Governmental Banking Finance and its Impact on GDP (Gross domestic product) and Household Expenditure in Iraq for the Period from (2004-2017)

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Abstract---Iraqi banking sector witnessed many reforms after 2003, like issuing several laws, including regulating the work of monetary policy such as Law No. 56 of 2004, that allowed the independency for Central Bank, after it was a tool to finance the deficit of government budget, as well as restoring confidence to the local currency and the fight against deflate. The commercial banking sector witnessed the issuance of Law No. 94 of 2004, which granted banks the freedom to expand their credit limits and left the setting of the creditor and debtor interest rates. Commercial banks began to expand the granting of domestic credit in light of the economic liberalization witnessed in Iraq. However, governmental commercial banks played the largest role in covering the market with the necessary financing, by the expansion of loans granting in all forms, through its seven banks (-Rafidain bank, Al-Rasheed Bank, the Trade Bank of Iraq and Alnahrain Islamic Bank and the three specialized banks). In light of the apparent decline of contribution of private commercial banks, so the subject of research discusses the role of commercial banks in stimulating economic growth, for the period 2004-2017, by the construction of standard models, using models of time lag (ARDL).

Keywords--- Governmental Banking Finance, economic growth, quantitative analysis (ARDL).

I. Introduction

The banking sector plays an outstanding role in stimulating economic growth by directing funds towards economic growth channels, but this is not a static economic law that applies to all economies. Economic literature indicates that many economic systems in which the banking sector played the biggest role in it collapse, and there are many evidence, perhaps the mortgage crisis of 2007 witnessed by the US economy is a historical example, due to the expansion of mortgage banks, in granting cash credit, without covering the risks, but exceeded the minimum liquidity, and on the other hand several countries witnessed achieving of high rates of growth, the banking sector represent a turning point from less developed countries to developed countries.

The Iraqi banking sector is one of the main sectors that played a vital role in financing the budget deficit in Iraq before 2003. During the change of the political system, the new government resorted to restructuring the banking sector in general. Iraqi banks have taken great steps in improving their credit policies commensurate with the new details in spite of the issuance of many laws to regulate the banking sector, but it is still in real need to reconsidering its plans adopted, to stimulate the abilities of the Iraqi banking sector, and enhance the opportunities for its contribution to the mobilize savings

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and attracting domestic and foreign deposits if the fundamental requirements are available, especially the re-confidence of the citizens of these banks, through the establishment of a deposit guarantee company with the availability of a successful banking administration, may be the only way to strengthen the role of these banks and reduce the incidence of financial corruption. As well as mobilizing and directing savings towards investment channels that stimulate economic growth, based on international standards. The commercial banks resort to maintaining very high liquidity ratios than those approved by the Basel III Committee. Therefore, this research paper is dealing with the impact of Governmental Banking Finance in stimulating economic growth variables for the period 2004-2017.

First: Study problem

Iraqi commercial banks have been very interested in the past decades, playing a catalytic role in supporting the trade and investment movement, so the problem of research is:

- Does the governmental banking finance play a role in stimulating Iraqi economic activity?
- Is governmental banking finance able to equate the increasing demand for money?
- Is there a weakness in the financing of public or private commercial banks?
- Is the liberalization of governmental commercial banks contributing in achieving high rates of economic growth?

Second: Study importance

The importance of research arise from the main role of Iraqi governmental banking finance for the period (2004-2017) in raising the contribution of economic sectors in the composition of GDP (Gross domestic product) and thus improving the level of welfare. Government finance is the engine of economic growth and thus a reflection of the domestic economy.

Third: Study objective

To knowthe concept of bank financing and its importance and objectives in light of the rapid movement of capital as a result of mergers and financial liberalization witnessed by the Iraqi economy. In view of the importance of government banking financing in Iraq, the impact of directing these savings on economic growth, represented by GDP, investment, welfare and trade, was discussed for the period (2004-2017).

Fourth: study hypothesis

The research is based on the hypothesis that (economic growth can be enhanced with the expansion of governmental banking finance and directed to the real investment channels in Iraq for the period 2004-2017.

Fifth: Study sample

The research sample included the seven main government banks in Iraq (Al-Rafidain bank, Al-Rasheed Bank, Trade Bank of Iraq, Alnahrain Islamic Bank and other specialized banks) for the period (2004-2017).

Sixth: Methods of data collection

The theoretical part of the study based on a collection of foreign and Arabic research and books. The analysis side adopted the annual statistical publications of the Central Bank of Iraq published as reports and data available on the website of the Central Bank of Iraq or through field visits of the research sample.

First requirement: The concept of bank financing

Bank financing is a feature of the banks' work. Without it, the bank loses its main function as a financial intermediary in the economy, but at the same time, risks play a major role in restricting the movement of these banks due to bank default. There is a set of rules, regulations and standards that banks use to reduce the size of risks or what called (bank hedging), such as raising liquidity rates or requesting more guarantees. (Al-Ameen and Al-Daghaim, 2006: 194 _196). In view of the aforementioned, it is necessary to know the factors that affect the size and nature of bank financing. There are two types of frameworks that can facilitate access to credit and improve its distribution; they are Credit information systems for borrowers, the laws of guarantees and bankruptcy (p246:2009, T.N.Hajela).

Bank financing has defined the English economist (George Douglas) as the purchasing power doesn't derived from within, a purchasing power of financial institutions, as compensation for entrythat suspendedto depositorbanks or as an additional to the total net amount of purchasing power (p246: 2009, T.N.Hajela).

It is also defined as one of the decisive factors that enable individuals to escape poverty through enhancing productivity, affecting savings rates, investment decisions, technological innovations and long-term growth rates. The importance of bank financing is recognized as a public benefit and everyone is entitled to it without discrimination as the case of accessing to water or basic education, as it is not less important. (134: p2012, et al Rajani)

Therefore, banking finance plays an important role in the distribution of financial resources available to the banking system in various sectors and economic activities to ensure the efficient use of these resources by distributing them to various projects according to their needs (Al-Douri and Al-Samarrae 2006: 75). Financing contributes in the operation of suspended resources by directing funds towards the most beneficial channels, so financing eventually contributes to increased national income. (Taha, 2006: 439).

Second requirement: banking reforms in Iraq after 2003

Banking system is the main sector and is financier to various economic and social processes within the framework of the objectives and policies of the development plans. Since 2003, the banking system in Iraq has been subject to several reforms to bring it into line with the new data, the first of which was the promulgation of Law No. 56 of 2004 under the Coalition Provisional Authority, which included restructuring and reforming monetary policy work by:

1. Re-confidence the Iraqi currency.

2. Confronting inflationary pressures

3. Independence in the management of Central Bank

4. Stop lending the government

5. Determine the minimum capital of new and existing banks, not less than one billion dinars to the existing bank and 50 billion Iraqi dinars to the new bank.

6- Allow foreign banks to open branches "and offices within Iraq and participation in the capital of Iraqi banks, whatever the ratio and without restrictions to create competition aimed at the development of banking.

7 - Reduction of the legal reserve ratio from 42% to 25%, including 5% in the form of cash in the coffers of the same bank and 20% reserve with the Central Bank.

8- Set up the window of foreign currency to contribute to the improvement of stability in the exchange rate of the Iraqi dinar and fill the growing domestic demand for foreign currency dollar. (Saad, 2015: 23)

9- Under the new banking law No. 94 of 2004, the Central Bank was able to impose preventive control through regulations and its applications away from coercive control measures, which enabled the banking system to operate according to the flexible and efficient banking systems. (Hussein, 2013: 183)

Structural reforms in commercial banks were:

1. The issuance of Law No. 94 of 2004, which defined the official identity of commercial banks and allowed them to carry out financial clearing operations such as interest rate agreements or commodity swap agreements, as well as immediate commodity sales, It also allowed it to conduct its banking business freely, provided that it does not deal with illegal issues, by forcing it to submit annual and monthly reports to the Central Bank as well as to audit by the central bank inspectors, and to audit the final accounts of those banks and also imposed on them to maintain liquidity ratios and comply with the economic situation in accordance with the requirements of Basel III to ensure the rights of depositors, in return granted credit consumption and investment to stimulate economic activity after the verification of the identity and financial status of the loan applicant. Under the above-mentioned law, eight Islamic banks with a capital of 702.4 billion dinars were allowed to be established and Later, Law 43 was issued in 2015 by establishing the first Islamic bank which is Al-Nahrain Islamic Bank of the Two Rivers. (Iraq Financial Stability Report, 2015: 7)

2. On the other hand, the reforms allowed foreign banks to work based on the methodology of the transition to a market economy based on:

A- Set interest rates and cancel credit plans.

B- Opening the chance to work for foreign banks, either through participation in local banks, without setting any limits to the proportion of participation or open branches in Iraq without the determination of capital in addition to the possibility of opening representative offices. (Shammari, 2008: 106).

Third: Analysis of government banking financing and its impact on economic growth in Iraq

1- The relationship between government bank financing and Gross Domestic Product

The Iraqi economy faced great challenges during the past decades, which negatively affected it, especially the nineties of the last century as a result of the international sanctions in accordance with resolution No. 661 in 1995, which reduced the bordered of Iraq and the decline in the growth rates of Gross Domestic Product growth; Therefore, the first steps of the reform were to achieve high growth rates to meet the increasing domestic demand after 2003 through the increase or expansion of public spending and the granting of long-term credit at compound interest rates. The evolution of the growth rates of the variables under study can be explained by the following table:

Table (1) Cash Credit granted by Governmental Commercial Banks and Gross Domestic Product and Household Expenditure for the Period (2004-2017) (Million IQD)

Years	Government cash credit	Annual Growth Rate *	Gross Domestic Product At	Annual Growth Rate *	Household expenditure	Annual growth rate *

			Current Prices			
2004	204,406	__	53,235,358	_____	19,538,773	___
2005	767,163	1.32	73,533,598	0.32	27,593,240	0.34
2006	783,884	0.02	95,587,954	0.26	35,526,340	0.25
2007	1,071,587	0.31	111,455,813	0.15	42,963,013	0.19
2008	609,153	0.56-	157,026,061	0.34	49,091,356	0.13
2009	1,043,895	0.53	130,642,187	0.18-	68,256,193	0.32
2010	3,194,404	1.11	167,093,204	0.25	72,026,324	0.05
2011	8,987,768	1.03	217,327,107	0.26	77,412,594	0.07
2012	13,788,586	0.42	254,225,490	0.16	101,000,000	0.26
2013	13,004,479	0.05-	267,395,614	0.05	132,696,000	0.27
2014	16,377,926	0.23	266,420,384	0.003-	141,724,800	0.06
2015	18,682,628	0.13	199,715,699	0.29-	124,352,100	0.13-
2016	18,999,153	0.01	203,869,832	0.02	131,552,300	0.05
2017	18,500,536	0.02-	225,995,179	0.10	141,539,962	0.07

* The Central Bank of Iraq, Directorate General of Statistics and Research, annual publications, various preparations, available on the official website of the Central Bank www.cbiraq.org

* Data from the World Bank Group https://data.albankaldawli.org

* Growth rate was calculated by the researcher according to the following formula Growth Rate = Ln (v2) -Ln (v1)

Table 1 shows that the total cash credit granted increased significantly to reach (204,406) million Iraqi Dinars in 2004, increasing to (3,194,404) million Iraqi Dinars in 2010 with an annual growth rate of (1.11), As a result of the continuation of government banks to support the economic sectors, in 2017 the total cash credit granted (18,500,536) million Iraqi

dinars and an annual growth rate (-0.02), and with regard to the gross domestic product in Iraq took an upward path, indicating the improvement in the structure of Gross Domestic Product Although this improvement was below the required level and did not contribute to increasing domestic demand, the gross domestic product (GDP) reached 53,235,358 million Iraqi dinars in 2004, rising to 167,093,204 million Iraqi dinars in 2010 with an annual growth rate of 0.25) To continue to rise to (255,995,179) million Iraqi dinars and Annual growth rate (0.10) in 2017.

2- Government banking finance and its impact on the prosperity

For decades, the Iraqi individual suffered from hunger and poverty. Perhaps the 1990s were the hardest on the citizen, so there was a backlash after 2003, which was the rise in consumer spending excessively to meet the shortfall and deprivation, However, this spending, despite the high speed of money circulation, did not contribute to stimulating investment activity, but went towards consumer goods and services, which left a gap between the rise in consumer spending and the decline in investment spending. This can be explained by the data in Table (1). Household expenditure reached about 19,538,773 million Iraqi dinars in 2004 and continued to rise for the following years, then decreasing to (124,352,100) Iraqi Dinars in 2015 with a negative growth rate of 0.13-) And then increased to (141,539,962) million Iraqi dinars and an annual growth rate (0.07) in 2017 as a result of the improvement of the situation of the country.

Fourth: Measuring the government bank financing and its impact in stimulating economic growth in Iraq

First: Specification of standard models

Before characterizing the sample data, it should be noted that many researchers suffer from statistical problems due to the distorted standard models, which caused the researchers to rely on small observations, so the annual data were converted to quarterly based on E_VIEWS.9 program in order to obtain statistically significant standard models, these models can be described as listed in the table below:

Table (2)Describe of the interpreted and dependent variables

Economic variables	Code
Independent variable	CCG
Dependent variables	GDP
	EX
Source: Prepared by the researcher	

Second: Silence test

1. Determine the length of the Slow-down period

Before the start of a stability test, the slowdown intervals for all variables were determined according to the Schwarz standard, which are,(5), slowdown periods for government cash credit, (5) slowdown periods for GDP, and (2) slowdown periods for household expenditure.

2. Testing the root of the unit

The Augmented Dickey-Fuller (ADF) test was adopted to detect the absence of any time trend between the time series values of the search sample, after re-testing, the time series stability was determined at the first difference, as shown in Table (3):

Table 3. Stability test results by Augmented Dickey-Fuller (ADF)

Test of Augmented Dickey-Fuller (ADF)				
Vector	**Test**	**At First Difference**		**At level**
		GDP	**CCG**	EX
Only Segmentation	**t statistic**	-2.190908	-3.022037	-0.747956
	prob.t	0.2120	0.0391	0.8254
	t-table			
	%1	-3.568308	-3.557472	-3.557472
	%5	-2.921175	-2.916566	-2.916566
	%10	-2.598551	-2.596116	-2.596116
Segmentation and General Direction	**t statistic**	-2.235069	-2.971568	-3.280663***
	prob.t	0.4604	0.1496	0.0806
	t-table			
	%1	-4.152511	-4.137279	-4.140858
	%5	-3.502373	-3.495295	-3.496960
	10%	-3.180699	-3.176618	-3.177579
Without Segmentation and General Direction	**t statistic**	-1.932362	-2.699095	___
	prob.t	0.0517**	0.0078*	___
	t-table			
	%1	-2.612033	-2.608490	___
	%5	-1.947520	-1.946996	___
	10%	-1.612650	-1.612934	___

*Prepared by the researcher based on the outputs of Eviews.9 Program

Results of the statistical program (*) 1% (**) 5% (***) 10%

Third: Boundary Test

1. Boundary testing refers to the relationship between the integration of government cash credit and GDP according to the following table:

Table (4)ARDL Bounds Test

Date: 01/06/19 Time: 01:41		
Sample: 2006Q2 2017Q4		
Included observations: 47		

Null Hypothesis: No long-run relationships exist

k	Value	Test Statistic
1	5.283698	F-statistic

Critical Value Bounds

I1 Bound	I0 Bound	Significance
4.78	4.04	10%
5.73	4.94	5%
6.68	5.77	2.5%
7.84	6.84	1%

Test Equation: Dependent Variable: D(GDP)

Method: Least Squares

Date: 01/06/19   Time: 01:41 ,

Sample: 2006Q2 2017Q4

Included observations: 47

Prob.	t-Statistic	Std. Error	Coefficient	Variable
0.0059	2.947458	0.154845	0.456398	D(GDP(-1))
0.3254	0.998728	0.173622	0.173401	D(GDP(-2))
0.9870	-0.016369	0.163073	-0.002669	D(GDP(-3))
0.2158	1.262803	3.245685	4.098661	D(CCG)
0.8082	0.244729	3.357259	0.821618	D(CCG(-1))
0.9800	-0.025287	3.421822	-0.086527	D(CCG(-2))
0.8325	-0.213277	3.414273	-0.728185	D(CCG(-3))
0.9597	0.05095	3.940745	0.200803	D(CCG(-4))

				6
0.5614	0.586836	3.526712	2.069603	D(CCG(-5))
0.9867	0.016830	3.553287	0.059803	D(CCG(-6))
0.6629	-0.439976	3.466025	-1.524968	D(CCG(-7))
0.0269	2.319049	3.403240	7.892279	D(CCG(-8))
0.0040	3.100344	5971470.	18513610	C
0.1990	1.311652	0.340269	0.446315	CCG(-1)
0.0069	-2.890305	0.048210	-0.139342	GDP(-1)
3190195.	Mean dependent var		0.567178	R-squared
10650153	S.D. dependent var		0.377819	Adjusted R-squared
34.97941	Akaike info criterion		8400676.	S.E. of regression
35.56988	Schwarz criterion		2.26E+15	Sum squared resid
35.20161	Hannan-Quinn criter.		-807.0161	Log likelihood
1.839633	Durbin-Watson stat		2.995248	F-statistic
			0.005036	Prob(F-statistic)

Table (5) indicate that there is no common integration between cash credit and household expenditure

ARDL Bounds Test

Date: 01/06/19   Time: 01:22

Sample: 2007Q1 2017Q4

Included observations: 44

Null Hypothesis: No long-run relationships exist

k	Value	Test Statistic
1	7.632905	F-statistic

Critical Value Bounds

I1 Bound	I0 Bound	Significance
6.26	5.59	10%
7.3	6.56	5%
8.27	7.46	2.5%
9.63	8.74	1%

Test Equation:

Dependent Variable: D(EX)

Method: Least Squares

Date: 01/06/19   Time: 01:22

Sample: 2007Q1 2017Q4

Included observations: 44

Prob.	t-Statistic	Std. Error	Coefficient	Variable
0.0000	7.029299	0.138578	0.974105	D(EX(-1))
0.0027	3.354400	0.219508	0.736316	D(EX(-2))
0.0057	3.049118	0.242979	0.740872	D(EX(-3))
0.3720	-0.910581	0.183583	-0.167168	D(EX(-4))
0.0001	4.791471	0.145470	0.697013	D(EX(-5))
0.0109	2.769088	0.179913	0.498194	D(EX(-6))
0.0147	2.636723	0.190792	0.503065	D(EX(-7))
0.3303	-0.994551	0.165616	-0.164713	D(EX(-8))
0.0022	3.440624	0.150053	0.516275	D(EX(-9))
0.0287	2.333441	0.184392	0.430269	D(EX(-10))
0.0215	2.467504	0.212774	0.525022	D(EX(-11))

0.0053	-3.079897	0.720176	-2.218067	D(CCG)
0.5894	0.547360	0.970670	0.531307	D(CCG(-1))
0.5454	-0.613795	0.726876	-0.446152	D(CCG(-2))
0.4410	-0.784080	0.735720	-0.576864	D(CCG(-3))
0.0003	-4.306251	0.760492	-3.274870	D(CCG(-4))
0.1706	1.414444	0.909660	1.286663	D(CCG(-5))
0.6365	-0.478943	2231747.	-1068881.	C
0.0009	3.809397	453920.9	1729165.	@TREND
0.0151	2.624762	0.315526	0.828181	CCG(-1)
0.0008	-3.853404	0.198667	-0.765546	EX(-1)
2443237.	Mean dependent var		0.890100	R-squared
3848329.	S.D. dependent var		0.794535	Adjusted R-squared
31.88755	Akaike info criterion		1744382.	S.E. of regression
32.73909	Schwarz criterion		7.00E+13	Sum squared resid
32.20334	Hannan-Quinn criter.		-680.5261	Log likelihood
2.142374	Durbin-Watson stat		9.314052	F-statistic
			0.000001	Prob(F-statistic)

From the results of the boundary test the correlation between the two variables (CCG& GDP). We observe that the calculated F-statistic value is(5.28) greater than the maximum value of I1 at all levels of significance. Thus, this equation

is integrated between the (GDP &CCG), The relationship between (CCG& EX), The calculated F-statistic value was reached (7.63), greater than the maximum value of I1 and this equation is integrated

Fifth: Method of Error Correction

A. The results of the short and long term relationship between the cash credit and GDP according to the ARDL model. From Table (6), we note that the coefficient of the error limit CointEq (-1) was (-0.139342) at a significant level (1%). In other words, short term deviations correct the long-term balance between (CCG& GDP), As for the long-term relationship, we note that the parameter of the independent variable was (3.203011) and the probability (0.0729), indicating that it is significant at the level of (1%) which has a long-term impact.

Table 6. The results of error correction and the short- and long-term relationship between cash credit and GDP

ARDL Cointegrating And Long Run Form

Dependent Variable: GDP

Selected Model: ARDL(4, 9)

Date: : 01/06/19   Time: 01:39

Sample: 2004Q1 2017Q4

Included observations: 47

Cointegrating Form

Prob.	t-Statistic	Std. Error	Coefficient	Variable
0.0059	2.947458	0.154845	0.456398	D(GDP(-1))
0.3254	0.998728	0.173622	0.173401	D(GDP(-2))
0.9870	-0.016369	0.163073	-0.002669	D(GDP(-3))
0.2158	1.262803	3.245685	4.098661	D(CCG)
0.8709	0.163789	5.544617	0.908146	D(CCG(-1))
0.9088	0.115436	5.558538	0.641658	D(CCG(-2))
0.8784	-0.154263	6.022120	-0.928988	D(CCG(-3))
0.7645	-0.302204	6.183903	-1.868799	D(CCG(-4))
0.7303	0.347692	5.780407	2.009799	D(CCG(-5))
0.7854	0.274580	5.771611	1.584771	D(CCG(-6))
0.1168	-1.611948	5.842154	-9.417247	D(CCG(-7))
0.0269	2.319049	3.403240	7.892279	D(CCG(-8))
0.0069	-2.890305	0.048210	-0.139342	CointEq(-1)

Cointeq = GDP - (3.2030*CCG + 132864224.1677)

Long Run Coefficients

Prob.	t-Statistic	Std. Error	Coefficient	Variable

0.0729	1.854489	1.727166	3.203011	CCG
			132864224	
0.0000	7.500802	17713335.7	.1	C

Source: Prepared by the researcher based on the outputs of Eviews.9 Program

B - Results of the short and long term relationship between cash credit and EX according to (ARDL) model

From the data of Table (7) we note that the coefficient of the speed of adjustment Coint Eq (-1) indicates that the value of the parameter amounted to (-0.765546) of the relationship between (CCG& EX), and at a level of significance (1%), i.e. deviations in the short term are corrected in the long term, and therefore there is a long-term equilibrium relationship. The long-term relationship is also significant at a significant level of 1%, and therefore there is a relationship between the variable in the long term.

Table 7. The results of the short and long-term relationship between cash credit and EX according to (ARDL)model

ARDL Cointegrating And Long Run Form				
Dependent Variable: EX				
Selected Model: ARDL(12, 6)				
Date: 01/06/19 Time: 01:22				
Sample: 2004Q1 2017Q4				
Included observations: 44				
Cointegrating Form				
Prob.	t-Statistic	Std. Error	Coefficient	Variable
0.0000	7.029299	0.138578	0.974105	D(EX(-1))
0.0027	3.354400	0.219508	0.736316	D(EX(-2))
0.0057	3.049118	0.242979	0.740872	D(EX(-3))
0.3720	-0.910581	0.183583	-0.167168	D(EX(-4))
0.0001	4.791471	0.145470	0.697013	D(EX(-5))
0.0109	2.769088	0.179913	0.498194	D(EX(-6))
0.0147	2.636723	0.190792	0.503065	D(EX(-7))
0.3303	-0.994551	0.165616	-0.164713	D(EX(-8))
0.0022	3.440624	0.150053	0.516275	D(EX(-9))
0.0287	2.333441	0.184392	0.430269	D(EX(-10))
0.0215	2.467504	0.212774	0.525022	D(EX(-11))
0.0053	-3.079897	0.720176	-2.218067	D(CCG)
0.4450	0.777129	1.257783	0.977459	D(CCG(-1))
0.9087	0.115962	1.127193	0.130711	D(CCG(-2))
0.0325	2.275198	1.185834	2.698006	D(CCG(-3))

Prob.	t-Statistic	Std. Error	Coefficient	Variable
0.0033	-3.278981	1.391144	-4.561533	D(CCG(-4))
0.1706	1.414444	0.909660	1.286663	D(CCG(-5))
0.0009	3.809397	453920.9	1729164.8	D(@TREND())
0.0008	-3.853404	0.198667	-0.765546	CointEq(-1)

Cointeq = EX - (1.0818*CCG -1396232.9697 + 2258733.9892*@TREND)

Long Run Coefficients

Prob.	t-Statistic	Std. Error	Coefficient	Variable
0.0004	4.178513	0.258900	1.081817	CCG
0.6290	-0.489747	2850929.5	-1396232.9	C
0.0000	15.789676	143051.3	2258733.9	@TREND

Source: Prepared by the researcher based on the outputs of Eviews.9 Program

We conclude from the error correction model that there is a short-term balance relationship capable of correcting the error between cash credit and other variables, and also a significant long-term correlation in the long-term between the variables under consideration.

II.   Conclusions

1. Government banking credit has taken an upward trend, as are the two variables GDP and household expenditure, indicating that government credit has a real impact on dependent variables under consideration according to quantitative analysis results.

2. The issuance of Law No. 56 and Law No. 94 of 2004 have had the greatest impact on developments in the Iraqi banking sector, thus achieving some successive successes, especially in the governmental banking sector, specifically the specialized banks that have exhausted all allocations to the private sector.

3. The Bound test indicated that the F-statistic value exceeded the maximum value of the test results of the combined integration of cash credit and GDP and hence there is an integrative relationship between the two series.

4. The Bound test of the relationship between cash credit and household expenditure indicated that there was complementary relationship between the two chains.

5. There is a common correlation between all variables in the long and short term according to the results of the error correction test.

III.   Recommendations

1. Despite the increase in total cash credit towards the revitalization of the Iraqi market, but still in urgent need to review the credit policy followed, and to resort to mobilizing and directing cash credit towards the real investment channels in order to raise growth rates to the desired level.

2. Find other revenue outlets to avoid the fluctuation of international oil prices by relying on allocating or directing more credit towards other major sectors such as agriculture and industry, through specialized banks.

3. The necessity of increasing the effectiveness of private commercial banks in stimulating economic growth.

4. To resort to the governance of government commercial banks to increase their effectiveness first and to free them from the government decisions subject to them and to exercise their role as banking institutions with their own entity.

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