

The Dynamic and Pivotal Role of Private Sector Savings in Proving the Evidence of the Triple Deficit in Iran

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Abstract

Balancing the internal and external sectors of the economy is one of the important issues for adopting policies that promote stability and growth. The purpose of this study is to investigate the effects of budget deficit and savings gap on the current account deficit in Iran. In this regard, the validity of the twin deficit hypothesis is reviewed and the validity of the triple deficit hypothesis is evaluated considering the importance and role of private sector savings. To achieve this goal, the Autoregressive Distributed Lags (ARDL) model has been used to evaluate the long-run relationship. To evaluate the short-term dynamics between model variables, the Error Correction Model (ECM) in the period 1978-2018 has been used. The results of our study show that considering the determining role of both budget deficit and savings gap variables with having a completely contradictory behavior in creating external balance in both oil and non-oil economies, the validity of the triple deficit hypothesis is confirmed. The validity of the twin deficit hypothesis is not confirmed in Iran. Finally, the results of this study indicate that the conclusion of the twin deficit hypothesis test in Iran, ignoring the pivotal role of private sector savings and the importance of the savings-investment gap on the current account deficit, is incorrect and invalid.

Keywords: Triple Deficit; Twin Deficit; Private Sector Savings; ARDL Model.

JEL Classification: C32,E62, F41,H62.

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