

The Role of Government Consumer Expenditure in the Current Account of the Balance of Payments Under Global Crises: " Analytical Study in Selected Oil Countries for the Period (2005-2021)"

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Abstract: The research aims to shed light on the important relationship between general government final consumption expenditure (GGFCE) and the current account balance of payments in a sample of oil countries, based on the research problem, which is that in oil countries in general, high and exaggerated levels of (GGFCE) are determined, which encourages the spread of consumerism in exchange for a decline in investment tendency. And productivity, which is negatively reflected in production and economic growth, and this decline is translated into the current account of the balance of payments. The research concluded that the annual growth of (GGFCE) and the current account was disturbed, and they were greatly affected by global crises. Iraq and Nigeria were the most affected. The research recommended abandoning industrialization based on excessive reliance on crude oil and moving to economic diversification, diversifying local production, and revitalizing the performance of economic activities.

Keywords: (GGFCE), current account, balance of payments, exports to GDP ratio, imports to GDP ratio.

INTRODUCTION

Most developing countries in general, and oil-producing countries in particular, face production challenges affecting branches of the national economy due to weak local markets and declining aggregate demand in light of difficult financial restrictions and borrowing conditions that impede the path to economic sustainability. The oil-producing countries suffer from varying rents and a low ability to control the investment climate and proceed according to what is targeted and planned by the government and institutions at home. In accordance with political objectives, general government final consumption expenditure is often inflated in order to improve the living situation of many residents in the short term, and this measure is accompanied by large burdens on amortizing it when its source is government debt, and the predominance of consumption over government investment pushes towards a shift in economic relations from Productive relations to exchange relations in which the foreign trade sector is the primary sector, and these changes and economic events leave an undesirable impact on the current account status of the balance of payments in these countries.

Research problem: In oil countries, in general, high and exaggerated levels of general government final consumption expenditure (GGFCE) are set, which encourages the spread of consumerism in exchange for

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a decline in investment and productivity, which is negatively reflected in production and economic growth, and this decline is translated into the current account of the balance of payments.

Research importance: Following up on the impact that high levels of General government final consumption expenditure (GGFCE) have on the current account of the balance of payments on is tantamount to summarizing all the economic processes and mechanisms that occur according to current economic policies, and knowing the feasibility of those policies and the extent of their ability to produce economic stability through financial mechanisms that have a monetary impression in the local and foreign markets.

Research hypothesis: The oil-producing countries are witnessing an increase in (GGFCE) driven by oil revenues, which enhances consumerism without investment in the economy, causing the current account to deteriorate in those countries.

Research objective: The research aims to shed light on the important relationship between (GGFCE) & the current account balance of payments in a sample of oil-producing countries.

The research sample: The following oil countries were chosen: Saudi Arabia, Iraq, Nigeria as an oil and developing counters.

A. GENERAL GOVERNMENT FINAL CONSUMPTION EXPENDITURE (GGFCE) & THE CURRENT ACCOUNT, A THEORETICAL FRAMEWORK

1. GENERAL GOVERNMENT FINAL CONSUMPTION EXPENDITURE

General government final consumption expenditure is defined as a stream of spending on social services provided by the government to individuals and institutions of all kinds (United Nations, 2004, 3).

As long as (GGFCE) affects the purchase of goods and services, it leads to a change in the direction of the economic resources available in society, and then influences the components of local production in terms of influencing the production sectors, economic activities and all economic activities, in order to influence economic development and economic growth (Hamid Abdul Majeed Daraz, 2002, 319).

Consumer spending is defined as spending on the acquisition of goods and services intended for final satisfaction, and is matched by productive or intermediate consumption, which is the sum of goods and services used by production units during the production process in a unit of time (Qaada qasim, 2002, 65).

Government expenditures directly and indirectly affect production by increasing individuals' financial capacity, which works to increase satisfaction and productivity (Adel Falih Al-Ali, 2011, 84). The increase in government spending causes an increase in private and public consumption, and then an increase in production by a multiplier. As for the indirect effect of (GGFCE), it is represented by investment demand, from which consumer demand is derived due to (GGFCE), which results in greater changes in investment spending by increasing the demand for resources. Production and raw materials, which has an impact on consumption again (Mohamed Khasawneh, 2014, 21).

Government expenditures exert their influence on consumption through the government purchasing goods and services and providing them to various segments of society, or distributing some income intended for consumption expenditure for the units to which the income was distributed, such as wages and salaries (Abdel Fattah Abdel Rahman Abdel Majeed, 1996, 110). On these incomes and then consumption to increase aggregate demand (Taher Al-Janabi, 1991, 50).

2. CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS

The current account is the most important and largest part of the balance of payments because it includes the trade balance for goods traded in addition to the balance of services for services traded to and from the outside world in a unit of time. By reviewing this account, the perception is complete about the importance of economic activities, the movement of trade, the effectiveness of local markets, and all related variables. With it (Duraid Kamel Al-Shabib, 2013, 77).

The importance of the current account for the balance of payments is evident in recording the entry and exit of capital into the local economy in an organized manner through which commodity exchanges between the country and the world can be followed, in order to help decision makers make the right decisions regarding appropriate economic policies (Muhammad Saleh Al Quraishi, 2008, 60).

3. THE RELATIONSHIP BETWEEN (GGFCE) & THE CURRENT ACCOUNT

Most of the economies of developing countries are characterized by chronic imbalances in production structures, which makes these imbalances long-term and related to the reality and activity of the current account of the balance of payments, which deepens the balance gap in favor of imports to finance economic development plans in terms of production requirements and raw materials needed to stimulate local manufacturing processes (Buraq Hussein Mohi, 2019, 30).

Most of the developing oil economies are suffering, especially from the expansion of (GGFCE) that is financed by oil revenues. This expansion is taking place in light of the continued imbalance in the production structure, which encourages the exacerbation of consumerism among the population, which leads to a significant increase in imports. However, the imbalance in the current account remains hidden deep within the structural imbalances of the macroeconomics, as the current account surplus remains due to the expansion in the export of crude oil (Bassam Al-Hajjar, 2010, 219).

B. ANALYSIS OF VARIABLES, INDICATORS OF (GGFCE) & THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS IN THE RESEARCH SAMPLE

1. General Government Final Consumption Expenditure

Table (1) indicates that general government final consumption expenditure (GGFCE) in 2005 amounted to (9975129076) dollars in Iraq, (7004000000) dollars in Saudi Arabia, and (8004494288) dollars in Nigeria. It began to increase over time until it reached (23519452735) dollars in Iraq in 2009, (95203929307) dollars in Saudi Arabia and (25251165678) dollars in Nigeria. But it declined in 2010 due to the mortgage crisis, reaching (26205763846) dollars in Iraq, (1067128000000) dollars in Saudi Arabia, and (32150553802) dollars in Nigeria. It began to fluctuate, affected by the crises affecting the international oil market and its repercussions on the structure of government expenditure, until in 2015 it reached (31130218818) dollars in Iraq, (196303783008) dollars in Saudi Arabia and (29354293365) dollars in Nigeria. It has developed over time until it reached in 2020 (40724038591) dollars in Iraq, (205288963146) dollars in Saudi Arabia and (37434256320) dollars in Nigeria. But it decreased in 2021 to (37151768966) dollars in Iraq, (208087347056) dollars in Saudi Arabia, and (22445282284) dollars in Nigeria.

Table (1) General government final consumption expenditure (current US\$) in the research sample for the period (2005-2021)

years	Iraq	Saudi Arabia	Nigeria
2005	9975129076	70040000000	8004494288
2006	10211451417	82955200000	12102319480
2007	16636401534	85889600000	26042050218
2008	21908918908	92026133333	31773395588
2009	23519452735	95203929307	25251165678
2010	26205763846	106712800000	32150553802
2011	36542605385	130149866667	35174299131
2012	36151465742	146981066667	37798134349
2013	40956897683	167605866667	36846853910
2014	41120840566	197108266667	36750525307
2015	31130218818	196303783008	29354293365
2016	30636911929	166568578695	21787470810
2017	30526310642	168260836992	16545257485
2018	36104794166	199798536735	23635547602
2019	45127715144	196258336474	26440084667
2020	40724038591	205288963146	37434256320
2021	37151768966	208087347056	22445282284

Source: World Bank data and indicators.

The annual growth rates of (GGFCE), according to Table (2), ranged as follows:

The annual growth rate of general government final consumption expenditure (GGFCE) in Iraq ranged between (62.92%) in 2007 as a maximum and (-24.30%) in 2015 as a minimum. The annual growth rate of general government final consumption expenditure in Saudi Arabia ranged between (21.96%) in 2011 as a maximum and (-15.15%) in 2016 as a minimum. While the annual growth rate of general government final consumption expenditure (GGFCE) in Nigeria ranged between (115.18%) a year as a maximum and (-40.04%) as a minimum. In general, the greatest disturbance in annual growth rates was in Nigeria, followed by Iraq, and annual growth rates were moderate in Saudi Arabia. The negative growth rates were most in Nigeria, then Iraq, and finally Saudi Arabia.

Table (2): Annual growth rates of General government final consumption expenditure (%) in the research sample for the period (2006-2021)

years	Iraq	Saudi Arabia	Nigeria
2006	2.37	18.44	51.19
2007	62.92	3.54	115.18
2008	31.69	7.14	22.01
2009	7.35	3.45	-20.53
2010	11.42	12.09	27.32
2011	39.44	21.96	9.40
2012	-1.07	12.93	7.46
2013	13.29	14.03	-2.52
2014	0.40	17.60	-0.26
2015	-24.30	-0.41	-20.13
2016	-1.58	-15.15	-25.78
2017	-0.36	1.02	-24.06
2018	18.27	18.74	42.85
2019	24.99	-1.77	11.87
2020	-9.76	4.60	41.58
2021	-8.77	1.36	-40.04

Source: World Bank data and indicators.

As for the index of general government final consumption expenditure (% of GDP), according to Table (3), Saudi Arabia came in first place, with index values ranging between (17.70%) in 2008 as a minimum and (29.32%) in 2015 as a maximum. Then Iraq, whose index ranged between (15.68%) in 2006 as a minimum and (22.51%) in 2020 as a maximum. Finally came Nigeria, whose index ranged between (4.40%) in 2017 as a minimum and (9.45%) in 2007 as a maximum.

Table (3): General government final consumption expenditure (% of GDP) in the research sample for period (2005-2021) (%)

years	Iraq	Saudi Arabia	Nigeria
2005	19.97	21.34	4.54
2006	15.68	22.04	5.13
2007	18.73	20.66	9.45
2008	16.65	17.70	9.43
2009	21.06	22.19	8.65
2010	18.92	20.20	8.85
2011	19.67	19.23	8.57
2012	16.58	19.81	8.23
2013	17.46	22.23	7.16
2014	18.00	25.71	6.46
2015	18.67	29.32	5.94
2016	18.39	25.01	5.38
2017	16.31	23.53	4.40
2018	15.88	23.60	5.60
2019	19.32	23.40	5.57
2020	22.51	27.96	8.71
2021	17.89	23.96	5.11

Source: World Bank data and indicators.

2. THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS

Table (4) indicates that in 2005 the current account reached (-3335400000) dollars in Iraq, (89990240000) dollars in Saudi Arabia and (36529017085) dollars in Nigeria. It began to fluctuate until 2010. It reached (6488300000) dollars in Iraq, (66750991975) dollars in Saudi Arabia and (13111276866) dollars in Nigeria. The international oil market crisis of 2014 affected the countries of the research sample, as these countries were affected of 2015, as their current account reached (-2761814222) dollars in Iraq, (-56723789494) dollars in Saudi Arabia, and (-15438642534) dollars in Nigeria. It improved after that, reaching in 2017 (14892456000) dollars in Iraq, (10464291863) dollars in Saudi Arabia, and (13563765219) dollars in Nigeria. It began to rise until it declined due to the Corona pandemic. In 2020, it reached (-6197600000) dollars in Iraq, (-22814248436) dollars in Saudi Arabia and (-15985927541) dollars in Nigeria.

Table (4): Current account balance (BoP, current US\$) in the research sample for period (2005-2021)

years	Iraq	Saudi Arabia	Nigeria
2005	-3335400000	89990240000	36529017085
2006	2681400000	98934039964	36517576728
2007	15519330000	93329453236	27648255974
2008	28440300000	132322211945	29145209283
2009	-1128500000	20954610933	13869493318
2010	6488300000	66750991975	13111276866
2011	26126000000	158545217067	10668377374
2012	29541000000	164763650842	17374274675
2013	16092482324	135442398957	19048981238
2014	15855500000	73758204317	906535877.2
2015	-2761814222	-56723789494	-15438642534
2016	2157940000	-23842752835	5077217476
2017	14892456000	10464291863	13563765219
2018	34369500000	71971861033	7283154463
2019	15762600000	38229872563	-13685219004
2020	-6197600000	-22814248436	-15985927541
2021	24563400000	44323517249	-3254163170

Source: World Bank data and indicators.

The current account (% of GDP) in Iraq ranged between (-6.68%) in 2005 as a minimum and (21.61%) in 2008 as a maximum. In Saudi Arabia, it ranged between (-3.58%) in 2016 as a minimum and (26.25%) in 2006 as a maximum. In Nigeria, it ranged between (-3.13%) in 2015 as a minimum and (20.79%) in 2005 as a maximum. Their ranking was as follows: Saudi Arabia, Iraq and Nigeria.

Iraq was exposed to many violent local and international fluctuations that affected the current account, making many of its values negative, and then Nigeria, whose current account may be greatly affected by the Corona pandemic, while Saudi Arabia was least affected due to the diversification of its domestic production and the improvement of its international exchange rates.

Table (5): Current account balance (% of GDP) in the research sample for period (2005-2021) (%)

years	Iraq	Saudi Arabia	Nigeria
2005	-6.68	27.40	20.79
2006	4.12	26.25	15.31
2007	17.47	22.44	9.94
2008	21.61	25.46	8.59
2009	-1.01	4.88	4.70
2010	4.68	12.64	3.57
2011	14.07	23.43	2.57
2012	13.55	22.21	3.74
2013	6.86	17.97	3.66
2014	6.94	9.62	0.16
2015	-1.66	-8.47	-3.13
2016	1.30	-3.58	1.25
2017	7.95	1.46	3.61
2018	15.12	8.50	1.73
2019	6.75	4.56	-2.88
2020	-3.43	-3.11	-3.70
2021	11.83	5.10	-0.74

Source: World Bank data and indicators.

Table (6) indicator Imports of goods and services (% of GDP) were the highest in Iraq, where it ranged between (39.18%) in 2019 as a minimum and (49.16%) in 2012 as a maximum, then Saudi Arabia, where it ranged between (24.76%) in 2018 as a minimum and (36.94%) in 2015 as a maximum, and finally came Nigeria, where it ranged between (8.23%) in 2020 as a minimum and (19.80%) in 2019 as a maximum.

Imports in Iraq were most affected by the crises, as they were affected by the mortgage crisis in 2007, while imports in Saudi Arabia and Nigeria were affected in 2008, meaning that the effect slowed down for an entire year due to the policy of diversification in imports and GDP. The oil price crisis affected Iraq in 2013 and Nigeria in 2014, but Saudi imports were not affected by this crisis. As for the Corona pandemic, Iraqi imports were affected in 2019, while Saudi Arabia and Nigeria were affected by it in 2020.

Table (6): Imports of goods and services (% of GDP) in the research sample for period (2005-2021) (%)

years	Iraq	Saudi Arabia	Nigeria
2005	42.09	24.90	12.03
2006	47.13	30.11	13.05
2007	41.83	34.93	18.10
2008	42.39	33.99	15.13
2009	40.67	37.77	17.43
2010	41.90	32.98	17.66
2011	46.86	29.26	21.66
2012	49.16	29.01	12.99
2013	45.54	30.50	13.00
2014	45.15	33.31	12.45
2015	44.17	36.94	10.67
2016	40.85	29.75	11.50
2017	41.25	28.25	13.18
2018	42.59	24.76	17.51
2019	39.18	26.11	19.80
2020	34.79	24.81	8.23
2021	39.42	24.52	11.84

Source: World Bank data and indicators.

Table (7) indicator Imports of goods and services (% of GDP) were the highest in Saudi Arabia, as it ranged between (24.90%) in 2020 as a minimum and (62.11) in 2008 as a maximum. And then Iraq, where it ranged between (27.75%) in 2020 as a minimum and (54.35%) in 2005 as a maximum. Finally, Nigeria, where it ranged between (8.12%) in 2020 as a minimum and (31.62%) in 2011 as a maximum.

Exports in the countries of the research sample as a whole were affected by the crises that occurred during the research period, due to the nature of oil exports that are quickly affected by international events and global crises.

Table (7): Exports of goods and services (% of GDP) in the research sample for period (2005-2021) (%)

years	Iraq	Saudi Arabia	Nigeria
2005	54.35	57.05	21.03
2006	51.03	59.83	29.52
2007	45.90	59.94	21.24
2008	50.33	62.11	25.67
2009	39.40	47.09	18.63
2010	39.42	49.57	25.66
2011	44.42	55.60	31.62
2012	44.51	53.84	31.55
2013	39.66	51.42	18.05
2014	38.94	46.25	18.44
2015	34.51	32.56	10.67
2016	28.11	30.16	9.22
2017	33.92	33.57	13.17
2018	40.80	37.20	15.50
2019	38.05	34.09	14.22
2020	27.75	24.90	8.12
2021	37.68	32.98	10.74

Source: World Bank data and indicators.

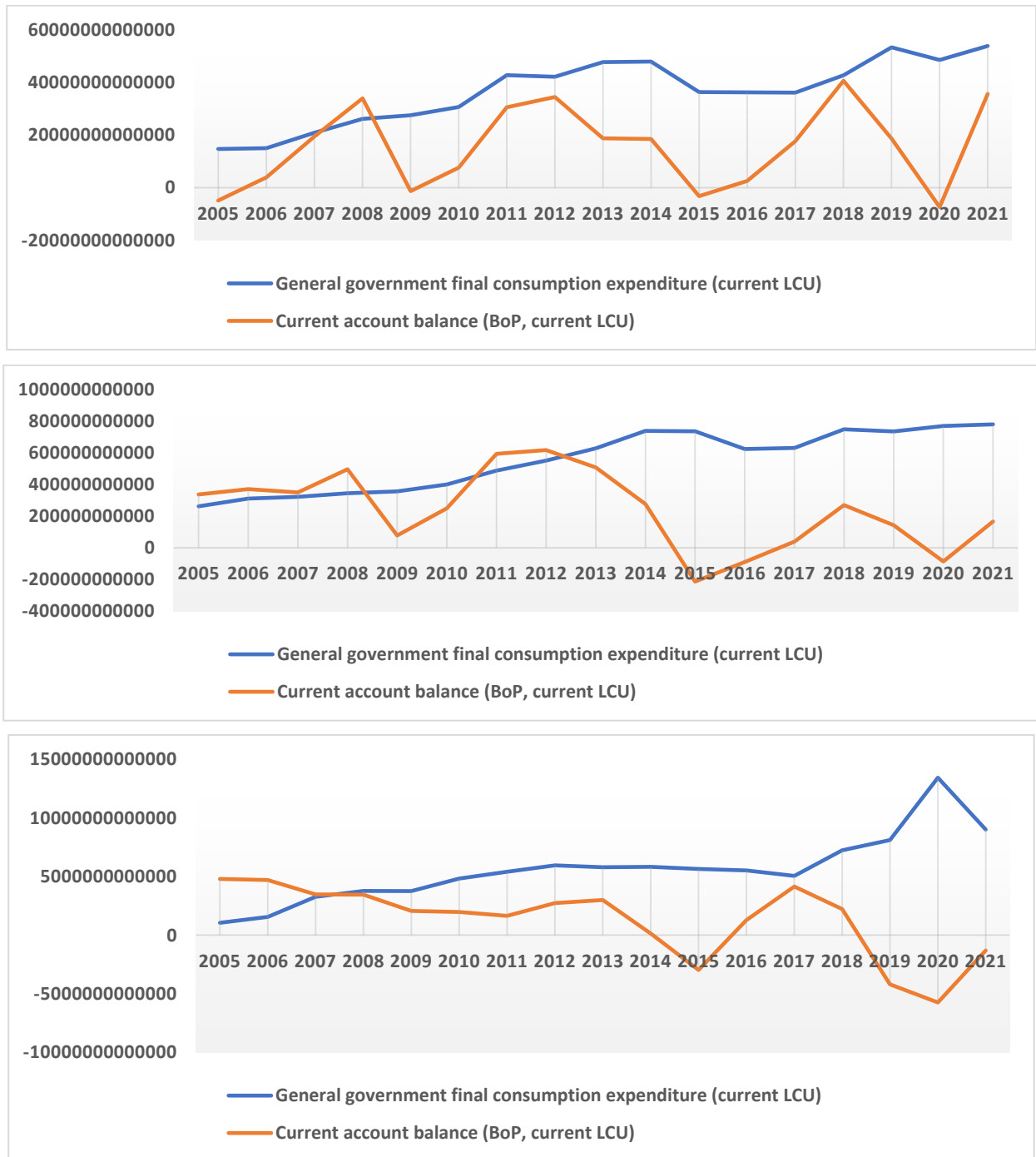
3. THE RELATIONSHIP BETWEEN (GGFCE) & THE CURRENT ACCOUNT

It is clear from Figure that (1) that in the countries in the research sample, most of the current account fluctuations in them were linked to fluctuations in the (GGFCE), which means that the current that in these developing the oil countries the was driven by the growth of general government final consumption expenditure (GGFCE), and it was the one who decided the amount of goods and services required to be imported and exported according to The need of local markets and the flexibility of macroeconomic variables towards the growth of General government final consumption expenditure (GGFCE).

This enhanced consumerism in these countries, albeit to varying degrees, as Saudi Arabia was the least affected because it possessed a good and solid production base, and various private and government investments that led to an improvement in its competitiveness in the Arab markets in particular and global markets in general.

However, Iraq and Nigeria were not able to improve sectoral and production activities, which contributed to the deterioration of the local production environment and the sustainability of structural imbalances in production lines. Then, these imbalances in the current account of the balance of payments disappeared during the research period.

Chart (1): General government final consumption expenditure and Current account balance (Bop, current LCU)



Source: World Bank data and indicators.

CONCLUSIONS

1. The annual growth rates of general government final consumption expenditure (GGFCE) were unstable in the countries of the research sample due to its dependence on oil revenues. Nigeria was

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the most volatile in the annual growth of (GGFCE), then Iraq, and Saudi Arabia was the least unstable.

2. General government final consumption expenditure (% of GDP) was highest in Saudi Arabia during the research period, then Iraq and finally Nigeria.
3. The current account in Nigeria was greatly affected by the Corona pandemic and then the oil price crisis in 2014. Then came Iraq, where the current account was affected by the crisis, and finally Saudi Arabia.
4. The current account (% of GDP) was very unstable in Iraq, then Nigeria, and finally Saudi Arabia because of its good domestic production and high ability to export other than oil.
5. Iraq was the fastest in terms of the impact of imports and exports from global crises. Generally, all imports and exports of the countries in the research sample were affected by those crises.
6. There was a clear relationship between the time course of general government final consumption expenditure (GGFCE) and the current account in the countries of the research sample, which proves the research hypothesis, as the fluctuation of (GGFCE) may cause fluctuations in the current account in general and global crises in particular. Because of the rentier nature of these countries during the research period.

RECOMMENDATIONS

1. Abandoning excessive dependence on crude oil in manufacturing and moving to economic diversification, diversifying local production and stimulating the performance of economic activities.
2. Adopting sustainable development programs that reduce imports to the lowest possible level and strengthen the structure of non-oil exports in order to build strong economic capabilities in the face of global crises.
3. Stimulating the production sectors towards circular and green production in order to reduce the problems of local environmental pollution, revive environmentally friendly economic activities, and reduce dependence on production activities that depend on fossil fuels.
4. Providing sufficient funding to support productive activities that enhance the sustainable development impact to confront the structural imbalance in the output of these countries.
5. Rationalizing general government final consumption expenditure (GGFCE), paying attention to productivity, reducing debt burdens over time, and adopting financial discipline and prudent financial policies that encourage investment tendencies.

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