



## The Effect of Good Governance on the Real Exchange Rate Behavior in Iran and Selected Countries

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### ABSTRACT

This study aimed to evaluate the relationship between good governance indicators and real exchange rate behavior. The period under study is that of 1996-2014 to be examined for Iran and the six selected countries of the Organization for Economic Co-operation Development including Germany, Japan, Brazil, India, Sudan and Bangladesh. The Edwards model was used, which is estimated using a simple panel method with constant effects. Estimates indicate that there is a negative and significant relationship between the real exchange rate and variables of the degree of trade openness, the coefficient of internal credit changes, regulatory quality indicators, and the right to comment and accountability. There was also a positive relationship between the real exchange rate and variables such as investment to GDP and indicators such as rule of law, political stability and absence of violence. The convergence of the studied countries was also studied by estimating a gravity model, and this convergence was then confirmed. Therefore, if the targeting of economic policymakers in the studied countries is in the direction of strengthening the national currency, it is necessary to consider variables that have a negative relationship with the real exchange rate, such as indicators of regulatory quality, the right to comment and accountability.

**Keywords:** Real Exchange Rate, convergence, good governance, Panel Data.

**Jel:** D51, O47, G3, C33.

### INTRODUCTION

Since the beginning of economics to now, various ideas have been provided by thinkers and economists on how to manage and handle the public sector and increase the welfare level for citizens. One of the most well-known of these theories is the paradigm of “traditional government management,” which bureaucracy is an integral part of it (Yadollah Dadgar & Nazari, 2018; Rose-Ackerman & Palifka, 2016). This paradigm or intellectual trend was a paradigm in the field of public sector management until the early 1980s, but with its negative dimensions and weaknesses emerging, another paradigm called “New Government Management” was created during these

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same years in the United Kingdom and United State that the “privatization and downsizing of the state” was its main slogan (Basheka & Tshombe, 2017). However, the ambitions and objectives of this intellectual trend were not fruitful and productive in many countries, even in its inventive countries, and it soon became apparent that this paradigm would not be able to provide proper and fair welfare to the citizens (Yadollah Dadgar & Nazari, 2018). Hence, thinkers again sought to design other paradigms that included the emergence of “modern public services” and “good governance” (Y Dadgar, 2010; Jahangard & Ali Asgari, 2011).

Since the late 1990s, international economic policy circles such as the World Bank, the United Nations Development Program and, to some extent, the International Monetary Fund (IMF) provided a policy called “good governance” as the key factor to development (Grindle, 2004; Santiso, 2001; Weiss, 2000). The term governance means the administration and regulation of affairs, and refers to the relationship between citizens and governors. The World Bank defines “good governance” based on six characteristics (Bouckaert & Van de Walle, 2003; Grindle, 2007; Santiso, 2001):

- 1- Voice and accountability
- 2- Political Instability and Violence
- 3- Government Effectiveness
- 4- Regulatory Quality
- 5- Rule of Law
- 6- Control of Corruption

In this definition, as much as positive features, such as rule of law, accountability and government effectiveness are further concerned in a community, and corruption, excessive regulation, political instability and violence are less, governance is more appropriate for achieving economic development in that community.

The exchange rate is defined as the unit value of domestic currency quoted against a foreign currency (Amiti, Itskhoki, & Konings, 2014; Bouakez & Eyquem, 2015; Della Corte, Ramadorai, & Sarno, 2016; Gabaix & Maggiori, 2015; Kim, 2015) and is considered as an important variable in assessing the competitiveness of countries. Therefore, the stability of the exchange rate has a special significance and recognizing the effective variables over it is of great importance. This current study aimed to assess the impacts of good governance and its indicators on real exchange rate behavior of Iran and the six selected countries of the Organization for Economic Co-operation Development, including Germany, Japan, Brazil, India, Sudan and Bangladesh. The main question of this study is as follows: Does good governance and its components have a positive and significant effect on the behavior of the real exchange rate? Accordingly, the article’s framework for answering the research question is that the second section of the article discusses internal and external empirical studies in this field after the introduction section; and the third section explains the theoretical foundations and the specification of the real exchange rate model and how good governance affects it. The model of econometrics is described in the fourth section and the model results are presented as well. Finally, the fifth section includes summary and conclusions.

## **THEORETICAL FRAMEWORK AND LITERATURE**

Ott (2010) dealt with the relationship between good governance and happiness in 127 countries in an article for the years from 1996 to 2007 by making use of zero-order correlation model and partial correlation. The results of the linear model are reflective of the idea that there is a positive correlation between the technical quality and happiness in poor and rich countries as well as between the democracy quality and happiness in the wealthy countries. This way, governance quality is more important than the quality of the government size for happiness.

Ivrendi and Guloglu (2010) evaluated the relationship between the monetary policy impulses, foreign exchange rates and trade balances in five countries with inflation targets (countries whose economical policies are based on curbing the inflation) in their article. The investigations were based on the structural vector error correction model with short-term and long-term constraints. The model results suggested that the expansionary monetary policy impulses lead to the reductions in the price level and production as well as an increase in the foreign exchange rates and improvement of the trade balance during a very short period of time. Also, the contractionary monetary policies' impulses were seminally found having negative and significant influences on the real imports and exports of the studied countries but the real imports and exports gradually increase and then return to their preliminary level after five periods. Behnamian (2013) has dealt with the investigation of the real exchange rate's effect on the unemployment rates in Iran's economy during the period of time from 1975 to 2011. The main hypothesis proposed therein was that the real exchange rate has a negative influence on the unemployment rate. Therefore, using the Angel-Granger and Johansen-Juselius cointegration test, he has concluded that the real exchange rate negatively influences the unemployment rate in the long run. Sahabi, Etesami, and Aminpour (2013) as well, based on the generalized model of moments, have investigated the effect of the government size and good governance on the financial development through taking advantage of the statistical data from 76 developing and developed countries for a time span from 1996 to 2011. The model results indicated that the government size and good governance have negative and positive effects, respectively, on the bank sector development. Also, in a dissertation, Rafiei (2014) studied the relationship between good governance and the real exchange rate's behavior through seemingly unrelated regression method. The study was conducted in a time period from 1996 to 2012 in eight countries, Iran, the US, Algeria, Norway, Russia, Canada, Venezuela and Saudi Arabia. The study results showed that amongst the six indicators of the good governance, the government's effectiveness has a negative and insignificant effect on the behavior of the real exchange rate in Iran. The other indices, including the fight against corruption, quality of regulations, the right to express ideas and accountability have positive and significant effects on the behavior of the real exchange rate. Also, it was found out that the effect of the good governance on the real exchange rate's behavior is different in the rest of the countries. Azimi and Noferesti (2014), in an article and in finding an answer to the question as to how the government's budget deficit is related to the balance of trade in Iran, made use of a macro-level econometric structural pattern and increased the government's consumption expenditures from 2002 to 2011 by about 20% on a yearly basis so as to render the government's deficit of budget meaningful in respect to the process. The result was that the government's budget deficit is increased as a result of expansionary financial policy practices. The budget deficit, if compensated through borrowing from the Central Bank, causes an increase in the monetary base and exacerbation of the balance of trade and nonpetroleum trade balance in contrast to the baseline and it will bring about a reduction in the overall demands and improvement of the balance of trade and nonpetroleum trade balance if it is made up via selling government bonds to the people; moreover, if the amount of the direct taxes is increased parallel to the increase in the budget deficit, it will cause reduction in the private consumption and deterioration of the balance of trade and nonpetroleum trade balance and, finally, if it is supplied by withdrawing from the foreign exchange reserve account, then the Rial and dollar earnings obtained from the petroleum sales will be increased and this, per se, causes an improvement in the balance of trade and worsening of the nonpetroleum trade balance in comparison to the baseline trends. Costamagna (2014) worked on the reduction of the competitive rates and balance of trade in undeveloped countries from Latin American region, i.e. Argentina

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and Brazil, in a study. Using 1990-2010 data and vector error correction model, he examined the effects of real exchange rates' reductions and increases on the balance of trade in the aforementioned countries. The results demonstrated a long-term relationship between the balance of trade and the real exchange rate as well as with the endogenous and exogenous earnings of the countries during the periods of time in which the reverse policies of real exchange rates were exercised. Gani and Scrimgeour (2016) in a study entitled "New Zealand's trade with Asia and the role of the good governance" were seeking to find an answer to the question as to whether the implementation of the good governance in the Asian countries is important for their trade with New Zealand or not? They dealt with the investigation of 2012-2013 data within the framework of the gravity model based on instrumental variable estimation model. The model results are indicative of the significant and inverse correlations in New Zealand's exports and imports to and from Asia. Also, the country's exports to Asia and its imports therefrom are negatively and significantly correlated with the political laws of the Asian countries as a result of which its Asian business partners are obliged to invest more resources for the improvement of their governance, such as the institutional mechanisms for the better enforcement of the contracts and more political freedoms. Also, Lotfalipour and Bazargan (2016) investigated the effects of the real effective exchange rate variations, export and import on Iran's balance of trade. The study was undertaken on 1994-2012 data within the format of the vector error correction model. The results signified that the fluctuations of the real effective exchange rate lead to the reduction of the balance of trade only for Germany in short-term and they result in the increase in the balance of trade for Italy in long-term.

## METHODOLOGY

The model proposed by Edwards for analyzing the real exchange rate's behavior takes numerous variables into account. The model is also being widely used in the majority of the global researches. Therefore, the present study makes use of the framework of the Edward's model that is in proportion to the economical structures of the selected countries- so as to be able to remain highly accountable in explicating the effects of the factors contributing to the foreign exchange rate's pass-through.

Edwards (1988) shows that the real factors along with a series of the monetary factors influence the real exchange rate's behavior in the long run. These real factors as posited in Edwards' model are exchange relationship, the ratio of the government's expenditures in non-tradable goods to production, import tariffs, technological progress and the ratio of investment to production.

The following relations are utilized to analyze the variables and the behavior of the real exchange rate:

$$G_t = P_{tN} G_{tN} + E_t P_{tM} G_{tM} \quad (1)$$

Where the government's expenditures ( $G_t$ ) is comprised of the price of the non-tradable goods ( $P_{tN}$ ) and the tariff-free price of the imported goods ( $P_{tM}$ ) and nominal exchange rate ( $E_t$ ). The relation shows the government's expenditures during a time period,  $t$ , and with the imposition of tariffs on the imports, we would definitely have:

$$P_{mt} = EP_{tM} + t_t \quad (2)$$

Where, the tariffed price of the imported goods is designated by  $t_t$ . If the real exchange rate of the imports and the real exchange rate of the exports can be denoted by  $e_m$  and  $e_x$ , respectively, then, we will have:

$$e_{tx} = E_t / P_{tx} \quad , \quad e_{tm} = P_{tm} / P_{tn} \quad (3)$$

On the other hand, private sector's consumption of the imported tradable goods and non-tradable goods as a function of the consumption has been considered as stated in the following statements:

$$C_{tN} = C_{tN}(e_{tN}, a) \quad , \quad C_{tm} = C_{tm}(e_{tm}, a) \quad (4)$$

Based on a macro-economy model, the consumption expenditures, subject to the real foreign exchange rate of the imported goods and the real wealth that are highly attended to in the novel theories, especially the life cycle consumption theory, are to be placed in relations (4) in such a manner that the relationship between the real wealth and the consumption expenditures can be justified in a rather direct manner. Also, according to the relation (1), that is indicative of the government's overall expenditures, those expenditures pertinent to the import can be denoted by  $P'_{tm} \cdot G$ . On the other hand, based on relation (4), the consumption expenditures quotient of the imported goods can be determined as  $P'_{tm} C_{tT}(e_{tm}, a)$ . Based thereon, the current account of the payments' balance can be demonstrated as a relation (5):

$$NX = Q_{tx}(e_{tx}) - P'_{tm} C_{tT}(e_{tm}, a) - P'_{tm} G_{tm} \quad (5)$$

In the equation, there is introduced the amount of the exports ( $Q_{tx}$ ) as a function of the real foreign exchange rate of the exports. According to the definition that is currently offered for the foreign payments' balance, it can be stated that the surplus amount of the current account is also an indicator of the changes in the foreign exchange reserves. So, the relationship between the current account's surplus and changes in the foreign exchange reserves can be expressed as below:

$$R'_t = NX \quad (6)$$

Moreover, corresponding to the monetary union, the changes in the money volume with the total sum of the conversions of the foreign exchange reserves to the national currency and changes in the domestic credits will be as below:

$$M'_t = D'C_t + ER'_t \quad (7)$$

Here, is the growth in the money volume ( $M'_t$ ) and growth in the domestic credits ( $D'C_t$ ). It is clear from the relation (7) that the domestic credits can directly increase the volume of the money bills and coins in people's hands and this becomes very important when the government compensates the budget deficit via borrowing loans from the internal sources. Also, the rial value of the foreign exchange reserves can have a direct influence on the money volume growth. On the other hand, in supplying its expenditures, the government can make use of the taxes, domestic credits and oil earnings.

$$G_t = T_t + oil_t + D'C_t \quad (8)$$

Is the tax and oil revenues ( $T_t - oil_t$ ). Here, the role of the domestic credits in the government's expenditure depends on the amount of the budget deficit made up through borrowing from internal sources.

Therefore, assisted by the abovementioned equations, it can be stated that the real factors influencing the real foreign exchange rate are trade exchange rate, the ratio of government's expenditure to GDP and the import tariffs or import taxes. Also, the relations that were presented for the government's expenditures can also be used for investment expenditures, as well; hence, the investment to GDP ratio can also be effective, like the ratio of the government's expenditures to GDP, on the real foreign exchange rate's behavior. Furthermore, such macro-economy policies as money demand growth, determined by the coefficient of the domestic credits changes, are considered as the monetary policy indices influencing the real foreign exchange rate. Also, aided by the research performed by Melvin (1984), the degree of the economy's openness can be utilized as a factor influencing the real exchange rate's behavior. Based on the theoretical foundations, the

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more an economy is envisaged open, the more accentuated will become the role of the tradable goods' price in the entire price index hence the smaller the real foreign exchange rate's variations.

Considering the economic conditions in Iran and the factors affecting the real exchange rate as well as the theoretical models of the Dutch disease, rising oil revenues will change the demand for all commodities, whether exchangeable or non-exchangeable. Therefore, oil revenues can also be mentioned as one of the variables that affect the real exchange rate, which the fluctuation of these types of revenues always leads to change the value of money equivalence and its pricing effects arise through real exchange rate changes.

As well as, according to Alan Rogers (1999) and Moosa (1994), who both separately used the gap variable between the free market exchange rate and the official exchange rate as a substitute variable for determining exchange policies and the type of currency system to determine the effect of the exchange system on the real exchange rate behavior, it is concluded that the type of currency system is one of the factors influencing real exchange rate behavior.

Therefore, a model is specified which is able to show the impact of economic policies on the real exchange rate behavior and thus the exchange rate pass-through. The model in this research is presented as follows:

$$\text{REXRM} = (\text{GEG}, \text{CVET}, \text{IXGD}, \text{DEMEN}, \text{OILR}, \text{INGD}, \text{TAIM}) \quad (9)$$

Where the real exchange rate (REXRM), the ratio of government expenditures to non-trade goods to gross domestic product (GEG); the coefficient of variation of internal credits (CVET), the sum of exports and imports to gross domestic product (IXGD); the variable related to exchange policies (DEMEN), oil revenues (OILR), is investment to gross domestic product (INGD) and import taxes (TAIM).

As mentioned above, the specification of the model in this article will be as follows:

$$\ln \text{rexrm} = f(\ln \text{ixgd}, \ln \text{ingd}, \text{cvet}, \text{coc}, \ln \text{pos}, \ln \text{goe}, \ln \text{req}, \ln \text{rol}, \ln \text{voa}) \quad (10)$$

**Real exchange rate (REXRM).** This variable is obtained for Iran because of having dual rates from dividing the Iranian consumer price index into the US consumer price index multiplied by the free exchange rate in the base year. The official exchange rate is used for the rest of countries through the world due to the existence of single-rate.

**The degree of trade openness (IXGD).** Which is calculated from the sum of exports and imports to the gross domestic product.

**Investment to GDP (INGD).** This variable is derived from the dividing gross fixed capital formation data into GDP data.

**The coefficient of variation (growth rate) of domestic credits (CVET).** For this variable, the data from internal credits to the private sector has been used. To calculate the coefficient of variation, the amount of each data is deducted from the data of the previous year and is divided into data of the previous year.

**GOE.** Government Effectiveness

**POS.** Political Instability and Violence

**REQ.** Regulatory Quality

**COC.** Control Of Corruption

**VOA.** Voice and accountability

**ROL.** Rule of Law

In these two equations, some of the variables affecting the real exchange rate have been eliminated. Because the data of oil income variable were not available for all countries, this variable was set aside. The variable for exchange policies which derived from the deduction of the free exchange rate from the nominal exchange rate was eliminated from the model because of the single-rate of the exchange rate in the countries. The government's effectiveness index can also be

used as one of the indicators of good governance, instead of the variable of government expenditures. Therefore, the variables studied in this model are IXGD, INGD, CVET and six good governance indicators, which all variables are used as *ln*. The period covered by this article is 1996-2014 for the country of Iran and the six other countries including Germany, Japan, Brazil, India, Bangladesh and Sudan. The selection of countries has been targeted, as Germany and Japan represent the developed countries, Brazil and India represent the emerging countries, and Bangladesh and Sudan are representatives of developing countries. Data on model variables are also collected from the World Bank.

**RESULT**

In order to measure the variables, their stationarity must first be evaluated. The coefficients obtained in the case of neglecting this item would be unrealistic and unreliable values. Data stationarity is conducted in Eviews9 software. The null hypothesis of this test is based on the non-stationarity of variables. If the probability of the tests is below the percentage of the error, then the null hypothesis is rejected and the variable is stationary. For this purpose, the stationarity of these variables is first assessed in a level based on three stages including with intercept and no trend, with intercept and trend, and with no intercept and trend, which a one-order differentiation is used in the case of the non-stationarity of coefficients.

The test used in this article is Levin et al. test. The test results show that all variables are at stationary level, so there is no need to examine the cumulative relationship between the variables and the simple panel method can be used to analyze the relationship of the variables.

Descriptive statistics of the studied quantitative data for applying in the two used regressions are presented in the following table, including mean, maximum, minimum, standard deviation and number of observations.

**Table 1.** Descriptive Statistics

Variables	minimum	maximum	mean	standard deviation	observation number
REXRM	0.88	24327.22	1573.32	4451.66	133
IXGD	0.13	0.89	0.39	3.17	133
INGD	0.11	0.39	0.25	0.06	133
CVET	-1.38	2.30	0.25	1.04	133
COC	-1.72	95.60	45.26	35.59	133
VOA	2.40	96.05	50.94	32.98	133
REQ	2.87	94.66	44.75	34.43	133
GOE	3.84	96.58	50.51	30.99	133
POS	0.94	95.19	40.45	30.06	133
ROL	1.91	95.21	49.08	32.19	133

Source: Calculations research

**Table 2.** Test results

Equation	test	Cross-section F	probability
Equation 10	Chow	400.74	0.001
	Breusch Pagan	92.49	0.001
	Hausman	30.49	0.001

Source: Calculations research

The presence of constant effects is accepted according to the results of Table 2. As well as, there is a heteroscedasticity and self-correlation between model variables, so the model is

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estimated through the simple panel with constant effects by removing heteroscedasticity and self-correlation. The results of the model estimation are presented in Table 3:

**Table 3.** Final estimation

Equation	Variables	Coefficients	Standard deviation	probability
Equation 10	IXGD	-1.89	0.25	0.001
	INGD	7.08	0.63	0.001
	CVET	-0.49	0.12	0.001
	POS	1.00	0.20	0.001
	REQ	-2.52	0.37	0.001
	COC	0.01	0.00	0.20
	VOA	-1.25	0.36	0.001
	ROL	2.22	0.37	0.001
	GOE	0.24	0.52	0.64
$R^2=0.50$				

Source: Calculations research

The results of the model estimation indicate a negative and significant relationship between the real exchange rate and the explanatory variables of the degree of trade openness, the coefficient variations in domestic credits, self-expression right index, and the index of quality of regulations. In addition, a positive correlation between the real exchange rate and the explanatory variables of investment in GDP, rule of law indices, corruption control, government efficiency and effectiveness, and political stability and lack of violence was confirmed. All variables, except for corruption control and government efficiency and effectiveness indices, are significant at 5% error level. The R2 coefficient is also appropriate numerical value in two equations, given that the data are a panel, indicating that the explanatory variables are able to explain many of the variations of the dependent variable. Among the variables affecting the real exchange rate, the variables of investment in GDP and the rule of law index have the highest effect on the real exchange rate, and the quality of laws and regulations index has the lowest effect on the real exchange rate. Thus, when the economy is more open, the real exchange rate would decrease due to increased exports and provide more exchange for the economy. The rule of law also aims to reduce government power and protect the rights of citizens. Thus, when this index decreases, the real exchange rate also decreases, since government power in decisions such as determining the exchange rate, foreign trade, banking, and so on increases. Political stability and sustainable security are one of the most important goals of any land. When the government has more political stability and is more resistant to fluctuations and domestic and foreign tensions, the political stability index would be at desired status and the real exchange rate increases. The regulations quality index is also related to the improvement of cumbersome regulations and rules in different areas, such export and import barriers, price controls, barriers to exchange rate, and so on. Thus, as this index improves, the real exchange rate also decreases due to the removal of barriers related to exchange rate and the ease of exports and imports. On the other hand, private enterprises are always looking for obtaining the customer views to satisfy them and earn more profit, due to competition. However, governments do not seek to satisfy the customers since they supply many of specific goods and products and have a monopolistic nature, so they are not aware of their views. Due to this information gap of consumers' needs, the probability of a disruption and crisis in the goods and services market and the foreign exchange market increase. Thus, as self-expression right and accountability index is improved, the real exchange rate decreases. Given the estimation method, which is a simple panel with fixed effects, the convergence of the countries used in this research needs to be examined to conclude that estimation coefficients are fixed for all countries and the obtained results are true for all countries. Accordingly, a gravity model, indicating the level of convergence of countries to each other, is estimated. The model is explained as follows:

$$lnex = f(lngdp, lnpop, lnd, dm) \tag{11}$$

It means that the volume of countries trade is a function of GDP, population (pop), distance (d) and a dummy variable (dm) added to the model. The used dummy variety is common language (English) among the countries and seeks to examine if common language causes convergence in countries or not. All variables have been also used as ln. The model was estimated based on a simple panel method. First, the results of the testing the fixed and random effects are presented in the following table to determine the type of effects of the gravity model:

**Table 4.** Test results

Equation	test	Cross-section F	probability
Equation 11	Chow	46.03	0.001
	Breusch Pagan	1325.99	0.001
	Hausman	7.65	0.02

Source: Calculations research

Based on Table 4, the fixed effects test is validated for estimating the gravity model. Thus, the final estimation of the gravity model after solving the problem of auto-correlation and heterogeneity of variance is presented in the following table:

**Table 5.** Final estimation

Equation	Variables	Coefficients	Standard deviation	probability
Equation 11	GDP	1.26	0.02	0.00
	POP	0.92	0.27	0.00
	D	-0.45	0.08	0.00
	DM	0.54	0.10	0.00
R <sup>2</sup> = 0.95				

Source: Calculations research

As seen in Table 5, the estimation results suggest a positive and significant relationship among the volume of exports and the variables of GDP, population and dummy variable of a common language. A negative and significant relationship was also found between the distance variable and export volume. Thus, as GDP, population, and common language are higher, the convergence of the studied countries would be also higher, since increased population means more workforce for production and increased GDP, leading to increased exports. The common language also increases the volume of trade among the countries. In addition, as the distance of countries is greater, convergence and the volume of trade among them decrease.

As a result of model estimation, the convergence of the countries studied in this study is confirmed. Thus, it can be stated that the estimation results for the model of the effect of good governance indices on real exchange rate behavior can be generalized for Iran and selected countries. Thus, as the good governance indices are improved, they would have a significant effect on the real exchange rate. Finally, using the results of the estimation of Equation 10, it can be stated that if the goal of economic policy makers is to strengthen the national currency, they should pay attention to the variables, which have a negative real exchange rate and decrease it, such as degree of openness of the trade among the countries, regulations quality indices, and so on.

## CONCLUSION

The World Bank defines good governance based on six characteristics: self-expression right and accountability index, corruption control, rule of law, regulations quality, political stability and lack of violence, and effectiveness and efficiency of the government index. Based on this

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definition, as the positive characteristics, such as rule of law, government accountability and effectiveness in a society are high and corruption, unnecessary regulations, political instability and violence are low, governance in that society to achieve economic development would be more appropriate. The exchange rate is also an important variable in assessing the competitiveness of countries. Thus, the stability of the exchange rate has a special importance and recognizing the variables affecting it is important. The objective of this paper is to investigate the effect of good governance on real exchange rate behavior in Iran, Germany, Japan, India, Brazil, Sudan and Bangladesh countries. The considered time period for investigation is 1996-2014 and the used model is Edwards's model used with regard to the real exchange rate. The considered model is estimated in Stata14 software using a simple panel with fixed effects.

The model estimation results show a positive and significant correlation between the real exchange rate variable and the variables of coefficients of domestic credits, investment in GDP, corruption control and rule of law. A negative and significant relationship was also found between the true exchange rate variable and the degree of trade openness, government effectiveness index, political stability and lack of violence, rule of law, and the self-expression right index. On the other hand, using a simple panel method with random effects, a gravity model was estimated to determine the convergence of the studied countries. The results of the convergence estimation of these countries with each other were also confirmed. Thus, in order to strengthen the national currency, it is necessary to pay attention to the variables, which reduce the exchange rate and have a negative relationship with it, such as the degree of trade openness and self-expression right and accountability index.

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