Journal of Economics, Finance and Management Studies

ISSN (print): 2644-0490, ISSN (online): 2644-0504

Volume 08 Issue 12 December 2025

Article DOI: 10.47191/jefms/v8-i12-36, Impact Factor: 8.317

Page No: 7931-7936

The Role of Commercial Banks in Investment Development: A Study of a Sample of Islamic Banks Listed on the Iraq Stock Exchange

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ABSTRACT: This exploration aims to recognize the impact of marketable banks scheduled the progress of the Iraqi run-of-the-mill market. Saleable banks have witnessed significant progress, increased interest, and common extension in numerous nations over the past two times. To achieve the training's objectives, the researcher scrutinized the actual role of saleable banks in unindustrialized the Iraqi stock bazaar by studying a sample of 14 Iraqi series traded on the Iraq Stock Argument between 2015 and 2022. The study scrutinized key gages such as bazaar capitalization and trading bulk. Econometric analysis stayed laboring to establish the role of marketable banks in thought-provoking the Iraqi routine market. Besides, the study leisurely the impact of marketable bank routine gauges on the Iraqi stock sooq indicators using SPSS v.29. The study grasped important assumptions, including the momentous role of marketable banks in stimulating the bazaar and the development of their motion in Iraq due to their increasing figure within the banking sector. The quantity of Islamic banks reached 27 in 2022. The study mentions facilitating the listing of marketable banks on the Iraq Stock Discussion and encouraging them to profession their shares on the market, in this manner strengthening their role in the Iraqi typical market.

KEYWORDS: Commercial banks, Iraq Stock Exchange.

INTRODUCTION

Saleable banks are considered among the maximum important successes of the modern economy in their pecuniary activity. Their common presence and large transaction bulk allow them to collect general savings through their supporting and investment occupations. The importance of the stock bazaar stems as of its role in mobilizing general savings and pointing them towards outlay channels that support the general economy and contribute to global economic development. Commercial banks provide funding to financial bazaars. The amount of funds that marketable banks or financial societies can inject or absorb through their various investment and sponsoring activities is the total expanse of money that can be inserted or absorbed. This study inspects the role of Iraqi commercial banks in exciting the Iraqi stock market by tentative the position of Iraqi commercial banks operational in the market through the period (2015-2022). It also analyzes their gages (market capitalization, trading volume, number of portions traded, turnover ratio), and the contribution of Iraqi commercial banks to the Iraq Stock Discussion during the same historical (2015-2022).

Part One: Scientific Methodology

First: The Research Problem

The research problem lies in the main question: Do commercial banks play a role in stimulating the Iraqi stock market? Several sub-questions stem from this:

1-Does the market capitalization index of commercial banks affect the market capitalization index of the Iraqi Stock Exchange?

2-Does the trading volume index of commercial banks affect the trading volume index of the Iraqi Stock Exchange?

3-Does the number of shares traded by commercial banks affect the number of shares traded index of the Iraqi Stock Exchange?

4- Does the turnover rate index of commercial banks affect the turnover rate index of the Iraqi Stock Exchange?

Second: The Importance of the Research

The importance of this study stems from the fact that commercial banks have become a prominent force in the banking sector in Arab and international countries in recent years. There is no doubt about the increasing role of these banks in stimulating the Iraqi

Stock Exchange, the market, through the growth of their indices and trading activity in their market shares, in addition to the growth in their values, market capitalization, and share turnover.

Third: The Objectives of the Research

1- To demonstrat0e the role of commercial banks in supporting the Iraqi stock market by studying their relative importance to the indices of the Iraqi Stock Exchange and demonstrating their impact on the market.

2- To demonstrate the relative importance of commercial bank indices in relation to the indices of the banking sector as a financial contributor to the Iraqi Stock Exchange.

Fourth: Research Hypotheses

1-There is no statistically significant correlation between the market capitalization of commercial banks and the market capitalization of the public banking sector.

2-There is no statistically significant correlation between the trading volume of commercial banks and the trading volume of the public banking sector.

3- There is no statistically significant effect of the independent variable on the dependent variable.

Part Two: Theoretical Framework

First: The Concept of Islamic Banking:

Islamic banks have become a reality, permeating the lives of Muslim communities worldwide. They are present in most countries and have introduced a unique economic model, becoming a tangible and effective force that surpasses mere existence. This model approves interface, revolution, and a positive assignation with fashionable developments, prompting us to recognize its concept and points (Abidifar, 2013: 2). While Islamic series are financial establishments operating in the financial sector, they diverge in that they conduct their professional with depositors, financiers, and investors in accord with the principles of Islamic Sharia. These ideologies direct funds near serving the community, and over this commitment, Islamic groups consistently achieve success. Moreover, they pursue noble goals that subsidize to social change and cohesion, effectively before a live audience a vital role in the economic and progressive aspects of society, thus in case a decent ordinary of living for both people and communities. It is also a modern financial institution that observes to the provisions of Islamic Sharia, the moralities of civil connections, legal submissions, and the regulation and revolution of legal services through authentic revenue and tools, for the support of the public (Mahmoud, 2010: 17)

It is also distinct as those financial establishments that conduct funding, financial, salable, and investment businesses in accordance with the requirements of Islamic Sharia. This entails refraining from dealing with usurious interest (riba), offering packages of banking services and products, attracting deposits and savings, and providing sound investment mechanisms (Chong, 2009: 126). It is also defined as a banking institution that receives funds from savers and investors and invests them in Sharia-compliant projects to contribute to building a cooperative Islamic society and achieve the following (Samer, 2010: 32): a) Attracting funds and savings available within the framework of Islamic principles and developing a savings culture.

b) Investing funds in activities and projects that achieve sustainable development in the Islamic world.

c) Conducting banking and business activities in accordance with the teachings of Islamic Sharia and avoiding usurious transactions, exploitation, and greed.

Second: The Difference Between Islamic and Conventional Banks

Both Islamic and conventional banks agree on playing the role of financial intermediaries, but each has its own purposes and objectives. Conventional banks operate under legal regulations without applying or adhering to Sharia principles. Islamic banks, on the other hand, operate under both legal and Sharia regulations, meaning that every banking transaction is governed by a legally binding contract. Furthermore, they adhere to legal regulations in a manner that does not contradict the provisions of Islamic law. Conventional banks deal with a predetermined interest rate on all types of loans, whether from savers or investors, while Islamic banks operate on the basis of profit and loss sharing and do not deal with interest, which is considered usury (riba). Instead, they use a profit margin (Azmat, 2015: 254). Islamic banks adhere to the principles of halal and haram, while conventional banks are only bound by legal regulations (Mahmoud, 2010: 17).

There are fundamental differences between the nature of work in Islamic banks and conventional banks (Arshed, 2021: 2):

1-Islamic banks do not guarantee the depositor profit, loss, or the principal, unlike conventional banks which pay fixed interest on time deposits with inherent risks.

2-Islamic banks can buy, hold, and sell goods, unlike conventional banks which can only do so in special cases and under specific regulations.

3-Islamic rows are essentially venture busses (Mudaribs) operating with the capital of the creditors, unlike predictable banks which mostly rely on accepting guarantees and compromise loans.

4-Conventional banks can problem premium words, but Islamic groups do not since the interest is motionless.

5-Islamic arrays are prohibited from selling with concentration, whether receiving or recompensing it, as this is outlawed by Islamic decree.

6- Islamic arrays typically derive their finance from profit, enterprise financing, and other forms of Islamic business, unlike unadventurous banks, whose capital primarily comes from interest created on loans.

Third: Establishing the Financial Market

The inkling of establishing a monetarist market in Iraq has undertaken numerous procedures and changes that have significantly obstructed its evolution. The utmost important events perceived by the Iraqi economic market can be concise as follows:

1-In 1920, Iraq took its original steps towards the development of a stock discussion. That year, the opening joint-stock concern was established under the Indian Companies Act of 1913, which was instigated in Iraq after the British livelihood. In 1936, the Marketable Discussion Law No. 65 was issued in Iraq, demanding the institution of a stock discussion for trading in key possessions. This law stopped in effect for two centuries before ceasing to control in 1938. Thus, this experiment did not obligate the opportunity to appropriately establish the fundamentals of procedures in the Iraqi stock discussion (Mahmoud, 2010: 17)

2-In 1943, the Marketable Law No. (60) was allotted, which included stocks related to the institution of the stock discussion, principally in Articles (99-102). These articles planned the bazaar's operations, defined its supervise, and restricted connections to brokers. Nonetheless, this was not practically feasible, as shares in Iraq were traded directly between buyers and sellers and registered with the relevant company. The establishment of joint-stock companies and the activity of index offices grew. Trading commotion expanded, and the Baghdad Space of Commerce began reproducing accurate charges of traded segments in its weekly bulletin. In 1956, one office struggled to use the public mart method for buying and export shares. These bureaus continued to activate until 1964, when their activities concluded due to the issuance of the nationalization law that matching year (Al-Harbi, 2015: 14)

3-In 1970, the Iraqi Marketable Law No. 149 of 1970 was allotted, as the Iraqi assembly began to recognize the stipulation of launching a stock market. This law involved three articles okaying the establishment of a stock bazaar based on a set of procedures. The Rector of Economy proposed the establishing of a stock altercation, but in reality, such a market never happened because it did not collect full state devotion and support. This led to the bazaar's closure and the development of the Industrial Group. In 1975, the Industrial Bank begun the establishment of a stock altercation office within its executive structure. This continued until the issuance of the Baghdad Ordinary Exchange Law No. (24) of 1991, which covers eleven chapters and fifty-two tutelages (Al-Harbi, 2015: 14)

4- In 1992, the Baghdad Ordinary Exchange was publically opened. It enjoyed legal behavior, financial and clerical independence, plus was operating in the open interest, not for profit. The shop's focus was on the regulatory characteristic, aiming to transmute it from its tolerant state into a designed market with diverse speculation utensils to attract savings and funding the family. However, turning these areas into a concrete reality faced many complications, counting the fact that the market was traditional in an unbefitting economic atmosphere and on March 19, 2003, due to the environments of the war on Iraq, the bazaar was closed by a conclusion of its sustenance of boards (Al-Harbi, 14: 2015).

Part Three: Research Design

First: Statistical Description of the Study Variables

This section focuses on the statistical description of the variables under study, emphasizing the arithmetic mean and standard deviation as general indicators, along with other indicators, for the representative variables (market capitalization, trading volume, number of shares traded, and turnover rate) of three different banking sectors: Islamic banks, the banking sector, and the Iraqi Stock Exchange.

1-Market Capitalization Variable

The table below presents the statistical indicators for the market capitalization variable of Islamic banks, the general banking sector, and the Iraq Stock Exchange. This study will focus on the arithmetic mean and standard deviation in explaining the statistical description, and will also examine their statistical analysis to test the normality of the variable under study.

The results shown in Table (1) indicate that the arithmetic mean of the market capitalization of Islamic banks is (1,549,765) and the standard deviation of the market capitalization of Islamic banks is (2,025,281). The arithmetic mean of the market capitalization of the general banking sector is (3,609,693) and the standard deviation of the market capitalization of the general banking sector is (1,780,893). The arithmetic mean of the total market capitalization of the Iraq Stock Exchange is (6,041,778) and the standard deviation of the total market capitalization of the Iraq Stock Exchange is (3,470,896). From these results, we find that the total market capitalization of the Iraq Stock Exchange ranks first in terms of the highest arithmetic mean, followed by the market capitalization of the general banking sector in second place, and the market capitalization of Islamic banks in third place. Based on the results shown above, we find that the probability value of the market value variable is greater than 0.05 in Islamic banks, the public banking sector, and the Iraq Stock Exchange. Therefore, we will accept the assumption that the data for the market value variable is distributed according to the normal distribution for Islamic banks, the public banking sector, and the Iraq Stock Exchange.

Table No. (1) shows the statistical description of the market value of Islamic banks, the public banking sector, and the Iraq Stock Exchange.

Total market capitalization of the Iraq Stock Exchange	Market capitalization of the banking sector	Market capitalization of Islamic banks	Statistical description
60417780	36096930	15497650	Mean
51932710	34997950	9049600	Median
113278590	66783400	62926000	Maximum
17097100	6271670	11376.000	Minimum
34708960	17808930	20252810	Std. Dev.
0.1459050	0.0280230	1.3842090	Skewness
1.4099540	1.8523700	3.4560350	Kurtosis
1.8511570	0.9351390	5.5760780	Jarque-Bera
0.3963020	0.6265230	0.0615420	Probability
1.03E+080	613647780	263460040	Sum
1.93E+14	5.07E+13	6.56E+13	Sum Sq. Dev.
17	17	17	Observations

2-Trading Volume Variable

The table below presents the statistical indicators for the statistical description of the trading volume variable for Islamic banks, the general banking sector, and the Iraq Stock Exchange. This study will focus on the arithmetic mean and standard deviation in explaining the statistical description. We will also focus on the Jarque-Bera statistic to test the normality of the study variable.

Based on the results shown in Table (2), we find that the arithmetic mean for the trading volume of Islamic banks is (119407.5) and the standard deviation for the trading volume of Islamic banks is (137911.1). The arithmetic mean for the trading volume of the general banking sector is (457830.7) and the standard deviation for the trading volume of the general banking sector is (272017.9). As for the arithmetic mean for the total trading volume of the Iraq Stock Exchange, it is (679709.6) and the standard deviation for the total trading volume of the Iraq Stock Exchange is (614003.1). From the results shown in the table above, we find that the total trading volume of the Iraq Stock Exchange ranks first because it has the highest arithmetic mean, followed by the trading volume of the general banking sector in second place, and the trading volume of Islamic banks in third place. Based on the results shown above, we find that the (Probability) value of the trading volume variable is greater than 0.05 for Islamic banks, the general banking sector, and the Iraq Stock Exchange. Therefore, we will accept the assumption that the data for the trading volume variable is distributed according to the normal distribution for Islamic banks, the general banking sector, and the Iraq Stock Exchange.

Table No. (2) shows the statistical description of the trading volume of Islamic banks, the general banking sector and the Iraq Stock Exchange

Trading volume for the Iraq Stock Exchange	Trading volume for the banking sector	Trading volume for Islamic banks	Statistical description
679709.60	457830.70	119407.50	Mean
4951120	3564010	479570	Median
28402200	9538740	4047800	Maximum
1279510	918720	11740	Minimum
614003.10	272017.90	137911.10	Std. Dev.

2.6864120	0.2725290	0.9651170	Skewness
10.289450	1.6741810	2.4227860	Kurtosis
2.085690	1.4555430	2.8751130	Jarque-Bera
0.2467640	0.4829840	0.2375070	Probability
115550630	77831220	20299280	Sum
6.03E+12	1.18E+12	3.04E+11	Sum Sq. Dev.
17	17	17	Observations

Second: Studying the Effect Relationship and its Hypotheses Between the Variables of the Current Study

This section focuses on studying the effect relationships of the independent variable on the dependent variable. It concentrates on testing the two main hypotheses. The first supposition states that near is no statistically substantial effect between the autonomous capricious and the reliant variable.

The second supposition states that there is a statistically substantial effect between the self-determining variable and the reliant variable.

To test this effect, we will engagement the simple rectilinear regression equation, definite by the following scientific function:

$$y_i = \beta_0 + \beta_1 x_i + e_i$$

Where y_i is the needy variable, β_0 is the stability stretch, β_1 (Coefficient) is the fringe slope, and e_i is the casual error term, which follows a normal spreading with a mean of zero and a ordinary deviation of σ_i.

The above comparison will be used to homework the effect of the relationship amongst the independent capricious and the needy variable. The t-test, the F-test, and the amount of determination (R^2) will be used to determine the share of the independent inconstant that explicates the dependent variable.

1- **The effect of the market capitalization of Islamic banks on the market capitalization of the general banking sector**: The effect of the bazaar capitalization of Islamic banks on the bazaar capitalization of the general funding sector can be unrushed spending the simple linear regression equation, as presented in the table below.

The control of the market value of Islamic banks on the bazaar value of the general funding sector can be measured complete a simple undeviating regression equivalence, as shown in the counter below.

Table No. (14) shows the impact of the market value of Islamic banks on the market value of the general banking sector.

Market value of the public banking sector				
Prob.	t-Statistic	Std Error	Coefficient	Variablles
0.000002	7.625327	324031.497869	**8.78661122249**	Intercept
0.000063	5.568264	0.129487	0.724346	Islamic banks' market capitalization
R-squared =0.674742 Adjusted R-squared=0.653056 F-statistic =31.117025 Prob(F-statistic)= 0.000052				

2-The relationship between the impact of Islamic banks' trading volume on the overall banking sector's trading volume

The impact of Islamic banks' trading volume on the overall banking sector's trading volume can be measured using a simple linear regression equation, as shown in the table below.

Table No. (15) shows the value of the impact of the trading volume of Islamic banks on the trading volume of the general banking sector

Trading volume in the public banking sector				
Prob.	t-Statistic	Std Error	Coefficient	Variablles
0.000526	4.391740	69360.736387	304614.293641	Intercept
0.004688	3.317493	0.386780	1.283139	Trading volume of Islamic banks
R-squared = 0.423205				

Adjusted R-squared= 0.384752 F-statistic = 11.005762 Prob(F-statistic)= 0.004688

CONCLUSIONS

The development of Islamic banking in Iraq is a result of the increasing number of Islamic banks within the banking sector, reaching 27 in 2020. Islamic banks are financial institutions that provide banking and investment services according to a financial intermediation model based on profit and loss sharing and the exclusion of interest-based lending and borrowing. They collect savings and capital and direct them towards community development. Islamic banks strive to innovate new forms of financing for projects and individuals to enable them to expand their market share by financing these projects in a manner that does not conflict with Islamic principles.

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