

Analysis of Liquidity Indicators in the Iraqi Stock Market for the Period (2005-2021)

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Abstract : This study aims to examine liquidity indicators in the Iraqi stock market and analyse their trajectory and fluctuations during the period from 2005 to 2021, with a focus on trading volume and stock turnover rate as liquidity indicators. The study sheds light on important issues that must be considered to manage risks and improve the performance of the Iraqi stock market in the face of economic fluctuations. The results of this research can be used by investors and economic decision-makers to improve the market's ability to use financial resources to achieve its goals. The study found that both trading volume and stock turnover rate were subject to fluctuations during the research period, and were affected by improvements in economic and security conditions in the country, reflecting a state of market instability and irregularity of operations.

Keywords liquidity: trading volume, stock turnover rate, Iraqi stock market.

INTRODUCTION: Financial markets are of great economic importance in both advanced and developing countries. They are vital financial institutions for economic units, whether they have a surplus or a deficit. Financial markets serve as a channel for directing local and foreign savings towards investment, which supports the national economy and enhances growth rates. However, these markets face continuous fluctuations due to internal and external factors, which pose a challenge to their performance indicators. Such fluctuations in their indicators can lead to delays in making investment decisions and missing of important investment opportunities that contribute to the growth of the Iraqi economy. Therefore, revealing the reasons behind these fluctuations in some of the performance indicators of the Iraqi stock market is necessary to evaluate its ability to use financial resources to achieve its goals. With Iraq's adoption of an open economic policy after 2004, studying some of these indicators, especially liquidity indicators, for the period from 2005 to 2021, comes in the context of these developments. This period has been chosen to study and analyze the trajectory of liquidity indicators in the Iraqi stock market.

Research importance:

The importance of this research is related to the study of the impact of the trajectory and fluctuations of liquidity indicators in the Iraqi stock market, represented by trading volume and stock turnover rate. This sheds light on the negative effects of these fluctuations on the flow of investments into the Iraqi stock market. When there are fluctuations and changes in stock prices, they reflect their effects on the performance of the Iraqi stock market. This research helps decision-makers and investors in managing future risks and measuring the potential impact of currency fluctuations on the indicators of the stock market. Price fluctuations create a sense of mistrust among participants in financial markets, which affects investment in the market and exacerbates economic problems. Therefore, this research provides insight into the important issues that must be taken into consideration for risk management and improving the performance of the Iraqi stock market in light of exchange rate fluctuations.

Research problem:

The problem of the research lies in the fact that the fluctuations in the performance of the Iraqi stock market through the fluctuations of trading volume and market value as a liquidity indicator in the Iraqi stock market, given the wide fluctuations the market has experienced during the period (2005-2021). This requires investors not to neglect them, as changes contribute to the failure of investors to achieve gains and create a state of insecurity in capital.

Research objectives:

The objectives of the research are as follows:

1. To demonstrate the conceptual framework of financial markets and liquidity indicators.
2. To analyse the trajectory and development of liquidity in the Iraqi stock market for the period (2005-2021).

Research hypothesis:

The main hypothesis of the research, based on the problem statement, is as follows:

"The performance of the Iraqi stock market is related to the fluctuations of liquidity during the period from 2005 to 2021".

Research methodology:

To achieve the research objectives and test the hypothesis, a deductive methodology based on the stability of reality was adopted to analyze the data descriptively during the period (2005-2021).

Research scope:

The scope of the research includes the following:

1. Geographical boundaries: Republic of Iraq.
2. Time boundaries: the period (2005-2021).

Research structure:

The research structure is divided into the following sections:

Section 1: The conceptual framework of the stock market.

Section 2: Analysis of the trajectory of liquidity indicators in the Iraqi stock market for the period (2005-2021).

First Topic: The Conceptual Framework of Financial Markets

Firstly: the concept of financial markets

The roots of financial markets can be traced back thousands of years to the civilization of Mesopotamia, which witnessed the earliest forms of financing and banking about four thousand years ago, and since the Hammurabi Code introduced legal provisions after the development of trade and financial transactions. The first stock exchange was established in the Belgian city of Antwerp in 1576, followed by the Amsterdam Stock Exchange in 1608, the London Stock Exchange in 1666, and the New York Stock Exchange in 1892. Governments' borrowing and financial instrument trading contributed to the emergence of financial markets. It should be noted that financial markets stabilized in 1806 in a special building called the Royal Exchange in London after business was conducted in streets and coffeehouses, which is currently the location of the London Stock Exchange. (Jabber: 1989, 34)

The emergence of financial markets reflected the economic conditions in countries that required them. As economic development evolved in these countries, surplus financial companies emerged. With the growth and development of trade, the Romans knew about financial markets in the fifth century BC, contributing to some activities similar to contemporary financial markets. Some trade exchanges in our present era resemble financial markets. (Al-Najafi: 1992, 11)

The financial markets thrived after the emergence of the integration phenomenon between monetary and financial markets, whether at the local or international level. These markets began to deal with long-term securities such as stocks, bonds, and real estate loans. Their focus was primarily on the market that deals with long-term securities such as stocks, bonds, and real estate loans, as well as the market that brings together sellers and buyers of securities. (Salem: 1999, 210)

The economic concept of the market differs from the commercial meaning, as in the commercial sense, it refers to the geographic area where a large number of buyers and sellers meet. However, in the economic sense, the market does not refer to a geographic location, but rather it encompasses transactions whether they are on a local or international level. Therefore, the financial market does not deviate much from the same meaning (Qandouz: 2021,7). In this regard, there are multiple definitions of the concept of financial markets. Some view it as the mechanism through which money can be borrowed and lent (Fred Weston and others, 1996, p. 31). Others view the financial market as the place where the supply of money meets its demand. Money is supplied by those with financial surpluses, i.e. savers, while those with a deficit, i.e. borrowers, such as investors seeking to expand their projects, demand it. In this market, the process of matching supply and demand is arranged through the issuance and trading of financial instruments (Qandouz: 2021, 7).

Keith and Peter defined financial markets as a regulatory framework for trading securities and their derivatives through buying and selling (Peter Howells & Keith Bain: 1987,62). Abdel Ghaffar Hanfi defined it as a system that brings together buyers and sellers of a particular type of securities or a specific financial asset (Hanfi: 2000, 37). It is also defined as the framework that brings together savings units that want to invest and deficit units that need funds for investment through specialized channels operating in the market, provided that effective communication channels are available (David Boddy: 2002, 4)

Thus, the financial market consists of two parties, the seller and the buyer. The seller owns the financial instrument and represents the government, commercial banks, and others. The buyer of financial instruments can be an individual, a bank, or any other savings institution (Jaber: 1982, 65). The financial market facilitates trading operations between buyers and sellers of ownership and debt rights, and the prices of financial instruments are evaluated and their returns measured in the financial market (Sami: 2009, 45). It is also defined as the framework that brings together savings units that want to invest and deficit units that need funds for investment through specialized channels operating in the market, provided that effective communication channels are available (David Boddy: 2002, 4).

Secondly: The importance of financial markets

Financial markets differ from real markets in that what is traded in the financial market are financial instruments and tools, such as debt instruments (bonds), equity instruments (stocks), real estate loans, and others (Qandouz: 2021, 8). Their importance lies in carrying several aspects, most notably stimulating Gross Domestic Product (GDP) growth, raising individual income levels, and alleviating problems, especially inflation, unemployment, public debt, budget deficits, balance of payments, and trade balance. Financial markets also actively contribute to the success of economic reform programs launched by governments (W. O. Bascom: 1994, 153-265).

Financial markets play an extremely important role in attracting surplus capital that is not employed in the national economy and turning it into employed and effective capital in the economic cycle through investment operations carried out by individuals or companies in stocks, bonds, and sukuk that are offered in the financial markets (Hussein: 2008, 84). Developing Arab financial markets leads to creating the appropriate and innovative ground for economic development by expanding the supply of tradable financial instruments, offering investors a variety of options in terms of returns and risk levels, and helping to increase investment and expand its scope, ultimately raising economic growth (Al-Surur: 2011, 73). Financial markets also monitor investments by identifying changes in the prices of securities, which are an important indicator of future economic conditions. Thus, the prices of these securities serve as an important indicator of the future economic situation (Al-Mousawi: 1998, 8).

To shed more light on the importance of financial markets, they are characterized by several functions, including mobilizing savings and directing them towards investment projects, providing liquidity and financing for investment and development plans, and achieving economic stability.

Thirdly: Financial Market Performance Indicators:

To measure the performance of the stock market, there are several market trading indicators that can be divided as follows:

1. General Stock Price Index:

This index represents a collection of specific stock prices as a measure of the overall market movement, and investors are responsible for making appropriate investment decisions in the stock market based on it (Al-Najjar and Abdul Latif, 2022, p. 61). This is done through the announcement of stock prices, whether for buying or selling, as well as using it to evaluate investments through time series comparisons. The market tends to rise when this index shows an upward trend and falls when it shows a downward trend (Al-Shibli, 2000, p. 148). Additionally, it represents the average prices of stocks for companies listed in the market and serves as a basis for daily trading operations (Al-Hanawi, 2004, p. 251).

2. Number of Traded Stocks Index:

This index is one of the important indicators regularly monitored by investors in terms of the number of traded stocks. It is calculated by dividing the number of stocks traded during a specific period by the number of trading days in that period. It represents the number of stocks bought and sold during a specific time period. Several factors affect the number of traded stocks, including the required rate of return, dividend yield, and earnings per share. This index helps evaluate the performance of an investment portfolio and provides an idea of the state of the financial markets.

3. Liquidity Indicators:

These are indicators that encourage participation in the securities market due to the ease of trading securities, whether through buying or selling. They allow for risk reduction and serve as a tool to attract capital by providing an opportunity for savers to acquire their assets from securities and sell them quickly at appropriate prices, which positively impacts optimal resource allocation. To clarify this indicator, there are two important indicators in this field: the trading volume indicator and the stock turnover rate indicator (Al-Najjar and Abdul Latif, 2022, p. 60). Here are their details:

A. Trading volume:

The trading volume refers to the value of securities traded in the securities market at various prices during a specific period. It is a good indicator that reflects market activity and movement. It can be measured by the number of shares traded in the capital market or by the value of traded stocks (Al-Ani, 2002, p. 67). It instils optimism in investors to enter the market and drive prices up. Conversely, investors become concerned if there is low trading activity in stocks, leading them to liquidate their investment positions, which can create pressure on prices or cause them to decline. Therefore, this indicator is important for investors and traders to make appropriate decisions. Increased trading and demand for stocks generally lead to price increases. However, it does not mean that stock demand alone determines price changes. The value of this indicator can be obtained by calculating the ratio of the number of traded shares to the gross domestic product (Jaber, 1989, p. 230).

B. Stock turnover rate:

The stock turnover rate is an indicator that measures the number of times a stock is traded during a specific period of time. It is one of the key indicators that reflect the activity of the financial market and the level of interest in the listed stocks. It determines the trading activity in the stock market, representing the trading of shares of all companies within

the market. It is expressed as the ratio of trading volume or total shares traded to market capitalization multiplied by 100. It is often used as a measure of transaction cost reduction and complements the market value turnover rate indicator. The turnover rate in the market is low when the market is characterized by a recession, especially with large volumes. On the other hand, a stock market with a small size and high liquidity tends to have a high turnover rate despite the low trading volume. (Fenish: 2000, 189)

3. Market size indicators:

The market size is considered one of the most important indicators of the development of the securities market. This indicator can be determined through the market capitalization index or the index of listed companies in the securities market, also known as the stock market capitalization (Keith: 2009, 105). Here is the information provided:

A. Market capitalization index:

Market capitalization refers to the total value of the shares listed in the market based on their average prices at the end of a given period. It represents the value of the shares of companies listed in the market according to the prices in the capital market. Market capitalization is an indicator that measures the size of stock markets by relating it to the gross domestic product (GDP). An increase in market capitalization indicates a higher level of market activity, whether it is due to an increase in the number of listed shares, an increase in the number of listed companies, or an increase in market prices. This can reflect a larger volume of financial transactions in the market or a combination of both factors (Al-Ani, 2002, p. 58). The value of stocks in the financial market is influenced by several factors, including internal factors such as risk, future earnings per share, and dividend policy, as well as external factors such as economic activity, fiscal and monetary policies, and corporate legislation (Al-Najjar and Abdul Latif, 2022, p. 61).

B. The number of listed companies:

Refers to the number of companies whose securities are traded in the capital market. It reflects the development of the securities market in general. This indicator can be used to indicate the progress of the financial market in a specific country (Hasbullah, 2005, p. 65). However, this indicator loses its significance if it is not accompanied by the use of the market capitalization index. It is possible to have a large number of listed companies in the securities market, but the total market value of their shares may be small. Additionally, using this indicator alone is not useful in cases where there are limited differences in the number of listed companies in different countries. However, it can be beneficial in cases where there are significant variations.

Section Two: Analysis of liquidity indicators in the Iraq Stock Exchange for the period (2005-2021).

There are several performance indicators on the Iraq Stock Exchange, and to achieve the research objectives, the focus was on liquidity indicators. These are indicators that encourage trading in the stock market due to the ease of buying and selling securities. To clarify this indicator, there are two important sub-indicators in this area, as follows (Asli Demircuc: 1966, 7).

Firstly: The trading volume indicator.

which refers to the value of securities traded in the stock market at different prices during a certain period. It is a good indicator that reflects the market's activity and movement and can be measured by the number of shares traded in the capital market or by the value of traded shares. It gives optimism for investors to enter the market and raise prices, and their concern increases if there is no significant trading in shares. The value of this indicator can be determined by the ratio of the number of shares traded to the Gross Domestic Product (GDP) (Al-Ani: 2002, 58). Table (1) shows the liquidity indicators on the Iraq Stock Exchange for the period (2005-2021).

Table (1)
(Liquidity Indicators on the Iraq Stock Exchange for the period (2005-2021)

Year	Market Cap (Million IQD)	Annual Growth %	Trading Volume (Million IQD)	Annual Growth %	Stock Turnover Ratio % *	GDP (Current Prices)	Annual Growth %	Oil Price USD/ Barrel
2005	3160104		366809.8		11.6	73534		55.8
2006	1948548	-38.3	146891.4	-59.9	7.5	95588	30	66.8
2007	2128668	9.2	427367.5	190.9	20.1	111456	16.6	74.7

2008	2282983	7.3	301350.3	-29.5	13.2	157026	40.9	94.4
2009	3125921	36.9	411928.4	36.7	13.1	130643	-16.8	61
2010	3446713	10.3	400359.9	-2.8	11.6	162065	24.1	77.4
2011	4930232	43.04	941198.2	135.1	19.1	217327	34.1	107.5
2012	5597363	13.5	893825.3	-5.03	15.9	254226	17	109.5
2013	11451367	104.6	2840303	217.8	24.8	273588	7.6	105.9
2014	9520626	-16.9	898316	-68.4	9.4	266333	-2.7	96.2
2015	8503943	-10.7	456179.8	-49.2	5.4	194681	-26.9	49.5
2016	9354696	10	426788.1	-6.4	4.6	186543	-4.2	40.7
2017	8190983	-12.4	386879.1	-9.4	4.7	207621	11.3	52.4
2018	11350356	38.6	232681	-39.9	2.1	249574	20.2	69.8
2019	11661912	2.7	284914.1	22.5	2.4	254444	2	64
2020	14033993	20.3	330385.1	15.9	2.4	215662	-15.2	41.5
2021	15872906	13.1	812698.6	145.9	5.1	301439	39.8	69.9
average		14.5		30.9	10.2		11.1	

Source :<https://www.isc.gov.iq/index>

The table (1) data reflects the changes in trading volume on the Iraq Stock Exchange during the period (2005-2021). As shown in the table, the index fluctuated during the research period between growth and decline. After achieving a negative growth rate of about (-60%) in 2006, it increased to reach 145.9% at the end of the period in 2021, achieving an average annual growth rate of about 30.9%. The reason for the decline to 146.8 billion dinars in 2006 compared to 366.8 billion dinars in 2005 can be attributed to the deterioration of the security situation and the investors' concern, which led to a decrease in trading volume. While the reason for its increase to 427.4 billion shares at a yearly growth rate of 190.9% can be attributed to the growth of the listed companies to 95 companies, as well as an increase in the number of listed companies. In addition, the improvement of the security situation and the increase in oil prices from \$66.8 per barrel in 2006 to \$74.4 per barrel in 2007 played a role in increasing the index.

However, with the improvement of the economic and security conditions during the period (2009-2013), the index achieved significant numbers in value, considering the rise in global oil prices from \$61 per barrel in 2009 to \$105.9 per barrel in 2013, in addition to the increase in the number of listed companies from 78 companies in 2009 to 83 companies in 2013. Not to mention the fact that 38 joint-stock companies in the market increased their capital according to their public bodies' decisions. The reason for the decline in the index value in 2008, achieving a negative growth rate of (-29.5%) compared to 2007, can be attributed to the repercussions of the global financial crisis, which had a negative impact on investors' concerns, especially non-Iraqi investors.

It is possible to attribute the reasons for the decline of the index after 2014 to the deterioration of the security and economic situation, the global decline in oil prices, government austerity measures, and the suspension of trading for some listed companies. In addition, the delay in the movement of funds intended for purchase by foreigners through foreign and Iraqi banks has affected the liquidity and its attraction towards trading, as well as the impact on attracting new investors to the market. Some joint-stock companies also showed a lack of interest in shareholder relations, resulting in a decline in confidence in the activity of these companies. Furthermore, international depositary receipts for Iraqi stocks and instructions allowing a desire to purchase shares at lower prices, similar to Arab and international stock markets, have weakened the market's appeal.

However, trading volume witnessed varying fluctuations until 2018, achieving negative growth rates. The financial markets, including the Iraq Stock Exchange, were affected by local and international political and economic conditions, especially the repercussions of the decline in oil prices on the Iraqi economy, which decreased from \$96.2

per barrel in 2014 to \$69.8 per barrel in 2018. The decline in oil prices had a negative impact on the Iraqi economy, especially its negative impact on the confidence in the Iraq Stock Exchange.

In other words, we conclude the following:

- The index fluctuated between growth and decline during the research period.
- It achieved a negative growth rate of about (-60%) in 2006 and increased to 145.9% by the end of the period in 2021, with an average annual growth rate of about 30.9%.
- The decline in 2006 can be attributed to the deterioration of the security situation and investors' concerns, leading to a decrease in trading volume.
- The increase in 2007 can be attributed to the growth of listed companies and an improvement in the security situation and oil prices.
- The index achieved significant numbers in value during the period (2009-2013) due to the improvement of economic and security conditions, the increase in oil prices, and the increase in the number of listed companies.
- The decline in 2008 was due to the global financial crisis, which had a negative impact on investors' concerns.
- The decline after 2014 can be attributed to the deterioration of the security and economic situation, the global decline in oil prices, government austerity measures, and the suspension of trading for some listed companies.
- The delay in the movement of funds intended for purchase by foreigners and the lack of interest in shareholder relations by some joint-stock companies also affected the market.
- The trading volume witnessed varying fluctuations until 2018, achieving negative growth rates due to local and international political and economic conditions, especially the decline in oil prices.

Secondly: Stock turnover rate indicator.

The stock turnover rate is an indicator that measures the number of times a stock is traded during a specified period of time. This indicator is one of the main indicators that reflects the activity of the financial market and determines the level of interest in the listed stocks. The trading activity in the securities market is determined by the turnover rate (Abdulhakim and Dalool: 2011, 105). The turnover rate in the market is low if the market is stagnant, especially if it is a large volume market. On the other hand, in the securities market with a small volume and high liquidity, the turnover rate is high despite the low trading volume.

Based on this, it is clear from the data in the previous table (1) that the turnover rate fluctuated during the research period (2005-2021) between 9.05% in 2018 and 24.80% in 2013, with an average annual growth rate of about 10.18% in total. After declining in 2006 by about 4.07 points compared to 2005, it rebounded to 190.9% in 2007, then declined in 2008 and 2009 to about 13.20% and 13.18% respectively. This is evidence of the regulatory and administrative developments in the market in terms of introducing modern technical information in trading, settlement, and clearing processes, but with fluctuations, reaching low levels until the end of the period in 2021, where it reached about 5.12%. This indicates liquidity between the ups and downs, which reflects an unstable market and irregular trading operations. This is negative when compared to the turnover rate in other Arab financial markets, where it reaches about 90% on average. This is attributed to other reasons, including fluctuations in trading volume, as well as the lack of approval of some incentives to encourage investment, such as investment fund rules and portfolio management, and instructions for international depositary receipts for Iraqi stocks and instructions allowing a desire to purchase shares at lower prices, similar to Arab and international stock markets (Hashim et al: optic, 160).

In other words, we conclude the following:

- The stock turnover rate is an indicator that measures how many times a stock is traded in a specific time.
- It reflects the financial market's activity and interest in listed stocks.
- The turnover rate is low in a stagnant market with a large volume, and high in a market with a small volume and high liquidity.
- The turnover rate fluctuated between 9.05% in 2018 and 24.80% in 2013 between 2005 and 2021.
- The average annual growth rate is about 10.18% in total.
- The turnover rate declined in 2006, rebounded in 2007, and declined again in 2008 and 2009.
- The fluctuations in turnover rate indicate regulatory and administrative developments in the market, introducing modern technical information in trading, settlement, and clearing processes.
- The turnover rate reached a low level of about 5.12% in 2021, indicating an unstable market and irregular trading operations.
- The turnover rate in other Arab financial markets is around 90% on average.

- The low turnover rate is attributed to fluctuations in trading volume and the lack of incentives to encourage investment, such as investment fund rules and portfolio management, and instructions for international depositary receipts for Iraqi stocks.

Conclusions and recommendations:

Firstly: Conclusions.

secondly: recommendations.

1. There are several performance indicators in the Iraqi stock market, and in order to achieve the research objectives, the focus has been on liquidity indicators. These indicators encourage trading in the stock market, due to the ease of trading securities through buying and selling, and they are represented by trading volume and stock turnover rate
2. The trading volume indicator fluctuates during the research period between an increase and a decrease and is affected by the improvement of economic and security conditions in the country, in addition to fluctuations in oil prices and exchange rates.
3. The stock turnover rate fluctuates during the research period and reflects the state of market instability and irregular operations. It is affected by fluctuations in trading volume, as well as the absence of sufficient incentives to encourage investment in the Iraqi market, such as investment fund rules and portfolio management, and the lack of instructions allowing companies to purchase shares at lower prices, similar to Arab and international financial markets.
4. The market capitalization of the Iraqi stock exchange has been characterized by volatility during the period from 2005 to 2021. After declining in 2006, its value increased to positive at the end of the period in 2021 at an average annual growth rate of about 14.5% for the entire period. The decline in 2006 can be attributed to its value decreasing by about 38.3% to around 1.948 billion dinars due to the security situation faced by Iraq in that year. However, the market index witnessed an increase in 2009, reaching about 3.581 billion dinars in 2009, with a growth rate of about 36.9% compared to its value in 2008, due to the entry of foreign investors into the Iraqi stock exchange in 2009.
5. The liquidity fluctuates between an increase and a decrease, indicating a state of market instability and irregular trading operations, and is negatively compared to the same indicator in Arab financial markets, which reaches about 90% overall. This is attributed to other reasons, including fluctuations in trading volume, as well as the absence of several incentives to encourage investment, such as investment fund rules and portfolio management.

secondly: recommendations.

The following recommendations are included to develop the Iraqi stock market:

1. Work on opening up the Iraqi stock market, improving its information technology and transparency, ensuring the regulation of the financial market, and providing sufficient information, disclosure, and transparency to increase investor confidence.
2. Develop financial capabilities in the Iraqi financial market by achieving economic, political, and security stability, stimulating foreign capital, and attracting it to the country.
3. Develop other financial mechanisms through the banking sectors to improve the efficiency of Arab financial markets, and conduct evaluative procedures for monetary policy tools and their impact on the performance of the Iraqi stock market.
4. Activate the Iraqi stock market according to its importance by adopting trade, monetary, financial, and investment policies by attracting foreign investors and companies to deal with the market.
5. Increase trading operations in the market, facilitate market entry at the lowest possible cost, and increase the number of financial transactions for investors.
6. Support the private sector and provide the necessary capital for investment projects through a clear credit policy with low-interest rates.
7. Improve the investment environment in Iraq and provide tax incentives, appropriate laws, and regulations to attract international and local investors.
8. Provide training and development for Iraqi personnel in the fields of securities, finance, asset management, and financial experts to improve efficiency, competitiveness.

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