

Measuring the Relationship Between Economic Variables and The General Budget Deficit in Iraq for the Period Between 2004-2020¹

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ABSTRACT

At the level of the economy, there are many relationships. There is a relationship between GDP and total consumption, between the exchange rate and foreign trade, and between the exchange rate and the interest rate. There is also a relationship between financial planning and the general budget, and this particular point is the subject of the current study.

The study aims to study the reality of the public budget during the study period and the impact of financial planning on spending the public budget in Iraq. The study reached several results, the most important of which was that the estimation results showed that some variables had a good moral level. Their response was adverse to the exchange rate variable and the unemployment rate during the first slowdown period. The exchange and unemployment rates are inversely related to the dependent variable in the long run. The public debt and inflation rate are directly related to the deficit and surplus of the trade balance.

The research concluded with several recommendations, the most important of which was that the budget planner follows the scientific method in building the general budget. Moreover, the budget is built in light of the country's problems and challenges. In other words, the public budget should be viewed as a tool for achieving sustainable development, not for immediate consumption.

Keywords: *financial planning; public budget; public revenues; public expenditures; budget deficit.*

INTRODUCTION

In the modern scientific sense, the general budget goes beyond being financial statements and accounts or just silent numbers. It is also not limited to estimating the revenues and expenditures of the general budget and authorizing collection and spending for the next year, whose expenditures and revenues are equal in an accurate manner. Rather, the budget in today's world has become much broader and deeper. This is because it reflects the content of the approved financial policies and mirrors self-government in its financial philosophy, economic orientations, tax rules, and social, educational, health, and environmental choices. In addition, it is the tool through which the state contributes to the transition towards keeping pace with the changes in society and the economy through approved investments and programs. In this, it contributes to moving the economic cycle, pushing and enhancing general economic activity, stimulating the private sector to produce, take the initiative, and play an increasingly important role. It is also linked

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to sustainable development in a reciprocal relationship. This is because sustainable development will not be achieved without directing the state to the tools of the public budget, including taxes and spending, towards its various dimensions. In addition, the general budget aims to achieve sustainable development. Accordingly, this chapter specializes in clarifying the basic concepts of each of the general budgets and sustainable development and its dimensions to identify the sound approach in reforming the general budget, which, if followed, the country will be on the path leading to sustainable development.

Significance of studying

The importance of the research is consistent with the great importance of the subject of financial planning, as planning is the pivot and the cornerstone of each institution or a specific project, in addition to its importance in preparing the general budget in the country through estimating revenues and knowing expenditures to prepare a budget that meets ambition.

Problem Statement

The research problem stems from several of the following questions:

- What is the impact of economic changes on the general budget in Iraq?

Research Objectives

The research aims to study the following: -

1. The concept and types of the general budget.
2. The impact of economic changes on the general budget in Iraq.

Research Hypothesis

To answer the study question, the study concluded with a hypothesis:

- That there is a negative (inverse) relationship between the economic variables in Iraq and the general budget deficit during the study period.

THE FIRST TOPIC: THE CONCEPTUAL FRAMEWORK OF THE GENERAL BUDGET

The concept of the general budget

Several definitions of the public budget differ according to the different viewpoints of the schools of thought and the nature of the policies and economic philosophy followed in each country. Therefore, there are several definitions of the concept of the general budget. However, most of the definitions seem to differ in terminology, but they agree in essence and in the objectives that the state aims to achieve through the general budget. The following is a review of some of these definitions:

As the general budget is defined ((as a process of anticipating and approving the expenditures and revenues of the state for a future period, usually a year, expressing its economic and financial objectives)) (1).

Moreover, the general budget is known ((as a detailed estimate of public revenues and expenditures for a coming period, often a year, and works to achieve the goals adopted by the state)) (2).

Distinguishing between the concepts of the general budget and the budget, Public Budget, and Balance

Some researchers often confuse the concepts of budget and budget. These two concepts are synonyms to express the same meaning for some public finance writers. However, each of them has a different meaning from the other.

Some researchers in public finance have been using the word "Government Balance" instead of "Government Budget." Moreover, this inaccurate use of the two concepts will lead to confusion between the past arithmetic position

of the private sector and the future arithmetic position of the public sector. The state budget also assumes a balance between revenues and expenditures. As for the budget, it includes the activity of the private sector, which is likely to achieve profit or loss. This is not one of the main objectives that the state seeks when drawing up its general budget (4). As it mainly aims to achieve economic and social goals that are in the country's public interest, profit or loss is not considered one of its goals.²

Some researchers try to distinguish between the concepts of budget and budget, as the concept of a budget is related to the activity of the state, which includes an estimate of the expenditures and revenues of the state for a future year. In contrast, the term budget is related to the financial position of the company or establishment at a specific point in time, which is owned by the private sector and contains the company's assets and liabilities on a specific date (1). Public and private projects organize their annual budgets, which include both sides of the assets and liabilities of the project at a specific date as a result of its operations that took place during a previous period by the rules of accounting science. As for the general budget, it differs from the project budget, as it is linked to a future period, and it does not give an assessment of the state's assets and liabilities at a specific date but rather includes an estimate of the state's expenditures and revenues during a future period. It is not considered effective until after obtaining the approval of the legislative authority (2).

Some believe that the general and project budgets are similar in that both are an estimate of spending and the forms of this spending, as well as the benefits expected to be collected and the resources of this collection. This means that they represent Expectant Accounting. However, the difference is the Approval component, as the general budget includes the authorization component. In contrast, the project budget is only an estimate of expenditures and revenues and does not include authorization (3).

Structure of the Public Budget

The state's general budget consists mainly of two main branches. They are the two aspects of public revenue and public expenditure.

1. Public Revenues

Public revenues represent the total income received by the government through its treasury and are needed to meet public expenditures (4). That is, public revenues are all resources obtained by the state in its sovereign capacity, whether in return for the services it provides to individuals (fees) or free of charge (taxes), in addition to state property revenues (domain income) (5).³

Natural resources (oil as one of the sources of income) are an essential source of public revenues for some developing countries. They constitute high percentages of public budget revenues compared to others that constitute only modest percentages.

² 1 Adel Ahmed Hashish: Fundamentals of Public Finance - An Introduction to the Study of the Fundamentals of the Financial Art of the Public Economy, Beirut - Lebanon, Dar Al-Nahda Al-Arabiya, 1992, p. 269.

2 Walid Khaled Al-Shayji: Introduction to Islamic Public Finance, Jordan, Dar Al-Nafais, 1st edition, 2005, p. 32.

3 Fawzi Atwi: Public Finance, Tax Systems, and the State Budget, Beirut, Lebanon, Al-Halabi Human Rights Publications, 2003, p. 319.

³ 1 Suleiman Ahmed Al-Lawzi and Faisal Marar: Managing General Budgets between Theory and Practice, Amman-Jordan, Al-Masirah House, 1st edition, 1997, p. 17.

2 Adel Fleeh Al-Ali, Public Finance and Financial and Tax Legislation, Dar Al-Hamid for Publishing and Distribution, first edition, Amman, Jordan, 2003, pp. 507-508.

3 Khalifi Issa: The Structure of the General Budget in Islamic Economics, Jordan, Dar Al-Nafais, 1st Edition, 2011, pp. 22-23.

4 Sarmad Kawkab Al-Jamil: The Public Budget is Participation, Transparency and Accountability, University of Mosul, Dar Ibn Al-Atheer for Printing and Publishing, 1st edition, 2008, p. 135.

5 See:

Hayat Bin Ismail: Developing the State's General Budget Revenues (Theoretical Study), Cairo, Egypt, ITRAC for Printing, Publishing and Distribution, 1st Edition, 2009, pp. 14-20

2. Public Expenditures

The state's public expenditures include all expenditures allocated in the public budget, whether current or investment, which is concentrated in purchases of goods and services for various institutions, departments, and public utilities, as well as various transfer payments to improve the standard of living and social security to counter the effects of economic fluctuations, especially unemployment (1). Public expenditures are divided according to the economic basis into two subsections:

a. Current Expenditures: It includes the expenses of current transactions of ministries and units, i.e., the expenses necessary to run the work of the state's public utilities.

b. Investment Expenditures: which includes investment project expenses (2). The investment spending is exceptional. It represents the second determinant of national income after consumption. Its importance also stems from being the most volatile factor, and accordingly, several fluctuations occur in economic activity. The economist Keynes noted that any increase in the volume of private investment spending would generate a larger amount in the volume of national income through the multiplier mechanism (3).

THE SECOND TOPIC: ANALYSIS OF THE GENERAL BUDGET AND ECONOMIC VARIABLES IN IRAQ FOR THE PERIOD (2004-2020)

Analysis of the public budget deficit in Iraq for the period (2004-2020)

It is noted from the data of Table (1) that the years (2004-2012) have planned budgets with a deficit, but the reality indicates that budgets were implemented with a surplus, which is clear evidence that planning budgets is carried out far from practical reality, as well as poor implementation of the investment budget.⁴

As for the years (2013-2016), it is noted that the budgets showed a deficit, amounting to (5287.48 - ,3927.26) billion dinars, with a negative annual growth rate of (-136.02%, -73.05%). This deficit is due to the policy of rationalization and austerity adopted by the government to reduce the budget deficit as a result of the drop in oil prices and the decline in public revenues, in addition to the increase in public spending, especially in the increase in the volume of military spending due to the deterioration of the security situation as well as the drop in oil prices.

As for the years (2017-2018), it is noted that it achieved a surplus of (1932,057) and (25,696,644), respectively. This is due to the increase in public revenues, which depend on oil revenues by (95%). Hence, any imbalance in oil prices or the quantities exported from it will be reflected in the estimated revenues and then in the allocations of public expenditures. In 2019, the federal budget recorded a fiscal deficit of (-4156.53) billion dinars, at a negative annual growth rate of (-1116.18%). This deficit is attributed to the superiority of public expenditures, both current and investment, over public revenues, despite a slight increase of (1%) compared to the previous year due to the increase in oil revenues.

As for 2019, the budget achieved a deficit of (4156.53) billion dinars, abnormal conditions that Iraq faced. In 2020, the budget achieved a surplus of (555914.26) billion dinars.

⁴ 1 Hoshyar Maarouf: Macroeconomic Analysis, Amman - Jordan, Dar Safa for Publishing and Distribution, 1st Edition, 2005, p. 267.

² Muhammad Khalid al-Mahaini and Hassan Abdul-Karim Salloum: The Federal Budget for Iraq - Trends and Growth Rates of Spending and Revenues for the Period 2004 to 2007, Journal of Administration and Economics - Al-Mustansiriyah University, Thirtieth Year - Issue 68, 2008, p. 7.

³ Salem Abd al-Hasan Rasan: A Reading in Iraq's Federal Budgets (Dimensions and Developments), University of Al-Qadisiyah, Al-Qadisiyah Journal of Administrative and Economic Sciences - Volume (10) Issue (4), 2008, p. 112.

Table 1. Budget surplus or deficit in Iraq for the period (2004-2020) (billion dinars)

The ratio of the budget surplus and deficit to the gross domestic product	surplus or deficit growth rate (5)	Budget surplus or deficit (4)	Public expenditures (3)	Public revenue (2)	years (1)
0.8556	(92.14)	871.3587	32117.491	32988.85	2004
13.5783	1513.64	14060.5649	26375.175	40435.74	2005
9.3691	(27.11)	10248.8657	38806.679	49055.545	2006
14.2959	55.47	15933.6178	39031.232	54964.85	2007
17.6061	33.29	21237.6663	59403.375	80641.041	2008
(0.2776)	(101.63)	(346.194)	55589.721	55243.527	2009
0.0332	(112.72)	44.022	70134.201	70178.223	2010
21.0579	68160.69	30049.723	78757.667	108807.39	2011
9.0275	(51.16)	14677.647	105139.575	119817.222	2012
(3.0216)	(136.02)	(5287.48)	119127.556	113840.076	2013
8.1439)	175.62	(14573.57)	112192.126	97618.556	2014
(2.1388)	(73.05)	(3927.264)	70397.515	66470.251	2015
)6.0585(	222.32	(12658.165)	67067.434	54409.269	2016
0.9419	(115.26)	1932.057	75490.115	77422.172	2017
12.2055	1230.01	25696.644	80873.189	106569.833	2018
)1.8633(	(116.18)	(4156.53)	111723.523	107566.993	2019
29.55	(134.7)	555914.26	76082.43	631996.69	2020

Source: From the researcher's work based on

– Central Bank of Iraq, Statistical Collection of the Central Bank of Iraq, Special Issue (2004-2020), Directorate General of Statistics and Research.

- The Iraqi Ministry of Finance, the Budget, and the Final Accounts Department, for different years.

- authors make columns 4 and 5.

Second: Analysis of economic variables in Iraq for the period (2004-2020)

1. Analysis of the unemployment rate in Iraq: From the data of Table (2), it is noted that the unemployment rate in 2004 amounted to 26.8%), and unemployment rates began to decline they reached (17.9%) in 2005, then a gradual decline began, and in 2006 they reached 17.5). To improve the security situation and the government's provision of small loans for the unemployed. It is noted that in 2008-2009-2010, unemployment rates rose to reach (15.3-14.0-15.0%) due to the drop in global oil prices. In 2014-2015, the increase returned to reach (2.7 - 16.4%) due to the deterioration of the security situation, the state of austerity, the cessation of investment projects, and the increase in military spending. The unemployment rate reached (10.8%) in 2016, then it increased in 2018 until it reached (22.6%), then the unemployment rate in Iraq decreased in 2019 until it reached (19.1%), which means that more than three million people are without work. (8.5%) of the total population of Iraq, which suffers from most types of unemployment, which is a large number that exceeds the population of countries such as Qatar and Bahrain, all of whom are working age. We have to imagine the size of their contribution to the gross domestic product if they were working in productive sectors; this is from the economic side. On the social side, unemployment leads to poverty, crime, divorce, and a decrease in the rate of belonging to the homeland and emigration outside the country (1).

2. Analysis of the inflation rate in Iraq: Table (2) indicates the high percentages of inflation rates in Iraq if the years (2004-2005-2006) witnessed a sharp rise, respectively, reaching 26.8%, 37.1%-53.1%, and this is due to the increase in Consumer Price Index Despite the Central Bank issuing Law (54) for the year 2004 on the independence of the Central Bank, which was one of its most important goals to maintain price stability, now its role was limited during this period.⁵

A significant decrease was recorded in varying proportions between the years (2007-2008 and 2009-2010). If it reached (30.9%, 12.7%) and (-8.2% -2.5%) due to the Iraqi government following a contractionary monetary policy and the drop in oil derivatives prices. Inflation rose again. It reached (6.1%) in 2012 due to the increase in the money supply and the rise in food prices, as well as imported inflation, so the discrepancy returned during the study period between rise and fall due to what Iraq witnessed during the year 2014 to reach (2.2%) and in 2015 to reach (1.4%) from the entry of terrorist groups, lower oil prices, increased consumption, and increased unemployment.

3. Analysis of public debt in Iraq: Iraq was not previously classified among the countries that need international financing to achieve development as a rentier state that relies on financing spending on oil revenues. Iraq achieved financial sustainability by balancing the revenues generated from exports. Oil and public spending. But the events and conditions that Iraq went through, especially the wars and sanctions, whose effects are continuing, forced it to resort to borrowing from a large number of countries and international financial institutions (2),

The evolution of the public debt in Iraq can be shown in Table (2), which shows that Iraq has witnessed a decrease in the size of the public debt, as it decreased from (62.81) billion in 2004 to (25.77) billion in 2013. In 2014, the public debt increased due to Economic conditions, politics, and internal crises burdening the state. Up to 2020 (the Covid crisis), the oil crisis, and the decline in global oil demand. These things have brought the public debt back to its previous levels.

4. Analysis of the exchange rate in Iraq: By tracking the course of the development of the Iraqi dinar exchange rate against the U.S. dollar for the same period, it is noted from the data analysis that the parallel exchange rate records (1462) dinars per dollar in the parallel market as a result of the process of replacing the old currency with a new currency and its entry into circulation. Which gained general acceptance due to its difficulty in counterfeiting and improving the permanence of the currency, which led to an increase in demand for the new Iraqi dinar as a store of value. After that, the exchange rate of the dinar in the parallel market deteriorated again during 2005-2006, reaching (1478-1463) dinars per dollar in the parallel market. It is caused by the deterioration of the security situation and the high inflation rate, which amounts to (37.1% - 53.1%). See Table (2).

Because of an integrated package adopted by the Central Bank in the face of inappropriate inflation, its steps began to confront basic inflation, leading to a rise in the cost of materials (oil, gasoline, and food supplies) by creating an impact on the desire for trends in demand for cash balances. As for the period (2007-2011), consistency was achieved between the official and parallel exchange rates. This is due to the increase in the volume of intervention by the Central Bank in the exchange market and the regularity of the number of times its announced weekly intervention, which considered this intervention a major tool for monetary policy in order to address the monetary imbalance represented by controlling the inflation rate.

Monetary decision makers and market parties have been educated on the importance of the effective role of foreign cash reserves and smooth supply in providing a cheap selling price for the dollar by the Central Bank of Iraq and satisfying the private demand for it on the one hand and withdrawing an important part of the money supply on the other hand. This led to the gradual stabilization of the official exchange rate until it reached (1170) from (2009-2011). This is based on the belief that the strong impact of the nominal exchange rate on macroeconomic indicators in the short term was a motive for prompting the monetary authority to continue fixing the dinar's value. Par to the dollar. However, the harmony of the market exchange rate with the nominal exchange rate fixed administratively by the monetary authority did not last, so the problem of the decline of the market exchange rate of the dinar appeared at a

⁵ (1) Abd al-Amir Nasser Hussein and Rahim Kazem al-Shara', Unemployment in Iraq, Effects and Treatments (An Analytical Study), Journal of Administration and Economics, University of Karbala, Volume (9), Issue (35), 2020, p. 289.

(2) Ahmed Omar Al-Rawi. Analytical visions of the Iraqi economic situation after 2014. 1st Edition. Dar Al-Doctor for Administrative and Economic Sciences for publication. Baghdad. 2019. pg. 43.

price of (1185-1217) dinars per dollar in the parallel market, i.e., with a gap of (47) points in 2011 compared to The official exchange rate (1).⁶

The period (2012-2019) witnessed stability in the official exchange rate of the Iraqi dinar against the dollar, which amounted to (1166-1190), respectively. This is due to the Central Bank selling foreign currency through the daily auction (currency window), which aims to achieve stability in the exchange rate. Moreover, reduce inflation rates by sterilizing the money supply to achieve price stability. While the exchange rate of the Iraqi dinar against the dollar in the parallel market reached (1207-1201.7) dinars per U.S. dollar, recording a decrease in the annual growth rate of (-0.8%, -0.5%). This was reflected in a large decrease in the gap between the nominal and parallel exchange rates. This indicates the success of monetary policy in achieving high stability in the exchange rate of the Iraqi dinar. This improvement in the exchange rate is also attributed to the increase in foreign reserves with the Central Bank, which reached approximately (66-79) billion dinars for the same period. This is due to the rise in reserves as a result of (the surplus achieved in the current account in the balance of payments resulting from the rise in oil prices), which expanded these reserves from the ability of the central bank to intervene in the exchange market. These reserves are mainly due to the monetization of oil revenues for the government, as they represent the only source of foreign currency. This created a great correlation between the general budget and the balance sheet of the Central Bank by exchanging the revenues of the Ministry of Finance in dollars derived from oil exports in the currency of the Central Bank to take its way into circulation through the channel of government spending, in both its operational and developmental parts, within the framework of the general budget. Thus it became obligatory for the Central Bank if it wanted to continue to reduce the inflationary impact of government expenditures, to intervene daily in the market to sterilize surplus cash liquidity and control price deviations that cause increasing inflationary expectations and generate continuous inflation (1).⁷

Table 2. Economic variables in Iraq between 2004 and 2020

Exchange rate (within the central bank)	Exchange rate (outside the central bank)	Public debt (billion dollars)	Inflation rate %	Unemployment rate %	years
1460	1462	62.81	26.8	26.8	2004
1474	1478	40.21	37.1	17.9	2005
1391	1463	25.90	53.1	17.5	2006
1217	1214	29.01	30.9	11.7	2007
1172	1180	30.51	12.7	15.3	2008
1170	1185	24.13	-8.2	14.0	2009
1170	1185	25.85	2.5	15.0	2010
1170	1217	27.77	5.6	11.0	2011
1166	1207	25.77	6.1	11.9	2012
1166	1222	25.26	1.9	11.0	2013
1166	1206	32.30	2.2	12.7	2014
1190	1247	43.36	1.4	16.4	2015
1190	1275	52.03	1.5	10.8	2016
1190	1251	66.02	1.0	12.6	2017
1190	1208.0	62.81	2.0	22.6	2018
1190	1201.7	57.91	-0.1	19.1	2019
1190	1234	78.81	1.0	24.7	2020

Source: The Table prepared by the researcher based on the data of the Central Bank of Statistics, the annual statistical bulletin for separate years (2004-2020).

⁶ (1) Awad Fadel Al-Dulaimi, Towards the Convergence between the Market Exchange Rate and the Officially Fixed Nominal Homosexuality of the Iraqi Dinar Against the US Dollar, *Al-Iraqiya Journal of Economic Sciences*, Year Thirteen - Issue 46, 2015, pp. 32-33.

(1) Mazhar Muhammad Salih, *Monetary Policy for Iraq: Building Macroeconomic Stability and Preserving a Sound Financial System*, House of Wisdom, Iraq - Baghdad, 2012, p. 111.

THE THIRD TOPIC: MEASURING THE RELATIONSHIP BETWEEN ECONOMIC VARIABLES AND THE GENERAL BUDGET DEFICIT IN IRAQ**First: the description of the model**

In order to identify the existing relationships between the variables of the model, they must be described in terms of which variables are dependent and which are explained or independent, and a statement of the relationships that bind them and the expected signals for them and coding them in the light of the economic analysis. The results were according to the Table below:

Table 3. Description of model variables

Relation and sign based on economic sense	Dependent or independent	Variable name
Affected by the independent variable	dependent	Deficit and surplus of the (pbd) general budget
- inverse	independent	(ex) Exchange rate
- inverse	independent	(PD) Public debt
+ Positive relation	independent	(inf) Inflation
inverse	independent	(up) unemployment

Source: made by author by using Eviews 12

Second: estimating the model

The appropriate and accurate lag was chosen for you from the foreign reserves variable as a dependent variable with only one slowing period. The same applies to the explanatory variables such as the exchange rate, public debt, inflation rate, and unemployment rate with one slowing period. To obtain the lowest values from (AIC), Schwarz, which is an indication of the quality of the estimated model, in addition to that the calculated F-statistic value was greater than the tabular one, which is an indication that the model as a whole has a high significance on the one hand. On the other hand, the estimation results indicated that all model variables have a significant level ranging from 1% to 5%, as shown in the following Table:

Table 4:ARDL. Test results

Selected Model: ARDL(1, 0, 1, 1, 0)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.*
PBD(-1)	-0.550223	0.497427	-1.106137	0.3110
PD	0.103410	0.311594	0.331874	0.7513
INF	0.733954	0.633531	1.158514	0.2907
INF(-1)	0.494755	0.423977	1.166939	0.2875
EX	-0.023185	0.067620	-0.342873	0.7434
EX(-1)	-0.136380	0.091421	-1.491783	0.1864
UP	0.905897	0.999285	0.906545	0.3996
C	182.0107	111.9377	1.626001	0.1551
R-squared	0.580792	Mean dependent var		8.317457
Adjusted R-squared	0.091715	S.D. dependent var		10.43425
S.E. of regression	9.944258	Akaike info criterion		7.727427
Sum squared resid	593.3296	Schwarz criterion		8.092603
Log-likelihood	-46.09199	Hannan-Quinn criter.		7.693623
F-statistic	1.187527	Durbin-Watson stat		2.329625
Prob(F-statistic)	0.425009			

Source: made by author by using Eviews 12

Third: Bound Test

The Bound Test shows whether there is a long-term equilibrium relationship between foreign reserves and the influential independent variables, more precisely what was indicated by the F-statistic with a value of 3.554182 with the presence of upper and lower limits. It can be said, of course, that the value above is located in the critical decision area. It is an argument for co-integration between the variables studied, moving from the right side towards the dependent variable under a significant level greater than 5%. Thus, we reject the null hypothesis and accept the alternative hypothesis, which indicates a co-integration relationship between the variables under study. The following Table confirms what we went to:

Table 5. F-bound test

F-Bounds Test		Null Hypothesis: No levels of relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	3.554182	10%	2.2	3.09
k	4	5%	2.56	3.49
		2.5%	2.88	3.87
		1%	3.29	4.37

Source: made by author by using Eviews 12

Fourth: the error correction model and the short and long term

It was confirmed that there is a long-term equilibrium relationship according to the bounds test in Table (6) and the identification of the long- and short-term estimators and the error correction parameter, as indicated in Table (20). The estimation results of the short-term integration model showed that all variables had a good level of significance, and all variables had a positive response to the inflation rate variable under the first slowdown period. The exchange rate is associated with an inverse response to the dependent variable in the long and short term. Most importantly, the integration parameter is significant and has a negative sign. The error correction parameter indicates that approximately 155% of errors in the short term can be corrected over the unit of time, which is one quarter of a year, as in the following Table:

Table 6. Estimating model parameters in the long and short run and ECM

ECM Regression				
Case 2: Restricted Constant and No Trend				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(INF)	0.733954	0.216470	3.390551	0.0147
D(EX)	-0.023185	0.033294	-0.696378	0.0123
CoIntEq(-1)*	-1.550223	0.263181	-5.890331	0.0011
Levels Equation				
Case 2: Restricted Constant and No Trend				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
PD	0.066706	0.212461	0.313970	0.7642
INF	0.792601	0.444096	1.784752	0.0242
EX	-0.102931	0.065327	-1.575614	0.0461
UP	0.584365	0.603719	0.967942	0.3705
C	117.4094	76.58438	1.533072	0.1761

Source: made by author by using Eviews 12

CONCLUSIONS AND RECOMMENDATIONS

First: Conclusions

1. The estimation results showed that all the variables had a good significance level in the short term. All the variables positively responded to the inflation rate variable under the first slowdown period. The exchange rate was associated with an inverse response to the dependent variable in the long and short term.

2. The estimation results showed that some variables had a good moral level. Their response was inverse to the variable of the exchange rate and the unemployment rate under the first slowdown period. The exchange and unemployment rates are correlated with an inverse response to the dependent variable in the long term. The public debt and the inflation rate are directly related to the deficit and surplus of the trade balance.

3. The traditional discretionary budget (items budget) uses the indicator of implementation of the previous year and the implementation from the current year to the date of preparing the budget for the next year, and general indicators related to the economic situation, such as the policy of rationalizing spending, the policy of approving new activities, and others.

4. The procedures for preparing the general budget in Iraq are dominated by the traditional method. This budget represents the oldest form of the budget and is characterized by ease and simplicity in its preparation, implementation, and control. One of its most important shortcomings is the strictness in spending and obtaining public funds by officials at the top of the administrative hierarchy for fear of accountability. This led to applying the principle of centralization in the management of public funds. In addition, being strict in control leads to undermining the trust between the boss and the subordinate. Also, the literal adherence to the rules and instructions for fear of making mistakes and obtaining punishment reduces the spirit of creativity in work. This budget is also faulty because it overlooks the achievement aspect of work and encourages extravagance and waste of public money.

5. There is a clear relationship between the general budget and planning. Preparing the general budget (spending, revenue, preparation, and implementation) according to financial planning indicators and standards will reduce the deficit in the general budget.

Second: Recommendations

1. Using the financial planning and practical methods of the system used in the state's general budget through the following:

a. The use of efficient criteria and indicators to measure the efficiency of performance to budget.

b. Establishing an organizational unit (for financial planning) in preparing the general budget to facilitate calculating the cost of proposed activities and projects according to cost indicators (performance budget - planning budget - zero budget) to be taken as a basis for determining allocated funds.

2. The researcher recommends that the budget plan should follow the scientific method in building the general budget and that the budget be built in light of the problems and challenges facing the country; that is, the general budget should be viewed as a tool for achieving sustainable development, and not as a tool for immediate consumption.

3. It is possible to give a period during which the deficit in the government budget will be reduced, considering the issue of diversifying the sources of financing the fiscal deficit, especially the sources that do not increase the money supply in the economy. Reducing dependence on external financing such as loans not in developing countries interest.

4. In order to diversify the sources of financing the government budget deficit, it is possible to move towards the financial market and develop it in terms of efficiency and flexibility and introduce technical improvements to it and encourage the issuance of government bonds in the local and international securities markets backed by foreign currencies. As well as allowing companies to participate in this process, which will encourage and support the private and government sectors.

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