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MONEY AND BANKING
IN IRAQ

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Abstract

During the last quarter of a century, Iraq's monetary and banking system achieved considerable progress. At present, there is a national currency (the Dinar with a par value declared to the I.M.F. of one I.D. = 2.48828 grams of pure gold), a central banking organization, several commercial and non-commercial banking institutions, and fairly adequate financial legislation.

The currency issue is the responsibility of the Central Bank of Iraq. Issued currency must be at least 100 per cent covered by foreign exchange, gold and Iraqi Government bonds. The ratio of foreign exchange and gold must be at least 70 per cent of the total cover, while Iraqi Government bonds must not exceed 30 per cent.

In December 31, 1956 the currency in circulation amounted to I.D. 53.7 million. More than 90 per cent of the currency cover consisted of foreign exchange and gold. The remainder is in Iraqi Government bonds.

The Central Bank is further empowered to act as a bankers' bank and as the financial agent of the government. It is also entrusted with the control of banking and foreign exchange control.

Money and capital markets are still in a rudimentary stage. Both are developing, the latter steadily and the former rapidly.

The banking habit is still limited in Iraq. Commercial banking business consists mainly of financing trade, especially import trade. There are domestic commercial banks, branches of Arab banks and branches of foreign banks. The relative importance and the ratio of business done by the former two groups have been increasing over the last few years. This trend is likely to continue in the future.

There are five non-commercial banks in Iraq; the Agricultural, Industrial, Real Estate, Mortgage and Co-operative Credit Banks. They are all state-owned. The credit these banks advance in their various fields is estimated to be considerably less than the actual needs of the country.

As an indirect result of huge expenditures of the Development Board, Iraq is threatened with inflationary pressures. The Central Bank alone cannot counteract inflation if and when it threatens to take place. It is highly imperative that the Development Board, the Treasury and the Central Bank coordinate their policies for this purpose.

Analysis of the Iraqi monetary and banking system clearly shows that it is in need of a number of reforms which

should aim at the following: Developing money and capital markets, encouraging the establishment of more commercial banks, especially domestic ones, and extending their branches outside the three main cities, expanding non-commercial credit facilities, and finally strengthening the position of the Central Bank and coordinating its policy with that of the Treasury and the Development Board.

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Chapter One

Development of the Monetary System

I. The Monetary System under the Ottoman Regime

Beginning with the Turkish invasion of Iraq in 1534 and up to the first world war, the monetary system of Iraq was that of the Ottoman Empire. Prior to 1880 the monetary system of the Ottoman Empire was on a bimetallic basis, (silver and gold). But due to continuous fluctuations in the value of silver, and following the example of many other countries, the Turkish authorities in 1880 enacted a law suspending silver coinage and making the Turkish gold pound the monetary unit throughout the Empire. This Turkish gold pound was equivalent to four gold dollars and forty cents, and was divided into hundred piasters.¹ However, both French and English gold pounds were also used, especially for large payments.² As for daily small transactions Turkish silver

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1. Al-Jalili, A. The Monetary System of Iraq. (Arabic) Nahdat Misr Press, 1946. p. 88.
 2. Probably the reason for this is that the value of the gold in the Turkish pound in relation to its nominal value is less than it is in the French and English gold pounds.

and copper coins were used. But no fixed rate between these Turkish coins and the gold pound prevailed in the market over any considerable period of time. As a matter of fact, at any given time, the exchange rate between silver and copper coins on the one hand and the gold pound on the other, was different in various localities and commercial centers.¹

During the first world war the Turkish monetary system maintained its gold basis but transferred its monetary unit from the gold pound to the silver piaster in 1916.² A year earlier, the Turkish authorities had issued government banknotes as an emergency measure to take care of the high cost of war exigencies. This paper money quickly depreciated in value and people were reluctant to deal in it. The law that was enacted to promote the use of this paper money, inflicting heavy penalties on those dealing in gold, was of little value in Iraq and especially in rural areas where its enforcement was particularly difficult.

II. The Indian Rupee

In November 1914 the British troops coming up the Persian Gulf invaded the south of Iraq and occupied the town of Basra and the surrounding territory. The British occupation

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1. Himadeh, S.B. Economic Organization of Iraq. (Arabic) American Press, Beirut, 1938. p. 433.
 2. Al-Jalili, op.cit., p. 90

forces used as a currency in their dealings the Indian Rupee which was a familiar medium of exchange in Basra long before that time as merchants there had for long maintained trade relations with India. Later as these troops advanced to the north bringing more Iraqi land under their occupation, the use of the Indian rupee increased still further. This increase is due partly to the fact that the people became more and more reluctant to accept Turkish banknotes which were quickly depreciating in value, and partly for the withdrawal of the gold pounds out of circulation for hoarding purposes. Thus by the end of 1917 the amount of Indian currency in circulation in Iraq exceeded one million rupee; one third of which was in silver coins.¹ This amount steadily increased particularly after August 1917, when the Indian currency was made the only legal tender in Iraq. At the same time the value of one Turkish pound was declared equivalent to fourteen rupees and four annas² for purposes of paying debts contracted earlier and due not later than May 1918.³ By 1930 it was estimated that the Indian currency in circulation in Iraq represented a total of forty million rupees.⁴

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1. Himadeh, op.cit., p. 108
 2. Sixteen annas were equal to one rupee.
 3. The value of the rupee in relation to the British currency was specified in the Paper Currency Act of 1910 as not to exceed one shilling and four pennies or be less than one shilling and 3.88 pennies.
 4. Main, Ernest. Iraq from Mandate to Independence. London, Allen. 1935. p. 188.

The continuance of having the Indian rupee as the legal currency in Iraq met with some opposition. The Iraqis had for long desired an independent currency of their own as they considered it an important requirement of sovereignty. Also they realized that the profits arising from the circulation of the Indian rupee in Iraq went in their entirety to the Indian government.¹ Thus it was in response to this, more or less, general feeling among the educated circles that the Council of Ministers decided in 1923 to issue a national currency that would be convertible into sterling pounds. This decision, however, was not implemented till eight years later in spite of the fact that the matter was raised several times in the Council of Ministers and the Parliament. Probably one of the main factors behind this reluctant attitude of the official circles was the recommendation made by the Financial Mission to Iraq. This mission which was appointed by the British Secretary of State for the Colonies in 1925 thought that it was premature for Iraq to take such a step, and that the prevailing system then was adapted to the needs of the country, and therefore they did not "recommend any change in it in the near future."² Dr. A. Al-Jalili believes

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1. This profit resulted from three different sources, namely: a) seigniorage, b) the value of the currency which is destroyed while in circulation, and c) the interest on the cover of the currency.
 2. Secretary of State, "Report of the Financial Mission appointed by the Secretary of State for the Colonies to enquire into the Financial Position and Prospects of the Government of Iraq, 1925" p. 25.

that the above recommendation was made more on political grounds rather than for purely economic reasons.¹

III. The Iraqi Currency Board

In April 19, the Iraqi Currency Law no. (44) of 1931 was enacted. However, the Iraqi currency was not issued and actually put into circulation until April 1932. The delay was caused by Britain's abandoning of the gold standard and Iraq's decision to follow, which necessitated some amendments in the law.² The amended Currency Law provided for the establishment of a board consisting of five members "to provide for and control the currency in Iraq and to maintain the standard condition and value of the currency."³ Two of the five members of the Board were nominated by the Government of Iraq, two by the three private banks⁴ then operating in Iraq, and one by the governor of the Bank of England. The seat of the Currency Board was London and it was represented in Baghdad by a Currency Officer. The Board's primary functions were to issue Iraqi notes and coins against sterling, fully prepaid in London, and conversely to sell sterling

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1. Cf. Al-Jalili, op.cit., pp. 111-113
 2. The amendments were embodied in Law No. (101) of the year 1931.
 3. Ibid., Article 16 (a).
 4. The Eastern Bank, the Ottoman Bank, and the British Bank of the Middle East then called the Iranian Imperial Bank.

payable in London against Iraqi currency. The unit of the new currency was the dinar with an exchange value of one pound sterling. No dinars were to be issued except against equivalent sterling assets which with the interest earned on them went into a currency reserve fund. Thus all Iraqi notes and coins were at least 100 per cent covered and were readily convertible into sterling.

This ready convertibility of the Iraqi dinar_v to the sterling pound, in turn, guaranteed the convertibility of the dinar_v to other currencies, as the sterling pound - during the interwar period - was readily convertible into all other foreign currencies. The sterling assets in which the cover of the Iraqi currency was invested (treasury bills, call and very short-term loans) were very liquid. Thus the arrangements of the Currency Board provided both ready convertibility and a high degree of liquidity and safety for the currency cover. However, the proviso of maintaining at least 100 per cent cover of the currency in circulation left the Currency Board virtually helpless in determining the amount of Iraqi currency at any given time. Consequently the Board could not even attempt to influence internal economic activity by increasing or decreasing the supply of money through altering the ratio of the cover. What sterling pounds were offered to, or demanded from the Currency Board determined the supply of Iraqi dinars. Or as Iversen puts it: "It was the foreign exchange

situation as it presented itself to the Currency Board which solely and mechanically determined the volume of currency in circulation."¹

By the end of 1932 the total amount of currency in circulation was I.D. 2.09 million, in June of the following year the amount increased to I.D. 2.36 million and by June 1939 the amount rose to I.D. 4.88 million.² During the period December 1939 to December 1947 the amount increased by about six-fold, reaching I.D. 35.2 million at the end of 1947.³ The amount of assets reserves were always kept slightly larger than the amount of currency in circulation.⁴ Thus the reserve ratio was maintained at a little higher than the minimum 100 per cent required by law.

Table No. 1 shows the changes in the amounts of currency and currency reserves during the war and post-war period.

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1. Iversen, Carl. A Report on Monetary Policy in Iraq. National Bank of Iraq, 1954. p. 6
 2. Al-Jalili, A. op.cit., p. 215
 3. Consult the table on the following page.
 4. This difference is the result of the accumulated profits of the Currency Board.

Table No. 1 - Currency in Circulation
and Currency Reserves in

Millions of I.D.

<u>Year</u>	<u>Currency in Circulation</u>	<u>Currency Reserves</u>
1939 (Dec.)	5.9	6.0
1940 "	6.5	6.7
1941 "	11.0	11.1
1942 "	29.9	32.3
1943 "	35.4	36.2
1944 "	40.8	40.9
1945 "	41.5	43.8
1946 "	39.8	45.1
1947 "	35.2	41.5
1948 "	34.7	37.9
1949 "	32.6	34.2
1950 "	34.5	36.9
1951 "	32.1	39.1
1952 "	30.0	35.9
1953 "	38.6	40.2
1954 "	45.4	46.8
1955 "	48.1	48.5
1956 "	53.7	54.3

Source: Currency in Circulation and reserves for the years 1939-1949 have been obtained from the United Nations Statistical Yearbook 1954/55. The rest of the table has been compiled from the respective annual reports of the Central Bank of Iraq.

IV. Iraq's Post-war International Monetary Relations

During the Second World War, the Currency Board, the Government and commercial banks operating in Iraq accumulated a considerable amount of sterling balances in London; due mainly to the heavy expenditures of the British troops in the country. The greater part of these balances was 'blocked' right after the war, so that their owners were not able to dispose of them without the permission of the British government. Negotiations between Iraq and Britain concerning this problem terminated in the Anglo-Iraqi agreement of July 7, 1947, according to which the outstanding Iraqi sterling balances of 57.9 million sterling pounds were divided in two general accounts. The first one which was to be released included:

a. Fifteen million pounds to be paid in yearly instalments over the succeeding five years.

b. Another four items adding up to about thirteen million sterlings to be handed over to the Iraqi government to meet such obligations as the Basra port debt, loans previously obtained from the oil companies and the like.

The second account included the remainder of these sterling balances and amounted at the time to about thirty million pounds.

In 1950, several amendments to this agreement were

introduced; the releases from these balances were considerably increased. Another important amendment was the provision of supplying Iraq with its needs of hard currencies as these needs are estimated by the Iraqi in agreement with the British authorities.¹ Finally in 1952 agreement between Iraq and Britain was reached, by virtue of which all of Iraq's sterling balances in London were released.

Iraq became a member of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) in December 1945 when the Iraqi Parliament ratified the Bretton Woods Agreement.² Iraq's quota in the IMF was determined at eight million dollars and the value of the dinar was fixed at 3.58134 grams of pure gold. Later in 1949, following England's devaluation of the sterling, Iraq issued a decree devaluing the dinar by about ~~thirty~~ thirty per cent, that is to 2.48828 grams of gold.³

V. The Central Bank of Iraq

The most significant step forward in the development of the monetary system of Iraq in the postwar period, took

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1. According to Dr. M.H. Jamil, Director of Research and Statistics in the Central Bank of Iraq, up till now the British government has always agreed on all of Iraq's demands of hard currencies.
 2. Iraq's total quota in the I.B.R.D. was six million dollars; Law No. 42 of the year 1945.
 3. Article one, of decree No. 3 of the year 1949.

place when the National Bank of Iraq was established as a central bank. In July 1947 a law¹ was enacted providing for the establishment of the National Bank to take over the work of the Currency Board. The Bank, however, did not start functioning till the first of July 1949. Seven years later a new law² was promulgated changing the name of the National Bank to the Central Bank of Iraq, and introducing other alterations which will be discussed at some detail later under the chapter on monetary policy.

The Central Bank (as its predecessor the National Bank) has the power of note issue in Iraq. Through the purchase of gold, foreign exchange, and other assets such as bonds issued by governments or semi-government departments, the Central Bank issues Iraqi dinars and pays for these purchases at a rate of one Iraqi dinar for a sterling pound or its equivalent.³ The ratio of the gold and foreign assets to the total currency cover held by the Central Bank must not go below 70 per cent, while the ratio of Iraqi government bonds must not exceed 30 per cent.⁴ This arrangement potentially allows for some elasticity in the volume of currency

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1. Law No. 43 of the year 1947.
 2. Law No. 72 of the year 1956.
 3. Law No. 42 of 1947
 4. Ibid., article 5.

in circulation as compared to the rigid 100 per cent foreign assets that was required as cover before 1947 (under the Currency Board). However, the actual ratio, at present, of gold and foreign assets to the total cover is much higher - as can be seen from the figures of the following table - than the minimum required by law. While the ratio of Iraqi government bonds - in spite of the fact that it has more than tripled over the last five years - is still relatively insignificant.

Having gold and foreign exchange (other than sterling) as part of the currency cover is a relatively new phenomenon in Iraq. Although the original Currency Law of 1931 allowed for such a variety in the cover, it was not until 1951 that foreign currencies other than sterling (mainly U.S. dollars) were introduced, and gold bullion during 1955. The amounts of these foreign currencies (other than sterling) and gold bullion have increased both absolutely and in relation to the value of the total cover, but they still constitute a rather meager portion of the whole.

According to Dr. M.H. Jamil, director of statistics and research in the Central Bank of Iraq,¹ responsible authorities in the Ministry of Finance and the Central Bank are

1. During a special interview held on December 31, 1956.

Table No. 2

Central Bank - Issue Department

Composition and Ratio of Currency Cover

Dec. 1951 - Dec. 1956

	Dec. 1951		Dec. 1952		Dec. 1953		Dec. 1954		Dec. 1955		Dec. 1956	
	Amount % of in mill grand I.D. total	92.6	Amount in mill. of total	% of grand total	Amount in mill. of total	% of grand total	Amount in mill. of total	% of grand total	Amount in mill. of total	% of grand total	Amount in mill. of total	% of grand total
Sterling assets	36.2	32.2	36.5	90.8	41.5	88.5	39.3	79.5	42.2	77.7		
Dollar assets	0.7	1.4	1.4	3.5	1.2	2.6	2.7	5.5	3.1	5.7		
Gold bullion	-	-	-	-	-	-	3.0	6.1	5.0	9.2		
Total gold & foreign assets	36.9	33.6	37.9	94.3	42.7	91.1	45.0	90.9	50.3	92.6		
Iraqi Gov't bonds.	2.2	2.2	2.2	5.5	4.2	9.0	4.4	8.9	4.0	7.4		
Grand total	39.1	35.9	40.2	100	46.9	100	49.5	100	54.3	100		

Source: Central Bank of Iraq, Quarterly Bulletins, 1950-1955, and the figures of 1956 from unpublished material supplied by the Central Bank. Individual figures do not necessarily add up to totals because of rounding

(1) All in the form of currency.

planning to increase this ratio considerably during the few coming years. This step will enhance and buttress the position of the Iraqi currency cover and in turn the Iraqi Dinar. It is true that under the Currency Board and up till 1950 all of the foreign assets of the cover were in sterling, but the sterling of today does not any more enjoy that invulnerability it once enjoyed during the inter-war period, therefore, this recent step of introducing - as part of the Iraqi currency cover - gold bullion and foreign currencies such as U.S. dollars would give an added element of security to the Iraqi currency.

There is no doubt that considerable progress has been achieved in the monetary organization of Iraq in the last three decades. The issuance of a national currency, the establishment of a central banking institution, the promulgation of laws and statutes, and in general the endeavor to create a favourable atmosphere for the promotion and growth of monetary and financial institutions have all been worthy attempts towards this common goal. But worthy as they are, these attempts were certainly not free from weak points and errors. The rest of this thesis is intended to be a critical presentation and analysis of those past achievements. And in the light of this analysis a number of recommendations will be made.

Chapter II

Money and Capital Markets

Introduction

In a very broad sense a money market is the aggregate of instruments, facilities, and institutions through which short-term funds are loaned and borrowed. In a narrower sense the operations of a money market include only dealings in a more or less standardized types of highly liquid loans (e.g. call loans) and credit instruments (e.g. treasury bills). The capital market is essentially the same with the exception that while the former provides short-term funds, the latter engages in long-term capital financing, mainly through the sale of securities and bonds.

Although theoretically a line of demarcation may, and is, sometimes drawn between the two markets; in practice, however, they are very closely interrelated and transactions arising in one are often completed in the other. Payment of interest on bonds and dividends on securities, for example, although arise from previous capital transactions, can have indirect effect on the money market through such a thing as the redemption of outstanding acceptances. While on the other hand, call loans are obtained from the money market to facilitate marginal trading on securities in the capital

market. Furthermore, by the accumulation of surplus funds the money market facilitates the flotation of long-term loans which are an integral part of the capital market proper. "But in spite of the close connection between the two markets, each performs certain definite functions and possesses a separate machinery organized for the purpose. Just as the function of the money market is to finance short-term transactions and facilitate the movement of short-term funds from country to country, so the function of the capital market is to finance long-term capital transactions and facilitate the shifting of long-term capital from country to country."¹

In advanced industrialized countries where usually highly developed monetary systems prevail the money and capital markets consist of a number of finer divisions and subdivisions. Each of these divisions or sub-markets is devoted to a particular type of credit or financial operation. And each constitutes a market by itself, such as the acceptance market, the commercial paper market, the treasury bill market, the securities market, and the bond market.

I. The Money Market in Iraq

Broadly conceiving of the money market as the entire mechanism employed for lending and borrowing of short-term

1. John T. Madden and Marcus Nadler, The International Money Markets. (Prentice-Hall, Inc. New York, 1935) p. 66.

funds, we can analyze its organization in Iraq on the basis of the different types of financial institutions engaged in the lending and borrowing of such funds. While it is impossible to classify lenders and borrowers accurately - since an institution may at one time be a borrower and a lender at another - the following classification aims to indicate the usual position of the principal types of institutions.

A. Lenders

1. The Central Bank

Among the main functions of a central bank is that it should act as a lender of last resort. Banking and currency laws in Iraq have provided for this function.¹ One of the ways by which the Central Bank of Iraq can act as an ultimate source of credit to commercial banks is through the rediscounting of bills.² In practice, however, very little rediscounting has up till now taken place at the Central Bank of Iraq. Though at several occasions the Central Bank has sent circulars to all commercial banks re-

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1. National Bank of Iraq Law No. (43) of 1947 and Central Bank of Iraq Law No. (72) of 1956.
 2. The Bank of England influences the London money market through the bill brokers. While in the United States the Federal Reserve banks usually extend credit only to member banks and to a few dealers in bankers' acceptances and government securities. In contrast to these practices in Continental Europe central banks usually conduct a general banking business with the public as well as with commercial banks through an extensive system of branch offices. Cf. Madden and Naddler, op.cit., p. 113

minding them that it stood ready to rediscount short-term bills, it was not until May 31, 1956 that a commercial bank in Iraq rediscounted bills amounting in value to I.D. 102,000.¹ That was the first rediscounting transaction done by the Central Bank of Iraq.

To encourage commercial banks to make more use of its credit facilities, the Central Bank of Iraq introduced a number of measures in June 1956. These measures which will be discussed in detail later, included the relaxation of some of the requirements for rediscounting and the possibility of extending outright loans to commercial banks. Yet in spite of all these measures the use of Central Bank credit facilities remains limited. By the end of 1956 only one commercial bank had rediscounted bills to a total amount of I.D. 270,000.² Thus it is evident that the role of 'a lender of last resort' actually played by the Central Bank in Iraq has up till now been very insignificant. However, the Central Bank's declared policy of its readiness to rediscount, gives or ought to give a sense of security (in this respect) to the commercial banks.

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1. Information privately obtained from unpublished records of the Central Bank of Iraq.
 2. It is significant to note here, that this is the same bank which had previously rediscounted some bills in May 1956, and that it is a locally established bank.

2. Commercial Banks

Commercial banks are by far the most important source of short term credit in the money market of Iraq. Their lending usually takes the form of discounted bills, overdrafts, and letters of credit. As can be seen from Table 3, the total of outstanding bills, loans and advances have increased more than six-fold from June 30, 1950 to June 30, 1956. Total value of credits opened during 1954 amounted to I.D. 43 million, rose to I.D. 53.4 in 1955, and then contracted to I.D. 46.8 million in 1956¹ (mainly as a result of the Suez Canal issue).

Table No. 3 Amounts and Percentages
of Discounted Bills, Loans &
Advances
(in thousands of I.D.)

Date	Bills Discounted:		Loans & Advances :		Total	
	Amt.	Percentage:	Amt.:	Percentage:	Amt.	Percentage
1950 (June)	903	18	4093	82	4996	100
" (Dec.)	749	13	5232	87	5981	"
1951 (June)	1317	15	7377	85	8694	"
" (Dec.)	1588	14	9715	86	11303	"
1952 (June)	1230	11	9992	89	11222	"
1952 (Dec.)	1780	16	9022	84	10802	"
1953 (June)	2382	19	10204	81	12586	"
" (Dec.)	3366	22	12161	78	15527	"
1954 (June)	4617	22	16041	78	20658	"
" (Dec.)	5332	25	19512	75	24844	"
1955 (June)	6927	24	21766	76	28693	"
" (Dec.)	8081	26	23020	74	31101	"
1956 (June)	9346	29	22373	71	31719	"

Source: Annual reports and quarterly bulletins of the Central Bank of Iraq (1950 - 1956)

1. For a complete table, look under the chapter on Commercial Banking.

Amounts advanced through discounted bills are much less than those granted through loans and advances. The ratio of the former to the latter has ranged from about one-sixth to almost one-half in the 1950/56 period. A very important feature of bank discounting of bills, however, is that commercial banks appear only on the buying side of the discount market. When trade bills are discounted with commercial banks they do not appear in the market again and are kept until maturity by the purchasing bank.

The procedure usually adopted by commercial banks in Iraq for discounting bills sometimes involves routine checking and may entail some delay, a thing which businessmen very much dislike especially when compared to the quickness and ease of drawing on already agreed upon overdrafts. Thus the practice of traders to finance part of their pecuniary needs through overdrafts is much used in Iraq. A partial indication to this is furnished by the figures in Table 3, where it can be witnessed that the bulk of the commercial bank's lendings is done through outright advances and overdrafts. This practice on the part of traders and commercial banks in Iraq is indirectly hindering the development of a bill market, as by its very nature it leads to a dearth of trade bills in the market.

3. Sarrafs

The sarrafs¹ whose number has risen to sixteen at the end of 1955, play some role in the extension of short-term credit in Iraq. Part of this is done through the discounting of bills. The interest rate charged by sarrafs is slightly higher than that usually charged by commercial banks. But they normally accept to discount bills whose eligibility for discount at the commercial banks is doubtful. However, through their personal contacts the sarrafs are in a better position than the big commercial banks to weigh the risks involved in such bills usually brought to them by local merchants. At times the sarrafs, after adding their own signatures, discount with commercial banks the larger bills they receive. But this procedure is not often recurred to. Much the same probably applies to unlicensed sarrafs (money lenders) with the exception that the rates which they charge are exceptionally high. Such rates are illegal² but money-lenders have their own ways to get around the law.

B. Borrowers

Borrowers of short-term funds in Iraq can be classified in two general categories; the government, and individuals or concerns engaged in business. The latter group

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1. For our present purposes a sarrafa may be defined as a short-term credit institution operating on rather limited scale. For more accurate definition see p. 39.
 2. According to a law dating from 1936 the maximum rate of interest on loans is fixed at 7 per cent p.a.

is by far the more important of the two as far as the quantity of short-term borrowing is concerned. Borrowing is done by the public from commercial banks mainly in the form of advances, over-drafts and the discounting of trade bills. Furthermore, local small businesses sometimes borrow short-term funds from sarrafs at a slightly higher rate than that charged by commercial banks, and very rarely from money lenders at exorbitant rates.

In advanced western countries governments often appear in the money market as borrowers - sometimes on a very large scale - of short-term funds. Such borrowing takes the form of the sale of treasury notes of medium-term duration, and the sale of treasury bills with maturities of less than one year. Governments engage in such operations for two main reasons. First to finance their short-term needs while bridging seasonal gaps between expenditures and income, and second for purposes of economic policy. In all leading money markets of the world, treasury bills offered and redeemed affect considerably the supply of, and the demand for money in that country. When the treasury redeems more bills than it offers, there is a tendency for an expansion in the supply of money and consequently a decline in rates; and vice versa. When the treasury increases its demands upon the money market by offering more bills for sale, there will be a tendency for

rates to rise.

The Ministry of Finance in Iraq has followed, in the main, the traditional policy of balancing the budget each year with few minor exceptions. In the period 1945-1948, the government through the Central Bank floated five bond-issues of one million dinars each at rates of interest ranging between 3 to 4 per cent. One of these loans was for a period of three years at interest of 3 per cent p.a. The rest were for longer periods and will be discussed in the following section under the capital market. A substantial part of this 3-year treasury-note issue was bought by the Central Bank and the remaining part mostly by the commercial banks. Treasury bills of less than one year duration were issued in few instances only. The larger part of these remained with the Central Bank;¹ only an insignificant portion was absorbed by other sources mainly commercial banks. Thus the effect of the issue and sale of such treasury bills was virtually equivalent to an outright loan by the Central Bank to the treasury. It contributed practically nothing to the eventual development of a treasury bill market.

II. The Capital Market

Broadly concerning the capital market as the entire

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1. The Central Bank handles the sale of all treasury bills and government bonds in Iraq.

mechanism employed for lending and borrowing of long-term funds, we will proceed now to discuss the capital market of Iraq under three sub-headings: lenders, borrowers, and intermediary institutions.

A. Lenders

The Central Bank of Iraq can be considered as the backbone of long-term credit in Iraq. Its long-term lending usually takes two forms; purchase of government bonds, and loans and advances to such state-owned, non-commercial banks as the Industrial Bank, the Agricultural Bank, and the Real Estate Bank.

At the end of 1956 out of the I.D. 12 million worth of different government bond-issues, the Central Bank (the Issue Department and the Banking Department together) held a sum of I.D. 7.06 million, that is about 60 per cent of the total. Its various outstanding loans and advances to the three above mentioned non-commercial banks amounted in December 1956 to about I.D. 1.2 million. Interest on these loans is usually low ranging from 1 to 2.5 per cent.

Commercial banks, sarrafs, and the public at large can also be looked upon as lenders of long term credit to the government by the fact that they are holders of government bonds. The total government bonds holdings of commercial banks and sarrafs at the end of 1956 amounted to I.D. 2.55

million. About 60 per cent of these bonds were deposited with the Central Bank as part of the legal reserves.¹ The public's holding amounted to I.D. 1.43 million or 12 per cent of the total outstanding bonds.

Finally, there is the Agricultural Bank, the Industrial Bank, and the Real Estate Bank which extend various types of long-term credit. During the five financial years 1950-51 to 1954-55 the Agricultural Bank advanced a total amount of I.D. 3.30 million, eighty per cent of which was for periods of more than four years.² The Industrial Bank during the financial year 1954-55 alone advanced industrial loans amounting in value to I.D. 1.37 million, 77 per cent of which was for periods of more than four years. In addition to that its 1954-55 balance sheet showed a total amount of I.D. 1.63 million of its assets held in the form of shares of thirteen different industrial enterprises.³ The total amount of loans extended by the Real Estate Bank during the six financial years 1949-50 to 1954-55 amounted to I.D. 5.32 million. During the year 1954-55 alone, the loans of the

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1. For more details see p. 70
 2. The Agricultural Bank, Annual Reports
 3. The Industrial Bank, Annual Report

Real Estate Bank amounted to I.D. 1.52 million, more than two thirds of which was for periods of more than four years.¹

B. Borrowers

Borrowers of long-term credit in Iraq can be classified into two main categories: first the government, and second the private sector including individuals, business firms and societies.

Government borrowing through the sale of bonds has always been rather slight. Starting from 1944 till the end of 1956 there were in all, thirteen different issues of government bonds with interest ranging from 3 to 4.5 per cent. Total outstanding amount at any one time has never exceeded I.D. 12 million, and has at times been as low as only I.D. 2 million.²

Individuals, business firms, industrial organizations, and other types of institutions (e.g. cooperatives) are regular borrowers of long-term credit from the Industrial, Agricultural and Real Estate banks. Each of these banks lends in its own sphere of operations. The amounts, terms, conditions, and extent of long-term borrowing of the public from these banks will be discussed later in detail in the fourth chapter.³

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1. The Real Estate Bank, Annual Reports. Full details and analysis of the lending activities of these three banks will be given in the fourth chapter.
 2. For details see Appendix 5, p. 176
 3. pp. 76-104.

C. Intermediary Institutions

Trading in all types of securities is very limited in Iraq. As a result of this situation there are very few intermediary institutions between potential sellers and buyers. The Central Bank, in a very limited sense, can be considered as such an institution only for government bonds. As it has always been in charge of handling the initial sale of all government bond issues. Then there is the 'Securities Department' in the Rafidain Bank of Baghdad, and three private brokers.

The 'Securities Department' in the Rafidain Bank was established in 1954 to act as an intermediary between buyers and sellers of securities. It charges for its services a commission of 1/8 per cent on the total value of the transaction; from each of the buyer and seller. Till the end of 1956 this department completed 310 different transactions with a total value of I.D. 170,000. These transactions included the shares of 22 different companies and Iraqi government bonds.¹

In addition to this department, there are in Baghdad three private brokers in securities. The volume of the business done by them, however, cannot be ascertained, as none

1. Information privately obtained from the records of the Rafidain Bank.

of them keeps proper records. They usually charge higher commission fees than does the Securities Department of the Rafidain Bank. One of these brokers started in 1955 to organize weekly auctions for the sale of shares and bonds but discontinued the practice only about six months later as there were not enough securities offered during the auctions to justify them.

III. Sub-divisions of the Money and Capital Markets

As it was mentioned earlier in this chapter, developed money and capital markets usually consist of several subdivisions or submarkets as they are sometimes called. Each submarket has its dealers, specialized agencies, institutions and its own sources of credit. In Iraq the scope of operations in all types of securities in general is not yet wide enough to provide for, and justify the existence of such subdivisions. There are, however, more dealings in some types of securities than in others and one might say that there are at present embryonic submarkets for the types of securities that are more frequently dealt with.

A submarket for commercial papers is a case in point. Currently there is a relatively large volume of discounted bills with commercial banks and sarrafs. But discounting of commercial papers in Iraq is practically a 'one-sided' business. That is, once a bill is discounted it rarely appears

in the market again for sale. It is true that sarrafs sometimes sell (rediscount with commercial banks) some of the bills they get from their local customers and thus operate as intermediaries (in a sense acceptance houses) between small businessmen and commercial banks, but this practice is not often resorted to.

Probably the 'shares submarket' is the most active in Iraq. The number of share-holders has increased considerably over the last decade, and it is very likely that it will increase substantially more in the coming few years. Increased incomes will allow for more savings, a great part of which will ultimately find its way to investment in shares of locally established limited companies. The number of these companies has also increased in the past and will increase still more in the near future. Thus giving greater opportunity and a wider range of choice for prospective share-holders. At present there are few private brokers and a special department in the Rafidain Bank that mediate in the purchase and sale of shares; other banks sometimes undertake the initial sale of shares of newly established companies on behalf of the companies concerned.

One cannot speak of treasury bills or government bonds sub-markets in Iraq. As a matter of fact, at present there are no treasury bills outstanding. And in the past only rarely has the Treasury made use of this practice of issuing

and selling bills. The total value of outstanding government bonds was I.D. 12 million at the end of 1956, but only a little more than 10 per cent of this amount is held by the public.¹ Furthermore, individual holders of these bonds are of the permanent type who do not usually trade in them. The result of investigations carried by the writer with two brokers and the securities' department of the Rafidain Bank confirmed this view and indicated that dealings in government bonds is very uncommon.

IV. Evaluation of the Money and Capital Markets

A. The Money Market

Sen,² in his Central Banking in Underdeveloped Money Markets, enumerates a number of features of a developed money market. These features are:

1. The presence of a highly organized banking system including a well-established central bank. But while no money market can be regarded as properly developed if the banking system is not highly organized, the mere existence of the latter does not necessarily lead to the emergence of a developed money market.

2. A variety of sub-markets for different types of short-term credit.

1. See Appendix pp. 176 & 177.

2. Sen, S.N., Central Banking in Underdeveloped Money Markets, Bookland Ltd., Calcutta: 1952, pp. 6-12.

3. The availability of a large supply of liquid resources whose owners are content with the relatively low yields of customary money market transactions.

4. In addition there should be a large enough number of dealers (lenders, borrowers and brokers) actively engaged in money market operations to cause money rates (including prices of securities) to be settled competitively rather than by custom or semi-secret agreements. Thereby reflecting changes in the demand and supply of available funds.

5. The whole organization of the market should be an integrated structure in which every sub-market is dependent upon and influenced by the others.

6. Lastly, a developed money market is highly sensitive to the impact of international influences. This is so because the principal money markets in the world are closely linked together in what is usually referred to as the international money market. The slightest change in the prevailing conditions of any international financial or monetary center will have its effect and repercussions on all other centers in the world.¹

If we analyze the present situation of the money market in Iraq in the light of the above features, we find that though this money market in Iraq is far from being well

1. Cf. Madden and Nadler, op.cit. Chapter II, pp. 35-65.

developed yet it is developing rather rapidly. The discussion in this as well as in succeeding chapters shows that the Iraqi banking system on the whole is not unsatisfactory. There is a good banking legislation, and a recently established central bank. There is also an increasing number of commercial banks; foreign and domestic, and several non-commercial state owned banks.

As regards the subdivisions of the money market there is only at present a sub-market (in a limited sense) for trade bills; submarkets for other types of short-term credit (e.g. call loans and treasury bills) are still non-existent. The number of dealers (i.e. lenders, borrowers and middlemen) though not sufficiently large is rapidly increasing. The same can be said of the number of operations carried out. Interest rates are not competitively determined; personal and semi secret dealings between bankers and their customers predominate. As will be pointed out in greater detail in the chapter on commercial banking, there is some sort of a gentleman's agreement between almost all the commercial banks in Iraq on the interest rates to be charged on loans. In addition to all the above factors there is not enough evidence of the sensitiveness of the Iraqi money market (in the broad sense of the word) to the impact of international influences. But we are rather inclined to think that the impact of these influences is slight.

B. The Capital Market

For the efficient operation of a capital market in any country several requisites are necessary, important among them are the following:

1. The existence of large financial funds whose owners are ready to utilize in long-term investments.

2. A sufficiently large number and variety of securities (shares, bonds, etc.) at any given time. But this cannot take place unless the country reaches a certain stage of industrial development with the predominance of the corporate form of business organization.

3. The organizational facilities and institutions for issuing and dealing in such securities. The organizational mechanism may differ from country to country according to the particular needs of each. However, the principal institutions of a well-developed capital market usually include:

a. Investment banking houses that would engage in underwriting and distributing corporate and government securities.

b. A large enough number of brokers to bring together potential buyers and sellers, and activate the market.

c. Institutional investors such as commercial and saving banks, insurance companies, mutual trust funds, etc.

d. An organized stock exchange.

Obviously Iraq does not yet have any of these conditions

or requisits. And probably many years will have to elapse before it can have them all. (Individual voluntary saving, on such a scale as to result in the accumulation of large amounts of funds for long-term investment, can take place only when the general level of income is high enough.) As saving is primarily a function of income. Though the level of income in Iraq has been increasing appreciably in the last few years it is still much below the level where considerable amounts of individual savings can be expected from the majority of population. As to industrialization, Iraq is far from it and is not likely to reach such a stage in the coming few years.

Corporations are still a relatively new form of business organization in Iraq. At the end of 1955, the number of joint stock companies (private and public) with limited liability¹ registered in Iraq was 369 with a total amount of authorized capital² of about thirty million Iraqi Dinars. The majority of these companies are very closely

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1. According to the Indian Companies Act which still governs the registration and functioning of companies in Iraq, both private and public limited companies get their capital by share subscription though the number of share holders in the former cannot exceed fifty.
 2. The total amount of paid-up capital of these companies is not available but it is estimated to be considerable less than the authorized capital; probably one-half of it.

held. They are what is sometimes referred to as 'family corporations.' And their shares are practically never offered in the market for sale. At the end of 1956 the price of shares of only twelve companies and government bonds were regularly listed in the bulletin of the Securities' Department of the Rafidain Bank in Baghdad.

The overall set-up and operations of a capital market in any country do not reach a high level of development in a vacuum. Certain conditioning factors must precede; such as a broad and active security market. But this again can not take place unless a certain stage of industrial development with the predominance of the corporate form of business organization is reached. Iraq though moving in the right direction on that track is still far away from the required stage. Along with this process another fundamental condition must exist, namely a certain familiarity with, and confidence in the holding of securities on the part of the public. This is mainly a problem of tradition. But the task can be facilitated by education and propaganda. In this field the Central Bank and the commercial banks could render immense service. Iversen¹ recommends that as a first step in this direction commercial banks should acquire the habit of holding a larger part of their assets in the form of local securities than

1. Iversen, C. A Report on the Monetary Policy of Iraq; (National Bank of Iraq, 1954) pp. 206 & 207.

they customarily do, and assist in developing regular trading in such securities. Eventually commercial banks might also float bond issues or assist in the formation of joint stock companies.

Some of the state-owned non-commercial banks can also render a great help in the development of a capital market by supplying it with bonds. The Real Estate Bank can issue and sell its own bonds. Such issues create a new securities and channel the savings of the public to productive enterprises. In 1955 the Real Estate Bank¹ by taking the initiative to establish 'the Real Estate Industries Company' and subscribing to 40 per cent of its half a million authorized capital has indirectly helped the development of a capital market in Iraq. Similar measures are highly commendable.

The Industrial Bank through its primary aim of fostering the general development of industry in Iraq either by granting long-term loans to potential or existing industrial enterprises, or by subscribing to their capital, fosters at the same time the development of a capital market. However, the policy followed by the Industrial Bank of disposing with its holdup of the shares of industrial enterprises as soon as these get well established, is not fast and wide enough.

1. In cooperation with Industrial Bank.

The Bank's balance sheet at the end of the financial year 1954-55 shows that the bank still possesses more than 25 per cent of the shares of 'Iraq Cement Company' and 30 per cent of 'Iraq Textile Company' though both are well-established and very profitable.¹ The Industrial Bank seems to be somewhat reluctant to sell the shares it holds of such profitable enterprises, in considerable quantities, as it perhaps wants to show a substantial net profit on its statements each year. But by so doing it is tying down a considerable portion of its capital, whereas it should rather - in accordance with its primary objective - turn its capital into a more or less continually revolving fund by selling the shares of enterprises as soon as they get well-established. Furthermore, the bank by adopting this latter practice on the widest possible scale - would besides increasing its ability to assist new industrial ventures, be contributing to the development of a capital market.

Finally there is the possibility of having either the Treasury, the Development Board or/and the Central Bank issue and sell its or their own bonds with the view that such a measure would have an appreciable effect in promoting a

1. 'Iraq Cement Company' was established in 1940 and 'Iraq Textile Company' in 1942. Dividends distributed by the former has reached in recent years more than 40 per cent of the nominal price of the share and nearly 20 per cent of its market value.

capital market; besides any specific purposes that the flotation of such a bond issue may serve¹ (e.g. absorbing excess purchasing power to counter act a threatening inflation). But Dr. M.H. Jamil, director of statistics and research in the Central Bank of Iraq thinks that the flotation of such bonds at present would be neither feasible nor advisable. He is more in favour of channelling the savings of the public towards the purchase of shares of newly created private industrial ventures.²

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1. Iversen, C. op.cit., pp. 207 & 208
 2. Dr. M.H. Jamil presented this opinion during a special interview, Dec. 31, 1956.

Chapter Three

Commercial Banking

The purpose of this chapter is to describe and analyze the organization and operations of commercial banking establishments in Iraq.

I. Main Features of Commercial Banking in Iraq

A. Classification of Banking Institutions

Commercial banking business in Iraq is conducted by two types of institutions; banks and sarrafs, as classified and defined by the Law of Banking Control.¹ The former is defined as "an institution licensed to deal in banking in accordance with this law, whether a Limited Company or a Societe Anonyme, and also government institutions permitted to carry on banking business under special laws."² A sarraf is defined as "a person or company licensed to deal in banking in Iraq..."³ The main distinctions between the two are in the form of ownership and the minimum capital required for each.

A bank must be either a limited company, a branch of

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1. Law No. 34 of 1950
 2. Ibid. Article 1. (2)
 3. Ibid. Article 1. (3)

a foreign bank or a state-owned organization. While a sarraaf can take any legal form of business organization. At present most sarraafs are individual proprietorships and there are few partnerships.

In July 1949, there were seven commercial banks¹ with seventeen different branches operating in Iraq; and a number of sarraafs scattered in the main cities and towns.² During 1950 the number of commercial banks declined to five³ and a large number of Jewish sarraafs also discontinued their banking activities, and ultimately liquidated their businesses. This situation gave rise to a relative contraction in the available supply of commercial credit and an abnormal rise in interest rates. But this did not last for long, as the Ministry of Finance and the Central Bank fruitfully endeavoured to encourage the remaining commercial banking institutions to expand their activities, with the view of overcoming that deficiency in the supply of credit.⁴ Moreover, the rise in

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1. They were: The Rafidain Bank, the Arab Bank, the Ottoman Bank, the Eastern Bank, the British Bank of the Middle East, Zelkha Bank, and the Credit Bank.
 2. National Bank of Iraq, Annual Report, July 1949 - Dec. 1950.
 3. The Credit Bank, and Bank Zelkha discontinued their businesses.
 4. One of the more positive measures taken by the government was that of raising the authorized capital of the Rafidain Bank to I.D. 1,000,000 in May 1, 1950.

interest rates and the abnormal profits encouraged new banks and sarrafs to replace those that withdrew.¹ Thus their number increased steadily that by the end of 1956 there were thirty-eight commercial banks (including branches) and seventeen sarrafs.

The minimum capital requirement for a bank is I.D. 250,000 fully paid-up. While for sarrafs it considerably lessens ranging from I.D. 12,000 to I.D. 3,000 depending on the place of business.

Table No. 4

Capital Requirements for Sarrafs
in the Different Parts of Iraq.²

In Baghdad	I.D. 12,000
In Basra	I.D. 10,000
In Mosul	I.D. 7,000
In other districts	I.D. 3,000

Though steadily increasing, the capital of sarrafs and their total business are too small at present to allow them to play an important role in the economy of the country. Their total paid-up capital and reserves amounted to I.D. 115,000 at the end of 1952 and to I.D. 362,000 in December 1956. Whereas corresponding figures in the case of commercial banks were I.D. 2.7 million and I.D. 7.8 million respectively. Sarrafs engage, more or less, in the same type

1. National Bank of Iraq, Annual Report, June 1949 - Dec. 1950.

2. Law No. (34) of 1950, Article 4 (4).

of operations as commercial banks with the exception of financing foreign trade as most of them lack the necessary experience and connections for such work. They concentrate more on financing internal trade and advancing credit to local small businessmen.

B. Foreign¹ Banks

At the end of 1956 there were nine different commercial banks operating in Iraq. Only three of these are locally established, the rest are foreign. Of these foreign banks two are branches of banks established in other Arab countries, three British and one French.

The establishment of non-Iraqi banks whose head office is in other Arab countries represents an important development in the banking system of Iraq. Until the end of 1944 all non-Iraqi commercial banks had their head offices outside the Arab countries and their capital was completely non-Arab. Recently, however, the number of commercial banks operating in Iraq, but whose head offices are in other countries increased.² It is quite likely that the growing awareness

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1. Law No. (34) of 1950 for the Control of Banking, considers banks established in other Arab countries (e.g. Arab Bank) as foreign. We are, therefore, going to refer to them as such in our subsequent discussion.
 2. By the end of 1956 there were two such banks, during the first four months of 1957 another two were established.

of the close economic and commercial ties - inter-alia - between the different Arab states will result in increasing still further the number of the Arab banks operating in Iraq.

Foreign banks keep the amount of their capital in Iraq at the minimum required by law. They also transfer outside the country at the end of each fiscal period the larger part of the profits they realize in Iraq. This policy is due partly to the fact that they depend on their world wide name and prestige and their overall financial position to obtain business rather than depend merely on their capital in Iraq. It is also due to their ability to draw on their head offices outside of Iraq in case of need. By selling to the Central Bank the foreign exchange they thus obtain, they get their cash requirements of Iraqi dinars. In practice, however, they rarely resorted to this procedure in spite of the great expansion of their operations particularly in recent years.

Foreign banks in general engage to a great extent in financing foreign trade especially import from countries outside the Middle East. While branches of banks with head offices in other Arab countries play a relatively more important role in financing inter-regional trade. This particularly applies to the Arab Bank with its rather extensive

branch system all over the Arab Middle East.

C. Branch Banking in Iraq

Most commercial banks maintain no branches within Iraq except in Baghdad and one or two of the larger cities. Thus out of a total of thirty-eight banks and their branches that operate in Iraq, there are sixteen in Baghdad alone. In Baghdad, Mosul and Basra taken together there are twenty-five, while in the rest of the country there are only thirteen.

The Rafidain Bank is the only bank which maintains at least one branch in almost every district (liwa'). Thus a considerable portion of the internal monetary transfers are effected through it. At the beginning, business in the newly established branches of the Rafidain Bank in the smaller towns used to be very limited, but soon afterwards it increased beyond the expectations of the most optimistic officials of the Bank.¹

1. Mr. Mahmoud Sabri, assistant to the General Manager of the Rafidain Bank, cites the example of the Najaf branch as an illustration to this. He says that when this branch was first opened in 1954 there used to be only two employees in it, but they were most of the time idle and had nothing to do. Only a year later six employees were not able to cope with the business. Between June 1956 and December of that year total operations of the branch increased by more than threefold.

Some of the British banks have, since the close of the nineteen thirties (when they were the only commercial banks operating in Iraq), maintained very small branches in one or two towns, other than the three main cities of Iraq. But these branches were mainly in towns where there used to be a relatively large British community (e.g. Kirkuk) and they catered mostly for them. Lately the business of these branches have declined considerably. This is due partly to the decrease in the number of British residents in these areas and partly to competition from the newly established branches of the Rafidain Bank in these places.

On the whole it can be said that commercial banks now operating in Iraq concentrate mainly in Baghdad and two other cities - Mosul and Basra - while the rest of the country is scantily supplied with them. This concentration of banking facilities in Baghdad and to a lesser extent in the two other cities reflects the different levels of development of the various regions of Iraq and the concentration of business activity in few centers.

D. The Banking Habit

The habit of dealing with banks (particularly keeping deposits) is still not widespread in Iraq though it has considerably increased over the last decade. In December

1939 total bank deposits in Iraq amounted to I.D. 1.5 million while total currency in circulation at that time amounted to I.D. 5.9 million, and the ratio of the former to the latter was only 0.25. Meanwhile, bank deposits in Iraq have increased both absolutely and in relation to currency in circulation. By June 1955 this ratio more than doubled rising up to 9.52. But this is still abnormally low especially when compared to that in the more advanced countries. In the United States and the United Kingdom, for instance, this same ratio was 4.65 and 2.58 respectively in June 1955. In Lebanon and Egypt this ratio is respectively about three and two times as much as it is in Iraq.¹

There are many deep-rooted factors which have contributed to retarding the development of the banking habit in Iraq. The most important of these factors are, conservatism and lack of confidence, hoarding habit, Moslem view of interest, and the general low level of income. Though these factors are dwindling in importance, yet they still constitute a major hindrance.

The majority of the Iraqi population still looks upon banks with suspicion and mistrust. And even today it is not

1. Figures in the above paragraph are taken from the United Nations Statistical Yearbook, 1955.

at all uncommon to find a fairly prosperous merchant who prefers to keep large sums of money idle in his safe rather than deposit it in a bank. That is to say nothing about the poorer and more ignorant classes of the population.

The practice of hoarding is still widespread in Iraq especially in the north-eastern parts of the country and among the inhabitants of Najaf and Karbala. The hoards, which not even a crude estimate of their total value is known, are usually in the form of gold, cash and sometimes jewelry. A considerable portion of the nation's savings is thus frozen.

Traditionally¹ Moslem faith considers interest on money as usury irrespective of the rate. However, a Moslem when himself in dire physical need may barrow money and pay interest on it without committing an offence. But to lend money and receive interest is religiously wrong under any conditions. This belief which used to prove more adherents in the past than it has today, and more among villagers than town and cities dwellers, is an important limitation on lending and depositing activities in a country where Moslems form more than ninety per cent of the population. However, the fact that recently some very respectable Iraqi

1. Today Moslem religious authorities may differ on this subject. Recently Azhar ulama's (Egypt) have made a distinction between interest and usury allowing the former but condemning the latter. However, some of Shia' ulamas of Najaf and Karbala' (Iraq) still consider the receiving of interest irrespective of the rate as wrong.

Moslems have themselves established banking institutions indicates some laxity concerning this attitude towards interest and lending activity in general.

Finally the very low national income leaves very little at the disposal of the people to be saved and possibly deposited in a bank. But with recent increases in the levels of income, better and wider spread of education, and improved social awareness these impeding factors to the development of banking habit, are wearing down.

II. Main Activities of Commercial Banks in Iraq

Though commercial banks in general perform a multitude of different functions, which are closely interrelated and usually conveniently carried by the same institution, their primary role, is the pooling and lending or investing the temporary surplus funds of the community.¹ In the following paragraphs we are going to discuss the main activities of commercial banks in Iraq under the following four headings.

A. Deposit Activities

All commercial banks in Iraq accept both fixed and current deposits, and maintain saving accounts. The fixed

1. Bradford, Frederick A. op.cit., pp. 47 & 48

deposits' constituted in June 1956 only 5.5 per cent of the total liabilities of commercial banks. No separate figures are available for each of the current and saving deposits. However, figures are available for the two accounts together. These figures show that current and saving accounts amounted to 36 per cent of total liabilities. Total withdrawals of the public from current and saving accounts amounted to I.D. 258 million in 1953 and increased to nearly twice that amount in 1955. While withdrawals from fixed deposits in commercial banks amounted to I.D. 4.5 million and only to about one-fifth that amount during 1953.¹

Though the total amount of the public's fixed and current deposits with commercial banks has increased by more than fifteen-folds between December 1939 and June 1955, their ratio to the currency in circulation is still very low. In June 1955 total fixed and current deposits of commercial banks in Iraq was about one-half the amount of currency in circulation and in December 1939 it was only one quarter. It is very likely that this trend in Iraq will continue at even a higher rate.

1. Central Bank of Iraq, Quarterly Bulletins 1953/1955.

Interest rates paid by commercial banks in Iraq to depositors vary considerably. On the whole, however, no interest is paid on current accounts. On fixed deposits the rate usually varies from one bank to another and in most cases is subject to negotiation between the depositor and the bank. Lately it ranged from 1.5 to 3 or even 3.5 per cent, depending on the length of period (e.g. six months or a year), the amount deposited.¹

In recent years commercial banks have been paying particular attention to savings accounts, which are intended to attract the small savings of the public not engaged in business. The interest paid on such accounts is more or less the same in all banks, and is at present about 3%. But the terms as regards maximum limit, payment facilities and other services, vary from one bank to another. On the whole, though these savings accounts represent an insignificant sum, still they have indirectly contributed to the development of the habit of thrift among the middle classes by providing a suitable outlet for small savings at reasonable rates and satisfactory terms.

B. Lending Activities

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Commercial banks' lendings to the public through advances and discounting of bills have increased by more than six-fold in the period between December 31, 1950 and December 31, 1956, rising from I.D. 6 million to I.D. 32.8 million. About one-fourth to one-third of total lending is usually extended through discounted bills, the rest is in the form of loans and advances. On the whole, the majority of the commercial banks in Iraq still adhere to conservative British banking principles in their lending policies.

Interest rates charged by banks are not always the same. At the end of 1956 the prevailing rates charged by commercial banks in Baghdad were:

Interest on secured advances	5 per cent
Discount on bills	5.5 per cent
Interest on unsecured advances, and overdrafts	6 per cent

Some commercial banks, in addition to the usual interest they collect from their customers on overdrafts, also charge what is usually called a 'flat commission' on the whole amount of the overdraft regardless of whether use is made of the overdraft or not. If the customer makes use of the maximum amount of the overdraft facility all through the year (which is very unlikely) this extra 'flat commission' charge will amount to one tenth of one per cent on the whole amount over the usual 6% interest. But the less use the

customer makes of his overdraft allowance and the shorter the periods the higher will be the cost of the loan.

C. Financing Foreign Trade

Financing foreign trade, especially import mainly through letters of credit is another major activity of commercial banks in Iraq. The usual procedure is that an agreement between the Iraqi importer and his banker is made to the effect that the latter establishes a credit to the exporter with his branch or agent in the exporter's country. The importer is usually requested to deposit with his bank an amount ranging between 20 to 30 per cent of the value of the goods imported. The balance is charged an interest of 5 to 6 per cent for the time of financing the import of goods. The commission of the accepting bank is 1/8 of one per cent on the total value of credit.¹

D. Investments of Commercial Banks

Law No. (34) of 1950 for the control of banking stipulates:

1) That commercial banks operating in Iraq must hold 10 to 15 per cent of their total fixed and current deposits (excluding deposits of government and quasi-government departments) as legal reserve with the Central Bank.

1. Information obtained from M. Kaylani, controller of the Rafidain Bank, Beirut; and formerly head of the documentary credit section, Rafidain Bank, Baghdad.

Table No. 5 - Value of Credit

Opened for Imports from

Various Countries.

(in thousands of I.D.)

<u>Country</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>
U.S.A.	8,056	8,797	6,370
United Kingdom	7,023	8,941	9,994
Japan	6,820	7,770	8,007
Germany	5,114	5,089	3,637
Arab countries	468	406	766
Other countries	15,510	22,400	18,055
<hr/>			
Total	42,971	53,372	46,829

Individual figures do not necessarily add up to total because of rounding.

Source: Central Bank of Iraq, Quarterly bulletins, 1954/56.

One third of these reserves may be in the form of government securities.

2) Commercial banks are allowed to hold assets payable in foreign exchange not exceeding 50 per cent (the Central Bank can reduce it to 30 per cent of the total deposits of commercial banks.

3) Commercial banks must hold cash in hand, Iraq government bonds and bills, shares and bonds (of domestic companies) and debts at a proportion of not less than 50 per cent of the total fixed and current deposits.

At the end of 1956 the total investments of commercial banks in Iraqi government bonds amounted to I.D. 3.6 million, about I.D. 2 million of which were deposited with the Central Bank representing approximately one-third of the legal reserves, while the rest of these government bonds were kept in the commercial banks' own vaults.

Foreign investments of commercial banks amounted to I.D. 14.33 million in June 1956. These were mostly in short-term sterling assets in the London money market such as Treasury bills, call money and demand deposits. The small amount of long-term investments was all in British government bonds and did not exceed I.D. 1.25 million during the last four years.¹

1. Personal correspondence from Dr. M.H. Jamil, Director of Statistics and Research, Central Bank of Iraq.

III. Inter-Bank Relationship and Cooperation

Since the early twenties commercial banks in Iraq¹ had always agreed among themselves upon the broad lines of policy to be followed by them. General managers of these banks used to agree upon these broad policy questions during informal meetings held at irregular periods. This same practice continued till the beginning of the forties. But as the number of these commercial banks grew it became more and more difficult for them to concert their policies and organize some sort of cooperation among themselves in this informal and rather disorganized manner.

In 1946 the Rafidain Bank took the initiative to organize formal regular meetings between the representatives (usually the general managers) of the various commercial banks operating in Baghdad. Currently such meetings take place every two weeks in the office of the Rafidain Bank's General Manager. During these meetings, matters of general interest to commercial banks are discussed; but no binding decisions are taken. However, starting with the fifties newly established banks began to cut down the rates and fees they charge, and increase the rates of interest they pay, in

1. Only three banks, all British, existed in Iraq at that time; the Ottoman, the Eastern, and the British Bank of the Middle East.

an attempt to attract customers from the older banks. The latter group retaliated and the situation threatened to develop into a cut-throat competition. Again it was on the initiative of the Rafidain Bank that a written and signed agreement was reached whereby minimum interest rates and service fees and maximum interest rates paid on fixed and savings accounts were fixed. This written agreement (the first of its type between commercial banks in Iraq) was concluded during one of the regular meetings of the general managers in April 1955. There is no provision in this agreement, however, which would ensure its enforcement or specifies some sort of a penalty on any possible infringers. Furthermore, any of the 'member' banks can 'free' itself of this gentleman's agreement by merely notifying the others of its intention one month in advance. At the end of 1956 all commercial banks operating in Baghdad were 'members' in this agreement with the exception of two.¹

Considerable cooperation between commercial banks exists in the form of exchanging information about clients. Practically all such information at the disposal of any one bank is ungrudgingly offered to all other banks whenever

1. The Arab Bank, and the Federal Bank of Lebanon.

demanded. Heads of information departments in the various banks are instructed by their general managers to extend all possible help to other commercial banks immediately when such information is asked for and without further reference to supervisors or managers. Individual commercial banks feel that by following this policy they are in fact not just helping the other banks but in the last analysis protecting their own interests.

Up till now there is no one institution or organization where or through which commercial banks do their clearing with each other. At present the system followed by commercial banks in Baghdad is somewhat awkward. At specified times¹ each day checks are sent from one bank to another for settlement. The smaller banks usually maintain accounts with the larger ones and inter-bank claims are settled through increasing or decreasing these accounts. Now commercial banks in joint consultation with the Central Bank are trying to work out an arrangement whereby they can affect their daily clearings directly through the Central Bank. Several proposals are currently under consideration.

Some of the responsible officials in the older banks claim that the newly established banks are not always cooperative. Their actual policies particularly run in many

1. Usually twice daily; 10 a.m. and 1 p.m.

cases contrary to the general views presented during the managers' fortnightly meetings. They quote as an example for this, the attitude of some of the commercial banks during the last few months of 1954 and the first half of 1955. At that time it was generally felt that Iraqi importers are being too optimistic and importing much more than the market can normally absorb. Representatives of commercial banks in one of their meetings agreed that they should adopt a restrictive lending policy in an attempt to counteract this optimism on the part of Iraqi importers. But newly established banks - say the older ones - did not act accordingly, they rather pursued their own immediate selfish policies.

On the question of rates and charges and fees the older bankers complain that some banks - even those who signed a written agreement concerning these rates and charges - do not abide by it, and often indulge in excessive competition, which they feel should not be the case in banking business. That may be true, but it remains to be determined where does the line of demarcation between excessive or cut-throat competition and healthy competition or rivalry lie, and whether those accused banks have actually transgressed it. Also, we need not over-emphasize the fact that minor differences even in general policy questions may be good sign of healthy competition and too much complaints of such behavior especially when made by the older institutions may be considered as a bad omen of inertness and stagnation.

IV. Consolidated Balance Sheets of Commercial Banks

A. General Analysis

Table No. 6 on the following pages gives the main items of the assets and liabilities of commercial banks in Iraq since 1952, and the per cent of each item to total assets or liabilities. At the end of 1952 the total of each of the assets and liabilities amounted to I.D. 45.6 million. Four years later this sum increased by more than 50 per cent, reaching I.D. 69.3 million.

On the assets' side, cash, deposits with commercial banks and with the Central Bank amounted to 28.1 and 28.3 per cent of total assets in December 1952 and 1953 respectively. In the following two years this ratio dropped to 22.5 per cent. The relative decrease in liquid assets is due to the increase both absolutely and relatively (to total assets) in private loans and discounted bills. The ratio of the former to total assets has risen from 0.195 in December 1952 to 0.30 in December 1955, while the latter rose from 0.04 in December 1952 to 0.11 in December 1955. In the second half of 1956 there was a drop in both loans and discounted bills, probably indirectly caused by the Suez Canal issue.

The ratio of deposits and investments abroad to total assets declined steadily from 42 per cent in December 1952

Table No. 6 - Consolidated Balance Sheets of Commercial Banks in Iraq.

	Dec. 1952	Dec. 1953	Dec. 1954	Dec. 1955	Dec. 1956					
Assets										
Cash ¹	4.1	9	4.2	7.5	4.9	6.7	5.0	6.6	5.2	7.5
Deposits with Branches and banks in Iraq	2.6	5.6	3.3	5.8	4.2	6.3	4.1	5.4	6.1	8.8
Deposits with C.B.I. ²	6.2	13.5	8.6	15	6.3	9.5	7.9	10.5	6.4	9.3
Government Loans ³	1.6	3.5	1.3	2.3	1.6	2.5	1.5	2	1.1	1.6
Private Loans	9.0	19.5	12.2	21.5	19.5	29	23.0	30	23.3	33.6
Discounted Bills	1.8	4	3.4	6.0	5.3	8	8.1	11	9.5	13.9
Deposits & Investments Abroad	19.0	42.0	21.3	38	23.7	35	21.8	28.5	12.7	18.3
Other Assets	1.4	3	1.7	3	2.2	3	4.4	6	5.0	7.0
Total Assets	45.6	100	56.3	100	67.7	100	75.8	100	69.3	100

Individual figures do not necessarily add up to totals because of rounding.
The percentages are only approximates.

1. These items include coins and notes in vaults of the commercial banks and cr. balances with branches and banks in Iraq.
2. Current account and Iraqi govt. bonds
3. Include loans to govt. and quasi govt. depts and Iraqi govt. bonds other than those accounted for in the previous item.

Sheets of Commercial Banks in Iraq.

	Dec. 1952	Dec. 1953	Dec. 1954	Dec. 1955	Dec. 1956
Liabilities					
	in mill %	in mill %	in mill %	in mill %	in mill %
	of total	of total	of total	of total	of total
	I.D. of Liab	I.D. of	I.D. of	I.D. of	I.D. of
	liab.	liab.	liab.	liab.	liab.
	2.7	3.9	4.9	6.0	7.8
	6.0	7.0	7.0	8.0	11.3
1. Paid-up capital and Reserves					
	0.3	0.2	0.2	0.3	0.5
	0.7	0.4	0.3	0.4	0.7
2. Provision for Income Tax and Others					
	0.4	0.7	1.3	1.0	1.4
	1.0	0.7	0.7	1.5	1.0
3. Balance of Profit and Loss %					
	2.9	2.7	4.0	5.0	7.5
	6.5	5.0	6.0	6.5	10.8
4. Debit balances with Branches & Banks in Iraq					
	0.1	0.6	1.7	1.1	1.2
	0.3	1.3	2.5	1.5	1.7
5. Debit Balances Abroad					
	15.6	19.9	25.0	26.0	34.5
	34.0	33.5	37.0	34.5	11.8
6. Govt. & Quasi-Govt. Deposits					
	6.3	6.0	5.7	6.0	6.9
	14.0	10.5	8.5	8.0	9.9
7. Deposits against Guarantees and Credits					
	14.9	18.3	21.8	24.1	28.2
	33.0	32.5	32.0	32.0	40.7
8. Current and savings ⁴ Deposits					
	0.8	1.5	2.0	2.9	4.1
	2.0	2.5	3.0	4.0	6.0
9. Fixed Deposits					
	1.6	2.7	1.8	3.2	3.9
	3.5	2.7	2.5	4.5	5.6
10. Other Liabilities					
	45.6	56.3	67.7	75.8	69.3
	100	100	100	100	100
Total Liabilities					

4. It would have been better to have current deposits by themselves and put the savings with other fixed deposits, but the C.B.I. in its annual reports classifies them in the above manner. Source: Central Bank of Iraq, Quarterly Bulletins, 1952-56.

to 18.3 per cent in December 1956. A considerable part of this decrease was in government and quasi-government deposits with the Rafidain Bank London office.¹ Other factors that contributed to this decline in deposits and investments abroad was the increase in domestic loans and discounted bills - discussed in the above paragraph - and the necessity of financing them.

Government loans, which include advances given mostly to municipalities and other semi-government institutions, plus Iraqi government bonds held by commercial banks in excess of those deposited with the Central Bank as part of the legal reserves, amounted to I.D. 1.1 million at the end of 1956 constituting only 1.6 per cent of the total assets of commercial banks that year. This ratio was 3.5 per cent in December 1952. The decrease in ratio is due to the fact that while total assets increased, the absolute amount of these government loans remained more or less constant.

On the liabilities side of the balance sheet, private deposits in current accounts at the end of 1956 amounted to about I.D. 26 million.² This rather modest figure when

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1. In accordance with a Royal Iradah (No. 383) issued on May 8, 1956, all government and quasi-government deposits had to be kept with the Central Bank of Iraq.
 2. Of the total I.D. 24.1 million of current and savings deposits which appears on the consolidated balance sheet (table No. 6) savings deposits alone are estimated at about I.D. 2 million only.

compared with total notes and coins in circulation of I.D. million confirms the notion that the use of the cheque system is not yet very widespread in Iraq. Even more modest are the savings deposits (about I.D. 2 million in December 1956), and the amount of fixed deposits (I.D. 4.1 million in Dec. 1956).¹

The amounts of government and quasi-government deposits almost doubled in the period between December 1952 to December 1955. The I.D. 26 million government deposits at the end of 1955 account for 34.5 per cent of the total assets of commercial banks of that period. While the I.D. 15.6 million government deposits of December 1952 constituted 34 per cent of total assets. This increase both absolutely and relatively in government and quasi-government deposits reflects first and foremost the increasing oil revenues of the government. While on the assets side, it is also, in part, responsible for the fall in loans to the government. However, between December 1955 and December 1956, the amount of government deposits declined by two-thirds and they are expected to decrease still further in the near future till they completely disappear from the accounts of all commercial banks. This decline is due to the transfer of the government and quasi-government deposits from the Rafidain Bank to the Central

1. Central Bank of Iraq, Quarterly Bulletin, No. 20.

Bank.¹ At the end of 1956 there was still part of these deposits with the Rafidain but all are expected to be transferred by the beginning of 1957.²

During the period covered by table No. 8 total paid-up capital and reserves rose considerably. In December 1952 their total was I.D. 2.7 million. By December 1955 it had increased, almost three-fold, to I.D. 7.8 million. This increase is due to two main reasons, first to the '10 per cent of profit addition' to the reserves - as required by law -³ and second to the establishment of new commercial banks in Iraq during the years 1953⁴ and 1954.⁵ This trend of increase in the number of commercial banks and of their capital and reserves - which is expected to continue still further in the future - is mainly the result of increased economic activity.

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1. In accordance with the Royal Iradah No. 383 of 1956 as issued on May 8, 1956.
 2. From a talk with Sayid Mohammad Ali Chalabi, General Manager of Rafidain Bank, Baghdad.
 3. Law No. 34 of 1950 for the control of banking; Article 16.
 4. During 1953 the Federal Bank of Lebanon and the Iraqi Commercial Bank were established. Also during that year the Rafidain Bank's paid-up capital was increased by I.D. 0.5 million.
 5. Banque d'Afrique de Commerce et de l'Industrie, and Baghdad Bank.

B. Liquidity

The relationship of cash to demand deposits is often quoted as a measure of the liquidity of commercial banks. It shows the immediate ability of a bank to meet any demand of depositors. The consolidated balance sheet of commercial banks in Iraq shows that the ratio of cash to demand deposits and savings accounts¹ was 27.5 per cent in December 31, 1952 and declined gradually till it became 18.5 per cent in December 31, 1956. This ratio of 27.5 per cent of 1952 is certainly very adequate² and would give the banking system ample time to realize other assets or take other measures if necessary in case of a rush. However, the 18.5 per cent ratio of 1956 might be considered by some as being too near the danger zone. But if we were to eliminate the savings account leaving only current deposits, the ratio would most probably be slightly above 20 per cent.

On the whole this decline can be attributed more to the increase in deposits³ and lending activities than a

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1. In the separate balance sheets which the commercial banks in Iraq submit to the Central Bank, demand deposits and savings accounts are added up in one item.
 2. L. Harr and C. Harris in their book, Banking Theory and Practice, McGraw-Hill Book Company, Inc., consider a ratio of cash to demand deposits of 26% as "very substantial." See the chapter on Bank Statement, pp. 70-84.
 3. Supra pp. 48-50

decrease in cash both absolutely and in relation to total assets and liabilities of the 1952-1956 period.

Another important ratio in determining liquidity is the ratio of quick assets (cash plus near money) to demand deposits, known also as the liquidity ratio. It is true that an analysis of the usual statements of commercial banks does not disclose the degree of liquidity of the various assets in their portfolios. But in the case of commercial banks in Iraq it is known that a substantial proportion of their 'deposits and investments abroad' are very liquid.¹ Therefore, it can be safely said that the liquidity ratio of commercial banks in Iraq is substantially above the cash ratio.

C. Safety

One measure of the safety of commercial banks from the standpoint of creditors is the ratio of capital, reserves and undivided profits to liabilities. The larger this ratio - ceteris paribus - the safer are the bank creditors. Bradford thinks that though this ratio, in practice, differs from one country to another, "... on the whole, however, it may

1. From personal correspondence with Dr. M.H. Jamil, Director of Statistics and Research, Central Bank of Iraq.

stated roughly that it is not desirable for banks to allow their capital funds to fall to a point much below 10 to 12 per cent of their total liabilities.¹ For commercial banks in Iraq this ratio was:

- 7.3 per cent in December 1952
- 8.9 per cent in December 1953
- 9.0 per cent in December 1954
- 10.5 per cent in December 1955
- 14.5 per cent in December 1956

The small amount of capital of commercial banks in Iraq in relation to their liabilities is due to the fact that the larger part of the important banks operating in the country are branches of foreign banks and keep their capital in Iraq at the minimum required by law. They utilize their world-wide names and prestige to obtain a volume of business that is very much out of proportion with their paid-up capital in Iraq. Though they still follow this policy, yet starting with 1951 they had to keep at least 10 per cent of their annual profits in the country to be added to a reserve fund till this fund becomes one-half their original paid-up capital.² This

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1. Bradford, Fredrick A. Money and Banking, Logmans, Green & Co., 1949. p. 61
 2. Article 16 of the law for the control of banking; for details see pp.69-70 of this chapter.

explains the continued rise in the ratio of capital to liabilities and points out to the possibility of its increasing a little further in the near future.

However, these figures and ratios of bank statements may not mean much per se. For while liabilities are taken at their face value, assets of which loans are a considerable part cannot be determined merely from the figures of these bank statements. Loans are listed at their face value but they may or may not be collected in full at maturity or even later. This depends on several factors. The type of loans, the kind, amount and quality of the security pledged, if any, the debtors themselves, and business conditions in general. In view of the conservative lending policies pursued by practically all commercial banks in Iraq and the healthy business conditions that prevail at present one can safely presume that the outstanding loans of commercial banks are of a very sound quality.

Finally banking control legislation in Iraq has included a number of provisos to ensure the safety of commercial banks from the view point of their creditors. A good illustration of this, is the prohibition of commercial banking institutions from extending loans beyond a certain maximum to any single client. Also the limitation put on them concerning their foreign investments.¹

1. For details see the section on banking control, pp. 69-74

This is, no doubt, an added element that contributes considerably to the safety of commercial banks in Iraq.

V. Commercial Banking Control

In May 1950, law No. (34) for the control of banking was promulgated to replace the law¹ of 1938. The new law embodied several amendments all aiming at more strict requirements for the establishment of banks (especially in regards to the initial capital) and closer control of their operations. As a result of putting this new legislation into effect during 1950, two of the commercial banks in Iraq became unqualified and twenty sarrafs decided to liquidate their businesses.²

The main features of the new law can be summarized in the following points:

1. Banks established in Iraq as limited companies, or branches of foreign banks operating in Iraq must maintain a minimum paid-up capital of I.D. 250,000.³ Sarrafs must have a minimum paid-up capital ranging from I.D. 12,000 to I.D. 3,000 depending on place of business.⁴

2. Banks and sarrafs are required to allot not less

1. Law No. (61) of 1938
2. National Bank of Iraq, Annual Report, June 1949 - Dec. 1950.
3. Article 4 (1) & (2)
4. Article 4 (4). See also supra p. 41

than 10 per cent of their annual profits (after allowing for Iraqi government taxes) for capital reserves, until these reserves are equal to at least 50 per cent of the original paid-up capital. These reserves cannot be reduced for any reason whatsoever without the prior consent of the Central Bank.¹

3. Commercial banks must maintain a deposit with the Central Bank equivalent to 15 per cent of their total fixed and current deposits; one-third of which (one-half in the case of sarrafs) may be in the form of treasury bills and Iraqi government bonds. The Central Bank can lower the legal reserve ratio to 10 per cent if it sees fit.²

A bank is prohibited from accepting deposits (current or fixed) in excess of sixteen times its paid-up capital and reserves held in Iraq. In the case of sarrafs the ratio is only seven.³ If deposits exceed the specified ratios the bank or sarrafa must either deposit the excess amount with the Central Bank or increase its capital so as to comply with the above mentioned ratios. The primary purpose of this provision is to secure safety.

1. Article 16.

2. Article 9 (1) & (4) and Article 10 (1)

3. Article 8 (8), (2) & (3)

5. Commercial banks must maintain cover equal to, at least, 50 per cent of total deposits in certain assets payable in Iraq by persons resident therein. The assets enumerated in the law are cash, demand deposits with other banks, shares, bonds, treasury bills, securities, commercial, industrial or agricultural debts of all kinds.¹

6. Commercial banks can not invest any part of their assets in industrial, agricultural or real-estate shares or bonds of companies established outside Iraq or of foreign governments.² This measure aims at ensuring a high degree of safety and liquidity.

7. No bank or sarraf is allowed - without the prior consent of the Central Bank - to extend a loan or advance a credit facility to any one borrower (government and quasi-government departments are not included) that would constitute a liability of more than 20 per cent of the bank's paid-up capital and reserves.³ This provision (which in different versions can be found in the banking laws of many countries) is inserted with the view of ensuring diversification by limiting the dependence of any bank on a single client. For when a bank becomes entangled in

1. Article 9 (2)

2. Article 12.

3. Article 14 (1) & (2)

a risky business by having made considerable advances to a questionable enterprise, a certain initial loss might easily lead to additional advances to the same questionable enterprise, in the hope of future recovery which might consequently result in letting 'good money' - so to speak - go after 'bad money'. Article 14 is intended to prevent or at least minimize the occurrence of such a hazard with the idea of safeguarding the interests of the general public.

8. Finally articles 17 to 20 specify rules and regulations for the actual application of control on commercial banks. The main points are: a) Banks and sarrafs shall forward balance sheets and profit and loss statements to the Central Bank at specified intervals. b) If it deems it necessary, the Central Bank can require that the monthly and semi-annual balance sheets submitted to it by commercial banks be duly certified by chartered accounts or licensed auditors. c) The Central Bank has the right to authorize any person to supervise the activities of commercial banks and examine their daily operations and accounts, whenever it considers that necessary. In practice, however, the need has never arisen.

Few comments about this law and its actual application may be mentioned. First, the capital requirement for banks is somewhat high. An initial capital of I.D. 250,000

constitutes a heavy burden especially in an underdeveloped country such as Iraq. In Syria, for instance, the minimum capital requirement for banks is L.S. 1.5 million (approximately I.D. 150,000) in the case of a limited company and L.S. one million (approximately I.D. 100,000) in the case of a partnership or individual proprietorship.¹ The gap between the required capital for banks and for sarrafs in Iraq is considerable.

The law stipulates several regulations on sarrafs, as regards their capital, reserves, ratio of deposits, etc., but it is very questionable if these regulations can be adequately enforced. Almost all sarrafs in Iraq carry along other activities - usually trade - with their banking activities and it seems very difficult to draw a line between the sarrafs' banking and other commercial activities.

The Central Bank decided in 1952 to establish an 'inspection section'² as a subdivision in its banking control department. The responsibilities of this section, as planned, are to supervise and check the activities of commercial banking institutions on the spot, when necessary, by sending employees to the institutions concerned. Some commercial

1. Decree No. 2504 of 1955 (Republic of Syria)

2.

شعبة تفتيش

banks¹ objected to this measure and actually prevented the Central Bank from implementing it. Now all control is presumably done through the statements submitted by the commercial banks themselves.

1. Particularly the Ottoman Bank, and the Eastern Bank.

Chapter Four

Non-Commercial Credit Institution

In our discussion in the previous chapter we pointed out that commercial banks in Iraq concentrate on the supply of short-term credit for trade. On the whole the inadequacy of credit facilities for industry and agricultural, especially on a medium - or long-term basis, has been badly felt by private individuals and companies alike. But as nothing has been done by the private sector to remedy this situation, the government - beginning in the late thirties - took it upon its own responsibility to supply, at least, part of the country's needs of non-commercial credit by establishing several specialized banks for the purpose.

At present all of the non-commercial banks in Iraq are government owned¹ and run - directly or indirectly by it. They are: The Agricultural Bank, The Real Estate Bank,² The Mortgage Bank,³ and lastly the newly established Co-operative Credit Bank. Also there is the Post Office Savings

1. This statement is not totally true of the newly established Cooperative Credit Bank. As will be discussed in a later section of this chapter, not more than 51 per cent of the Cooperative Credit Bank capital is to be supplied by the Ministry of Finance while the rest must come as equity participation from different cooperatives.

2. المصرف العقاري

3. مصرف الرهون

Department¹ which was founded in 1935 under the Directorate General of the Postal and Telegraph Services.

This chapter will attempt to present and analyze the work accomplished by each of these banks separately, and the role they play in financing the non-commercial credit needs of the country.

I - The Agricultural Bank

In 1935 a law was enacted providing for the establishment of an Agricultural and Industrial Bank with a paid-up capital of I.D. 100,000. In 1940, another law was enacted to discontinue the operation of this bank and to establish two separate banks, one for agriculture and the second for industry. This law², however, was not put into force until April 1946.

The operations of the Agricultural and Industrial Bank were very limited, both in number and size, during its eleven years of existence as such. This was due on the one hand to the meagre financial resources at its disposal, and on the other, to the lack of experience of practically all its employees in the field of banking in general. The following figures give some idea about the limited operations of the Bank, especially in the field of industry, during the financial years 1936/37 to 1946/47.

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1. صندوق توفير البريد
 2. Law No. (18) of 1940.

Table No. 7 - Agricultural and Industrial Bank.

Capital and Loans in I.D.

Year	Capital in I.D.		Agricultural Loans		Indus. Loans	
	Authorized	Paid-up	No.	Total amount in I.D.	No.	Total amt. in I.D.
1936/37	150,000	100,000	228	40,024	3	650
1937/38	500,000	150,000	568	84,082	8	3245
1938/39	"	180,000	648	88,756	14	6710
1939/40	"	250,000	425	59,667	13	3225
1940/41	"	280,000	526	73,141	12	5900
1941/42	"	"	310	40,850	7	6250
1942/43	"	"	100	31,450	3	20150
1943/44	"	"	141	23,308	4	900
1944/45	"	"	527	97,130	3	1100
1945/46	"	"	734	166,538	7	15850
1946/47	"	380,000	718	245,222	7	10000

Source: Annual reports of the Agricultural and Industrial Banks.

The object of the Agricultural Bank as set down in its separate and amended law¹ is "to assist agriculturists and

1. The amendments of 1954 and 1956, laws No. 18 and 26 respectively.

to develop and improve agriculture."¹ More specifically the Bank is empowered to perform the following functions:

1. Provide credit facilities for crop financing.
2. Advance loans for the purchase of agricultural machinery and livestock.
3. Provide funds for the sinking of wells and similar projects requiring small capital.
4. Assist agriculturists in financing the purchase of seeds, fertilizers, insecticides, etc.
5. Assist farmers in relieving themselves of existing indebtedness to money lenders.
6. Extend help in the formation of Agricultural Cooperative societies, and advance them the credit they need.

The Bank is further empowered to sell implements, cattle, manure and seeds on the hire-purchase. To hire out agricultural implements, to act as agent for the sale of produce, to purchase, install and maintain pumps, machinery and accessories.

Thus it appears from the Bank's law that its objectives and scope are varied and wide. In practice, however, the Bank's activities up till now have been limited mainly to

1. Article 2 of Law No. (18) of 1940.

the advancing of medium-term loans to the large land holders. This narrowness of the Bank's activities may be attributed to three main reasons. First, the inadequacy of the Bank's financial resources and second, the lack of stability and continuity in management. The high rate of turn-over in the occupants of the post of the Director General and other top posts of the Bank, is a case in point. Third lack of competence on the part of management. In many cases the Director General and other top officials of the Bank have had neither training nor experience in the field of agriculture or banking before they were transferred to the Agricultural Bank from some other government department. Also their tenure of office in the Agricultural Bank has often been so short that they scarcely had enough time to familiarize themselves with the work.

In an attempt to meet the first of these two obstacles the capital of the Bank was gradually raised till it reached I.D. 2 million in 1954. In addition, the Bank obtained several loans from the Central Bank of Iraq, the Basra Dates Company, and the Directorate of General Accounts.¹ Consequently, the number and total value of loans granted each year increased substantially as can be seen from the following table.

1. In March 31, 1955, outstanding loans obtained from the Central Bank amounted to I.D. 667,000 and from the Directorate of General Accounts to I.D. 395,000.

Table No. 8 - Agricultural Bank
Capital and Annual Loans from 1945/46 to
1954/55

Year	Capital in I.D.		Annual Loans		
	Authorized	Paid-up	No.	Total amt. in I.D.	Average Loan
1947/48	500,000	460,000	1,883	490,510	260
1948/49	"	500,000	463	121,247	262
1949/50*	"	"	-	-	-
1950/51	1,000,000	550,000	5 526	144,621	275
1951/52	2,000,000	"	789	263,693	334
1952/53	"	1,000,000	1,250	660,010	528
1953/54	"	2,000,000	2,186	1201,341	550
1954/55	"	"	1,894	882,952	470
1955/56					

* No loans were made during this financial year because loans extended in previous years had drained all available funds (of I.D. 500,000 paid-up capital and I.D. 280,000 deposits). In addition default during that year and the year before was high because of two bad consecutive agricultural seasons and the Palestinian war.

Source: Annual reports of the Agricultural Bank

The maximum amount of credit allowed per person is I.D. 3000 while the minimum is I.D. 15. The average amount

of loan, though it increased substantially during the last few years is still about one-sixth of the maximum allowed, as can be seen from the figures of table 7. The maximum allowed duration of a loan is ten years. In practice, however, more than two-thirds of the loans are for periods of three to five years, and only in few cases the period is more than seven years.

Loans are granted in most cases to large land owners. To a certain extent this is the result of the very strict rules applied by the bank especially with respect to the security asked for the loans. According to the law of the Bank, the amount of the loan is limited to 60-70 per cent of the value of the land securities, which the average farmer in Iraq does not possess. On the other hand, large land owners who can easily obtain a loan of the maximum amount allowed (namely I.D. 3000) are usually not satisfied with it. They often file several loan applications each for I.D. 3000 in the names of the different members of their families.

At present the rate charged by the Agricultural Bank for medium-term loans is five per cent,¹ which is equal or even slightly lower than the rate charged by commercial banks on short-term loans. Up till 1952 the rate was 7 per cent which is the maximum allowed by law, but in August of that year it was lowered to 6 per cent. Then in December 1953 it was further reduced to its present rate.

1. In the case of loans advanced to agricultural cooperatives and through direct supervised credit-
ment of which will be made later - the rate
charged is only 3 per cent.

In 1953 the Bank decided to experiment on a new method of granting credit known as "direct supervised agricultural credit."¹ The project was carried in cooperation with the American Technical Assistance Mission which supplied the expert who directed the project, and technical advice. The aim of this project was to advance the necessary credit to small farmers to help them increase their productivity. Officers of the Bank according to this project would go to individual farms, study its needs, plan ways for its 'improvement and then advance the credit necessary to carry out these improvements. The Bank - through its local officers - would further supervise the spending of the loan by its recipient in accordance with the plan prepared beforehand.

Supervised agricultural credit differs from the credit customarily advanced by the Agricultural Bank in five respects.

1. The strict rules applied in the regular credit operations of the Bank are not adhered to in Supervised Credit, e.g. individual collateral for each loan.

2. The government itself guaranteed the loans in order that their granting on a more liberal basis would not violate the Bank's laws and regulations.

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1. This method was first successfully tried in the United States in 1934. Later it was adopted by many other countries such as India, Pakistan, and several Latin American states.

3. The farmer does not need to go himself to the Bank and apply for a loan. On the contrary, officers of the Bank will go to his farm, and after studying its conditions, will propose the granting of a loan to him if they deem it necessary.

4. Along with the loan the Bank's officials draw a plan to the individual farmers of how to utilize these loans to their utmost advantage.

5. Finally the Bank, through its local officers, directly supervises the spending of the loan in the manner and ways preplanned.

In 1955 an amount of I.D. 8000 was set aside as the first allotment to loans to be granted by this method. The Liewa' of Hilla was chosen as the location for the experiment. Thirty-one different loans were distributed to individual farmers during the years 1955 and 1956 amounting in value to I.D. 5136, i.e. an average of I.D. 171 per loan.¹ Most of these loans were given to farmers who under the usual strict security regulations of the Agricultural Bank would have either got much lesser amounts or nothing at all.

1. Al-Hillali, Abed Razzak, Problems of Agricultural Credit in Iraq. (Al-Najah Press, Baghdad, 1957) p. 271.

The experiment met from the beginning with a number of difficulties and was discontinued less than two years after it started. The main two difficulties were the delay in granting the loans and the very high cost of running this project in relation to the amounts of loans granted through it.¹ Some of these difficulties arose from the fact that the American expert who was directing the project had virtually no knowledge at all of local rural conditions, and could hardly gain such knowledge during the short period he spent in Iraq.² Also the Iraqi employees of the Bank who were helping him in the project lacked a sufficiently broad-minded social understanding to be able to grant credit not just in a semi-automatic fashion, but rather to sincerely study, critically analyze and sympathetically advise the farmers of how to productively utilize the loans they have been granted, which - after all - is the essence of supervised Agricultural Credit.³ Thus the Agricultural Bank terminated this experiment after less than two years of its beginning, on the ground that since "Supervised Credit" aims not just to advance loans to farmers but also to study their

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1. It costed nearly I.D. 2000 - mainly in salaries to employees and transportation expenses - to make loans whose total value is only I.D. 5136.
 2. A little more than one year.
 3. Al-Hillali, op.cit. pp. 272 & 273

farms' conditions, problems, etc. and then advise them on how to use the money advanced with the view of raising their productivity and consequently their general standard, is then beyond the scope of the Bank's activity."¹ The project has been taken over by the Ministry of Agriculture and a special committee was formed for the purpose. Nothing, however, has yet been done. Another activity of the Bank is the advancing of credit to agricultural cooperative societies. At different times during the years 1952-55 about ten agricultural cooperatives obtained small loans from the Bank at 3 per cent interest. This practice was discontinued by the Bank at the end of 1955 as none of these cooperatives proved to be efficient and worthy of the confidence of the Bank. In fact, many of them were liquidated only a short time after their establishment.

The Bank at different times undertook several projects. These were a fishing and preservation project started in 1950, a cotton-ginning factory and an electricity scheme in Azzizia, and a medical-cotton factory in the suburbs of Baghdad. All of these projects were liquidated a short time after their establishment as they proved to be a total failure.

1. Obviously this line of reasoning is highly questionable. Nevertheless, it was the ground - at least officially - upon which the Agricultural Bank's Board of Directors built its decision to terminate this experiment. Cf. Al-Hillali, ibid., pp. 271 & 272.

Besides the fact that the operations of some of them are contradictory to the Bank's laws, e.g. the electricity scheme in Azzizia. Also they were all launched without sufficient prior study and planning.

The losses incurred by the Bank during 1950-54 period are to a great extent due to these unsuccessful projects.¹ Another reason for losses of this period is the high percentage of default by many debtors of the Bank. For instance in the financial year 1949/50 (after two consecutive poor agricultural seasons) out of I.D. 295,000 outstanding loans due to the Bank, only I.D. 172,000 was repaid on time, and special arrangements were made to delay repayment on another I.D. 78,000 while most of the remaining amount could not be collected.

On the whole, the legislation governing the activities of the Agricultural Bank are adequate for its smooth operations. Nevertheless, few reforms are necessary. These reforms should aim at making it possible to extend the credit facilities of the bank to poor farmers and landless peasants, and at extending the maximum period of loan granted. Due to

1. The losses of the Agricultural Bank in the three financial years 1951/52, 1952/53 and 1953/54 were: I.D. 28884, 16013, and 590 respectively. Annual Reports of the Agricultural Bank.

existing economic conditions, especially of land tenure in the middle and southern parts of Iraq, the majority of the farmers do not possess the security that the Bank requires as a guarantee for its loans. Consequently they rarely obtain such loans, while they need them most badly. Therefore, the relaxation of some of the strict security regulations for the granting of loans to farmers who own little or no land is very advisable. Such a step will be even more urgently needed in the few coming years than it is now, or has been in the past. A great demand for both medium and long term agricultural credit is bound to follow the opening of new irrigated areas under present and future development schemes. The Ministry of Development which undertakes the financing of large scale capital projects makes no provisions for the credit requirements of the farmers and new settlers who will cultivate these virgin areas. Thus the Agricultural Bank is bound, in the near future, to meet an even greater influx of credit demand from new settlers and potential cultivators of the newly irrigated and reclaimed territories. Many of the present share-croppers may be prevented from moving to these new lands unless they are able to pay off their debts to their present landlords.¹

1. Law No. (33) of 1932 states that no share-cropper can leave the land he is working on - under penalty of death - while he is indebted to the landlord. Often landlords (especially in the South of Iraq) intentionally lend their share-croppers some twenty or thirty dinars which the latter usually uses to cover marriage expenses, and as he is unable to repay it, he becomes bound to the land and virtually reduced to a serf.

To fulfill these functions properly the Bank ought to extend its present system of branch offices even further than it has done in the last few years.¹ A wide system of branch offices would be better equipped to judge the particular credit needs of the different areas and the individual loan applicants. Also local farmers would have access to nearby branches relieving them of the effort, time and extra expenses involved in travelling to towns where branches of the Bank are usually located.

In addition to the farmers' need for short term credit they also need credit for long-term for the purchase of land and its improvement, and the carrying out of small irrigation projects on his own land. For these needs the maximum 10-years allowed by the present law may not be sufficient. An amendment to the present law must be enacted to provide for the prolongation of the maximum period to 15 or 20 years in special cases. This prolongation may reduce the high percentage of default, many of which are due to the fact that the period of the loan is shorter than the underlying transaction would warrant. As Robinson puts it: "If the underlying transaction is long-term, the will tend to be long term no

1. In the last five years, the Agricultural Bank has opened six new branch offices in different localities of Iraq.

matter what is written on the face of the credit instrument."¹

But the extension of the bank credit facilities and the prolongation of its maximum and average duration of loans would evidently entail a greater drain on the financial resources of the Agricultural Bank. The recent additions to the Bank's capital and the several loans it secured from the Central Bank are already practically fully used. Probably Salter's² suggestion of securing extra funds from the Ministry of Development as loans or grants is the most suitable solution under the circumstances. The Agricultural Bank's granting of loans especially for providing initial capital for new settlers is the logical continuation of the Ministry of Development basic works of land reclamation, and irrigation schemes.

II. The Industrial Bank

In 1940 a law³ was enacted providing for the establishment of an industrial bank that would be independent in its organization, capital and administration from the Agricultural Bank. But it did not start operations till the financial year 1947/48. The main objects of the Industrial Bank -

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1. Robinson, Roland I. The Management of Bank Funds. McGraw-Hill Book Company, Inc., 1951, p. 100.
 2. Salter Lord, The Development of Iraq, the Development Board of Iraq, 1955. p. 202.
 3. Law No. (12) of 1940.

as stated in its law - are to develop and assist industry and to undertake banking operation in general for industrial concerns. More specifically the Bank would engage in the following activities:

1. Grant loans for the establishment of new industries and the expansion and improvement of old ones.¹

2. Participate in joint-stock companies formed for industrial purposes.²

3. Start new industrial enterprises on its own account, if need be.

4. Advance short-term loans to manufacturers to help them bridge seasonal gaps.

5. Mediate in, a) importing machines and raw materials for private industrial concerns and for government and quasi-government establishments; b) exporting products of Iraqi factories.

6. Advance loans to merchants who have commercial dealings with the Bank's partly-owned industrial concerns.

7. Accept current and fixed deposits and utilize them in providing, extra funds for industrial needs.

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1. Loans to any one private firm or limited company should not exceed I.D. 20,000; and for a maximum duration of ten years in the case of limited companies with a capital of I.D. 100,000 or more. Other loans may not be for more than five years.
 2. Maximum participation by share-holding of a company should not exceed I.D. 250,000.

The authorized capital of the Bank was originally set in 1940 at half a million Iraqi Dinars. It was then raised to one million in 1951, and to three million in 1952. It was not until 1954, however, that the full amount of the authorized capital was paid-up by the Ministry of Finance to the Bank. In 1956 amendments were enacted to raise the authorized capital to eight million. In addition the Bank has at times obtained several loans from government and semi-government departments, with no interest or at very low rates. The following table shows these loans as outstanding at the end of each financial year since 1949.

Table 9

Loans Advanced to Industrial
Bank (as outstanding on
March 31.)
(in thousands of I.D.)

Creditors	1949	1950	1951	1952	1953	1954	1955
Waqf Directorate	100	100	100	100	-	-	-
Central Bank	-	100	200	-	-	-	-
Ministry of Development	-	-	-	-	-	-	250

Source: Annual Reports of the Industrial Bank

The Bank is administered by a Director General who is, ex-officio Chairman of an Administrative Board comprising four other members; two of whom must be government officials. The whole of the Board is chosen by the Council of Ministers and appointed by a Royal Iradah.

At the end of 1956 more than half of the Bank's paid-up capital was invested in large well-established companies. The Bank's equity-participation in some of these companies dates back to more than ten years ago, but the Bank still holds the shares of these firmly established and prosperous enterprises¹ (See Table 7). The substantial yearly profits of the Bank are largely due to these investments.

Advancing loans for the establishment of new industries or the expansion of old ones constitutes the next major activity of the Bank. Extending short term credit to industrialists for buying raw materials, paying for labour, etc. is another activity of the Bank. During the financial year 1954/55, 242 loans were made amounting in value to I.D. 1.4 million. Only 2 per cent of these loans were for periods of one year or less. While the average duration was

1. A good example of such a company is the 'Iraq Cement Co.>'; more than 25% of whose share has been held for the last 10 years by the Industrial Bank.

between 3 to 4 years.

The Industrial Bank also acted at times as middleman for the import of goods especially machinery and other industrial plant equipments for Iraqi industrialists. Those operations were limited both in number and volume at the beginning but increased tremendously as the Bank gained more experience and established relations with foreign suppliers. On the other hand, though its law empowers it to act as middleman or broker for the export of Iraqi industrial products, till the end of 1956 it had not engaged in any transaction of this type.

The following table summarizes the financial operations of the Industrial Bank for the years 1948/49 - 1954/55.

In the years 1947-50 the activities of the Industrial Bank were handicapped by the inadequacy of its financial resources. When the Bank started its operations in 1947-1948 its authorized capital¹, was I.D. 500,000. However, the Bank's paid-up capital was eventually increased to I.D. 3,000,000 in 1952 and its authorized capital to I.D. 8,000,000 in 1956. Consequently, its activities expanded too. As can be seen from the figures of the following table its yearly

1. Law No. (12) of 1940.

Table No. 10 - Summary of the Industrial
Bank's Financial Operations.

1948/49 - 1954/55

Year		Equity - Participation*	Loans	Documentary Cr.
1948/49	No.	6	51	15
	Total value in I.D.	446,650	148,132	18,570
1949/50	No.	6	81	81
	Total value	473,490	132,110	54,583
1950/51	No.	6	93	204
	Total value	629,272	131,949	196,388
1951/52	No.	7	87	176
	Total value	911,482	281,224	182,145
1952/53	No.	10	153	291
	Total value	995,281	656,949	284,841
1953/54	No.	11	181	223
	Total value	1,139,031	734,140	276,847
1954/55	No.	13	242	205
	Total value	1,631,481	1,367,602	1,126,176
1955/56	No.			
	Total value			

* Outstanding at the end of the fiscal year.

Source: Annual Reports of Industrial Bank.

loans have increased almost ten-fold between the years 1948-49 and 1954-55. Documentary credit operations have shown a more spectacular increase.

The major weakness in the Bank's operations is its policy of continuing to hold the shares it buys in the various companies it partly owns rather than sell them as soon as the company becomes established and profitable.¹ The Bank's primary object should be, as indeed is stipulated in its law, "to develop and assist industry"² rather than to make profit. But somehow its administration seems to have overlooked this important fact. In an article³ published in the Middle East Economic Papers, Mr. Abdul Ghani A. Dalli, a former Director General of the Industrial Bank furnishes us with a typical illustration of the Bank's faulty attitude towards this important issue. Mr. Dalli after numerating several factors which make it difficult for the Industrial Bank to dispose of the shares it holds,⁴ goes on to say;

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1. See, the Economic Development of Iraq, a report by the I.B.R.D. mission to Iraq. 1951 (p. 295); Iversen, *op.cit.* (pp. 33 & 34); and Salter, *op.cit.*, (pp. 75, 220 & 221).
 2. Law No. (12) of 1940, art. 2.
 3. Economic Research Institute - American University of Beirut, Middle East Economic Papers 1954, Problems of Industrial Enterprise in Iraq, (pp. 37-55).
 4. Among these factors, as mentioned by Mr. Dalli, is the lack of an organized Stock Exchange in Iraq and the expected fall in the prices of particular shares once the Industrial Bank starts selling what it owns of them. Serious as they are, these hindering factors - in our opinion - are not unsurmountable.

"... the (Industrial) Bank itself is, in the last analysis, a profit seeking institution..."¹ We, ofcourse, disagree with this point of view. There is nothing in the laws and regulations of the Industrial Bank, explicit or implied, to support Mr. Dalli's contention. Nor can it be justified by any logical analysis of the conditions that prompted the government to establish the Bank.

Another drawback in the policy of the Industrial Bank is that it has concentrated most of its activities on the establishment of large scale industries but has done practically nothing to assist the promotion of handicraft enterprises, repair shops, and small industrial projects.² And even in the case of large scale industries in which it participated, it has not always been successful in its choice.³

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1. Ibid., p. 54.
 2. See the Report of the I.B.R.D. mission to Iraq, p.
 3. An example of this is the 'Iraq Jute Industry Co.' whose founding was sponsored by the Industrial Bank in 1951. Only two years later it was found out that jute cultivated in Iraq is of a much inferior quality than that of India. And that to import jute from India and then manufacture the bags in Iraq would be more costly than to import the finished bags from India. Responsible officers of the Bank should have known better than to establish the factory first and then experiment on the advisability of cultivating the jute in Iraq. The Company is now in the process of being liquidated after having incurred heavy losses.

This is partly due to the fact that the Bank lacks a properly qualified technical staff to pass judgement on the various projects presented to it.

As to its lending activities, the Bank is hindered by its law which limits the maximum duration to ten years. There are types of industries which require heavy capital investments, and loans extended for such purposes often need to be for longer than ten years. The Law of the Bank should be amended so as to provide for such cases.

Finally, it might be mentioned that the Industrial Bank has no branches in any part of Iraq. So that its clients outside Baghdad and its neighborhood incur extra expenses and time when they have to do business with the Bank. It is advisable that the Bank establishes at least two branches, one in Mosul and one in Basra, to facilitate business with its present clients in these areas and help to extend its activities further with potential customers.

III. The Real Estate Bank

The Real Estate Bank was established by decree in 1948 (Law No. 18). Its primary purpose is to supply owners of dwelling houses with loans at reasonable rates to replace the high-interest-bearing loans secured by mortgages on their

houses which they had previously obtained from other sources, chiefly professional money lenders. In 1952 and 1954 two subsequent amendments¹ for the original law were enacted providing for the extension of the Bank's operations.

In accordance with its amended law, the Real Estate Bank has, at present, three main functions:

1. Refinance existing high interest loans by granting five per cent bearing loans. The maximum amount of any one such loan is I.D. 4000 provided this amount does not exceed 60 per cent of the value of the property in question. Repayment of the loan is by instalments over a period not exceeding twelve years.

2. To advance loans on security in fixed property to be used in new building activity on the part of private individuals. The absolute and relative maxima of loans offered for this purpose are the same as those applied to the above mentioned conversion scheme.

3. To build or buy on its own account dwelling houses which are to be sold to any Iraqi government official or any other person who earns a limited income. The value will be paid in annual instalments over a period ranging from ten to twenty years.

1. Law No. (22) of 1952 and Law No. (24) of 1954.

The Bank started business in January 1950 with an authorized capital of one million Iraqi Dinars which was not fully paid-up by the treasury until March 1953. At that time also the Bank's authorized capital was raised to two million dinars, but actual payment was made a year later. Finally in June 1955, the Bank's authorized capital was raised to ten million dinars. In addition to the increase in its paid-up capital the Bank obtained at different times several loans from the Central Bank, and the departments of Minors' Property. The interest on the latter was 2.5 per cent. When the second amendment to the Bank's law was enacted in 1954 empowering it to build or, dwelling houses on its own account, a special non-interest bearing loan of two million dinars was granted by the government to the Bank for this purpose. The Real Estate Bank has been very active in both the construction of dwelling houses on its own and the granting of loans for that purpose. By the end of 1956, it had bought lands in five different suitable localities in Baghdad and its suburbs at very reasonable prices. And had already on some of these lands about seventy completed houses. While about another two-hundred are in the process of construction. In Kirkuk it built eighteen houses. Plans are being laid for houses to be built by the Bank in other parts of Iraq. The average

cost of these houses are in the region of I.D. 1500 to I.D. 2000 and there is a very heavy demand on them.

In regards to its lending operations the Real Estate Bank has also been very active. In the financial years 1952-53, 1953-54 and 1954-55 its total loans amounted to I.D. 1,338,000, I.D. 1,368,000 and 1,515,000 respectively. These amounts represent both loans for new buildings and refinancing of existing loans. In the case of loans granted for new buildings, the average amount of a loan has fluctuated between I.D. 730 in 1952-53 and I.D. 1017 in 1954-55 (See table below).

Table No. 11

Loans for New Buildings

	1952-53	1953-54	1954-55
Number of loans	321	527	803
Total amount in thousands of I.D.	235	599	817
Average Loan	730	1136	1017

Source: Annual reports of the Real Estate Bank

The actual period of repayment for the majority of these loans is between three to five years. Consequently, the average annual instalment for the loans granted during the financial year 1954-55 was about I.D. 250. Thus it appears that the bulk of the borrowers must be from the middle - and

upper-middle-class people, since no one from the lower income group in Iraq can be assumed to be able to afford such annual payments.

As for the other type of loans granted by the Bank (namely, for refinancing existing loans) the average value of each loan is considerably less, as can be seen from the following figures:

	<u>1952-53</u>	<u>1953-54</u>	<u>1954-55</u>
Number of loans	1831	1547	1285
Total amount in thousands of I.D.	1153	768	698
Average loan in I.D.	630	496	543

The actual period of repayment for the majority of these loans is the same as in the previous case (three to five years). Thus, the average annual instalment for the 1954-1955 loans must be around I.D. 140. Though this is much less than the average instalment in the case of loans for new buildings, it is still more than what a member of the lower income group in Iraq can afford.

According to the 1952 amendmnet, the Real Estate Bank is empowered to establish and/or hold shares in joint stock companies engaged in real estate business or related fields. During the year 1955 the Real Estate Bank in cooperation with

Industrial Bank established a company for real estate industries and participated in forty per cent of its half million capital. The company has already started operations.

On the whole the affairs of the Real Estate Bank seem to have been handled in an efficient manner. It may, however, be questioned whether the Bank has done all it could to extend its facilities to the less privileged classes of the population. It is true that formally nothing prevents the poorer sections of the population from asking the Bank's assistance. But actually they do not seek it, either because they do not know of its existence or/and they do not possess the very small capital needed as security to obtain a loan. The Bank can take the following measures in an attempt to overcome these difficulties:

1. Try actively to encourage these poorer classes to approach the Bank by different kinds of propaganda.
2. Raise the limit of loans, say, to ninety per cent of the value of the property for small and cheap houses.
3. Extend the period of repayment, thus reducing the amount of annual instalments and making it easier for the poorer classes to acquire houses.

The first two of these measures, if applied, would ultimately result in a greater demand on the Bank's financial

resources. While the third measure would slow down the rate of its capital turnover, thus eccenuating further the problem of financial resources by reducing the annual amount of new loans which can be made out of repayments. However, this difficulty should not stand in the way of carrying out these measures. Additional funds could be secured from the treasury (the difference between the present paid-up and authorized capital is eight million dinars) or loans could be obtained from the Ministry of Development. While on the other hand the Bank can reduce the limit of its loans for buildings whose value exceeds a certain amount.

As for the building of dwelling houses on its own account, the Bank must also attempt to meet the needs of the poorer classes. The majority of the houses it builds must cost between I.D. 800 to I.D. 1000;¹ and the annual instalments on them (for twenty years) would range from forty to fifty dinars. Thus the average labourer in the town with a monthly pay of twelve to fifteen dinars would, with almost the same amount he now pays as rent for an unhealthy lodging, be able to live in a wholesome house that would become totally his own after some twenty years.

1. According to Mr. J. Khamou, a well-known architect and former engineer in the Municipality of Baghdad, it is still possible, in spite of the high cost of building material and labour in Iraq, to build a two room modern house whose cost would be within I.D. 1000.

It is these facilities advanced to the poorer classes that, in our opinion, constitute the raison d'etre for such a bank as the Real Estate Bank in a country like Iraq.

IV. The Mortgage Bank

The Mortgage Bank was established in August, 1951. The object of the Bank as stipulated in Article 2 of its law¹ is "to extend loans to Iraqis with limited income." In the case of government employees and retired officials with pensions, their personal signature only is required for the loan. While loans for others must be secured by the mortgage of some movable property (e.g. jewelry or gold).

The authorized capital of the Bank was fixed at I.D. 250,000 in the beginning, which was fully paid-up. In the 1952 amendment of the Bank's law its authorized capital was raised to one million Iraqi dinars which was ultimately fully paid-up at the beginning of 1955. However, due to excessive demands² on its relatively limited resources, the Mortgage Bank had to seek additional funds. The Ministry of Finance in 1954 granted it I.D. 250,000 as a non-interest-bearing loan. The following figures show the number and amounts of

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1. Law No. (14) of 1951 and its amendment, Law No. (21) of 1952.
 2. This partly is due to the low interest rate (3 per cent per annum) which the Bank charges.

loans extended during each of the financial years 1951-52 to 1954-55.

<u>Year</u>	<u>No. of loans</u>	<u>Total value in I.D.</u>	<u>Average amt. of loan in I.D.</u>
1951-52	4020	222,066	55
1952-53	9367	508,375	54
1953-54	12808	773,285	60
1954-55	18552	1,481,453	80

Source: Annual reports of the Mortgage Bank

The majority of these loans were extended to government employees and retired officials on personal guarantees, and only a small part (about ten per cent of total amount of loans) was extended to others against a mortgage of some movable property. The following figures show the number and amount of loans extended during the financial year 1954-55 both as advances on personal guarantees and against a mortgage and the percentage of each to the total.

	<u>No. of Transactions</u>	<u>Per cent of total</u>	<u>Amt. in I.D.</u>	<u>Percent of total</u>	<u>Average loan</u>
Personal Guarantees	14,097	76	1248990	84	89
Mortgages	4,455	24	232463	16	52
Total	18,552	100	1481453	100	

Source: 1954-55 Annual report of the Mortgage Bank

The minimum and maximum amount of a loan allowed is I.D. 10 and 1000. The period is between two months and one year. And the purpose of these loans is mostly consumptive. Thus the Mortgage Bank of Iraq is in many ways similar to the Morris Plan Banks (sometimes called industrial banks because they were originally organized to make consumption loans to industrial workers) in the United States.¹ At present the Mortgage Bank in Iraq has three different branches (Mosul, Basra and Kirkuk), in addition to its Baghdad head office.

The importance of the Mortgage Bank lies in combating usury especially for the small borrowers. Its operations, however, are too specific and its turnover - at present - too small to have an appreciable effect on the banking conditions of the country as a whole.

V. The Cooperative Credit Bank

The cooperative movement is a relatively new phenomenon in Iraq. In 1944 a cooperative law was enacted and a cooperative department in the Ministry of Economics was established. A year later cooperative societies started to be established in different parts of Iraq. Among these were

1. Lindholm, Richard W. Money and Banking: An Introduction. (Littlefield, Adams & Co., Iowa) p. 68.

several agricultural credit cooperatives especially in Dujaila (Kut) and Hawijia (Kirkuk) miri sirf settlement lands. As mentioned under the section of the Agricultural Bank, about ten of these agricultural credit cooperatives obtained small loans from the Agricultural Bank, but none of them proved to be really successful and the practice of lending them money was finally terminated. However, the Ministry of Economics - being responsible for the cooperative movement in Iraq - proposed the formation of a cooperative credit bank that would supply credit not only to agricultural cooperatives, but to all types of cooperative societies. Thus in June 6, 1956 a law¹ was enacted providing for the establishment of the Cooperative Credit Bank.

The authorized capital of the Bank is I.D. 250,000 and can later be raised (by a decision of the Council of Ministers) to three million dinars. The Ministry of Finance would participate in the Bank by an amount not exceeding 51 per cent of the paid-up capital,² the remaining 49 per cent will be subscribed for by cooperative societies.

The activities of the Bank as stipulated in article nine of its law include:

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1. Law No. (65) of 1956.
 2. Art. 3 of Law No. (65) of 1956.

- a) Advancing loans to cooperative societies.
- b) Accepting current and fixed deposits.
- c) Performing other banking operations on behalf of cooperatives.

A cooperative society, however, must participate in the Bank by at least ten per cent of its own paid-up capital before it becomes qualified to obtaining loans from it.¹ An exception is made in the case of agricultural cooperatives, where no such requirements are necessary.² Evidently this exception is made with the intention of making it easier for agricultural cooperatives to obtain the loans they need. But in spite of our belief that agricultural cooperatives in Iraq are the poorest among all types of cooperatives (being mostly formed of destitute farmers) and they need the most help and encouragement possible, we think that it would have been advisable to require their participation in the Bank before becoming qualified for a loan. As a special help, however, the ratio of their participation could have been reduced to only three or two per cent of their paid-up capital. Such a participation no matter how small, promotes a direct interest in the affairs of the Bank and probably more dealings with it by all the participants.

1. Art. 10 (a).
2. Art. 10 (d).

A board of directors composed of five members has complete autonomy in the administrative and financial activities of the Bank. The General Manager of the Bank is ex-officio member of the board. The other four members are appointed by the Minister of Finance, two of these must be from among the nominees of participating cooperative societies.

By the end of 1956 three different societies had already participated. Others were expected to join soon. The Bank will probably start operating in the second half of 1957.

VI. The Post Office Savings Department

In Iraq there are no savings banks of the same type as those in Europe and America. But since 1936 a special Savings Department was established and attached to the Directorate of Postal and Telegraph services.¹

Deposits and withdrawals must be at least in amounts of fifty fils or multiples thereof. Three per cent interest is paid on balances not exceeding I.D. 500, no interest is paid on amounts in excess of this figure. The government guarantees the refund of principal and interest to the depositor.

The total amount of postal saving deposits has more

1. Law No. 48 of 1935.

than doubled in the period 1950 to 1955, but is still not substantial, as the following figures indicate:¹

Dec. 31	Total Postal
<u>Year</u>	<u>Saving deposits in mill. of I.D.</u>
1950	0.91
1951	0.96
1952	1.21
1953	1.54
1954	1.94
1955	2.26

The investment of the funds is undertaken by a Board of Investment appointed by the government for a period of three years. Investments are restricted to the following items:

1. Government bonds.
2. Loans to semi-government departments under the guarantee of the Ministry of Finance.
3. Deposits with commercial banks.
4. Shares of industrial and commercial companies which have realized a specific percentage of profit for three successive years.

1. Government of Iraq, Ministry of Economics, Statistical Abstracts, 1950-56.

No information is available as to the actual investment of these funds among the various above mentioned possibilities.

Chapter Five

Monetary Aspects of Government

In general the monetary system and banking conditions of any country can be affected and regulated primarily through the actions of the Central Bank. However, certain activities of some other bodies may have their effect also on the monetary and banking system. The Treasury, for instance, can indirectly affect the degree of liquidity in the country and sometimes induce a process of contraction or expansion through its fiscal policy. The situation in Iraq presents an additional factor which has its effect on monetary and banking conditions, namely the huge expenditures of the Development Board.

The Development Board - as will be pointed out at some detail in a later section of this chapter - has a separate budget of its own, and its annual expenditures are expected in the few coming years to exceed total expenditures incurred by all other government ministries and departments together. Thus expenditures of the Development Board, inter alia, can also affect the liquidity in the country and the flow of money.

This chapter, therefore, will be concerned with the monetary aspects of the activities of the Treasury and the Development Board. While the following chapter will discuss in some detail the Central Bank and monetary policy.

I. The Treasury

Other things being equal, an increase in public expenditures with constant government receipts, or a decrease in total government taxes with constant public expenditures will start a process of expansion by increasing total disposable incomes and total effective demand by an amount several times the initial change. Conversely, a decrease in public expenditures with constant receipts, or an increase in receipts with constant expenditures will initiate a process of contraction through reducing the level of disposable incomes and effective demand.

On the whole Iraq's fiscal policy has been, more or less, an attempted adherence to the classical principle of balancing the budget. In years when there was a relatively significant deficit (e.g. financial years 1948-49 and 1949-50)¹ it was more the result of uncontrollable (and more or

1. The decrease in revenue during those years was mainly due to poor agricultural seasons and the stopping of the Haifa oil pipeline after the Palestinian war.

less unpredictable) decrease in revenue rather than a deliberate increase in expenditures aiming at stimulating economic activity through deficit financing. And it goes without saying that the surplus of the following years (note the figures of table 12) was provided, more for making up for the deficit of the previous years than as a contractive fiscal policy measure.

Table No.12

Actual Revenue and Expenditure of Central Government of Iraq*. Financial Years -

1946/47 - 1954/55

in millions of I.D.

<u>Year</u>	<u>Revenue</u>	<u>Expenditure</u>	<u>Surplus (+) or deficit (-)</u>
1946-47	25.1	25.5	- 0.4
1947-48	26.0	26.6	- 0.6
1948-49	26.7	32.0	- 5.3
1949-50	28.6	30.0	- 1.4
1950-51	33.5	29.3	+ 4.2
1951-52	37.5	30.8	+ 6.7
1952-53	50.5	44.5	+ 6.0
1953-54	47.7	50.1	- 2.4
1954-55	52.2	53.8	- 1.6

Source: Statistical abstracts 1949-1956, Ministry of Economics, Govt. of Iraq.

* There are secondary separate budgets such as the Basra Port, the Iraqi Railways, and the various municipalities. They are usually balanced and all taken together amount to less than I.D. 10 million.

In the case of Iraq, however, there is an important qualification that should be mentioned when discussing the budget. A substantial portion of the government's revenue comes directly from its share of the oil royalties. Therefore, even when the budget is balanced one might conceive of the situation as having 'inflationary' tendencies, because the part of the budget that comes from oil royalties represents an extra addition to the ordinary stream of government expenditure. Under normal conditions when government revenue increases through higher taxation, disposable incomes are thereby reduced. While in Iraq revenue increments through larger oil royalties evidently have no contractive pressure on disposable income. In recent years the total of Iraq's oil royalties (30 per cent of which goes to the government's regular budget and the remaining 70 per cent is allocated to the Development Board) have increased considerably. In the financial years 1953/54 and 1954/55 the share of the government's regular budget from oil alone represented 31.5 and 32.9 per cent respectively of the total budget. The following table shows Iraq's oil royalties - actual and projected - for the period 1946/47 to 1960/61

Table No. 13

Iraq's Total Oil Royalties, the Share
of the Government's Ordinary Budget
therefrom, and the Ratio of this Share
to the Total Budget.

<u>Year</u>	<u>Total Oil Royalties</u> <u>in millions of I.D.</u>	<u>Govt's share</u> <u>in mill I.D.</u>	<u>The percentage of</u> <u>this share to to-</u> <u>tal budget</u>
1946/47	2.3	2.3	9.3
1947/48	2.4	2.4	9.0
1948/49	2.0	2.9	7.5
1949/50	3.2	3.2	11.3
1950/51	5.3	5.3	15.8
1951/52	10.2	3.4	9.2
1952/53	32.7	9.8	19.4
1953/54	49.8	15.0	31.5
1954/55	57.3	17.2	32.9
1955/56	84.4	25.3	
1956/57	93.3	28.1	
1957/58	93.3	28.1	
1958/59	93.3	28.1	
1959/60	93.3	28.1	
1960/61	93.3	28.1	

Source: Government of Iraq, Ministry of Economics, Statistical Abstracts 1947-1955, and Salter, The Development of Iraq, the Development Board, Iraq, 1955.

But even if we disregard this specific consideration, for the moment, we find that empirical evidence in practically every country has shown that it is much easier to increase government expenditures than to reduce them. And similarly it would be much easier to get political sanction to a reduction than an increase in taxation. Therefore, it would be more feasible to apply fiscal policy measures to bring about economic expansion by increasing total demand than it would be to utilize such measures for the purpose of curbing expansion when it threatens to become inflationary. In Iraq the downward inflexibility of government expenditures presents even a greater problem than is usually the case in other countries. The reason for this is that general experience in other countries has shown that current government expenditure (e.g. salaries of government employees) is very difficult - if not impossible to force downward - therefore, what remains to cut from is the capital works expenditure. But in Iraq the greater portion of such expenditure is entrusted to the Development Board which has an autonomous budget of its own, therefore, what remains at the disposal of the treasury from which it can make expenditure reductions for contractive purposes is very limited.

Again increasing the revenue through taxation is also particularly difficult under the prevailing political structure

in Iraq. At present most of the tax revenue in Iraq comes from indirect taxes¹ whose incidence falls more heavily, relatively on the poorer classes of the population. Thus if more revenue is to be levied by taxation, it should take the form of direct taxes obtained from the upper group of wealth holders and income recipients. And if the bulk of this extra revenue is spent at some later date on social welfare services for the poorer classes, the great gap in wealth and income distribution might be reduced thereby attempting to equate opportunities of the future generations. But such a step would be encountered with at least two major difficulties. The first would be in passing the necessary laws, as the overwhelming majority of the members of the Iraqi parliament are likely to consider such a legislation against their interests. And secondly, if and when such laws are enacted their enforcement would still meet numerous administrative difficulties in the way of assessing and the actual collection of the taxes. Therefore, the enactment of laws involving more direct taxation, if it ever comes about, will take considerable time while the yield from it would not amount to much especially at the beginning. On the other hand,

1. During the last five years, annual government revenue from indirect taxes has amounted more than six times its revenue from direct taxes.

spending this extra revenue on social welfare services needs thorough previous study and planning which might require several years of preparation. Thus it would be very advisable to have such plans ready so that when the need arises and the opportunity presents itself they can be readily utilized.

On the other hand, it would be relatively easy to either increase public expenditures and/or lower government revenue from taxes as a fiscal measure. Should it prove desirable to step up the level of economic activity in Iraq by increasing government expenditure, many excellent opportunities immediately present themselves. Money spent on social services - for instance - offers an appropriate avenue for such a purpose, besides being per se absolutely necessary from the point of view of social justice. Moreover, many social services expenditures (e.g. unemployment benefit) are, to a certain extent, built--in stabilizers, since their amount is likely to change inversely with economic activity. And it goes without saying that lowering or abolishing taxes for fiscal policy purposes is normally an easy thing to do both politically and administratively.

Thus on the whole and under the present conditions in Iraq fiscal policy is rather a weak instrument for bringing about contraction in economic activity. While expansionary measures especially increasing government expenditure on

capital works are quite feasible. However, what the Treasury can do in that line is relatively limited compared to the potentialities of the Development Board. The following section deals with this aspect of the problem.

II. The Development Board

In the spring of 1950, with the expectations of increased oil revenues, a law¹ was enacted providing for the establishment of a Development Board. The task of the Board as stipulated in article 3 of its law is summarized in the following three points:

1. To prepare a general economic and financial plan for the development of the country and the raising of the living standards of its people.
2. To undertake a general survey of all resources of Iraq.
3. To carry out projects for the fulfillment of the above mentioned objectives after the approval of Parliament.

The Board was composed of seven members with the prime minister as its president and the minister of finance as an ex-officio member. Seventy per cent of Iraq's oil royalties went directly to Board's own budget, and in fact constituted its main source of income. Towards the end of 1950 the Board started functioning.

1. Law No. (23) of 1950.

Later, in the summer of 1953 a new law¹ was passed changing the constitutional framework of the Board. This law provided for a Ministry of Development with its minister as ex-officio member in the Board and its executive secretary in charge of all its administrative work. The Minister of Development also serves as a link between the Board and the Council of Ministers on the one hand, and between the Board and Parliament, on the other.² The newly established Ministry of Development still maintained its separate budget.

The first general plan prepared by the Board was presented to Parliament and ratified by it thus becoming a law³ in the spring of 1951. According to this law a total sum of I.D. 155.4 million was allocated to different development projects to be executed by the Board in the years 1951-1956. However, during the first four financial years only I.D. 46.5 million were spent out of the total of I.D. 89.8 million⁴ that the Board planned to spend during that period.⁵

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1. Law No. (27) of 1953.
 2. It is beyond the scope of this study to weigh the pros and cons of this new arrangement. For an excellent presentation of the issue refer to a lecture delivered by Mr. A.K. Al-Uzri at the American University of Beirut, and published in Al-Abhath, Feb. 1955. pp. 26-69.
 3. Law No. (22) of 1951.
 4. The actual revenue of the Board during those four years was I.D. 107.7 million thus exceeding not only the money spent by, also the amount originally planned to spend.
 5. Nearly 50 per cent of this amount was spent on irrigation projects and land reclamation, about 40 per cent on roads, bridges and public buildings. Ministry of Development Reports, 1952-55.

This striking difference between what was actually spent and the original planned amount is due mainly to the fact that the Board did not have enough plans ready for execution. But still the amount of I.D. 46.5 million that was actually spent is equal to about 27 per cent of the total ordinary budget¹ of the government. Now the question that might be asked is, did an inflation take place in Iraq as a result of these relatively large expenditures of the Development Board? We are more of the opinion that there was no real inflation in Iraq. Movement of the following prices during the period 1951-1955, substantiate our belief:

1. Wholesale price index in Iraq.
2. Cost of living index for unskilled labourers in Baghdad.
3. Average prices of securities.

The wholesale price index in Iraq for the period 1950 to 1954 does not seem to be out of proportion with similar figures for the same period in other countries.

1. Which amounted to I.D. 177 million during the same period.

<u>Year</u>	<u>Wholesale Price Index 1953 = 100</u>				
	<u>Egypt</u>	<u>U.S.A.</u>	<u>Iraq</u>	<u>Lebanon</u>	<u>France</u>
1950	97	101	107	97	78
1951	108	117	117	122	100
1952	105	110	121	111	105
1953	100	100	100	100	100
1954	97	99	94	92	98

Source: United Nations Statistical Yearbook 1955.

The average monthly cost of living index for unskilled labourers in Baghdad showed a slight increase of 2.5 per cent between 1951 and 1955. And probably this increase is due to just one item, namely rent.

Cost of Living Index

For Unskilled Labourers in Baghdad*

<u>Year</u>	<u>General Index number</u>	<u>Percentage change from previous yr.</u>
1939	100	
1950	490.8	
1951	522.9	6.5
1952	564.3	8
1953	490.4	13
1954	480.2	2
1955	494.7	3

* Monthly averages: base of 100% are the average monthly prices of 1939. The five following items were included: 1) foodstuffs, 2) clothing, 3) fuel and light, 4) rent, 5) other items.

Source: Government of Iraq, Ministry of Economics, Statistical Abstract, 1955.

While cost of living indeces in some other countries (e.g. Turkey and France) where it is known that an inflation exists, show a substantial rise between 1950 and 1955 while in Iraq there was actually a slight decrease as the following figures indicate:

Cost of Living Index

1953 = 100

<u>Year</u>	<u>Egypt</u>	<u>U.S.A.</u>	<u>Iraq</u>	<u>France</u>	<u>Turkey</u>
1950	84	90	100	77	93
1951	92	97	107	91	91
1952	100	99	115	101	97
1953	100	100	100	100	100
1954	100	100	98	100	100

Source: United Nations Statistical Yearbook 1955.

Furthermore, if an inflation had taken place in Iraq one would expect a considerable amount of speculation in securities and a general rise in their prices. The figures obtained from the Securities' Department¹ of the Rafidain Bank do not indicate such a trend. On the contrary the average prices of government bonds and shares of eighteen

1. Mention of which has been made in chapter two, p.27

different companies usually listed, dropped by 2 per cent from 1953 to 1955.

Though the above mentioned three economic indicators are not enough to furnish us with conclusive proof about the issue under consideration still they can be regarded as fairly reliable evidence. For a more comprehensive study of the problem, other more general types of economic indicators (e.g. wage index, total freight transportation in the country etc.) should have been taken into consideration, but the above mentioned were the only ones available for Iraq.

But, of course the fact that no real inflation did take place in the past in spite of the Board's expenditures is, by no means, an assurance or a guarantee that nothing of the sort will take place in the future. Especially if the present ambitious general plan of the Board is all carried out according to schedule. Let us first have a glance at this plan.

In April 1955 the Iraqi Parliament ratified the second general plan of the Board¹ which was later amended in June 1956.² The estimated total revenue of the Development Board during the six financial years 1955/56 to 1960/61 is I.D. 390 million, coming mainly from the Board's 70 per cent share of the oil royalties, as is shown in Table 14.

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1. Law No. 43 of 1955.
 2. Law No. 54 of 1956.

Table No. 14
Revenue of the Development Board
in millions of I.D.

	<u>1955/56</u>	<u>1956/57</u>	<u>1957/58</u>	<u>1958/59</u>	<u>1960/61</u>	<u>Total</u>
Oil Royalties	59.1	65.2	65.2	65.2	65.2	385.1
Other Revenue*	1.9	0.6	0.6	0.6	0.6	4.9
Total	61.0	65.8	65.8	65.8	65.8	390.0

* 'Other Revenue' includes the refunding of loans previously extended by the Development Board to other government organizations, interest on loans, and for the year 1955/56 the last drawing on the I.B.R.D. loan for that project.

Source: Law No. 54 of 1956, schedule B.

According to the same law¹ the Board planned to spend I.D. 500 million during that period, with the following general appropriations:

1. No. 54 of 1956.

Table No. 15

Planned Expenditure of Development Board

in millions of I.D.

	1955/56	1956/57	1957/58	1958/59	1959/60	1960/61	Total
Administration, studies, organization, etc.	2.950	.800	.850	.900	.900	.950	7.350
Irrigation projects	13.105	24.000	26.900	27.000	29.250	33.500	153.755
Land reclamation and other agricultural development schemes	1.037	3.000	3.000	2.500	2.500	2.250	14.287
Roads, bridges, and other communication facilities	14.067	17.750	26.800	32.150	20.100	13.500	124.367
Public Buildings	11.329	19.400	28.000	26.000	25.150	23.250	133.129
Industries, mining and electrification	4.119	17.000	16.000	11.000	9.000	10.000	67.119
Total	46.608	81.950	101.550	99.550	86.900	83.450	500.008

Source: Law No. 54 of 1956, schedule A.

As to the difference of 110 I.D. million between total planned expenditure and total estimated revenue, Mr. Dhia' Ja'afar, Minister of Development, in a speech delivered before the Iraqi Chamber of Deputies said that: "... it may appear that the deficit which exceeds I.D. 100 million will disturb the balance between expenditures and revenues in the amended program, but the available cash balance (from the surplus of revenue over expenditure of 1951/52-1954/55) which exceeds I.D. 50 million and the expected savings (from the liberal cost estimations of the 1955/56 to 1960/61 period) which are estimated at no less than 15 per cent of the total estimated expenditures will undoubtedly affect a balance between the allocations for expenditures and the estimated revenue."¹

If the Board succeeds in carrying out all the projects it planned for and spends its total allocations for the period, the Board's annual expenditures will be almost twice as much as the regular budget of the government. While during 1951/55 what the Board actually spent (namely I.D. 46.5 million)

1. From a speech delivered by the Minister of Development in the Iraqi Chamber of Deputies in May 1956; as reproduced in the Development Board's Report of 1956.

amounted to less than one third of the Treasury's total expenditures during the same period (I.D. 155.1 million). Viewed differently, the planned expenditures of the Board for the 1956/61 period will amount to about twice the total expenditures of all the previous period, or about eight times the average yearly expenditure. Thus a tremendous increase resulting both directly and indirectly from the initial expenditures on the development program in incomes and consequently in spending must be expected. This might well cause inflationary rise in prices to an extent that may not only result in hardship, social discontent and injustice, but might very well jeopardize the progress of development itself. Therefore, it is highly imperative that the responsible authorities of the Development Board realize that it is not the amount of the Board's revenue which should decide the size, speed and timing of its activities.¹ The guiding principle should rather be the ideal situation where development is going on at its utmost possible speed with full employment but without inflation. The program of the Development Board must, therefore, be flexible in such a way that its activities can at any time be adjusted downward or upward as to attain

1. It is surprising to find out that the opposite, namely that the authorities of the Development Board consider its revenue as the prime and sole determinant of its activities; an indication of which is furnished by the speech of the Minister of Development quoted above.

as near as possible to an even balance between available supplies of goods, productive resources and above all manpower, and the total demand for them induced by both the autonomous expenditures of the Board and of private firms. It is very possible that for a considerable number of years to come such a balance between the available supply of goods and labour and the demand for them is reached before the Board gets the chance to make use of all the money at its disposal. In such a case the surplus should be kept for future utilization rather than risk spending it immediately on capital projects at the expense of running a serious danger of bringing about an inflation.

On the other hand, if the Board exhausts all its reserves during a given period before that balanced stage between the supply of and the demand for goods and labour is reached (though this is unlikely in the foreseeable future) it should, by no means, be hindered from completing its program. Rather, it must seek other sources of credit (e.g. a loan from the I.B.R.D., or domestic public loans) to finance the completion of the program. In short and to use Iversen's words, "The Development Board can always 'afford' a given project if total demand is insufficient to absorb the available supplies, and it can never 'afford' a project - however large its deposits with the Central Bank may be - if total demand

becomes so large that there is danger of inflation."¹

Probably it is worth repeating here that the Development Board must be regarded not only as an organ for planning and executing development projects, but also as an important instrument of general economic policy in Iraq. Thus the importance of the suggestion originally given by the I.B.R.D. mission to Iraq, of formulating a competent economic unit attached to the Development Board becomes very apparent. The job this unit would be to make forecasts regarding the probable direct and indirect economic effects of executing the Board's projects, and plan the following steps accordingly. Such forecasts and subsequent advice of this economic unit would deal not only with adjusting the size of total expenditures of the Board but also with the geographical distribution of the Board's projects over the different parts of the country in accordance with the needs and the availability of resources in those various parts.

1. Iversen, op.cit. p. 240.

Chapter Six

The Central Bank and Monetary Policy

Introduction

Very concisely, the term 'Monetary Policy' can be defined as the deliberate application of certain measures through which the volume of money in circulation is regulated. When a society uses only coins as media of exchange, monetary policy becomes synonymous with coinage policy. But in modern societies nowadays the media of exchange comprise in addition to coins, banknotes, demand deposits, and according to some economists, very short-term claims on banks too. Therefore, monetary policy - still using our above mentioned rather narrow definition - is the application of the measures that regulate the volume of all these different media of exchange.

Under a perfectly rigid ratio requirement for the cover of currency in gold and foreign assets, the Central Bank can do very little to change the volume of issued currency at any moment. This volume is more determined by the result of the balance of payments as it presents itself to the central bank. While under an elastic ratio cover requirement, the central bank can increase the volume of currency.

by bringing down the ratio of the cover to minimum, and conversely it can reduce the volume of currency by raising the ratio of the cover to its legal maximum. As to regulating the volume of all types of media of exchange in general the central bank can utilize its credit policy, tightening or relaxing credit conditions as the need requires. The usual tools at its disposal for implementing its policy are: variation of the rediscount rate, open market operations, and manipulation of the legal reserve ratio. Thus it appears that the central bank is the primary body through which the government can implement its monetary policy.

Therefore, our discussion of monetary policy in Iraq will start first with a study of the Central Bank of Iraq; its establishment, capital, administration and powers. Then the objectives of monetary policy in Iraq will be discussed and the extent to which the Central Bank can, by the means at its disposal help attain these objectives.

I. The Central Bank

With the promulgation of law No. 72 of 1956 the name of the National Bank of Iraq was changed to the Central Bank of Iraq. The new law of the Central Bank made only minor changes from the previous law that governed the National Bank. The first change related to the authorized capital of the Bank

raising it from I.D. 5 million to I.D. 15 million. The idea behind this increase was that, with Iraq's fastly growing economy, its Central Bank may in the very near future find itself unable to cope with its responsibilities with a meager capital of only I.D. 5 million. Another change was concerned with the administrative organization of the Bank.¹ Presumably this change was made with the object of making the Central Bank more impartial in dealing with the different commercial banks operating in the country.

Also the new law is more articulate and specific about the operations of the Central Bank as regards rediscounting and the advancing of loans to commercial banks, so as to enhance its position as a banker's bank and a lender of last resort. All of these changes were made in the light of some of the recommendations made in Iversen's report.²

A. Administration of the Central Bank

The Central Bank's board of administration consists of the governor, deputy governor and seven other members, all of whom must have experience and specialized knowledge in economics and finance.³ The governor is appointed by a decision

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1. For details see the following section on administration.
 2. Iversen, op.cit., pp. 192, 198, 283 & 284
 3. Law No. 72 of 1956, article 6 (a)

of the Council of Ministers and a Royal Iradah for a period of five years. The other members of the board are appointed for a period of four years. All the members of the board of administration can be re-appointed one or more times. Commercial banks' managers or officials are not eligible for appointment on the board of the Central Bank.

Under the old law commercial banks were represented on the board by two persons appointed by the Council of Ministers. The main reason given in support of the new arrangement of excluding representatives of banks from the Central Bank's board of administration is that banks whose managers happen to be represented on the Central Bank's board are put in an advantageous position over their competitors. This reasoning, however, is undoubtedly open to many questions.

To compensate the commercial banks for their loss of representation on the Central Bank's board of administration, the new law provided for the setting up of an 'advisory council' composed of representatives of all commercial banks operating in Iraq.¹ The rights and responsibilities of this council are very vague. This advisory council meets under the chairmanship of the Governor of the Central Bank and only

1. It is worth mentioning here that a suggestion to this effect was first made by Iversen, op.cit. pp. 67 and 284.

at his request and invitation.

The internal set-up and organization of the Bank is both simple and logical. First, there are four sub-committees formed from among the members of the board of administration themselves to assist the board in fulfilling its functions. These are: the financial, the administrative, the exchange control and, the exchange control judicial¹ subcommittees. The internal administrative machinery of the Bank is divided into six directorates with the head of each one directly responsible to governor of the Bank. The directorate of issue and the directorate of foreign exchange are responsible - as their names imply - for the issue of currency and the control of foreign exchange respectively. The directorate of banking is entrusted with the receipt and management of the Bank's capital, the deposits by banks provided for in the law for the control of banking, and all other banking work normally undertaken by a central bank. This directorate is also entrusted with the management of loans and advances made by the Bank to government and semi-government institutions. At the end of 1956 this directorate has been greatly enlarged

1. The exchange control judicial sub-committee in encharge of arbitration between the exchange control sub-committee and applicants for foreign exchange (e.g. importers) when disagreements arise between the two.

in order to handle the government accounts that have been transferred from the Rafidain Bank. And at the beginning of 1957 a new section has been added to this directorate to handle the documentary credit opened by various government ministries and departments to finance their imports from abroad.

The directorate of the control of banking is charged with the responsibility of supervising the activities of banks and sarrafs, in accordance with law No. 34 of 1950 for the control of banking. The directorate of accounts handles all the accounting and bookkeeping operations of the various departments of the Bank.

Finally there is the directorate of statistics and research, which is divided into two sections. The foreign relations section whose responsibility is studying, analyzing and giving its opinion on Iraq's commercial relations with other countries, and the Bank's relations with international organizations such as the International Monetary Fund and the International Bank for Reconstruction and Development. The second section of this directorate is entrusted with research and publication.¹

1. Its main publications are the Central Bank's annual reports and quarterly bulletins.

In addition there is the administrative office which is also directly attached to the governor of the Bank. This office is divided into two small sections, one for personnel matters and the other for correspondence and files.

B. Powers of the Central Bank

The duties or powers entrusted to the Central Bank can be summarized in the following points:

1. To issue and manage the currency.
2. To act as financial agent for the government.
3. To act as a banker's bank, by purchasing, selling, discounting or rediscounting treasury bills, government bonds and commercial bills, and by granting short-term loans against collateral.
4. To control banks and sarrafs and coordinate their operations.
5. And finally to control foreign exchange.

The first and fourth of these powers or functions, namely that of currency issue and banking control were discussed earlier in the first and third chapters respectively.¹ The other powers of the Central Bank will be discussed in the following paragraphs.

1. See pp. 11-14, 69-74.

The Central Bank is empowered to keep the deposits and handle the accounts of, and grant loans and advances to government and semi-government departments. It is also supposed to advise the Iraqi government on all financial matters, and undertake transactions relating to government and semi-government loans. Finally it is required to undertake the duties arising from international economic and financial agreements.

As to the handling of government accounts and keeping its deposits, this was carried out until the middle of 1956 by the Rafidain Bank (a state owned commercial bank) in spite of the specific stipulations in the law that they should be handled by the Central Bank. In May 1956 a Royal Iradah¹ was issued stating that all accounts of government and semi-government institutions be transferred from the Rafidain Bank, and that this should take place in a period not exceeding six months from the date of its declaration. By the end of 1956 most of the government and semi-government deposits² were already transferred to the Central Bank. During the first few months of 1957 a branch of the Central Bank was opened in each of Mosul and Basra primarily to take over the accounts

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1. Royal Iradah No. 383 of 1956.
 2. The few deposits that by the end of 1956 were not yet transferred, are fixed deposits of longer duration.

of the government from the Rafidain Bank in these two Liwa's.

As to being the government's agent in international financial and economic affairs, the Bank has followed up, since it started operations in 1949, the activities of the I.M.F. and I.B.R.D. and used to advise the government on its rights and duties as a member in these institutions. The Central Bank also takes part in negotiations of trade agreements with other countries and supervises (with other specialized bodies of the government) their execution.

Law No. 72 of 1956 stipulated that the Central Bank has the right to rediscount eligible commercial and treasury bills and can advance secured loans of a maximum duration of ninety days.¹ The law left it to the Board of Administration to decide the rate of interest to be charged and other pertinent details.

But all of the Central Bank's previous experience in this field pointed to the reluctance of commercial banks to rediscount.² So on June 4, 1956 the Board of Administration of the Central Bank of Iraq met and discussed this reluctance

1. Article 4 (b) (c) and (f)

2. See, Chapter Two, pp. 17 & 18

of the commercial banks to rediscount bills, and considered the possibility of altering some of the regulations governing rediscounting transactions with the view of further facilitating these operations and thus encourage the commercial banks to utilize this credit facility more often. The following are the major items of the decision of the Board of Administration concerning the rediscounting of bills:¹

1. The Central Bank is ready to rediscount bills to any commercial bank in Iraq up to 10 per cent of the total outstanding deposits at that bank. This ratio can be increased to 20 per cent at the discretion of the Central Bank.

2. Bills to be eligible for rediscounting must fulfill the following conditions:

a) Bear two signature in addition to that of the discounting commercial bank;

b) The remaining date of its maturity must not exceed 90 days or be less than 15; and

c) such bills must have their origin in real commercial transactions.

3. The rediscount rate is fixed at 3.5 per cent.²

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1. The decision of the Board of Administration with all the details concerning the rediscounting of bills was sent on June 12, 1956, in a circular form to all commercial banks in Iraq.
 2. Previously the Central Bank did not have a fixed rediscount rate. It rediscounted bills at a rate equal to that charged by the commercial banks on the bill minus 2 per cent, left as a margin for the discounting bank.

During that same meeting the Board of Administration decided to extend a further credit facility to commercial banks through outright loans. Such loans, however, should be secured by government bonds and bills provided the amount of the loan does not exceed 80 per cent of the total value of the bonds and bills. The interest charged on these loans would be one per cent higher than the rediscount rate, namely 4.5 per cent.¹

However, until now very little use has been made by the commercial banks of these credit facilities offered by the Central Bank. Commercial bankers² claim that the delay and the lengthy routine checking required by the Central Bank before rediscounting discourages commercial banks from taking that step. On the other hand responsible authorities of the Central Bank³ think that the reasons for the reluctance on the part of commercial banks to make use of the credit facilities of the Central Bank are first their relative liquidity and second the fact that most of them are branches of foreign

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1. From the minutes of the Board of Administration's meeting held on June 4, 1956.
 2. Among the commercial bankers who uphold this view is Sayid M.A. Chalabi, General Manager of the Rafidain Bank.
 3. Among whom are Dr. M.H. Jamil, Director of Statistics and Research, and Mr. S. Frankoul, assistant director of the Accounting Department, Central Bank of Iraq.

banks and therefore, rely on drawing on their head offices outside of Iraq in times of need. In support of their second reason they cite the fact that the few rediscounting transactions that were actually affected by the Central Bank till the end of 1956 were all done for a locally established Iraqi commercial bank. This, they say is not mere accident when the majority of commercial banks in Iraq are foreign.

In the writer's opinion neither of these two views furnishes us with a full explanation. Perhaps both of them taken together give a better description of the situation.

By virtue of Law No. (18) of 1950 the Central Bank of Iraq is further entrusted with the control of foreign exchange.¹ All payments in foreign exchange (including sterling) are subject to a special permission from the Bank. On the other hand, those who receive foreign exchange are bound to surrender it to the Central Bank at the given rate. Exporters of Iraqi goods are required to sign undertakings to that effect before they are given licenses for their export.

The granting of soft foreign currencies for import purposes is, more or less, a routine procedure. However, in the case of hard currencies (e.g. the dollar) the necessary

1. According to Dr. M.H. Jamil, Director of Statistics and Research in the Central Bank, all amounts of hard currencies asked by the monetary authorities of Iraq from the Sterling area have been granted.

sum is given by the Central Bank only in accordance with specified quotas and under strict regulations. Iraq gets its needs of hard currencies from the common pool of the sterling area and it also surrenders to the common pool what it gets of these hard currencies in return mainly to its exports.

II. Monetary Policy

Monetary policy in its strict sense, as was mentioned at the beginning of this chapter, is the deliberate application of certain measures to regulate the volume of the different media of exchange one way or the other. Obviously regulation of the volume of the different media of exchange is not sought for its own sake but in order to influence the course of economic events and cause them to take a different turn from what they otherwise would. It is necessary, therefore, to have a set of criteria or economic goals to be aimed at and for whose attainment monetary policy, along with other measures, is manipulated. The question to be asked now is: What are the economic goals of monetary policy in Iraq?

It is obviously outside the scope of our present study to pass value judgements on what should be Iraq's goals in its future economic policy. This is perhaps more a question of political and social ideologies than of pure economic

principles and applications. We can safely presume, however, that there are certain broad economic goals upon which there are, a more or less, general consensus of opinion in Iraq. These aims or goals can be summarized in the following points:

1. Increasing total real national income through a well-balanced economic development.
2. Internal economic stability; or to put it in another form the avoidance of major internal fluctuations in economic activity, that will be detrimental to general development.
3. Raising the general present low standard of living of the masses of the population.¹ This of course entails over and above the first objective of increasing the total national income, a due consideration of its distribution. But as the question of equitable distribution is more a problem of fiscal policy than of pure monetary policy, more attention will be given in the following pages on how monetary policy can spur economic activity in general and promote an

1. When political parties existed in Iraq, they all included in their constitutions - in one form or another - a statement to that effect. Now, individual leading politicians also never fail to mention something to that effect in their public speeches. Thus we have taken, bona fide, the public declarations of these politicians and political parties to be sincere.

increase on total national income.¹

These generally accepted goals of broad economic policy can be influenced, at least theoretically, one way or the other by the monetary authorities in Iraq. In the following pages we will examine in some detail how the central bank can through its monetary policy either promote expansion or, when expansion threatens to get out of control, minimize its adverse repercussions.

The tools or weapons usually at the disposal of the central bank to help it pursue its policy, are:

1. Variation of the rediscount rate.
2. Open market operations.
3. Manipulation of the compulsory reserve ratio, which is a certain proportion of commercial banks deposits that is required, by law or tradition, to be maintained in the form of cash or readily convertible balances in order to meet the demands of depositors.²

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1. No mention is made here of full employment as one of the objectives of future economic policy, because the possibility of having under-employment in the foreseeable future is very unlikely in Iraq. On the contrary, the opposite situation threatens to be more likely in the future development.
 2. According to article 9 of the law of banking control in Iraq, commercial banks must deposit with the central bank at least two-thirds of the legal reserves in cash and the rest in Iraqi government banks.

bonds

By raising or lowering its rediscount rate, the central bank may affect interest rates charged by commercial banks and thus influence the price of credit paid by the public. During the nineteen twenties and the beginning of the thirties this weapon had a key position among all others. Keynes in his "Treatise on Money" (written at the end of the twenties) expounds this fully.¹ At the middle thirties, varying the rediscount rate was still effective in England owing to the great influence of the Bank of England over the London money market. But in the United States its importance had begun to dwindle mainly due to its failure to prove its effectiveness during the depression of the thirties.² Thus in 1933, a law was passed providing for the manipulation of the cash reserve ratio which was first implemented in 1936.³ By raising or lowering these ratios the central bank increases or decreases the amount of loanable funds at the disposal of commercial banks and thus influences the ease of obtaining credit. However, in the post-war period the varying of rediscount rate started to regain its position as an important central banking weapon.

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1. Keynes, John M. A Treatise on Money, Macmillan & Co., London 1930 Vo. 2, pp. 227-233.
 2. Kock, Michiel H. de, Central Banking, Staples Press, London, 1938. pp. 166-168.
 3. Sayers, R.S. op.cit., p. 21

The third tool by which a central bank can control credit conditions in a country is that of open market operations. The essence of these operations is that the central bank goes into the money market on its own buying or selling securities and thus bringing about the desired changes in money rates and credit supply by two ways. In the first place, these transactions add to or deduct from the supply of money in the market and so increase or decrease the cash balances of commercial banks in general. And as banks when deciding upon their lending policy have to take into consideration, inter alia, the state of their cash reserves, these operations are expected to induce them either to expand or contract their loans and advances. Secondly, a purchase or sale of securities by the central bank affects to some extent the prices of government securities and therefore have an influence on long-term interest rates.

I have confined myself in the above paragraphs to a theoretical outline of the control of credit conditions by a central bank. I have no illusions, however, about the practical difficulties of their applicability, especially in an underdeveloped country such as Iraq where modern banking practices are still new. Now, let us then briefly consider the feasibility of applying these tools of monetary policy by the Central Bank of Iraq.

Varying the rediscount rate usually has its proper influence on interest rates charged by commercial banks when the liquidity situation of the latter banks is such that they need to recur to the central bank for rediscount or outright borrowing. But as it was mentioned in previous chapters, up till the end of 1956 all commercial banks operating in Iraq (with the exception of one) did not need the assistance of the Central Bank as a lender of last resort.¹ So that under the prevailing conditions a change in the rate of rediscount might have an indirect psychological effect on commercial banks but can have no appreciable direct material effect on the interest rates charged by these banks in Iraq.

The use of open market operations as a tool of credit policy is not possible at present, for the simple reason that there is no market - in the real sense of the term - in which to operate. The scarcity of government bonds and other securities, and the limited number of dealers (i.e. buyers, sellers and brokers) and operations give the Central Bank practically no scope at all to regulate credit by utilizing this method.

What remains at the disposal of the Central Bank of Iraq is the manipulation of the legal reserve ratios of commercial banks. According to article 9 (a) of the law for the

1. Look under chapters 2 and 3 of this thesis
pp. 17-21, 59-65

control of banking,¹ commercial banks must deposit with the Central Bank not less than 15 per cent of their total current and fixed deposits. One-third of this proportion may be in the form of Iraqi government bonds or treasury bills and the balance in cash. The Central Bank can reduce this proportion to a ratio of not less than 10 per cent.² However, the Bank has always required this ratio to be maintained at the maximum allowed. Therefore, if this weapon of compulsory cash reserves is to be effectively utilized in Iraq the Central Bank's scope of its variation should be extended by empowering the Bank to raise this ratio up to, say, 25 or 30 per cent instead of the present ceiling of 15 per cent. So that when the Central Bank deems it necessary to tighten credit it can do so by stepping-up of the compulsory cash reserve ratio to the point where they practically meet the actual ratio; in other words until excess reserves are eliminated, thus bringing about a scarcity of loanable funds at the disposal of commercial banks. Furthermore, under such a condition if the commercial banks still want to extend their lending

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1. Law No. (34) of 1950.
 2. Article 9 (d)

activities they can do so by rediscounting at, or borrowing from the Central Bank¹ which would thus be in a position to enforce its rediscounting rate thereby utilizing, if it so desires, this other tool of credit control. Thus an amendment to the law for the control of banking empowering the Central Bank to raise the compulsory reserve ratio considerably above the present maximum would not only enable the Bank to effectively utilize this weapon of reserve ratio manipulation but also the oldest of the classical tools of credit control, namely variation of the rediscount rate. And until a proper securities' market develops in Iraq - which would require quite a considerable time - adequate manipulation of the reserve ratios seems to offer the most important, if not the only, method for regulating credit in Iraq. In fact this is not just the case in Iraq, but practically in all countries where the monetary system is not fully developed. Or to use Sayers words, "I would claim this weapon (i.e. the variation of compulsory reserve ratios) as one of the most important for

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1. Probably this is not completely true of the foreign banks which can count on their outside head-offices for extra-funds. However, as long as the rediscount rate of the Central Bank of Iraq is lower than the prevailing rate in international money markets it would be more to the advantage of the foreign banks to rediscount with the Central Bank of Iraq than to draw extra funds from outside.

the central bank in a country lacking active securities market."¹

The non-commercial state banks in Iraq can also play a role in expanding or contracting credit. At present many of these banks have some loans from the Central Bank² and expect to obtain still more if they want to expand their lending activities. The Central Bank would thus be able, to a certain extent, to affect the conditions and the rate at which these banks lend money to the public by contraction or further expansion of its own loans to them. Furthermore, being all state banks directly attached to the Ministry of Finance, the Central Bank can easily - through advice, moral suasion, or otherwise - affect a change in their credit policy when it deems such a change necessary. Moreover, through these non-commercial banks, the Central Bank, can, to a certain extent, apply qualitative measures to its general credit policy by extending - for instance - more loans at easier terms to the Agricultural Bank than to the Mortgage Bank when it wants to expand credit in the field of agriculture, but not to the real estate business.

From the above discussion it appears that the Central Bank of Iraq is not in a very strong position to implement its

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1. Sayers, R.S. op.cit., p. 21
 2. At the end of 1956 the outstanding loans from the Central Bank to the Agricultural, Industrial and Real Estate Banks amounted to I.D. 1.2 million.

own monetary policy especially when this policy especially when this policy aims at contraction in anticipation of an inflation which is quite likely under the present conditions in Iraq. Thus combined measures by the Treasury, the Development Board and the Central Bank are highly imperative if and when an inflation threatens to take place. Consequently, coordination between the policies of these three 'organs' is very essential. And as a first positive measure towards this end is the suggestion made by Professor Iversen¹ of having the governor of the Central Bank of Iraq as ex-officio member in the Development Board.

One of the most effective measures that the government has been undertaking to prevent inflation is the foreign trade policy. The government relaxed practically all restrictions on importation and established some restrictions on domestic exports. The idea behind this policy being, and rightly so, to increase the supply of goods in the country in such a proportion as to match the increased amounts of money spent on development. Besides, a considerable proportion of the increased imports were basic materials that are absolutely essential for many of the development projects. The following

1. Iversen, op.cit., pp. 112, 242 and 288.

figures show the magnitude of the excess of imports over exports during the period 1951 to 1955.

Table No. 16
Iraq's Foreign Trade
in thousands of I.D.

<u>Year</u>	<u>Import</u>	<u>Export</u>	<u>Excess of imports over exports</u>
1951	50.9	27	23.9
1952	61.8	18	43.8
1953	68.7	19.7	49.0
1954	72.7	17.9	54.8
1955	97.2	15.9	81.3

Source: Statistical Abstracts 1951-55, Ministry of Economics,
Government of Iraq.

This policy should, of course, be pursued further in the future. And to ensure its smooth execution the monetary authorities should always have at their disposal sufficient funds of foreign exchange for this purpose. Oil royalties have in the past supplied Iraq with ample sterling funds, and as a member of the sterling area, Iraq secured its needs of other foreign currencies. Granting peace and stability in

Iraq and the neighboring countries oil production and consequently oil royalties are likely to increase further in the future thus furnishing Iraq with the foreign exchange it requires to pursue its present policy of increasing imports and decreasing exports (when they are locally demanded) as a partial measure to combat possible inflation.

Chapter Seven

Money and Banking in Iraq: Evaluation and Suggest Reform.

This final chapter is intended to give an overall evaluation of the monetary and banking systems of Iraq in the light of the description and analysis of the previous chapters. Recommendations that naturally follow from the analysis made of the various aspects of the system are put here in a summary and continuous form although many of them have already been mentioned, in one form or another, in earlier chapters.

On the whole, the last quarter of a century has witnessed steady progress in the development and working of the monetary and banking organization of Iraq, though this has not been without some setbacks. A national currency was issued with a board to preside over its handling and management which eventually was transformed to a fullfledged central bank. Financial legislation has been promulgated to ensure in general the proper functioning of the system, to control and check banking activities with the view of safeguarding the interest of the public, and finally to help provide badly needed non-commercial credit. But some of this legislation

was enacted without due consideration to all aspects of the problem involved with the result that some of it proved to be inadequate a short while after it was enacted, as evidenced by the frequent amendments. But perhaps this is an inevitable price which Iraq has to pay, among other things, for its rapid development. Development requires many 'things' which cannot be 'imported' ready-made from outside but have to be labouriously worked out inside the country itself through the long and often costly method of trial and error. And probably developing an adequate monetary and banking organization is one of these 'things'.

During the 1948-1950 period the banking system in Iraq suffered a serious setback¹. But this was rather in the nature of an exogenous shock from which all spheres of the Iraqi economy suffered and not only the banking system. Recovery, fortunately, came soon, and new developments especially in the field of commercial banking started. An added impetus came with the increased oil royalties and the consequent substantial expenditure of the Development Board. But still there is considerable scope and need for further expansion of banking practices and institutions in general. First in

1. As a result of the Palestine war, the stopping of Haifa pipeline, and finally the exodus of the Jews, many of whom occupied important positions in the financial centers of Iraq.

order to mobilize the savings of the public and second to be in a better position to satisfy the credit needs of the country so as to cope with the tremendous task of economic development that lies ahead.

The position today is that Iraq's banking system includes a variety of institutions government and private, domestic and foreign. Some are general commercial banks, others perform specific functions in the various fields of the economy. In the field of commercial banking, with the exception of one bank, all others are privately owned. The majority are foreign.¹ Only very recently privately owned domestic commercial banks were established. If new domestic commercial banks are established and the business of the existing ones is expanded such that domestic commercial banks as a whole take over a larger share of private banking operations in Iraq, this will certainly lead - among other things - to strengthen the position of the Central Bank. Therefore, it would be an appropriate policy for government authorities to encourage and help private individuals and initiatives to establish more domestic commercial banks. A very effective measure towards this end would be to amend article 4 (a) of the law for the Control of Banking reducing the minimum required capital for domestic commercial banks to I.D. 150,000 instead of the present I.D. 250,000.

1. According to the law for the Control of Banking non-Iraqi Arab banks are considered foreign.

Commercial banks today are coping with the short-term credit demands of trade especially import, and to a considerable extent also the short-term credit needs of the contractors and sub-contractors of the Development Board. It is also generally known that they also furnish part of the short term credit needs of agriculture to bridge seasonal gaps, and of industry mostly for working capital. The amount, however, of this non-commercial credit cannot be determined. In the writer's opinion, it is very small in relation to the total credit needs of these other non-commercial fields of the economy.

Sarrafs continue to supply part of the credit needs of the country particularly in financing internal trade, but their total business is relatively small. Money lenders, though their sphere of activities is being gradually curtailed, cannot be overlooked as important suppliers of credit, particularly in rural areas.

What is the likely course of future development of commercial banking in Iraq? Once an eminent British historian remarked, "I can tell nothing about the future except by looking at the past." If we adopt this view then we can say that the past, particularly the recent past, suggests that future commercial banking development in Iraq will resolve itself in two major trends: First, existing banks in Iraq will extend their branches extensively and a number of new

banks, domestic and branches of Arab banks, will be established. Second, short term credit facilities and commercial banking services in general will be immensely extended especially to groups which till very recently were practically deprived of them. Recent agricultural and industrial projects of the Development Board in remote areas of Iraq (e.g. north eastern parts, in and about Sulaimania) will raise the standard of living and give a general impetus to economic activity which is very likely to be accompanied by the opening of branches of commercial banks in these areas.¹ Thus new groups and classes of people would be able to avail themselves of commercial banking services and facilities either because of physical nearness and/or improved economic and educational status. As to the establishment of new domestic and Arab commercial banks, this would come as a result of the improved general economic conditions in all of Iraq and the increasing awareness of the close economic ties - among other things - between the different Arab countries.

Since 1936 the government began establishing state banks to grant non-commercial credit in an attempt to fill

1. At the beginning of 1957 two commercial banks (other than the Rafidain) were already making preliminary studies to open branches in Sulaimania. A thing which would have been considered incredible only some five years ago.

the great gaps in specific spheres of the economy. At present there are five such banks, the Agricultural, the Industrial, the Real Estate, the Mortgage and Cooperative Credit Banks. None of these banks, however, is able to satisfy fully the credit needs of the country in its own field. The I.D. 2.1 million advanced by the Industrial Bank during the two financial years 1953/54 and 1954/55 is estimated by the 'Statistics and Projects Section' of the Industrial Bank to be less than one-fifth of total needs of the private sector of the economy to industrial credit.¹ What credit the Agricultural Bank was able to extend during the same period is estimated to constitute even a smaller ratio of the country's needs for agricultural credit, and the same can be said of the Real Estate Bank and the Mortgage Bank. Money lenders supply part of the balance of what is needed in these various fields at exorbitant rates particularly in the case of agricultural credit and consumer credit for the poorer classes.

The Cooperative Credit Bank was established during 1956 and by the end of that year it had not yet started operating. At several occasions the Agricultural Bank extended some loans to agricultural credit cooperatives. Also

1. From an unpublished report prepared by the 'Statistics and Projects Section' of the Industrial Bank.

the Real Estate Bank made few loans to a number of housing cooperative societies. The former group proved to be a total failure while the latter worked out better.

If these state banks are to do a better job in meeting a greater portion of the credit needs of the country in their various fields it is essential that the financial resources at their disposal be substantially augmented. This can be done either by increasing their capital directly from the Treasury or through long term loans from the Central Bank or the Development Board. This should be coupled with the extension of their present limited net of branch offices all over the country without much concern about the operating expenses of small branches particularly at the beginning.

The Agricultural Bank should extend more loans to small farmers and relax its strict rules as to the collateral asked from them. It should also consider the possibility of prolonging the present maximum period of loan repayment. Furthermore, it is highly commendable that the Agricultural Bank's present legislation be amended so as to empower it to grant loans to indebted share-croppers so as to enable them to pay off their debts to their present landlords and thus be able to move to newly irrigated and reclaimed lands.¹

1. According to Law No. 31 of 1932 a share-cropper cannot leave the land while he is indebted to his landlord.

The Industrial Bank should adopt the policy of readily disposing with what it holds of company shares as soon as these companies get firmly established. This will certainly entail forfeiting of some profit, but the Industrial Bank is not a profit-making institution and its realization of profit, per se, is no measure of its success. This policy, if adopted and faithfully executed, will increase the turnover of the Bank's capital thus enabling it to help a larger number of industries and enterprises both through loans and equity capital. Finally it should give particular attention and special help to small industrial enterprises, handicraft works, and industrial repair shops; an important aspect of industrial development in Iraq which the Bank has up till now given very little attention. Within its internal organization it should provide for a properly qualified research staff, both technical and economic, who can give sound judgment concerning the future projects and the potential debtors of the Bank.

The Real Estate Bank, though on the whole has been very efficient, should concentrate more on extending its credit facilities for the housing of the lower classes. It should also consider the possibility of extending the maximum period allowed for repayment of loans.

The Central Bank of Iraq, though it has lately grown

in stature, is not yet ready to play its decisive role in controlling the monetary policy of Iraq. In effect, it is at present at little more than a note issuing board. It performs its other functions of foreign exchange control and banking control in a semi-automatic routine manner. Up till now it has hardly played the role of bankers' bank or lender of last resort. There are many reasons for this. Perhaps foremost amongst them is the fact that the Bank has neither the tradition, experience nor the qualified personnel for that purpose. There are also institutional and legal factors which contribute in making the Central Bank so helpless in influencing the monetary policy of Iraq. The absence of a developed capital market in Iraq deprives the Central Bank from utilizing one of the major weapons of modern central banking namely open market operations. Varying the rediscount rate would have practically no direct material effect as commercial banks in Iraq rarely need to rediscount. Manipulation of the legal reserve ratio is limited by law to a small range of 10 to 15 per cent of total deposits, and since 1950 it has always been at its maximum.

To avail itself of the possibility of utilizing the weapon of open market operations, the Central Bank should take some steps that would promote the development of money and capital markets in Iraq. As a first step towards this

end it can ask the commercial banks to lower the ratio of their deposits and investments abroad from 50 to 30 per cent, and conversely raise their loans and investments in Iraq to 70 per cent of their total current and fixed deposits.¹ Thus indirectly induce them to invest a larger portion of their assets in Iraqi securities. And as Professor Iversen suggests the Central Bank can also help to create familiarity with and confidence in the holding of savings in the form of securities by taking on its own educational campaigns aiming towards this goal.²

Finally in order to enhance the position of the Central Bank as regulator of credit the maximum legal reserve required from commercial banks must be raised considerably from its present 15 per cent. When such an amendment is enacted the Central Bank will be in a position to restrict indirectly the lending activities of commercial banks and consequently contract credit in the country by raising the legal reserve ratios. Not only that but the Central Bank will also be then able to play a more effective role in determining the rate of interest charged by commercial banks by changing its own rediscount rate.

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1. Law No. 34 of 1950 for the Control of Banking, article 9 (e)
 2. Iversen, op.cit., pp. 195-6, 202, 210.

But to provide so much power and opportunity for the Central Bank to practice monetary control in the country, without supplying it with the qualified personnel who would be able to take the right decision at the right moment is useless and can even be dangerous. It is increasingly realized that the success of any business, and this applies no less to banking, depends in no little measure on the staff employed. Iraq suffers from a dearth of educated and experienced men in the various fields of business and especially in banking, as such posts used till very recently to be occupied mainly by Jews and foreigners. As a partial solution to this problem the Central Bank can immediately embark upon the following measures. Try to induce promising young men to work in the Central ^{Bank} by offering them higher salaries than what is usually given to ordinary government employees in the other government departments. Central banking business is very exacting, and higher salaries for Central Bank employees has its right justifications. The Central Bank can establish and sponsor a sort of an institute for banking. Subjects on banking, economics, accounting and related topics would be taught at nominal fees.¹ Such an organization would not only help to supply the Central Bank with qualified personnel but also

1. This is not a new idea, in London there is the Institute of Bankers founded since 1879. In Ireland and Scotland there are similar organizations.

commercial banks and financial institutions in general. Finally, the Central Bank should permanently have a number of its employees on study-leaves in such central banking organizations of the more advanced countries as the Bank of England and the Federal Reserve Board of the United States, and in international financial organs as the I.M.F. and the I.B.R.D.

Given the eventual development of money and capital markets, the enactment of amendments as regards the maximum legal reserves of commercial banks, and the provisions for a more qualified staff, the Central Bank will certainly be in a better position to control credit conditions, but it remains still very doubtful if the Central Bank could alone, in the face of the continued increasing expenditures from oil royalties, check a real inflation if and when it threatens to take place. That is why both the Treasury and the Development Board should also be considered as partly responsible for monetary conditions in Iraq in its wider sense, and especially for counteracting an inflation.

The principle of balancing the current budget of the government each year should not be strictly adhered to since such a practice renders the Treasury helpless as to influencing economic activity one way or the other. Extreme caution and thorough study must precede any increases in government expenditures as such increases are likely to result in some

inflationary pressure and since it is very difficult to go back to a contractive fiscal policy once the level of public expenditure has been raised. The possibility of further lowering import duties and prohibiting or putting duties on same exports as a means of stimulating the former activity and discouraging the latter should be given serious consideration. Last but by no means least, the Treasury should establish an economic research unit whose job would be to study, analyze and recommend the taking of such measures as the above in the light of the current economic situation in the country and abroad.

Decisions of the Development Board concerning the volume of its expenditures must be taken on the basis of the availability of resources, human and material, that are necessary for carrying out the planned projects, rather than merely in the light of the annual revenue of and the financial funds at the disposal of the Board. Recently an economic research office has been formed in the Development Board to undertake general economic surveys and prepare plans of action. It would be very advisable if this office would work in close coordination with that of the Treasury¹ and the Research and Statistics Department of the Central Bank. As a further step towards closer coordination between the policies of the Central Bank, and the Development Board it is recommended that the

1. Assuming that the Treasury establishes such a recommended office.

Governor of the Central Bank be made an ex-officio member of the Development Board. And as the Ministry of Finance is already represented on the Board, coordination between these three organs would thus be secured both in their respective research statistics departments where plans for the future are usually prepared and recommended, and on the higher administrative levels where final decisions are taken.

Granting such close coordination in the policies of these three organs, wise administration, peace and stability, the monetary and banking system of Iraq has a prospect of rapid development that will match with the tremendous progress in the other spheres of the Iraqi economy.

Appendix I

Some Information About Individual Commercial Banks Operating in Iraq

The Ottoman Bank is a British owned bank registered in Turkey, and has its head office in London. The Ottoman Bank opened its first office in Baghdad in 1892 and was the first bank which started operation in Iraq. The Bank has a large number of branches in practically all countries of the Middle East. By the end of 1956 it had five branches in Iraq; two in Baghdad and one in each of Mosul, Basra and Arbil.

The Eastern Bank is another British owned bank with head office in London. The first office of the bank in Iraq was established in Baghdad in 1910. It now has two branches in Baghdad and one in each of Mosul, Basra, Kirkuk and Amara.

The British Bank of the Middle East is the third British owned bank in Iraq. The first branch of the bank in Iraq was established in Basra in 1918. Now it has in addition to that two other offices in Baghdad.

The Rafidain Bank is a state bank and was established by Law No. 33 of 1941 'for the purpose of carrying out all normal commercial banking transactions.'

The Rafidain Bank has its head office and two branches in Baghdad, and one branch in practically every liwa' in Iraq. It further has branch offices in London, Beirut, Damascus and Aleppo.

Its balance sheet as at March 31, 1956, is as follows:

Liabilities

Paid-up capital	1,000,000
Reserve fund	2,000,000
Government deposits	23,057,764
Public's deposits	12,492,230
Profit and loss account	882,690
Other liabilities	<u>982,978</u>
Total	40,415,662

Assets

Cash in hand, at bank, and at call	12,071,219
Iraq govt. and British govt. and other securities	2,316,213
Bills discounted	12,776,960
Advances, etc.	11,927,905
Lands, bldgs, furniture, etc.	881,327
Other assets	442,038
	<hr/>
Total	40,415,662

The Arab Bank has its head office in Amman. The bank has branches in practically all the Arab countries of the Middle East. Its first branch in Iraq was established in Baghdad in 1945. Now it also has a second office in Baghdad and one branch in each of Mosul and Basra.

The capital and reserves of the Iraq branch of the Arab Bank amounted to J.D. 487,700 in December 31, 1956. Deposits J.D. 3,170,000 and, investments, advances and discounted bills were J.D. 2,310,082

The Federal Bank of Lebanon has its head office in Beirut. The bank has no branches in other countries apart from Iraq. Its first branch in Baghdad was established in 1953 and a second one at the end of 1956. The allotted capital and reserve fund of the Iraq branches amounted to a little over a quarter of a million dinars at the end of 1956.

It is reported that this bank sometimes engages in undertakings which are considered by the other commercial banks in Iraq as too risky for proper commercial banking business. Its lending policy on the whole is much less conservative than the other commercial banks, especially the British.

Commercial Bank of Iraq is the first Iraqi private bank. It was established in 1954 as a joint-stock company with an authorized capital of one million Iraqi dinars, of which only half is fully paid-up.

The Bank's balance sheet as at December 31, 1956 showed the following particulars:

Liabilities

Paid-up capital	500,000
Reserve fund	100,000
Current deposits and other accounts	2,273,919
Profit and loss account	29,234
Other liabilities	138,938
	<hr/>
Total	3,042,091

Assets

Cash in hand and at banks	1,157,219
Iraqi govt. securities	85,600
Bills discounted	704,924
Advances	998,746
Land, bldg. and furniture	64,906
Other assets	30,696
	<hr/>
Total	3,042,091

Banque Nationale pour le Commerce et l'Industrie (Afrique) has its head office in Algeria. Its branch in Baghdad was opened in May 1955 with a paid-up capital of I.D. 500,000. It is said that this bank renders short-term and sometimes medium-term credit for industry, especially working capital requirements. However, the amount of such credit or its ratio to that of short-term commercial credit advanced by this bank can not be determined.

Baghdad Bank is the second Iraqi private bank. It was established towards the end of 1955. It has a paid-up capital of I.D. 250,000 and it has already proved to be successful.

Appendix II

Number of Commercial Banks and Geographical Distribution

of their Branches in Iraq, as on Dec. 31, 1956

<u>Name of Bank</u>	<u>Baghdad</u>	<u>Basra</u>	<u>Mosul</u>	<u>Hilla</u>	<u>Diwariya</u>	<u>Sulaimaniya</u>	<u>Arbil</u>	<u>Kut</u>	<u>Muntafik</u>	<u>Najaf</u>	<u>Diala</u>	<u>Kirkuk</u>	<u>Amara</u>	<u>Total</u>
1. Eastern Limited	2	1	1	-	-	-	-	-	-	-	-	1	1	6
2. Ottoman	2	1	1	-	-	-	1	-	-	-	-	-	-	5
3. British Middle East	2	1	-	-	-	-	-	-	-	-	-	-	-	3
4. Arab	2	1	1	-	-	-	-	-	-	-	-	-	-	4
5. Rafidain	3	1	1	1	1	1	1	1	1	1	1	1	1	15
6. Federal Bank of Lebanon	2	-	-	-	-	-	-	-	-	-	-	-	-	2
7. Iraqi Commercial	1	-	-	-	-	-	-	-	-	-	-	-	-	1
8. Nationale de Commerce et de l'Industrie (Afrigue)	1	-	-	-	-	-	-	-	-	-	-	-	-	1
9. Baghdad	1	-	-	-	-	-	-	-	-	-	-	-	-	1
Total	16	5	4	1	1	1	2	1	1	1	1	2	2	38

Source: Central Bank of Iraq.

Appendix III

Number of Licensed Sarrafs in Iraq
as on Dec. 31, 1956

<u>Locality</u>	<u>Number</u>
Baghdad	5
Basra	3
Mosul	1
Muntafik	1
Kut	2
Karbala	2
Najaf	<u>3</u>
Total	17

Appendix IV

Number of Non-Commercial Banks and Geographical Distribution

of their Branches in Iraq, as on Dec. 31, 1956.

<u>Name of Bank</u>	<u>Baghdad</u>	<u>Basra</u>	<u>Mosul</u>	<u>Hilla</u>	<u>Diwayia</u>	<u>Sulaymania</u>	<u>Arbil</u>	<u>Kut</u>	<u>Muntafik</u>	<u>Karbal</u>	<u>Najaf</u>	<u>Dulaiym</u>	<u>Diala</u>	<u>Kur'uk</u>	<u>Amara</u>	<u>Total</u>
Real Estate	2	1	1	1	1	1	1	1	1	1	1	1	1	1	1	16
Industrial	1															1
Agricultural	1	1	1	1												4
Mortgage	1	1	1	1		1				1				1	1	8
Total	5	3	3	3	1	2	1	1	1	1	2	1	1	2	2	29

Source: Central Bank of Iraq.

Appendix V

Government and Semi-Government Domestic
Public Loans Outstanding in I.D.

Description of loan	3-year bond-loan of 1944	20-year lottery bond loan of 1944	5-year bond-loan of 1947	10-year bond-loan of 1948	20-year bond-loan of 1948	5 to 10-year bond loan of 1955*** of 1956	10-15 year bond-loan of 1956	Total in 1956
Interest rate	3%	4% **	3%	3½%	4%	3%	3½%	mill.
1944/45	1,000,000	1,000,000	-	-	-	-	3½%	2
1945/46	1,000,000	1,000,000	-	-	-	-	-	2
1946/47	1,000,000	1,000,000	-	-	-	-	-	2
1947/48	-	1,000,000	1,000,000	1,000,000	-	-	-	3
1948/49	-	1,000,000	1,000,000	1,000,000	3,000,000	-	-	6
1949/50	-	1,000,000	1,000,000	1,000,000	3,000,000	-	-	6
1950/51	-	1,000,000	1,000,000	1,000,000	3,000,000	-	-	6
1951/52	-	1,000,000	1,000,000	1,000,000	3,000,000	-	-	6
1952/53	-	1,000,000	-	1,000,000	3,000,000	-	-	5
1953/54	-	1,000,000	-	1,000,000	3,000,000	-	-	5
1954/55	-	1,000,000	-	1,000,000	3,000,000	-	-	5
1955/56	-	1,000,000	-	1,000,000	3,000,000	4,000,000	2,000,000	11
1956/57	-	1,000,000	-	1,000,000	3,000,000	4,000,000	2,000,000	12

Source: Unpublished material supplied by the Central Bank of Iraq.

Amounts outstanding at the end of each financial year

Appendix VI

Distribution of Iraq Government Public Bond
Loans - Outstanding as at Dec. 31 of
1955 and 1956
in millions of I. D.

Dec. 31, 1955 Dec. 31, '56

I. Holdings of the Central Bank:		
1. Issue Department	2.41	2.41
2. Banking Department	<u>2.42</u>	<u>4.65</u>
Total	4.83	7.05
<hr/>		
II. Holdings of Commercial Banks and <u>Sarrafs:</u>		
1. With commercial banks and <u>sarrafs</u>	0.42	1.00
2. Deposited with the Central Bank (as part of statutory reserves)	<u>1.47</u>	<u>1.55</u>
Total	<u>1.89</u>	<u>2.55</u>
III. With Govt. and semi-govt. agencies	0.53	0.53
IV. With Provident Fund Committees of semi-govt. agencies	0.36	0.44
V. With the Public	<u>1.40</u>	<u>1.43</u>
GRAND TOTAL	9.00	12.00*

Individual items may not add up to totals because of rounding.

* Includes the two bond issues of 1956.

Source: Unpublished material supplied by the Central Bank of Iraq.

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