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RESEARCH ARTICLE

Financial Inclusion in Iraq Between the Challenges of Reality and the Foundations of Structural Change

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Abstract

The present paper examines the current situation with financial inclusion in Iraq in connection with the demands of digital transformation. This is achieved through defining the conceptual models of financial inclusion and digital transformation, based on regional and international experience, and analyzing the current situation with digital transformation and financial inclusion in Iraq using existing digital and financial indicators. It turns out that there is some progress in digital infrastructure, while at the same time there is growth in the number of electronic financial channels. At the same time, there is a certain range of challenges, especially of the institutional and legislative character, which prevent further progress of financial inclusion.

KEYWORDS

Financial inclusion; digital transformation; Iraq; digital financial inclusion; digital infrastructure.

INTRODUCTION

Financial inclusion is considered one of the key pillars for economic and social development considering its contribution in making access to financial services easier and efficient. Considering rapid developments in ICT sector, digitalization has proven to be a good tool for development of the financial sector and improvement of financial inclusion through expansion of digital financial services and better access to them. In Iraq, while some improvements have been made regarding digital and financial measures, structural and institutional barriers continuously prevent the country from taking full advantage of digitalization in terms of its contribution to financial inclusion. In this context, the main objective of this research paper is to examine the current situation of financial inclusion and digitalization in Iraq and provide some lessons learned from international best practices regarding the reform process of the Iraqi financial sector.

Research Problem

The research problem is set out in light of the low gains that can be made through digital transformation in order to improve financial inclusion in Iraq owing to the presence of various institutional, regulatory, and structural constraints. This brings up the issue of how much digital transformation contributes to financial inclusion improvement and whether lessons from other countries can be utilized to this effect.

Importance of the Research

The importance of this study lies in the fact that it addresses two issues which are being stressed increasingly these days; one is Digital Transformation and other one is Financial Inclusion. This research will help diagnose the present state of Financial Inclusion in Iraq and find out the major problems which it is facing today.

Research Objectives

1. Present the conceptual framework of financial inclusion and digital transformation.
2. Present the most prominent international experiences and extract the lessons learned from them.
3. Diagnose the reality of digital transformation and financial inclusion in Iraq.
4. Identify the main challenges facing the deepening of financial inclusion.
5. Formulate proposals that support the path of structural change in Iraq.

Research Hypothesis

This research is based on the assumption that digital transformation plays a significant role in increasing financial inclusion in Iraq; nevertheless, some shortcomings of the legal and institutional system as well as insufficient infrastructure hinder the fulfillment of this role.

Research Methodology

The study employs a descriptive analytical approach by reviewing relevant literature, analyzing international experiences, and examining digital and financial indicators related to Iraq.

Structure of the Research

This study is divided into three parts. The first part discusses the theory of financial inclusion and digital transformation. The second part highlights the international experience and the lessons learned. The third part focuses on the present situation of digital transformation and financial inclusion in Iraq.

Section One: Theoretical Framework and International Experiences of Financial Inclusion and Digital Transformation

Financial transformation is an economic phenomenon of today brought about by technological advancements, which are now integrated into most aspects of human existence. Clearly, this is an economic field since it is very important to people, businesses, and nations [7]. It therefore means that there is need to embrace changes in order to benefit individuals, stabilize and increase profits for businesses, and make financial management and proper utilization of government income possible. Financial transformation involves the creation of new forms of transactions that speed up processing and ensure faster and more accurate completion of the processes. Financial inclusion, on the other hand, is an old economic theory, and its relevance is now being determined by how much it will be in line with digital transformation in terms of its economic and social elements being correct. It follows that financial organizations should take up all aspects of their activities, whether economic or social, in a broad sense.

First: Digital Transformation and Financial Inclusion: Concepts and Dimensions

1. Definition of Financial Inclusion

Financial inclusion entails the availability of basic formal financial services and their accessibility to all members of society in an appropriate and sustainable way. The above definition includes various financial services designed for different purposes, which may vary from one country to another. Nevertheless, the literature available on the topic of financial inclusion focuses on making sure that financial services are available to all segments of society, with a special focus on poor people and those who live in rural areas.

In the course of studying financial inclusion, one must note that this term has a number of definitions, including the integration of individuals that are considered financially marginalized or financially low-income, meaning people with financial backgrounds that do not allow them to participate in the formal banking process. Inclusion, in this case, means that it is possible to interact with banks using digital tools and conduct transactions digitally. As a result, financial inclusion implies providing people with financial services in an easy and inexpensive manner, for example, mobile payments.

2. Dimensions of Financial Inclusion (Access, Quality, and Sustainability)

The dimensions form the base of financial inclusion, thereby adding reliability to it and building confidence, which makes up the foundation for implementation and demand for financial inclusion. Without these dimensions, it is difficult to implement financial inclusion effectively. These dimensions are as follows:

Access relates to the presence of financial institutions and financial markets. In terms of access to financial institutions, there are sub-dimensions relating to outreach, use by individuals, use by firms, and the quality of financial services, which includes financial literacy. The dimension relating to access to financial markets or any other institution performing the same role normally requires taking into consideration the degree of concentration in the market since high concentration could make it difficult for new and small businesses to enter and grow. A composite index has been developed to cover the multi-dimensional nature of this aspect in different countries [2].

Quality refers to the level at which the financial services meet the consumer needs. It also involves how appropriate the financial products and services are for the consumers from different aspects such as prescribed conditions, costs/fees, usability, system ease/flexibility, information transparency, and security/consumer protection. All these aspects taken together provide a comprehensive measure of service reliability. Essentially, quality is about what the consumer values from the service provided, apart from availability/accessibility [5].

Sustainability is about the provision of accessible and affordable financial services to everyone in a responsible and continuous manner to overcome barriers being faced by poor and vulnerable communities in fulfilling their financial needs. In doing so, it enhances the capacity of financial institutions to provide financial services in an inclusive and sustainable way. The use of digital technologies like big data, cloud computing, and artificial intelligence offers significant potential to address information asymmetries and interactive communication along with data storage and sharing [4].

Second: The Concept of Digital Transformation and Its Dimensions

1. Definition of Digital Transformation

Digital transformation is a techno-economical approach which is inherently associated with technological developments and digital innovations. With the increasing deployment of these technologies, digital transformation has become even more integrated with finance and administration due to its capacity to increase efficiency, promote inclusion, and increase coverage. Due to these contributions to digital transformation, various definitions of it have been formed, which are mainly based on the core component of each definition.

Digital transformation can be seen as an approach of changing the operational structure of governmental organizations or private sector businesses into a system that will utilize digital technology to ensure provision of goods and services. Thus, it may be viewed as a form of digital economy, an outcome of technological advances in the field of communications and information in the age of a knowledge-based economy.

2. Dimensions of Digital Transformation (Infrastructure, Technologies, and Culture)

Dimensions of digital transformation have several aspects that are intentional and interconnected. They have close connections with the infrastructures of the state-owned institutions or those which provide some advantages for the public good to the community. This covers adoption of new digital technologies like mobile apps, digital payment systems, and digital platforms. Culture involves the extent of public awareness and acceptance of these technologies and their usage, as well as the institutional culture that promotes the concept of monetary transformation as a service that can bring about changes and some benefits [8].

Third: The Role of Digital Transformation in Supporting Financial Inclusion

Digital transformation plays an important role in financial inclusion within the organizations that implement it, because of the use of modern technology and the services provided by these organizations. The main objectives of digital transformation can be outlined in the following table.

Table (1): The Relationship Between Digital Transformation and Financial Inclusion and Its Economic and Social Effects

Digital Transformation	Relationship to Financial Inclusion by Institution	Effect
Digital tools	Banks	Improving access to financial services
Mobile phone	Non-bank financial institutions	Reducing economic costs
Cards	Individuals	Increasing benefits and utilization

Digital Transformation	Relationship to Financial Inclusion by Institution	Effect
Internet	Companies	Enhancing innovation and value creation
Secure digital payment systems	Governments	Improving the quality of production
Digital finance	Customers	Increasing productivity
Digitization	Organizations	Creating new job opportunities
Digital technologies	Economic relations	Supporting digital openness
Advanced digital platforms	Multiple and diverse levels	Integrating advanced ideas
Digital infrastructure	Economists (analysts)	Enhancing financial inclusion

Source: Prepared by the researchers.

Section Two: Leading International Experiences and Lessons for the Digital Transformation Path in Iraq

First: Justifications for Benefiting from International Experiences

What makes international experiences worth pursuing? The best available arguments stem from the applications and developments seen in jurisdictions where development regarding financial inclusion and digital transformation has been witnessed and in terms of return and impact achieved.

Financial inclusion and digital transformation have served many nations and systems in proving that innovations made through financial technology alter the playing field of traditional financial services. Fintech provides new standards for efficiency and savings that enhance innovation and competition. Combining digital technology with traditional financial services enables the improvement of the provision of such services and expanding the access to underserved communities. Additionally, fintech provides cost-efficient alternatives to services and allows scaling.

Table (2): Main Justifications for Benefiting from International Experiences to Support Digital Transformation and Financial Inclusion

No.	Justification	Main Areas of Benefit
1	Developing legal and regulatory frameworks	International experiences can be used to formulate legislation regulating digital financial services and protecting personal data, and to define the rights and obligations of the various parties.
2	Enhancing cybersecurity and risk management	Applying global best practices in managing cybersecurity risks protects financial systems from breaches and enhances trust in the digital financial sector.
3	Effective systems for data governance	International models help organize the collection, processing, and exchange of data, achieving a balance between financial innovation and privacy protection.
4	Supporting supervisory and oversight capacities	Developing tools for supervising and overseeing financial technology builds the technical and institutional expertise needed to keep pace with digital developments.
5	Preparing to deal with digital currencies	Experiences of countries in regulating digital currencies and crypto-assets can be used to study their potential effects on financial stability and monetary policy.
6	Developing digital payment services	Successful international experiences in expanding electronic payment services can increase the participation of non-bank institutions and enhance access to financial services.
7	Enhancing international cooperation and coordination	International initiatives related to data governance and digital financial standards can reduce challenges linked to cross-border financial transactions.

Source: Prepared by the researchers based on International Monetary Fund & World Bank, 2019, pp. 35-40.

Second: Financial Inclusion and Digital Transformation in Malaysia

Financial technology (fintech) in Malaysia has become quite a subject of interest on the market. Fintech is expected to demonstrate fast and innovative development. In general, fintech refers to the application of computers and other information technologies in financial services, which implies that it impacts significantly the finances of companies involved in fintech. Thus, in 2020, the share of the digital economy in Malaysia's gross domestic product amounted to 20%, which is an increase from 19.1% in 2019 and equals to 289 billion Malaysian ringgit. Malaysia has achieved high results in terms of Network Readiness Index published by the World Economic Forum in 2019 and ranks higher than 139 countries in the survey and leads among emerging and developing Asian economies.

Over nine years of the fintech sector's development, its businesses have gained some competitive advantages. Fintech industry has proved its development and progress over time. Early companies in the late 1990s and early 2000s provided their customers with services, including internet banking, payments and stock trading. Mobile payments and peer-to-peer lending systems appeared in 2005-2010. Peer-to-peer finance services like crowdfunding became highly popular after the 2008 financial crisis. Crowdfunding and digital currency, such as Bitcoin, have been growing in popularity in 2010-2015. Digital banking and robo-advisors have become highly developed in 2015-2020. With the emergence of the COVID-19 pandemic, the development of digital financial services based on artificial intelligence and machine learning has increased rapidly. Following 2020, fintech will focus on digital insurance, digital securities, open banking and online lending.

Table (3): Contribution to Financial Inclusion and Digital Transformation and Their Impact in Malaysia

Keyword	Definition / Use in the Study	Relationship or Impact on Financial Inclusion and Digital Transformation	Notes
Digital Financial Inclusion (DFI)	Use of financial services through digital platforms to achieve broader financial inclusion	The final objective that expresses the extent to which financial services reach all segments of society through technology	A report indicated a positive relationship between higher financial awareness and active use of digital bank accounts
Financial Literacy	Financial knowledge and skills necessary to understand and use digital services	Directly affects financial inclusion and increases adoption of financial technology	More financially aware individuals use digital payments more
Fintech Adoption	Individuals' adoption of financial technology services such as digital payment, investment, and insurance	A mediating variable linking factors such as trust, financial awareness, and psychological attitudes with financial inclusion	Financial technology provides faster and cheaper services, especially for underserved areas
Attitude Toward Technology	Individuals' positive or negative attitudes toward using technology	A positive attitude enhances fintech adoption and therefore supports financial inclusion	Ease of use is a decisive factor in adopting digital financial services
Risk Perception	Perceived risks such as fraud, data loss, and breaches	A major obstacle that reduces trust and hinders reliance on digital financial services	Security risks are among the most prominent challenges in digital payments
Trust	Trust in service providers and digital platforms	A key enabling element that enhances adoption and continuous use of digital financial services	Trust is a decisive factor in adopting mobile payments
Open Finance	Secure sharing of financial data among institutions with the customer's consent	A moderating factor that strengthens the relationship between fintech adoption and financial inclusion and provides personalized, integrated services	The experience increased competition and facilitated access to small loans
Digital Payments	Electronic wallets and QR payments	Facilitating daily transactions and reducing reliance on cash	Digital payments reduce costs and enhance economic efficiency
Online Lending (P2P)	Lending through digital platforms to individuals and small companies	Opens financing opportunities for groups not served by traditional banks	The importance of risk management in this model is emphasized
Digital Investment & Microinsurance	Small investment platforms and low-cost insurance through applications	Expands financial inclusion by providing financial tools to low-income groups	Its role in reducing the financial gap is noted

Source: Prepared by the researchers based on Hossain, M. E., et al. (2024), pp. 196-204.

Third: Financial Inclusion and Digital Transformation Initiatives in the Gulf Cooperation Council Countries

States forming part of the Gulf Cooperation Council (GCC) hold a leading position with regard to innovations in the sphere of financial technologies and regulatory reforms in the region of Middle East and North Africa. The United Arab Emirates can be considered as an example of such a state, with its city of Dubai attracting special attention as a regulator of fintech regulations. The regulatory regime, adopted back in 2016 and specified in 2021, is the key element of Dubai's fintech regulation. It includes rules concerning crowdfunding, digital currency and regulatory sandbox. Saudi Arabia aims at becoming a global leader in fintech by implementing measures, including National Fintech Strategy, as well as creating Saudi Fintech Authority, and developing regulatory sandbox projects aimed at payment solutions and SME financing. Bahrain plays an important role in establishing regulatory sandboxes and involving all the stakeholders to make sure that the regulation is balanced. Overall, these approaches have attracted significant investments but are still facing certain difficulties associated with keeping up with rapid changes in the sphere.

Table (4): Main Indicators of Financial Inclusion and Digital Transformation in the United Arab Emirates

Item / Indicator	Definition / Description	Example in the UAE	Notes
Financial Inclusion	Ability to access financial services	Focus on the financial inclusion of vulnerable groups	Discusses enhancing access to financial services for marginalized groups
FinTech / Financial Technology	Digital financial innovations supporting financial inclusion	Use of digital platforms and financial services	Shows the role of financial technology in improving financial inclusion
Digital Transformation	Digital transformation of the financial sector	Digitization of banking and financial services	Links digital transformation directly to financial inclusion
Digital Banking	Providing banking services over the internet	Digital banks and banking platforms	Indicates the use of digital banks as a tool for financial inclusion
Mobile Payments	Payments through mobile phones	Digital wallets and applications	Mentions the role of digital payments in financial access
Digital Financial Services	Financial services provided digitally	Digital loans and digital wallets	Shows that digital services expand financial access
Regulatory Framework	Regulatory frameworks to support financial innovation	Regulatory and experimental policies	Emphasizes the role of regulatory frameworks in consumer protection
Consumer Protection	Protection of consumers within digital services	User protection procedures	Shows the importance of protecting beneficiaries of digital services
Financial Literacy	Digital financial knowledge	Programs to educate users about digital services	Indicates financial education as part of financial inclusion

Source: Prepared by the researchers based on Al Rifai, M., & AlBaker, Y. (2025), pp. 43-52.

Section Three: Digital Transformation and the Reality of Financial Inclusion in Iraq

First: Digital Infrastructure in Iraq

Technology has a vital role in promoting economic development and building a safe and integrated society through the effective utilization of national resources in today's digital era. The importance can be illustrated through the efforts made towards the construction of a smart and connected society which helps to ensure economic diversification, increase productivity, and build skills while developing a digital knowledge economy.

This research gives a brief description of Iraq's ranking in certain strategic dimensions using some selected indicators of the Arab Digital Economy Index 2024. Iraq ranks fourteenth with an index value of 28.3 and is part of the third group of countries which are developing. It is true that these countries have problems which are more extensive than merely digitalization and, at the same time, they have huge potentials for growth and development in the digital economy. Iraq, Syria, Djibouti, Mauritania, Sudan, Libya, Comoros, Somalia, Yemen, and Palestine belong to this group.

Table (5): Iraq's Performance in the Strategic Dimensions of Selected Indicators and Rankings by Axis, 2024

Dimension	Axis	Value	Rank
Digital foundations	Institutional axis	11.29	16
Digital foundations	Infrastructure	25.59	16
Innovation dimension	Innovation	10.85	16
Innovation dimension	Technological readiness	53.41	20
Innovation dimension	Market development	24.51	16
E-government	E-government	43.83	13
Digital business	Market development	24.51	16
Digital business	Financial market growth	9.62	16
Digital citizen	Workforce	12.26	17
Digital citizen	Infrastructure	25.59	16

Source: Arab Digital Economy Index, 2024.

However, analysis of the indicator values shown in Table 5 indicates that the country has a thriving digital infrastructure but suffers from shortcomings in its institutions and regulation. In particular, the institutional dimension reflects poor performance of the legal and organizational environment needed for digital transformation despite improvements in the technical infrastructure dimension. The second dimension, related to innovations, has a significantly low value of 10.58 which implies no efficient national innovation system. Simultaneously, the good value of digital readiness indicator of 53.41 indicates the presence of certain tools but their use is hampered by weak innovation and policy measures.

In addition, the e-government dimension is another encouraging aspect which shows the relative success in the operation of digital tools used by governmental agencies despite remaining below the regional average and being made at the cost of the private sector. Concerning the digital business dimension, the data show that both the private sector and digitalization process in general are in early stages. Even more importantly, the limited capabilities of the financial market are likely to prevent attracting foreign investments as well as limit the benefits of e-commerce. Finally, the last dimension – digital citizen – shows a workforce indicator of 12.26 which means the considerable gap in the human digital capital. Low value of this indicator is a very serious problem which needs addressing. Data from the World Bank state that less than 30% of the Iraqi workforce have the necessary level of digital skills and intensive training programs for the workforce and students are required in order to increase the indicator.

Table (6): Indicators of Digital Transformation and Digital Infrastructure in Iraq

Year	Internet users per million people	Secure internet servers	E-government	ICT infrastructure	ICT exports as a percentage of total exports
2013	0.850	30	-	0.09	3.07
2014	1.450	53	0.314	0.22	2.28
2015	2.316	87	-	0.23	1.75
2016	3.951	152	0.333	0.16	2.58
2017	9.940	391	-	0.18	1.52
2018	10.803	435	0.337	0.18	3.41
2019	11.531	475	-	0.21	1.91
2020	17.072	719	0.436	0.54	3.08
2021	21.546	928	-	0.55	-
2022	30.769	1356	0.438	0.52	-
2023	43.639	1967	-	-	-
2024	34.512	1589			

Source: United Nations, E-Government Survey 2010-2022; World Bank Data.

In assessing the digital infrastructure indicators of Iraq, the indicator of internet users per million people is seen to show very rapid growth. The figure grew from 0.850 in 2013 to 43.639 in 2023, which is due to the wide adoption of digital services and their integration into economic and social processes.

The figure for the secure servers indicator also grows rapidly, showing an increase of more than 1500% over the study period. This development may be regarded as a positive sign about the maturity of the digital environment and its increased reliability for conducting business and electronic transactions.

The e-government indicator also demonstrates progress, rising from 0.314 in 2014 to 0.438 in 2022. It indicates that electronic services provided by governmental institutions have grown. However, the figure remains rather low compared to other international standards, implying that more work needs to be done.

As regards the ICT infrastructure indicator, there is noticeable progress made as a result of investments in the field of communications and internet. In contrast to the previous one, the proportion of ICT exports in total exports shows noticeable changes between 1.52% and 3.41%. There is progress being made in this area as well.

Second: The Financial Sector in Iraq

Financial inclusion represents one of the core objectives and priorities for countries seeking to achieve financial depth due to its direct and indirect implications for the economy. Globally, there has been a rise in financial inclusion in the past years; however, the level of growth has been quite rapid in advanced countries while in developing countries, such as Iraq, the pace of progress is slower. Financial inclusion in Iraq can be assessed in the following way.

1. Access Indicators

Table (7): Access Indicators of Financial Inclusion in Iraq

Year	Population (million)	Number of bank branches	Banking penetration ratio	Banking density	Number of ATMs	ATMs per million people	Number of POS points	Number of POC points
2013	34.305	1002	2.92	34.24	647	18.8	418	1008
2014	34.819	938	2.69	37.12	337	9.6	581	1061
2015	35.213	821	2.33	42.89	580	16.4	619	1086
2016	36.169	858	2.37	42.16	660	18.2	831	2038
2017	37.140	833	2.27	44.59	656	17.6	918	5143
2018	38.124	857	2.26	44.49	865	22.6	2200	6625
2019	39.128	881	2.25	44.41	1014	25.9	2226	11677
2020	40.150	884	2.21	45.42	1340	33.3	7440	13796
2021	41.190	876	2.2	44.1	1566	38.01	8194	7540
2022	42.248	905	2.34	45.88	2223	52.6	10718	17610
2023	43.324	891	2.17	44.27	3100	71.5	23066	17610
2024	44.400	899	2.02	49.39	4781	107.86	50645	19000

Source: Prepared by the researchers based on the Central Bank of Iraq, Financial Stability Report 2016, and Annual Economic Reports 2017-2024.

According to table (7), the following is recorded in the evolution of access indicators in Iraq within the scope of this study. Some indicators have demonstrated the level of stability; however, others have shown a high degree of growth, especially the indicators related to the infrastructure of financial services.

As for the number of bank branches, according to statistics, the number of bank branches decreased from 1,002 in 2013 to 899 in 2024, which means a decrease by about 10.3%. Moreover, the indicator of banking penetration ratio showed its drop from 2.92 per 100 thousand in 2013 to 2.02 in 2024. The decrease in the number of bank branches is caused by the tendency of using the services of digital financial services, an increase in the number of electronic channels for the provision of such services and reorganization of geographical network of some banks along with the cost reduction. As a result, traditional banking penetration indicators dropped, while digital financial services inclusion indicators experienced a rapid growth.

The banking density indicator grew from 34.24 thousand per bank branch in 2013 to 49.39 thousand in 2024. It means that each bank branch has a larger population. Therefore, the expansion of traditional infrastructure does not keep up with the rapid increase of population, and it is necessary to reinforce digital alternatives in order to maintain the existing achievements in the field of access to financial services.

As for the number of ATMs, it has demonstrated an evident and sustained growth during the research period. The number of ATMs increased from 647 in 2013 to 4,781 in 2024, which is more than sevenfold the initial number. The number of ATMs per one million of people increased from 18.8 to 107.86 in the same period. This tendency shows the movement of the banking sector towards the reinforcement of electronic infrastructure of financial services and provision of the opportunity of using the most important banking services to individuals.

According to the data, the greatest growth rate was registered for the number of electronic points of sales (POS). The number grew from 418 POS in 2013 to 50,645 POS in 2024, which indicates remarkable growth in the popularity of electronic means of payments. The growth acceleration that began after 2020 was certainly connected with the procedures and measures introduced by the Central Bank of Iraq and the Iraqi government in order to encourage digital payments and decrease the use of cash, as well as with the popularization of e-wallets and new payment systems.

Concerning the number of points of sale (POC), the indicator showed stable growth throughout most years of the study period, increasing from 1,008 POC in 2013 to 19,000 POC in 2024, despite a temporary decline in 2021 compared to the previous year. The overall trend of the indicator indicates the expansion of the network of financial services based on the digital infrastructure and thus improves people's ability to use such services.

Thus, the table shows that a qualitative shift occurred in the nature of financial inclusion in Iraq. The focus has slowly but surely been shifted from the expansion of bank branch networks to the expansion of electronic and digital ones. While traditional banking penetration indicators have remained quite stable or even declined, indicators related to fintech and electronic payments started growing actively. This trend indicates the modernization of the Iraqi banking sector in order to expand financial inclusion. Thus, it can be concluded that the most significant progress in financial inclusion recently was achieved through the development of the digital infrastructure of the financial sector rather than physical expansion of banks' networks. This is one of the most prominent characteristics of financial transformation in the Iraqi economy over the past decade.

2. Usage-Dimension Indicators

Table (8): Usage-Dimension Indicators of Financial Inclusion in Iraq

Year	Banking depth of private-sector loans (%)	Banking depth of private-sector deposits (%)	Deposit accounts per adults (thousand people)	Loan accounts to adult individuals
2013	6.194	8.937	3.243	1.163
2014	6.854	9.541	3.378	1.286
2015	9.425	12.329	2.913	1.372
2016	9.242	12.057	2.754	1.351
2017	8.775	11.771	3.032	1.400
2018	7.931	10.736	3.387	1.371
2019	8.003	11.68	3.524	1.520
2020	11.994	16.655	3.552	1.800
2021	9.822	14.359	3.917	1.880
2022	9.141	14.351	5.128	2.062
2023	11.983	17.135	5.222	2.379
2024	11.770	15.430	5.270	2.620

Source: Prepared by the researchers based on the Central Bank of Iraq, Financial Stability Report 2016, and Annual Economic Reports 2017-2024.

The data presented in Table (8) indicate that the banking sector has followed a general developmental trajectory marked by gradual yet irregular improvement. During the observed period, the banking depth for loans increased from 6.194% to 11.770%, while deposits rose from 8.937% to 15.430%. This reflects a relative expansion in the role of banks as financial intermediaries within the economy. However, this expansion has not been stable; it has experienced noticeable fluctuations linked to the macroeconomic environment and shifts in real economic activity compared to the growth of monetary indicators.

From 2013 to 2016, there was relatively limited growth in these indicators, which underscored the ongoing weakness of the banking system in financing productive economic activity. The period from 2017 to 2019 saw a phase of relative slowdown, indicating a decline in the effectiveness of financial intermediation. During this time, the growth rates of credit and deposits lagged behind GDP growth. Consequently, despite continued nominal expansion in certain components, banking depth either declined or stabilized.

Beginning in 2020, a significant structural transformation in the behavior of the indicators became evident. Banking depth experienced a noticeable increase in both loans and deposits, and this improvement continued until 2024, with indicators stabilizing at levels higher than those observed in previous stages. This transformation can be attributed to the expanding role of the banking system in mobilizing financial resources and the growing reliance on the banking system as the primary intermediary for savings. Additionally, there was a relative improvement in payment methods and a shift towards formal transactions within the banking system. This change reflects the economy's progression from a stage of weak financial intermediation to one that is relatively deeper, although it still falls short of levels indicative of an advanced banking economy, as the indicators remain within medium ranges compared to the GDP.

In terms of financial inclusion, data on the number of bank accounts reveal a clear improvement in the customer base engaging with the banking sector. The ratio of deposit accounts to adults increased from 3.243 to 5.270, while loan accounts rose from 1.163 to 2.620 during the same period. This shows a gradual expansion in access to banking services and increased integration of individuals into the formal financial system. However, this quantitative improvement in financial inclusion has not always resulted in a corresponding expansion in credit activity relative to deposits. A clear gap persists between the growth of loans and deposits, highlighting ongoing caution in granting credit and limited use of liquidity to finance the productive private sector. This situation restricts the transition of financial inclusion from a purely quantitative dimension to a functional one, which is linked to the deepening of credit.

Conclusions

1. The study showed relative improvement in digital infrastructure in Iraq, providing an initial base that supports digital transformation.

2. The study showed that the institutional and regulatory environment represents one of the main obstacles to deepening digital financial inclusion.

3. The study revealed the limited nature of the Iraqi digital economy in the field of the innovation system and the weak contribution of the private sector.

4. Government electronic services witnessed noticeable development during the study period.

5. Digital financial infrastructure, especially ATMs and electronic payment points, recorded clear growth.

6. Financial inclusion in Iraq is gradually and noticeably moving toward reliance on digital channels instead of traditional expansion in bank branches.

7. International experiences confirm that the success of digital financial inclusion requires the integration of digital and financial policies within a supportive institutional and legislative framework.

Recommendations

1. Develop legislative and regulatory frameworks in a manner consistent with the requirements of digital transformation and modern financial services.

2. Strengthen investment in digital infrastructure, improve its quality, and expand its coverage.

3. Provide financial support for innovation and encourage start-ups in the field of financial technology.

4. Activate the role of the private sector in supporting the transition toward the digital economy.

5. Expand the deployment of ATMs and electronic payment points, especially in underserved areas.

6. Develop government electronic services and connect them to the digital payments system.

7. Benefit from leading international experiences when formulating policies for financial inclusion and digital transformation in Iraq.

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