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Government Spending between the Instability of Returns and Exchange Rate Variables, An Analytical Study in Iraq (2010-2020)

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Abstract

The study addresses the most important problems the Iraqi economy faces, the irregularity in the spending process and its irregularity during the fiscal year. Also, government units sought to spend all the public funds allocated to them before the end of the fiscal year regardless of the specific objectives. In the spending process, the public spending is done only to spend and not to achieve specific goals.

The exchange rate's contribution to achieving internal and external balance, and despite the variation of many factors affecting it, there is a broad consensus on the effectiveness of the spending role and the currency window in the Iraqi dinar exchange rate, especially in the Iraqi economy. This is because the increase in government spending increases the supply of cash, domestic demand, prices, and consequently inflation, which negatively affect the exchange rate of the Iraqi dinar. So the central bank intervenes through the currency window to stabilize the exchange rate of the local currency 2010-2020). To establish the roadmap, the researcher clarified the aforementioned relationship.

The government spending negatively affects the value of the Iraqi dinar because of the increase in the money supply and inflation from the increase in public spending. This is to sterilize the money supply by absorbing the surplus cash (the Iraqi dinar) by supplying more foreign currency to maintain the value of the Iraqi dinar. The local currency exchange rate rise affected the decrease in inflation significantly.

Keywords: Government Spending, Exchange Rate, Public Revenues.

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Introduction

Government spending is one of the most important tools of fiscal policy, which expresses the government's direct intervention to manage the economic wheel and ensure a balanced economic performance. The relationship between government spending and economic growth is a reciprocal relationship so that an increase in government spending leads to an increase in aggregate demand and thus contribute effectively to achieving economic growth. It is a chronic problem due to multiple structural reasons on both sides of expenditures as well as revenues, where government spending attracted a special importance in financial studies because it is a tool that the government relies on in achieving the progress and development it aspires to in all aspects and fields of life. Thus, spending policies reflect in the great goals set by the government, which seeks to advance the national economy to advance development and achieve economic stability.

Research Importance

The exchange rate is of great importance as it contributes to achieving internal and external balance. Here, the internal balance is the stability of domestic prices in addition to achieving economic growth and the external balance is represented in the balance of payments balance. The study is also important because of the significance of studying the issue of exchange rates and their impact on government spending and revenue returns and their role in achieving economic stability.

Research Problem

The problem addressed by the research lies in the lack of clarity of the impact of exchange rate fluctuations, as the Iraqi government depends on oil revenues to a large extent to finance its expenditures. The increase or decrease in production, or the increase or decrease in oil prices threatens Iraqi stability greatly, as is the case with exchange rates. This is also another problem.

Research Objective

The research aims through the variables to clarify the effects that fluctuations in exchange rates and returns on government spending by studying the relationship between exchange rates, returns and government spending for the State of Iraq and analyzing them for the period (2010-2020).

Research Hypothesis

The government spending, fluctuations in foreign exchange rates, and fluctuations in returns are as follows:

1. **Positive:** The decrease in government expenditures leads to a decrease in the foreign exchange rate and thus the prices of imported goods decrease. Yet, if it increases, domestic exports and export taxes and increases in revenues increase too.
2. **Negative:** The increase in public expenditures leads to a rise in the prices of imported production inputs.

Research Methodology

Theoretical analysis was used in studding the exchange rate, returns and government spending to prove the validity or negation of the hypothesis.

The First Topic

The first topic is theoretical frameworks for government spending and the exchange rate.

The First Requirement

The first requirement is the general concepts about government spending and the factors affecting it.

First: The concept of government spending: it is defined as a group of expenditures that the state spends it in the form of a certain amount of money during a certain period of time aimed at satisfying certain needs of the society organized by this state (Abdul-Hamid, 2005).

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Structure of government spending: Studying the structure of government spending in any country shows us some indications about the directions and objectives of the agreed policy. It also gives an impression about what this policy can achieve by knowing the relative importance of each type of government spending.

In the internal framework, the state's resources are concentrated in oil export revenues. It constitutes more than (95%) of the state's budget, with its two parts related to operational expenditures (current) and investment expenditures. However, continued dependence on this resource requires monitoring large investments so that it can give a greater financial return to meet the requirements of the state's economic policy and external obligations (Al-Hafiz, 2009).

Second / Factors Affecting Government Expenditure: There are a number of considerations and factors that have an important role in the volume of expenditure, and they are as follows:

1. **The Role of the State:** The functions of the state under the custodian state are limited to defense, security, justice, and some public utilities, as the volume of spending on them does not exceed between (10%-20%) of the gross domestic product (GDP). Social and economic jobs do not exceed 25%-40% of GDP, due to the lack of their resources, while in developed countries they can reach the 50%-60%)of GDP due to the availability of public revenues needed to cover public spending. Producing states control most of the means of production and distribution, and the volume of public spending in them exceeds (90%) of the gross domestic product (Al-Mahaini, 2013).
2. **Economic Factors:** Public spending is affected by the economic conditions experienced by the economy of any of the developed and developing countries (Salameh, 2015).
3. **The Amount of Public Revenue:** The amount og public spending in the state is determined according to the extent of its financial ability to obtain public revenues that guarantee the coverage of these expenditures. The state cannot spend an amount more than the revenues it obtains, which is known as the national financial capacity. From taxes, fees and quasi-taxes, they can cover a large part of the volume of public spending (Taher Al-Janabi, 1990).

The Second Requirement (General Concepts about the Exchange Rate and its Development)

First, The Concept of the Exchange Rate

The concept of the exchange rate arose as a result of the international exchange in goods and services between different countries of the world, where the exchange rate is used to settle commercial and economic transactions. The exchange rate was defined as the price of a unit of the local currency expressed in a foreign currency (Borai & Mansour).

Second, The Exchange Rate Functions

1. **Standard Function:-** The exchange rate represents a link between world prices and local prices, which is the relative price between two currencies. Through it, we find that local prices represent the value of international goods (Al-Nuaimi).
2. **The Developmental Function:-** The exchange rate is used to develop certain exports to certain regions through its role in encouraging those exports. It also leads to the disruption of certain industrial branches or their replacement with imports whose prices are lower than local prices (Habib, 2015).
3. **The Distributive Function:-** The exchange rate exercises its distributive function at the level of the international economy, due to its connection with foreign trade, and assuming that Iraq imports grain from the United States.

If Iraq wants to increase its share of grain, it will have to pay an increase in dollars due to the rise in the value of the dollar against the dinar, which will affect Iraq's reserves of the dollar (Salma, 2014).

4. The exchange rate is characterized as a linking tool between the value of goods and assets in the local markets and its counterpart in the foreign markets (Al-Yawar, 2018).

There are Several Systems Used to Manage the Exchange Rate, Including (Al-Qasas, 2010)

1. **Fixed Exchange Rate System:** The fixed exchange rate is officially determined by the monetary authority in the country with the aim of reducing fluctuations in the exchange rate. This helps in avoiding the negative effects of these fluctuations on the economic activity of the country.
2. **Free (Flexible) Exchange System:** This price is the equilibrium price at which supply and demand for foreign currency interact, as the demand for foreign currency is represented in all items of the debtor in the balance of payments. This is the items that result in payments abroad) and on top of which are imports. Yet, the supply

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of foreign currency is represented in all credit items in the balance of payments (i.e. items that result in receipts from abroad), especially exports.

3. **The Managed Floating Exchange Rate:** The state here allows the exchange rate to be changed within a certain range. If the exchange rate falls below a certain limit, the central bank intervenes to buy foreign currency and thus raises the foreign exchange rate.

The Second Topic:- Some Variables Affecting the Iraqi Economy

Preface

The economy of Iraq is described as an economy of crises, as it has gone through several stages of government crises that are based on a non-productive import-consumer economy, which is a one-sided economy (Kadhim, 2019). Its budget is closely related to the quantities of oil and foreign oil prices, and these quantities and prices are translated through the approved exchange rate. This is reflected on the structure of public spending and public oil revenues, since Iraq depends heavily on the outside to provide various goods and services it needs, which is unable to. Therefore, it is closely linked to the economies of the industrialized developed countries, and this link can be known through knowledge of exports, imports, and the growth of GDP. Therefore, we will address in this topic two demands. The first requirement is the analysis of the components of GDP for the period (2010_2020). Then, we will address a number of economic variables.

The First Topic: Analysis of the Components of the Iraqi GDP for the Period (2010-2020)

The contribution of economic sectors to the gross domestic product is one of the important indicators through which the sector that occupies the forefront among the main sectors is known. In light of this, we can know whether the economy is rentier or not. In Iraq, the oil sector represents the main pillar in building and growing the national economy, as well as the domestic product. The total is one of the main variables that affect the exchange rate, as the growth of the gross domestic product leads to an increase in the demand for the local currency, and thus the state's revenues will increase and the current account will improve. By reviewing the data in the table, we find that:

The oil sector represents the main source of foreign exchange, which is relied upon to finance the government's consumption and investment expenditures. Therefore, the oil sector is one of the most important pillars of the Iraqi economy (Ibrahim & Juma'a, 2006). Here the oil and mining sector recorded a decline during the year 2010 as a result of the drop in international oil prices due to the global financial crisis, as the contribution of the oil and mining sector decreased. Also, the gross domestic product decreased to achieve a negative growth rate of 16 and the duration of the period (2013-2016). The gross domestic product to record a negative growth rate of -5%, and because of the bad security conditions Iraq has gone through, the entry of terrorism (ISIS) into Iraq and its acquisition of some provinces that had a role in oil production and the destruction of some infrastructure of oil wells and refineries in Mosul (Al-Nasrawi, 2004).

As for the period (2018-2017) and due to the rise in oil prices, the GDP returned to achieve high growth rates, yet at the end of 2019 and with the repercussions of the Corona pandemic and the outbreak of the global epidemic. The demand for oil decreased and prices fell, and thus the GDP decreased to record the lowest positive percentage recorded during a period. Thus, the GDP growth recorded a negative value in the year (2020).

As for the agricultural sector, despite the importance of this sector, its contribution to the domestic product remained low for the years (2010-2020) and continued to decline. One of the most important reasons for this decline is the excessive and unplanned import of agricultural commodities at competitive prices, which made the local product unable to compete with it (Central Bank of Iraq, 2014).

As for the industrial sector, despite the importance of the industrial sector due to the front and back links that it has with other sectors. Its contribution rate remained low throughout the study period, and the reason for this is the security instability as there is no suitable environment for foreign investment.

In the services sector constituting a percentage of contribution to the gross domestic product, it exceeds the percentage of the contribution of the agricultural and industrial sector, as it formed high percentages for the length of the study period and the reason for this is the huge size of the public sector.

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Table 1: The Sectors Contributing to the Formation of the GDP for the Period (2010-2020)

Economic activities	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Agriculture, forestry and hunting	8366232.4	9918316.8	10484949.3	13045856.4	10901962.5	8160769.7	10072.7	6598.4	4897.6	10411.1	11716
Mining and Quarrying	73569919.4	115999413.1	127225674.3	126442151.8	122065448.5	62526372.8	60249.4	89065	118198	114832	61063
Manufacturing industry	3678714.6	6132760.8	6919449.2	6402251.3	7608099.9	3771721.2	4246.4	5889.5	4509.7	5903	5988.5
Electricity and water	2909700.5	3443117.8	4440590.6	4904011	4921675.7	6093805.7	5162.4	6486.4	7358.9	8095.7	7779.2
Building and Construction	10263151	10358530	15416432.2	22957195.9	20400920	18325789.2	10997.1	12980.3	10685	18576.3	6853.9
Transportation, transportation and storage	9452250	10175883.9	14439898.9	14786539.4	15121579.2	20998488.7	16047.6	23924.5	26687.9	24037	19661
Wholesale and retail trade, hotels and the like	12458719.9	14115747.4	19637453	20532811.4	19673518.1	20955996.7	21857.7	18397.3	19519.4	23890.4	19152.2
Money, insurance and real estate services	15367648.2	17955240.4	19674164.2	20359692.3	23366469.2	23440019.3	21655.2	19190.6	19284.8	22329.3	18692.6
Social and Personal Development Services	27038403.2	30518824.6	37488456.8	43165851.3	38781890.1	46740996	46953.2	46160.9	43225.1	53410.2	50342.7
Gross domestic product	16206456 5.5	21732710 7.4	25422549 0.7	27109177 7.5	26061043 8.4	20949191 7.8	196536	225722	251065	277885	198774

The table is from the researcher's work with the approval of the Central Bank of Iraq, the General Directorate of Statistics and Research, the economic report for different years.

Through the above table, we find that during the years of the study, the GDP recorded growth rates fluctuating between rise and decline. It recorded the highest growth rate in the year 2011, reaching 39.93%, due to the rise in oil prices and the increase in its export. A growth rate in 2015 amounted to about -19.71% due to the deteriorating security situation and Iraq's war against terrorism (ISIS).

The Second Topic: Analyzing Some of the Economic Variables

1. **Public Revenues:-** The changes that occurred after the third Gulf War did not include the administrative policy, but rather remained on its previous course. It still depends almost entirely on oil revenues (Abdullah, 2019). Table (2) shows that the period from (2010-2013) increased both public revenues and GDP, after the improvement of global markets and the return of the recovery of global demand for crude oil. From 2016-2014, public revenues declined due to the deteriorating security conditions and the entry of terrorism into Iraq. The decline in public revenues continued to reach in 2016 about 196536.4, with a negative annual growth rate of -18.14%. The gross domestic product also decreased, as the percentage of public revenues reached to GDP 27.7%.

During the period from (2017-2019), public revenues returned to rise, as they recorded in 2018 about 9,1643.667 billion dinars, with a growth rate of 15.98%, and the GDP rose to record an annual growth rate of 13.45%, and the ratio of public revenues to GDP reached 35.9% and in (2020) (Public revenues declined, reaching about 624,252,200 billion dinars, and a negative annual growth rate, which amounted to about (Muhammad, 2021)36.13 %and the gross domestic product also decreased, recording a negative growth rate as well. It was about 4.28 %, as a result of the economic conditions that afflicted the world as a result of the Corona pandemic (Tohme, 2021).

Table 2: The Evolution of the Structure of Public Revenues in Iraq for the Period 2010-2020 Billion Dinars

Year	General income	Annual average income %	Gross domestic product	annual growth rate%	Public Revenue/GDP%
2010	70178.223	27.03	162064.565	23.89	43.3
2011	103989.088	48.17	217327.107	34.09	47.8
2012	119817.223	15.22	251666.999	15.8	47.6
2013	113840.075	4.89-	271091777	8.71	41.6
2014	105386.6	7.43-	260610438.4	5.46-	34.8
2015	66470.25	36.93-	209491917.8	19.71-	34.6
2016	54409.27	18.14-	196536	5.46-	27.7
2017	79011.421	45.21	225722	14.29	35.1
2018	91643.667	15.98	251065	13.45	35.9
2019	105569.686	15.19	277885	3.15	40.1
2020	67.425.220	36.13-	198774	28.4-	33.9

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Table and percentages are from the researcher's work, based on,

- Data of the Iraqi Ministry of Finance, the Budget Department and the Final Accounts Department for different years.
- The Central Bank of Iraq, the General Directorate of Statistics and Research, the economic report for different years.
- The mathematical formula for the annual growth rate was adopted according to the following formula $\mathbf{:G_r = \left(\frac{p_t}{p_0}\right) - 1 * 100}$

2. **Public Expenditures:** The concept of government expenditures has become one of the important pillars on which the government relies in order to achieve its goals, as it is the means that allows the state to exercise its role as an intervention in economic life in various economic activities and expenditures, both current and investment, and as shown in Table (2) for the duration (2010-2013). This period witnessed a rise in public expenditures to reach 70134201 in 2010. It continued to rise during the following years until 2013 reached 119127,556. This is due to the rise in crude oil prices. and the period from, (2014-2016).

In 2014, expenditures decreased to 83,556,000 million debts, with a negative growth rate of -26.86 percent, and the ratio of expenditures to GDP was 32.3%, due to the lack of approval of the budget. It made the government adhere to spending in addition to its war against terrorism (ISIS) and the resulting destruction of fields. From 2017-2019, public expenditures increased and amounted to about 100,671.16 million dinars in 2017, with a growth rate of 50.1%. In 2018, it reached about 104,158.183 million dinars, and recorded a high growth rate over the previous year by about 3.5%. In 2019, the public expenditures amounted to about 133,107.616 million dinars, with a growth rate of 27.8%, and the ratio of public expenditures to GDP was 50.6%, and the reason for this increase was the exit of ISIS from Iraq and the return of oil prices to rise again. In 2020, as for the last year of the study, it witnessed a significant decrease in spending, as public expenditures amounted to 111723.6 million dinars, and a negative growth rate was recorded compared to the previous year, where the growth rate was recorded at about -16. 3%, and the ratio of public expenditures to GDP amounted to about 56.2%, due to the outbreak of the Corona epidemic, disruption of life and the closure of factories and international companies. This led to a decrease in oil prices due to a decrease in demand for it and consequently a decrease in revenues and expenditures (Karfoua, 2021).

Table 3: The Evolution of the Structure of Public Expenditures in Iraq for the Period (2010-2020) Billion Dinars

Year	General income	Annual average income %	Gross domestic product	annual growth rate%	Public Revenue/GDP %
2010	70134.201	26.16	162064.565	23.89	43.3
2011	78757.666	12.29	217327.107	34.09	36.2
2012	105139.575	33.49	251666.999	15.8	41.8
2013	119127.556	13.3	271091777	8.71	43.5
2014	83556.000	-26.86	260610438	-5.46	32.3
2015	70397.515	-15.75	209491917	-19.71	33.6
2016	67067.160	-4.73	196536.4	-5.46	34.1
2017	100671.16	50.1	224636.323	14.29	44.8.
2018	104158.183	3.5	254870.184	13.45	40.9
2019	133107.616	27.8	262917.15	3.15	50.6
2020	111723.6	16. 3-	198774.3	-2.43	56.2

Table and percentages from the researcher's work, based on

- Data of the Iraqi Ministry of Finance, the Budget Department and the Final Accounts Department for different years.
- The Central Bank of Iraq, the General Directorate of Statistics and Research, the economic report for different years.

3. **Exchange Rates:** The exchange rate is one of the macroeconomic indicators because of its association with various economic and financial sectors, and it is one of the basic factors that the state uses to direct its foreign transactions to address imbalances in the balance of payments. For economic policies, this can be known by knowing the difference between the two prices. The difference between the two prices was large, the economic environment was unstable and contained a high risk (Al-Zawi, 2006). After lifting the economic sanctions and

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the Central Bank obtaining its independence by virtue of Law No. 56 of 2004, which stipulates that the Central Bank of Iraq is the sole authority responsible for formulating and implementing monetary policy, the data in the table below shows the path of development of the Iraqi dinar exchange rate against the dollar for the period (2010-2020). The exchange rate in the official market and its price was in the parallel market.

Table 4: Evolution of the Official and Parallel Exchange Rate (2010-2020)

Year	Official exchange rate (JD/USD)	% Annual growth rate	Parallel exchange rate (dinars/dollars)	% Annual growth rate
2010	1170	0	1186	0.34
2011	1170	0	1196	0.84
2012	1166	-0.34	1233	3.09
2013	1166	0	1232	-0.08
2014	1188	1.89	1214	-1.46
2015	1190	0.17	1247	2.72
2016	1190	0	1275	2.25
2017	1190	0	1258	-1.33
2018	1190	0	1209	-3.89
2019	1182	-0.67	1196	-1.08
2020	1182	0	1234	3.17

Table and percentages from the researcher's work based on the Central Bank of Iraq, the General Directorate of Statistics and Research, the annual bulletin for different years.

The period from (2010-2013) in the years 2010, 2011, the official exchange rate settled on one number for the three years. It settled at 1170 dinars / dollar, and the parallel exchange rate reached 1182-1168-1196, respectively, with growth rates of -1.7%, 0.34% and 0.84. The reason for this is the rise in international oil prices and the entry of the Central Bank as a seller of foreign currency in order to improve the value of the currency (Dagher & Maarij, 2005).

In 2014-2016, the Iraqi dinar exchange rate deteriorated against the US dollar, as the official exchange rate reached 1188 dinars / dollar, with a growth rate of 1.89%. The parallel exchange rate decreased to 1214 dinars / dollar, with a negative growth rate of about -1.46%. The decline is due to the drop in global oil prices and because of the poor security conditions and the war against terrorism (ISIS), as the demand for foreign currency for hedging increased (Central Bank of Iraq, 2014).

In 2015, the exchange rate fell within the framework of the traditional (fixed) peg, where the central bank determines the exchange rate, where the central bank directly intervenes in order to control the exchange rate (Muhammad, 2021).

During the period (2017-2019), the exchange rate maintained its value. During this period, it amounted to 1190 dinars / dollar in the official market and in the parallel market, the exchange rate reached 1258, with a growth rate of negative -1.3%. During these years, the gap between the two prices decreased and the reason is due to the rise in oil prices the rise in foreign reserves.

In 2020, the official exchange rate was 1182 dinars / dollars in the parallel market, it reached 1234 dinars / dollars, and the annual growth for this year was 0% in the official oil market which is the main source of state revenue.

4. **Money Supply:-** The policy followed by the central bank to control the money supply or the so-called monetary bloc and manage local liquidity. Its goal is to make the growth rates of money supply commensurate with the productive capacities of the economy, that is, with the real flows of goods and services to achieve general balance through the balance of the money market with the market for goods and services, i.e. achieving a desirable growth rate in the gross domestic product. Table No. (5) shows the money supply in the broad sense was characterized by a gradual rise, as the rise in 2014 amounted to 90728 million dinars, with a growth rate of 3.4%, as a result of replacing the currency and raising the foreign reserve ratio of the Iraqi Central Bank to maintain the stability of the exchange rates of the Iraqi dinar. In 2015, the money supply decreased to about 82595 million dinars, with negative growth rates of about -8.9%. In the following years of the study period, the money supply continued to rise until the last year of the research period. It was considered the year with the highest increase in the money supply of the study years, as it amounted to 119,090 million dollars, recording annual growth rates of 15.5%.

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Table 5: Presentation of M2 Cash in Iraq for the Period (2010-2020) Billion Dinars

Annual cash supply growth%	cash offer M2	year
32.8	60386	2010
19.5	72178	2011
4.55	75466	2012
16.1	87679	2013
3.4	90728	2014
6.6	82595	2015
6.6	88067	2016
2.2	90,045.00	2017
5.5	95039	2018
8.4	103044	2019
15.5	119090	2020

The table above is from the researcher's work based on the Central Bank of Iraq, the General Directorate of Statistics and Research, the annual bulletin for different years.

The Third Topic: Analyzing the Impact of the Local Currency Exchange Rate on Government Spending

The exchange rate is important for the economy of any country because of its relationship with exports, imports and capital movements. If the exchange rate of the local currency rises or falls against the foreign currency, this is reflected in the general level of prices due to the impact on the prices of exported and imported goods and services, which affects the competitiveness of the general economy. Therefore, countries paid a lot of attention in their currencies and they are working hard to maintain their stability. So, we will discuss in this section the effect of the exchange rate on operating expenses in the first requirement and in the second requirement we will address the impact of the exchange rate on investment expenditures.

The First Part: The Impact of an Exchange Rate on Operating Expenses (Current)

Current expenditures include salaries, wages, commodity and service requirements, grants and subsidies provided by the state to some segments of society as assistance to them.

First: The impact of the local currency exchange rate on wages and salaries:

Expenditure on wages and salaries is considered one of the most important items of current expenditures because of its impact on the general level of prices, as the rise in prices leads to a decrease in the purchasing power of individuals, which leads to individuals asking for an increase (Wali & Kazem, 2020).

Second: The Impact of the Devaluation of the Local Currency on Commodity and Service Expenditures

This type of expenditure is directly related to the activity of the state. Through these expenditures, the state can carry out its social and economic activities, and the exchange rate affects these expenditures through the channel of foreign goods and services, where their prices rise as a result of the depreciation of the local currency. The result is that the rise in the prices of goods and services. As a result of decreasing the exchange rate of the local currency will increase public spending, the effects resulting from decreasing the exchange rate of the local currency increase with the increase in the role of the state or the state's intervention in economic activity (Muhammad, 2021).

The Second Part: The Impact of the Local Currency Exchange Rate on Investment Expenditures

The effect of the exchange rate on investment expenditures depends on the time period in which the spending was made. It happened after the specialized authorities reduced the exchange rate. This will lead to an increase in the proportion of these expenditures due to the dependence of most developing countries on the outside in their domestic investments and on the material and human levels. Thus, the reduction left a negative impact on investment expenditures.

When the exchange rate of the local currency rises, this leads to an increase in the prices of locally produced goods and services and increases the demand for imported goods as they are relatively cheaper. This negatively affects the current account and the balance of payments and thus increases spending on imported goods. Therefore, the high exchange rates lead to an increase in the value of imports The increase in expenditures on these imports (Wali & Kazem, 2020).

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Table 6: M2 Money Supply in Iraq for the Period (2010-2020) Billion Dinars

Exchange rate	Cash offer M2	The ratio of investment expenditures to public expenditures%	Ratio of current expenditures to public expenditures%	overhead	government investment spending	current government spending	years
1170	60289168	33.75	66.25	70,134,201	23,676,772	46,457,429	2010
1170	72067309	38.17	61.83	78,757,666	30,066,293	48,691,373	2011
1166	75466000	35.36	64.64	105,139,576	37,177,897	67,961,679	2012
1166	87679000	51.57	48.43	106,873,527	55,108,602	51,764,925	2013
1188	90728000	20.51	79.49	83,556,226	17,143,801	66,412,425	2014
1190	841527000	34.40	65.60	70,397,515	24,214,037	46,183,478	2015
1190	90466000	33.85	66.15	76,067,436	25,746,312	50,321,124	2016
1190	92857000	33.72	66.28	75,490,115	25,454,018	50,036,097	2017
1190	95391000	30.47	69.53	80,873,189	24,650,112	56,223,577	2018
1190	1034411000	29.58	70.42	111,723,523	33,048,506	78,675,017	2019
1190	108207500	46.40	53.60	76,082,443	35,295,675	40,786,768	2020

The researcher, based on the Republic of Iraq, the Central Bank of Iraq, the General Directorate of Statistics and Research, the statistical website for the years (2010-2020) prepared this table.

First: The Conclusions

1. The study concluded that exchange rates affect public revenues and government spending indirectly through changes in domestic prices. This effect is either by reducing or weighing government expenditures, as the state is forced to bear additional costs or increase the proportion of revenues as a result of the increase in the volume of exports.
2. The revenues of the Iraqi economy fluctuate, as most of them come from crude oil exports, which are based in their estimation on the quantities expected to be exported of oil at a certain price per barrel in the global market, which results in uncertainty when it is estimated.
3. The monetary policies pursued by Iraq, especially in lowering the exchange rate, cannot affect economic activity in general without being accompanied by changes in fiscal and economic policy.
4. Considerable dependence on the oil sector has led to a decrease in the contribution of both the agricultural and industrial sectors, as well as the spread of financial and administrative corruption and the weakness of the economic policy followed.

Second: Recommendations

1. Specialized authorities must adopt an exchange rate policy that is commensurate with the economic and natural conditions of the country in a way that leads to achieving economic stability. Resulting from this change.
2. Working to diversify the structure of the economy and diversify the sources of income in the Iraqi economy because relying on the oil sector to cover expenses makes the economy vulnerable to external shocks that occur in oil prices with developing the agricultural and industrial sectors and rebuild the infrastructure of the economy in order to provide an appropriate climate for private investment. The domestic and foreign sector need to provide the necessary support and stimulus to it, in order to revitalize the export sector and reduce dependence on the revenues of the oil sector to cover expenses.
3. When the state makes any economic changes, it must take into consideration the social classes that will be affected by the results of that measure, especially the poor and middle classes.
4. Monetary stability is achieved by controlling the money supply and growth of unproductive spending to prevent inflation. Therefore, the monetary authority is not able alone to handle the situation, so coordination with fiscal policy must be made.
5. Rationalizing government spending, working to continue reform, supporting the economy, sustaining economic growth, and setting a development strategy for the various economic sectors in order to find a remedy that restores balance to the structure of the Iraqi economy. It is recommended to diversify its revenues and turns into a diversified economy in its structural components.

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6. Establishing a sovereign fund that works to invest surpluses when oil prices rise and to compensate for the shortfall in revenues that occurs when oil prices drop in order to achieve economic stability, in addition to the fact that the gains that this fund will achieve when investing it can be benefited from.
7. Strengthening the independence of the Central Bank to exercise its functions more effectively.

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