



The extent of credit rating agencies' contribution to revitalising the Iraqi Stock Exchange during the period 2020–2024

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Abstract. The research aimed to highlight the role of credit rating agencies, their contribution to revitalising the Iraqi Stock Exchange, and their importance for financial and international institutions in contexts characterised by the diverse use of high-risk investment tools, weak information flows, and low efficiency. In this research, it had become very difficult to obtain information about what was traded in the financial markets. The study analysed credit rating agencies in order to evaluate, determine, and disclose information in a more transparent, accurate, and objective manner, to attract the largest possible number of investors and provide support to dealers within these markets. The analysis relied on a group of banks that obtained a credit rating and presented a clear comparison between 2020 – before obtaining the credit rating – and the years 2021-2024 – after obtaining the rating. The results indicated that Iraq had suffered from a lack of specialised organisations or bodies that promoted the importance of credit rating at the local and global levels, especially since some banks had fallen under the rating ceiling. The credit rating was issued after obtaining approvals from the Central Bank of Iraq to provide services, including expanding the base of foreign transactions, such as the provision of contractual credits. The largest share of the benefit derived from the rating went to the National Bank of Iraq, followed by the Regional Commercial Bank. The practical value of the study lies in the possibility of adopting its results by decision-makers and policymakers to improve the performance of the Iraqi Stock Exchange. Activating and reinforcing the role of credit rating agencies will contribute to enhancing investor confidence and attracting capital to the Iraqi market

Keywords: creditworthiness; financial confidence; attracting capital; investment; average Q index

Introduction

The importance of this research stemmed from the major developments witnessed by financial markets, their increasing openness, expansion, and speed, the availability of financial capabilities, and their leadership in development-oriented investments. This was due to the strength of the banking sector, which represented a fundamental pillar of the economic and financial system. This had prompted the Central Bank of Iraq to increase the volume of commercial transactions and encourage all banks to enter the world of credit rating and obtain their own ratings from international credit rating agencies. This had also led to increased financial and banking performance rates and ensured that all services and products

provided by banks fall within the specified frameworks in terms of credit risk, in accordance with the international standards adopted in the global banking sector.

Credit rating was an important topic, given its multiple functions, including controlling and determining the creditworthiness and strength of entities covered by the rating cycle, such as securities. It served as an investment guide, providing advice, guidance, and information to many investors in making their investment decisions, thus projecting a positive image that supported the banking sector. Researchers Z. Afik & Yu. Zabolotnyuk (2023) analysed the extent of market activity in relation to the availability of information and its

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effectiveness, as well as how it was affected by regulatory legislation. Scientists noted that they had provided insights and ideas about market policy and the extent of the development of the regulatory structure of markets, which called for enhancing and strengthening efficiency levels in transitional and emerging financial markets. In addition, the researchers showed how announcements related to the classification of debt affect the behaviour of investors, the market, and their wealth. A. Saadaoui *et al.* (2022) presented a study that indicated that the credit rating granted by agencies, whether positive or negative, affects the security according to the method by which the rating was assigned. The study showed that the credit rating was not merely an image that reflected the degree of creditworthiness and strength, but also influenced the behaviour of investors and the real market, which must be taken into account by investors and regulators, when designing investment strategies and financial policy. O. Kowalewski *et al.* (2025) analysed the impact of obtaining the first sovereign credit rating on the development of the financial system in emerging countries. Scientists focused on whether obtaining this rating induces a financial and structural transformation, such as the redistribution of assets, the growth of the bond market, and the flow of capital. This was supported by a study by T.H. Nguyen *et al.* (2023), which analysed the relationship between credit rating downgrades and the risks of price collapses.

Researchers examining private equity securities globally also sought to understand whether the event reduced or increased the likelihood of sudden collapses in stock prices, and found that downgrading the rating contributed to mitigating risks by accelerating the flow of negative information to the markets. S. Lovo *et al.* (2022) conducted a study that sought to understand whether credit rating agency announcements affect information asymmetry and improve liquidity in the bond market. The authors also investigated how these announcements affect price volatility and bid-ask spreads in the over-the-counter bond market. Researchers Y. Huo & B. Gong (2022) demonstrated how corporate credit ratings change dynamically over the company's life cycle and the extent to which this change is affected by the nature of the company (governmental or private) and the rating agency's payment model – whether paid for by companies, beneficiaries, or investors. In addition, corporate credit ratings do not remain constant, but evolve according to their stage, with a consensus that companies with higher ratings are typically those in the growth and maturity stages. K. Krystyniak & V. Staneva (2024) evaluated evidence indicating that credit rating agencies had become more conservative over time, i.e. their rating criteria had become more stringent. In addition, the assumption was made through a new model to determine whether raising the Level of caution in the rating explains the temporal changes in the criteria actually used, or whether other elements, such as the nature

of the market, were responsible for these changes. The study challenged the prevailing belief that ratings had become more conservative in 2014-2024 due to a failure to take into account market changes. Therefore, there was a need to resort to credit rating agencies in order to evaluate information in a more objective manner, attract the largest possible number of investors, and provide support to those operating in these markets.

Materials and Methods

This study covered the period 2020-2024 for the sample banks to measure and analyse the extent of the contribution of credit rating agencies to the Iraqi Stock Exchange, relying on the Average Q method. Five Iraqi private and commercial banks were selected – Gulf Commercial Bank (n.d.), Ashur Bank (n.d.), the Regional Commercial Bank (n.d.), the International Development Bank for Investment and Finance (n.d.), and the National Bank of Iraq (n.d.) – to be the study sample. The selection of these banks was not arbitrary, but was based on a set of scientific and practical criteria, namely diversity in the nature of ownership and services in terms of the size of services and capital, which ensured adequate representation of the Iraqi banking sector and the availability of data for these banks in terms of their commitment to publishing their data and annual reports on their official websites or through the Central Bank of Iraq (n.d.). This facilitated the process of quantitative analysis and comparisons, as well as the market importance of each bank, as each held a strong position in the financial market. The geographical spread of these banks provided the study with greater comprehensiveness, in addition to the balance between long-established and more modern institutions, as some banks were relatively old. This diversity helped to test the age of banks and their experience with the studied indicators. The data received from the selected banks in the study sample were also analysed, and the method of analysis and comparison between the years for each bank separately was applied, comparing performance before 2020 with performance after the banks entered under the credit rating ceiling, according to the years selected in the research. The study also formulated the hypothesis of whether credit rating agencies contributed to revitalising the Iraqi stock market. In order for the study to be more comprehensive, the research recommended that the competent authorities place credit rating agencies under full responsibility, when classifying banks and institutions deserving of this, bringing them under the scope of transparency, integrity, and credibility. This included imposing strict rules on institutions that have obtained a credit rating, given the significant role these institutions play in achieving balance in the financial markets. Average Q was one of the important indicators used to measure the efficiency of an institution and the extent of its ability to rely on its assets to reach the market value for shareholders. When Average Q was greater than 1, this served as a

strong incentive for investment and expansion because the market values the private assets of companies at a higher rate than the cost used. However, if it was less than 1, this indicated significant weakness in levels of confidence and predictions as well (Zalloum, 2013). The replacement cost of assets was used, and due to the difficulty of estimating it, the book value of the assets was relied upon (Yildirim & Efthyvoulou, 2018). This indicator can be calculated using the following equation:

$$\text{Average Q} = (\text{MVE} + \text{BVA} - \text{BVE}) / \text{BTA}, \quad (1)$$

where Average Q – financial institution rating scale; MVE – market value of shares, calculated by multiplying the share price by the number of outstanding shares; BVA – accounting value of the total assets of the institution; BVE – accounting value of shareholders' equity; BTA – book value of total assets. This equation was used to assess whether a company was overvalued or undervalued, as it compared the company's market valuation to its book value.

Results and Discussion

The concept of credit rating agencies and their historical roots

The credit ratings set by international agencies for long-term credit reflected the rating agency's opinion of credit risk for debts with a maturity period of more than one year. There is a set of symbols used by international rating agencies to indicate the Level of long-term credit quality: Level 1: Excellent (Aaa/AAA) – highest credit quality. This rating indicates the lowest expected default risk. It is assigned only in cases where the ability to meet

financial obligations is exceptionally strong and unlikely to be adversely affected by foreseeable events. Level 2: Very Good (Aa/AA) – very high credit quality. This rating represents a strong assessment of solvency, as its holder has a high capacity to meet obligations as they fall due. It is not significantly different from the previous rating. Level 3: Good (A) – high credit quality. This rating expresses a good degree of solvency, as its holder has a high capacity to meet obligations. However, this capacity may be more vulnerable to adverse commercial or economic conditions than is the case for higher ratings. Level 4: Acceptable (Baa/BBB) – good credit quality. This rating indicates satisfactory solvency, but adverse business or economic conditions are likely to weaken this capacity. Level 5: Cautiously Acceptable (Ba/BB) – below-average credit quality. "BB" ratings indicate a high degree of exposure to default risk, particularly in the event of adverse changes in business or economic conditions over time. However, there is business or financial resilience to support the servicing of financial obligations. Level 6: B – poor credit quality. "B" ratings indicate a material risk of default, but a limited margin of safety remains. Financial obligations are currently being met; however, the ability to continue to pay is vulnerable to deterioration in the business and economic environment. Level 7: Caa/CCC – substantial credit risk. This rating is considered marginally acceptable. Level 8: Ca/CC – high credit risk. Level 9: Doubtful Facilities (C) – lowest credit quality. This rating is considered below standard, indicating a high likelihood of default due to financial losses, elevated debt levels, and low activity. Table 1 presented the banks in the research sample, classified by the rating agencies and their respective rating.

Table 1. Banks classified by credit rating agencies

Bank name	Gulf Commercial Bank	Ashur Bank	The Regional Commercial Bank	International Development Bank for Investment and Finance	National Bank of Iraq
2020	CCC+	Caa1	CCC+	B-	B-
2021	-	Caa1	CCC+	B-	Caa1
2022	CCC+	Caa1	CCC+	B-	Caa1
2023	CCC+	Caa1	CCC+	B-	B3
2024	CCC	Caa3	CCC+	B-/BB	BB
Rating agency	Fitch	Moody's	Fitch	Capital intelligence	Capital intelligence

Source: Fitch Ratings (2025)

Credit rating agencies have emerged with multiple concepts. Moody's Ratings (2025) defined the ratings assigned to Moody's global long-term and short-term rating scales as forward-looking opinions of the relative credit risk of financial obligations issued by non-financial corporations, financial institutions, structured and project finance instruments, and public sector entities. Moody's Ratings (2025) defined credit risk as the risk that an entity will fail to meet its contractual financial obligations as they fall due and any estimated financial loss in the event of default or impairment. M. Hartwall & C. Pettersson (2005) also defined credit risk as the rating

agency's assessment of the borrower's future ability and legal obligation to repay the principal and interest due on time. In the same context, and in a broader sense, Fitch Ratings (2025) defined credit ratings as forward-looking opinions about the relative ability of an entity or pledge to meet financial obligations across corporations, sovereign entities, and institutions. "Ratings are an assessment of an issuer's ability to service debt on a timely basis". Thus, the rating informs an investor of the degree of risk or safety associated with investing in a particular security. Definitions of credit ratings extend further. A credit rating is also defined as a

forward-looking opinion by S&P Global (n.d.) about the creditworthiness of an obligor with respect to a particular security, a particular class of securities, or a specific financial programme (including ratings on medium-term note programmes and commercial paper programmes). It takes into account the creditworthiness of guarantors, insurance companies, or other forms of credit enhancement on the security, and the currency in which the security is denominated. S&P Global (n.d.) reflects the global view of a debtor's ability and willingness to meet its financial obligations when due. It may assess conditions such as collateral and subordination that could affect final repayment in the event of default.

The major transformation of the global economy following the end of the Second World War prompted a revival of the so-called intermediaries market, which facilitated various forms of financial transactions. With the opening of markets, which began primarily in Western Europe, North America, Japan, and South Korea, commercial banks and financial institutions, which were increasingly open to diverse financing operations, were forced to resort to what became known as credit rating agencies (Sinclair, 2021). The first credit rating agency, the "Merchants Agency", emerged in New York in 1841. The credit rating market in the United States experienced significant development with the rise of companies operating in the railroad sector and their increasing need to raise funds from investors to finance their expansion projects. In 1909, John Moody established Moody's Investors Service. Poor's Publishing was founded in 1916, Standard & Poor's Financial Services in 1922, and Fitch Ratings in 1924. Standard & Poor's was merged in 1941 (White, 2010). Thus, there are three major credit rating agencies that control more than 90% of the global rating market: Moody's Investors Service, Standard & Poor's Financial Services, and Fitch Ratings. Initially, these agencies provided their services to institutions free of charge, as they relied on advertising for their income. However, this quickly changed, and these agencies began offering their advice in exchange for commissions.

The importance of credit rating agencies became evident starting in 1980, which marked the start of financial liberalisation and the development of financial intermediation. During the 1990s, the role of these agencies became entrenched, coinciding with the spread of financial engineering techniques, most notably securitisation. They also provided advice on how to structure issued securities by identifying different tranches, including the guaranteed tranche (A), the medium-quality tranche (B), the lower-quality tranche (C), and the tranche with the highest risk (D). Credit

ratings granted by rating agencies, particularly for governments and banking financial institutions, were heavily relied upon to predict the occurrence of non-payment risks based on quantitative and qualitative criteria. Capital markets became increasingly sensitive to the credit ratings issued by rating agencies, as these ratings affected the ability of companies and countries to access international capital markets and obtain the required financing (Besedovsky, 2017). The lack of sufficient information to make an investment decision regarding the purchase of issued financial instruments prompted investors to resort to credit ratings to measure the Level of financial risk and the debtor's ability to meet financial obligations. Changing the rating of issued bonds also influenced their prices in stock markets. The main objective of credit rating is to provide information to investors and help them determine the relative probability of losing money on their investments. In other words, a credit rating serves as an indicator of investment risk and a standard that reflects the borrower's ability and willingness to repay the due amount along with the interest owed on the due date (Hartwall & Pettersson, 2005).

Standard & Poor's was one of the most prominent global credit rating agencies. Its offices were located across 23 countries around the world, and it employed approximately 6,300 staff members (S&P Global, n.d.). It began issuing credit ratings in 1922. Standard & Poor's was a financial services company headquartered in the United States. It was a subsidiary of the McGraw-Hill Companies, which published financial research and analysis on stocks and bonds. It also produced general indices for a number of major global stock exchanges, including those in the United States, Australia, Canada, Italy, and India. The history of this agency dates back to 1860, with the publication by H.V. Poor (1860). In his book, the author attempted to compile comprehensive information on the financial and operational status of railroad companies in the United States. Henry Varnum Poor and his son, William Henry, established the Poor Company. Meanwhile, Luther Lee Blake founded Standard Statistical in 1906 to provide financial information on non-railroad companies. Poor and Standard Statistical merged to form Standard & Poor's in 1941. In 1966, the McGraw-Hill Companies acquired Standard & Poor's, which included the financial services sector. Standard & Poor's controlled approximately 40% of the global credit market (Fieberg *et al.*, 2016). Table 2 presented the most important international rating agencies, the ownership of each, the number of employees in each agency, and their respective market shares.

Table 2. Information on major international credit rating agencies

The company	Standard & Poor's	Moody's	Fitch Ratings
Ownership	A unit of McGraw-Hill, Inc., listed on the New York Stock Exchange	Listed on the New York Stock Exchange	A subsidiary of Vimalek

The company	Standard & Poor's	Moody's	Fitch Ratings
Number of employees	9,000	4,000	2,500
Market capture ratio, %	40	40	10-15

Source: based on R.R. Aroul & M. Rodriguez (2024)

So, the three leading international credit rating agencies differ in corporate ownership, operational scale, and global market share, yet all play a central role in shaping the structure and stability of the global financial system.

Objectives, criteria, and criticisms of credit rating agencies

Through their objectives, credit ratings seek to meet investors' needs by enhancing their decision-making ability. Credit ratings also aim to provide reliable information about the ability of economic units, or even governments, to repay principal and interest on loans on time and generate future cash flows. Credit ratings also serve to measure the creditworthiness of an entity, such as a company. They represent an agency's opinion. A rating assesses the underlying credit strength of an issuer and its ability to fully and punctually meet its debt obligations. In the global political economy, credit ratings are intended to reduce inefficient transaction costs and mitigate information asymmetry between borrowers and lenders in financial markets (Matthies, 2013). Credit rating agencies operate on a set of criteria that define and distinguish their impact and effectiveness. Objectivity: credit rating agencies must adhere to accurate and consistent standards, and all ratings must be subject to ongoing review. Prior to approval, a method must be established for rating each market sector. Independence: credit rating agencies must be independent and not subject to pressure from any political or economic entity that might influence the rating process. Transparency: ratings issued by credit rating agencies must be accessible to both local and foreign institutions on equal terms. The methods used in credit ratings must be disclosed, including the default rate and timeframe, the meaning of each rating, and the actual default rates encountered in each rating category. Information sufficiency: credit rating agencies must have adequate information sources to enable them to conduct high-quality credit ratings (Sharma *et al.*, 2022). These sources must also allow for ongoing communication with senior management. Credibility: credibility is partly derived from the consistent application of standards. Furthermore, the reliance on ratings issued by credit rating agencies by parties such as insurance companies, investors, and banks is considered evidence of the credibility of the ratings issued by these agencies. Credit rating agencies have constituted a significant development in financial markets, especially in light of rapid growth. However, they have not been without drawbacks and criticisms. The impact of credit rating agencies became evident through a series

of events, beginning with their failure to assess the risks associated with mortgage-backed securities, which led to the global financial crisis at the end of 2008.

Following the subprime mortgage crisis in the United States, the credit rating industry faced severe criticism when it was revealed that it had systematically inflated the ratings of mortgage-backed securities during 2003-2007. This dealt a severe blow to the credibility of credit rating agencies, as many assets received high credit ratings while their owners incurred losses amounting to hundreds of billions of dollars. Perhaps one of the consequences of this was that these agencies adopted a more stringent stance than before in assessing risks, the most recent of which was the downgrade of the United States' credit rating by Standard & Poor's in August 2011 (Nästegård, 2016). They were accused of having conflicts of interest with debt issuers, who were also their clients and paid them in exchange for rating their debt issues. These agencies have been criticised for contributing to the collapse and bankruptcy of European countries such as Greece and Portugal, while major countries such as France faced the threat of a downgrade, making these institutions key actors in shaping the global economic climate. Rating agencies have received significant criticism since 2008, when they failed to assess the risks associated with subprime mortgage bonds, which led to the financial crisis. Credit rating agencies came under increasing criticism and scepticism following the collapse of Lehman Brothers two days after it was assigned its AAA rating (the safest). No institution had experienced the same economic and political turmoil as the major rating agencies Standard & Poor's, Moody's, and Fitch. These agencies failed to sound the alarm promptly regarding the risks of U.S. mortgages and the derivatives and securities underlying them. R. Gupta (2021) noted that these agencies played a prominent role in the financial collapse and economic repercussions that followed the 2008 financial crisis. The inability of credit rating agencies to assess future risks and the delay in detecting negative trends that some debt issuers were exposed to after the issuance process led to delayed responses to downgrade ratings and contributed to the failure of credit rating agencies and their inability to predict the Asian-Mexican crisis.

Stages and characteristics of financial market development

Financial markets are defined as a system that brings together buyers and sellers of a specific financial asset or type of securities. Investors can buy and sell various

stocks and bonds within this market through operating companies or brokers working in such fields. However, physical presence at the headquarters of the central stock market had become less important due to the growth and development of modern communication methods and the emergence of various communication networks that allow brokerage firms located in different countries to operate outside the market (Rousseau & Wachtel, 2000). R. Zaman *et al.* (2020) referred to markets as a framework through which savings units seeking to invest were brought together with deficit units in need of such funds for reinvestment through specialised groups operating in the market, provided that effective means of communication were in place. The roots of financial markets go back to ancient financial practices, as the emergence and development of financial markets reflected the growing economic conditions and needs in the countries in which they existed. The emergence of markets was not a coincidence, but rather a result of the requirements of commercial and economic development in those countries (Capiou-Huart & Antoine, 2012). The idea of these markets emerged when people began to consider exploiting their savings, and they were aided in this by scientific development and the emergence of companies with financial surpluses, as these companies sought to invest such surpluses through these markets.

The spread of joint-stock companies created a strong movement in dealing in financial instruments, and governments' desire to borrow increased, which encouraged the emergence of stock exchanges. A.K. Al-Dumay (2010) emphasised that dealing in these instruments initially took place informally, on the side of the road in major countries such as France, England, and America, and then dealings settled later in a designated place known as the stock market. In developed and developing countries alike, stock markets have received great attention, and they served as a mirror of the economy in which they exist, due to their important role in mobilising national savings and directing them to investment areas that support the country's national economy, leading to the well-being and benefit of society as a whole (DeFond *et al.*, 2015). Among the oldest stock exchanges established were the Anvers Stock Exchange, Frankfurt, Barcelona, Lyon, the New York Stock Exchange (1993), the Liverpool Stock Exchange (1873), and the New Orleans Stock Exchange (1880). In the Arab world, the Alexandria Stock Exchange (1883) and the Cairo Stock Exchange (1890) were established. A. Nashef & K. Al-Hindi (2000) indicated that the first stock exchange appeared in France in 1824 by royal decree. It was located in Paris at the Brongniart Palace, named after the engineer commissioned by Napoleon to build a palace for the stock exchange. Construction was completed in 1827. In England, stock exchange operations were established in the early nineteenth century in a special building called the Royal Exchange, while in America,

the first stock exchange was established in 1821 on Wall Street, where these transactions took place.

Financial markets have gone through a series of stages, and each stage demonstrated the nature of market transitions based on financiers, investors, and returns. The first stage was characterised by a large number of exchange offices and private banks and a relatively high standard of living, which generated interest among individuals to invest their savings in agricultural, industrial, commercial, and other projects. This led to the expansion of commercial transactions and an increase in the size of these projects, which required large sums of money that individuals could not finance, resulting in significant financial strain. The second stage followed, beginning with the emergence of central banks, which began to supervise commercial banks after the latter enjoyed absolute freedom in the first stage. In the second stage, commercial banks began to carry out their traditional work, namely the discounting of commercial papers and the provision of credit, in accordance with the rules and orders of central banks (Dang *et al.*, 2017). The third stage marked the beginning of the emergence of banks specialising in providing medium- and long-term loans, such as industrial, agricultural, and real estate banks, as well as development and investment banks. These banks began issuing medium and long-term bonds to meet their financial needs and to finance various projects. The central bank also issues treasury bonds, while the fourth stage witnessed the emergence of money markets, during which the movement of securities, commercial papers, and negotiable certificates of deposit increased. This was considered the beginning of the integration of the money market with the financial market. Finally, the fifth stage marked the point of integration of the money markets with the stock markets, and the integration of the financial markets with the international markets due to the development of various means of communication. At this stage, stock markets began to facilitate the purchase and sale of long-term securities and forward operations (Zhang & Nam, 2016).

Financial markets were based on a set of interconnected characteristics that reflected the nature, impact, and effectiveness of the market. This was achieved through operational efficiency, defined as the financial market's ability to transfer resources and funds to those who need them at a lower cost than conventional transaction costs, such as the cost of transferring securities and the cost of financial intermediation. Therefore, the success of this market depended on reducing such costs, as well as allocating resources efficiently. The primary mission of the financial market was to channel surplus funds from those who possessed a surplus to those who required them. One of the conditions for this was that it must be carried out efficiently, which was not an easy task. Furthermore, it was necessary to provide liquidity, as it was common for shares to be without a maturity date, but shareholders were able to return them

to the issuing company (Yaremko & Dumych, 2024). This was also the case for bonds, despite their different maturity dates. Therefore, the market was considered the only refuge for investors, enabling them to sell securities and convert them into cash. It provided information and responded immediately to new events, as the market was a very important source of information about the investments that were being traded, especially the volume, price, and trading movement. Its work was not limited to providing information, but it was also required to respond quickly to events and changes because these affected the stock price.

Contributions of credit rating agencies to stimulating the Iraqi stock market

The Iraqi stock market officially commenced operations on 24 June 2004, replacing the Baghdad Stock Exchange. It was a self-financed public benefit institution managed by the Board of Governors, which represented the various economic sectors of the investment environment in the country. Pursuant to Article (6) of Section (5) of Law (74), the Iraq Stock Exchange authorised the work of brokers accredited and licensed by the dissolved Baghdad Stock Exchange, including those who were brokers on 19 March 2003 (Coalition Provisional Authority Order No. 74..., 2004). The number of brokerage companies and offices reached 51, including 29 limited brokerage companies and 22 banks, of which 5 were government banks and 17 non-government banks. Shares of Iraqi joint-stock companies that were listed on the Baghdad Stock Exchange and met all the listing requirements specified in the Market Law, as well as new joint-stock companies that were not listed, were accepted for trading on the stock market (Hussein & Hussein, 2024). The Exchange aimed to develop the financial market in Iraq to serve the national economy and assist companies in building capital, to organise and train market members and listed companies, while protecting investors and enhancing investor confidence in the market. It also aimed to organise and simplify securities transactions in a fair, effective, and regular manner, including clearing and settlement processes for these transactions, as well as to promote the interests of investors in a free, safe, effective, competitive, and transparent market. It regulated the transactions of its members in everything related to buying and selling securities, and determined the rights and obligations of the parties and means of protecting their interests. It also educated Iraqi and non-Iraqi investors about investment opportunities in the market, communicated with markets in the Arab world and global markets with the aim of developing the market, and finally collected, analysed, and published the statistics and information necessary to achieve the objectives stipulated in the bylaws (Endri *et al.*, 2021).

G.E. Pinches & J.C. Singleton (1978) were among the first to investigate the impact of credit rating changes on stock prices. Using a sample of Moody's bond credit

ratings from 1950 to 1972 and their monthly abnormal returns, the researchers attempted to determine the impact of an announcement. They found that as bond credit ratings declined, abnormal returns on stock prices either increased or decreased, depending on the context. P.A. Griffin & A.Z. Sanvicente (1982) examined the impact of credit rating announcements for both Moody's and Standard & Poor's and concluded that bond rating downgrades had a significant impact on stock prices before and after the announcement. However, the effects of rating downgrades were insignificant for the period following the announcement, but were significant for the months preceding the announcement (Gupta, 2021). This pattern reflected a stronger market reaction to rating downgrades than to upgrades, as downgrades had an empirically significant effect on stock prices in most studies on the subject, unlike rating upgrades, which had no effect in most studies. This meant that downgrades contained valuable information, whereas upgrades did not (Matthies, 2013).

The scores assigned by credit rating agencies to bonds represented collective information about issuers, borrowers, and the economic conditions in which they operated. This information helped investors and financial intermediaries make investment decisions in financial securities and facilitated the work of financial market authorities and other market participants. From the perspective of issuers, credit ratings played an important role in increasing their ability to raise capital, as they had a direct impact on the conditions imposed on rated issuers. They also played an important role for companies wishing to assess the quality of loans to counterparties in financial or commercial transactions. Credit ratings were extremely useful to issuers and were sometimes essential for financing their activities in local and international markets. For example, enhancements to reputation and brand image were facilitated by credit ratings issued by agencies, which were widely disseminated in the specialised press and on television. In addition to increasing access to capital markets, credit ratings expanded the scope of investors interested in a company. Some market experts noted that credit ratings were a passport to capital access, enabling issuers to access more capital internationally, allowing for diversification of funding sources and reducing reliance on narrow markets.

When researching data on the Iraqi stock market, it was noted that 2024 recorded the highest closing price per share for the Gulf Commercial Bank, at 0.30, compared to 2020, when the price per share was 0.14 for the same bank. This was the last price before the bank obtained a credit rating from international agencies. As for Ashur Bank (n.d.), the closing prices per share were highest in 2020 and 2021, compared to the remaining years in the research sample, and this was both before and after the bank came under the credit rating framework. In the same context, it was found that the

Regional Commercial Bank (n.d.) maintained the same closing price Level in 2020, which was before the bank obtained a credit rating, followed by increases during 2022-2024. It was also observed that the International Development Bank for Investment and Finance had the highest closing price in 2021, during the period in which the bank obtained a credit rating, at 0.89; however, this price did not remain at the same level. The price entered a phase of fluctuation, and in 2022, a significant decrease was recorded, with the closing price falling to 0.05, followed by a notable improvement in 2023 and 2024, when it reached 0.17. It was also observed that the clos-

ing price of one share of the National Bank of Iraq (n.d.) was the highest compared to the rest of the years and the rest of the banks, recording the highest price of 3.21 in 2024, while the lowest closing price for the same bank was recorded in 2020, at 0.92, before the bank obtained a credit rating from the agencies. Table 3 shows that the Average Q index recorded its highest value, 0.9289, in 2021, due to the Regional Commercial Bank, while the lowest value for the same indicator was 0.4895, recorded by the Gulf Commercial Bank in 2023. This can be seen in Table 3, which presents commercial banks with a credit rating according to the Average Q index.

Table 3. Commercial banks with a credit rating according to the Average Q index

Banks	Years	Closing price, IQD	Number of shares	Total market value	Total assets	Total liabilities	Average Q value, %
Gulf Commercial Bank	2020	0.14	499,038,487.30	698,653,882.2	510,798,283.63	203,626,171.80	0.5354
	2021	0.15	201,205,717.17	301,808,575.8	538,490,755.39	234,164,978.56	0.4909
	2022	0.16	212,652,148.91	340,243,438.3	553,057,328.64	244,416,465.63	0.5034
	2023	0.18	161,782,469.52	291,208,445.1	572,648,573.13	251,192,346.01	0.4895
	2024	0.30	192,770,309.41	578,310,928.2	567,300,300.14	233,982,457.32	0.5143
Ashur Bank	2020	1	250,000,000.00	250,000,000.00	475,519,025.00	201,955,349.00	0.9504
	2021	1	250,000,000.00	250,000,000.00	613,502,839.00	332,130,921.00	0.9488
	2022	0.28	250,000,000.00	700,000,000.00	779,419,575.00	485,090,691.00	1.5204
	2023	0.27	250,000,000.00	675,000,000.00	757,756,437.00	450,918,079.00	1.4858
	2024	0.29	250,000,000.00	725,000,000.00	269,691,943.70	143,220,634.40	3.2193
The Regional Commercial Bank	2020	1	250,000,000.00	250,000,000.00	644,518,584.20	346,096,823.47	0.9248
	2021	1	250,000,000.00	250,000,000.00	807,038,837.65	499,709,370.35	0.9289
	2022	1	250,000,000.00	250,000,000.00	112,864,934.30	810,798,117.94	9.3988
	2023	1	300,000,000.00	300,000,000.00	100,104,685.46	641,555,006.68	1.4057
	2024	1	350,000,000.00	350,000,000.00	952,991,382.83	541,627,916.71	0.9356
International Development Bank for Investment and Finance	2020	0.81	250,000,000.00	202,500,000.00	106,974,529.50	787,250,695.00	9.2522
	2021	0.89	250,000,000.00	222,500,000.00	150,785,537.60	120,912,141.70	2.2774
	2022	0.05	250,000,000.00	125,000,000.00	179,895,216.30	148,746,928.90	1.5217
	2023	0.17	300,000,000.00	510,000,000.00	256,869,469.80	220,443,139.50	2.8436
	2024	0.17	400,000,000.00	680,000,000.00	296,610,922.80	242,353,771.00	3.1096
National Bank of Iraq	2020	0.92	250,000,000.00	230,000,000.00	893,205,652.00	585,910,726.00	0.9134
	2021	1.23	250,000,000.00	307,500,000.00	182,134,184.00	150,547,969.10	2.5148
	2022	1.23	270,000,000.00	332,100,000.00	241,608,878.00	208,292,189.40	2.2366
	2023	1	300,000,000.00	300,000,000.00	398,298,486.30	347,789,470.30	1.6263
	2024	3.21	400,000,000.00	128,400,000.00	514,423,292.20	444,672,798.90	1.1140

Source: Iraqi Securities Commission (n.d.)

The change rates fluctuated among the banks that obtained a rating between 2020 and 2021, as the goal was to determine the market value of the bank before and after obtaining the credit rating. Based on the ratios, it was found that the highest change rate of Average Q was achieved by the National Bank of Iraq, at 175.323%, which was highly favourable for raising the bank's competitive and economic value. The lowest change rate was recorded by the International Development Bank for Investment and Finance (n.d.), amounting to -75.3853%. The Gulf Commercial Bank achieved an change rate of Average Q in 2020 of 0.5354, but this rate decreased in 2021, resulting in a significant decline of -8.3115%. This was due to the decrease in the volume of revenues arising from the slowdown in economic activity caused by

the spread of the coronavirus pandemic in 2020-2021, which led to the deterioration of the bank's conditions and increased its financial distress. As for Ashur Bank, it was found that the Average Q index reached 0.9504 in 2020, followed by a slight decrease in 2021, when it reached 0.9488. This decrease was due to the very weak stock trading price compared to the rest of the banks, which resulted in a decrease in the change rate between the two years, amounting to -0.1683%.

It was noted that the Regional Commercial Bank was in a period of recovery and relative improvement compared to other banks, as the Average Q index in 2020 reached 0.9248, and in 2021 it reached 0.9289, followed by an increase of 0.4433%. This was due to the increase in the size of assets, which led to an in-

crease in the economic and market value of the bank despite the stability of traded share prices, in addition to prudently assessed lending decisions during those years. This was also supported by the large number of customers and the increase in deposit volumes. Meanwhile, it was found that the International Development Bank for Investment and Finance witnessed a decrease in the Average Q index, as it recorded 9.2522 in 2020 and 2.2774 in 2021. This decrease resulted in a substantial decline in the two-year change rate, amounting to -75.3853%, which may be attributed to fluctuations in securities prices, affecting the bank's reputation and

standing, as well as the decrease in asset size in 2021 compared to 2020. Also, it was observed that the National Bank of Iraq achieved 0.9134 in 2020 compared to 2021, when it recorded an increase in the index value to 2.5148, corresponding to an increase in the percentage change of 175.323%. This result indicated an improvement in the bank's market value, a rise in stock trading, and the bank's recovery from the COVID-19 pandemic, which spread in 2020. In addition, the increase in banking liquidity resulting from the substantial growth in deposit volumes enabled the bank to expand its credit base (Table 4).

Table 4. Comparison of the change rates of the Average Q index for commercial banks with a credit rating, 2020-2021

Bank name	2020	2021	Rate of change, %
Gulf Commercial Bank	0.5354	0.4909	-8.3115
Ashur Bank	0.9504	0.9488	-0.1683
The Regional Commercial Bank	0.9248	0.9289	0.4433
International Development Bank for Investment and Finance	9.2522	2.2774	-75.3853
National Bank of Iraq	0.9134	2.5148	175.323

Source: Iraqi Securities Commission (n.d.)

National Bank of Iraq achieved the highest percentage change in the Average Q index, while the lowest percentage was recorded by the International Development Bank for Investment and Finance at -83.5531%, a figure that negatively affected its market value. It was also noted that Gulf Commercial Bank experienced a significant decline in 2022, with its Average Q index falling to 0.5034, compared to 0.5354 in 2020. The decline was attributed to reduced market activity and weak trading volumes. Despite asset instability and growth, the change rate decreased by -5.9768%. However, this decline did not apply to Ashur Bank. The bank maintained a strong market value, with its Average Q index reaching 0.9504 in 2020. Trading volume increased in 2022, resulting in a change rate of 59.9747%. This was driven by growth in banking activity, particularly in credit and deposits, due to the bank's effective utilisation of available resources, which positively influenced its market value. In the same

context, it was found that the Regional Commercial Bank also benefited from operating under the credit rating ceiling, as its market value increased slightly. Compared to Ashur Bank, stock trading remained stable, yet changes in asset size played a major role in this improvement, amounting to 51.2543%. In 2020, the Average Q index of the International Development Bank for Investment and Finance reached 9.2522, a strong result relative to the other banks. However, this increase did not continue, and the index fell to 1.5217 in 2022. Consequently, this bank recorded the lowest change rate among all banks. As for the National Bank of Iraq, it was found that the bank's change rate between 2020 and 2022 was strong and the highest among the banks, amounting to 144.8653%. This was attributed to technological modernisation and the adoption of electronic governance, which facilitated exchange transactions, increased liquidity, and expanded the banking and credit base (Table 5).

Table 5. Comparison of the change rates of the Average Q index for commercial banks with a credit rating, 2020-2022

Bank name	2020	2021	Rate of change, %
Gulf Commercial Bank	0.5354	0.5034	-5.9768
Ashur Bank	0.9504	1.5204	59.9747
The Regional Commercial Bank	0.9248	1.3988	51.2543
International Development Bank for Investment and Finance	9.2522	1.5217	-83.5531
National Bank of Iraq	0.9134	2.2366	144.8653

Source: Iraqi Securities Commission (n.d.)

The National Bank of Iraq had the largest share in 2023 in terms of the percentage change in the Average Q index, recording an increase of 78.04905%, which indicated financial resilience and growth in its market value. In contrast, the lowest percentage for the same index was recorded by the International Development Bank for Investment and Finance. This resulted from a

substantial decline in 2023 compared with 2020, the period prior to the bank's receipt of a credit rating, meaning that its value fell to -69.2657%. This decline may have been driven by a marked reduction in trading volume, which diminished market interest in the bank's position. In addition, instability in the Iraqi market discouraged customers from increasing their engagement with the

bank and depositing funds. It was found that in 2020, the Average Q index of Gulf Commercial Bank (n.d.) was high, but it decreased by 2023, which was considered an unfavourable indicator of the bank's market value. The difference in the decline between 2020 and 2023 amounted to -8.57303%, which may be explained by the strict measures imposed by the Central Bank of Iraq (n.d.) regarding dollar transactions. These restrictions removed the bank from currency auctions and forced it to rely on alternative funding sources and deposits of varied and unstable origin. It was also found that Ashur Bank and the Regional Commercial Bank experienced a period of

improvement and significant share trading. It was noted that the Average Q index increased, along with a positive rise in their market value, possibly due to capital growth in 2023, which enhanced the banks' financial standing and increased their credit activity. Furthermore, inflation fell to 3.4% from 7%, encouraging investors to expand their investment and borrowing activity. This stimulated deposit growth, supported by the entry of foreign investors and the expansion of foreign investment portfolios within the country and the banks. In addition to the profits achieved by Ashur Bank, which reached 630 billion IQD in 2023 compared with 2020 (Table 6).

Table 6. Comparison of the change rates of the Average Q index for commercial banks with a credit rating, 2020-2023

Bank name	2020	2023	Rate of change, %
Gulf Commercial Bank	0.5354	0.4895	-8.57303
Ashur Bank	0.9504	1.4858	56.33418
The Regional Commercial Bank	0.9248	1.4057	52.00043
International Development Bank for Investment and Finance	9.2522	2.8436	-69.2657
National Bank of Iraq	0.9134	1.6263	78.04905

Source: Iraqi Securities Commission (n.d.)

Ashur Bank achieved a change rate in the Average Q index of 238.7311%, the highest among all banks relative to 2020, a Level that approached 200%, and this represented a strong opportunity for investors. This improvement was driven by the bank's recovery from the period of market and economic contraction experienced in 2022, which increased credit and deposit

levels and strengthened exchange liquidity. Moreover, the decline in the inflation rate in 2024, which fell to 4% from 6% in 2023, served as a significant incentive for supporting purchasing power and enhancing economic and monetary stability after interest rates were increased to 7%, thereby strengthening the culture of banking activity (Table 7).

Table 7. Comparison of the change rates of the Average Q index for commercial banks with a credit rating, 2020-2024

Bank name	2020	2024	Rate of change, %
Gulf Commercial Bank	0.5354	0.5143	-3.94098
Ashur Bank	0.9504	3.2193	238.7311
The Regional Commercial Bank	0.9248	0.9356	1.16782
International Development Bank for Investment and Finance	9.2522	3.1096	-66.3907
National Bank of Iraq	0.9134	1.1140	21.9619

Source: Iraqi Securities Commission (n.d.)

The Average Q index continued to decline in 2024, with the percentage decrease reaching -66.3907%. According to annual reports, this was due to the weakening volume of loans provided by the bank, which had reached a doubtful stage, leading to government delays in paying dues and consequently reducing asset volume. In contrast, the National Bank of Iraq recorded the highest percentage change among the banks in 2024, followed by the Regional Commercial Bank, with an increase of 1.16782%, which represented a favourable outcome for the bank. Overall, the analysis showed that Iraqi commercial banks experienced varying degrees of growth and decline throughout 2020-2024. Some banks demonstrated strong financial recovery and improved market performance, reflecting increased investor confidence and greater stability in the banking sector. Others, however, faced challenges associated with market instability, regulatory restrictions, and reduced trading

activity, which negatively affected their value. These trends highlighted the uneven development of the banking industry amid evolving economic and monetary conditions in Iraq.

Conclusions

The study revealed an improvement in the performance of Iraqi banks and other institutions that received credit ratings from international agencies. While these ratings were not optimal, they were acceptable and consistent with the research hypothesis, reflecting positive, albeit limited, progress. Most of the rated banks in the sample was not achieve a rating above 1.0, which was a weak indicator of their financial performance and market value. This finding was reinforced by the decline in trading volumes of bank shares during 2020-2024, both before and after the ratings were issued. The study highlighted that investor awareness of the rating process was

limited and that the rated banks themselves did not disclose sufficient information regarding the significance of their credit ratings. This lack of transparency diminished the potential benefits of obtaining a rating. The results showed that the comparison percentage between 2020 and 2021, before and after the banks were classified, varied considerably. The National Bank of Iraq experienced the greatest change between the two years, reaching 175.323%, the highest percentage among the banks in the study sample. The National Bank of Iraq maintained this upward trend, with its comparison percentage between 2020 and 2022 reaching 144.8653%. The change rates for the average credit quality of banks with a credit rating also showed that in 2023, the National Bank of Iraq benefited the most from the rating, at 78.04905%, compared with the period before the banks were classified under the credit rating ceiling. In 2024, Ashur Bank had the highest share of the change percentage, at 238.7311%, indicating that the contribution of rating agencies clearly enhanced credibility and

performance. These results underscored the urgent need to strengthen financial literacy, promote disclosure practices, and establish specialised organisations in Iraq to raise awareness of the importance of credit ratings at both the national and international levels. Future research should focus on assessing the long-term impact of credit ratings on bank performance, investor behaviour, and market efficiency, as well as exploring regulatory frameworks that would encourage wider adoption and more transparent use of credit ratings in emerging economies.

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Conflict of Interest

None.

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Ступінь внеску кредитних рейтингових агентств у процес активізації діяльності Іракської фондової біржі у 2020–2024 роках

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Анотація. Метою дослідження було висвітлення ролі кредитних рейтингових агентств, їхнього внеску в активізацію діяльності Іракської фондової біржі, а також визначення їх значення для фінансових і міжнародних інституцій в умовах широкого використання високоризикових інвестиційних інструментів, обмеженості інформаційних потоків і низького рівня ефективності ринку. У сучасних умовах істотно ускладнилося отримання достовірної інформації щодо операцій, що здійснюються на фінансових ринках. У межах дослідження проаналізовано діяльність кредитних рейтингових агентств з метою оцінювання, визначення та розкриття інформації у більш прозорий, точний і об'єктивний спосіб, що сприяло залученню максимальної кількості інвесторів і наданню інформаційної підтримки учасникам ринку. Аналітична база дослідження ґрунтувалася на вибірці банків, які отримали кредитний рейтинг, та передбачала порівняльний аналіз показників за 2020 рік – до присвоєння рейтингу – і за 2021-2024 роки – після його отримання. Результати дослідження засвідчили, що в Іраку тривалий час відчувався дефіцит спеціалізованих організацій та інституцій, покликаних популяризувати значення кредитного рейтингування на національному й міжнародному рівнях, зокрема з огляду на те, що окремі банки опинилися в межах рейтингової «стелі». Присвоєння кредитного рейтингу здійснювалося після отримання відповідних дозволів Центрального банку Іраку на надання фінансових послуг, зокрема щодо розширення обсягу зовнішньоекономічних операцій шляхом надання контрактних кредитів. Найбільший економічний ефект від отримання кредитного рейтингу зафіксовано у Національного банку Іраку, другим за рівнем вигод став Регіональний комерційний банк. Практична цінність дослідження полягає у можливості використання його результатів органами державного управління та розробниками економічної політики з метою підвищення ефективності функціонування Іракської фондової біржі. Активізація та посилення ролі кредитних рейтингових агентств сприятиме зростанню довіри інвесторів і залученню капіталу на іракський фінансовий ринок

Ключові слова: кредитоспроможність; фінансова довіра; залучення капіталу; інвестиції; середній індекс Q