The impact of the Exchange Rate On The Current Account Of The Iraqi Balance Of Payments

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KEYWORDS

Impact, Current Account Of The Iraqi, Payments

ABSTRACT

The exchange rate is considered one of the basic determinants that affect the economic performance of any country, as it reflects the purchasing power of the national currency compared to foreign currencies. In the Iraqi economy, the exchange rate plays a pivotal role due to the rentier nature of the economy and its heavy dependence on oil exports as a main source of revenues. In recent years, Iraq witnessed noticeable fluctuations in the exchange rate of the Iraqi dinar against foreign currencies, which raised many questions about the impact of these fluctuations on various aspects of the national economy, especially the current account of the balance of payments. The current account, as an essential part of the balance of payments, reflects the country's external economic performance from By measuring the difference between exports and imports of goods and services in addition to other financial flows, this study aims to shed light on the relationship between the exchange rate and the current account of the Iraqi balance of payments.

1. Introduction

The first axis: research methodology and previous studies

First: the problem of the study

The exchange rate constitutes one of the basic elements in the economic policy of any country, as it directly affects the internal and external economic balance. In Iraq, the exchange rate constitutes a major challenge due to the heavy dependence on oil revenues as a main source of national revenues. This dependence increases the sensitivity of the Iraqi economy to fluctuations. Exchange rates, which lead to fluctuations in the current account of the Iraqi balance of payments. Accordingly, the problem of the study arises from the need for a deeper understanding of how exchange rate fluctuations affect the current account of the Iraqi balance of payments. This includes assessing the extent of the impact of these fluctuations on exports and imports, so the problem of the study is In the following/

What is the nature of the relationship between the exchange rate and the current account of the Iraqi balance of payments?

Does the exchange rate affect the current account of the Iraqi balance of payments?

Secondly: The importance of the study

The importance of the study is evident through the following points:

The study contributes to understanding the relationship between exchange rate fluctuations and Iraq's external economic performance, especially with regard to the current account of the balance of payments.

The study provides insights that help decision-makers determine the optimal economic policies to deal with exchange rate fluctuations, thus contributing to achieving current account stability.

By studying the effect of the exchange rate on exports and imports, recommendations can be made to enhance the competitiveness of Iraqi goods and services in international markets.

The study seeks to provide proposals that can help enhance the stability of the Iraqi economy and reduce the risks associated with exchange rate fluctuations.

Third: The aim of the study.

The research seeks to achieve a set of goals that can be summarized as follows:

Study the relationship between exchange rate changes and current account performance, including their impact on Iraqi exports and imports.

Understand the factors that increase or decrease the impact of exchange rate fluctuations on the current account, such as oil prices and economic policies.

Review and evaluate the economic policies that have been adopted in Iraq to deal with the effects of exchange rate fluctuations on the balance of payments.

Proposing effective economic policies that can contribute to improving the stability of the current account of the Iraqi balance of payments in light of exchange rate fluctuations.

Fourth: Study hypotheses

To answer the study's questions and reach its objectives, the research starts from the hypothesis that the exchange rate affects the current account of the Iraqi balance of payments.

Fifth: Limitations of the study,

The study was defined within temporal and spatial limits as follows:

Time limits: The study will rely on data for the fiscal years from 2004 to 2023.

Spatial boundaries: applied to the Iraqi economy.

Sixth: Study methodology.

The study attempts to combine the following two approaches:

Descriptive approach:It was relied upon in the theoretical aspect of the study.

Standard quantitative approach:It was relied upon in the applied aspect of using the statistical program (Evews V.13).

Seventh: Previous studies

Study (Belhaj and Ben Attia, 2022) entitled:The impact of the real effective exchange rate on the trade balance during the period 2010-2020 (an econometric study)

The study aimed toMeasuring the impact of the real effective exchange rate on the trade balance in AlgeriaThe study assumed that there was noThe effect of the real effective exchange rate on the trade balanceThe study concludedThere is no statistically significant relationship between the real effective exchange rate and the balance of foreign trade in Algeria. It was also shown that there is no statistically significant relationship between the real effective exchange rate and imports in Algeria during the study period. study (Jassim, 2021) entitled: The impact of the exchange rate on the Iraqi balance of payments for the period (2004-2016)

The study aimed toHighlighting the role that exchange rate policy plays in influencing the balance of payments situation in general and the trade balance in particularThe study assumedThe existence of a long-term equilibrium relationship between the exchange rate and the balance of payments in IraqThe study concludedThe Central Bank of Iraq's adoption of a high exchange rate policy during the study

period had an important but intangible impact on the decline in the competitiveness of local goods of the Iraqi economy in the global market and then on the trade balance due to the increasing dependence on oil exports. Therefore, the relationship did not appear clear or the impact was not clear. The exchange rate is significant for the position of the trade balance or balance of payments.

Study (Mehak, 2023) entitled:

Exchange Rate Volatility and Balance of Payments Adjustment in Pakistan

Exchange rate volatility and balance of payments adjustment in Pakistan

The study aimed toAnalysis of the relationship between exchange rate movements and the balance of payments in PakistanThe study assumed the presence ofRelationship between exchange rate fluctuations and balance of payments in PakistanThe study concludedStability tests reject the invalidity of the stability coefficient for the long-run relationship between exports and imports, and cointegration tests that correspond to the number of intervals chosen reject zero cointegration (a weak form of sustainability)..

study (Siahaan et al., 2024) entitled:

Pengaruh Pergerakan Exchange Rate Terhadap Trade Balance and Cash Flow di PT. XYZ

The impact of exchange rate movement on the trade balance and cash flow of an automobile manufacturing company PT. XYZ.

Analyzing the relationship between exchange rate movements, the trade balance, and cash flow movements in an automobile manufacturing companyPT. XYZ, the study assumedThere is a relationship between exchange rate movements, the trade balance, and cash flow movements inCar manufacturing companyPT. XYZ, and the study concludedThere is a statistically significant relationship between the exchange rate and the trade balance, which indicates that managing the risks of exchange rate movements is necessary to manage the impact on the trade balance, while there is no statistically significant relationship between the exchange rate and operating cash flow..

The second axis: the theoretical aspect

The first requirement: The theoretical framework of the exchange rate

First: The concept of the exchange rate:

The exchange rate expresses the exchange rate of a country's currency for another currency, that is, the number of units of a particular currency that must be paid to obtain one unit of another currency. There are two methods for pricing currencies: direct pricing, which is the number of units of foreign currency that must be paid to obtain a local currency, and indirect pricing. It is represented by the number of units of the local currency that must be paid to obtain a foreign currency, and the exchange rate is known as “what is paid in national currency units to obtain a unit or a certain number of foreign currency units” (Masoud, 2010, 111). The exchange rate is also known as As “the relative price of a currency compared to another currency, it is the number of units of a foreign currency that can be obtained in exchange for a unit of the national currency” (Sheikha, 2022, 168). The exchange rate has also been defined as “the price at which a currency is exchanged.” One country in the currency of another country” (Khaled, 2014, 181). From the above, the exchange rate can be defined as the price that determines the quantity of one currency that can be obtained in exchange for a certain quantity of another currency in the international exchange market.

Second: The importance of the exchange rate

The importance of the exchange rate lies in achieving macroeconomic goals, as through it, internal and external balance can be achieved, as the internal balance represents the stability of local prices, while the external balance represents the balance in the balance of payments that appears in the various commercial exchanges of the state, as the exchange rate means The procedures and means through

which they can lead to achieving stability in the exchange rate of the national currency against foreign currencies. The importance of the exchange rate is represented in (Abbas, 2022, 489):

It represents a linking tool between the local economy and the rest of the economies, as it links the prices of goods in the local economy to their prices in the global market.

It can be used as an indicator of a country's competitiveness, by representing costs and prices inside and outside the country, and therefore it is an indicator of the balance of foreign trade, including the balance of payments.

The exchange rate plays an important role in external economic activities, whether commercial or investment activities of any country.

It occupies a pivotal position in monetary policy, as it can be used as a goal or a tool, and its use as a goal is a factor in stabilizing prices and reducing inflation.

It is considered an important means of influencing the allocation of resources between economic sectors, the profitability of export industries and the cost of imported resources, including inflation, output, and employment (Abdel Hafeez, 2019, 11).

The second requirement: The theoretical framework of the current account

First: the concept of balance of payments

Since economic relations between countries include, in addition to the exchange of goods and services, movements of monetary and financial assets, each country must know the position of its economic relations with the rest of the countries of the world. Therefore, each country records its international economic transactions in a register or account known as the balance of payments.

The balance of payments is defined as “the basic, organized and concise record in which all economic transactions that take place between governments, citizens, and local institutions of a country, with their counterparts in a foreign country, are recorded during a relevant period, usually one year” (Khaled, 2014: 159), and the balance of payments is known as “ An accounting statement that records the values of all goods, services, donations, foreign aid, all capital transactions, and all quantities of monetary gold entering and leaving this country” (Al-Akhdar, 2018: 206). The balance of payments is also defined as “an organized record of all economic transactions between residents of countries and residents of the rest of the world’s countries within a limited period, which is usually a year” (Ghattas, 2024: 67), and the balance of payments has been defined as “a statistical statement that provides, in a systematic and organized manner, the economic transactions taking place between a specific economy and the external public during a specific period of time” (Assaf, 2023: 86-87), and it is also defined as “a financial statement in which all economic and financial exchanges of residents and non-residents of a country are presented during a period of one year” (Al Shabib, 2020: 75), and from the above, the balance of payments can be defined as a statistical statement or An organized record that shows all economic transactions (rights and debts) with the outside world during a specific period, usually one year.

The balance of payments consists of a group of components, which appear in the form of financial accounts, and the data provided by the balance of payments are organized (based on the recommendations of the IMF Manual), perhaps the most prominent of which are the following (current account, capital transactions account, gold and cash reserves account, omissions and errors account). (Sheikha, 2022: 165).

Second: The concept of the current account

It is an account that includes all the country’s rights and debts with the outside world, which result from exports and imports of goods and services, as well as free transfers during the period in which the balance of payments is prepared (Al-Hasnawi, 2023: 32).

Through the previous definition, it is clear that the current account is the recording of accounts of

tangible and intangible goods and services, and net transfers without compensation. The importance of the current account is evident in the statement of total foreign spending on the gross domestic product, because it records the country's exports of local goods and services, and it also records the country's spending on Foreign goods and services (Al-Issawi 2012, 236), and it is also a measure of the overall economic impact of international transactions, as increasing exports is linked to increasing production and employment, as higher export revenues lead to increased demand for goods and services and increased investment capacity. On the other hand, the increase in Imports result in reduced production and job losses (Mahmoud et al., 2022: 81).

The current account is also divided into several sections, perhaps the most prominent of which are the following:

Balance of visible trade:

This account includes exports and imports of goods only, that is, what is included in the field of visible trade only, and its balance is represented by the difference between the total value of exports and the total value of imports (Hilal et al., 2022: 23).

Balance of invisible trade:

It is the account that includes both exports and imports (commercial and non-commercial), in addition to the fact that they do not pass through customs agencies, as they are classified as intangible goods, and thus recording the receipt resulting from the sale of services is called (invisible exports). Regarding the payments spent to purchase these services, they are called (invisible imports), as well as the services that the state provides abroad or obtains from abroad, which are also known as the trade balance of invisible goods (exports and imports) (Al-Obaidi et al., 2013: 35).

The third axis: the applied aspect of the research

First: research variables

The research included the current account of the balance of payments as a dependent variable and the exchange rate as an independent variable for the period 2004-2023.Use a program (E-views).

Table (1) Description of research variables

Coding	Variable type	Variable name	T
X	independent	Exchange rate	1
Y	continued	Current account	2

Source: Table prepared by the researcher based on the model description.

Second: Unit root test

In order to test the stability of time series and know the stability of variables, i.e. whether they are stable or not, the expanded Dickey-Fuller unit root test is applied.At the level or at the first difference, after applying the expanded unit root test at the level, we arrived at the results shown in Table (2), as these results indicate instability in all results of the time series, whether in the presence of a constant, a constant, and a general trend, or the absence of a constant. And a general trend, so the unit root test for the first difference was conducted, through which we notice that all variables have stabilized, whether with the presence of a secant, a secant, and a general trend, or without a secant and a general trend, and thus the series is integrated of order (1)I.

Table (2) Extended Dickey-Fuller unit root test

UNIT ROOT TEST RESULTS TABLE (ADF)			
Null hypothesis: the variable has a unit root			
At Level			
		Y	X
With Constant	t-Statistic	-2.312	-2.0411

	Prob.	0.174	0.2688
		n0	n0
With Constant & Trend	t-Statistic	-2.6492	-2.0413
	Prob.	0.2625	0.5592
		n0	n0
Without Constant & Trend	t-Statistic	-0.4263	-0.4742
	Prob.	0.522	0.5029
		n0	n0
At first difference			
		d(Y)	d(X)
With Constant	t-Statistic	-7.0982	-3.947
	Prob.	0	0.0045
		*	*
With Constant & Trend	t-Statistic	-6.8867	-4.0652
	Prob.	0	0.0154
		*	
Without Constant & Trend	t-Statistic	-7.1644	-3.9917
	Prob.	0	0.0002
		*	*
Notes:			
a: (*)Significant at the 10%; ()Significant at the 5%; (*) Significant at the 1% and (no) Not Significant			
b: Lag Length based on SIC			
c: Probability based on MacKinnon (1996) one-sided p-values.			

Source: Table prepared by the researcher based on the outputs of Program 13E-views.

Third: Autoregressive distributed slowdown model (ARDL)

Y=f (X)

The model was used to estimate the relationship between the exchange rate and the balance of payments, and according to the results shown in Table (3), we note that the exchange rate explains (66.5% of the changes that occur in the current account, and the value of (R-squared Adjusted) is (56.5%). It is clear from the table according to the (F) test that the significance of the estimated model is at the level of (0.05).

Table (3) Model (ARDL)

Dependent Variable: Y
Method: ARDL
Date: 08/18/24 Time: 02:14
Sample: 2006S1 2023S2
Included observations: 36
Dependent lags: 4 (Automatic)
Automatic-lag linear regressors (4 max, lags):
Deterministics: Restricted constant and no trend (Case 2)
Model selection method: Akaike info criterion (AIC)
Number of models evaluated: 20
Selected model: ARDL(4,3)

Variable	Coefficient	std, error	t-Statistic	Prob.*
Y(-1)	0.505522	0.155823	3.244214	0.0031
Y(-2)	-0.116236	0.25173	-0.461748	0.648
Y(-3)	0.314224	0.286151	1.098106	0.2819
Y(-4)	-1.112462	0.308734	-3.603297	0.0013
X	0.045028	0.085334	0.527671	0.602
X(-1)	0.059965	0.099099	0.605099	0.5502
X(-2)	0.045504	0.098908	0.460064	0.6492
X(-3)	-0.131372	0.075885	-1.731215	0.0948
C	-1.91575	40.91976	-0.046817	0.963
R-squared	0.66509	Mean dependent var		19.55039
Adjusted R-squared	0.565858	SD, dependent var		23.68007
SE, of regression	15.60267	Akaike info criterion		8.545079
Sum squared residence	6572.969	Schwarz criterion		8.940959
Log probability	-144.8114	Hannan-Quinn crater.		8.683252
F-statistic	6.702346	Durbin-Watson stat		1.826812
Prob(F-statistic)	0.000078			
***Note: p-values and any subsequent test results do not account for model selection.**				

Source: Table prepared by the researcher based on the outputs of Program 13E-views.

And through the graph (1) and according to the criterion (Akaike) We note that the optimal slowdown periods are (4,3), as it gives the lowest value.

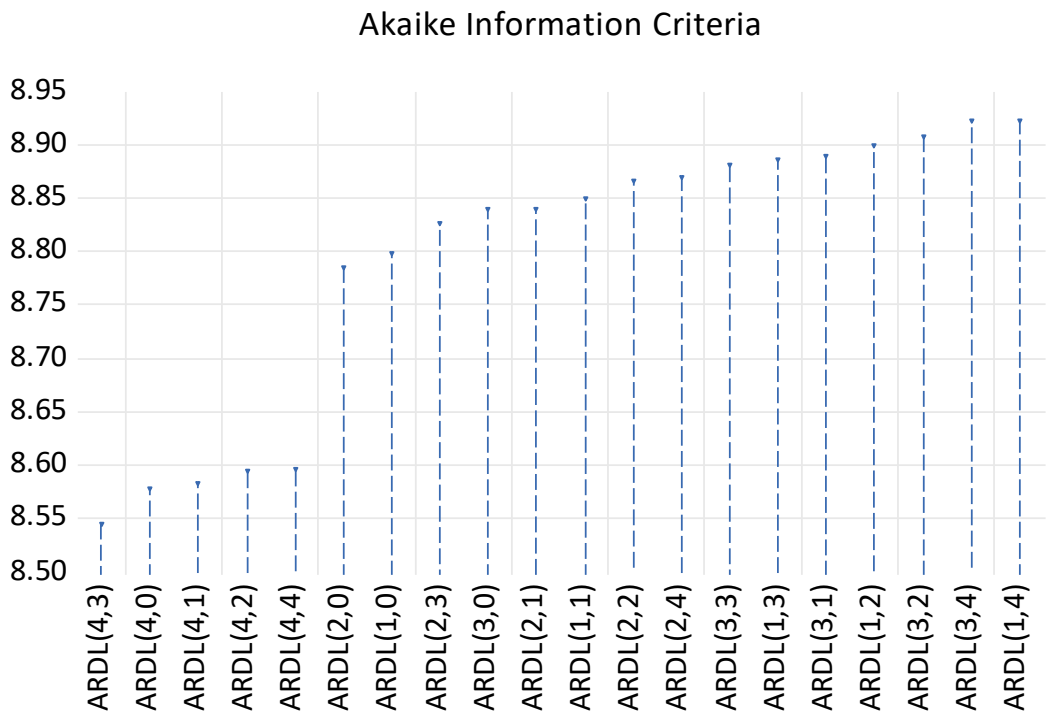


Chart (1): Optimal slowdown periods

Source: Figure prepared by the researcher based on the outputs of Program 13E-views.

Fourth: Testing the limits (Bounds Test)

According to the results of the bounds test presented in Table (4), we note that the value of (The calculated F (9.416 = F-statistic) is greater than the maximum tabular value (F) at the level of significance (0.01) of (6.480). This means that there is a long-term equilibrium relationship between the exchange rate and the current account, so we reject the null hypothesis and accept Alternative hypothesis.

Table (4) Bounds Test (Bounds Test) Bounds Test

Null hypothesis: No relationship levels	
Number of cointegrating variables: 1	
Trend type: Rest, constant (Case 2)	
Sample size: 36	
TestStatistic	Value
F-statistic	9.416736

Bounds Critical Values

	10%		**5%**		**1%**	
Sample Size	I(0)	I(1)	I(0)	I(1)	I(0)	I(1)
35	3.223	3.757	3.957	4.53	5.763	6.48
40	3.21	3.73	3.937	4.523	5.593	6.333
Asymptotic	3.02	3.51	3.62	4.16	4.94	5.58
*** I(0) and I(1) are respectively the stationary and non-stationary bounds.**						

Source: Table prepared by the researcher based on the outputs of Program 13E-views.

Fifth: Diagnostic tests

Non-stationarity test (Heteroskedasticity Test)

From the results of Table (5), we note that the probability value of (The F-statistic is (0.1067) and the probability value for (Ch-Square) is (0.1173), and since the two probability values are greater than (0.05), this means that they are not significant, and thus we infer that the estimated model does not suffer from the problem of instability. Variance. Therefore, we accept the null hypothesis that the estimated model does not suffer from the problem of non-stationarity of variance.

Table (5) Test of non-stationarity of variance (Heteroskedasticity Test)

Heteroskedasticity Test: Breusch-Pagan-Godfrey				
Null hypothesis: Homoskedasticity				
F-statistic	1.872272	Prob,F(8,27)		0.1067
Obs*R-squared	12.84511	Prob, Chi-Square(8)		0.1173
Scaled explained SS	12.84376	Prob, Chi-Square(8)		0.1173
Test Equation:				
Dependent Variable: RESID^2				
Method: Least Squares				
Date: 08/18/24 Time: 02:37				
Sample (adjusted): 2006S1 2023S2				
Included observations: 36 after adjustments				
Variable	Coefficient	std, error	t-Statistic	Prob,

C	-1148.461	836.1103	-1.373576	0.1809
Y(-1)	-2.43168	3.183915	-0.763739	0.4516
Y(-2)	10.89077	5.14358	2.117352	0.0436
Y(-3)	-13.49626	5.846906	-2.308273	0.0289
Y(-4)	-0.249466	6.308348	-0.039545	0.9687
X	1.634203	1.743629	0.937243	0.3569
X(-1)	-1.079051	2.024889	-0.532894	0.5985
X(-2)	1.109501	2.020986	0.54899	0.5875
X(-3)	-0.539485	1.550543	-0.347933	0.7306
R-squared	0.356809	Mean dependent var		182.5825
Adjusted R-squared	0.166233	SD, dependent var		349.1461
SE, of regression	318.8082	Akaike info criterion		14.57937
Sum squared residence	2744244	Schwarz criterion		14.97525
Log probability	-253.4287	Hannan-Quinn crater.		14.71755
F-statistic	1.872272	Durbin-Watson stat		2.165232
Prob(F-statistic)	0.106661			

Source: Table prepared by the researcher based on the outputs of Program 13E-views.

Serial correlation test between the residuals (Serial Correlation LM Test)

According to Table (6), we note that the probability value of (The F-statistic is (0.3315) and the probability value of (Ch-Square) is (0.1791). Since the two values are greater than (0.05), this means that they are not significant, and therefore the model does not suffer from the problem of serial correlation between the residuals, i.e. We accept the null hypothesis and reject the alternative hypothesis.

Table (6) Serial correlation test between the residuals (Serial Correlation LM Test)

Breusch-Godfrey Serial Correlation LM Test:				
Null hypothesis: No serial correlation at up to 4 lags				
F-statistic	1.21516	Prob,F(4,23)		0.3315
Obs*R-squared	6.280654	Prob, Chi-Square(4)		0.1791
Test Equation:				
Dependent Variable: RESID				
Method: ARDL				
Date: 08/18/24 Time: 02:43				
Sample (adjusted): 2006S1 2023S2				
Included observations: 36 after adjustments				
Presample missing value lagged residuals set to zero.				
Variable	Coefficient	std, error	t-Statistic	Prob,
Y(-1)	-0.075767	0.305887	-0.247696	0.8066
Y(-2)	0.348217	0.454801	0.765647	0.4517
Y(-3)	-0.314761	0.42693	-0.737266	0.4684
Y(-4)	0.240047	0.403219	0.595327	0.5574

X	0.026756	0.103074	0.259579	0.7975
X(-1)	-0.023216	0.107383	-0.216197	0.8307
X(-2)	-0.037292	0.117667	-0.316927	0.7542
X(-3)	0.039242	0.091108	0.430714	0.6707
C	-9.638944	43.26981	-0.222764	0.8257
RESID(-1)	0.188681	0.350199	0.538782	0.5952
RESID(-2)	-0.601959	0.308531	-1.951049	0.0633
RESID(-3)	0.086505	0.340163	0.254305	0.8015
RESID(-4)	-0.171778	0.361644	-0.474992	0.6393
R-squared	0.174463	Mean dependent var		9.40E-15
Adjusted R-squared	-0.256253	SD, dependent var		13.70398
SE, of regression	15.35979	Akaike info criterion		8.575581
Sum squared residence	5426.232	Schwarz criterion		9.147407
Log probability	-141.3605	Hannan-Quinn crater.		8.775163
F-statistic	0.405053	Durbin-Watson stat		1.967728
Prob(F-statistic)	0.946717			

Source: Table prepared by the researcher based on the outputs of Program 13E-views.

Sixth: Testing the distribution of random errors (Histogram – Normality Test)

Chart (2) shows the results of the random error distribution test, as it shows that the probability value (Jarque - Bera) reached (0.0084 = Prob), which is smaller than (0.05), which means that there is a problem in the distribution of random errors, and therefore we accept the alternative hypothesis and reject the null hypothesis.

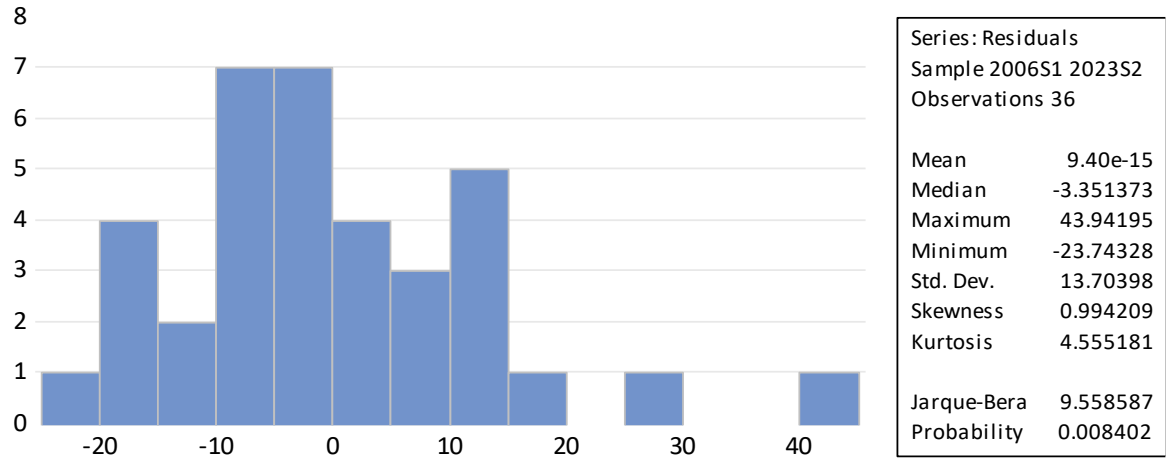


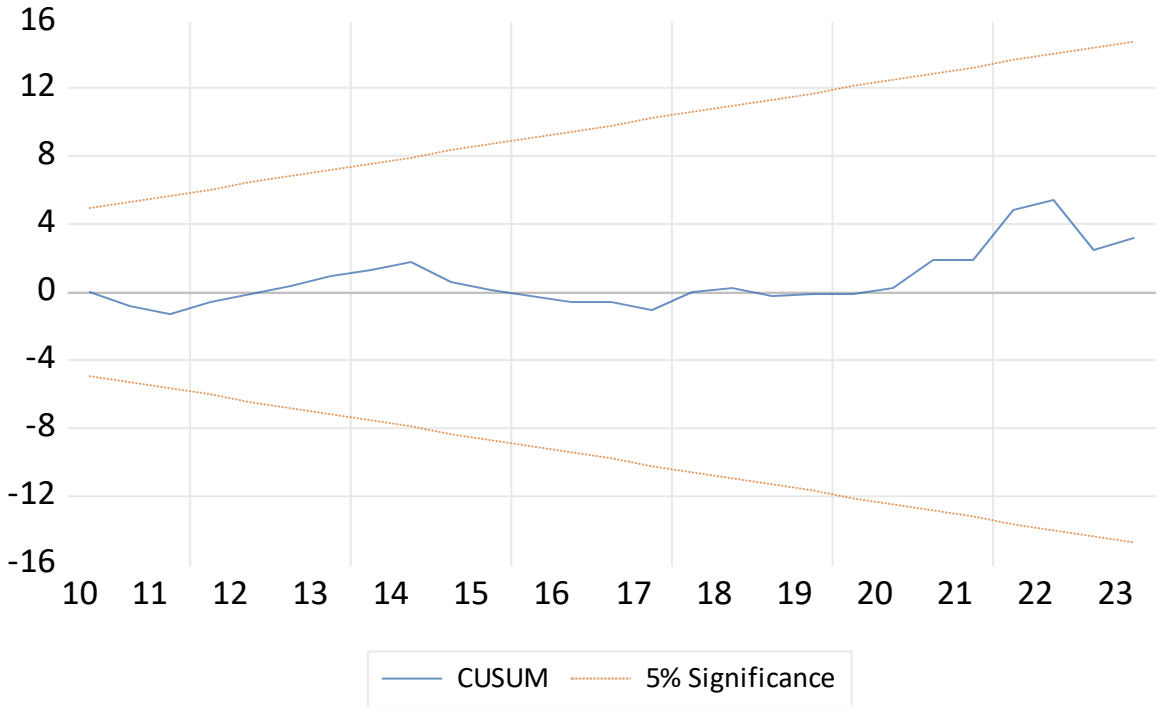
Chart (2): Distribution of random errors (Histogram – Normality Test)

Source: Figure prepared by the researcher based on the outputs of Program 13E-views.

Seventh: Testing the structural stability of the model parameters (Stability Diagnostics)

Chart (3) shows the test of structural stability of the parameters of the estimated model, as the test (CUSUM TEST shows that there are no breakthroughs of the total residual accumulation outside the critical values column, which means that the estimated parameters are stable at a significance level (0.05) as shown in the first figure.

Also in the test (CUSUM of Squares TEST) We note that there are penetrations of the sum of the sum of squares of the residuals outside the critical values column, and this indicates the instability of the variables included in the model at a significance level (0.05) as shown in the second figure.



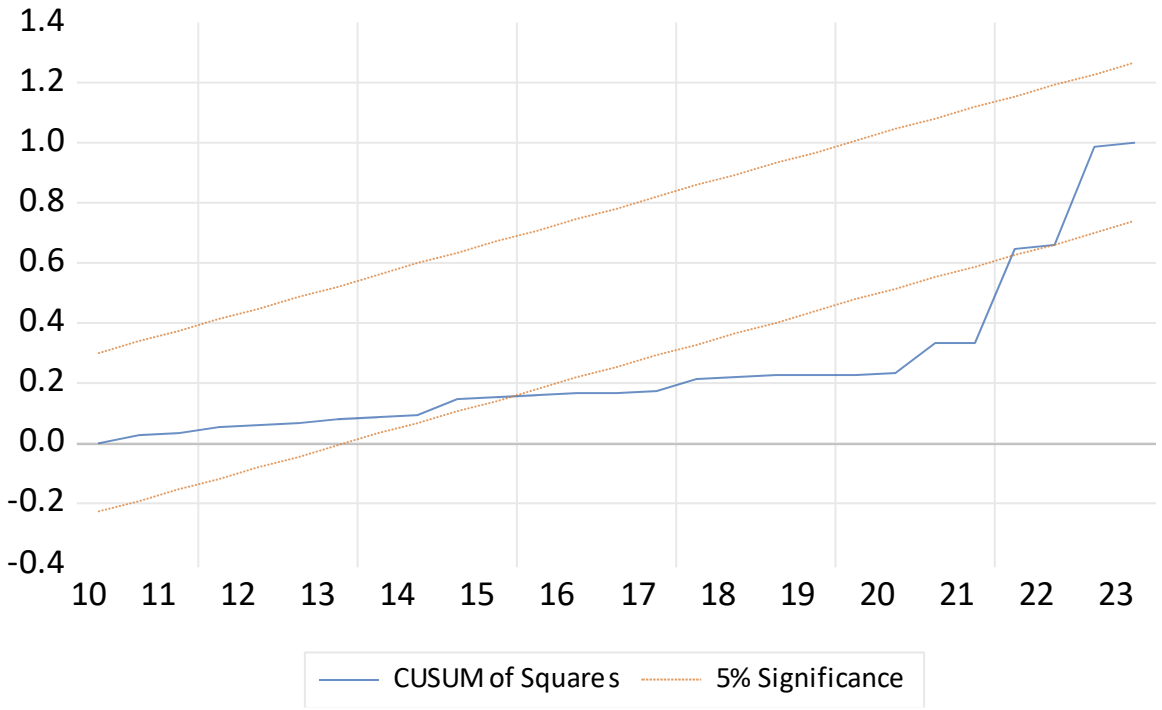


Chart (3): Testing the structural stability of the model parameters (Stability Diagnostics)

Source: Figure prepared by the researcher based on the outputs of Program 13E-views.

Eighth: Testing parameters (short term - error correction parameter - long term)

Testing of short-run parameters and error correction parameter

We note from the results of Table (7) that the parameter (Y) is positive and significant at the level of (0.05), meaning that an increase in the exchange rate by one unit leads to achieving a surplus in the current account of (0.914), and this demonstrates the existence of a direct relationship between the exchange rate and the current account.

It is also clear that the error parameter is significant at the level of (0.01), but it is less than one integer in absolute value, and this means that the speed of adjustment is fast to correct imbalances in the short

term in order to reach equilibrium in the long term, that is, we need (1.408/1= 0.710 years) to correct imbalances in the short term in order to reach equilibrium in the long term.

Table (7) Short-run parameters and error correction model

Dependent Variable: D(Y)				
Method: ARDL				
Date: 08/18/24 Time: 02:21				
Sample: 2006S1 2023S2				
Included observations: 36				
Dependent lags: 4 (Automatic)				
Automatic-lag linear regressors (4 max, lags):				
Deterministics: Restricted constant and no trend (Case 2)				
Model selection method: Akaike info criterion (AIC)				
Number of models evaluated: 20				
Selected model: ARDL(4,3)				
Variable	Coefficient	std, error	t-Statistic	Prob,
COINTEQ*	-1.408951	0.255781	-5.508431	0
D(Y(-1))	0.914474	0.203802	4.487061	0.0001
D(Y(-2))	0.798238	0.316483	2.522212	0.0174
D(Y(-3))	1.112462	0.276678	4.020775	0.0004
D(X)	0.045028	0.075765	0.594319	0.5569
D(X(-1))	0.085868	0.06303	1.362342	0.1836
D(X(-2))	0.131372	0.06616	1.985669	0.0566
R-squared	0.644727	Mean dependent var		0.592972
Adjusted R-squared	0.571223	SD, dependent var		22.99142
SE, of regression	15.05504	Akaike info criterion		8.433968
Sum squared residence	6572.969	Schwarz criterion		8.741874
Log probability	-144.8114	Hannan-Quinn crater.		8.541436
F-statistic	8.771238	Durbin-Watson stat		1.826812
Prob(F-statistic)	0.000017			
*** p-values are incompatible with t-Bounds distribution.**				

Source: Table prepared by the researcher based on the outputs of Program 13E-views.

Test long-term milestones

It is clear from Table (8) that the exchange rate has a significant and inverse effect at the level of (0.05) on the balance of payments. This means that an increase in the exchange rate by one unit leads to a decrease in the current account by (1.408) units.

Table (8) long-term features

Dependent Variable: D(Y)
Method: ARDL

Date: 08/18/24 Time: 02:21				
Sample: 2006S1 2023S2				
Included observations: 36				
Dependent lags: 4 (Automatic)				
Automatic-lag linear regressors (4 max, lags):				
Deterministics: Restricted constant and no trend (Case 2)				
Model selection method: Akaike info criterion (AIC)				
Number of models evaluated: 20				
Selected model: ARDL(4,3)				
Variable	Coefficient	std, error	t-Statistic	Prob,
Y(-1)*	-1.408951	0.27168	-5.186077	0
X(-1)	0.019125	0.032927	0.580838	0.5662
C	-1.91575	40.91976	-0.046817	0.963
D(Y(-1))	0.914474	0.225485	4.055592	0.0004
D(Y(-2))	0.798238	0.339597	2.350543	0.0263
D(Y(-3))	1.112462	0.308734	3.603297	0.0013
D(X)	0.045028	0.085334	0.527671	0.602
D(X(-1))	0.085868	0.067706	1.268246	0.2155
D(X(-2))	0.131372	0.075885	1.731215	0.0948
R-squared	0.644727	Mean dependent var		0.592972
Adjusted R-squared	0.539461	SD, dependent var		22.99142
SE, of regression	15.60267	Akaike info criterion		8.545079
Sum squared residence	6572.969	Schwarz criterion		8.940959
Log probability	-144.8114	Hannan-Quinn crater.		8.683252
F-statistic	6.124744	Durbin-Watson stat		1.826812
Prob(F-statistic)	0.000159			
*** p-values are incompatible with t-bounds distribution.**				

Source: Table prepared by the researcher based on the outputs of Program 13E-views.

2. Conclusion and future scope

1. The results of the standard aspect proved the existence of a cointegration relationship between the exchange rate and the current account of the Iraqi balance of payments.
2. The short-term results showed that there is a significant and positive relationship between the exchange rate and the current account of the Iraqi balance of payments, and that increasing the exchange rate by one unit leads to achieving a surplus in the current account of the balance of payments by (0.526).
3. The long-term results showed that there is a significant and positive relationship between the exchange rate and the current account of the Iraqi balance of payments, and that increasing the exchange rate by one unit leads to achieving a surplus in the balance of payments of (0.940).
4. The error parameter is significant at the level of (0.01), which is greater than one integer in

absolute value. This means that the speed of adaptation is fast to correct imbalances in the short term in order to reach equilibrium in the long term, that is, we need (1.408/1 = 0.710 years). To correct imbalances in the short term in order to reach equilibrium in the long term, meaning that imbalances in the balance of payments take less than a year to return to the equilibrium position in the long term.

Second: Proposals

1. Iraq should seek to diversify its sources of national income to reduce its heavy dependence on oil, which will contribute to reducing the impact of exchange rate fluctuations on the economy. This can be achieved by strengthening the agriculture, industry, and services sectors.
2. Flexible monetary policies should be adopted that can adapt to fluctuations in the exchange rate, which helps stabilize the current account of the balance of payments, and this could include deliberate intervention in the foreign exchange market and regulation of foreign currency flows.
3. Monetary authorities should manage foreign exchange reserves in a way that ensures the country's ability to confront potential financial crises and reduce fluctuations in the exchange rate.
4. Transparency in financial risk management should be enhanced by establishing a robust framework to monitor and manage risks associated with exchange rate fluctuations, while strengthening oversight of financial institutions to ensure the stability of the financial system.

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