

# The Impact of the Financial Budget on Exchange Rate Risk the Impact of the Financial Budget on Exchange Rate Risk

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## Abstract

*The research aims to determine the impact of the financial budget on exchange rate risk. Therefore, this research was designed with the aim of identifying the impact of the financial budget on exchange rate risk. This research included some theoretical concepts related to both the financial budget and exchange rate risk. The research period extended during the period (2023-2015). A set of financial methods were used to measure the research variables represented by the financial budget and exchange rate risk represented by (the gap between the official price and the parallel price). A set of statistical methods were also used to determine the impact between the variables and test the research hypothesis, including simple linear regression, in addition to using the interpretation coefficient (determination) (R<sup>2</sup>) for the purpose of measuring the percentage of what the independent variable explains of the changes affected by the dependent variable in the research. The significance test (F) to test the significance of the main research hypothesis, and in order to verify the proof of the research hypothesis, the statistical program (spss-V23) was relied upon. Some of the research conclusions indicated the absence of a statistically significant effect of the financial budget on exchange rate risk, which means that the financial budget does not have effect on exchange rate risk.*

**Keywords:** *Financial Budget, Exchange Rate Risk.*

## Introduction

Fiscal policy is one of the important policies that play a fundamental role in the stability of monetary policy, which contributes to the stability of foreign exchange rates against the local currency, which is one of the basic objectives of monetary policy. Given the tools, elements and capabilities that fiscal policy possesses in terms of obtaining revenues and through estimating the possible resources to obtain these revenues, as well as estimating the size of the expenditures necessary to ensure financial spending in a manner that is commensurate with the needs of society, fiscal policy may be unable to avoid the risk resulting from fluctuations in exchange rates, which may usually result from increasing the size of spending. In order to enhance the ability of fiscal policy to implement its objectives without negatively affecting the exchange rates of local currencies against foreign currencies, it is necessary to study the effects of the financial budget on exchange rate risk.

## Research Methodolog

### *First: Research Problem*

The financial budget, through its implementation and on a permanent and continuous basis, leads to an increase in the supply of money in the market, which may affect exchange rates, as the increase in the amounts of the financial budget leads to an increase in spending by members of society, which requires an increase in the volume of foreign trade due to the weakness of the Iraqi agricultural and industrial sector, which generates pressure on the demand for the US dollar in cash as well as through remittances, which increases the risk of exchange rates. Therefore, the Researchers has several questions, which are:

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What is the financial budget model in Iraq?

What is the extent of the impact of the financial budget on the risk of exchange rates of the local currency against the foreign currency?

*Second: The Importance of the Research*

The literature in financial thought indicates that the financial budget implemented by the state receives great attention from monetary policy and the banking system, as the success of monetary policy has become largely dependent on its ability to absorb the financial budget, which helps it in finding sound foundations to confront risks such as exchange rate risk. This research is of great importance for several considerations, which are:

Shedding light on one of the most important factors affecting the risk of exchange rates of the local currency against the foreign currency, which is represented by financial budgets.

Studying the nature of the impact of financial budgets on banking operations, which represents the impact of financial policy on monetary policy

**Third: Research Objectives**

Given the importance of the financial budget, which can affect exchange rate risk, this research aims to achieve a number of objectives, as follows:

Enriching knowledge of the topics of the financial budget and exchange rate risk.

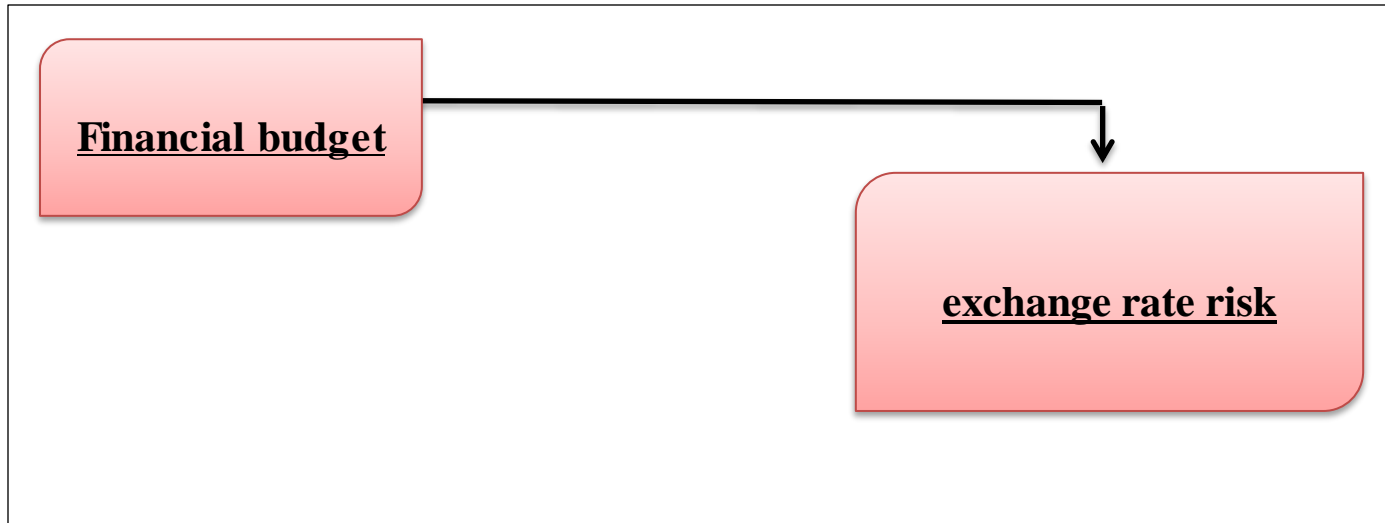
2-The research seeks to determine the type and nature of the impact of the financial budget on exchange rate risk.

*Fourth: Research Hypothesis*

In addition to the previous questions, the research seeks to test the main hypothesis of the research, which states (there is a statistically significant and moral effect of the financial budget on exchange rate risk).

*Fifth: The Hypothetical Plan of the Research*

In order to answer the questions raised in the research problem and test the validity of the research hypothesis, and in order to explain the potential effects of the financial budget on exchange rate risk, and since the research design revolves around those effects and in order to achieve this purpose, the research plan below was adopted to express the nature of the relationship between the research variables, which is embodied in the relationship between the independent variable (financial budget) and the dependent variable (exchange rate risk).



\*\* Full lines indicate the effect of the independent variable on the dependent variable.

**Figure (1). Hypothetical Research Plan**

*Figure prepared by the Researchers*

*Sixth: Research Methodology*

The analytical method was used in preparing the research, which is the most appropriate method for such research that depends on analyzing a large amount of data and finding relationships and interpretations for that data. The research sought to find a financial analysis of the research variables in detail and then use statistical methods to find the results of the impact and path between the research variables using the computer program (2010Excel) and the statistical program (spss-V23) in the significance tests between the research variables.

*Seventh: Data Collection Methods*

The research relied on several methods to collect information and data, for the purpose of completing the theoretical and practical (applied) framework, as follows:-

1-Theoretical framework: The research relied in this framework on Arab and foreign books, magazines and research that are related to the field of research in order to fulfill and enrich the theoretical framework, and the World Wide Web (Internet) was also used to obtain information from reliable sites.

2-Practical framework: The research relied in this framework on analyzing data and financial reports issued by (Ministry of Finance \ Accounting Department \ Budget Department Iraqi Ministry of Planning \ Central Statistical Organization), and the data necessary for the study were collected by relying on financial data and monthly financial reports for the period (2015-2023) which were obtained from official websites as well as directly from the relevant authorities.

### *Eighth: Research Determinants*

One of the most prominent research determinants was providing financial data for the research variables represented by the financial budget and exchange rate risk on a monthly basis for a period of (9) years, which means (108) months in full, in addition to determining the statistical relationships that would give comprehensive results about the relationship between the research variables.

### *Theoretical Aspect*

#### *First Section \ Financial Budget*

##### *First: The Concept of Financial Budget*

There are many concepts of the financial budget that differ according to the different points of view of schools of thought and the nature of the financial policies and philosophy followed in each country. The concept of the financial budget in traditional thought is of a purely financial nature that revolves around public expenditures and the allocation of the necessary revenues to cover them (Shani, 2011: 7). One of the basic concepts of the budget is the set of approved estimates of state expenditures and the means of financing those expenditures during the next fiscal year, in which the estimated financial resources must be equal to the size of government spending (Aliwi, 2007: 2). It can be said that the financial budget is an image of the reality and interactions of financial policy tools, and its tasks and functions have developed with the development of the state's role in economic life. It is a financial translation of the government's plan in a future stage that expresses its financial, social and political orientations (Liang & Wubin, 2023: 2). The budget is the optimal use of material and human energies to achieve goals that suit society (Judy, 2011: 130).

##### *Second: Characteristics of the Financial Budget*

There are many characteristics that the state's financial budget carries in terms of predicting it or its specialized legislative bodies. In order to clarify these characteristics, we will review some of them in the following:

(Carmin & Neil, 2011: 9-10)

The budget is estimated and probabilistic: That is, it is an estimate of the future that cannot be determined as to whether it will happen or not. It is also required to be as accurate as possible in its estimates.

The budget is restricted: The budget in its expenditures and revenues must be set for a specific period and this period must be the same in both categories. It is usual for the period to be a full year in most countries of the world.

Approval of the budget: That is, the preparation of the budget by the government does not give it official status until after the parliament ratifies it and allows the government to implement and work with it in accordance with the law

##### *Third: The Financial Budget Cycle*

The financial budget cycle consists of four basic stages that come in sequence when the state prepares its financial budgets, as follows: (Juan, 2018: 66).

### *The Stage of Preparing and Preparing the Financial Budget*

The process of preparing and preparing the financial budget differs in terms of the party responsible for carrying out this task, depending on the constitutional and legal system and the philosophy of the political system in the state, but in most cases we find that the executive authority is the one who prepares and prepares the general budget, through the process of forecasting revenues and expenditures (Juan, 2018: 66).

The stage of approving (approving) the financial budget If the preparation of the financial budget is within the jurisdiction of the executive authority, then its approval falls within the jurisdiction of the legislative authority. The right of the legislative authority to approve the budget is considered one of the main rights that it enjoys and which it acquired through the great historical development and the conflict between the people or their representatives and the rulers. The general financial budget must be approved before its implementation, meaning that the executive authority cannot begin implementing the budget project in a simplified form and in a clear manner so as to allow the representatives of the people or members of the legislative authority to study and discuss it accurately before its approval. After the end of its discussion, it is approved and issued by a law known as the General Budget Law. The financial control system was designed (Sophie, 2016: 6) as in India, as the Indian Constitution of (1950) provided a provision for voting on the budget by Parliament to enable Parliament to consider its estimates more carefully. Under this system stipulated in the constitution, revenues and expenditures are prepared by the government and presented to Parliament annually. The budget shows the government's revenues and expenditures under three items (the general account, the consolidated fund, and the emergency fund). The budget includes revenues and the estimate related to expenditures and the amount of the consolidated fund. The emergency fund is put to a vote in Parliament (Swarup, 2015: 251).

### *The Stage of Implementing the General Financial Budget*

The implementation of the financial budget means the realistic and practical application, and the task of implementing the general budget falls on the government represented by the executive authority, as public authorities are notified after the general budget is approved by the legislative authority for the purpose of implementing its budget, and its implementation ends after the public authorities close the final day of their fiscal year, which was implemented as much as the implementing authorities were able to do and the final account is prepared after the completion of implementation, to show what was implemented and what was not implemented (Longjiang et al, 2023: 5).

#### 4- The stage of reviewing and monitoring the budget

It is the last stage of the financial budget stages and means a set of procedures carried out by the competent authorities in the state for the purpose of protecting public money by monitoring all the financial activities of the various state agencies and departments. There are several types of control, including prior control and subsequent control of spending and during the spending process, and according to its nature, there is administrative, political, parliamentary or independent control. Budget control can be divided into several types as follows: (Al-Hawri and Taher, 2013: 55)

A - Internal control: It takes place within the executive authority, and is carried out by directors and heads of state employees over their subordinates, or is carried out by some employees affiliated with the Ministry of Finance from the accountants of the administration spread throughout all ministries, interests and government agencies, meaning that administrative control is carried out by the executive authority over each other.

B- External oversight: This means the oversight that is entrusted to an independent body that enjoys the same independence as the judiciary, and is not subject to the executive authority. This independent body examines the details of the implementation of the general budget, reviews and examines the government's accounts,

compares them with collection and disbursement documents and papers, discovers errors and legal violations, prepares a detailed report on these facts and notifies the competent executive and legislative authorities.

**Legislative oversight:** This is the oversight that the legislative authority exercises over the implementation of the general budget, as the constitutions of various countries guarantee the right of the legislative authority to supervise the implementation of the general budget, during and after the end of the fiscal year.

**Accounting oversight:** This means reviewing and auditing accounting books and documents and identifying the extent of their conformity with the appropriations specified in the general budget and ensuring the integrity of the procedures followed, and verifying the correctness of the application of laws, regulations, and instructions issued by the Ministry of Finance.

**Evaluative control:** It is one of the most recent methods of controlling the implementation of the general budget. It does not limit itself to following up on the formal aspects of public expenditures, which constitute the focus of accounting control, but rather seeks to establish standards and patterns that are taken as a basis for review and to reveal errors or extravagance in the use of available financial resources. It includes reviewing the accounts of business costs and comparing them with what was estimated for them, as well as reviewing the results of the business and the return from them and comparing them with what was targeted for them. As shown below in Figure (2) which illustrates the financial budget cycle.

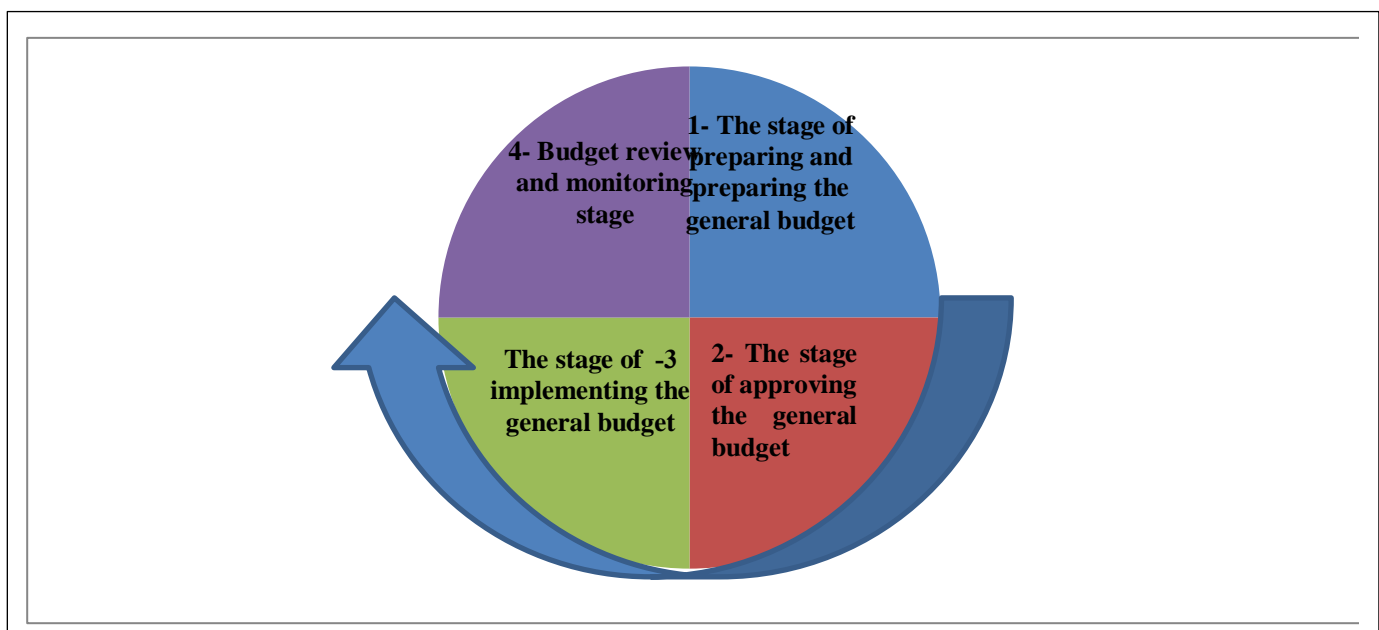


Figure (2). Financial Budget Cycle

Sophie , Brown (2016) " *How to Engage in Budget Cycles and Processes to Leverage Government Budgets for Children* ", PF4C Technical Guidance Note Series, No. 1 p 6

#### *Fourth: Forms of Financial Budgets*

The forms of financial budgets can be summarized as follows:

### *Item Budget*

It appeared at the beginning of the twentieth century through governmental financial, administrative and political reforms to reduce financial corruption by documenting the details of things, materials and incoming and outgoing funds. The classification depends on the materials that make up that budget. It is the first method of public budgets used in England, especially in developing countries. The principle on which it is based is to confine all state revenues and expenditures in one document, in detail, and obtain its approval by the legislative authority. It is sometimes called several names as the linear budget or the traditional budget, because public expenditures are classified into groups and then into items and materials according to the spending objective. In this type, the budget is concerned with the supervisory aspect of public spending to monitor revenue sources and spending aspects by the legislative authority and hold the executive authority accountable for any financial violations that were not approved in the budget law. (GLOBAL, 2015:3)

### *Program and Performance Budget*

The idea of this type of budget was launched on the basis of enabling the state to have the required financial flexibility, if the items in the budget document were collected in the form of activities or programs (Judy, 2011: 131). and from here the emergence of performance budgets began. Thus, the introduction of the performance budget reflected the state's orientation, which was interested in efficiency or the relationship between what the government did and the amount of what it cost, by dividing the proposed spending of the government agency into activities, and developing a set of workload measurements and unit cost measures for these activities. It was named by the United Nations pamphlet in (1965) as (program and performance budget). From what was presented, the concept of programs is an advanced stage of the meaning and content of the performance budget, and it is the linking factor that later led to the emergence of the concept of the planning and programming budget. The historical development in the performance budget in the first stage and the program budget in the second recommendation is only a reflection of that. (Al-Amri and Al-Moussawi, 2018: 8).

### *Planning and Programming Budget*

This system was used at the federal government level in the United States by order of President Johnson in 1965)) after its successful application in the Ministry of Defense, which adopted it before that, and since then many countries have begun to apply this form of budgets, which is a system or method for formulating and achieving specific goals in a quantitative manner. Its design focuses on alternative means of achieving goals. It is a technical method for comprehensive planning that aims to rationalize the process of making financial policy by providing information related to the costs and benefits of different alternatives for the purposes of achieving those goals, i.e. it is the process of making policy decisions and various programs that lead to a specific multi-year budget and plans at the government level as a whole. Thus, this system enhances the concept of comprehensive planning and achieving effectiveness by establishing a relationship between program costs and the results of that program for government goals (Sabela, 2020: 12).

### *Zero-Base Budget*

The first application of this type of budget at the comprehensive federal government level was in 1976 in the United States during the era of President Jimmy Carter after several successful experiments in the US Department of Agriculture and in one of the states as well, and since then several organizations and countries have begun to implement this type of budget. Zero-base budgeting is known as the type of budgets in which previous programs, projects and allocations are ignored at the beginning of each financial period so that each one can be reviewed from scratch and a new plan can be developed to spend the allocations, without any program having priority over other programs because it has been previously approved, i.e. allocations have been made for it or even part of it has been implemented. Hence the name zero-base came from the fact that

each program or activity has been described as free of any funding and does not have any allocations at the beginning of each budget cycle, i.e. from scratch. This requires each administrative unit to review and evaluate all its old and new financial programs and activities in a regular manner and to review them on the basis of cost and return and the achievements they achieve. The zero-base budgeting system is one of the latest methods used in preparing the general budget, as it is one of the important methods used in analyzing the problems of financial management and the general budget (Gayle, 2008: 3).

The Researchers sees, in reference to the type of Iraq's budget, that it is an item budget par excellence that depends on expanding spending items, even if there is no connection, cooperation, or relationships between those items. Sometimes, there may be exposure, and the Iraqi governments have been trying to shift toward a program and performance budget for nearly five years in order for the budget to reflect the government's orientation toward interest in efficiency or the relationship between what the government has done and the amount of money it costs.

### *Section Two \ Exchange Rate Risk*

#### *Firstly: The Concept of Exchange Rate Risk*

Exchange rate risk is defined as the risk of loss associated with exchange rate risk and means the potential losses that countries, companies and individuals may be exposed to in society as a result of changes in the exchange rate parity between a local currency and a foreign currency (Yara, 2018: 50). Exchange rate risk is one of the most common risks that countries and business companies are exposed to, especially at the present time, which is characterized by rapid environmental change and an increase in the frequency of financial crises that plague companies, whether production or service companies. Therefore, these risks have received great attention from Researchers, local, regional and international bodies and organizations through their study and analysis to determine their negative effects on governments, companies and individuals, and to determine the appropriate methods to respond to them (Miziani, 2016: 84). Exchange rate risk, also referred to as foreign exchange risk or simply currency risk, arises from unexpected fluctuations in the relative price, or exchange rate, between two currencies (Wallgren, 2022:9).

#### *Second: Types of Risks Resulting from Exchange Rate Risk*

Dealing in foreign currencies involves several types of risks to which those dealing in them are exposed, and they must be taken into account to avoid or reduce their effects and repercussions on their situations. The most important risks associated with foreign exchange operations can be summarized as follows: (Karamish and Marouf, 2017: 25-26).

Transaction risk: Financial literature and scientific research indicate that exchange rate movements are an important source of uncertainty facing companies, which affects their value and profitability through changes in the prices and quantities of both the company's inputs and outputs, as daily fluctuations in exchange rates create risks for the company operating in the field of international work (Yara, 2018: 53). Most of these companies have contractual agreements to buy and sell goods in the near future at specific prices and in different currencies, and such transactions include an additional element of risk. Transaction risk emerges when the company has contractual obligations, which is known as transaction risk as representing unexpected changes in the nominal exchange rate. Transaction risk also measures financial changes in financial assets and liabilities, changes in the value of existing financial obligations that were incurred before the change in exchange rates but were not due for settlement until after the change in those rates occurred (Al-Amri and Al-Shakirji, 2013: 25-26). Transaction or transaction risk is one of the clear ways that most international, global and multinational companies are exposed to exchange rate fluctuation risks through contractual transactions in which invoices are issued in foreign currencies. The sensitivity of the company's contractual transactions in foreign currencies



to exchange rate movements is referred to as transaction exposure. In order to assess transaction exposure, companies must do the following: (220Madura, 2009:).

Estimate the net cash flows for each currency.

Measuring the potential effects of exposure to fluctuations in those currencies.

Operational risk: The operational risk of exchange rates is more important to the financial position of companies than the effects of transaction risk, as it is not similar to transaction risk, which is characterized by the ease of determining it directly through transaction contracts (Yara, 2018: 54). As operational risk depends on assessing the impact of changes in the exchange rate on the transaction that has not yet been agreed upon, and to determine this risk, it is necessary to measure the change in expected future cash flows in response to changes in the exchange rate, and as long as the prices are not set or specified in the future transaction, operational risk depends on real exchange rates, and is defined as the impact of unexpected changes in exchange rates on cash flows. (Bandaly et al, 2018: 958). Operational risks result from exchange rate risks that may expose cooperation between international banks to several risks, including the lack of access of international banks to hard currency, which causes the generation of exchange rate crisis risks to implement agreements and deals between international banks. An example of this is US debts (bonds) in dollars issued to foreign banks and issued by companies denominated in US dollars, which require stability in the value of the dollar to ensure the success of this cooperation (Alfredo & Jiajun, 2022: 2).

Conversion risk: Conversion of foreign currencies is one of the most difficult and controversial issues facing companies, as a result of the globalization of business and fluctuations in foreign exchange markets and global stock markets. Companies with significant operations outside the borders cannot prepare consolidated statements unless their accounts and the accounts of their branches are expressed in one currency, and the one currency is usually the currency of the parent company. Conversion risk is sometimes called accounting risk, and it measures the potential changes in owners' ownership, which arise from the need to convert the financial statements in foreign currency for foreign branches into a single currency to consolidate the accounts, and thus the possibility of preparing consolidated financial statements at the global level. It has been defined as the risk to which the values of assets, liabilities, expenses and profits in foreign currency are exposed when converted at specific exchange rates (Valley, 2023: 458).

Competitive risks: In this case, the company is affected by risks that affect the competitive position of its products as a result of fluctuations in the exchange rate rate as a close indicator of competitiveness, and these risks lead to either an increase in the prices of the company's products or a decrease for its customers abroad, which leads to the company's exports and imports being affected (Miziani, 2016: 85).

Financial risks: These are risks that involve the possibility of an unexpected change in the exchange rate between two currencies during the period between making a decision on a transaction regarding the payment date, and they are among the most obvious risks due to the sudden changes in the value of the currency, and these fluctuations are constantly repeated under the floating exchange rate system, and these fluctuations can range within one day between (1.5% to 3%)

(Kramish and Marouf, 2017: 25 - 26).

Financing risks: These are the risks that the bank is exposed to when it finds it difficult to obtain the necessary balances to finance its banking activity, and is forced to pay exorbitant interest rates on cash deposits deposited in foreign currencies (Kramish and Marouf, 2017: 25-26).

Risks arising from regulatory changes: These are the risks related to dealing in foreign currencies abroad, whether for banks or for commercial projects. If a country suddenly puts in place a dual exchange rate system

for its currency, such as if there is a free exchange rate determined by the forces of supply and demand applied to commercial transactions, and on the other hand there is a directed exchange rate determined by the monetary authorities applied to financial transactions such as transferring capital abroad, here losses may result from transferring capital in the event that this system is applied due to the difference in the exchange rate. (Kramish and Marouf, 2017: 25-26). These risks relate to dealing with foreign currencies abroad. For example, France had issued two types of currency several years ago, the financial franc and the commercial franc, and specified the types of payments that would be settled with each type of franc. Some projects found that they were not allowed to hold the francs that were not required, so they resorted to selling them at a loss, while they paid an additional cash premium in order to obtain the required type of francs (Rubai, 2016: 30).

**Credit risks:** Credit risks are defined as the risks resulting from meeting the requirements of the facilities obtained by the client, i.e. those that arise from the inability of the party with whom the client is dealing to fulfill the obligations of the transaction at the times specified therein. These risks result from the inability of the other contracting party to fulfill its obligations at the agreed time, such as the contractor losing his ability to pay on the due date as in cases of bankruptcy, or as a liquidity crisis that leads to a delay in the delivery of the contracted amounts for a few days or weeks, and the laws of controlling foreign currency in the contracting country with the banks operating in it may change, which leads to its inability to transfer the contracted amounts as a result of imposing restrictions on the withdrawal of foreign currencies (Rabi, 2016: 30). Credit risks and exchange rate risks may reinforce each other on the way to economic and financial distress. Moreover, currency devaluation can be used as a tool to mitigate the impact of sovereign debt default, a point mentioned in the theoretical literature (Mikhail et al, 2023: 2).

**Economic exchange rate risk:** It is the risk resulting from changes in future cash flows affected by fluctuations in foreign exchange rates. Exposure to economic risks occurs when the realized cash flows differ from the expected cash flows. Any unexpected change in exchange rates may result in a decrease in the real value of foreign exchange reserves generated from cash flows from abroad, as well as a decrease in their purchasing power. It may also result in an increase in the value of external debt and debt service burdens in the event of an increase in the value of the borrowed currency (Michael, 2006: 9).

The Researchers believes that these risks represent the results of the occurrence or realization of exchange rate risk, which causes risks for foreign currency dealers.

### *Practical Side*

#### *First Section\Financial Analysis of the Financial Budget*

From Table (1) which shows the financial budget for the period (2015-2023), it is clear that the total amount of the financial budget for the year (2015) amounted to (79,402,400,968,704) dinars, the highest spending in which was in October at an amount of (11,293,628,941,570) and the lowest spending in January at an amount of (2,455,837,988,049) dinars, while in the year (2016) the amount of the financial budget decreased to (68,064,808,232,925) dinars, the highest spending in which was in October at an amount of (10,823,809,204,155) and the lowest spending in November at an amount of (2,129,835,239,243) dinars, while in the year (2017) the amount of the financial budget increased to (77,776,289,363,168) dinars, the highest spending in which was in September at an amount of (11,243,093,574,079) and the lowest spending in July at an amount of (3,217,620,678,724) dinars, while in the year (2018) the amount of the financial budget increased to (80,564,683,170,598) dinars, the highest spending in which was in September at an amount of (11,064,972,865,057) and the lowest spending in January at an amount of (4,111,491,143,015) dinars ,In the year (2019), the amount of the financial budget increased to (122,158,303,938,238) dinars, the highest expenditure in which was in January, amounting to (27,527,976,123,423), and the lowest expenditure in February, amounting to (5,571,526,488,660) dinars. In the year (2020), the amount of the financial budget

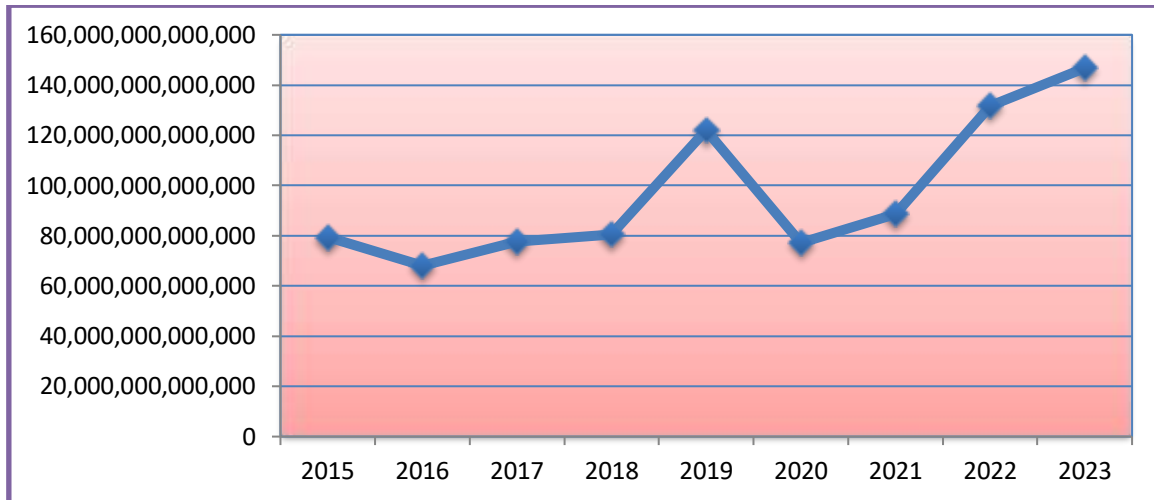
decreased to (77,159,842,135,149) dinars, the highest expenditure in which was in December, amounting to (14,808,688,018,750), and the lowest expenditure in November, amounting to (1,752,999,593,072) dinars. In the year (2021), the amount of the financial budget increased to (88,755,675,962,867) dinars, the highest expenditure in which was in August, amounting to (41,727,634,278,472) and the lowest spending in September amounted to (23,422,716,845,786-) dinars, which is a case of settlement of advances in favor of the treasury that were previously granted and deducted from allocations approved within the budget. As for the year (2022), the amount of the financial budget rose to (131,824,037,702,618) dinars, the highest spending in which was in December amounted to (29,607,088,984,162) and the lowest spending in November amounted to (2,375,249,375,870) dinars. As for the year (2023), the amount of the financial budget rose to (146,783,032,662,431) dinars, the highest spending in which was in December amounted to (35,725,248,000,497) and the lowest Spending in January amounted to (6,256,874,520,878) dinars

**Table (1). Financial Budget For The Period (2015-2023) (Amounts In Iraqi Dinars)**

| 2023                        | 2022                        | 2021                         | 2020                       | 2019                        | 2018                       | 2017                       | 2016                       | 2015                       | Years<br>Months   |
|-----------------------------|-----------------------------|------------------------------|----------------------------|-----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|-------------------|
| 6,256,87<br>4,520,87<br>8   | 7,393,25<br>6,894,65<br>7   | 3,806,44<br>6,105,60<br>7    | 5,439,51<br>5,983,21<br>4  | 5,899,97<br>8,731,64<br>4   | 4,111,49<br>1,143,01<br>5  | 4,387,00<br>1,734,49<br>1  | 3,604,35<br>4,464,26<br>6  | 2,455,83<br>7,988,04<br>9  | Janu<br>ary       |
| 6,329,44<br>0,132,42<br>1   | 7,403,41<br>6,076,08<br>5   | 10,276,4<br>21,269,7<br>29   | 5,403,88<br>4,576,45<br>6  | 5,571,52<br>6,488,66<br>0   | 4,751,94<br>1,432,16<br>3  | 5,272,78<br>7,892,71<br>7  | 4,015,00<br>0,789,92<br>8  | 3,530,52<br>9,326,03<br>2  | Febr<br>uary      |
| 10,458,2<br>00,486,1<br>30  | 10,243,9<br>79,385,1<br>51  | 6,159,87<br>3,803,69<br>2    | 6,630,71<br>2,548,61<br>3  | 8,164,13<br>2,726,45<br>2   | 4,501,16<br>9,098,02<br>7  | 4,800,51<br>5,233,42<br>7  | 4,547,30<br>1,652,26<br>5  | 6,210,70<br>6,159,41<br>7  | Mar<br>ch         |
| 8,860,89<br>7,015,91<br>1   | 8,782,52<br>1,336,01<br>0   | (16,271,7<br>20,357,2<br>14) | 5,591,05<br>3,826,62<br>8  | 7,588,53<br>7,200,54<br>3   | 5,716,12<br>2,420,29<br>7  | 4,489,68<br>4,890,44<br>8  | 4,167,06<br>0,887,51<br>7  | 5,422,58<br>4,693,70<br>1  | Apri<br>l         |
| 10,890,2<br>60,021,7<br>22  | 9,419,84<br>9,450,22<br>7   | 7,957,22<br>5,355,46<br>2    | 4,920,53<br>6,438,39<br>0  | 8,016,82<br>7,874,50<br>6   | 6,724,28<br>6,616,73<br>4  | 5,885,03<br>1,958,18<br>8  | 8,205,18<br>6,680,24<br>3  | 5,675,71<br>0,592,82<br>0  | May               |
| 9,723,92<br>0,054,52<br>6   | 11,453,0<br>90,544,7<br>20  | 7,864,31<br>3,915,63<br>7    | 4,047,37<br>3,496,21<br>3  | 7,984,88<br>8,272,66<br>1   | 6,760,76<br>6,815,17<br>6  | 5,016,53<br>9,737,29<br>7  | 7,267,37<br>6,342,99<br>7  | 7,275,94<br>9,308,74<br>6  | June              |
| 7,168,13<br>6,220,89<br>4   | 11,261,2<br>30,137,2<br>53  | 8,154,25<br>3,093,98<br>9    | 9,170,93<br>4,811,21<br>2  | 11,217,1<br>33,266,5<br>02  | 10,925,0<br>82,020,3<br>39 | 3,217,62<br>0,678,72<br>4  | 4,658,60<br>3,212,12<br>4  | 7,352,50<br>9,039,08<br>5  | July              |
| 10,698,2<br>88,456,8<br>57  | 12,772,3<br>34,185,9<br>42  | 41,727,6<br>34,278,4<br>72   | 5,712,94<br>9,452,47<br>6  | 10,652,9<br>76,481,9<br>70  | 6,859,80<br>4,593,94<br>7  | 9,313,88<br>4,705,79<br>3  | 6,966,11<br>2,262,64<br>4  | 7,154,99<br>1,595,17<br>9  | Aug<br>ust        |
| 10,549,1<br>07,968,2<br>07  | 11,879,5<br>27,981,7<br>31  | (23,422,7<br>16,845,7<br>86) | 6,600,53<br>5,450,71<br>4  | 9,385,26<br>4,324,79<br>9   | 11,064,9<br>72,865,0<br>57 | 11,243,0<br>93,574,0<br>79 | 4,639,96<br>3,427,54<br>3  | 4,822,00<br>9,557,02<br>1  | Sept<br>emb<br>er |
| 13,656,1<br>83,747,0<br>01  | 9,232,49<br>3,350,81<br>0   | 15,215,9<br>51,170,5<br>66   | 7,080,65<br>7,939,41<br>1  | 8,322,63<br>8,530,15<br>5   | 7,298,35<br>0,885,71<br>4  | 8,184,60<br>3,040,55<br>5  | 10,823,8<br>09,204,1<br>55 | 11,293,6<br>28,941,5<br>70 | Oct<br>ober       |
| 16,466,4<br>76,037,3<br>87  | 2,375,24<br>9,375,87<br>0   | 9,177,52<br>6,438,58<br>5    | 1,752,99<br>9,593,07<br>2  | 11,826,4<br>23,916,9<br>23  | 931,029,<br>759,135<br>7   | 6,130,31<br>1,984,73<br>7  | 2,129,83<br>5,239,24<br>3  | 8,889,33<br>9,700,00<br>0  | Nov<br>emb<br>er  |
| 35,725,2<br>48,000,4<br>97  | 29,607,0<br>88,984,1<br>62  | 18,110,4<br>67,734,1<br>28   | 14,808,6<br>88,018,7<br>50 | 27,527,9<br>76,123,4<br>23  | 10,919,6<br>65,520,9<br>94 | 9,835,21<br>3,932,71<br>2  | 7,040,20<br>4,070,00<br>0  | 9,318,60<br>4,067,08<br>4  | Dec<br>emb<br>er  |
| 146,783,<br>032,662,<br>431 | 131,824,<br>037,702,<br>618 | 88,755,6<br>75,962,8<br>67   | 77,159,8<br>42,135,1<br>49 | 122,158,<br>303,938,<br>238 | 80,564,6<br>83,170,5<br>98 | 77,776,2<br>89,363,1<br>68 | 68,064,8<br>08,232,9<br>25 | 79,402,4<br>00,968,7<br>04 | Tota<br>l         |

The table was prepared by the Researchers based on the budget reports issued by the Ministry of Finance / Accounting Department.

, as shown in Figure (3) below :



**Figure (3). Financial Budget Plan for the Period (2015-2023)**

Figure prepared by the Researchers

It is noted from Figure (3) and through the financial analysis above for the financial budget for the period (2015-2023) that there is a fluctuation in the financial budget in the budget for the years (2015-2018), while in the year (2019) we notice an increase in the amounts of this budget after the end of the ISIS terrorist war and the rise in oil prices and the government's move towards increasing spending, while in the year (2020) we notice a decrease in the amounts of this budget due to the Corona pandemic and the decline in global oil prices, which caused a rationalization in government spending, while in the years (2021-2023) we notice a continuous increase in the amounts of this budget due to the rise in oil prices and the governments' move towards increasing spending.

#### *Section Two / Analysis and Discussion of Exchange Rate Risk*

This section reviews the exchange rate risk for the years (2015-2023) by finding the difference between the official price of the currency selling window in the Central Bank of Iraq and the parallel price in the Iraqi market, as the difference between these two prices represents the gap, which is the risk of exchange rate fluctuations, From Table (2) which shows the exchange rate risk for the year (2015), it is clear that the size of the gap was (57.417) dinars between the average official exchange rate and the average parallel exchange rate. In the year (2016), the size of the gap increased to (85.25) dinars between the average official exchange rate and the average parallel exchange rate. In the year (2017), the size of the gap decreased to (68.08) dinars between the average official exchange rate and the average parallel exchange rate. In the year (2018), the size of the gap decreased to (68.08) dinars between the average official exchange rate and the average parallel exchange rate. In the year (2019), the size of the gap decreased to (6.25) dinars between the average official exchange rate and the average parallel exchange rate. In the year (2020), the size of the gap increased to (33.694) dinars between the average official exchange rate and the average parallel exchange rate.

**Table (2). Exchange Rate Risk for the Period (2015-2023) (Amounts in Iraqi Dinars)**

| 2023    | 2022    | 2021    | 2020    | 2019    | 2018    | 2017    | 2016    | 2015    | Years<br>Months       |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|-----------------------|
| The gap | The gap | The gap | The gap | The gap | The gap | The gap | The gap | The gap | Excha<br>nge<br>rates |
| 138     | 19.49   | 0.5     | 12.335  | 5       | 56      | 102     | 45      | 31      | Januar<br>y           |
| 177     | 15.096  | 0.722   | 3.838   | 3       | 39      | 82      | 50      | 51      | Febru<br>ary          |
| 248     | 13.763  | 0.788   | 8.534   | 6       | 27      | 64      | 71      | 80      | March                 |
| 145     | 13.619  | 15.639  | 36      | 5       | 12      | 61      | 87      | 107     | April                 |
| 145     | 21.141  | 26.383  | 37.206  | 4       | 10      | 60      | 94      | 119     | May                   |
| 161     | 21.347  | 26.932  | 53.326  | 4       | 10      | 58      | 76      | 116     | June                  |
| 188     | 19.594  | 13.037  | 40.007  | 5       | 11      | 68      | 83      | 41      | July                  |
| 209     | 16.544  | 15.144  | 33.086  | 9       | 16      | 64      | 91      | 27      | Augus<br>t            |
| 238     | 15.914  | 10.565  | 31.609  | 5       | 16      | 65      | 99      | 32      | Septe<br>mber         |
| 287     | 15.168  | 21.06   | 51.423  | 6       | 15      | 69      | 108     | 30      | Octob<br>er           |
| 290     | 27.581  | 20.781  | 58.615  | 11      | 10      | 63      | 106     | 29      | Nove<br>mber          |
| 230     | 70.147  | 17.103  | 38.349  | 12      | 5       | 61      | 113     | 26      | Dece<br>mber          |
| 204.66  | 22.450  | 14.0545 | 33.694  | 6.25    | 718.91  | 68.08   | 85.25   | 757.41  | averag<br>e           |

The table was prepared by the Researchers based on the statistical reports of the Ministry of Planning / Central Statistical Agency

In the year (2021), the size of the gap decreased to (14.0545) dinars between the average exchange rate The official and the average parallel exchange rate. In the year (2022), the gap increased to (22,450) dinars between the average official exchange rate and the average parallel exchange rate. In the year (2023), the gap increased to (204.66) dinars between the average official exchange rate and the average parallel exchange rate.

, as shown in Figure No. (3) below:

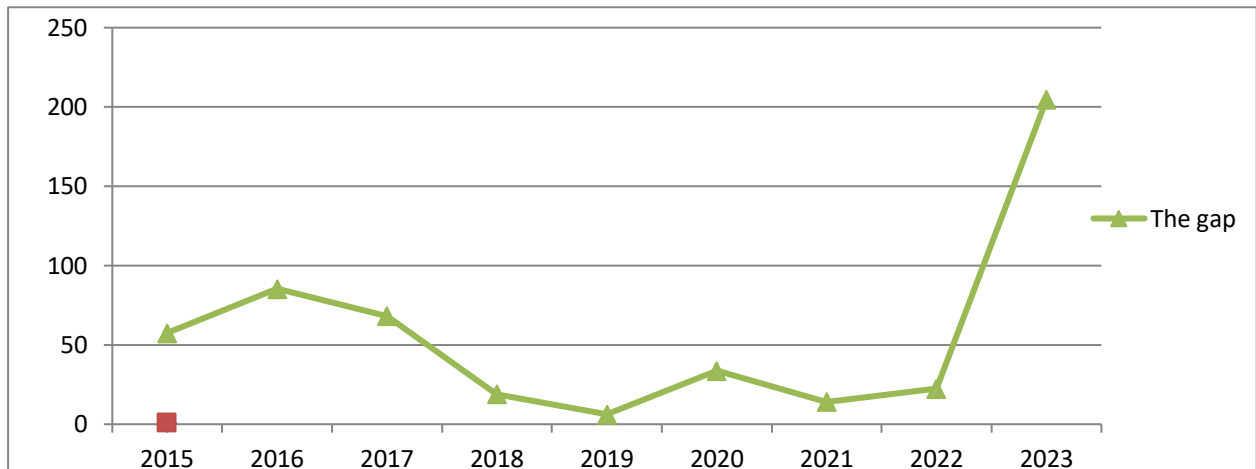


Figure (4.) Exchange Rate Risk for the Period (2015-2023)

Figure prepared by the Researchers

### Section Three/ Testing the Research Hypothesis

This section aims to discuss and test the research hypothesis, and to identify and analyze the results of the impact between the independent variable, the mediating variable, and the dependent variable, and to show the impact of the independent variable represented by the financial budget on the exchange rate risk, which represents the dependent variable, and to show the extent of that impact between the financial budget and the banking operations that take place in the Iraqi banking sector and the exchange rate risk, a set of statistical measures were relied upon using the outputs of the computer program (2010Excel) and the statistical programs (spss-V23).

#### Testing the Main Research Hypothesis

To analyze, discuss, and test the main hypothesis of the research, which states (there is a statistically significant and moral impact of the financial budget on the exchange rate risk) and in order to test the validity of this hypothesis and to know the impact and regression and test the significance of the hypothesis between the financial budget and the exchange rate risk, the normal distribution graph was relied upon as well as the (F) test to test the significance of the hypothesis, and in order to verify the proof of this hypothesis, it was The use of multiple linear regression as well as the use of the explanation coefficient (determination) ( $R^2$ ) for the purpose of measuring the percentage of what is explained by the percentage of change in the items of the financial budget of changes affected by the exchange rate risk during the research period and in order to test the main hypothesis of the research (there is a statistically significant and moral effect of the financial budget on the exchange rate risk), as Table (4) shows the results of the analysis of the effect and simple regression of the financial budget on the exchange rate risk, and as the results indicate that the value of ( $R^2$ ) the coefficient of determination reached (0.025), which means that (2.5%) of the changes occurring in the exchange rate risk process can be explained through the changes that occur in the total implementation of the items of the government budget (operational - investment - budget advances), which is not morally significant, as the calculated value of (F) reached (2.622), which is smaller than the tabular value of (F) which reached (3.94) and with a significance sign (0.055), which is greater than the adopted significance level (0.05), meaning that there is no effect For the financial balance in exchange rate risk, we accept the null hypothesis and reject the existence hypothesis for this hypothesis.

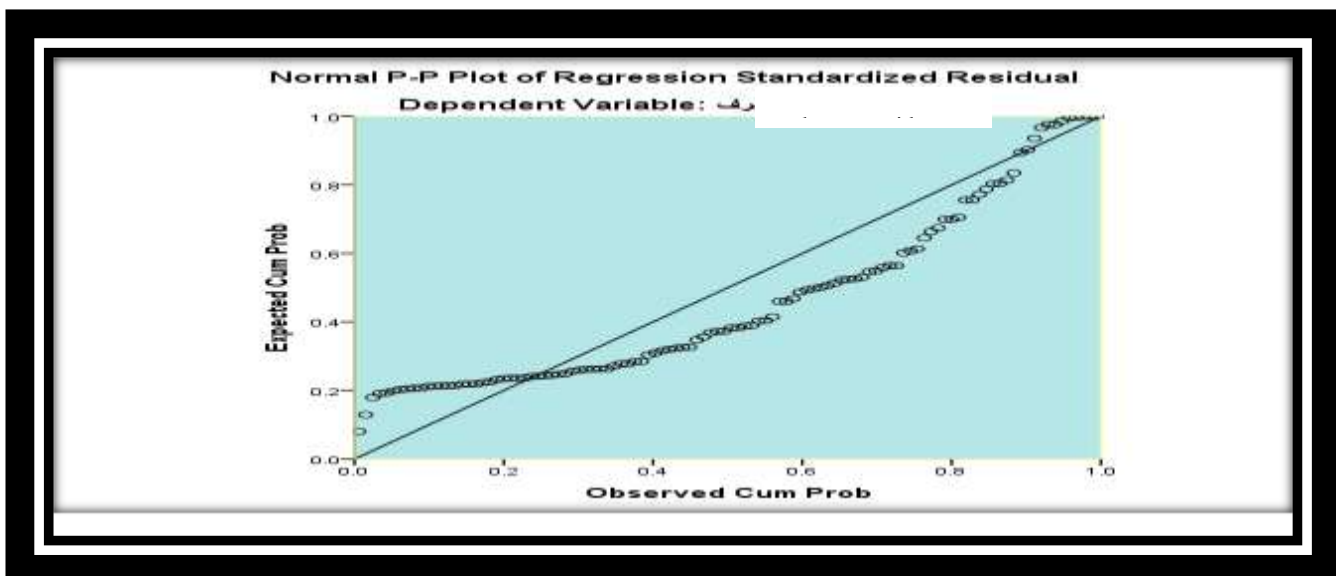
**Table (4). Results of the Analysis of the Total Impact of the Financial Budget on Exchange Rate Risk**

| Hypothesis Test   |       |              |                        |                |   | Independent Variable | Dependent Variable |
|-------------------|-------|--------------|------------------------|----------------|---|----------------------|--------------------|
| Significance test | sig   | Calculated F | Beta coefficient value | Constant value | Coefficient of determination R <sup>2</sup> |                      |                    |
| Non-moral         | 0.105 | 2.677        | 0.157                  | 46.239         | % 2.5                                       | Financial Budget     | Exchange Rate Risk |

The tabular f value at a significance level of 0.05 and a degree of freedom of  $(106, 1) = 3.94$ .

The table was prepared by the Researchers based on the results of the statistical program (SPSS-V23).

Figure (5) shows the normal data distribution test, which represents the test results for the impact of the financial budget level on exchange rate risk according to the simple linear regression model, and by drawing the relationship between these variables, this graph allows the possibility of testing the ability of the independent variable (financial budget) to predict the values of the dependent variable (exchange rate risk), and by observing the concentration or distance of the values represented by points on both sides of the regression line, if the data concentration is close on both sides of the regression line, which means that the ability of the independent variable to predict the values of the dependent variable is considered good. Since most of the points were close to the regression line, which indicates that the variable (financial budget) has the ability to predict the values of the dependent variable (exchange rate risk)



**Figure (5). Testing The Distribution of Data Between the Total Financial Budget Variable and the Exchange Rate Risk Variable**

The figure was prepared by the Researchers based on the results of the statistical program (SPSS-V23)



## Conclusions and Recommendations

### *Section One \ Conclusions*

In light of the results of the financial and statistical analysis in the practical aspect of the research, a set of conclusions were reached as follows:

There is a significant increase in the amounts of the financial budget, as there is a large disparity and the absence of a specific pattern in the levels of increase or decrease in the financial budget, as it was fluctuating and decreased in certain years for security and health reasons and increased in most other years significantly from what it was, which means that there is no state of balance and stability in the operating budget, investment budget and budget advances that make up the total budget.

There is a significant fluctuation in the exchange rate risk represented by the difference between the official and parallel exchange rate due to the change in the official exchange rate as well as due to the demand and supply of the dollar and the result of the needs of the Iraqi market.

There is no statistically significant effect of the financial budget on the exchange rate risk, and the reason for this is that the financial budget.

### **Section Two – Recommendations**

This section deals with the recommendations based on the conclusions reached that help the government in directing the effects of the financial budget positively on the risk of exchange rates. The most important recommendations are the following:

The necessity of creating a financial plan that maintains the levels of financial budget amounts within the required and planned levels

Dividing the budgets in Iraq into three budgets, which are:

The traditional state budget for (operating expenses - specific investment programs - emergency budget advances) in Iraqi dinars.

A regulatory budget for the private sector (in dollars or dinars) to promote the Iraqi private sector (industrial - agricultural - tourism - transportation).

The loan budget is financed in cooperation between (the state budget - the Central Bank of Iraq - the Iraqi banking sector) and is organized according to a mechanism to support projects for which the infrastructure has been established, and the financing amounts, sectors and projects included, the interest rate, the required guarantees and the time period for the loans are determined.

Finding timings for implementing the financial budget that positively affect the exchange rate risk in order to reduce the gap between the official exchange rate and the parallel exchange rate during specific periods in which there is fluctuation in the exchange rate.

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