

# Review of the paper "Are Current Account Deficits sustainable? New Evidence from Iran Using Bounds Test Approach to Level Relationships"

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This paper attempts to deliver new evidence on the long-run relationship between exports and imports in the light of policy changes and external shocks on the Iranian economy.

The authors focus on two aspects: (1) The separate identification of possible structural breaks in each of the two variables of interest (namely exports and imports), and (2) the issue of sustainable current account deficits reflected by converging exports and imports in the long-run, under the consideration of eventual structural breaks in this relationship (see p. 5).

The theoretical part is based on an intertemporal balance model proposed by Husted (1993) which derives a one-to-one long-run relationship between imports and exports.

In the first part of the paper, the authors find evidence for structural breaks in imports and exports, respectively, using some standard tests. Accounting for these breaks they detect that imports follow an  $I(1)$  and exports an  $I(0)$  process. Given the small sample size these results should not be taken too seriously.

But nevertheless, if the previous findings hold, this rules out standard (single-equation or system) cointegration tests in order to analyse long-run relations. Thus, the authors suggest to use the Bounds-Testing (B-T henceforth) approach as developed by Pesaran et al (2001) which allows for the long-run analysis of  $I(1)$ ,  $I(0)$  or mutually cointegrated series.

**Major issues** I have three fundamental points to criticize concerning the second aspect of the paper:

1. The authors favour the B-T approach 'Since the existence of structural breaks may cause the series to be integrated of different orders...' (p. 5). But it should be noted that the approach is not developed to account for structural breaks in the level relationship (e.g. reflected by changes in the estimated coefficients) between the variables of interest.

Thus, given the findings of structural breaks in each series separately, it is highly recommended to apply parameter stability tests on the estimated ARDL/ECM model, to account for eventual breaks, and/or to test and estimate the specifications for sub-samples.

2. It is suggested to estimate further specifications controlling for additional variables.
3. It remains unclear why the authors do not calculate the long-run coefficient and discuss the findings, since they theoretically derive a one-to-one long-run relationship between imports and exports.

**Minor issues** Minor issues are mainly related to the appendix and the representation of the results. The tables lack some descriptions and clarification of used abbreviations.

To get an impression of the used time series and eventual structural breaks, it would be helpful to provide plots of the level series and corresponding changes. Furthermore, the paper includes some spelling and grammar mistakes which should be corrected.