

The mechanism for transferring the impact of the deficits and surpluses in the public budget to the balance of payments

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Abstract:

The purpose of this paper is to clarify how the general budget's (surplus or deficit) impacts diverse sorts of economic activity both inside and outside the nation, including the balance of payments as one of the key economic indicators to comprehend a nation's economic reality with other nations. Numerous studies have been conducted at various levels and for various economies in light of the general budget's significance in economic life and the impact it has on numerous economic variables, particularly the balance of payments. This study differs in several ways from previous studies in that it builds its approach on the idea of linking strategies for dealing with the balance of payments with the public budget and the use of a presentation of that relationship through many equations and illustrative charts. The study supports the research hypothesis through descriptive analysis.

Keywords: public budget, balance of payments, aggregate demand and, aggregate supply, deficit, and surplus.

1 Introduction:

This study will explore the mechanism of the public budget's influence on the balance of payments. A variety of models are used to do the study. Intellectual methods and research. These techniques and ideas, which are crucial tools for determining the relationship between the impacts of the transmission of this link and its mechanism between the public budget and the balance of payments, also show evidence of a key role in this relationship. The direction of this relationship between two variables can be affected by a variety of factors that have an impact on the balance of payments relationship, some of which are connected to the financial and economic side, others to the monetary component or monetary system.

We all know that one of the key financial tools used by governments to attempt and distribute public expenditure and create government revenues to fulfill the long-term economic and social goals that society seeks to attain is the public budget. The budget created under the financial instrument will meet all the objectives outlined in line with the state's economic strategy, as well as balance public spending and state income. When an economy is characterized by large structural imbalances, particularly fiscal imbalances, The balance of payments, which is heavily influenced by these circumstances, is therefore impacted by this. We believe that the balance of payments, which is its focus, is one of the most important issues that economic policy bodies carefully consider and analyze both in industrialized and poor nations. The disparity in each nation's balance of payments results in various distortions due to its impact on economic variables. Persistent and expanding deficits in the balance of payments are undeniable indicators that the economy is struggling with several issues, including inflation and unemployment, particularly considering the foreign debt.

In the economic literature on this relationship, there are many studies that shed light on this relationship, such as the study.

2 The Mechanism of Transmission of the Impact of the Public Budget Deficit and Surplus on the Balance of Payments:

To clearly understand how to transfer the effects of budget deficits and surpluses to the balance of payments, it is necessary to highlight the theoretical foundations of the relationship between effects of deficits and surpluses through several intricately interconnected channels for macroeconomic analysis. These relationships result in the creation of new concepts, and these ideas have an impact on a range of economic difficulties. including the connection between the budget deficit and the balance of payments. Because of this interaction with other economic factors, it will not be without issues, and we cannot regard it as an independent variable. Since there is a connection between these elements, their examination must take all relevant factors into. We will try to highlight these concepts.

2.1 Impact of the public budget (surplus and deficit) on the balance of payments in the context of the relationship between aggregate demand and aggregate supply:

The usage of financial instruments, and the impacts of these instruments in bringing about changes in both aggregate demand and aggregate supply, are the basis for the impact of deficit and surplus on the balance of payments. The balance of payments is mostly influenced by changes in the government's fiscal policies and by the relationship between aggregate demand and supply. The government has significant instruments at its disposal that it employs in its fiscal policies to impact the economy's total supply and demand. Using these means, the government may influence greater demand and increase expenditure on infrastructure. (Makin, 2018), the cycle of interactions and how this influence is transmitted through various models, theories, and equations. We usually refer to both expansionary and deflationary fiscal policies when discussing them since they effectively regulate both government spending and tax rates to raise overall supply and demand. These policies can encourage both imports and exports to increase a variety of economic activities. When the economy is in a slump, this kind of expansionary fiscal policy can be helpful since it lessens the impacts of a slump, such as increased unemployment and stagnating wages. Expansive fiscal policy, however, especially when used during economic growth, may lead to higher interest rates, wider trade imbalances, and faster inflation. These unintended consequences of an expansionary fiscal policy often lessen their stimulus impact. By reducing expenditure, raising tax revenues, or a combination of the two, the government can employ fiscal policy restraint to restrict economic growth. Since the government purchases fewer products and services from the private sector, lower government expenditure tends to limit economic growth. Tax revenue increases often hamper economic growth by lowering people's discretionary income, which is likely to reduce spending on goods and services. If the economy emerges from recession and starts to grow at a healthy pace, policymakers may choose to cut fiscal stimulus to avoid some of the negative effects of expansionary fiscal policy, such as raising interest rates, rising trade deficits, accelerating inflation, or managing the level of public debt (Weinstock, 2021). The state aims for an expenditure policy that is restrained in the event of inflation by limiting its growth. The usage of financial instruments produces the impacts of deficits and surpluses on the public budget, and the effects of these instruments are influenced by changes in both aggregate demand and aggregate supply. When there is inflation, the state only adopts a spending strategy that restricts the growth of public spending. which, in the event of a generous tax policy, represents a portion of the overall demand. As a result, there will be less overall demand, which will lead to less economic activity and less inflation, which will drop imports and increase the percentage of exports. The government can directly boost aggregate spending by increasing spending, indirectly cutting consumption taxes to promote consumer spending, and lowering income taxes to stimulate capital spending. Expansionary policies also increase aggregate demand. This will increase the national debt and real interest rates, which will increase the propensity for capital transactions to be calculated in favor of surpluses but ultimately have an impact on the value of the national currency in the foreign exchange market due to expansionary fiscal policy. (Henry et al., 2004) (Aslam & Jaafar, 2020). Keynesians hold that economic instability is primarily caused by large fluctuations in aggregate demand when the state can reduce that level of stability in a way that is consistent with full employment; in this case, it will be able to eliminate the majority of the serious distortions in the market economy. This idea of using fiscal policy comes from the vision of various theories and schools of thought in economics. (Riaz & Munir, 2016). Additionally, macroeconomic policy will be freed from a host of issues, including those related to inflation. Fiscal policy is typically required to contribute to high or balance of payments difficulties in the form of a fiscal contraction to reduce aggregate demand and alleviate inflation and balance of payments pressures. If we take forced saving as an example, this results in an increase in the budget surplus and a decrease in the demand for domestic resources by the public sector compared to the case of increased public spending in the short term. If the public sector's spending private sector would not rise in anticipation of future tax cuts, and aggregate demand would be lower nominal interest rates, affecting the

balance of payments, inflation, and overall economic activity. Spending and taxation are two ways that the government might react to shifts in economic activity. In an economy where aggregate demand is weak, it can utilize a mix of increased spending and tax reductions to produce financial expansion or stimulus. (Allen & Tommasi, 2001).

2.2 Graphical illustration:

The Schematic Diagram shows how the use of contractionary and expansionary fiscal policies can alter both aggregate demand and aggregate supply. It demonstrates how this effect occurs when these policies have an impact on both aggregate demand and aggregate supply and consequently have an impact on exports, imports, and economic activity. As we can see in Schematic Diagram 1, when there is a recession, the government adopts an expansionary policy, either by raising spending, cutting taxes, or doing both. This is done to boost investment and consumer spending, and this increase in expenditure is made up for by borrowing from outside sources, which puts a load on the economy and raises interest rates. The public budget surplus and its impact on the value of the currency are supported by real and capital transactions.

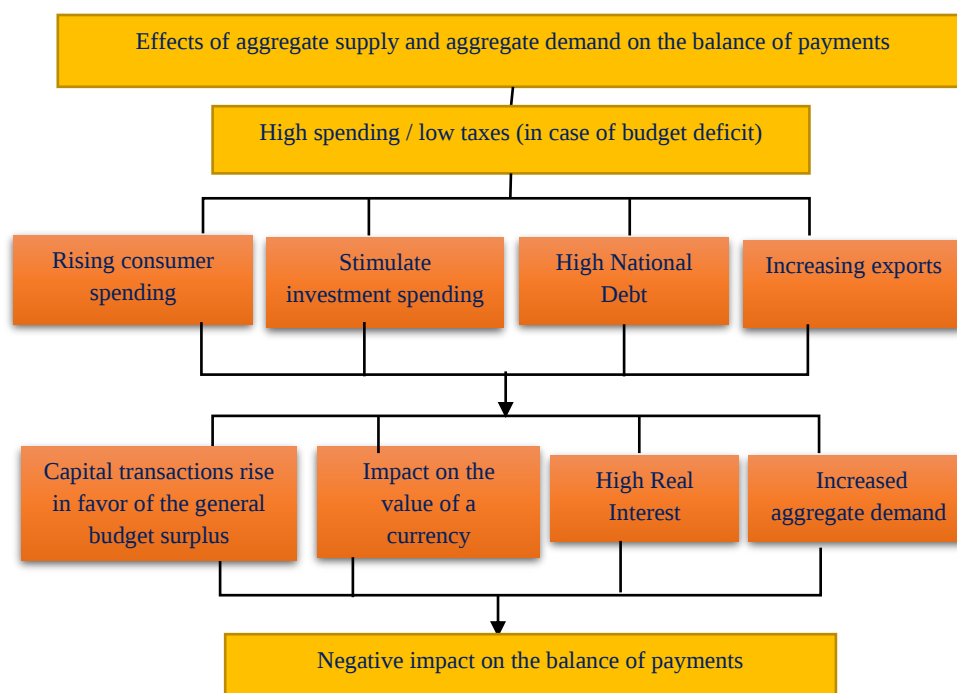


Fig. 1: Schematic Diagram of the impact of aggregate demand and supply on the balance of payments in the event of an economic recession

The authorities occasionally employ a set of measures within the framework of these financial instruments to boost the economy and prevent some of the detrimental consequences of an expansionary fiscal policy, including high interest rates or significant trade imbalances. They also manage the level of external debt incurred as a result of compensating for those fiscal deficits. Any deficit brought on by higher public spending financed by foreign debt.

The graph also demonstrates how excessive aggregate demand is brought on by fiscal and monetary policy in a balance of payments deficit, either through increased imports to make up for certain surpluses or some other element of the deficit (net surplus demand). As a result, imports grow, exports decline, and prices rise. Alternatively, if there is an excess of production capacity, which occurs when businesses increase productivity and employment to meet the rising demand as a result of demand.

Unlike the previous case, when the economy is in a state of inflation and recession, as we can see in Schematic Diagram (2), the government resorts to the use of financial instruments to implement a deflationary fiscal policy with the aim of reducing aggregate demand... As a result, these measures slow economic activity, reduce the amount of government purchases of goods and services, and increase government revenue. Along with these measures, the government also

employs high tax rates and volumes, which have an impact on high revenue percentages. The most recent effects of these measures include a reduction in the proportion of income, a slowdown in economic activity, and the end of the recession. These actions liberate the economy from several problems, including inflation through fiscal deflation.

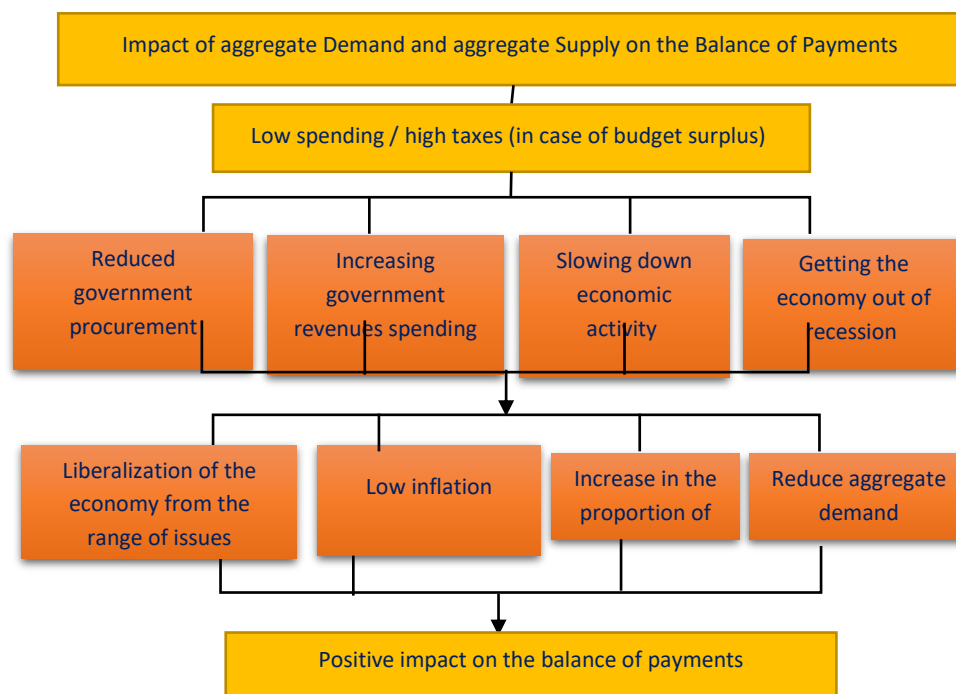


Fig. 2: Schematic Diagram of the impact of aggregate supply and demand on the balance of payments in the event of inflation

A rise in overall prices as a result of increasing aggregate demand will harm competitiveness, alter the nation's exchange rates in international markets, and worsen the current account. The government is using expansionary or deflationary fiscal policy measures to promote economic stability. The government can use either one of two tools – increasing government spending, lowering taxes, or both – to promote aggregate demand when it adopts an expansionary fiscal policy. Increased government expenditure is known to boost aggregate revenue through the multiplier effect, which in turn increases aggregate demand for goods and services. If the required level of aggregate demand is maintained, such spending or a budget deficit could force the government to finance the shortfall through the burden of accumulating external debt, which would result in high inflation and hurt the trade balance and the balance of payments. Naturally, this causes an imbalance between aggregate demand and aggregate supply as forex trading conditions deteriorate and interest rates on foreign loans increase. This imbalance between total demand and total supply causes macroeconomic imbalances, which are then accompanied by high inflation and volatility in the local currency exchange rate, which have a detrimental impact on the balance of payments. (Alawin & Oqaily, 2017) (Bernheim, 1988) Unquestionably, along with consumption, investment, and government expenditure, export demand is a component of overall demand. The fact that import demand shifts consumer, business, and government expenditure from local to foreign goods makes it a detrimental part of overall demand. Automated adjustments to exports and imports will have a multiplier impact on revenue, which will be positive for exports and negative for imports. When income changes have an impact on both export and import demand, the multiplier's value also varies because the multiplier's size is defined by how consumption and investment react to income changes as a consequence of an automatic shift in demand. (Ciani, 2021). The excess aggregate demand brought on by expansionary monetary and fiscal policies has resulted in a balance of payments deficit, either through the expansion of imports to offset some of this excess or another portion (excess net demand), which has raised prices, increased imports, and decreased exports. (Horton & El-Ganainy, 2012). Expanding policies increase government expenditure and lower unemployment during economic downturns.

Assuming the economy has excess capacity, businesses raise production and hire more people to fulfill the increased demand, while doubling government expenditure to boost national output and domestic employment (the multiplier effect). Like this, income tax reductions that boost national disposable income also boost private consumption, which raises the budget deficit. The lower multiplier's main goals are to continue the tax cuts and boost aggregate demand by increasing both government expenditure and private consumption in the short term. However, for many businesses, a shortage of bank credit was a more urgent issue than the first decline in sales. The entirety of the utility industry and the entire demand side of the most afflicted economies have been impacted by the financial crisis. Therefore, a wise financial reaction to the economy would boost production rather than consumption, with a stronger emphasis on business tax incentives, corporate deregulation to assist private investment, and enhanced public infrastructure supporting increased productivity (Makin, 2018).

Neoclassical macroeconomic models show that the amounts of consumption, investment, and net exports are influenced by the government's decision to fund the spending program. These models imply that total national consumption is higher and national savings (both private and public) are lower when a specific government spending program is supported by issuing bonds rather than current taxes. A rise in current consumption implies an equivalent and mild drop in other types of spending if resources are handled in a way that keeps production constant. Therefore, there must be a significant amount of investment and/or net exports, and there are two separate modes of transportation. Moving taxes to finance deficits increases real interest rates in a closed economy, which encourages investment. In contrast, domestic investment drives net exports in small open economies when there is an excess of movable capital globally. The imbalance drives up interest rates and encourages inflows of foreign capital. Cash flow raises the national currency's worth with variable exchange rates while lowering the competitiveness of their products in international marketplaces. Both processes are likely to function in a sizable open economy (Yellen, 1989). Absorption is different from flexibility but complementary. It can be said that the concept of the effects of the deficit and surplus on the balance of payments and its basis is based on the absorption approach of correcting the balance of payments by increasing output (aggregate supply) and maximizing expenditure (aggregate demand) until the balance between expenditure, output, or revenue (income or production) is restored. This strategy might combine automated pricing and income adjustments with attention to the effect of revenues on the reduction of a nation's balance of payments deficit through the depreciation of foreign or domestic currencies. Changes in exports and imports influence national revenue; therefore, the impacts of devaluation should more precisely represent these implications. It highlights the macroeconomic effects of devaluation and promotes flexibility. The absorption strategy supports the flexible approach while being distinct from it and emphasizing the macroeconomic effects of currency devaluation. This method is closely related to the public budget and the balance of payments to demonstrate the mechanism for the transmission of the impacts of deficits and surpluses on the balance of payments in the context of aggregate supply and demand publicly. (Chouraqui & Price, 1983) (Mussa, 1974).

According to the concept of absorption, the balance of payments is defined as the difference between the total receipts of the residents of the state and the total payments. In other words, the balance of payments represents the difference between the economy's national income (aggregate supply) and government expenditures (aggregate demand), which means that, in terms of absorption costs, the balance of payments shows the difference between what society produces and what it gets out of its Production is absorbed, and in this sense, a deficit means that, national expenditure (aggregate demand) is national income (aggregate supply). Conversely, if there is an excess. In other words, national income outweighs spending. This strategy concentrates on the notion that current account imbalances may affect both GDP and domestic expenditure, even though it is publicly recognized that balance of payments issues are driven by an imbalance between domestic income and domestic spending. (Gramlich, 2004) (IMF, 2009) (Commodore, p. 8). This can be illustrated by the following equation:

2.3 Mathematical Formulation:

This can be illustrated by the following equation:

$$Y = C + I + G + (X - M) \dots \dots \dots (1)$$

Where:

Y: National Income.

C: Private Consumption.

I: Private Investment.

G: Government Spending.

X: Exports.

M: Import.

If we symbolize aggregate demand or aggregate spending (DA), which includes expenditure (C), investment (I), and government spending (G), we get:

$$DA = C + I + G \dots \dots \dots (2).$$

And if we symbolize the current account with (CA), it will be:

$$CA = X - M \dots \dots \dots (3).$$

Therefore, equation (1) can be written as follows:

$$Y = DA + CA \dots \dots \dots (4).$$

Which:

$$CA = Y - DA \dots \dots \dots (5).$$

Since the surplus of GDP over national product results in an equal amount of revenue that is utilized to support both current consumption and the accumulation of savings (S), it is evident from equation (5) that the deficit in the balance of payments may be seen as an imbalance in the external sector. (Leon et al., 2021).

$$Y = C + S \dots \dots \dots (6).$$

From equation (1) and (6), it turns out that:

$$I = S - G - X + M \dots \dots \dots (7).$$

A deficit in the balance of payments results from an increase in imports over exports. This imbalance is covered by the flow of foreign capital and is represented by the symbol (FD), i.e.,

$$FD = X - M \dots \dots \dots (8).$$

Since:

FD: foreign capital inflow.

By rewriting equation (7), we notice that:

$$I - S - M - X = FD \dots \dots \dots (9).$$

By generating an import surplus and a net inflow of foreign capital into the economy over the same period, the preceding equation indicates that the national economy's investments during that period exceeded domestic savings. If the government continues to run a budget deficit due to the private sector's inability to fill the gap, it will be reflected in the domestic resource gap. Because the budget deficit is compared to the gross domestic product, the account balance will be current, which denotes the flow of foreign capital and is represented by (FD), meaning that (IMF, 2009) (Schneider, 2013) :

$$CA = f(FD) \dots \dots \dots (10).$$

It is worth noting that the current account deficit of the balance of payments is affected by two sets of policies:

- 1 -Policies that change the net savings of the private sector.
- 2 -Policies that affect the overall government deficit.

Hence, we must separate the financial balances of the private sector and the government sector, and this does not mean that they are independent, but the policies that affect the government fiscal deficit, namely, public revenues and public expenditures, also change the situation of the private sector, as well as the policies that affect the private sector's savings through the interest rate and exchange rate; It also affects the government deficit (Wellisch, 2000) (Ali, 2008, pp. 109-110). The connection between imports and exports, as well as the performance of the economy overall, are important factors to consider when diagnosing the balance of payments and assessing initiatives intended to remedy surpluses and deficits. According to the absorption method, the balance of payments is determined by the difference between expenditures and income, and a balance of payments policy won't help the situation unless expenditures decline relative to income or

income rises relative to expenditures. (Thirlwall & Gibson, 1992). The following equation ($B=Y-E$) may be used to further understand this strategy, where (Y) stands for income (total supply), and (E) for expenditure (aggregate demand). Since S, I, T, and G stand for savings, investments, tax receipts, and government expenditure, respectively, this connection may be broken down into separate sectors ($B=S-I+T-G$). One of these kinds of equations is employed in domestic or local economies and the other in global macroeconomics. The key takeaway from this strategy is that no element of policy – including the exchange rate – can make the trade balance in the current account balance equal until output (income) grows more rapidly than spending. Although this analysis of the balance of payments is comprehensive compared to the flexible approach, this approach is applied on the assumption that there will be no capital movements and unilateral transfers. The assimilation approach revolves around the current account of the balance of payments and starts from the following national income identity (Thirlwall & Gibson, 1992):

$$Y = C + I + G + X - M \dots \dots \dots (11).$$

The absorption approach emphasizes the need to cut spending (aggregate demand) as much as possible because there is a deficit in the balance of payments. Until the equilibrium between expenditure and production, or income (revenue or production), is restored, output (aggregate supply) cannot be increased. (Helliwell, 1978). The Keynesian theory essentially informs the assimilation strategy, which was advanced by (Herberger, Mead, and Alexander). This strategy emphasizes the importance of expenditures and income, or revenues, in the balance of payments and how expenditures can change into revenues as a result of changes in exports or imports. It is based on an economic analysis of the balance of payments on the trade balance with unemployed resources. This strategy's fundamental premise is that for the trade balance to improve, domestic income must exceed domestic spending (aggregate supply over aggregate demand). (Malimi, 2013). This can be explained by the following relationship:

$$S + T + M = I + G + X \dots \dots \dots (12).$$

Where (S) saving, (T) tax revenue, (I) investment, (G) public spending, (X) exports, and (M) imports. And by solving the previous equation to get net exports, we get:

$$(X - M) = (T - G) + (S - I) \dots \dots \dots (13).$$

The left side of the equation (13) is about the trade balance (X-M) and the right side of the equation is net public savings (T-G) plus net private savings (S-I). It is noted that an increase in imports over exports will lead to a trade balance deficit, and an increase in spending on the government (G) for tax revenue (T), i.e., public revenues, will lead to a deficit in the state's public budget, and the opposite will lead to a surplus in both the trade balance (X-M) and the net public savings ((T-G). By rearranging the equation (2- 20), the following equations can be obtained:

$$(T - G) = (X - M) - (S - I) \dots \dots \dots (14).$$

Equation (14) shows that the budget is affected by the status of the trade balance as well as the difference between saving and investment for the private sector, and since the private sector in developing countries does not usually play an important role, trade policy has a significant impact on the public budget if imports are restricted by increasing customs duties, imposing quantitative restrictions on imports, or controlling foreign exchange. This, in turn, leads to higher prices of imported goods, which in turn leads to lower imports, which is likely to reduce government spending on imported goods while increasing GDP, especially when imports are limited due to higher tariffs, which improves the public budget. It is clear from the above that the economic policies related to both the public budget and the trade balance need to be intensified so that economic stability can be achieved without distortion. A budget deficit, when it is compensated by a surplus in the trade balance, is a guarantee of balance within its general framework and vice versa. As for the occurrence of a deficit in both the general budget and the trade balance, it may lead to undesirable economic effects, and in the event of a surplus, it may seem convenient on the surface, but this does not reflect the success of economic policies related to the general budget and trade balance, but rather may conceal a lack of welfare within the economy through reduced imports and public spending, or the economy's dependence on a depleting source as a financier of exports and public revenues (Publishing et al., 2010) According to the principle of absorption, the deficit is negative net exports since exports are part of the aggregate demand for output (aggregate supply). The process continues until equilibrium is reached,

that is, up to the volume of income that generates imports that are sufficient to finance them. As for price changes, they do not start until after the deficit in the exchange market is reversed. Excess demand for foreign currency leads to a rise in its price, so that it is not associated with an increase in the general level of prices and the real exchange rate remains fixed. Rather, the real exchange rate of the national currency decreases, so the prices of exports in the currency rise. Nationally, imports fall and exports rise. The other side of the external deficit is the savings deficit or the so-called savings gap that many developing countries suffer from, and this correspondence means an expression between the two gaps. The two gaps in the overall content increase the uses (uses) of the resource (resources).

For the purpose of identity, we use the symbols: (Y) income, (X) exports, (C) consumption, (S) saving, (I) investment, (G) government spending, and (T) revenue taxes: -

$$\text{resources } Y + M = C + S + T + M = \text{uses} = C + I + G + X \dots \dots \dots (15).$$

Including the following three gaps: from the left (I-S) the deficit of private saving over investment (the savings gap), (G-T) the deficit of revenues to spending, and (X-M) the external deficit,

$$(I - S) + (G - T) + (M - X) = 0 \dots \dots \dots (16).$$

The following identity shows that the sum of the private savings deficit and the public budget deficit is equal to the external deficit (balance of payments).

$$(I - S) + (G - T) = (M - X) \dots \dots \dots (17).$$

Regardless of the government deficit or the assumption of the balance of the general budget, the saving-investment gap on the left is equal to the import-export gap on the right, or the foreign currency gap. It is assumed that increasing exports, or decreasing imports, reduces the leakage of aggregate demand, that is, the demand for GDP increases, so income increases through the higher operation of production capacities, so that saving rises until the gap on the left is bridged. As for filling the gaps with external flows, more goods and services will be available to compensate for the lack of domestic resources, equivalent to the difference between investment and saving. This implies that consumption has grown by the amount of the increase in exports, assuming that the increase in exports is not followed by a corresponding increase in savings, so the gap between saving and investment remains the same, meaning that imports will rise and the external deficit will remain the same, and this is excluded because it was implicitly assumed that the marginal propensity to additional saving was zero (Adom & Elbahnasawy, 2016) (Ali, 2016, p. 6).

A fiscal strategy that boosts aggregate demand may involve a reduction in taxes, an increase in government expenditure, or a mix of the two. Thus, a brief fiscal expansion that has no impact on the anticipated future exchange rate causes the DD schedule to move to the right but not the AA.

Figure 3 illustrates the effects of an expansionary fiscal policy on the economy. At point 1, the economy has an exchange rate of E1 and an output of Y1. Let's say the government decides to fund a new project with a particular amount of expenditure. The economy shifts to point 2 as a result of this one-time boost in government spending, which causes the currency to appreciate to E2 and production to climb to Y2. A brief reduction in taxes would have a comparable effect on the economy. The rise in output brought on by an increase in government spending increases the demand for real money holdings in transactions. This rise in money demand, together with the fixed price level, causes the interest rate, R, to rise. The domestic currency must increase in value to create the expectation of a subsequent depreciation just large enough to offset the higher international interest rate difference in favor of domestic currency deposits because the expected future exchange rate, E, and the foreign interest rate, R*, have not changed..(Goodwin et al., 2018)

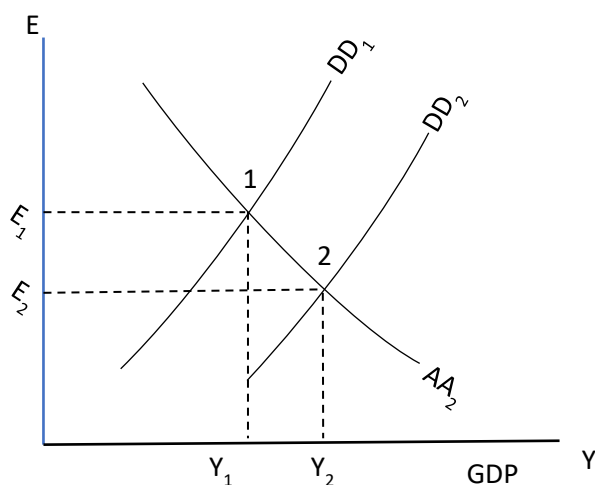


Fig. 3: The effect of the deficit and surplus in the general budget on the balance of payments in the context of the relationship between aggregate demand and aggregate supply (effects of fiscal expansion).

In contrast to monetary policy, fiscal policy may influence output at a fixed exchange rate. It is, in fact, more effective than a variable interest rate! With a variable interest rate, fiscal growth is followed by a rise in the value of the local currency, which raises the price of domestic goods and services in international markets and tends to offset the beneficial direct effect of policy on aggregate demand. The central bank that controls exchange rates is compelled to increase the amount of money in circulation by purchasing foreign currency in order to stop this appreciation. Further expanding impact. This associated rise in the money supply helps to explain why a fixed rate is more effective for fiscal policy than a variable rate. (Goodwin et al., 2018) (Thirlwall & Gibson, 1992).

3 Concluding:

From this study, the following conclusions can be drawn:

The study shows that there are several channels through which the impact of the general budget is shifted to the balance of payments, including the impact of supply and aggregate demand, the overall level of prices, and the exchange rate. About demand and aggregate supply, the scope of these effects and interactions exists in many models and theories on fiscal policy. This is due to the effectiveness of fiscal policy in controlling the proportion of public spending (aggregate demand) in order to increase demand and aggregate supply. The government cuts overall expenditures directly by reducing spending and indirect increases through taxes to reduce consumer spending. This means lower aggregate demand, which in turn affects lower economic activity and lower inflation, reduces imports, increases the share of exports, and leads to an appreciation of the national currency. Regarding expansionary fiscal policies that stimulate aggregate demand, the Government could increase overall expenditures directly by increasing its spending and indirect reduction in fee taxes in order to stimulate consumer spending as well as by reducing income taxes to stimulate capital expenditures. This will increase public debt and raise real interest rates, leading to a tendency to calculate capital transactions towards surpluses, and the fact that expansionary fiscal policy ultimately affects the value of the national currency in the foreign exchange market, and thus in international transactions and exchanges. When we look at the study's writing style, we see that there is a rather fresh approach to connecting the courses and methods for addressing the imbalances in the balance of payments with those adjustments to the government budget, whether deficit or surplus. This indicates that fresh directions for research into this phenomenon are now available.

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