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### THE ROLE OF THE SECONDARY MARKET (TRADING) IN THE DEVELOPMENT OF LOCAL SAVINGS IN IRAQ FOR THE PERIOD (2004-2020)

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#### **ABSTRACT:**

The stock markets, in general, have become an effective tool for direct financing of investments and economic development projects, as it works to bridge the financing gap in the economy by mobilizing resources from surplus units to deficit units. Providing capital gains from buying and selling securities in these markets.

The research aims to study and analyze the role of the secondary market in Iraq in the development of local savings for the period (2004-2020), and to know the amount of savings that the market has managed to attract and direct towards investment compared to local savings and other financial institutions, especially banks. The descriptive analytical method has been used for the performance indicators of the Iraq Stock Exchange. The results showed the weakness of the relative absorptive capacity of the secondary market, as well as the existence of a large gap between the volume of funds destined to invest in securities in the secondary market and the volume of funds used as deposits in the Iraqi banking system during the research period. The researcher recommended giving priority to the Iraqi market for securities in mobilizing savings and directing them towards investment and then contributing to the implementation of economic policies to ensure the activity of the secondary market.

#### ***First: The Research Problem:***

Saving is of great importance in any society as it is one of the necessary factors for economic and social development. Most countries have realized the

importance of savings as a mainstay for investment, so they have taken care of financial culture and awareness of saving among members of their societies to attract savings and use them to maximize the public benefit. This vision was not clear in Iraq due to the lack of a developed market for securities, and one of the reasons responsible for the low and decreasing saving rate, it is expected that the Iraqi stock market will contribute at an effective level to the development of saving habits to direct savings towards available national investment opportunities. **From here, we can define the research problem, which is to answer the following questions:**

1. What is the role of the secondary market in developing domestic savings?
2. What are the obstacles that prevent this? And how can it be overcome?

***Second: Research Hypothesis:***

The secondary market has a prominent role in the development of local savings in Iraq with various investments that contribute to the withdrawal of financial surpluses from individuals on the one hand, and the establishment of new investment projects and the expansion of existing projects on the other hand.

***Third: The Importance of Research:***

1. The issue of savings development is of great importance in developing and developed countries alike, but its importance is more urgent in developing countries because of the obstacles and challenges they face due to the insufficiency of local capital needed to finance the investment programs required to achieve high rates of national income, and from Then achieve economic development.
2. The stock market is distinguished from other channels of attracting savings in that it is able to attract any amount of savings because the financial vessels issued in it have values that suit different savers, which entails expanding the base of savers and then mobilizing a large amount of financial resources, which in turn turns into inflows Financial for companies and institutions that engage in various economic activities, which means increasing real investments, increasing employment opportunities and generating new incomes.

***Fourth: Research Objective:***

1. The research aims to study and analyze the role of the secondary market in Iraq in developing savings for the period (2004-2020).
2. Knowing the amount of savings that the market has managed to attract and direct towards investment in comparison with local savings and other financial institutions, especially banks.
3. What are the problems that prevent the increase in the amount of savings? How can it be better developed?

### ***The Concept of The Stock Market:***

The market in which long-term financial instruments (with a maturity of one year or more) and equity instruments are traded (Mishkin & Eakins, 2018: 20). It was defined as a market in which long-term financial instruments (with a maturity of one year or more) such as shares and bonds are dealt. (Muzahidia, 2007: 11). The stock market is divided into two types:

1. Primary market (issuance market)
2. Secondary market (trading market)

**Secondary market (trading market):** The practical practice of selling new and issued securities in the primary market after distributing them through investment banks (Burton & Nesiba, 2015: 47). It was also defined as the market that deals with securities that were previously issued in the primary market (Radwan, 1996: 44).

**The secondary market has an important role in economic activity:** it is known that one of the functions of the (secondary market) is to provide liquidity for securities whenever the holder so desires. If the investment in securities can be disposed of in a short period and at competitive prices, this increases the value of this investment, and then raises the relative return of these securities compared to other financial instruments. Therefore, the weakness of the (secondary market) results in a decrease or decrease in the relative return of securities, and then leads to a decrease in demand for them, and this includes high capital costs and reduces incentives to invest in new projects, and from here the (secondary market) is one of the prominent factors in The growth of the national economy because it contributes to allocating the available savings to the companies that are entitled to it, and the success of the (secondary market) and its increase in its activity gives securities an attractiveness that works to attract savers (Abdul Latif, without a year: 5).

**The concept of saving:** individuals keep a part of the money when their income increases and it exceeds what they spend or consume (Zaidan, 2008: 169). As for (Samuelson, et al., 2001: 455), he defined it as the part of the income that was not spent on consumption. Savings represent the remainder of current income after consumer expenditures and tax payments in the business sector, and savings include current profits retained within commercial companies after paying taxes, shareholder dividends, and other cash payments (Marquis,&Rose 2008:6).

### ***The Secondary Market (Trading) And Its Role in The Development of Local Savings in Iraq***

The importance of the (secondary) trading market lies in the fact that it helps in completing financial transactions between sellers and buyers of financial assets, and then the possibility of converting these assets into liquidity at any time, in addition to being the market in which all listed and previously issued securities are dealt with in the primary market.

The development of the (secondary) trading market can be studied from the annual trading movement of securities in light of the following indicators:

***First: The Evolution of The Trading Volume in The Iraqi Stock Exchange for The Period (2004-2020):***

(Trading Amount) means the number of shares that were traded in the secondary market in a period of one year and for the various sectors. We note from Table (1) that in (2004) the trading volume started to rise from (14) billion shares to reach (153) billion dinars in (2007), despite its decline to (151) billion shares in (2008) due to the mortgage crisis. Real estate, which led to the deterioration of the world's economies and the occurrence of a deficit in many countries of the world accompanied by a decrease in oil prices, which caused the deterioration of economic activities and financial markets in most countries of the world, but the Iraqi economy was not significantly affected by the recent financial openness with the world, as investment The alien started the year (2007). Then the volume of trading rose again in (2009), as it recorded (211) billion shares to reach (876) billion shares in (2013). in various sectors. With the beginning of the year (2014), the Iraqi economy began to decline due to the deterioration of the economic situation as a result of the significant decline in oil prices and Iraq's war against terrorism, which led to the deficit of the state's general budget and the prevalence of pessimistic expectations among dealers in the Iraqi stock market. These reasons led to economic stagnation and deterioration financial activity in the Iraqi Stock Exchange, as the number of traded shares declined in (2014) to (746) billion shares. This deterioration leads to a decline in the index in (2015) when it reached (619) billion shares, a decrease of (17%). In (2016), the volume of trading began to rise due to a slight improvement in the economic situation, reaching (1038) and a growth rate of (68%). The year (2017) recorded the highest turnover during the research period, amounting to (1215) billion shares, with an increase of (17%), as the Iraqi economy witnessed this year a remarkable recovery at the rate of growth, as well as a rise in oil prices. It declined again in the period (2018-2019), reaching (832-460) billion shares, respectively, with a decrease of (6%-39%). The reason for this is due to the drop in oil prices as well as decisions related to investors. (2020) All economic expectations through the global economic downturn and stagnation in the volume of trade exchange and the decline in global financial market indicators since the emergence and spread of the Corona Covid-19 pandemic due to the uncertainty and lack of information and in order to hedge in light of the high number of infections globally, as the indicators of the Iraqi economy were affected, like all The countries of the world, in addition to being constantly affected by its structural problems, being a unilateral rentier economy, and this deterioration led to a decrease in the number of traded shares, reaching (403) billion shares, compared to (460) billion shares in (2019). The increase in the number of traded shares reflects the state of the market's development and its large size as a result of the increase in the number of companies traded in the market due to the increase in the amount of savings and the increase in cash liquidity of investors in the market, as well as the increase in the volume of subscription resulting from the development of financial awareness and the resulting large profits for companies.

### ***Second: The Evolution of The Trading Value in The Iraqi Stock Exchange for The Period (2004-2020):***

It expresses the value of traded shares (the actual exchange of shares) in the secondary market at various prices in one year. The breadth and activity of this market can be demonstrated through this indicator.

It is clear from Table (1) that the trading value reached in (2004) and (2005) the limits of (127-367) billion dinars, respectively, and decreased to (174) in (2006), achieving a decrease at a negative rate of (53%), and this decline is due to the poor security conditions experienced by the country, which negatively affected the expectations of investors in the market, which led to a decrease in the demand for buying shares. Then the value of trading began to rise in (2007) to reach (438) billion dinars, an increase of 146%. The reason for this rise is due to the improvement of the country's economic situation as well as the increase in oil revenues as a result of the rise in global oil prices. In (2008), the trading value amounted to (301) billion dinars, a decrease of (30%) compared to (2007). Investors in those markets are concerned about the possibility of their countries' economies being affected as a result of this crisis. In (2009) the value of trading rose to (421) billion dinars, with an increase of (36%). The trading data and indicators were more than positive this year, due to the success of the Iraqi Stock Exchange in implementing electronic trading, which recorded (186) billion Dinar. However, the trading value decreased in (2010) to (400) billion dinars, at a rate of (3%) compared to (2009). In (2011) the Iraqi economy began to improve due to the increase in oil prices and the stability of the security situation in the country, which was reflected in the increase in government and private investments, and consequently the improvement of the Iraqi market for securities was a noticeable increase in the value of trading, reaching (941) billion dinars, at a rate of (135%), While it decreased in (2012) to (894) billion dinars, a decrease of 5% (%) from the year (2011). Then it rose in (2013) to record (2845) billion dinars, which is the highest increase in the value of trading during the research period, and a rise rate of (218%) was achieved due to the high economic growth in the country by (9%) and this also contributed to the rise in per capita GDP as well as About the Central Bank's decision to increase the capital of private banks, while the years (2014-2015) witnessed a significant decrease in the trading value, which amounted to (901-495) billion dinars, respectively, with a decrease rate (68% - 45%) and the reason for this decrease is attributed to the deterioration of The security situation in a number of Iraqi provinces in the month of June, and there were also signs of austerity, economic depression, and a drop in oil prices, up to (50) dollars per barrel. The trading value in the period (2016-2020) took a zigzag path, declining at one time and rising at other times, as the trading value amounted to (516-900-466-284-330) billion dinars, respectively.

### ***Third: The Evolution of The Market Value in The Iraqi Stock Exchange for The Period (2004-2020):***

The market value index represents the total volume of market capital at the end of the year, and expresses the value of the closing price of companies' shares at the end of the last day of the month or year. In the market, as a result of the rise

in the share price, it is reflected in the rise in the market value, which means a reciprocal relationship between the market value and the trading value. The market and its activity, as well as through this indicator, it is possible to know and measure the liquidity in the market.

We note from the data of Table (1) that the market value in (2005) amounted to (3160) billion dinars, compared to (1715) billion dinars in (2004). The instability of the economic and security conditions in the country, as well as the drop in demand for company shares led to a decrease in the market value in (2006) to (1949) billion dinars, a decrease of (84%). And because of the activation of the Foreign Investment Law No. (13) of the year (2006), which allowed the entry of foreign capital into the country, trading the shares of various foreign companies, implementing electronic trading activity and activating the market database. All these reasons led to an increase in the market value during the period (2007-2013), which was reflected in a significant increase in the number of traded shares and the market value. The market value reached (2129 -2283 -3125 -3446 -4930 -5597 -11476) billion dinars, respectively, while it decreased in the years (2014-2015) to (9546 -9265) billion dinars, respectively, with a decrease of (16) %-3%) due to the unstable political conditions, the deterioration of the security and military conditions, the rapid decline in international oil prices, and then the decline in oil export revenues, the lack of diversification of income sources, the weakness of the productive sector, including the private sector, mismanagement and weak bank credit. Then the market value returned to a relative increase in the period (2016-2018), reaching (9355 - 10721 -11350) billion dinars, with an increase rate of (0.9% - 15% -6%). This rise is attributed to economic stability due to the stability of the security and political situation in the country and the return of Oil prices to rise again. The year (2020) witnessed the highest rate of increase in the market value during the research period, as it recorded (14033) billion dinars, compared to (11662) billion dinars in (2019), as the Iraqi economy witnessed a gradual recovery despite the turmoil that occurred during the year.

#### ***Fourthly: The Evolution of The Turnover Rate of Shares in The Iraqi Stock Exchange for The Period (2004-2020):***

The turnover rate is one of the most important criteria that the investor must take into consideration before making an investment decision in trading securities. The value of the traded shares is based on the market value in the same time period, and it measures with the trading value index the degree of liquidity in the markets.

It is noted from Table (1) that the turnover rate increased in (2005) as it reached (11.6%) compared to (7.4%) in (2004).) Because of the poor security conditions that led to a decrease in the volume of trading and the market value, and the increase in the market turnover rate means that the market liquidity is high. The turnover rate was recorded during the year (2007) (20%) and after that it took a fluctuating path between decrease and rise, and the record year (2012) The highest percentage in the research period (24.8%) and continued to decline until the end of (2016) and rose again in (2017) to record (8.4%), and the year (2020) recorded the lowest percentage during the research period, which amounted to

(2.3%) compared to previous years due to the decline in the trading value. The continued rise in the market value at times negatively affects the market liquidity represented by the turnover rate.

**Table (1)** Shows the Indicators of The Iraqi Stock Market for The Period (2004-2020) (Billion Dinars)

year	Trading volume (billion shares)	Annual rate of change %	Trading value	Annual rate of change %	Market value	Annual rate of change %	rotation rate
2004	14		127	-	1,715		7.4
2005	56	300 %	367	189%	3,160	84%	11.6
2006	58	4%	174	-53%	1,949	-38%	7.5
2007	153	164%	428	146%	2,129	9%	20
2008	151	-1%	301	-30%	2,283	7%	13
2009	211	40%	412	37%	3,125	37%	13.2
2010	256	21%	400	-3%	3,446	10%	11.6
2011	492	92%	941	135%	4,930	43%	19.1
2012	626	27%	894	-5%	5,597	12%	16
2013	876	40%	2,845	218%	11,476	105%	24.8
2014	746	-15%	901	-68%	9,546	-17%	9.4
2015	619	-17%	495	-45%	9,265	-3%	5.3
2016	1,038	68%	516	4 %	9,355	0.97%	5.5
2017	1215	17%	900	74%	10,721	15%	8.4
2018	832	-32%	466	-48%	11,350	5%	4.1
2019	460	-45%	284	-39%	11,662	3%	2.4
2020	403	-12%	330	16%	14,033	20%	2.3

**Source:** Prepared by the researcher based on the Iraq Stock Exchange-annual reports for the period (2004-2020)

### *Evaluation Of the Role of The Secondary Market (Trading Market) In Developing Local Savings in Iraq for The Period (2004-2020)*

The goal of quickly obtaining cash is one of the most prominent goals that encourage individuals to invest in the stock market. Despite the importance of the role played by the primary market (issuance), as it is the beginning of the investment activity of the security in the stock market, this role is not complete

without the presence of a strong secondary market (the trading market) capable of achieving liquidity for the investor at any time, which encourages the allocation of A high percentage of savings for investing in long-term securities, and this occurs only in the secondary market (trading), which aims to facilitate the trading of securities and ensure their disposal.

***First: The Evolution of The Ratio of The Trading Value in The Secondary Market to The Gross Domestic Product in Iraq for The Period (2004-2020):***

This ratio refers to the volume of transactions (the actual exchange of shares) in the secondary market in relation to the size of the national economy, and it largely reflects the level of liquidity in the economy, as well as it complements the market capital ratio, the market capital ratio may be high, but the trading movement Weak (liquidity) in the market. It is clear from Table (2) that the ratio of trading value to GDP in Iraq for the period (2004-2020) was very weak and ranged between (0.26%-0.35%) in the period (2004-2012) and recorded a slight increase in (2013). It amounted to (1.5%) due to the relative increase in the trading value this year, and in the period (2016-2020), the percentage decreased between (0.17% -0.35%). The growth rate of trading volume to GDP for the period (2004-2020) was (0.33%), which is a very weak percentage. It is concluded from the foregoing that there is no preference for investment in the Iraqi Stock Exchange and its inability to attract savings during the research period.

On the other hand, the trading ratio indicator is integrated with the turnover rate, both of which represent an indicator of liquidity, as the trading ratio shows the volume of transactions in the market in relation to the size of the national economy, while the turnover ratio measures the volume of transactions in relation to the size of the market. It is noticed that the changes in the two liquidity indicators are consistent. The development in the turnover rate has taken the direction of the development in the same turnover ratio, as the two percentages began to decline from (2006) to (2012), and rose during the years (2013-2016) to decline continuously until the year (2020).

**Table (2)** Shows the Evolution of The Ratio of Trading Value to GDP In Iraq for The Period (2004-2020) (Billion Dinars)

year	Trade value* (1)	GDP** (2)	Trade value/GDP (3) ***
2004	127	48,678	0.26%
2005	367	61,673	0.60%
2006	174	95,588	0.18%
2007	428	107,829	0.40%
2008	301	155,636	0.19%
2009	412	139,330	0.30%



2010	400	171,957	0.23%
2011	941	211,300	0.45%
2012	894	252,900	0.35%
2013	2,845	271,100	1.05%
2014	901	258,900	0.35%
2015	495	207,900	0.24%
2016	516	203,900	0.25%
2017	900	225,700	0.40%
2018	466	254,800	0.18%
2019	284	277,900	0.10%
2020	330	198,100	0.17%
average duration	-	-	0.33%

**Source:** Prepared By The Researcher Based On \* Iraq Stock Exchange, Annual Reports For The. (2004-2020)

**Central Bank of Iraq, economic reports for the period.(2004-2020)  
Columns (1,2) in the table.**

***Second: The Evolution of The Ratio of The Trading Value in The Secondary Market to The Gross Domestic Savings in Iraq for The Period (2004-2020):***

This ratio expresses the ability of the secondary market to attract domestic savings.

We note from Table (3) that the ratio of trading volume to gross domestic savings in Iraq for the period (2004-2020) was modest, as the ratio amounted to (9.15%) in (2004) due to a marked decrease in saving, then it decreased during the period (2005- 2008) to record (4.46%-0.91%-2.32%-0.72%) respectively, but in (2009) it started recording a slight increase, reaching (1.75%) and continued to rise slightly until the end of the year (2012) to record (2.21%), while in In the year (2013), the percentage recorded a noticeable, if slight, increase, reaching (5.44%) due to the increase in the value of trading in the year. The period (2014-2017) ranged between (2.22% - 2.60%). Then it declined again in the years (2018) and (2019), reaching (0.79%-0.54%). To rise again in (2020) and record (4.62%) due to a significant decrease in savings in the year. The average annual growth in the research period was (2.82%). As it was found that the secondary market was not able to attract only (2.82%) of the total local savings during the research period, which is a very small percentage.

A high ratio means an increase in the trading market's ability to attract savings, and its low means that savers prefer to invest their money in the form of deposits in banks or in other investments without investing in the secondary market,

which means that there is a shift from investing in the market towards other investment areas, and this becomes clear when comparing the percentage of the trading value in the market with the total annual deposits in the banking system.

**Table (3)** Shows the Evolution of The Ratio of The Trading Value to The Gross Domestic Savings in Iraq for The Period (2004-2020) (Billion Dinars)

<b>Year</b>	<b>Trade value* (1)</b>	<b>Gross domestic savings** (2)</b>	<b>Trade value / Gross Domestic Savings*** (3)</b>
2004	127	1,388	9.15%
2005	367	8,228	4.46%
2006	174	19,119	0.91%
2007	428	18,481	2.32%
2008	301	41,710	0.72%
2009	412	23,537	1.75%
2010	400	15,767	2.54%
2011	941	42,416	2.22%
2012	894	40,391	2.21%
2013	2,845	52,312	5.44%
2014	901	38,909	2.32%
2015	495	18,638	2.66%
2016	516	18,692	2.76%
2017	900	34,633	2.60%
2018	466	59,232	0.79%
2019	284	52,943	0.54%
2020	330	71,430	4.62%
<b>average duration</b>	-	-	<b>2.82%</b>

**Source:** Prepared by the researcher based on \* Iraq Stock Exchange, annual reports for the period.(2004-2020)

**Ministry of Planning, Central Statistical Organization for the period (2004-2020) Columns (1,2) in the table.**

**Third: The Evolution of The Ratio of The Trading Value in The Secondary Market to The Total Annual Deposits in The Iraqi Banking System for The Period (2004-2020):**

This ratio reflects the extent to which investors (individuals and companies) are willing to invest money in securities (shares and bonds) compared to deposits in the banking system. We note from Table (4) that the ratio of the trading value to the total annual deposits in the Iraqi banking system for the period (2004-2020) was modest. It is clear that this percentage was weak, as it reached (1.49%) during the year (2004), and then recorded a slight increase during the year (2005), reaching (2.73%). Then it declined again in (2007) to record (0.72%) and then returned to record a slight increase of (1.33%) in (2007) and the percentage ranged in the period (2008-2012) between (0.65%-1.08%) and in (2013) It recorded an increase of (3.20%), and this percentage is considered the highest percentage in the research period due to the high trading volume during the year, then it went back down in the period (2014-2016) and ranged between (0.14%-0.66%) and continued to decline to be recorded in (2020) (0.32). %). The annual growth rate during the research period reached (1.09%).

This percentage is very weak, which means that there is a big difference between the amount of money destined for investment in the stock market and the amount of money used as deposits in the banking system. in stock.

**Table (4)** Shows the Evolution of The Ratio of The Trading Value to The Total Annual Deposits in The Iraqi Banking System for The Period (2004-2020) (Billion Dinars)

<b>Year</b>	<b>Trading value * (1)</b>	<b>Annual total deposits ** (2)</b>	<b>Trading value / total annual deposits*** (3)</b>
2004	127	8,550	1.49%
2005	367	13,450	2.73%
2006	174	24,068	0.72%
2007	428	32,102	1.33%
2008	301	46,078	0.65%
2009	412	47,176	0.87%
2010	400	56,932	0.70%
2011	941	71,233	1.32%
2012	894	82,735	1.08%
2013	2,845	89,009	3.20%
2014	901	92,096	0.98%
2015	495	82173	0.60%

2016	516	78756	0.66%
2017	900	83725	1.07%
2018	466	105907	0.44%
2019	284	99829	0.28%
2020	330	101628	0.32%
average duration	-	-	1.09%

Source: Prepared by the researcher based on \* Iraq Stock Exchange, annual reports for the period.(2004-2020)

Central Bank of Iraq - statistical reports for the period.(2004-2020) Columns (1,2) in the table

**CONCLUSIONS:**

1. The existence of financial markets, both primary and secondary, characterized by high efficiency, plays a fundamental and prominent role in facilitating the creation of securities to which the savings of individuals and institutions in society are directed, and motivating corporate management to improve their efficiency in performance and encourage capital investments in the national economy, and this would enhance economic growth.
2. Decreased liquidity of the stock market if the turnover rate of shares during the research period reached (11%).
3. Double the absorptive capacity of the secondary market, as the average ratio of trading value to GDP during the research period was (0.33%). As well as its limitations in the development of savings, as the average ratio of the trading value to the total domestic savings during the research period was (2.8%).
4. There is a large gap between the volume of funds destined to invest in securities in the secondary market and the volume of funds used as deposits in the banking system, as the average value of trading to the total annual deposits during the research period was (1.09%), and this reflects the extent to which individuals and institutions invest their money in vessels Bank savings because of their high returns compared to investing in securities.

**RECOMMENDATIONS:**

1. Investors in the Iraqi market for securities are recent experience, and a media plan should be made to identify the opportunities and advantages of investment in Iraq, which is to direct them towards investments on scientific grounds by encouraging pamphlets, pamphlets, and brochures, and holding meetings and seminars in order to create a rational and conscious investor, as well as providing facilities and aid to foreign investors and raising obstacles in front of them.
2. Realize the desires of savers (capital bidders) to ensure appropriate profits for them by directing their money in a variety of financial instruments,

and then an increase in the flow of money from savers to investors through the financial market and a high degree of market liquidity.

3. Increasing interest in saving as well as increasing reliance on local savings to finance investments and giving priority to the Iraqi market for securities in mobilizing savings and directing them towards investment to implement economic policies that guarantee the activity of the secondary market.

4. Strengthening the role of the Iraqi Stock Exchange in economic development by creating investment tools and opportunities to encourage savers and the return of expatriate investments, as well as absorbing the excess liquidity resulting from the rise in oil prices.

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