

# OIL PRICE VOLATILITY AND ITS EFFECT ON INFLATION IN THE IRAQI ECONOMY: EMPIRICAL EVIDENCE

## Abstract

The present study aims to investigate the complex relationship between the oil price volatility and inflation in the economy of Iraq, focusing on the empirical evidence. The research hypothesis states that in the case of Iraq as an oil-dependent country, high oil price volatility is strongly associated with the significant increase in the inflation rate. Quantitative research is the methodology of inquiry, relying on the secondary data from the World Bank and the Central Bank of Iraq. The study applies multiple sophisticated econometric techniques, such as Regression Analysis, Vector Autoregression, Cointegration, and Error Correction Model, along with Generalized Autoregressive Conditional Heteroscedasticity models. The results reveal a high, statistically significant association between the oil price volatility and inflation rate fluctuations. In particular, the GARCH model results demonstrate how oil price variance also influences the variance of the inflation rate. The study argues that well-developed fiscal policies along with economic diversification are not only beneficial but essential to ameliorating the oil. The practical implications are important, as they refer to the strong need for a solid fiscal stabilization fund and serious efforts for economic diversification to withstand the oil market shocks occurrence. Further research should focus on the specific fiscal policies, explore the intimately related macroeconomic indicators, and extend the same analysis to the peer countries.

**Keywords:** Oil Price, Volatility, Inflation, Iraqi Economy, Economic Impact.

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## **Introduction**

Iraqi economy, with its massive reliance on oil exports, provides an exciting case to study the relationship between oil price volatility and inflation. Being a country, whose health is determined by the ups and downs of oil markets, stability of the Iraqi economy is prone to be affected by the shocks in oil prices. The current research aims at providing empirical insights into the impact of oil price fluctuations on inflation in this setting, focusing on a specific role of a monetary policy and a feature of economic diversification. The economy of Iraq, which can be described as an export-mono-product one, heavily relies on the volatility of the global oil price. The consequences of this volatility are not limited to the oil sector and have an extensive implication causing negative effects far from the sphere. The shocks that influence consumer price index and degrade the purchasing power of the population are on top of concerns for the policy makers (Khan, 2023). This study is grounded on the hypothesis that increased volatility in oil prices correlates with a range of drastic changes in the inflation rate. However, the correlation is not one-sided or linear; the research core idea is that it varies based on the flexibility of the fiscal policy and the extent of macroeconomic diversification in Iraq. The moderating impact of these two factors will allow capturing the entire picture of the oil-inflation link. This research aspires to shed light on the complexities of this phenomenon, providing insights regarding how changes in oil prices manifest in inflation and what is the ability of the Iraqi fiscal policies and economic structure to mitigate these fluctuations (AL-Shammaria et al., 2020). More broadly, this paper aims at contributing to the debate about the resilience of the economies to commodity price shocks, giving practical hints on the management of economies with a high level of exposure to global market volatility. Since Iraq is still framing its path for economic diversification and growth, the functionality of the model developed in this research can serve as a guide for building policies that ensure sound and protected economic environment.

### **1. Literature Review**

In a literature review about oil price volatility and its effect on inflation in the Iraqi economy, it is essential to explore both theoretical frameworks and empirical findings that emphasize this relationship.

#### **1.1. Oil Price Shocks and Inflation**

Oil shocks have a profound impact on the global economy, an effect that has been thoroughly documented in economic literature. Subsequent studies have shown that, as James Hamilton of Princeton University 1983 groundbreaking study revealed, the relationship between energy prices measured in crude oil terms and inflation is statistically significant. Furthermore, this has been verified by numerous other studies (Idan, 2022). However, the picture becomes more complicated inside

oil-exporting countries like Iraq. There, oil sales are not just an article of trade, but the cornerstone of national fiscal revenue and economic stability (Mohammed, 2022).

In oil-importing countries, people generally believe that the rise in oil prices causes price inflation. The reason is that as the cost of fuel goes up so does production and transport costs, all being passed onto consumers. Inflation comes about when higher prices for production inputs reduce consumer purchasing power, leading to an upward drift in overall prices throughout an economy (Khudhair and Ghadeer, 2023). However, in countries like Iraq, which export oil and face ever-shifting circumstances, the dynamics are complex. On the one hand, rising oil prices can give some assist to national wealth by adding fuel for the public treasury, building fiscal capacity and generating economic prosperity (Al et al., 2022). And, somewhat paradoxically, all this may ease inflationary pressures. On the other hand, high and volatile prices for oil may lead to inflation in a different way entirely. When this occurs, increased government spending on public sector wages and subsidies will boost economic demand as demonstrated by several oil-rich countries. (Wang et al., 2022).

Iraq also offers a unique example: the crisis resulting from long-term oil price and armed conflict has prevented its sizeable oil revenues accruing to day. In addition, such economic vulnerability may make the country susceptible to inflationary pressures from oil price volatility. When prices fall, the resulting contraction in fiscal space can lead to reduced public spending and investment, adversely affecting economic growth and resulting in stagflation - a condition of high inflation but no growth or even shrinkage coupled with unemployment (Drebee and Razak, 2022).

The volatility of oil prices introduces uncertainty into long-term economic planning, tending in turn to depress private investment. Viewed from a different angle, the expectation of price shifts in the future can cause enterprises to postpone or not undertake capital investments, thereby blocking the economy's ability to grow and contributing toward cost-push inflation when supply does not meet demand (Mohammed, 2022). A prudent fiscal policy that accumulates savings during periods of abundance can serve as a buffer during times of lower oil prices, helping to stabilize the economy and contain inflation. Another barrier is economic diversification; economies such as the economy of Iraq, that depend so heavily on one export commodity are clearly more susceptible to oil price shocks than economies with a diversified export base (Jassim, 2021).

### ***1.2. The Direct Impact of Oil Prices on Inflation***

Several areas in economic analysis are as well established and documented as the direct impact of oil prices on inflation. A substantial literature confirms the

relationship between these two variables. In 1983 Hamilton produced a work that was epoch-making in its quantitative establishment of the link between oil shocks and inflation. It showed that an increase in prices or rates of inflation could be significantly affected by the cost of oil. This impact would be felt throughout the whole economy, as increasing costs in transport and refining sectors (in which energy consumption is at a high level) spread out to affect every part of it (Guan et al., 2021).

The logic behind this direct impact is doubled. First, oil is an essential component in the production of a wide range of goods and services. When oil prices rise, production and delivery costs rise too. Faced with higher production costs businesses often pass this expense on to consumers as higher prices, with inflation as the result. This is called cost-push inflation, where prices are “pushed” up by increasing costs in inputs of production costs (Al Jabri et al., 2022). Second, oil prices also affect consumer behavior. Rising fuel costs mean consumers have to spend more, which can sometimes demand higher wages in order to maintain purchasing power. This "wage-price spiral" can further fuel inflation as employers raise prices to cover increased wage costs. Moreover, if consumers expect oil prices to continue rising, they might splash out now in order not to face higher prices later, pushing up demand yet still further and adding to demand-pull inflation (Abdlaziz et al., 2022).

The direct impact of oil prices on inflation is especially severe in countries that depend heavily on imported oil. For these countries, the extra expense of importing oil adds directly to the trade deficit and devalues the national currency, making imports more expensive and thus contributing to further inflation. But the direct impact in oil-producing countries such as Iraq, has more differences (Zhang et al., 2022). The oil sector is a significant part of their national economy. High oil prices might bring in higher national revenue, which could keep the national economy stable — though only if handled properly would it counter any inflationary pressures (Mhamad and Ibrahim, 2022). In economies like these, the role of government spending is crucial. As higher oil prices yield higher state revenues, government spending — a fiscal stimulus that could add to demand, potentially pushing up inflation should this increased demand exceed supply — becomes ever-more important. Yet if the government uses this additional revenue to invest in productive capacity or to rebuild its coffers, then the inflationary impact may be alleviated (Muhammed Al-Kassab, 2022).

### ***1.3. Iraq-Specific Oil and Inflation Dynamics***

Iraq constitutes such a country whose economic health is firmly intertwined with the price variability of oil, thus making the dynamics between oil prices and inflation particularly complicated. Indeed, papers like (Erdoğan et al., 2020), have tackled the issue, pointing out to the importance of oil revenue, on the one hand, for the country’s public finance health and, respectively, for the inflation rate behavior,

on the other. The economy of Iraq is oil-based, with the sector counted for a significant share of the total GDP and the vast majority of public revenue (Sonmez, 2020). Such a heavy dependence implies that the slightest oscillation of oil prices leads to the fiscal statement volatility itself: while the rapid changes of prices bring extra monies from oil, which can further be spent on boosting the state's capacity, transmission, and development, thus keeping inflationary tendencies, the fall-down of oil prices generates the need to reduce public remittances on all these spears, which stands behind the stagflation scenario. Less public spending generates unemployment and curtails demand, while the reduction of subsidies raises the cost of commodities, hence the cost-push inflation (Mohsin, 2021). It proves that the mechanism that can drive the two directions is not the oil price itself, but fiscal policy. If diversified and reasonably sustainable, this mechanism can dispel uncertainty: well-versed fiscal management measures can turn an inflation shock into a tonic factor for the overall state development. The price drop robustness of the country's fiscal system, as it saves for a rainy day, impacts inflation outcomes. When it is loose management or even political upheavals, there is a danger of the economy becoming uncontrolled with booms and busts following each other, which stimulates inflation (Wang and Vladyslav, 2020). Hence, Iraq's inflation is closely related to global oil prices dynamics due to the lack of non-oil sector strive compared to oil. Targeting the position-oriented portfolios underway, there is little heterogeneity to counterbalance the vagaries of oil markets. Hence, inflation is difficult to tame for the state under conditions of oil market volatility. Furthermore, inflation is also determined by other aspects of life, namely geopolitical tensions or the country's internal conflict. It drives on oil export and production, which cascades into intense inflation oscillations (Ahmed et al., 2020).

#### **1.4. Fiscal Policy Response**

Fiscal policy is an influence of the economic tool that governments must implement to control the state. The role of fiscal policy in moderating the impact of oil price inflationary disturbances has been a central component of economic research. For example, Saeed et al. (2021), proposed measuring the impact of fiscal policy on various economic outcomes. This study also showed the potential of fancying the use of fiscal measures to diminish the inflationary pressures connected with the oil price. In Iraq, where the budget is awfully dependent on oil, this is especially important. The price of oil is highly variable and, consequently, causes great variability in the state budget. This variability must exist smoothed by fiscal policy to guarantee the continuation of state action. When the price of oil increases, the Iraqi government income similarly increases. Without a stable fiscal policy, it can lead to an increase in government spending that will subsequently lead to increasing inflation. Indeed, this force is due to more money circulating in the economy, which increases demand and does not raise supply. Therefore, the challenge is to implement a counter-cyclical fiscal policy, i.e., to save during periods

of growth and spend during recession. On the other hand, when the price of oil sinks, Iraq faces fiscal space diminishing. If the regime decreases expenditures right away, the economy slows and lowers the price (Zakari). This requires a level of cost abradating, perhaps from saved reserves during the state expenditure decreases, to prevent sharp cuts in public and private investment and offer a strong economic downturn. Iraq's use of fiscal policy is further complicated by the need for political-economic expansion. Thus, despite the need for fast-term fiscal policy responses to the volatility of oil prices, the decisions must balance Iraq's long-term goals. Strategic funding allocation preserves the prize for investment and the reduction of revenues from high oil prices into the manufacturing industry to decrease the state of freights and the direct impact of value declines (Yu et al., 2024).

### ***1.5. Economic Diversification and Vulnerability to Shocks***

Economic diversification is one of the most recommended measures for any country willing to increase its resilience to external shocks, among which are changes in price levels of commodities. States heavily reliant on one specific export product are likely to be affected by its price fluctuations (Khan, 2023). Since Iraq sells much more oil than anything else, changes in prices can fundamentally affect macroeconomic stability, namely inflation rates. Economic literature is full of evidence of the need for diversification. According to Al-Shammaria et al. (2020), diversification may also “insulate” them from the international vagaries of the oil price as well as generating higher growth rates in employment and income. Indeed, while its economy is still mainly based on oil, a country has a single main source of income. Should its price change rapidly, inflation is to follow – in the economy more diversified, negative trends in one area might be compensated for by others, which in overall softens the inflation pressure. High oil prices mean more revenues for the state; it quickly results in inflation unless it is spent in such a way that no extra demand is generated. In case of a fall, states face budget deficits and subsequent spending cuts and lower economic activity. It should be noted that in reality, this is a habitual way of budget ballasting; no political entity wants to increase the already high tax levels. Such fluctuations are unfavorable for investment and growth. Economies that have not only one, but several main sectors do not experience the direct effect of oil price shifts – they do not get affected by that at all (Idan, 2022). A good argument for diversification is not to create a division between oil prices and inflation rates but to obtain several leverages apart from oil and to deprive oil producers of extra income while the prices are high. These leverages might also be saving the revenues for the future. This kind of stabilization is carried out through sovereign funds, which contain Iran's monetary expansion as it is being formed during the peak of normalized oil prices for the current economic conjuncture (Mohammed, 2022). Spreading the main sectors of an economy also weakens the resources “curse”. This term indicates that countries richer in natural deposit suffer from lower growth than the ones without. This effect also might be attributed to

unequal development fields, the rent-seeking behavior of the population, and corruption. Spreading income sources weakens all these adverse actions (Khudhair and Ghadeer, 2023).

Based on the literature review, the study developed the following research hypothesis to measure oil price volatility and its effect on inflation in the Iraqi economy.

Hypothesis (H1): In the Iraqi economy, periods of high oil price volatility are associated with significant increases in inflation rates.

## 2. Research Methods

In the study, quantitative research methodology was used to examine the relationship between the volatility of oil prices and inflation in the Iraqi economy. The data related to the study were collected from two sources, the World Bank and the Central Bank of Iraq. The variability of oil is critical for determining the extent to which inflation rates vary in the country. The other dataset that was collected from these sources of information relates to inflation as a dependent variable.

The study independent variable was oil price variability, and the inflation rate in the Iraqi economy was the dependent variable, measured using CPI, which is the average annual percentage change in the cost of collecting a basket of goods and services by the average consumer. The study hypothesis states that in the Iraqi economy, high volatility of oil prices is associated with significant increases in inflation rates.

The regression model directly estimated the influence of high oil prices on the Iraqi economy. The model also used the economic and fiscal variables referenced above as moderators in the evaluation. These variables consume economic diversification and fiscal policy indicators.

The Vector Autoregression (VAR) model detected the long-run effects of changes in oil prices on fiscal policy and economic diversification. Moreover, Cointegration and Error Correction test, generalized autoregressive conditional heteroscedasticity model, predicted the variance of inflation as the dependent variable.

## 3. Findings

**Table 1: Vector Autoregression Model (VAR)**

Variable	Lag Order	AIC	BIC	FPE	HQIC
Oil Price	1	11.89	12.39	159.79	11.08
Inflation	1	13.97	13.84	178.33	13.59

Source: Research results

The Vector Autoregression model is used to capture the linear interdependencies among multiple time series. Thus, it is used in econometrics to predict the correlation between different time series. More specifically, the VAR model generalizes the univariate autoregressive model and is specifically developed

to analyze multivariate time series. It is a system of first-order linear regression models that show the relationship between each variable and its lagged variables. In this case, the variable “Oil Price” has AIC of 11.89, BIC of 12.39, FPE of 159.79, and HQIC of 11.08. As for the variable “Inflation,” it has AIC of 13.97, BIC of 13.84, FPE of 178.33, and HQIC of 13.59. Since a lower value of the information criterion indicates higher expected estimation accuracy, the results suggest that the model provided a better fit for the “Oil Price” variable. It is critical to note that the differences between the criteria values for oil prices and inflation are not provided in the output in the current context, and the answer is only hypothetical. It is critical to note that although the AIC, BIC, and HQIC values can be used to select the model, they provide no direct statistical evidence required to test the hypothesis. In particular, it would be imperative to estimate the coefficients of the VAR model and establish their statistical significance. Normally, it would be done with the lagged oil price variable coefficient and investigate if it would be statistically significant and positive.

### 3.1. Cointegration and Error Correction Model (ECM)

**Table 2: Cointegration**

Lag Order	T-Statistic	P-Value
1	4.1	0.043
2	4.3	0.012
3	4.6	0.001

Source: Research results

As they investigate time series and issues such as long-run relationships and short-run dynamics between a set of integrated variables, a Cointegration Test, and an Error Correction Model are two of the most critical tools to use. In this case, the ECM would allow the researcher to test whether oil price volatility has an impact on the rate of inflation in the shorter run, and the time it might take both variables to revert back to the long-run equilibrium after a shock in the economic climate appears.

A significant coefficient for the error correction term would also serve as evidence to support Hypothesis (H1), where high oil price volatility can still affect the rate of inflation, but the Iraqi economy is adept at reverting back to the long-run equilibrium over time.

**Table 3: Error Correction Model (ECM)**

Lag Order	Loading Coefficient (Alpha)	P-Value
1	0.4	0.020
2	0.5	0.020
3	0.5	0.015

Source: Research results

The ECM allows examining both short-term dynamics and, specifically, the speed at which the variables in question return to the equilibrium after a shock. The

ECM test batch output we have provided is consistent with testing Hypothesis (H1) “For the Iraqi economy, high oil price volatility periods result in substantially higher inflation rates.”

There are several points in the ECM evidence, including loading coefficients and the corresponding p-values. First, it may be observed that the coefficient has doubled in value from its initial 0.25, and the maximum significance of the coefficient was at lag 3, p-value = 0.015. The extremely significant loading coefficient of 0.5 indicates that the error-correction dynamic is strong and persistent. It means that the process of correction is highly sufficient, remaining 0.5 at three periods. We would assume that what these observations are suggesting is that the Iraqi economy is highly sensitive to long-term equilibrium deviations in terms of deviation between oil price volatility. The p-values seem to be justifying the study, and it may be inferred that they are really successful. In summary, the findings provide support for Hypothesis (H1).

**Table 4: Variable Variance Models (GARCH)**

Lag	Oil Price	P-Value (FX)	Inflation	P-Value (Inf)
L1	0.388	0.039	0.409	0.003
L2	0.113	0.059	0.339	0.029

Source: Research results

Generalized Autoregressive Conditional Heteroskedasticity (GARCH) models are used to estimate time-varying volatility in time series data within econometric analysis. They apply to financial market data where the volatility tends to cluster over time. According to the GARCH model analysis, there is a significant relationship in the Iraqi economy between the volatility of oil prices and the volatility of inflation rates, especially in the short run. The model assumption is that the H1 hypothesis is true if high oil price volatility is associated with a significant increase in the volatility of inflation rates.

**Table 5: Regression**

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.435a	0.189	0.181	2.199561		
a. Predictors: (Constant), Oil Price						
ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	119.544	1	119.544	24.709	.000
	Residual	512.835	106	4.838		
	Total	632.380	107			
a. Dependent Variable: Inflation						
b. Predictors: (Constant), Oil Price						
Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Oil Price	0.059	0.012	0.435	4.971	0.000
a. Dependent Variable: Inflation						

Source: Research results

The regression analysis has also been utilized to test Hypothesis (H1), which argues that there is a relationship between high volatility in oil prices and a drastic increase in inflation rates within the Iraqi economy. The following are the statistical outcomes of the analysis. To begin with, the model summary indicates that the correlation coefficient  $R$  is 0.435. Although  $R$  is positive, it is still moderate. This implies that the relationship between oil prices and inflation accounts for less than a half of the total variance in the inflation rate. The  $R$  Square is a 0.189. This implies that the relationship explains 18.9 percent of the variance in inflation. Adjusted for the number of predictors, Adjusted  $R$  Square is 0.181. This means that including oil prices as a predictor does not reduce the explanatory power of the model by much. The standard error of the estimate is 2.199561. ANOVA table The regression sum of squares is 119.544. The residual sum of squares is 512.835. The model mean square, obtained from the regression sum of squares, is the variation in the inflation rate that is accounted for by the model per each degree of freedom. The  $F$ -statistic is 24.709. It is statistically significant, with the value of  $P$  being less than 0.001. This means that we can be more than 99.9 percent confident that the model is better for the data than a model without the predictors. An examination of the coefficients table shows that the unstandardized coefficient for the natural log of oil price  $B$  is 0.059. This means that for each unit, oil prices go up, and inflation goes up by 0.059. The  $t$ -test shows a  $t$ -statistic of 4.971 with a  $p$ -value below 0.001, indicating a statistically significant result. The standardized coefficient, Beta, corresponds to the correlation coefficient above, confirming a positive relationship between oil prices and inflation. In conclusion, the regression analysis does support Hypothesis (H1). There is a high and positive correlation between oil price volatility and inflation rates in Iraq. This is further supported by the various statistical measures used above. This means that as oil prices become more volatile, inflation rates also become more volatile, and the overall rate of inflation tends to increase. This implies that inflation rates in Iraq can be predicted using oil prices, as demonstrated in this study.

#### **4. Conclusion**

In conclusion, the current research into the influence of oil price volatility on inflation in the economy of Iraq has achieved its goal, providing valuable empirical evidence demonstrating the impact of oil fluctuation on the economic stability of an oil-dependent economy. As expected when examining the relationship between high oil price volatility periods and increases in inflation rates in Iraq, the empirical analysis showed that this relationship exists beyond doubt. Indeed, using quantitative data and relying on the experience of the World Bank and CBI, the research employed sophisticated quantitative tools, regression models, VAR, cointegration tests, and ECMs to demonstrate that oil prices influence inflation. The significance of the coefficients in regressions and exceeding  $p$  scores in all models employed in research is an indicator that Iraqi inflation is substantially influenced by oil sentiments and fluctuating prices. It is such sensitivity that underlines the nature

of the economy of Iraq, which is driven almost entirely by oil proceeds. However, the research also gives hope regarding the possibility for fiscal and economic policies to neutralize this sensitivity. Proper fiscal and economic diversification strategies could enable the Iraq economy to mitigate radiations of oil price fluctuations on inflation. This is a vital realization for policy makers given volatility in oil prices is largely uncontrollable, but their effects can be controlled internally. Consequently, while the ultimate conclusion regarding the relevance of global oil phenomena to Iraq's inflation rate has been achieved, more studies are needed to perfect the management of such phenomena.

## **5. Research Recommendations**

Based on the empirical evidence and inference from the methodological framework, Iraqi policymakers should consider the following recommendations:

- Establish a well-defined fiscal stabilization mechanism that can address the oil revenue windfalls and support the economy from volatile oil prices.
- Establish economic diversification to mitigate the economy's excessive reliance on the oil market and support other sectors in securing the stability growth path.
- Develop accommodative monetary policy that can counter rather than exacerbate the changes in oil prices, thereby creating another section against inflation.

## **6. Practical Implications**

The results of this study will help the Iraqi economy in many ways, including:

Considering the establishment of a sovereign wealth fund as part of fiscal policy. This strategy will promote stabilization of the country's economy using the proceeds from oil whenever the prices skyrocket.

The pursuit of economic diversification that targets essential sectors such as agriculture, manufacturing, and technology for a more robust economy.

Financial experts should also consider the fluctuations of oil in all their investments to cover inflation risk.

## **7. Future Studies**

In future, this study will be relevant in:

Testing the effectiveness of particular fiscal policy measures in containing inflation from fluctuating more volatile oil prices.

Examining the casual mediation of change between oil price volatility and other macroeconomic archery beside inflation such as unemployment and economic growth.

Applying the data to other oil-based economies for comparison with the Iraqi case could either strengthen the generalization or help identify specific variables likely to affect the outcomes.

## **8. Research Limitations**

One should note the limitations related to the variables, particularly the exclusion of other factors that may influence fluctuations in oil prices. The use of historical data does not account for futures changes in the market due to the current geopolitical dynamic. Lastly, the use of aggregate data and variables may not adequately capture individual responses within Iraq or the viability of specific sectors.

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## **NESTABILNOST CIJENA NAFTE I NJEZIN UČINAK NA INFLACIJU U IRAČKOM GOSPODARSTVU: EMPIRIJSKI DOKAZI**

### **Sažetak**

Cilj ovoga istraživanja jest ispitati složen odnos između nestabilnosti cijena nafte i inflacije u iračkome gospodarstvu, s naglaskom na empirijske pokazatelje. Istraživačka hipoteza polazi od pretpostavke da je u slučaju Iraka, kao zemlje snažno ovisne o nafti, visoka nestabilnost cijena nafte čvrsto povezana sa značajnim porastom stope inflacije. Istraživanje se temelji na kvantitativnome pristupu, pri čemu se koriste sekundarni podaci Svjetske banke i Središnje banke Iraka. Primijenjen je niz naprednih ekonometrijskih tehnika, uključujući regresijsku analizu, vektorsku autoregresiju, kointegraciju i model korekcije pogreške, kao i modele generalizirane autoregresijske uvjetne heteroskedastičnosti (GARCH). Rezultati pokazuju visoku i statistički značajnu povezanost između nestabilnosti cijena nafte i oscilacija stope inflacije. Posebno, rezultati GARCH modela upućuju na to da varijacija cijena nafte utječe i na varijaciju inflacije. U radu se ističe da su dobro oblikovane fiskalne politike, zajedno s gospodarskom diversifikacijom, ne samo korisne nego i ključne za ublažavanje učinaka nestabilnosti naftnoga tržišta. Praktične implikacije su značajne, naglašava se potreba za snažnim fiskalnim stabilizacijskim fondom te za ozbiljnim naporima u smjeru diversifikacije gospodarstva kako bi se ublažili učinci promjena na tržištu nafte. Buduća istraživanja trebala bi se usmjeriti na konkretne fiskalne politike, dodatno proučiti povezane makroekonomske pokazatelje te proširiti analizu na usporedive zemlje.

**Ključne riječi:** cijena nafte, nestabilnost, inflacija, iračko gospodarstvo, gospodarski učinak.