The Budget Deficit And Its Impact On The Stability Of The Iraqi Dinar Exchange Rate And The Balance Of Payments: Iraq As A Case Study (2004-2021)

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Abstract: "Because of the importance of balancing the public budget and its role in achieving financial and economic balance, many governments have concentrated on the government budget deficit and the increasing amount of public expenditures over public " revenues. If the international economy "witnessed economic developments and changes and the succession of economic crises that afflicted the capitalist economy, which called for finding appropriate solutions to get the economy out of the crises, then the Keynesian school came with assumptions that differ from those of the schools that preceded it and their acceptance of the increase in public expenditures, which means acceptance of the occurrence of the financial deficit in order to Activating effective demand and then activating the economy. It was believed that the deficit is not necessarily a problem if it can be used to move economic variables, including the foreign exchange rate, which shows the strength of the local currency of a country against other currencies, and the possibility of benefiting from it in dealing with trade abroad. Under the exchange rate, the local currency "is converted into a currency or group of foreign currencies Another is that it is a tool that connects the value of goods and assets in the local markets to their counterparts in the foreign markets; these transactions require knowledge of the exchange rate of foreign currency against the local (national) currency, which reveals the degree of stability of the national economy through the exchange rate. This is in addition to other economic variables, such as the budget of the government, seperti Iraq, yang mempunyai deficit dalam kerajaannya kerana peningkatan dalam perbelanjaan awam diimbangi oleh penurunan dalam hasil jualan minyak di "pasaran global.

Introduction Countries are linked to economic transactions among themselves and this link requires the transfer of financial resources, individuals, investments and capital between countries. This transformation entails obligations and rights of each country towards the other. These countries record all economic operations that take place between them in a special ledger called the balance of payments, for this there is Several concepts of the balance of payments, as some consider it to be an arithmetic table that shows the country's rights and obligations towards the outside world during a certain period. It is also known as the bookkeeping system for recording all receipts and payments that have a direct impact on the flow of funds between the country (the government sector and the private sector) and foreign countries.

Research problem: Because of the increase in state interference in economic life, which led to an increase in public spending, and the failure of public revenues to keep pace with public spending, many countries fell into a large financial deficit. This problem has become one of the most important.

Research hypothesis: The research is based on the hypothesis that the exchange rate and balance of payments are affected by the budget deficit.

research aims:

1- A statement of the impact of the budget deficit on both the exchange rate and the balance of payments in Iraq .

2- Clarify the features of the Iraqi economy and the most important economic effects of the variables (exchange rate, balance of payments, budget deficit).

Research Methodology: We have relied in this research on the descriptive approach and the analytical approach, as we tracked the budget deficit and the impact of this deficit on the exchange rate and the balance of payments .

Research Structure: The research was divided into two parts, the first part was the theoretical and conceptual framework, while the second part dealt with the impact of the budget deficit on the variables of the study .

1- Theoretical and structural framework of the budget deficit and the exchange rate

1-1- Definition of the general budget deficit: The budget deficit is defined as the increase in public spending and the lack of public revenues, and it is attached to public revenues due to their weakness and inability to cover public expenditures.(1)

The budget deficit is also defined as the increase in the state's public expenditures over the state's general revenues in the state's general budget so that public revenues cannot keep pace with the increase in public expenditures. Expenditures are often what determine the size and nature of the deficit, as expenditures often tend to increase in various countries of the world . The reason for this increase in expenditures is the development of public needs and the growth of state jobs.

1-2- Types of the general budget deficit: There are many forms of the state's general budget deficit and its forms have varied, but it can be classified as follows :

1-2-1- Temporary deficit: This deficit occurs during the fiscal year due to the discrepancy between public revenues and public expenditures, or due to an error in estimating some elements of the public budget. be in the next budget .

1-2-2- Estimated deficit: It is called the planned or intended deficit, and this type of deficit is allowed by the state, but within certain limits and conditions . The state is increasing these expenditures.

1-2-3- Structural deficit: This type of deficit is not due to the business cycle as much as it is primarily due to the structure and components of the budget itself, which ultimately leads to an increase in the actual deficit over the estimated deficit in the budget, due to the increase in the volume of public expenditures over the budget. Revenues, and the government's failure to rationalize expenditures public, and its inability

to develop financial resources by increasing the tax base and eliminating tax evasion rates (2)

The concept of structural deficit is related to the existence of an imbalance in the economy, which is reflected in an increase in public spending at a rate that exceeds the financial capacity of the economy, and accordingly this deficit occurs because the revenues do not cover public expenditures, and it takes place for a long time and continuously

2-1-4- Current Deficit: The current deficit is defined as the difference between current spending and current revenues. In this case, this means that the government uses part of the private sector savings represented by taxes to meet the requirements of current spending. This concept of deficit is narrow because it does not include spending. Public and public revenue, however, is limited only to the expenditures and revenues of the central government represented by its purchases of goods and services .(3)

2-1-5- Comprehensive deficit (unified public sector deficit): According to this type, the fiscal deficit measures the negative difference between total government expenditures, including interest payments but not including government debt payments, and government revenues that include tax and non-tax revenues but not include On income from borrowing, and in this regard, the fiscal deficit reflects the gap that should be covered by government borrowing, including direct borrowing from the central bank .

2-1-6- Basic deficit or non-interest deficit and interest deficit: This concept excludes an important factor of the deficit, which is the interest payments on debts. The proponents of this analysis recommend that the balance in the end must be positive in order to cover even part of the interests of the current debt. It is clear that the interest deficit includes the interest of the public debt .(4)

2-1-7- Operational deficit: This concept explains the deficit in conditions of inflation, and in light of this, the deficit is represented in

the government's borrowing requirements, minus the part that was paid of interest to correct inflation, through the Monetary Adjustment factor where the interest rate paid to creditors includes a part of the Money to compensate them for the losses incurred by their debts as a result of high prices, and this seems clear in the case of countries that move interest rates upwards, according to inflation rates .

The economist Polak proposes a formula for the monetary corrector for the deficit in the event of inflation on the basis of the following: (5)

$$\frac{Mc}{GDP} = \frac{di}{1+i}$$

Where MC is the monetary corrector, that is, that amount of money that is paid to maintain the real value of the domestic public debt, and it is equal in any period to the inflation rate multiplied by the nominal value of the debt. As for GDP, it is the gross domestic product. Regardless of the change that occurs in the real volume of GDP, the nominal value of GDP will increase by +1. The inflation rate is equal to the ratio of domestic debt to GDP and (i) is the inflation rate.

3- The Exchange Rate Idea: Exchange rates affect economic stability, which makes them important in multilateral international economic relations. The exchange rate is the price of one currency for another or the ratio of exchange between two currencies. Trade, exchange, investment, and capital transfer antara negara menyebabkan exchange rates berlaku, yang menghasilkan an international currency instead of the local currency. Foreign exchange or external financing is the name of this process. The foreign exchange rate represents the price of one currency.

A person can know the price of a local commodity in foreign currency and vice versa because the exchange rate consists of two currencies: one represents a commodity, and the other represents cash to buy it. Dalam kaedah pertama, komoditi digunakan sebagai mata wang asing dan satu unitnya diukur dalam mata wang tempatan. Kaedah ini tidak termasuk kaedah Sebago secara langsung.

Because exchange rates connect the local economy to the international economy, they are seen as a mirror of the state's commercial center with the world outside through the relationships between exports and imports. Imports and exports stimulate the global currency demand, while exports stimulate domestic currency supply (6).

3 - The foundations of the relationship between the budget deficit and the exchange rate and its impact on the Iraqi economy

3-1-The nature of the Iraqi economy: The gross domestic product is one of the important indicators that reflects the country's ability to cope with economic fluctuations, and it is one of the main means that expresses the growth and development of that country as well. However, the gross domestic product in Iraq was characterized by fluctuation and lack of stability. The weakness of its production sector, in addition to the exceptional circumstances that the Iraqi economy experienced The exported quantities of oil, while the output decreased (2015) due to the security situation and the decline in oil prices as well. As for the year 2020, the gross domestic product witnessed a decrease that reached (189398.7) million dinars as a result of the spread of the virus (covid-19), as shown in Table (1).

Table (1): GDP at constant prices for the period (2004-2020)

year	GDP pada harga tetap (million dinars)	growth rate
2004	101845.3	---
2005	103551.4	1.67
2006	109389.9	5.63
2007	111455.8	1.88
2008	120626.5	8.22
2009	124702.1	3.37
2010	132687	6.40
2011	142700.2	7.54
2012	162587.5	13.93
2013	174990.2	7.62
2014	178951.4	2.26
2015	183616.3	2.60
2016	208932.1	13.78
2017	201059.4	-3.76

2018	202776.3	0.85
2019	211789.8	4.44
2020	189398.7	10.57-

Source: The first column is the statistics of the Central Bank, the Central Statistical Organization for separate years, the second column is from the researcher's work

3-2 The state's general budget's negative balance, which results from expenditures exceeding revenues, is known as the budget deficit. In this instance, the government is obliged to finance this deficit by borrowing, which results in a rise in debt. financed by public revenues, whether through local or foreign public debt or through new cash issuance. Dalam erti kata lain, ia menunjukkan penurunan dalam permintaan untuk mata Wang domestic bersanding mata wing asing lain, serta penurunan dalam kadar pertukarannya. Ini menunjukkan bahawa kemerosotan dalam perbelanjaan telah memberi kesan negatif kepada kadar pertukaran mata wang domestics berbanding mata wang asing lain.[(7)]

The relationship of the budget deficit to the balance of payments in general and the current account in particular is a reciprocal relationship and this is evident in the Iraqi economy as it is a rentier economy that depends on the commodity of crude oil and what price fluctuations left it Oil on economic stability and the deficit it caused due to the second Gulf War and the resulting almost total interruption of oil exports. The budget deficit doubled. After 2003, because of the unstable security conditions and fluctuations in crude oil prices, there was instability in the trade balance and the general budget, with the emergence of a surplus In the trade balance for several reasons, including the rise in crude oil prices and the increase in oil exports, despite the significant increase in imports, oil exports covered that increase, as the size of the budget surplus as a result of the increase in exports amounted to (25231423) million dinars in (2011) The surplus continues to rise, which confirms the importance of the trade balance in stabilizing the general budget and the emergence of deficits and surpluses As can be seen in Table (2).

Table (2) Revenues, expenditures, budget surplus and deficit for the period (2004-2020)

year	General revenues of million dinars	Publicexpen ditures of one million dinars	Surplus and deficit
2004	32988850	31521427	1467423
2005	40435740	30831142	9604598
2006	49055545	37494608	11560937
2007	54964848	39307836	15657012
2008	80641041	67277181	13363860
2009	55243525	55589062	345537-
2010	70178223	70134201	44022
2011	103989088	78757665	25231423
2012	119817223	105139574	14677649
2013	113840075	119127555	5.287480-
2014	105386623	83556226	21830397
2015	66470252	70397515	3927263-
2016	54409270	67067437	12658167
2017	77335955	75490115	1845840
2018	106569834	80873189	25696645
2019	107566993	111723522	4156529-
2020	67425220	146626788	79201201

Source: The first column is the statistics of the Central Bank, the Central Statistical Organization for separate years, the second column is from the researcher's work

3-3- The relationship between the financial deficit and the balance of payments: the demand for foreign currency is the citizens' supply of local currency, which is the result of various economic transactions that appear on the debit side of the balance of payments. Consequently, the balance in the free exchange market is linked to the balance in the balance of payments, also known as the balance market, kerana adjustments in exchange rates cause the value of external goods and services to decrease, giving them a competitive advantage. Imports and export are encouraged, and the local currency will fall until there is no deficit, and vice versa in the case of a surplus. (8)

By tracking commercial activity, Iraq's foreign trade remained at this state until (2003) after the United Nations Security Council adopted Resolution No. (1483), which lifted all trade sanctions against Iraq and stipulated the termination of the Oil-for-Food Program Agreement. Since crude oil is The main product of Iraq’s exports, the economic future of the state depends on its ability to benefit from its huge oil

resources, as oil exports constituted about (99%) of the total exports, and the oil sector contributes more than (50%) to the gross domestic product, as well as constitutes (98%)) of the state's public revenues, and as such, Iraq became a rentier state with distinction. (9)

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The period (2004-2020) witnessed an increase in the proportion of exports and imports accompanied by an increase in the volume of crude oil exports as a result of the lifting of economic sanctions on Iraq and the increase in oil exports, as the total exports rose from (79028558) million dollars in (2008) to (682550006) million dollars in the year (2020) achieving a surplus of (85779972) billion dinars, as shown in Table (3)

Table (3) Exports and Import of goods and services

year	Exports of goods and services Billion dollar	Imports of goods and services Billion dollar	Trade alance	% of GDP
2004	$20.61	$23.43	$-2.82	**-7.69%**
2005	$27.15	$30.67	$-3.52	**-7.05%**
2006	$33.24	$25.16	$8.09	**12.41%**
2007	$40.78	$25.05	$15.73	**17.71%**
2008	$66.24	$40.44	$25.80	**19.60%**
2009	$43.99	$43.87	$0.13	**0.11%**
2010	$54.60	$47.21	$7.39	**5.34%**
2011	$82.51	$51.55	$30.95	**16.66%**
2012	$97.03	$63.44	$33.59	**15.41%**
2013	$93.07	$65.10	$27.96	**11.92%**
2014	$88.95	$68.62	$20.33	**8.90%**
2015	$57.56	$58.50	$-0.94	**-0.56%**

2016	$46.83	$44.12	$2.71	**1.63%**
2017	$63.50	$48.42	$15.07	**7.91%**
2018	$92.77	$56.84	$35.93	**16.93%**
2019	$88.90	$72.28	$16.62	**7.47%**

Source: The first column is the statistics of the Central Bank, the Central Statistical Organization for separate years, the second column is from the researcher's work

3-4- Basis of the relationship between the exchange rate and the budget deficit The relationship between exchange rates and the general budget comes from analyzing the relationship between the appreciation or depreciation of the currency and the repercussions of this on the state's general budget. The general budget with its various items is related to the changes that occur in the exchange rates of currencies, and it is possible to shed light on the effects of these cases on the general budget, whether they are deficit or surplus, and for this purpose the research focuses on the two cases of high and low exchange rate and their effects on the general budget as follows: (11)

The case of low exchange rates: the exchange rate is considered a monetary tool with a strong impact on current transactions with the outside world and capital transactions alike. The decrease in the imported quantities of food commodities due to the increase in their prices in the local currency, and the demand shifts mostly to locally produced food commodities, which leads to an increase in their prices and a decrease in the local demand for them. (12)

- In the case of high exchange rates: the rise in exchange rates leads to creating a situation that affects the overall demand for goods and services due to the increase in their prices locally, and in return, the increase in demand for imported goods, which negatively affects the movement of the current account, and thus the balance of payments, on the one hand and from Another aspect leads to a decrease in tax revenues on exports and then a decrease in revenues in the general budget, and at the same time an increase in expenditures on imports. These effects did not stop to this extent, but extend to the competitive ability of locally produced goods and services, and we conclude

through this analysis that they make import prices more attractive for residents. With regard to the high exchange rate and its impact on the general budget, there is a relationship between the high exchange rate and the general budget deficit, i.e. when the exchange rate rises, this leads to a decrease in prices and the value of exports, and consequently a decrease in the proceeds of taxes on exports, an increase in the value of imports and an increase in expenditures on imports, and thus burdening the budget Then the deficit in the general budget increased. It is noted from Table (4) that the exchange rate at the market rate witnessed a gradual rise, and the year (2020) recorded the highest exchange rate of the dollar against the dinar to cover the deficit.

Table (4) exchange rate at market rate

year	exchange rate at market rate
2004	1462
2005	1,462
2006	1,475
2007	1267
2008	1193
2009	1170
2010	1186
2011	1196
2012	1233
2013	1232
2014	1214
2015	1304
2016	1275
2017	1258
2018	1209
2019	1,201.71
2020	1,351.35

Various annual bulletins from the General Directorate of Statistics and Research of the Central Bank of Iraq.

The impact of decreasing the exchange rate of the dinar on the state's general budget: The effect of the decrease in the exchange rates of the dinar appears more clearly in the state's general budget, due to the

decrease in the value of the deficit, which enabled the state to pay its expenses on a regular basis, as we mentioned, and it is natural that the amount of the general budget deficit will decrease As a result of the Ministry of Finance obtaining additional revenues from the revenues from selling the dollar resulting from the export of crude oil in currency auctions, as the revenues of the Ministry of Finance from selling the dollar increased by (22.6%), which is relatively large sums if we know that the Central Bank's sales of the dollar during the year (2020). It amounted to (44.1) billion dollars, in addition to the improvement in oil prices. Table (5) shows the relationship between the exchange rates of the Iraqi dinar and the size of the deficit in public budgets during the last three years.

Table (5) The dinar exchange rates and the size of the public budgets deficit in Iraq for the period (2018-2021)

year	dollar exchange rate against the dinar	current budget deficit	Previous budget deficit	Disability change rate %%
2018	$1190= 1	12.514	25.019	-49.9
2019	$1190= 1	27.537	12.514	20.1
2020	$1190= 1	60.017	27.537	17.9
2021	$1460= 1	28.672	60.017	-52.2

Source: The first column is the statistics of the Central Bank, the Central Statistical Organization for separate years, the second column is from the researcher's work

The data in the table (5) shows that there is an inverse relationship between the exchange rate of the dollar against the dinar and the size of the budget deficit during the years (2018-2021). The amount of deficit in the 2021 budget decreased from (60 trillion) to (28) trillion dinars in 2021, with a decrease value of (52.2%), a relatively large decrease, and the reason for this is due to the increases in public revenues obtained by the Ministry of Finance Against the sale of the dollar, in addition to the rise in oil prices.

4-Conclusion: We tried in this research to study and analyze the developments that occurred in the Iraqi economy during the study

period. On the other hand, in addition to the increase in the state's interference in economic activity, this was reflected in the increase in the public budget deficit in various countries of the world at their different levels of economic progress, whether advanced or developing, even if they were to varying degrees, and it is almost a general phenomenon, and in light of the increase in the volume of public spending. And the lack of financial resources to meet that increase, which led to resorting to various sources of funding to cover the budget deficit and the resulting effects on the Iraqi economy in particular through the exchange rate or the balance of payments.

Recommendations:

1- Establishing an institution specialized in foreign exchange rate affairs, to be supervised by the Central Bank, for the purpose of collecting data and information on exchange rates for foreign currencies.

2- Adopting a policy of maximizing revenues through reforming the tax and customs system, as adjusting the tax rate leads to raising the tax proceeds.

3- establishing a timeline for the reduction of the government budget deficit, taking into consideration the problem of diversifying the sources from which the fiscal deficit is financed, particularly sources that do not contribute to the increase of the monetary mass in the economy, and reducing dependence on external financing such as loans.

4- Establish a sovereign fund for economic stability, which will have the ability to invest surpluses when oil prices rise and the possibility of compensating for the shortfall in revenues that occurs when oil prices drop. This fund will also reduce the effect of the deficit and make money from the investments..

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