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ANALYZING THE RELATIONSHIP BETWEEN FINANCIAL BALANCE AND FINANCIAL STABILITY: AN APPLIED STUDY ON COMMERCIAL BANKS LISTED IN THE IRAQ STOCK EXCHANGE

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Abstract:
The purpose of the current research is to examine the impact of financial balance on the financial stability of commercial banks (Ashur Bank, Investment Bank, Sumer Bank, Bank of Baghdad, and Middle East Bank) in the Iraq Stock Exchange for the fiscal period (2014-2023). By highlighting the reality and importance of financial balance in Iraq, the extent of financial services expansion can be determined by including banking categories and services that contribute to the expansion of investment projects in the country. Therefore, the current research primarily aimed to address a key problem formulated in the question: "To what extent does financial balance impact financial stability among commercial banks in the Iraq Stock Exchange?" The study used the Excel (SPSS v. 29) office suite to extract the best findings in order to evaluate and explain them. The study compiled numerous significant results, the most notable of which is that reaching financial stability depends on financial balance. A good financial balance serves to stabilize financial institutions, lower the risk of crises, and guard the national economy from unplanned changes.

Keywords: financial balance, financial stability, commercial banks.

INTRODUCTION

Examining the elements influencing the stability of financial institutions—especially commercial banks listed on the Iraq Stock Exchange—has become essential in view of the economic trends and changes occurring in the financial industry (Pham & Doan, 2020). One of the main pillars supporting the stability of these banks is financial balance as it shows their capacity to properly control their financial resources and balance their assets and liabilities in a way improving their sustainability. Particularly in an economic climate marked by ongoing difficulties like inflation and economic crises, financial balance is intimately related to their capacity to fulfill their commitments and lower the danger of bankruptcy (Ashraf et al., 2016). Researching the degree to which financial balance influences bank financial stability is very important as it clarifies how to fix financial disparities and increase banks' resilience against shocks. Applying these ideas to a sample of banks registered on the Iraq Stock Exchange would help to give useful information that supports the development of financial policies and improves the stability of the banking industry, therefore benefiting the national economy and raising investor confidence. (Claessens & Van Horen, 2012).

LITERATURE REVIEW

Concept of Financial Balance

Providing a company's financial requirements in the necessary amounts, using the best feasible ways and at the lowest cost while employing these funds within a balanced financial framework that guarantees financial stability defines financial balance. This covers making sure the firm can satisfy its short-term debts on their due dates as well as its general commitments, thereby preventing financial crisis that can result in bankruptcy or business market departure (Boybaun, 2020). Reaching financial balance requires two primary considerations: the first is the accessible sources of financing, which comprise equity and short-term loans; the second is the fixed sources of financing, represented by equity and long-term loans (Gheorgh, 2013).

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Financial balance is also achieved when the company is able to recover all resources consumed during the production or service provision process, when the value of inputs equals the value of expenses incurred (Claudia et al., 2018). Financial balance involves providing the company's financial needs in the required quantities, using the best possible methods and at the lowest cost, while utilizing these funds within a balanced financial structure that ensures financial stability. This includes ensuring the company's ability to meet its general obligations and short-term debts on their due dates, and avoiding falling into financial difficulty that could lead to bankruptcy or exit from the business market (Siham and Younis, 2017). A company's financial balance is based on the fundamental principle that permanent funds, which include the company's own funds (equity) in addition to medium- and long-term loans, must be equal to net investments plus standard working capital (Shafia and Sakina, 2021).

Importance of Financial Balance

The importance of financial balance lies in companies' efforts to achieve a balance between assets and liabilities, while maintaining this balance on an ongoing basis. Companies generally strive to have sufficient liquidity to finance their operating expenses, on the one hand, and to achieve high returns by investing as much of their capital as possible, on the other (Farhi & Tirole, 2018). Burgess et al., 2016, indicated the importance of financial balance as follows:

1. Predicting future results for the company's treasury and assessing the associated risks: by analyzing the treasury's financial position and its ability to invest.
2. Estimating returns from available investment opportunities: This is done by forecasting the expected returns from investment operations.
3. Enforcing internal control over cash flows: This is done by balancing cash inflows and outflows.
4. Evaluating the company's financial performance: This helps assess the efficiency of the use of financial resources by analyzing the returns and revenues generated by the company.

5- Ensuring short-term debt repayment and enhancing financial solvency: The company's ability to meet its short-term obligations, which supports its financial stability and reduces the risk of insolvency.

6- Financing investments through permanent funds: This is achieved by **b Financial Balance Indicators**

1-Financial Solvency

The financial institution's ability to cover long-term obligations. Financial solvency represents the institution's ability to achieve a balance between its assets and liabilities. An institution is considered financially solvent when the value of its assets exceeds the value of its liabilities (Dahiyat, 2016). One of the most common indicators for measuring financial solvency is the debt-to-equity ratio (Tawfik, 2011).

Debt-to-equity ratio = Debt /Equity..(1)

2-Financial Flexibility

Financial flexibility refers to a company's ability to face unexpected challenges, such as economic recessions or declining sales, as well as to exploit emergency investment opportunities through the optimal use of available resources (Siminica et al., 2012). One of the most important indicators for measuring financial flexibility is the cash balance ratio, which can be measured as follows:

Cash balance ratio = Total cash / Deposits × 100...............(2)

Concept of Financial Stability

The idea of financial stability shows a concentration on the operation and strength of every element of the financial system as well as the lack of conflicts and disruptions within this framework. Consequently, the idea of financial stability is the stability of the elements of the financial system and the related operations, thereby avoiding crises (Adrian et al., 2015). Ensuring the strength and integrity of the operation of all elements of the financial system defines financial stability, which means the existence of tensions and disruptions within this system, thereby adversely affecting the economy (Berger et al., 2017). Usually speaking, financial stability is the consistency of the oversight of significant financial institutions—especially financial markets. Having sufficient capital to absorb material and sometimes extraordinary losses, and sufficient liquidity to manage operations and fluctuations during normal periods of time are generally signs that these markets and financial institutions are stable (Daud et al., 2022). Market stability does not mean stable asset prices, as stable markets can experience significant asset price volatility. Rather, it generally means the absence of such volatility with dire economic consequences (Smets, 2018). Financial stability is also defined as the state in which financial sector institutions enjoy a high degree of confidence in their ability to continue performing their duties without the need for external assistance (Anthony-Orji et al., 2019. The financial system, its components, and activities are related to financial stability. Central banks, as a result of their management of the monetary policy they pursue, are among the most crucial entities responsible for achieving this focus on the financial markets. (Ilyas et al., 2020).

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Importance of Financial Stability

Financial markets are, in fact, a tool for pooling savings from institutions and individuals to finance large investments, particularly mega-projects characterized by high production volume and low unit production costs. This enables the national economy to compete with other markets, both local and global (Dikau & Volz, 2021). Complete transparency in transactions is necessary to build public trust and focus public funds toward these initiatives for investment if institutions and financial markets are to be stable (Battiston et al., 2021). In order to provide a good investment environment and therefore attain financial stability, banks must also function as middlemen for savings in stocks and bonds as well as for investing deposits. This thus represents the financial surpluses attained by local banks under conditions of banking stability and higher rates of growth. This is related to the stability of the national economic situation (Kedward et al., 2023). Any nation's activity is mostly driven by its interest rates, which are also regarded as one of the most crucial metrics used to examine the general direction of markets and a means of controlling economic activity via legislative actions. (Liu et al., 2024).

Financial Stability Indicators

One of the indicators used to measure financial stability is the capital adequacy index. This index determines the minimum capital requirements based on the size of banks' risk-weighted assets. It is one of the mechanisms used to reduce the risk to which banks may be exposed, as high-risk lending and assets generate higher capital requirements to protect them from risks (Nguyen, 2022). The capital adequacy index can be calculated by dividing total capital, which includes (total core capital such as common and preferred shares, reserves, and retained earnings + total supplementary capital such as undisclosed reserves, revaluation reserves, provisions for bad debts, and long-term debt), based on the following equation (Liu et al., 2024):

Capital adequacy = Total capital / Total risk-weighted assets.............(3)

METHODOLOGY

Research Problem

The research problem relates to how the financial balance affects the financial stability of commercial banks listed on the Iraq Stock Exchange. The banking sector suffers from financial imbalances due to several factors, such as weak asset and liability management or weak financial oversight and supervision. Financial imbalances threaten banking crises, negatively impacting the stability of the financial system as a whole, especially in an economic environment characterized by challenges and difficulties. Therefore, the problem lies in the lack of sufficient data or appropriate policies to ensure the continued maintenance of financial balance for banks. This raises investor concerns and increases the risk of economic volatility. Understanding the extent to which financial stability is affected by financial balance variables has become essential for developing policies and procedures that help protect banks, enhance financial market stability, and achieve sustainable economic growth.

1-Financial Solvency

A bank's ability to meet its long-term cash commitments is demonstrated here. A bank akan bankrupt jika ia tidak mempunyai cukup wang. When compared to internal financing sources, the debt-to-equity ratio shows how much debt is used as a source of financing.. Undoubtedly, the fact that owners contribute a larger portion of these funds increases creditors' confidence in the bank's cash flow to meet its obligations. This ratio measures the extent to which creditors contribute to the bank's funds compared to the owners' contribution. Table (1) shows the debt-to-equity ratio for the commercial banks in the study sample for the period (2014-2023).

Table (1) Debt-to-equity ratio of commercial banks in the study sample

Data	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	MEN
Ashur Bank	**0.016**	**0.028**	**0.018**	**0.017**	**0.017**	**0.020**	**0.091**	**0.403**	**0.704**	**0.628**	**0.19**
Investment Bank	**0.583**	**0.430**	**0.357**	**0.314**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.001**	**0.16**

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Sumer Bank	**0.481**	**0.437**	**0.419**	**0.369**	**0.302**	**0.292**	**0.181**	**0.130**	**0.112**	**0.144**	**0.28**
Bank of Baghdad	**0.775**	**0.999**	**0.690**	**0.021**	**0.018**	**0.009**	**0.014**	**0.005**	**0.002**	**0.905**	**0.34**
Middle East Bank	**0.379**	**0.000**	**0.007**	**0.012**	**0.015**	**0.022**	**0.024**	**0.044**	**0.411**	**0.420**	**0.13**

2- Financial Flexibility

Refers to the ability of a bank to adapt to changes in market conditions and the economy, including changes in demand, interest rates, and liquidity requirements. A bank's ability to respond to financial challenges and opportunities is reflected in its financial flexibility. The cash balance ratio is used to determine it. A bank's ability to meet its short-term cash obligations is measured by the cash balance ratio. The cash balance ratio for the commercial banks in the study sample for the period is shown in Table (2)(2014-2023).

Table (2) Cash balance ratio of commercial banks in the study sample

	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**MEN**
Data	**2.727**	**2.942**	**1.514**	**1.524**	**1.034**	**0.975**	**0.982**	**2.128**	**1.450**	**1.999**	**1.728**
Ashur Bank	**1.385**	**1.389**	**2.543**	**2.139**	**1.528**	**1.536**	**1.965**	**2.000**	**1.387**	**3.151**	**1.902**
Investment Bank	**1.829**	**2.295**	**2.620**	**2.419**	**2.692**	**3.307**	**3.689**	**5.187**	**3.934**	**4.876**	**3.285**
Sumer Bank	**1.000**	**0.953**	**0.686**	**0.674**	**0.783**	**0.688**	**0.786**	**0.610**	**0.552**	**1.317**	**0.805**
Bank of Baghdad	**0.002**	**1.029**	**1.118**	**1.265**	**1.085**	**1.173**	**1.162**	**1.184**	**1.387**	**1.101**	**1.051**

3- Capital Adequacy

The results of Table (3) indicate that the investment bank places greater emphasis on capital adequacy, perhaps because it aims to enhance its financing and risk capacity. Other banks with lower figures may indicate different levels of adequacy or different capital management strategies.

Data	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**MEN**
Ashur Bank	**42**	**78**	**81**	**82**	**80**	**60**	**57.7**	**54.8**	**51**	**53.7**	**64**
Investment Bank	**243.99**	**223.44**	**210.88**	**190.84**	**226.43**	**206**	**204.89**	**209.13**	**210**	**111**	**204**
Sumer Bank	**60.22**	**51.496**	**78.03**	**73.809**	**75**	**91.42**	**125**	**131**	**148**	**143.8**	**98**
Bank of Baghdad	**55**	**59**	**58**	**64**	**86**	**116**	**126**	**64**	**28**	**33**	**69**
Data	**133**	**104.2**	**111.5**	**116.84**	**103.22**	**106.65**	**82.86**	**58.19**	**30.9**	**25**	**87**

First Main Hypothesis: There is a significant correlation between financial balance and financial stability of banks.

Table (4) Matrix of correlation coefficients between financial balance and financial stability of banks

Correlations			
		Financial flexibility	Financial solvency
financial balance	Pearson Correlation	.271**	.723**
	Sig. (2-tailed)	.000	.000
	N	5	5
**. Correlation is significant at the 0.01 level (2-tailed).			

Second Main Hypothesis: There is a significant relationship between the financial balance and the financial stability of banks.

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Table (5) Strength coefficients and interpretation of the relationship between financial balance and financial stability of banks

financial balance	Financial stability			
	R	R^2	Corrected interpretation coefficient	Standard error
Financial flexibility	.361	.130	-.076	.65680
Financial solvency	.443	.196	-.086	.367685

DISCUSSION OF THE RESULTS

The efficiency of financial balance contributes significantly to enhancing the financial stability of banks, as a balanced asset and liability balance reduces the risk of bankruptcy and increases banks' ability to cope with crises. Financial imbalance also leads to systemic disturbances and instability. A low level of financial balance may cause banking crises, negatively impacting the stability of the financial system as a whole. Continuous scrutiny of financial balance indicators enhances banking governance, and monitoring and analyzing financial balance indicators helps in making sound decisions to avoid risks and strengthen stability. A balanced distribution of assets reduces the risk of exposure to large losses. Effective asset and liability management contributes to sustainable financial stability. Furthermore, adequate capital supports a bank's ability to maintain balance and stability. Furthermore, transparency and financial disclosure enhance financial balance, increase confidence, and accurate and clear information reduces conflicts and stimulates financial and economic stability.

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