and fostering a more stable macroeconomic environment.
- Educational Programs: Invest in financial literacy programs to educate potential investors about the opportunities in the capital market. This would help in broadening the investor base and increasing participation from retail investors, which is crucial for market depth.
- Promoting Public Awareness: Increase public awareness about the benefits of investing in a broader range of financial instruments. Campaigns could highlight successful examples from other markets where diversified investment options have led to robust market growth.

By implementing these strategies, Iraq can broaden market participation, increase the variety of financial instruments, and ultimately create a deeper, more resilient capital market. This would not only enhance the country's financial stability but also attract more significant foreign investment, contributing to overall economic growth. These interventions should be carefully tailored to the specific needs and conditions of Iraq's economy to ensure they address the unique challenges faced by the country.

Conclusion

This thesis has provided a comprehensive examination of the investment landscape within Iraq's capital markets, illuminating the multifaceted challenges and opportunities that define this emerging market. Central to this analysis was the exploration of macroeconomic volatility, economic fundamentals, financial stability, and the deep impact of oil price fluctuations on the economy.

The findings underscore the critical dependency of Iraq’s economy on oil revenues, which poses significant risks but also presents substantial opportunities for growth and investment. The volatility of oil prices has been shown to directly influence the economic stability of the country, impacting everything from government budgets to investment climates. This thesis argues that diversifying the economy and enhancing the regulatory environment are essential steps toward mitigating these risks and fostering a more robust economic landscape.

Significant emphasis was placed on the need for regulatory reforms to build investor confidence and create a conducive environment for both local and international investors. This study suggests that adopting best practices from developed markets can enhance transparency, improve corporate governance, and strengthen market oversight, thereby attracting more substantial foreign investment.

Furthermore, the analysis highlighted the potential of Iraq’s capital market to be a catalyst for economic growth, suggesting that strategic developments in market infrastructure and financial instruments could broaden market depth and accessibility. Encouraging the issuance of diverse financial securities and improving the sophistication of financial services are vital for deepening Iraq's financial markets.

The conclusion of this thesis is not merely an academic exercise but a call to action for policymakers, investors, and the international community. By continuing to focus on economic reforms, regulatory improvements, and market diversification, Iraq can enhance its financial stability and create a more attractive investment destination that contributes to the overall economic resilience and prosperity of the country.

Záver

Táto práca poskytla komplexné preskúmanie investičného prostredia v irackých kapitálových trhoch, ktoré osvetlilo mnohostranné výzvy a príležitosti, ktoré charakterizujú tento rozvíjajúci sa trh. Kľúčovým prvkom analýzy bolo skúmanie makroekonomickej volatility, regulačných rámcov, finančnej stability a hlbokého vplyvu kolísania cien ropy na ekonomiku.

Zistenia zdôrazňujú kritickú závislosť irackej ekonomiky na príjmoch z ropy, čo predstavuje významné riziká, ale zároveň ponúka významné príležitosti pre rast a investície. Ukázalo sa, že volatilita cien ropy priamo ovplyvňuje ekonomickú stabilitu krajiny, čo má vplyv na všetko od vládnych rozpočtov po investičné klímy. Táto práca argumentuje, že diverzifikácia ekonomiky a zlepšenie regulačného prostredia sú nevyhnutné kroky na zmierňovanie týchto rizík a na podporu robustnejšieho ekonomického prostredia.

Značný dôraz bol kladený na potrebu regulačných reforiem na budovanie dôvery investorov a vytvorenie priaznivého prostredia pre miestnych aj medzinárodných investorov. Táto štúdia naznačuje, že prijatie najlepších postupov z rozvinutých trhov môže zvýšiť transparentnosť, zlepšiť korporátne riadenie a posilniť dohľad nad trhom, čím priláka väčšie zahraničné investície.

Ďalej analýza zdôraznila potenciál irackého kapitálového trhu byť katalyzátorom ekonomického rastu, čo naznačuje, že strategický rozvoj infraštruktúry trhu a finančných nástrojov by mohol rozšíriť hĺbku a dostupnosť trhu. Podpora emisie rozmanitých finančných cenných papierov a zlepšenie sofistikovanosti finančných služieb sú nevyhnutné pre prehĺbenie irackých finančných trhov.

Záver tejto práce nie je len akademickým cvičením, ale výzvou konať pre politikov, investorov a medzinárodné spoločenstvo. Pokračovaním v zameraní na ekonomické reformy, zlepšenia v regulácii a diverzifikáciu trhu môže Irak zvýšiť svoju finančnú stabilitu a vytvoriť atraktívnejšie investičné miesto, ktoré prispieva k celkovej ekonomickej odolnosti a prosperite krajiny.

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