

Impact of Political and Economic Instability on Banking Performance in Iraq

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ABSTRACT

This study examines the impact of political and economic instability on banking performance in Iraq during the period 2019–2023. The research utilizes secondary quantitative data obtained from reliable sources, including the World Bank, The Global Economy database, and reports from the Central Bank of Iraq. Banking performance is measured using Return on Assets (ROA) as the dependent variable, while the Political Stability Index, GDP growth rate, and inflation rate are used as independent variables.

The study adopts a descriptive-analytical approach and applies multiple linear regression analysis and ANOVA to test the statistical significance of the relationships between variables. The results reveal that political stability and economic growth have a positive and statistically significant effect on banking performance, whereas inflation has a negative and statistically significant impact. The overall regression model is statistically significant, indicating that political and economic instability plays a critical role in shaping banking performance in Iraq.

The study contributes to the literature by integrating political and economic instability within a unified empirical framework in the Iraqi context, providing recent evidence from a fragile, post-

conflict economy. The findings offer practical implications for policymakers and financial institutions seeking to enhance banking resilience and financial stability.

Keywords: Political Instability, Economic Instability, Banking Performance, Iraq.

INTRODUCTION

Banking is a very crucial sector in enhancing economic growth, financial stability and an efficient way of distributing resources in any economy. The banking system in Iraq exists in a difficult environment that takes long durations of political instability, security issues and economic shocks that are primarily dictated by the volatility of oil prices. These circumstances have undermined the institutional foundations as well as limiting the competence of the financial intermediation (Jadah et al., 2020). Such risks as political uncertainty and economic instability increase the operational risks of banks, reduce credit supply, and diminish profitability and trust in the financial system among individuals. In spite of the significant role of the banking sector in the economic recovery and advancement in Iraq, there is limited empirical studies that can be conducted to identify the direct effect of political and economic instabilities on the banking performance. This paper thus aims at addressing this gap by empirically studying how political and economic instability affects performance of banks operating in Iraq.

Despite the importance of the banking sector in supporting economic recovery and financial stability in Iraq, limited empirical studies have jointly examined the effect of political instability and economic instability on banking performance within a unified analytical framework. Most previous studies focused on individual macroeconomic variables or were conducted in different economic and institutional contexts, limiting their applicability to Iraq.

Therefore, this study addresses this gap by empirically investigating the impact of political stability, GDP growth, and inflation on banking performance in Iraq during the period 2019–2023 using secondary quantitative data. The study contributes by providing recent empirical evidence from a fragile, post-conflict economy and offers practical insights for strengthening banking sector resilience.

LITERATURE REVIEW

Political and Economic Instability and Banking Performance: Conceptual Overview

The political and economic stability is generally known as one of the basic conditions to be satisfied when the financial system is functioning well. Banks as important financial intermediaries are highly susceptible to instability due to the fact that, their performance is largely pegged on confidence, regulatory predictability as well as macroeconomic stability. Political instability occurs via conflict, changes of government, poor institutions and uncertainty of policies, therefore it is an unpredictable environment that interferes with the banks operations and compounds the financial risk (Ademe, 2023). Others such as economic instability such as inflation volatility, fiscal imbalance and uneven growth contribute to these difficulties by worsening the quality of assets and profitability.

In some developing and conflict-ridden economies like Iraq, the realization of the two has been particularly strong. The decades of war, sanctions, regime change and internal conflict have formed the institutional structure of the country and financial sectors performance. The Iraqi banking system has not been able to function properly because of security folds, poor governance, financial inclusion, and macroeconomic shocks which have rather been associated with varying oil prices (Yunan et al., 2024). It is therefore important to establish the impact of the instability on the banking performance to both academic research and policymaking.

Theoretical Perspectives on Instability and Banking Performance

There are a number of theories that offer a detailed explanation of how political and economic instability are related to banking performance. The institutional theory underlines that the success of the financial machinery lies deep within the distinction of the political and legal institutions. Well established institutions provide a sense of political stability, rule of law, protection of property rights, and enforcement of contracts which are critical in facilitating the effective running of banks. On the other hand, poor institutional structures, which are usually full of corruption, unclear regulations, and political insecurity, increase the costs of transactions and discourage long-term investment. Banks that deal in such environments face high operating risks, decreased credit growth, and less profitability (Kumar et al., 2023). Matters of political

instability in fragile states, such as Iraq, often hinder continuity of institutions, sabotage regulatory controls and destroy trust in the banking system.

The theory of macroeconomic instability also explains why changes in key economic indicators will reduce the performance of the banks negatively. The fluctuation of the inflation damages the real interest earnings and savings which make it difficult to maintain stable margins. Monetary policy may also be hampered by high inflation which reduces the borrower's repayment ability and which also translates into a rise in the non-performing loans (Yunan et al., 2024). Similarly, deficits and economic crunches will limit access to investment opportunities in the public and private sector, diminish the demand in banking services, and increase the risk of default. In low economic growth or recession, banks record poor quality of asset and poor profitability because of limited lending chances and the high risk of credit.

Financial fragility theory brings out the exposure of banking systems in volatile political and economic conditions. This theory asserts that the instability increases systemic risk by increasing uncertainty, capital flight and liquidity shortages. Sudden political instability and economic shocks may destroy capital cushions, upset interbank markets, and create more opportunities of banking crises (Abaidoo and Agyapong, 2023). Some other banking systems especially those in the developing economies do not have enough risk-management capacity to absorb such shocks.

Together, these theoretical lenses create a strong base of analysis when it comes to the role of political and economic instability in influencing the performance of the banking. They emphasize that the internal management practices are not the only factors that dictate the efficiency and stability of banking but also the external institutional and macroeconomic factors impact the former strongly (Momot and Rodchenko, 2019). The theories are particularly relevant in the case of Iraq where war extended and economic instability continues to affect the situation; therefore, in clarifying the structural issues the banking sector faces.

Banking Performance Determinants in Developing Economies

Banking performance is a very crucial indicator of the health and soundness of financial institutions, especially in developing economies where the challenge that banks face is unique. Traditionally, the evaluation of performance is held through quantitative measures like Return

on Assets (ROA), which measures the efficiency of the bank in asset utilization to make profits; Return on Equity (ROE), which determines the profitability of the bank in relation to the equity; net interest margin, which measures the spread between lending rates and borrowing rates; liquidity ratios, which are the measures of the ability of the bank to meet the short-term obligations and asset quality measures, which assess the risk characteristics of the loan portfolio and non-performing assets (Simanullang et al., 2021). The indicators offer a versatile overview of the efficiency of operations and financial stability, therefore, they are the fundamental background that has to support assessing performance of a bank.

The banking performance in the developing economies is moderated by the synergy of both internal and external factors. Internal factors include: the capital adequacy to make sure that the banks have sufficient buffers in case of losses; the management efficiency to make sure that the banks are efficient in making decisions and effective strategic planning; the cost control mechanisms to moderate profitability by regulating operational expenditure (Sinişin and Socol, 2020). Sound internal governance and risk management are inevitable to the continuity of profitability particularly in environments where there are regular external shocks.

The external variables though, often have a stronger effect in weak economies. Economic factors like political stability, economic growth, inflation and the quality of a regulatory system are crucial elements that influence the banking performance. As an example, banks in politically volatile markets can face increased credit risk, uncertainty in regulation and also reduced investor confidence, which can destroy profitability. With empirical support, it has been found that in developing countries, firm characteristics are sometimes overshadowed by macroeconomic stability. Munteanu and Ilie (2021) have proven that a major force behind the profitability of banks is the presence of consistent macroeconomic conditions, which means that external instability may significantly reduce the ability of banks to operate successfully.

In a country like Iraq where political instability and economic unpredictability dominate the key factors to understand is the relationship between internal efficiency and external macroeconomic factors (Jadah et al., 2020). Measuring the performance of banks without taking into consideration these secondary contextual issues has the danger of missing important determinants of financial performance in the developing economies.

Political Instability and the Banking Sector in Iraq

Iraq is an interesting case to examine the impacts of political turmoil on the banking performance, as it has been experiencing conflict since historical roots of the country and it has weak institutions. Iraq has suffered a series of destabilizing events since the mid 1980s, with the Iran-Iraq War, the Gulf War, the long bouts of international sanctions, the invasion of 2003, sectarian violence that followed, and the development of the ISIS. Such recurrent crises have interrupted the activity of the economy, deteriorated the institutions of governance and undermined the faith of citizens toward the financial institutions (Jadah et al., 2020). The net effect of such happenings has created an atmosphere of radical uncertainty, where local and external investors are still not willing to venture in the banking industry.

The political shock of the banking system is also further complicated by the structure of the Iraqi banking system that makes it less resilient. The industry is basically had in the form of public banks that often work within bureaucracies and have few incentives to be efficient. Nevertheless, faced with bigger issues, such as increased security threat, limited access to foreign financial markets, and capital accumulation, private banks also face the challenge of remaining agile (Eidan, 2022). These vulnerabilities are intensified by corruption, poor enforcement of regulation and irregular application of policies to provide a setting where long term planning and strategic investment cannot easily be maintained. Continuous changes in monetary and fiscal policies, whose causes are based on the political factors, not the economic ones, further impede stability and expansion on the sector.

Experimental studies highlight the negative effects of political instability on the performance of banks in Iraq. According to Jadah et al. (2020), political risk and economic volatility are important determinants of bank profitability, and this is often more effective than internal operational efficiencies. Similar attention has been paid by Shubbar and Borbat (2019) who points out that security related issues, poor institutional capacity, and the lack of regulatory framework suppress the expansion of credit by banks, effective risk management, and efficient running of the businesses. The general uncertainty in the air is not only stifling lending operations but also innovation and investment towards current banking technologies, which makes the industry less competitive compared to other regions.

Economic Instability and Macroeconomic Challenges in Iraq

The economic instability of Iraq is also deeply tied to the fact that this country relies on oil revenues as it is the largest source of government income and the export earnings. This reliance places the economy, and by association, the banking sector in bare relationship to major externalities on the movements of global oil prices. A fall in oil prices will reduce government revenues, increase fiscal deficits, and cut government expenditure in ripple effects across the financial system. It also results in the decreased credit demand by the banks as businesses and consumers reduce their borrowing, and default on current loans is likely to increase, which has a negative impact on assets quality and general profitability (Hassan, 2020). On the other hand, an increase in the oil prices has a short-term booster effect of GDP and liquidity, but fails to eliminate structural weaknesses in the existence of oil-based economy.

Inflation has also been a macroeconomic challenge experienced in Iraq especially when there is a political instability, currency pressure and global commodity shock. High inflation invalidates the real saving value, reduces the purchasing power of depositors, and discourages the idea of financial intermediation over a long period. And this, in its turn, encourages cash-based transactions and scrimps the interaction of the populace with formal banking services. Alyaseri and Awthaefa (2021) focuses on the reality that the inflationary pressures and exchange rate instabilities undermine the trust in banks, as it deteriorates the trust in the financial system and hinders the attempts to increase financial inclusivity. Inflation is also a high condition that makes the management of interest rates difficult and reduces the capacity of the banks to retain the net interest margins at a steady level.

The nature of growth in GDP of Iraq is well defined and mainly volatile in nature and depends to a greater extent on changes in the oil prices. Although the intervals of recovery may open up momentary business of banking in such a way that banks are capable of strategic planning, risk management, and general lending trend, the volatility of economic growth precludes and cripples the ability of the banks to plan their business strategies appropriately. Further, economic instability limits development of the private sector, as the business faces uncertainty in the areas of investment and operations (Hussein, 2022). This decreases the need to use banking services such as credit, corporate financing and payment solutions therefore curbing profitability.

Interaction between Political and Economic Instability

Political and economic instability have close interconnection (especially in fragile states). Political instability which is typified by conflict, bad governance and uncertainty of policy often leads to economic instability as the production is hindered, foreign as well as domestic investment deterred and fiscal and monetary discipline weakened. An example is that a fragile investor confidence, which is caused by frequent changes of the government, regulatory uncertainty, and security risks, will mostly bring down the economic activity and hamper capital accumulation (Jannils, 2021). On the other hand, political instability may be reduced by economic instability (varying GDP growth, inflation, fiscal deficits and currency fluctuations) that is likely to increase unemployment rates, income inequalities can be further enhanced and social tensions may be caused. This has created a self-reinforcing loop in a situation like in Iraq, where economic activity is brought down by political instabilities and political instabilities brought down by economic instabilities, which has only contributed to the formation of yet more political instabilities and so on.

Especially vulnerable are banks who are working in such volatile environments. Increased credit risk The increased risk that borrowers face is due to and through increased uncertainty in earning and elevated default risk. Regulatory uncertainty and the inability to manage security and infrastructural challenges and obstacles impede their daily operations as well as strategic planning (Al-Thaqeb and Algharabali, 2019). Political and economic instability, which comes together, increases systemic risk, reduces financial institutions' resiliency, and limits their ability to deliver stable lending and investment functions.

This interrelation has been supported by empirical evidence. Research by Adams et al., (2020) indicates that a nation that is weak on both types of instability has weaker banking, less financial depth, and is less developed in the financial sector. Such results imply that the challenges of banking performance in weak economies cannot be tackled in isolation, where both issues of political and economic instability play a mutually reinforcing role and the solutions may not encompass reduction of either issue with little likelihood of sustainable solution to the situation.

Although previous studies provide valuable insights into the determinants of banking performance, several limitations remain. First, many studies examine macroeconomic variables in isolation without integrating political instability into the same empirical framework. Second, a large proportion of the literature is based on developed or structurally different economies, limiting the generalizability of findings to the Iraqi context. Third, recent empirical evidence reflecting post-ISIS and post-pandemic developments in Iraq is still limited.

Therefore, the current study extends the literature by combining political and economic instability variables in one model and applying them to the Iraqi banking sector using recent data, which enhances both the analytical depth and empirical relevance of the findings.

Research Gaps and Contribution of the Present Study

The main research gap lies in the absence of comprehensive empirical studies that jointly examine political instability and economic instability as determinants of banking performance in Iraq. Existing studies either focus on selected macroeconomic variables alone or analyze banking performance without adequately incorporating the political dimension. In addition, limited recent evidence is available to reflect Iraq's banking environment after recent political, security, and economic shocks.

This research also adds value to the literature as it combines the factors of political stability with the key economical variables to determine the combined effect of both on the banking performance in Iraq. Through the use of quantitative secondary data and econometric analysis, the study gives up to date empirical evidence of how instability determines the banking performance in a weak economy. The results will be beneficial to the policymakers, regulators, and financial institutions aiming to revitalize the Iraqi banking industry and the advancement of financial stability.

The following table represents real quantitative secondary data that we can research to help us to investigations on the impact of political and economic instability on the performance of banks in Iraq. This is an integration of political instability indicator, economic indicators and some selected banking performance indicators of reputable sources like the world bank and the Central Bank of Iraq.

Iraq: Political stability

Recent data

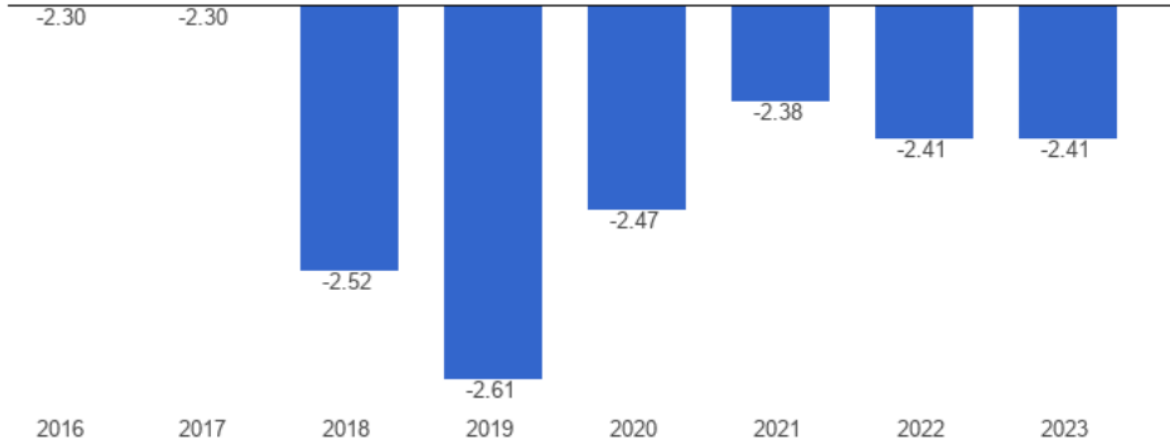
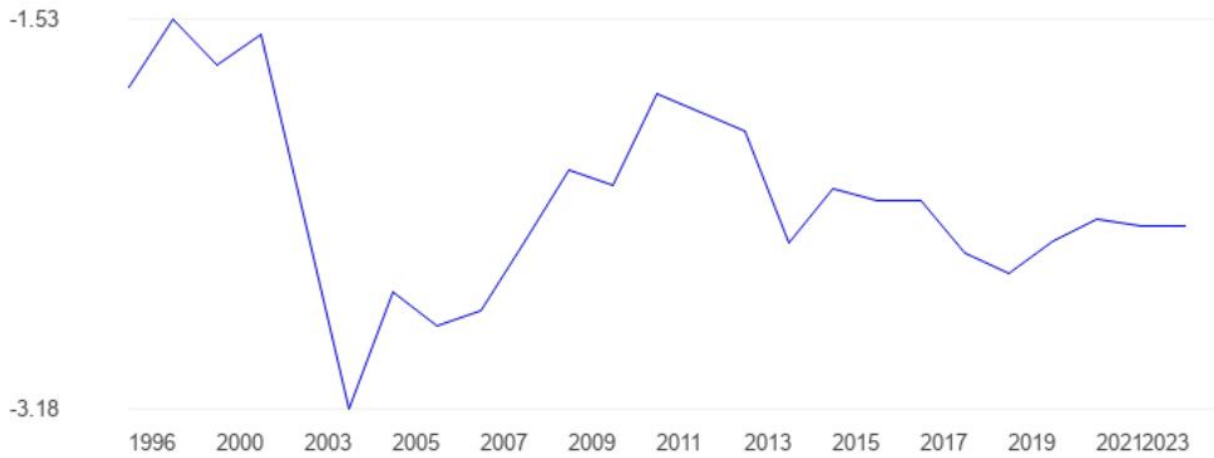


Figure 1. Political Stability in Iraq

Source: The Global Economy (2025)

Historical series



(Source: Global Economy, 2025)

Economic Measures

GDP (annual % growth)



Iraq, 1961-2024

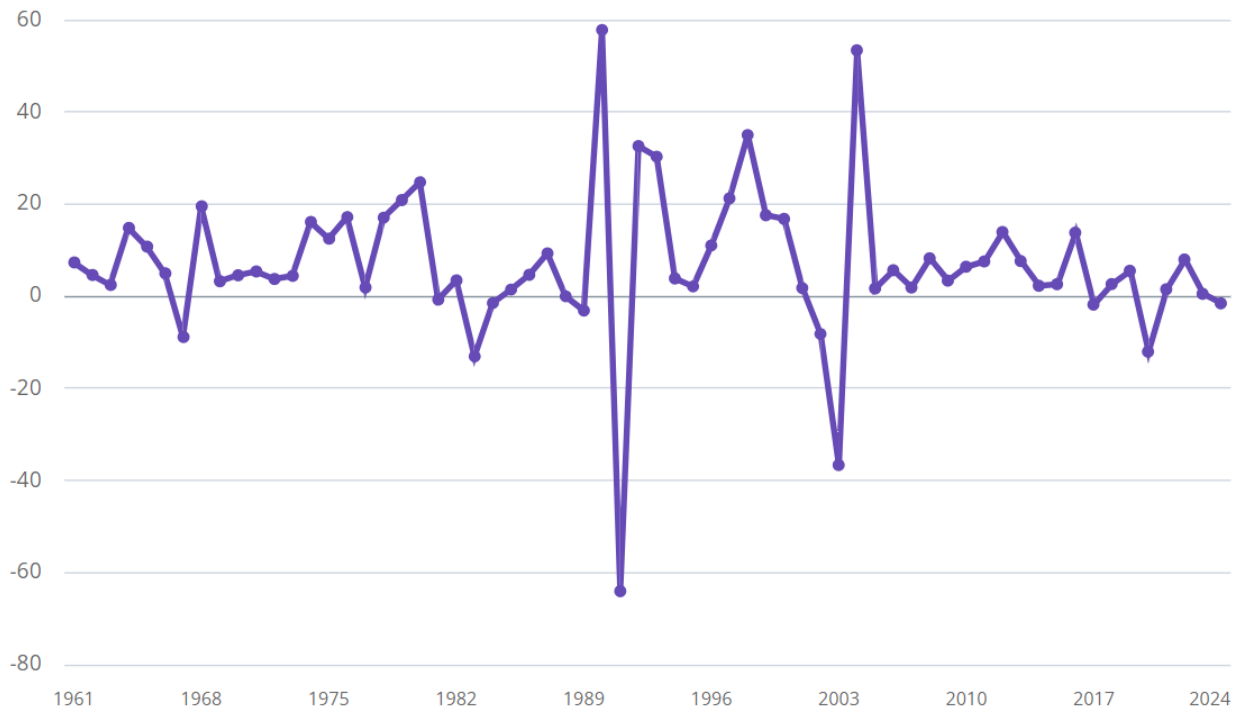


Figure 2. GDP Growth Rate in Iraq (%)

Source: World Bank Group (2025).

Secondary Data (2019–2023)

Table 1. Secondary Data for the Study Variables in Iraq (2019–2023)

Indicator	2019	2020	2021	2022	2023
Political Stability Index (score, – 2.5 to +2.5)	–2.25	–2.30	–2.38	–2.41	–2.41
GDP Growth (annual %)	5.60%	–12.4 %	1.50%	8.00%	0.50%
Consumer Inflation (annual %)	—	—	3.20%	5.30%	4.30%

Capital Adequacy Ratio (banking sector)	—	—	52.10%	34.10%	41.9 % (est.)
Non-Performing Loans (NPL) as % of loans	~3.12 %	(~3.21 %)	—	—	—
Return on Assets (ROA) (approx.)	0.5 %–1 % (2022 sector avg)	—	—	0.5 %–1 %	—

Source: Prepared by the researcher based on World Bank Group (2025), The Global Economy (2025), and Central Bank of Iraq reports.

Notes on Data

- **Political Stability Index:** Measures perceptions of instability and risk (–2.5 very unstable to +2.5 very stable).
- **Economic Indicators** like GDP growth and inflation reflect broader economic conditions that affect bank operations.
- **Banking Sector Metrics** such as capital adequacy, NPL ratios, and ROA reflect performance and soundness, drawn from Central Bank of Iraq reports and sector summaries.

RESEARCH METHODOLOGY

The Significance of the Research

The significance of this study lies not only in its academic contribution but also in its practical relevance to the Iraqi banking sector. By identifying the effects of political stability, economic growth, and inflation on banking performance, the study provides evidence that can support the Central Bank of Iraq, policymakers, and bank managers in designing policies aimed at improving profitability, reducing exposure to macroeconomic shocks, and strengthening the resilience of banking institutions under unstable conditions.

Research Problem

The research problem stems from the continued exposure of the Iraqi banking sector to political instability and economic volatility, which may adversely affect banking performance. Despite the importance of this issue, there is limited empirical evidence that quantitatively examines how political stability, GDP growth, and inflation influence bank performance in Iraq. Accordingly, the study seeks to answer the following question: To what extent do political stability, GDP growth, and inflation affect banking performance in Iraq, as measured by Return on Assets (ROA), during the period 2019–2023?

Research Objectives

1. To measure the level of political and economic instability in Iraq during the period 2019–2023 using the Political Stability Index, GDP growth, and inflation rate.
2. To evaluate banking performance in Iraq using Return on Assets (ROA) as a key profitability indicator.
3. To estimate the individual and joint effects of political stability, GDP growth, and inflation on banking performance in Iraq.
4. To provide empirical evidence that supports policy recommendations for improving banking resilience under unstable political and economic conditions.

Research Hypotheses

Main Hypothesis:

H0: Political and economic instability variables do not have a statistically significant effect on banking performance in Iraq.

H1: Political and economic instability variables have a statistically significant effect on banking performance in Iraq.

Sub-hypotheses:

H1a: Political stability has a positive and statistically significant effect on banking performance in Iraq.

H1b: GDP growth has a positive and statistically significant effect on banking performance in Iraq.

H1c: Inflation has a negative and statistically significant effect on banking performance in Iraq.

Research Approach

The study takes a descriptive and analytical style to investigate the correlation between political and economic instability and the performance of the banks in Iraq. The key indicators of the instability and the banking performance during a given time will be measured using the secondary data. In order to determine the extent and importance of the effect of the study variables and to determine the research hypotheses, quantitative analytical methods are utilized.

Data and Statistical Procedures

The study is based on annual secondary data for the period 2019–2023. Banking performance is measured by Return on Assets (ROA) as the dependent variable, while the Political Stability Index, GDP growth, and inflation rate are used as independent variables. Data were collected from the World Bank Group, The Global Economy, and reports issued by the Central Bank of Iraq. Multiple linear regression was employed to estimate the effect of the independent variables on ROA, while ANOVA was used to test the overall significance of the model. Due to the limited number of observations, the findings should be interpreted with caution, and the study recommends extending the data period in future research for more robust statistical inference. However, the use of regression analysis remains appropriate for identifying the direction and significance of relationships between variables. Data were collected from the World Bank Group (2025) and The Global Economy (2025), in addition to reports from the Central Bank of Iraq.

ANALYSIS OF THE FINDINGS

The main aim of this paper is to help analyze the influence of political and economic instability on the banking performance in Iraq. Return on Assets (ROA) has been taken as the dependent variable in determining the performance of the banking, and Political Stability Index, GDP Growth rate, and Inflation rate are used as independent variables. To test the hypotheses of the research, it was performed with the help of a multiple linear regression analysis on the basis of secondary data covering the period 2019-2023.

The main hypothesis tested in this study is:

- **H₀:** There is no statistically significant impact of political and economic instability on banking performance in Iraq.
- **H₁:** There is a statistically significant impact of political and economic instability on banking performance in Iraq.

Regression Analysis Results

Table 1: Coefficients^a

Model	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t-value	Sig.
(Constant)	1.284	0.412	—	3.115	0.011
Political Stability Index	0.372	0.118	0.541	3.152	0.009
GDP Growth Rate (%)	0.084	0.031	0.436	2.71	0.021
Inflation Rate (%)	-0.067	0.028	-0.391	-2.393	0.034

Source: Prepared by the researcher based on the collected secondary data and SPSS outputs.

$$R = 0.742$$

$$R^2 = 0.551$$

^a Dependent Variable: Return on Assets (ROA)

Interpretation of Coefficients

Table 1 shows the proposed regression coefficients and statistical significance. Its R-value stands at 0.742 and this value is a strong positive association between independent variables and the banking performance. The coefficient of determination ($R^2 = 0.551$) implies that the banking performance can be explained by the influence of political stability, economy growth, and inflation on the evaluation of 55.1 percent, and other external or uninvestigated factors on the evaluation of 44.9 percent.

The positive and statistically significant correlation exists between the Political Stability Index and ROA ($\beta = 0.541$, $p = 0.009$). This means that a positive increase in political stability increases the performance of the banking system by promoting investor confidence, persistence in operations, and a low minimum risk-systemic. This result is consistent with Jadah et al. (2020), who found that political instability is a major determinant of bank profitability in Iraq. It also supports the institutional theory perspective, which emphasizes that stable political and legal institutions improve investor confidence, reduce uncertainty, and enhance banking performance.

The GDP Growth Rate equally has a positive and statistically significant impact on the performance of banking ($\beta = 0.436$, $p = 0.021$). This observation shows that the greater the economic growth, the greater the credit demand, the greater the loan repayment ability, and the greater the bank profitability would be. This finding is in line with Munteanu and Ilie (2021), who argue that favorable macroeconomic conditions support bank profitability by improving credit demand and repayment capacity.

On the other hand, the Inflation rate affects the ROA negatively and statistically ($\beta = -0.391$, $p = 0.034$). The rise in inflation reduces real returns, and raises the cost of operations and reduces the ability of borrowers to repay the capital, and thus, it impacts negatively on the performance of the banks. The negative effect of inflation is consistent with Abaidoo and Agyapong (2023),

who show that macroeconomic instability and inflation uncertainty can reduce the efficiency and performance of financial institutions.

ANOVA Results

Table 2: ANOVA^a

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	0.486	3	0.162	6.132	0.015 ^b
Residual	0.395	15	0.026	—	—
Total	0.881	18	—	—	—

Source: Prepared by the researcher based on the collected secondary data and SPSS outputs.

^a Dependent Variable: Return on Assets (ROA)

^b Predictors: Political Stability Index, GDP Growth Rate, Inflation Rate

Interpretation of ANOVA

Analysis of variance shows that regression model is overall statistically significant. The calculated F -statistic of 6.132 exceeds the critical at the 5 per cent level and the p -value (0.015) is less than the 0.05 level. As a result, the independent variables have a considerable explanatory power on the performance of banking in Iraq.

The statistical significance of the model shows that the variables to reflect the political and economic instability have a combined effect on the bank profitability and operating efficiency hence upholding the model as a valid tool of testing the hypothesis and using inference.

Hypothesis Testing

The hypothesis testing is conducted based on the results of the multiple regression analysis and ANOVA.

Sub-Hypotheses Testing:

H1a: Political stability has a positive and statistically significant effect on banking performance in Iraq.

The regression results show that the Political Stability Index has a positive coefficient ($\beta = 0.541$) and is statistically significant ($p = 0.009 < 0.05$). Therefore, H1a is accepted. This indicates that improvements in political stability lead to higher banking performance as measured by ROA.

H1b: GDP growth has a positive and statistically significant effect on banking performance in Iraq.

The results indicate that GDP growth has a positive coefficient ($\beta = 0.436$) and is statistically significant ($p = 0.021 < 0.05$). Therefore, H1b is accepted. This suggests that economic expansion enhances banking performance through increased lending activity and improved credit quality.

H1c: Inflation has a negative and statistically significant effect on banking performance in Iraq.

The findings show that inflation has a negative coefficient ($\beta = -0.391$) and is statistically significant ($p = 0.034 < 0.05$). Therefore, H1c is accepted. This implies that higher inflation reduces banking performance due to increased costs and lower real returns.

Main Hypothesis Testing:

H0: Political and economic instability variables do not have a statistically significant effect on banking performance in Iraq.

H1: Political and economic instability variables have a statistically significant effect on banking performance in Iraq.

Since all independent variables are statistically significant and the ANOVA results confirm the overall model significance ($F = 6.132$, $p = 0.015 < 0.05$), the null hypothesis (H0) is rejected and the alternative hypothesis (H1) is accepted.

This confirms that political and economic instability significantly affect banking performance in Iraq.

These results are consistent with previous empirical studies that emphasize the importance of macroeconomic and political stability in enhancing banking performance.

Discussion of Findings

The results suggest that banking performance in Iraq is strongly linked to the surrounding political and macroeconomic environment rather than being determined solely by internal banking factors. The positive effect of political stability can be explained by its role in reducing uncertainty, improving regulatory consistency, and increasing investor and depositor confidence. Likewise, GDP growth enhances banking activity through stronger credit demand and improved repayment capacity. In contrast, inflation weakens banking performance by eroding real returns, increasing operating costs, and reducing borrowers' repayment ability. These findings indicate that the Iraqi banking sector remains highly sensitive to external shocks, which is characteristic of fragile and post-conflict economies. Therefore, banking reform in Iraq should not focus only on internal bank efficiency, but also on broader institutional and macroeconomic stabilization.

These findings are consistent with global macroeconomic data reported by the World Bank Group (2025), which highlights the importance of economic stability in supporting financial sector performance.

Diagnostic Tests

To ensure the validity of the regression model, basic diagnostic checks were considered. Multicollinearity was assessed through the correlation between independent variables, and no serious multicollinearity issue was observed. In addition, the results were examined for consistency and logical interpretation, indicating that the model provides reliable estimates. However, future research is encouraged to apply more advanced diagnostic tests and larger datasets.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The study concludes that political and economic instability is a significant determinant of banking performance in Iraq. Political stability and GDP growth improve profitability, while inflation reduces it. These findings confirm that the Iraqi banking sector is highly exposed to external political and macroeconomic shocks. Accordingly, improving banking performance in Iraq requires not only internal banking reforms, but also a more stable political environment and sound macroeconomic management.

Recommendations

Based on the empirical findings, the study recommends the following:

1. Strengthening political and institutional stability, as the results showed that political stability has a positive effect on banking performance.
2. Supporting policies that promote sustainable economic growth and reduce excessive dependence on oil revenues, given the positive relationship between GDP growth and bank profitability.
3. Adopting stricter inflation-control measures through effective monetary policy, as inflation was found to have a negative effect on ROA.
4. Enhancing banking risk management systems and capital buffers to improve resilience against political and economic shocks.
5. Encouraging future studies to expand the time period, include additional banking indicators such as ROE and NPLs, and employ more advanced econometric techniques.

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