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<https://doi.org/10.61796/ejheaa.v1i10.984>**THE REFLECTION OF ECONOMIC OPENNESS ON THE
STRUCTURE OF THE BALANCE OF PAYMENTS****Karrar Naeem Abdullah
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Abstract: From the above, the researcher believes that it can be said that the third chapter reflects the reflection of economic openness on the structure of the balance of payments. The first section included an analysis of the items of the balance of payments in light of trade liberalization. The first requirement included the reflection of cash flows on the structure of the balance of payments in light of trade liberalization, indicating the effect of economic openness on the current account and the effect of economic openness on the capital account and external balance and imbalance. The balance of payments is affected by the movement of foreign trade at the level of economic analysis of any country, as it reflects the degree of overlap of the local economy with the global economy. In addition, the economic transactions included in it reflect, in terms of content, the structure of production and the strength of the national economy and its competitive ability. In the best case scenario, increased savings in the developing economy lead to an accumulation of non-tradable goods with a slight improvement in the balance of payments. As for investment in the developing economy, including government spending, it is likely to be less affected by profit expectations and interest rates than is usually the case in advanced capitalist economies. As a result, it is better to consider investment as a mere external variable, while the demand for exports is affected by factors such as The relationship between internal and external prices expressed in a common currency, the nature of trade restrictions in foreign markets, and the level of real income in the rest of the world. Most of these factors are independent of the level of income in the exporting country. Accordingly, the demand for exports can be considered an external variable. The main objective of banking supervision is to enhance the soundness of the banking system, so it requires that it be able to develop effectively. A good supervisory system requires a new and tight formulation of the legal framework related to supervision and supervisors obtaining sufficient resources and appropriate technology that enables them to obtain and review information. The second requirement: The correction mechanism in light of cash flows. Experimental evidence. The third requirement: The role of the central bank in processing cash flows. The role of the central bank in processing cash flows and the functions and objectives of banking supervision of the central bank.

Keywords: -This is an open-access article under the [CC-BY 4.0](https://creativecommons.org/licenses/by/4.0/) license**Introduction****The impact of economic openness on the current account.**

The current account records receipts and payments of goods and services, and includes three main items: goods and services, income, and current transfers without compensation. Most items are recorded on the credit and debit side in total values. This account shows how dealing with the outside world affects income and use.

In a country, by showing the amount spent by foreigners on local goods and services and on local production through credit entries, while at the same time showing through debit entries the amount spent by citizens of the same country on goods and services produced abroad (1). The balance of payments is affected by the movement of foreign trade at the level of economic analysis of any country, as it reflects the degree of interdependence of the local economy with the global economy, in addition to the fact that the economic transactions included in it reflect, in terms of content, the structure of production and the strength of the national economy and its competitiveness, and the extent of its response to the development of the forces of production internationally. In more precise terms, the balance of payments record provides a comprehensive economic analytical tool for the economy in question in terms of its production structure and export structure and the factors affecting them, such as the size of investments, the degree of exploitation of production capacity and the level of costs and prices, the scientific and technical level, the quality of production and others, in addition to the fact that it represents an important tool for drawing up the country's foreign policy (). In this last context, the importance of the balance becomes apparent in the resort to it by government agencies to form the necessary perceptions about the financial situation of the state to help them reach decisions regarding monetary and financial policies on the one hand and regarding trade and payments issues on the other hand. The balance also provides an integrated statistical base on the sources and uses of foreign exchange because it summarizes the economic transactions that entail obligations. It also summarizes the economic transactions that help provide the monetary means to meet these obligations (). In addition, it provides a general perception of the level of economic exposure because it helps in identifying the level of overlap between the local economy and the international economy by measuring the impact of external economic transactions on national income (). What is important in the analytical importance of the balance is that the type and direction of the imbalance suffered by the balance of payments is structurally linked to the level of economic progress of the country in question in terms of whether it is an advanced or developing country, which requires understanding the meaning of balance and imbalance, its type, and the relationship of the latter to the economic structure and its characteristics in terms of the level of economic progress. The impact of economic openness on the capital account

The capital and financial account (1): It is a statement of how dealing with the outside world affects wealth and debt (2). It includes transactions in financial assets and liabilities. Claims on non-residents are considered assets. Obligations towards non-residents are considered liabilities. A debit entry can arise from either an increase in assets or a decrease in liabilities. While a credit entry shows a decrease in assets or an increase in liabilities. The two parties to the transaction are usually a resident and a non-resident (3). The capital and financial account consists of two main items: The capital account (4) includes transactions that include receiving or paying capital transfers without compensation and acquiring or disposing of non-productive non-financial assets (5). The financial account includes all transactions related to changes in ownership in the external financial assets and liabilities of the economy, including the creation and liquidation of claims on or to the outside world. Most of the capital and financial account entries are recorded in net values, meaning that each item is shown as a credit or debit value only (6).

External balance and imbalance

The balance represents the state characterized by stability and stability in the face of the resistance of factors or forces that conflict in opposite directions, in order to influence that state of balance, and the items of the balance of payments on both the creditor and debit sides represent a practical case of the conflict of those forces in order to push the balance of payments towards a deficit when the balance tilts in favor of the debtor party or towards a surplus when the creditor party is superior. The truth is, despite what the double-entry accounting system suggests of an accounting balance in the balance of payments, since the sum of all international transactions (current and capital), including reserve assets, is equal in principle to zero, meaning that the net resources that the economy provides to the outside world or receives from it are always met with

a corresponding change in the net entitlements on the outside world or obligations towards it (1). However, the external balance in the economic sense differs from the accounting balance in that it represents the situation in which receipts are equal to automatic external payments (i.e. those resulting from independent operations) and without resorting to compensatory items (i.e. those that occur for the purposes of settling imbalances arising from the occurrence of independent operations). This means that the net position of the independent items in the balance is the basic determinant of the external economic situation of the country whether it is in a state of balance or not. As for the state of imbalance (deficit or surplus), it is depicted as the situation in which the settlement items work to create a digital balance based on the double-entry system that ensures the equality of the credit side with the debit side (2). When a certain entry is recorded in the balance of payments, this means that a resident economic entity received from (or provided to) another non-resident entity a real resource or financial asset. Under the double-entry system, this entry requires the inclusion of a corresponding (balancing) entry. This corresponding entry is called a "transfer" if it does not include the provision (or receipt) of any real or financial resource in return, meaning that transactions that do not actually involve corresponding payments (i.e. payments or receipts from one side) are recorded in the balance of payments as if they lead to the occurrence of those payments. This means that transfers constitute counterbalancing restrictions for real and financial flows that do not include a counterpart. They are included on the debit side of the balance if they balance credit restrictions (giving economic values without a counterpart), and on the credit side if they balance debit restrictions (receiving economic values without a counterpart).

The transfers whose movement is recorded in the balance of payments accounts, whether in kind or in cash, represent that part of the transfers that flow through official channels and paths only. For purely in-kind transfers, recording is limited only to the value of goods that enter national borders by shipping or mail, or those brought in by immigrants and declared in customs declarations (3). As for cash transfers, they are limited only to transfers made through banks and banking channels, in accordance with the laws and instructions regulating the transfer process, and in accordance with fixed or flexible official exchange rates. Meaning that the balance of payments accounts do not include the values of transfers (in kind and in cash) that are made through informal outlets and channels such as transfers that flow into the parallel market through unauthorized agents, or through in-kind receipts accompanied by travelers, or through smuggling or other channels. Therefore, the values of transfers recorded in the balance of payments are usually less than their actual values.

Second requirement: The correction mechanism in light of cash flows Empirical evidence **The correction mechanism in light of cash flows Empirical evidence**

The foreign trade multiplier plays a fundamental role, especially in advanced economies, as does the investment multiplier, as it is based on the assumption that changes in aggregate demand will stimulate important changes in production and real income, except in the special case related to comprehensive use, as this will be reflected in changes in the general price level. As a result, this assumption is based on characteristics that distinguish advanced economies, which allow this mechanism to work (). As for developing economies, the matter is completely different, because of their heavy dependence on international trade. Imports constitute a major part of aggregate demand, and in contrast, spending on imports represents the main leakage from the income cycle. Therefore, it is likely to say that this mechanism cannot work effectively under these circumstances. () The foreign trade sector occupies great importance on the one hand, and because its variables are largely determined outside the income cycle model on the other hand. This analysis requires looking at the nature of the two sides of demand - in the form of investments and exports - and leakages in the form of savings and imports (). Since the government in the developing economy has a strong influence on investment fields, in this case investment can be considered an external variable, without distinguishing between private or public investment. In this regard, it is not possible, but rather wrong to conclude that investment requirements in the developing economy can be met, or that the deficit in its balance of payments can be reduced, if

savings in it increase. This may be true if the domestic production provided by savings is a complete substitute for the import content of capital investment, or if this domestic production is exportable (). At best, increased saving in a developing economy leads to an accumulation of non-tradable goods with little improvement in the balance of payments. Investment in a developing economy, including government spending, is likely to be less affected by profit expectations and interest rates than is usually the case in advanced capitalist economies. As a result, investment is best regarded as a mere exogenous variable. Demand for exports is affected by factors such as the relationship between domestic and external prices expressed in a common currency, the nature of trade restrictions in foreign markets, and the level of real income in the rest of the world (). Most of these factors are independent of the level of income in the exporting country. Accordingly, demand for exports can be regarded as an exogenous variable. As for the other side, i.e. income leakage, it is also governed by developmental considerations that are not directly related to the economic cycle. ()

The third requirement: The role of the central bank in dealing with cash flows

The role of the central bank in dealing with cash flows

The task of supervision and control is entrusted to the central bank, over the banking system, in order to verify the extent of commitment and implementation of banking institutions, including banks, commercial companies and savings companies, to the provisions of the Central Bank Law and the regulations and instructions issued pursuant to it. The importance of supervision and control over banks stems from the importance of the role played by these institutions in the economic life of different countries. The process of collecting and analyzing information depends on the most important type of regulatory system. () Banking supervision gains special importance in light of the liberalization of financial transactions, because it is likely that institutions that have been lifted from regulatory rules in accordance with the liberalization policy will resort to different forms of Risky transactions, so liberalization should be coupled with effective supervision of the banking system to avoid any unsound practices that may harm the country's domestic policy. ()

Methods

The research method used in the statement above involves a descriptive approach aimed at understanding the dynamics of banking supervision and its impact on financial stability. It focuses on analyzing the regulatory frameworks, macroeconomic conditions, and the role of central banks in overseeing banking activities to prevent risks such as bankruptcy and liquidity issues. The study also examines the broader effects of banking reform on the balance of payments, particularly in developing countries, highlighting the challenges posed by government intervention, mismanagement, and fluctuations in exchange rates. By utilizing case studies and reviewing existing literature, the research assesses the effectiveness of monetary policies and reform strategies in fostering economic growth and financial stability in the banking sector.

Result and Discussion

The main objective of banking supervision is to enhance the safety of the banking system, so it requires that it be able to develop effectively. A good supervisory system requires a new and tight formulation of the legal framework related to supervision and supervisors obtaining sufficient resources and appropriate technology that enables them to obtain and review information, in addition to granting them the authority to implement their decisions. These elements must be available in any banking supervision to ensure its effectiveness in achieving safety for financial institutions. Before establishing and implementing effective supervision of banks, a set of conditions must be taken into consideration, the most important of which are: ()

1. The existence of objective and sound macroeconomic policies.
2. The existence of advanced structures that allow for the protection of the stability of the financial system, and to integrate into them a legal framework that guarantees the solidity, strength and validity of contracts and financial rights, recognized accounting procedures, an

effective external audit system, and ideal and effective control over the non-banking financial sector and the payment system. ()

2. Market commitment linked to the principles of good corporate governance and transparency of financial activities.
3. Establishing effective procedures to resolve banking crises by developing a reform plan for insolvent banks, starting with the rehabilitation of insolvent financial institutions.

Functions and objectives of banking supervision of the Central Bank

Central banks, as a supervisory body, oblige banks to adhere to laws and regulations directly and indirectly. Despite the differences in the supervisory frameworks of central banks, they all aim to ensure the safety of the banking sector and achieve stability in the financial and economic sector. This can be achieved through a set of objectives, the most important of which are: ()

1. Ensuring the stability of the financial and banking system, through:
 - a. Avoiding risks that lead to bankruptcy of banks by further supervising the practices of banking institutions, and ensuring that they do not falter to protect the banking system and the financial system together.
 - b. Obligating them to the rules and instructions for managing assets and liabilities in both local and international operations.
2. Ensuring the efficiency of the banking sector, through: ()
 - a. Auditing the accounts and documents of banks to ensure the quality of assets and avoid their exposure to risks.
 - b. Evaluating the internal operations of banks and analyzing the main financial elements and the conformity of bank operations with the general frameworks of the relevant laws.
 - c. Assessing the financial position of banks in terms of their ability to meet their obligations in order to maintain the financing of some economic activities and vital and important institutions.
 - d. Guaranteeing deposits, which is done through the intervention of regulatory authorities to impose their control and take appropriate measures to avoid potential risks that funds may be exposed to in the event that credit institutions do not implement their obligations towards depositors, especially those related to the safety of assets. ()

Banking reform and its impact on the balance of payments

Financial and banking reform includes establishing a strong financial system capable of mobilizing financial resources (local and international) and redirecting them to serve economic activity in order to achieve high and continuous rates of economic growth. This reform is devoted to updating, deepening and strengthening all units of the financial sector, in addition to making major changes in the nature of the banking industry and restructuring it for the purpose of mobilizing local savings and reducing the phenomenon of migrant capital to avoid affecting the capital account and thus creating a gap between external receipts and payments, with the possibility of attracting part of foreign investment flows. ()

To ensure that the reforms of the financial and banking systems are successful, a comprehensive strategy for economic and structural change and reform of the national economy must be adopted. The process of financial and banking reform is embodied in the process of liberalizing the banking sector, in order to keep pace with global financial and banking developments and the movement of international capital, which is based primarily on liberation from restrictions and obstacles, increasing the intensity of competition between banks and using advanced technological means of communications and information, which increases their ability to compete internationally. () Therefore, it faced many Developing countries have difficulties that have negatively affected their economic performance, which in turn has been reflected in their banking system and then in the work of the central bank. The most important of these difficulties are: - ()

1. The intervention of financial policy in credit programs, which has taken away a large part of the ability of central banks to manage credit and affected how credit facilities are distributed among the various economic sectors, as it did not lead to optimal distribution.
2. Increasing government borrowing from central banks to finance their expenses has led to negative interest rates, which has discouraged individuals from depositing their money in financial institutions, which has been reflected in the transfer of private funds to foreign banks, which has affected the capital account.
3. Financial markets in developing countries are characterized as unorganized and undeveloped markets, which has led to a failure to respond to any changes in monetary policy, thus weakening their effectiveness.
4. Mismanagement: The results showed that the low degree of efficiency and effectiveness of bank management was the direct cause of the failure or stumbling of banks. ()

Direct causes of balance of payments fluctuations

There are several causes of balance of payments fluctuations that can be explained as follows:

1. Differences in interest rates: We noticed when reviewing the modern approaches to automatically correcting the balance of payments imbalance, especially the monetary approach, that they emphasized that the balance of payments is a monetary phenomenon. And that the imbalance in the balance of payments is due to the imbalance between the supply and demand for money, and the imbalance in the balance of payments reflects the imbalance in the money market and the demand or excess supply of money. Accordingly, the effectiveness of these approaches in diagnosing the imbalance in the balance of payments of developing economies and the extent of their success in their therapeutic prescriptions for them should be verified. Therefore, it is necessary to stand on the monetary and financial problems in these countries. The main problem that developing countries suffer from is the problem of achieving high levels of savings and investment and ensuring that investment is directed towards the desired social channels, as the severe shortage of capital and low savings rates are the direct causes of low productivity in such countries (). The imbalance between the various economic sectors and institutional deviations in the distribution of credit facilities are in favor of the construction, trade and consumer goods sectors at the expense of the possibility of achieving higher productivity in the industrial and agricultural sectors, as it is noted that all banking institutions in developing countries focus on maintaining their liquidity requirements by granting short-term facilities to convert medium- and long-term activities that are non-existent or limited in scope, thus losing many available opportunities to increase production and productivity (). At the same time, the undeveloped nature of the monetary and banking sectors can be reflected in the high liquidity rates in banking institutions, the low transactions of monetary multipliers in practically all developing countries, and the high ratios of currency to money supply compared to the case of economically advanced countries. In contrast, monetary policy in developing countries lacks effectiveness, especially with regard to traditional monetary controls represented by the central bank discount rates as well as open market operations and reserve ratios. (3) Monetary, so it can be noted that there is an institutional difference in the nature of the orientations of financial and monetary policies in the developing economy from the mature advanced economy, this is mainly reflected in the priorities of financial and monetary policy and limits the role of other effective variables that are supposed to apply in the correction mechanisms through the aforementioned approaches. It is noted that in developing countries, the focus is on achieving prior goals, the most important of which is achieving balanced development and seeking to spread banking habits that enhance the will of monetary policy towards achieving rapid capital accumulation and enhancing savings. On the other hand, the nature of the sustainable financial development process coincides with the goal of achieving sectoral balance in the economy, by changing the investment pattern towards achieving

resources and growth of investment goods, in an effort to change the unbalanced economic structures in developing economies, so the basic problem facing these economies lies in increasing the volume of savings transferred and carried to those productive purposes, and this can be achieved by developing countries adopting monetary policies capable of innovating the provision of more attractive financial assets for units with a surplus if these savings are wanted to work effectively to finance investment (1). As for the role of the interest rate, it is usually of minor importance in directing investments towards the required productive sectors and is often determined by the monetary authority outside the monetary market. Interest rates are usually low in most developing countries, which makes their private investments short-term and does not meet the needs of the local market, which often encourages the transfer of capital abroad.

1. Fluctuations in exchange rates of global currencies

The process of correcting the imbalance in the balance of payments - whether in developing or developed countries and whether the exchange rate followed tends towards stability or flexibility - is accompanied by the effectiveness of economic variables in causing correction (adjustment) in the balance of payments with conditions related to the price flexibility of import demand, which is clearly linked to the movement of the exchange rate and the effectiveness of its role in directing demand towards exports and reducing it on imports. Therefore, interest in the increasing role of the exchange rate in correcting the imbalance began with the escalation of the pace of implementing the International Monetary Fund programs in it due to the close connection between what the Fund's programs as a whole seek and the policies related to the aspect of improving international competitiveness in it in particular in the exchange rate playing an important role in the process of improving the efficiency of the economy by reallocating resources based on international market indicators, in addition to the fact that the International Monetary Fund programs are a synonym for reducing the exchange rate on the one hand and restricting credit on the other hand ().

The price elasticities of demand for imported goods appear as the first link in the chain of correction, in the flexible exchange rate system, which leads to discussing the conditions required to achieve the condition of flexibility in flexible exchange rates, specifically when the exchange rate decreases. However, the price mechanisms or what is known as the Marshall-Lerner condition continue to play an important role in the correction process, whether the exchange rate system followed is flexible or fixed. All the problems that have emerged that have faced the fulfillment of the flexibility condition in the cases of countries that have implemented the Fund's programs are related to the theoretical basis, its hypotheses and its results (3). The correction mechanisms in the fixed and flexible exchange rate systems depend on the movement of economic variables in an interactive context, as an effect of the balance position on interest rate trends and the subsequent effects they leave on the movement of income, the movement of capital and prices, whether in the fixed or flexible exchange rate system - with a difference in the succession of roles - and this context assumes from the beginning the existence of an appropriate economic ground to affect the variables and mechanisms that are supposed to be in effect at work, such as the income multiplier and the responses of interest rates to changes in the movement of capital and the money supply, in addition to the response of the production structure to indicators of reallocation of resources, and this is clearly evident in the flexible exchange rate system. This calls for discussing from the beginning the effectiveness of correction tools in the developing economy, whether in the framework of the relationship between the quantity of money and the interest rate, between the latter and investment, and between investment and income (1). We have previously explained in the previous demands that this analysis is based primarily on assumptions enjoyed by the advanced economy that has reached a level of maturity in the interaction between its economic variables such that these tools can work effectively. Perhaps the duality of the financial sector that the developing economy experiences and the coexistence of two sectors, one modern and the other traditional, reduces the impact of monetary tools on movement and influence, in addition to the limited role of the multiplier, the concept of which is based on a set of assumptions, the most

important of which is that the production apparatus enjoys flexibility, which is what the developing economy lacks. All these aspects make it very difficult to imagine the mechanisms referred to above working smoothly as required in developing economies (2). If we move to the applications of the Marshall-Lerner condition on flexibility, we find that the difficulties that hinder its achievement have the same structural nature. In terms of the flexibility of foreign demand for exports from developing countries, they are not expected to be of high value due to exports that usually include primary commodities, especially since the traditional trading partners of developing countries are represented by developed countries, and these have low price and internal demand elasticity for goods exported from developing countries. If we move to the elasticities of import demand for developing countries - the second aspect of the condition - it is known that these countries import from their trading partners vital goods for the ongoing development process in them, and this reduces the elasticity of demand response to the rise in their prices due to the exchange rate devaluation. In the framework of implementing the International Monetary Fund's programs, the exchange rate is used as a primary tool in what are known as stabilization programs, for many reasons, including the prevailing belief that imbalances that require reform often result from the lack of competitiveness at the international level, in addition to the role played by the exchange rate as a tool for the policy of transferring spending and the policy of reducing spending, and thus it is a primary tool in the policies of managing demand and supply in the Fund's programs (). However, the Fund's experts acknowledge that the most criticized measures in the stabilization programs are the policies of devaluing the exchange rate, and the harshest of these criticisms indicated that the policy of devaluing the exchange rate not only failed to improve the current account situation, but also spread the phenomenon of economic instability in many economies that implemented it ().

Conclusion

In conclusion, the research highlights the critical role of effective banking supervision in ensuring financial stability by addressing key risks like bankruptcy and liquidity issues through robust regulatory frameworks and central bank oversight. It underscores the importance of sound macroeconomic policies and reforms, especially in developing countries, where government intervention, mismanagement, and exchange rate fluctuations present significant challenges. The study also emphasizes that successful financial and banking reforms are essential for improving the balance of payments and promoting sustainable economic growth, as well as enhancing the efficiency of monetary policies in the banking sector.

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