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THE IMPACT OF SOME LIQUIDITY RISK INDICATORS ON THE FINANCIAL STABILITY OF A SAMPLE OF IRAQI BANKS

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Abstract

Financial stability is the fundamental pillar that ensures the soundness of the banking system and its ability to withstand economic shocks, while liquidity risk is among the most influential challenges to banks' performance and sustainability, directly affecting their ability to meet obligations and maintain an adequate level of profitability. Hence, this research, titled "The Impact of Liquidity Risk on Financial Stability in a Sample of Iraqi Commercial Banks for the Period 2012–2023", seeks to answer the central question: To what extent does the management of liquidity risk affect the level of financial stability of Iraqi commercial banks?

The research adopts a descriptive–analytical methodology, relying on actual data for a sample of five Iraqi commercial banks listed on the Iraq Stock Exchange: Iraqi Islamic Commercial Bank (IICB), Al-Mansour Investment Bank (MIB), National Islamic Bank (NIB), Bank of Baghdad (BoB), and Gulf Commercial Bank (GCB).

INTRODUCTION

Bank liquidity is a cornerstone of sound banking performance and a vital indicator of banks' ability to meet their obligations and maintain financial stability—especially in an economic environment marked by volatility and uncertainty. Liquidity is not merely holding cash; it reflects a bank's ability to manage and deploy resources efficiently and flexibly, and to convert assets into cash easily without losses that would undermine its financial position. Any deficiency in liquidity management does not stop at the individual bank level; it can extend to the entire financial system, threatening its stability and eroding confidence.

Liquidity risk is one of the most prominent challenges facing commercial banks, particularly under intensifying competition and mounting funding pressures, given its direct impact on financial stability and on banks' ability to perform their vital role in financing economic activity and achieving sustainable growth.

In Iraq, examining the relationship between liquidity risk and financial stability acquires special importance. The banking sector faces intertwined challenges, including limited long-term funding, weak diversification of liquidity sources, and macroeconomic volatility arising from oil and political shocks. This makes maintaining adequate liquidity while achieving returns a delicate goal requiring highly efficient management and prudent funding and investment policies.

First: Concept of Bank Liquidity and Its Risk

Bank liquidity is among the most distinctive features of banks compared to other business entities. Mere rumors of insufficient liquidity can shake depositors' confidence and trigger sudden withdrawals, potentially leading to bank failure[1]. Liquidity is defined as the bank's ability to meet obligations represented by depositors' withdrawal requests while simultaneously meeting borrowers' credit needs. It is also defined as the volume of assets that can be rapidly converted into cash, in addition to customers' repayments of their obligations, or what can be obtained

(1) Ali Abdul-Hussein Al-Rubaie. *Management of Commercial Banks*, 2nd Edition, Dar Wael for Publishing, Amman, 2014, p. 145.

from the financial market in the form of deposits/borrowed funds/profits resulting from trading financial assets. (1)

Second: Bank Liquidity Management Strategies

There are three strategies for managing liquidity:

1- Asset Liquidity Management:

Based on holding certain liquid assets as an alternative source of cash. Liquid assets are those that can be quickly converted into cash, have relatively stable prices, and are easily marketable (switching between asset and cash without losses or with very minimal losses). Despite its advantages, this strategy can be costly due to liquidation costs.(2)

2- Liability (Funding) Liquidity Managemen

Relies on accessing the money market (purchasing/borrowing) to meet liquidity needs. Large, well-established banks typically adopt this strategy; it depends on the bank's reputation and financial position. Its tools include repurchase agreements and borrowing from other financial institutions. It entails risk due to interest-rate fluctuations and uncertainty about net income(3)

3- Balanced (Hybrid) Management:

A middle ground between asset-based and liability-based liquidity management. Banks retain a (not excessive) buffer of liquid assets and, when necessary, borrow from the money market.(4)

Third: Liquidity Risk Indicator

Liquidity Coverage Ratio (LCR):

Developed under Basel III to enhance banks' short-term resilience to liquidity risk by ensuring they hold High-Quality Liquid Assets (HQLA) sufficient to withstand a severe 30-day stress scenario..(5)

Fourth: Concept of Financial Stability

Financial stability has become increasingly important in recent decades for specialists—individuals and institutions alike—and has taken center stage among governmental, financial, and economic bodies at international and domestic levels. Interest by the IMF and central banks has grown. Financial stability arises when the financial system satisfies several foundations, including: balanced geographic distribution of economic resources; smooth execution of financial and economic operations (saving, investment, lending, borrowing, liquidity creation, asset pricing, wealth accumulation, and GDP growth); and the ability to withstand shocks and crises to regularly perform financial functions (6)

Fifth: Purpose of Developing Financial Stability Indicators

The importance of developing financial stability indicators lies in providing **quantitative gauges** that act as guidance and early-warning tools to alert decision-makers and policymakers to a potential crisis before it occurs, enabling preventive policies and measures. Key purposes include:(7)

1. Anchoring assessments of the financial system's soundness to quantitative, objective measures.
2. Strengthening transparency, disclosure, and information availability to markets and participants, and drawing attention to systemic risk phenomena.

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(2) Hempel George H. & Simonson Donald G., Bank Management: Text & Cases 5th Ed. New York: John Wiley &sons, Ice 1999, P. 66.

(3)Saunders, A., & Cornett, M. M. Financial Institutions Management: A Risk Management Approach. 8th Edition, McGraw-Hill Education,2015, pp. 145–147.

(3) Ibrahim Al-Malouki, *Previously cited source*, p. 194.

(4) Rose et al., Bank Management & Financial Services, 9th Edition, McGraw-Hill, 2013, p. 143.

(5) Mishkin, Frederic S., The Economics of Money, Banking, and Financial Markets, 10th ed., Pearson, 2013, p. 195.

(6) Fadel Mousa Hassan Al-Maliki and Israa Nitham Al-Din Hussein Al-Taie. *Regulations of Financial Stability in Islamic Banks*, *Journal of Administration and Economics*, Vol. 5, No. 20, 2016, p. 182.

(7) Wananga's, T., and others, Financial System Stability, Regulation and Financial Inclusion, Asian Development Bank Institute, Financial Services Agency, Japan, International Monetary Fund, 2015, p. 78.

3. Comparing the performance and effectiveness of the financial sector across countries.
4. Monitoring key variables over time (risk mapping).
5. Serving as a complementary tool to early-warning systems and stress testing by signaling the degree of risk or volatility in the financial system.
6. Reflecting potential risk levels and highlighting major developments and expansions in the financial sector.
7. Acting as sensors to detect crisis contagion risks and mitigate their impact.

Sixth: Financial Stability Indicators

A comprehensive analysis must consider all sources of risk and vulnerabilities in the financial system, following a systematic approach that covers the financial system and the real economy (households, firms, and the public sector), and the interlinkages within and across sectors. Imbalances often arise from multiple factors (vulnerabilities). To assess system-wide stability, a **broad set of indicators** is needed, including interbank money and repo markets, bonds, equities, market liquidity (e.g., bid-ask spreads), uncertainty/risk metrics, and asset-pricing sustainability (e.g., P/E ratios). For banks specifically, important indicators include: [1]

1- Capital Adequacy and Liquidity

Capital adequacy gauges the bank's ability to cover credit, market, and operational risks with available capital, ensuring continuity, depositor protection, and confidence in the system. The Central Bank of Iraq (CBI) has emphasized raising bank capital as a primary defense against potential risks, adopting Basel II/III-aligned measures and binding ratios. ‹ Capital adequacy reflects the bank's capacity to absorb shocks hitting its balance sheet. It accounts for key financial risks (FX risk, credit risk, interest-rate risk) and off-balance-sheet exposures (e.g., derivatives trading). Measuring capital adequacy has become more critical internationally for reasons such as: .[2]

1. (a) Providing valuable indicators to supervisors and bank management regarding capital sufficiency; (b) Signaling potential risks and enabling early precautions (e.g., raising capital); (c) Revealing needs to revisit prudential rules and internal control frameworks, including governance.

Seventh: Relationship Between Liquidity-Risk Indicators and Financial-Stability Indicators

LCR vs. Capital Adequacy (CAR):

The two are interrelated prudential tools aimed at enhancing stability. Strengthening short-term liquidity reduces the probability of near-term distress, easing pressure on capital against unexpected losses, bolstering market confidence, and supporting stable liquidity buffers. However, higher LCR requires holding more low-yield liquid assets, potentially lowering operating returns and, over time, constraining capital formation. The relationship is therefore **complex**, sometimes featuring trade-offs, and calls for careful supervisory balancing. The BIS (Basel III) emphasizes that strong liquidity requirements do not substitute for strong capital; both are **complements** to safeguard financial stability. .[3]

Eighth: Bank Liquidity Indicators

1-Liquidity Coverage Ratio (LCR):

The Liquidity Coverage Ratio is one of the key indicators used to measure liquidity risk, as it ensures that banks and financial institutions maintain an adequate financial buffer in times of crisis. A higher ratio indicates that the bank holds liquid assets exceeding its short-term funding needs, reflecting strong liquidity management and the ability to withstand sudden financial pressures.[4]

Table (3) illustrates the **value of liquid assets to cash flows** for the sample banks during the period **2012–2023**

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(1) Gazie, Shina C. *Maintaining Financial Stability*, Economic Issues No. 36, International Monetary Fund (IMF), 2005, p. 807.

(2) Maha Mazhar Mohsen. *Using Benchmark Ratios in Testing the Financial Stability of the Banking Sector in Iraq for the Period (2009–2013)*, *Journal of Economic and Administrative Sciences*, Vol. 22, No. 92, 2016, p. 363.

(3) Basel Committee on Banking Supervision. *International Framework for Liquidity Risk Measurement, Standards and Monitoring*. Bank for International Settlements, 2010, p. 17.

(4) Basel Committee on Banking Supervision, Basel III: The Liquidity Coverage Ratio and liquidities monitoring tools, Bank for International Settlements, January 2013, p. 5.

(Million Iraqi Dinars)
Source: Compiled from Iraq Stock Exchange annual reports and official disclosures for the years 2012–2023.

Bank GCB		Bank BOB		Bank NIB		Bank MIB		Bank IICB		
Cash Flows	Liquid Assets	Cash Flows	Liquid Assets	Cash Flows	Liquid Assets	Cash Flows	Liquid Assets	Cash Flows	Liquid Assets	Year
27451	16005	14736	81239	31331	22997	15712	92308	29343	13740	2012
47616	36877	10934	10146	33885	20159	50898	21217	33484	19180	2013
46917	36514	15351	99241	27746	20331	60121	27787	44927	13459	2014
48799	24475	12811	87087	41904	22178	78712	237791	11567	11181	2015
48251	16491	91760	79565	36479	15561	81653	90891	14187	10284	2016
28075	20179	81321	50090	49259	17732	10264	82803	16881	38598	2017
26178	19424	83403	61206	32514	91375	12530	89994	15998	14538	2018
24042	22435	84193	55131	24195	50095	11818	11747	17736	20296	2019
20036	15122	11423	20843	21631	68170	99231	10901	30919	34687	2020
22722	22315	12291	70610	21172	99492	41784	42412	19776	12273	2021
23858	23708	13746	72285	29527	15754	45378	39443	20347	95795	2022
24632	26038	22747	12940	37712	17483	82351	64397	16913	11354	2023

Note: The CBI phased in the LCR requirement toward a 100% minimum to prevent short-term insolvency. As a sector, Iraqi banks successfully implemented the LCR; individually, some banks did not meet the minimum while others posted very high ratios—reflecting their capacity to withstand a 30-day liquidity stress.

Table (4). Liquidity Coverage Ratio (LCR) for Sample Banks, 2012–2023 (%)

Min	Max	Average	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	Bank
0.3599	4.6992	0.7633	0.4635	0.5335	4.6992	3.1514	2.0705	2.8103	0.3599	0.4265	0.5292	0.7327	0.5949	0.7340	IICB
0.1098	8.0673	2.4922	0.7819	0.8692	1.0150	0.1098	0.9939	7.1822	8.0673	1.1131	3.0210	0.4621	0.4168	5.8750	MIB
0.2995	4.7080	1.2077	0.6713	4.7080	0.6206	1.1218	1.1443	0.9087	2.2864	0.7248	0.9666	0.2995	0.5728	0.4683	NIB
0.5688	6.7978	2.9976	0.5688	5.2586	5.7448	1.8246	0.6548	0.7338	0.6159	0.8671	6.7978	6.4647	0.9279	5.5129	BOB
0.3417	1.0571	0.7636	1.0571	0.9937	0.9821	0.7547	0.9332	0.7419	0.7187	0.3417	0.5015	0.7782	0.7744	0.5830	GCB
0.6573	2.6123	1.7772	0.7085	2.4726	2.6123	1.3924	1.1593	2.4754	2.4096	0.6946	2.3632	1.7474	0.6573	2.6346	Average
0.9279	8.0673	4.4750	1.0571	5.2586	5.7448	3.1514	2.0705	7.1822	8.0673	1.1131	6.7978	6.4647	0.9279	5.8750	Max
0.1098	0.7338	0.4436	0.4635	0.5335	0.6206	0.1098	0.6548	0.7338	0.3599	0.3417	0.5015	0.2995	0.4168	0.4683	Min

Analytical Highlights (per bank):
IICB: Lowest LCR in **2013 (0.3599)**—very weak short-term resilience—amid oil price declines and security turmoil (ISIS), deposit withdrawals, NPL buildup, and limited central-bank liquidity support. Highest in **2021 (4.6992)** after conservative strategies, larger HQLA buffers, improved oil revenues, and accommodative monetary policy.
MIB: Highest sample-wide LCR in **2017 (8.0673)**—exceptional surplus—supported by capital strengthening following **QNB** majority acquisition, cautious lending, and confidence-driven time deposits. Lowest in **2020 (0.1098)** due to unbalanced loan expansion into less-liquid assets and daily gap mismanagement amid macro stress.

NIB: Peak **2022 (4.7080)** reflecting conservative credit policy and cash build-up as conditions improved; trough **2014 (0.2995)** due to short-term lending expansion without parallel reserves and external pressures (budget delays, inflationary conditions).
BoB: Peak **2015 (6.7978)** from high liquid-asset accumulation and subdued lending/investment; lowest **2023 (0.5688)** reflecting a structural liquidity gap due to rapid short-term lending growth without adequate HQLA buffers and external cost/confidence pressures.
GCB: Peak **2023 (1.0571)** on improved asset management and higher reserves in a steadier post-COVID environment; trough **2016 (0.3417)** amid unbalanced credit growth, lower reserves, oil-price shocks, and conflict-related cash-flow stress.

Figure (2). Liquidity Coverage Ratios (LCR) of the sample banks for the period 2012–2023.

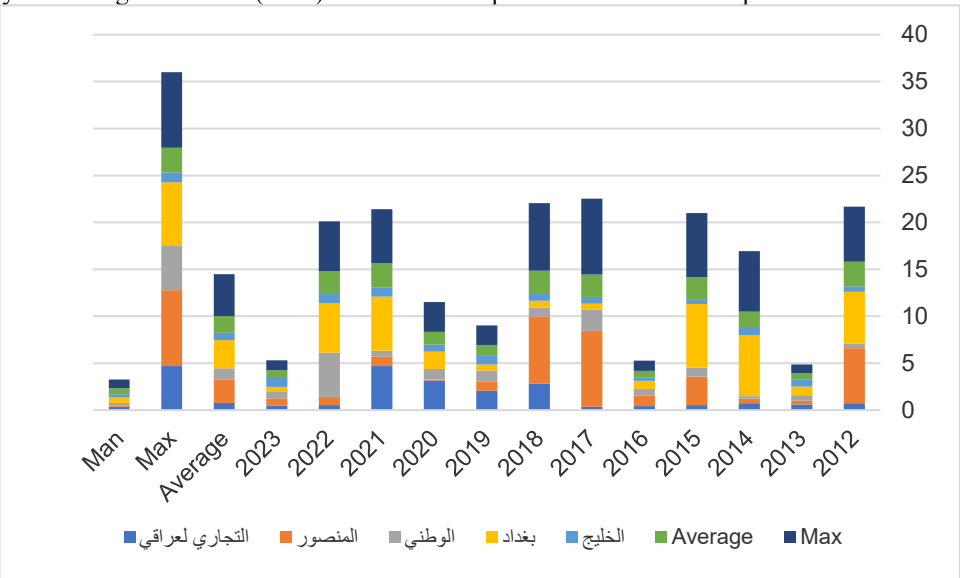

Figure (2). Liquidity Coverage Ratios, 2012–2023

Prepared by the researcher based on Table (4). Main pattern: pronounced volatility; MIB benefited from QNB capital backing; IICB/BoB showed wide swings; GCB improved lately; NIB was comparatively conservative and steadier.

Ninth: Analysis of Financial Stability Indicators

1. Capital Adequacy Ratio (CAR):

The Capital Adequacy Ratio is one of the most important supervisory indicators adopted by central banks and regulatory authorities to assess the soundness of banks' financial positions and their ability to withstand credit, operational, and market risks. This ratio is measured by dividing the **regulatory capital** by **risk-weighted assets (RWA)**.

According to the recommendations of the **Basel Committee**, the minimum international standard for this ratio is **8%**, while the **Central Bank of Iraq (CBI)**, based on the **Banking Law No. (94) of 2004**, has raised this minimum to **12%**, reflecting a more prudent and conservative regulatory stance in the Iraqi banking environment. The **Capital Adequacy Ratio (CAR)** is calculated as the total regulatory capital (comprising two tiers) divided by total on- and off-balance-sheet assets weighted by risk.

- **Tier 1 Capital:** Includes core capital after regulatory adjustments, net of disallowed investments or illiquid assets.
- **Tier 2 Capital:** Includes supplementary capital instruments such as subordinated loans or deposits, in addition to the maximum allowable portion of general provisions that can be counted as regulatory capital. The risk-weighted components primarily cover **credit risk**, **market risk**, and **operational risk**.[1]

Table (13). Capital Adequacy Ratio (CAR) for the sample banks for the period 2012–2023 (Million Iraqi Dinars)

Man	Max	Average	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	Bank

[1] Central Bank of Iraq. *Instructions for Calculating Regulatory Capital and Risk Management Based on Banking Law No. (94) of 2004*, Baghdad: Central Bank of Iraq, 2011, p. 7.

10072	98861	53558	13918	10072	98861	73648	49987	61515	59409	72882	36000	76040	48971	41400	IICB
11166	95929	31292	83402	95929	11166	13422	20913	20489	20625	22643	19084	21088	22344	24399	MIB
16000	64000	57000	64000	45000	44000	40000	41000	20000	36000	26000	28000	24000	30000	16000	NIB
10300	88700	49752	66955	51815	33754	28578	64351	12663	10300	88700	64000	58000	59000	59084	BOB
12135	89242	40479	17715	33665	14791	12135	14798	13067	12468	89242	74531	73809	78034	51496	GCB
25546	59893	46416	49198	47296	40514	33556	38209	25546	27760	59893	44323	50587	47669	38475	Average
59084	98861	76171	83402	95929	98861	73648	64351	61515	59409	89242	74531	76040	78034	59084	Max
10072	22643	15517	13918	10072	11166	12135	14798	12663	10300	22643	19084	21088	22344	16000	Man

Notes and Analysis:
CAR is measured as regulatory capital to risk-weighted assets; Basel's international minimum is **8%**, while the CBI (per Banking Law No. 94/2004) raises the floor to **12%**.
IICB: Highest CAR value **2021 (98,861 mn IQD)**—well above regulatory minima—likely reflecting capital injections/retained earnings and conservative credit policy that lowered risk-weighted assets amid pandemic-driven lending slowdown; lowest **2022 (10,072)**—close to Basel II's 8% equivalent—possibly due to lending expansion and higher RWA without parallel capital build-up, plus market volatility and higher provisions.
MIB: Highest **2022 (95,929)**—strong capital base from profits and supportive funding; lowest **2021 (11,166)**—near the regulatory floor, likely due to lower earnings or higher risk assets; pandemic effects and economic contraction contributed to volatility.
NIB: Highest **2023 (64,000)**—clear strengthening of capital; lowest **2012 (16,000)**—initial fragility; gradual improvement reflects stronger compliance and capital policy.
BoB: Highest **2016 (88,700)**—retained earnings/capital increases and low-risk portfolios; lowest **2017 (10,300)**—sharp weakening possibly tied to operating losses or high payouts and external pressures.
GCB: Highest **2016 (89,242)**—capital strengthening, asset revaluation, and safer investments; lowest **2020 (12,135)**—pandemic-era contraction, higher NPLs, and earnings erosion, compounded by delayed budget approval and weaker fiscal flows.

Figure (7). Capital Adequacy Ratio (CAR) of the sample banks for the period 2012–2023.

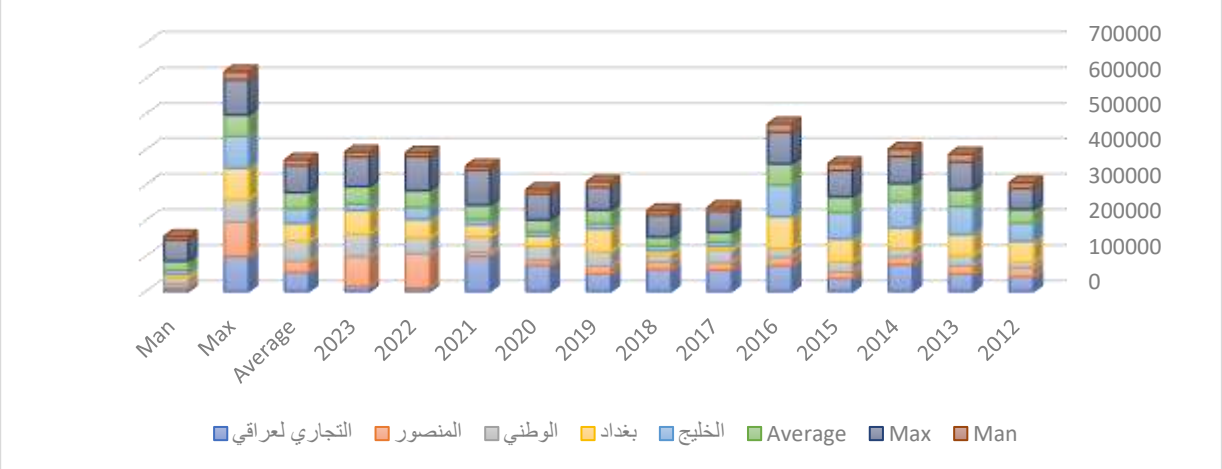

Figure (7). Capital Adequacy Indicator, 2012–2023

Prepared by the researcher based on Table (13). Pattern: IICB leads; NIB is the weakest on average; 2016 is a broad peak; 2017 shows notable declines across some banks.

Tenth: The Relationship Between Liquidity Risk and Financial Stability

1. Analysis of the Relationship Between the Liquidity Coverage Ratio and Capital Adequacy Ratio

The **Liquidity Coverage Ratio (LCR)** serves as a key indicator of a bank's ability to meet its short-term obligations during periods of financial stress, while the **Capital Adequacy Ratio (CAR)** reflects the bank's

capacity to absorb losses over the long term.
When examining these two indicators across the sample banks during the period **2012–2023**, a clear picture emerges of the variations between **operational liquidity** and **capital soundness**, highlighting the structural, political, and economic challenges that have characterized the Iraqi environment in general, and the banking sector in particular.[1]

Table (18). Relationship between Liquidity Coverage Ratio (LCR) and Capital Adequacy Ratio (CAR) in the sample of Iraqi commercial banks for the period 2012–2023.

Man	Max	Average	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	Ba
0147	9.6357	4.2432	3.3302	5.2968	4.7533	4.2790	4.1421	4.5684	6.0580	5.8519	0.0147	9.6357	1.2148	1.7729	IIC
0158	9.3751	4.1287	9.3751	9.0608	9.0901	8.1806	4.7525	0.0351	0.0391	4.9158	0.0158	2.1912	1.8653	0.0241	M
0104	6.3511	2.0007	1.0489	0.0104	1.4104	0.0280	2.7909	0.0454	6.3511	2.7876	3.4521	1.2479	1.9093	2.9268	N
0101	9.7756	4.0332	8.4952	0.0101	0.0170	6.3846	1.0175	5.7948	5.9796	9.7756	0.0106	0.0111	1.5727	9.3306	BC
0543	9.9238	5.1828	5.9672	2.9517	6.6398	6.2192	6.3062	5.6776	5.7643	3.8289	6.7287	1.0543	9.9238	1.1321	GC
0442	5.6433	3.8543	5.6433	3.4659	4.3821	5.0182	3.8018	3.2242	4.8384	4.6718	2.0442	2.8280	3.2971	3.0373	Avera
7948	9.9238	8.2961	9.3751	9.0608	9.0901	8.1806	6.3062	5.7948	6.3511	9.7756	6.7287	9.6357	9.9238	9.3306	M
0101	2.7876	0.5203	1.0489	0.0101	0.0170	0.0280	1.0175	0.0351	0.0391	2.7876	0.0106	0.0111	1.2148	0.0241	M

Analysis:
IICB: Peak **2014 (9.6357)** from credit expansion, better asset/liquidity management, and asset revaluation amid high oil prices and fiscal spending; trough **2015 (0.0147)** with liquidity mismatch, higher short-term liabilities, rising NPLs, and severe macro/security shocks.
MIB: Peak **2023 (9.3751)** via balanced expansion in lending, stronger liquidity management, efficient resource deployment, and supportive macro backdrop; trough **2015 (0.0158)** amid lending contraction, budget delays, and low investment returns.
NIB: Peak **2017 (6.3511)** with larger lending, improved funding and liquidity, and higher returns; trough **2021 (0.0104)** amid weak lending, higher short-term liabilities, and tight liquidity under inflationary pressures.
BoB: Peak **2016 (9.7756)** due to credit growth and strong investment returns with better liquidity management; trough **2022 (0.0101)** driven by weak lending, lower investment returns, and liquidity stress amid oil-price declines and fiscal tightening.
GCB: Peak **2013 (9.9238)** thanks to rapid credit growth and high-return investments plus better resource management; trough **2014 (1.0543)** amid lending slowdown, higher short-term liabilities, and unstable macro conditions.

[1] Basel Committee on Banking Supervision. Basel III Framework: International Regulatory Framework for Banks. Bank for International Settlements, 2013, pp. 3–5.

Figure (12). The relationship between Liquidity Coverage Ratio (LCR) and Capital Adequacy Ratio (CAR) in the sample of Iraqi commercial banks for the period 2012–2023.

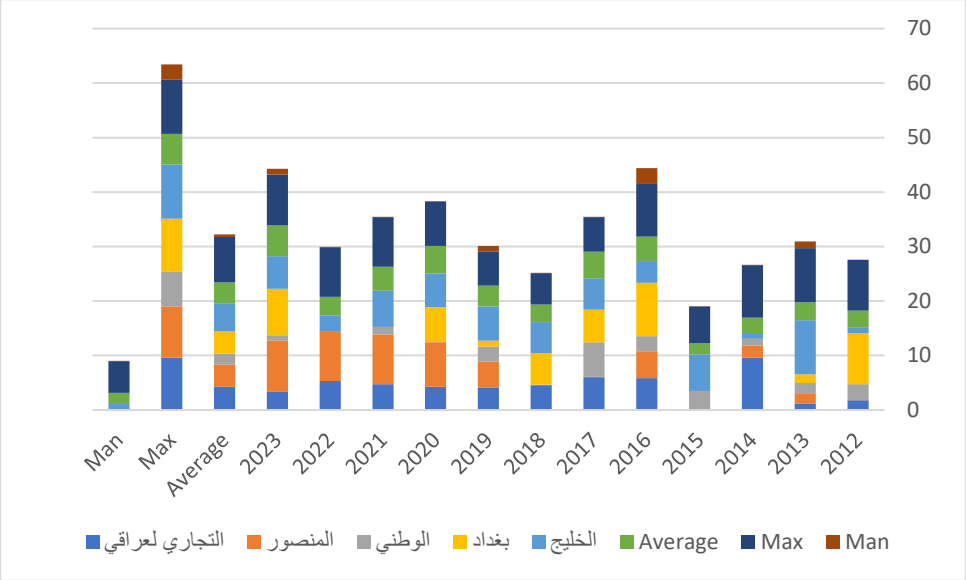

Figure (12). Relationship Between LCR and CAR, 2012–2023

Prepared by the researcher based on Table (18). Pattern: clear oscillation—high values in some years (e.g., 2013, 2017, 2019) due to cash build-ups and defensive policies; lows in 2015 and 2023 tied to economic/security crises or unbalanced credit expansion. The two indicators are tightly linked: higher LCR signals adequate liquid assets to cover short-term liabilities and reinforce stability; lower LCR reflects funding gaps, fragile liquidity management, and higher risk.

CONCLUSIONS

1. **Volatile Liquidity Profiles:** The five private banks (BoB, NIB, IICB, MIB, GCB) exhibit marked swings in liquidity ratios over time. Indicators such as **LCR** and **LAS** rose during security/economic crises (defensive cash hoarding) and fell during credit booms. Liquidity is double-edged: excess liquidity can depress profitability, while too-low liquidity heightens the risk of failing to meet immediate obligations.
2. **Liquidity–Stability Nexus:** Sufficient liquidity supports short-term resilience and reduces default risk; however, excessive liquid-asset holdings may constrain investment and profitability, undermining capital build-up (**CAR**). Conversely, unchecked credit expansion erodes liquidity and raises **NPLs**, weakening capital and threatening stability. Achieving balance between holding liquidity and deploying it productively is therefore central to financial stability.
3. **Direct Effect of Liquidity on Stability:** Drops in coverage or in the **NSFR** materially increase distress probabilities and sensitivity to external shocks (oil price declines, political volatility), eroding public confidence in the banking sector.

Recommendations

1. **Strengthen Annual Liquidity Plans:** The CBI should require banks to prepare and execute clear annual liquidity plans, closely monitor liquidity ratios, and invest surpluses above the **30%** benchmark in safe, productive avenues—through sound lending or investments that support Iraqi economic sectors.
2. **Upgrade Prudential Rules:** The CBI should update supervisory rules and procedures in line with **Basel III**, adapted to Iraq's context, to curb financial-system distress and prevent potential crises.
3. **Tighten Supervisory Oversight:** Ensure strict compliance with required prudential ratios and CBI regulations to reinforce system robustness and enhance banks' capacity to manage liquidity risk and achieve financial stability.