Documentary Credits and Their Role in Promoting International Trade in Iraq: An Econometric Study Using the ARIMA Model

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KEYWORDS: Documentary Credits, International Trade, Trade Finance.	ABSTRACT
Corresponding Author: **Abdulmahdi Raheem Hamza** 	This research explores the relationship between documentary credits and foreign trade in Iraq. The analysis covers the period (2005-2022). Using econometric modeling techniques, specifically the Automated Regressive Integrated Moving Average (ARIMA) model, the results indicate that documentary credits have a positive impact on trade volume, with letters of credit representing approximately 67% of Iraq's foreign transaction volume. The study's results also demonstrate that letters of credit serve as a powerful mechanism for reducing transaction risks and strengthening relationships between Iraqi traders and their foreign counterparts. It is worth noting that this impact is noticeable in the development of foreign trade financing tools and methods, highlighting the importance of policies aimed at strengthening Iraq's foreign trade financing tools and legal systems, according to the ARIMA (1, 1, 1) model. Overall, the results of this study confirm the importance of documentary credits in growing Iraq's foreign trade volume and enhancing the confidence of foreign traders.

1. INTRODUCTION

The years 2004 and beyond witnessed the enactment of numerous laws, programs, and procedures to liberalize the economy, and measures and procedures were implemented in a wide range of areas. However, this faced some challenges, such as a weak banking system, deteriorating infrastructure, and security and political instability. Therefore, it became necessary to develop specialized strategies to promote foreign trade (Cordesman et al., 2010). All of this prompted Iraqi companies seeking to develop and facilitate their transactions with the outside world (import and export) to develop the necessary financial instruments. Letters of credit are perhaps the most important financial instruments used.

Often referred to as letters of credit, A banking agreement between two or more banks, in the form of a written undertaking. Issuing banks issue letters of credit based on the instructions of their customers. Receiving banks undertake to pay the beneficiaries of these letters of credit in exchange for shipping documents, execution documents, or services specified in the letters of credit that fully comply with their terms, or to accept documentary bills of exchange associated with these letters of credit(Hoekstra, 2021). This highlights the important role of documentary credits in facilitating trade between companies in various countries, as well as the types of these credits and the necessary controls and procedures. This is particularly evident in Iraq's efforts to reform its foreign dealings and enhance global confidence in it.

The Iraqi banking sector is undergoing radical transformations as governments seek to restructure and reform the economy and develop its financial infrastructure. Perhaps the most notable of these transformations is the addition of foreign trade finance facilities as a means of attracting clients. (Central Bank of Iraq, 2022). Despite all these reforms, the use of letters of credit remains weak, and the identification of the types of letters of credit that suit the capabilities of local companies remains weak. Confidence in the absence of liquidation of these letters of credit upon completion of a trade transaction is also low, compared to neighboring countries. (World Bank, 2021). This raises the ongoing debate about the extent to which letters of credit have been linked to Iraq's foreign trade performance over the past decade. The research attempts to find solutions to these questions:

1. How is the use of documentary credits currently evolving in Iraqi international trade?
2. What is the relationship between the quantity and value of Iraq's imports and exports and documentary credits?

3. Can time series analysis be used to accurately estimate the relationship between documentary credits and international trade in Iraq?
4. How can awareness of this relationship contribute to the development of Iraqi trade infrastructure in terms of policy?

The relationship between documentary credits and international trade in Iraq is quantitatively analyzed in this study using econometric modeling, most especially the autoregressive integrated moving average (ARIMA) model. The research findings aim to provide useful information for advancing Iraq's international trade capabilities and supporting practical knowledge on how to recover foreign trade finance instruments in post-conflict countries.

The remaining of this research addresses other aspects as follows: Section II includes an overview of studies on documentary credits and their role in international trade, with a focus on the case of developing countries. The approach, including data sources and the ARIMA modeling methods, is described in Section III. The empirical findings and analysis are shown in Section IV. The fifth section discusses the research findings, while the final section includes the most important recommendations.

2. LITERATURE REVIEW
2.1. Theoretical Foundations of Documentary Credits

According to Ellinger et al. (2011), The idea of documentary credits emerged as a tool to regulate and finance foreign trade, reduce risks, and provide the guarantees sought by parties to foreign transactions. Banks act as intermediaries between importers and exporters. These banks undertake the process of completing commercial transactions between the two parties and guaranteeing payment of imports to the exporter or collection of exports from the importer. Geographic distance, legal disparities, and information asymmetries constitute barriers, forming the theoretical basis for documentary credits (Fang et al , 2017). The term "documentary credit" (DC) refers to a "conditional" undertaking payment letter that the issuing bank (Applicant's Bank) issues to the beneficiary (the seller) through the correspondent bank when the beneficiary receives payment from the designated bank (the nominated bank) or the negotiating bank (the beneficial bank) within the predetermined time frame, provided that the beneficiary can provide a "Complying Presentation." (Redjeki & Sugihartanti, 2017)

Documentary credits' economic theory is based on transaction cost economics, which contends that by offering a reliable commitment mechanism, these tools lower the expenses related to global trade (Williamson & Masten, 1999). Commercial banks can achieve success by mitigating the effects of systemic, non-systemic, and moral risks that limit foreign trade growth. This can be achieved by acting as intermediaries between importers and exporters, thus reducing the negative impact of foreign trade growth (Kamau & Simo-Kengne, 2024).

The bank can enforce its obligation to provide compliance documents, Traders often face difficulties in achieving a high level of compliance with the documents required by bank (Merton, 2020). This can expose their transactions to risks, To reduce these risks, a careful assessment of the counterparty's reliability, creditworthiness and country of residence must be made, this framework balances the interests of banks, buyers, and sellers. Documentary credits can mitigate risks related to exchange rate fluctuations and political risks that may affect international trade, as the compliance principle addresses the bank's primary duty to examine documents to ensure their compliance with the terms of the letter of credit (Palek & Schwanebeck, 2019).

2.2. Documentary Credits in International Trade

Empirical studies have shown that the relationship between documentary credits and foreign trade is strong and positive, and this relationship affects the growth and flows of Iraq's foreign trade. (2017), redits contribute more than 15% of trade flows in developing countries and even less in developed countries, where they are the most widely used means of financing foreign trade in most countries, According to Niepmann & Schmidt-Eisenlohr (2019),

Studies indicate that letters of credit are becoming increasingly important for local traders and their foreign counterparts in countries with underdeveloped banking and contracting systems, becoming the most important financing tool there. Bown and Crowley (2014) This is particularly true for Iraq, whose payment systems are still in a state of weak development..

2.3. Documentary Credits in the Iraqi Context

One of the most important measures taken by the Central Bank of Iraq is establishing regulatory frameworks and implementing electronic payment systems for the purpose of financing foreign trade. (Central Bank of Iraq, 2022).

Despite the aforementioned reforms, Iraq still suffers from a marked weakness in the use of letters of credit. Only 23% of Iraqi companies use letters of credit for their foreign transactions, compared to 38% in Lebanon and 45% in Jordan, according to the World Bank (2021). Numerous problems, such as low business knowledge, high transaction costs, and capacity limitations in the banking industry, have been blamed for this underutilization (Cordesman et al., 2010).

Studies addressing the relationship between documentary credits and foreign trade in Iraq are almost entirely rar , Documentary credits were identified as a potential trade facilitator in a qualitative study on trade financing hurdles in Iraq by DADOOSH (2025), although there were notable implementation issues. In a similar vein, Hussein & Lafta (2023) looked at how Iraqi banks promote global trade and discovered that export development is constrained by a lack of tr

2.4. Econometric Modeling in Trade Finance Research

Time series analysis has been widely utilized in international trade studies to model interactions between economic factors over time. Mills, T. (2012) created the Autoregressive Integrated Moving Average (ARIMA) model, which has been especially helpful for predicting and evaluating economic time series data (Hyndman & Athanasopoulos, 2018).

Studies by Kumar & Misra (2018), who forecasted trade flows in Asian economies using ARIMA models, and de Souza Santos & Bittencourt (2024), Studies looking at the connection between credit availability and export performance in Latin American nations are recent instances of the application of ARIMA modeling in trade finance.

3. DATA COLLECTION
3.1. Variables and Measurement

The research is based on two variables:

1. **Documentary Credits (DC)**: This indicator, which is reported in millions of US dollars, calculates the total value of documentary credits, or letters of credit, that Iraqi banks have provided for foreign trade transactions. Documentary credit procedures in Iraq are applied in accordance with the provisions of the first paragraph of Section 14 of Coalition Provisional Authority Order No. 81 of 2004 (dissolved) and Instruction No. 1 of 2008 issued when opening a documentary credit to finance a purchase contract when contracting with companies outside Iraq. The Central Bank of Iraq's yearly reports and the Commercial Bank of Iraq's statistical bulletins provided the information on documentary credits.I

2. **nternational Trade (IT)**: International trade plays an influential role in economic activity in Iraq for all countries, as it represents the link between the country and the outside world. This indicator calculates the total value of Iraq's imports and exports. Trade data sources include the World Development Indicators issued by the World Bank, the International Monetary Fund's Trade Statistics Department, and the annual reports of the Iraqi Ministry of Trade.

3.2. Control Variables

The analysis incorporates a number of control variables to take into consideration aspects that can influence international trade apart from documentary credits:

1. **Gross Domestic Product (GDP)**: It is the total value of all final goods and services produced in Iraq, expressed in constant 2015 US dollars. This data is provided by the World Development Indicators issued by the World Bank and the Iraqi Ministry of Planning.

2. **Exchange Rate (ER)**: The exchange rate is measured by the average annual exchange rate of the Iraqi dinar (IQD) against the US dollar (USD). Exchange rate data is collected from the Central Bank of Iraq.

3. **Oil Prices (OP)**: The price of oil is generally measured by the average annual price of a barrel of Brent crude in US dollars, and the US Energy Information Administration provides data on oil prices.

4. **Political Stability Index (PSI)**: Although opinions differ among experts in this field, it can be said that political stability performance is measured using the World Bank's Global Governance Indicators, specifically the Political Stability Index and the Absence of Violence/Terrorism Index. This variable ranges from -2.5 (weak) to 2.5 (strong) for governance performance.

4. DATA SOURCES

he research is predicated on information from 35 current sources, such as:

1. **International Organizations**:
   • World Bank (Global Governance Indicators, World Development Indicators)
   • International Monetary Fund (International Financial Statistics, Direction of Trade Statistics)
   • UNCTAD, or the United Nations Conference on Trade and Development
   • The Chamber of Commerce International (ICC)

2. **Academic Research**:
   • Research and articles published in peer-reviewed journals and available on Google Scholar and ScienceDirect.
   • Research papers published in local and international institutes and organizations.

3. **National Institutions:**
   • Iraq's Central Bank (statistical bulletins, annual reports)
   • Iraqi Ministry of Trade (annual reports);
   • Iraqi Ministry of Planning (economic data);
   • Trade Bank of Iraq (trade finance reports)

4. **Commercial Databases**:
   • Bloomberg Terminal (financial data)
   • Thomson Reuters Eikon (trade and financial data)
   • Statista (statistical data)

4.1. Econometric Model: ARIMA

The research relied on the standard autoregressive integrated moving average model ARIMA, as it is more suitable for modeling time series. The ARIMA methodology includes four steps: identification, estimation, screening and diagnosis, and prediction. The ARIMA model consists of three parameters: ARIMA(p,d,q), denoted by d (degree of divergence), q (order of moving average), and p (order of autoregression).

4.2. Model Specification

The general form of the ARIMA(p,d,q) model is:

$$(1 - \varphi_1 B - \varphi_2 B^2 - ... - \varphi_p B^p)(1 - B)^d Y_t = (1 - \theta_1 B - \theta_2 B^2 - ... - \theta_p B^p)\varepsilon_t$$

Where:

- Y_t is the time series value at time t
- B is the backshift operator ($BY_t = Y_{t-1}$)
- φ_i are the autoregressive parameters
- θ_i are the moving average parameters
- ε_t is white noise error term at time t
- d is the degree of differencing required to achieve stationarity

4.3. Model Identification

The identification of the appropriate ARIMA model involved several steps:

1. **Stationarity Testing**: The augmented Dickey-Fuller (ADF) test, which is more efficient than the DF test, and the Phillips-Perron (PP) test, which is a unit root test, were used to test the stationarity of time series data and to check for differences between non-stationary series until stationarity was achieved.
2. **Autocorrelation Analysis** The autocorrelation function (ACF) and the partial autocorrelation function (PACF), which is similar to the ACF (but only shows the correlation between two observations and cannot be explained by shorter lags between them), were examined to determine possible values for p and q.
3. **Information Criteria**: The Akaike information criterion (AIC) is one of the most commonly used tools in statistical modeling. Maximum likelihood is traditionally applied to estimate model parameters after formulating its structure and dimensions. The Bayesian Information Criterion (BIC) is also used, which encourages the selection of simpler models that adequately explain the data without unnecessary complexity and can mitigate possible risks in limited sizes.

4.4. Model Estimation and Validation

The ARIMA model selected by the researchers was estimated using maximum likelihood. To assess the fit of the research model, the following must be done:

1. **Residual Analysis**: It is a powerful statistical technique used to evaluate the accuracy of regression models. By examining the differences between observed and predicted values, residual analysis provides information about the model's fit. Researchers and analysts need this technique to make better decisions about the validity and reliability of their statistical models and to improve them to achieve better results using the Leung-Box test.
2. **Goodness-of-Fit Measures**: The discrepancy between observed values and predicted values under a statistical model. The coefficient of determination (R^2) which is the proportion of the dependent variable that can be predicted from the independent variables., adjusted R^2, and root mean square error (RMSE) were used to assess model fit.
3. **Forecast Accuracy**: This stage represents the practical application of the proposed model by obtaining the predicted values for the series under study. The accuracy of predictions can only be determined by considering how well the model performs on new data that was not used when fitting the model. The model's forecasting performance was evaluated using metrics such as the mean absolute percentage error (MAPE).

4.5. Hypothesis Testing

The research tested the hypotheses:

H_1: There is a statistically significant positive relationship between documentary credits and foreign trade in Iraq.

H_2: The relationship between documentary credits and foreign trade in Iraq can be effectively modeled using ARIMA techniques.

H_3: The impact of documentary credits on foreign trade in Iraq is determined by factors such as GDP growth, exchange rate stability, and political stability.

5. EMPIRICAL RESULTS AND ANALYSIS

5.1. Descriptive Statistics

Table 1 shows the descriptive statistics for the main variables used in this in-depth analysis, over the period from 2005 to 2022.

Table 1: Descriptive Statistics of Key Variables (2005-2022)

Variable	Mean	Median	Std. Dev.	Min	Max	Skewness	Kurtosis
Documentary Credits (DC, million USD)	8,742	7,856	3,421	4,130	15, 90	0.82	2.34
International Trade (IT, million USD)	78,955	76,230	21,340	42,150	115,690	0.45	2.12
GDP (million USD)	145,680	138,920	38,750	78,350	215,480	0.38	2.05
Exchange Rate (IQD/USD)	1,190	1,180	45	1,120	1,250	0.21	2.45
Oil Prices (USD/barrel)	68.45	65.30	22.18	35.51	111.26	0.67	2.28
Political Stability Index	-1.12	-1.15	0.34	-1.65	-0.45	-0.15	2.19

Table 1 shows that Iraq's foreign trade peaked at approximately \$115.69 billion. Trade growth was also consistent with documentary credits, as evidenced by the low skewness ratio of approximately 0.45. Documentary credits increased from approximately \$4.12 billion to \$15.90 billion, with the development of the financial and banking system and its integration with the outside world. The positive skewness (0.82) also explains the right-skewed distribution of documentary credits, i.e., an increase in their use in the recent period. The data in Table 1 indicate that GDP growth increased from \$78.35 to \$215.48, with the Iraqi dinar exchange rate remaining stable at 1,190 Iraqi dinars per dollar, despite oil price fluctuations due to security unrest and the COVID-19 pandemic. Oil prices ranged between \$35.51 and \$111,251 per barrel. The study period also witnessed slight political stability..

5.2. Time Series Properties
Table 2 displays the results of unit root tests for the main variables to ensure the success of the required modeling.

Table 2: Unit Root Test Results

Variable	ADF Test (Level)	ADF Test (First Difference)	PP Test (Level)	PP Test (First Difference)	Order of Integration
Documentary Credits (DC)	-1.842	-4.217***	-1.923	-4.356***	I(1)
International Trade (IT)	-2.015	-4.532***	-2.108	-4.612***	I(1)
GDP	-1.657	-3.982***	-1.743	-4.021***	I(1)
Exchange Rate (ER)	-2.321*	-5.124***	-2.415*	-5.234***	I(1)
Oil Prices (OP)	-1.945	-4.678***	-2.013	-4.789***	I(1)
Political Stability Index (PSI)	-3.215**	-5.432***	-3.321**	-5.567***	I(0)

Note: *, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.**

The unit root test revealed that the levels of most of the variables included in the research model are non-stationary but will stabilize upon initial differentiation as first-order integrated, or I (1). However, the security stability index (I (0)) showed no stability at its levels.

5.3. Correlation Analysis
Table 3 shows the nature of the correlations for the main variables used in this study.

Table 3: Correlation Matrix

Variable	DC	IT	GDP	ER	OP	PSI
Documentary Credits (DC)	1.00					
International Trade (IT)	0.78***	1.00				
GDP	0.82***	0.85***	1.00			
Exchange Rate (ER)	-0.34*	-0.41**	-0.38*	1.00		
Oil Prices (OP)	0.65***	0.72***	0.68***	-0.29	1.00	
Political Stability Index (PSI)	0.57***	0.61***	0.59***	-0.25	0.45**	1.00

Note: *, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.**

According to the correlation analysis, we accept the first hypothesis, which reflects the existence of a positive correlation between documentary credits and foreign trade (r = 0.78, p < 0.01).This implies that international trade tends to rise in tandem with the use of documentary credits.

Additionally, there are strong positive connections between documentary credits and oil prices (r = 0.65, p < 0.01) and GDP (r = 0.82, p < 0.01), suggesting that these factors may be crucial in explaining the difference in the use of documentary credits. Additionally, there is a significant correlation between documentary credits and the political stability index (r = 0.57, p < 0.01), indicating that higher use of documentary credits is linked to political stability gains.

The devaluation of the Iraqi Dinar may be linked to decreased trade acbits a negative association with both foreign commerce (r = -0.41, p < 0.05) and documentary credits (r = -0.34, p < 0.10). tivity and the use of documentary credit, as the exchange rate exhi

5.4. ARIMA Model Selection

The ACF and PACF plots, information criteria (AIC and BIC), and residual diagnostics were among the factors used to choose the best ARIMA model for the connection between documentary credits and international trade. The model selection criteria for various ARIMA specifications are shown in Table 4.

Table 4: ARIMA Model Selection Criteria

Model	AIC	BIC	Log Likelihood	Ljung-Box Q-statistic (p-value)
ARIMA(0,1,0)	284.32	286.45	-140.16	12.45 (0.08)
ARIMA(1,1,0)	276.54	279.89	-135.27	8.32 (0.18)
ARIMA(0,1,1)	275.21	278.56	-134.60	7.85 (0.21)
ARIMA(1,1,1)	272.43	276.99	-132.21	5.67 (0.34)
ARIMA(2,1,1)	273.56	279.34	-131.78	5.89 (0.32)
ARIMA(1,1,2)	273.78	279.56	-131.89	6.12 (0.29)

The ARIMA (1,1,1) model was chosen as the best specification for the connection between documentary credits and international trade in Iraq based on the AIC and BIC values. According to the Ljung-Box Q-statistic, which indicates that the residuals are roughly white noise, this model also performed the best.

5.5. ARIMA Model Estimation Results

Table 5 displays the estimated ARIMA (1,1,1) model for the connection between Iraqi international commerce and documentary credits.

Table 5: ARIMA (1,1,1) Model Estimation Results

Variable	Coefficient	Std. Error	t-statistic	p-value
AR(1)	0.672	0.145	4.634	0.000
MA(1)	-0.523	0.132	-3.962	0.001
Constant	0.012	0.005	2.400	0.024
Documentary Credits (DC)	0.345	0.087	3.966	0.001
GDP	0.218	0.092	2.370	0.027
Exchange Rate (ER)	-0.187	0.076	-2.461	0.021
Oil Prices (OP)	0.156	0.068	2.294	0.031
Political Stability Index (PSI)	0.234	0.105	2.229	0.035

Documentary credits significantly improve international trade in Iraq, according to the ARIMA (1,1,1) model (coefficient = 0.345, p < 0.01). Thus, the first hypothesis is strongly supported by the fact that a 1% rise in documentary credits is linked to a 0.345% increase in international commerce.

Current values of international commerce are positively impacted by past values, as indicated by the positive and significant autoregressive parameter (AR (1)) (0.672, p < 0.01). The moving average parameter (MA (1)) indicates that historical forecast errors have an impact on present international trade values. It is negative and significant (-0.523, p < 0.01).

As anticipated, among the control variables, GDP significantly and favorably affects international trade (coefficient = 0.218, p < 0.05). According to the exchange rate, there is a substantial and negative correlation between decreased trade activity and the depreciation of the Iraqi Dinar (coefficient = -0.187, p < 0.05). Given the significance of oil for Iraq's economy, oil prices also have a positive and substantial impact (coefficient = 0.156, p < 0.05). Lastly, there is a positive and substantial correlation between the political stability index and increasing international trade (coefficient = 0.234, p < 0.05), indicating that political stability gains are linked to greater trade.

5.6. Model Diagnostics

The ARIMA (1,1,1) model's suitability was evaluated using a number of diagnostic tests. The model's residuals and their ACF and PACF graphs are shown in Figure 1.

5.7.Forecasting Performance

Out-of-sample forecasts for the years 2020–2022 were used to assess the ARIMA (1,1,1) model's predicting performance. The forecasting accuracy data are displayed in Table 6.

Table 6: Forecast Accuracy Measures

5.8.Measure	Value
Mean Absolute Error (MAE)	2,346
Mean Absolute Percentage Error (MAPE)	3.22%
Root Mean Square Error (RMSE)	3,129
Theil's U-statistic	0.83

The ARIMA (1,1,1) model does a good job of forecasting foreign trade in Iraq, according to the prediction accuracy metrics. The model's predictions are, on average, within 3.22% of the actual values, according to the MAPE of 3.22%. The model's predictions are more accurate than a naive forecast, which would have a value of 1.0, according to Theil's U-statistic of 0.83.

5.9.Variance Decomposition

To ascertain the relative significance of documentary credits in explaining variance in international commerce, a variance analysis was carried out. The variance analysis results for a few chosen forecast horizons are shown in Table 7.

Table 7: Variance Decomposition of International Trade

Forecast Horizon	Documentary Credits	GDP	Exchange Rate	Oil Prices	Political Stability
1 period	12.3%	18.7%	8.9%	15.2%	6.8%
4 periods	23.5%	22.1%	10.2%	18.7%	9.3%
8 periods	28.7%	24.5%	11.8%	20.1%	11.2%
12 periods	31.3%	25.4%	12.5%	21.5%	12.8%

Approximately 31.3% of the variance in foreign trade over a 12-period forecast horizon can be explained by documentary credits, according to the analysis of variance data. This is a substantial percentage, higher than oil prices (21.5%) and second only to GDP (25.4%). This result supports the importance of developing documentary credits in Iraq's foreign trade.

6. DISCUSSION OF EMPIRICAL RESULTS
1. There is a strong correlation between documentary credits and foreign trade in Iraq, as the 1% growth in documentary credits was due to a 0.345% growth in foreign trade. This rate supports the first hypothesis, as there is a clear positive impact of documentary credits on trade volume in Iraq.
2. The research results demonstrate that the ARIMA technique can be used to measure the relationship between documentary letters and foreign trade in Iraq, demonstrating good predictive fit.
3. The results showed that macro variables such as stability (exchange rate, GDP, and political stability) have a slight impact on documentary credits on foreign trade in Iraq, i.e. the third hypothesis is accepted.

7. INTERPRETATION OF FINDINGS

The magnitude of the relationship between documentary credits and international trade (coefficient = 0.345) indicates that these financial instruments not only facilitate trade, but also effectively stimulate it. This is likely because documentary credits address several key challenges in the Iraqi business environment:
1. **Risk Mitigation**: The development of documentary credits is an important means of completing trade transactions between importers and exporters. It provides a mechanism to mitigate payment risks during periods of political instability. This aims to support Iraqi companies dealing with the outside world and seeking to build relationships with international partners who may be reluctant to conduct transactions without secure payment mechanisms..
2. **Trust Building**: Banks are considered trustworthy and positively supportive of customers, and have facilitated the building of trust between Iraqi merchants and their foreign counterparts, acting as a trusted intermediary in documented credit transactions.
3. **Access to Finance**: Since banks prefer lending when supporting transactions using letters of credit, the bank is directly obligated alongside the letter of credit, independently of the bank's relationship with the applicant. The bank that opens the documentary credit may notify the unknown party directly, or sometimes through an intermediary bank located in an unknown country. Letters of credit are widely used as a means for Iraqi companies to obtain capital.

8. CONCLUSION

The study analyzed the impact of documentary credits on the volume of foreign trade in Iraq using econometric modeling techniques and specifying the ARIMA program. According to the results of the econometric analysis, a statistically significant positive relationship was found between the two variables, as documentary credits comprised about 31% of the long-term variance

in foreign trade. This relationship demonstrates the great importance of documentary credits in enhancing foreigners' confidence in their Iraqi trader counterparts. It also greatly facilitates enhancing confidence in commercial transactions, including import and export, and contributes to reducing the risks that can occur under the pretext of delay or difficulty in payment

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