E-ISSN: 2663-3361
P-ISSN: 2663-3213
IJRHRM 2023; 5(1): 86-89
www.humanresourcejournal.com
Received: 17-03-2023
Accepted: 10-04-2023

Baydaa Gawld Kazam
College of Administration and Economics, University of Wasit, Iraq

Corresponding Author:
Baydaa Gawld Kazam
College of Administration and Economics, University of Wasit, Iraq

The impact of oil price fluctuations on inflation rates in Iraq for the period (2004-2020)

Baydaa Gawld Kazam

DOI: https://doi.org/10.33545/26633213.2023.v5.i1a.135

Abstract
Oil is a source of energy in the world as it is an essential element that enters many areas of service, production and consumption. It is also a strategic commodity with great economic value. Therefore, researchers are quick to present the topic because of its significant economic impact on all economic variables, whether in oil countries or not Oil. The research aims to know the extent to which the Iraqi economic activity is related and affected by fluctuations in international oil prices, through its reflection on inflation rates. Acceptable limits. The research reached several recommendations, including the continuation of controlling inflation rates by the monetary authority.

Keywords: Oil, price, fluctuations, inflation, Iraq

Introduction
Oil is of great importance because of its effective role in the economies of the exporting and consuming countries, as the oil price represents the main source of revenue for the exporting countries, because it constitutes a very large percentage of the gross domestic product. There are fluctuations in its prices from time to time, and the severity of these fluctuations differs from one country to another and according to the contribution of the oil resource in the formation of the gross domestic product compared to other sectors, as it becomes clear to us that countries whose dependence on the oil resource is in a large proportion to large fluctuations that affect the various economic sectors, being It relies on this resource to finance its spending from the revenues of oil exports, that is, it is characterized by unilateralism, while Iraq after 2003 was unable to create a mixed economic environment from the rest of the other sectors, and contented itself with heavy reliance on the oil sector, and thus the Iraqi economy suffers from a weakness in the flexibility of the productive apparatus.

Research problem: Iraq depends in its economy on oil sector revenues to a large extent, which leads to its vulnerability to fluctuations in international oil prices, and this is reflected in the economic indicator (inflation).

Research hypothesis: The research hypothesis stems from The fluctuations in oil prices affect the gross domestic product in a direct relationship, and also the impact of these fluctuations in oil prices on inflation rates has a direct relationship. Price fluctuations affect all major economic variables

Research aim: To solve a problem and investigate in the light of analyzing the relationship between price fluctuations and its effects on inflation rates, and also creating a future vision to reduce the impact of changes in crude oil prices on inflation rates in Iraq.

Research importance: We find that the importance of the price of oil has an impact on economic variables, especially rentier countries, and this requires that we understand the factors affecting its price fluctuations in the global market.

Literature Review
First: The concept of fluctuations in oil prices
This concept expresses (unexpected and sudden changes in oil prices, which are sharp at times, leaving traces To the extent that the economy is clear, whether on the consumer or the producer, with the difference in the nature of this effect between them Others call these fluctuations (the oil price shock) as it exposes the global economy to violent economic

shocks and affects the level of economic growth in most countries of the world, especially oil-consuming countries, and sometimes leads to a global recession from which everyone suffers (Roubini, 2005). It is a law that is determined by supply and demand in the global market in principle, and is generally consistent with the cyclical change of the global economy in the long term. As for the short term, the fluctuation occurs as a result of geopolitical factors, speculative operations, the change in the exchange rate of the US dollar, OPEC policy, as well as financial issues. credits flow Sirwa Investment market In real (Arabic people.com/price oil, 2010), therefore, the researcher defines fluctuations as the large expected and unexpected changes in oil prices that occur as a result of factors affecting Direct or indirect supply and demand in the global market such as On the size of the economic policies adopted by the major countries, in addition to the global political situation and the degree of its stability, taking into account the impact of speculation on these prices.

Second: The causes of fluctuations in oil prices

Oil is a commodity and is not similar to the rest of the other commodities whose prices are subject to the forces of supply and demand only. The fact that oil is a strategic commodity determines its availability in the direction of economic growth. Therefore, it is important to identify the factors behind changes in its prices, the most important of which are:

Supply and demand shocks

Among the most important factors affecting supply are global demand forecasts, prevailing prices and expected prices, stockpiles and reserves, the policies of the producing countries, the number of producers in the market, etc. It affects demand, and supply and demand shocks that contribute to oil price fluctuations can be addressed (Lutz, 2010) [11]. And as follows:

The supply of crude oil, when exposed to changes represented by an increase in the amount of production, leads to an unexpected turmoil in prices, and they drop.

An increase in the demand for crude oil, which is associated with an increase in economic growth, leads to an increase in the price

Speculation

As a result of the use of oil as a financial asset, it led to a significant increase in price fluctuations. Experimental studies have proven the role of speculation in oil price fluctuations. In the year 2000, oil began to be used extensively as a financial instrument, through future contracts in the financial markets, and it was in the form of a paper barrel for investment, but hedging And speculation has increased the sensitivity of investment behavior, and recent years have witnessed a rise in uncertainty and an increase in supply shocks, and this is evidence of the increase in oil price volatility. It decreased in the second half of 2014 as a result of the accumulation of oil production in a very large way and OPEC's refusal to reduce production, and production was accompanied by a decline in global demand, which led to a decline in oil prices. (Abbas, 2008) [1].

Oil stock

Fluctuations in oil prices are caused by a rise in oil stocks, when they interact with future expectations of the oil supply compared to oil demand, as the increase in the volume of oil stocks as a result of a decrease in global demand leads to a decrease in oil prices, and consumers also use oil stocks when they expect a rise in prices as they offer to buy oil And storing it and waiting for the price to rise in order for them to sell it. This process is carried out by companies that have large oil reserves, so it is expected that production will continue to increase. The precautionary demand will tend to decline, and in turn will lead to a reduction in the price of oil. (Troy, 2015) [14].

Third: A for inflation

It is one of the most common economic terms, but although the term is widely used, economists do not agree on its definition due to differences in defining the concept of inflation, because the term is used to describe the amount of different situations, for example

- The aggregate price level rose very quickly.
- Inflation of cash income or cash income components such as wages or profits.
- High cost.
- Creating an excessive cash balance.

These different phenomena do not necessarily move in one direction at the same time. Price increases may occur without accompanying increases in cash receipts. Price increases may also incur costs without accompanying increases in profits. money when cash income rises.

In other words, the various phenomena, each of which can be called "inflation", are more or less independent phenomena, and it is this independence that has led to the confusion over the definition of inflation.

The term inflation is distinguished by the phenomenon it refers to, and this results in a group of terms that include:

Price inflation: That is, an excessive rise in prices.

Income inflation: An increase in money income, such as wage inflation, profit inflation, etc.

Cost inflation: That is, an increase in the cost.

Currency inflation: That is, the currency issuance is very large.

Expansion of bank credit: That is, expansion of credit.

Some authors argue that when the word 'inflation' is used insensitively, it refers to price inflation, since excessive price increases are the direct meaning of the word inflation. mentioned.

Inflation can also be defined as the continuous increase in the general level of prices in a country's economy over time. So the following can be noted:

1. A general price level is the average price of goods and services consumed in the economy in a given year. Harmonized average prices for goods and services use consumer prices or producer prices.
2. Inflation is a continuous and effective increase in the general level of prices, so the temporary increase is not inflation. It should be noted that inflation reduces the purchasing power of the individual (the amount of goods and services that can be purchased within the disposable income, as inflation represents a continuous increase in the prices of goods and services).

Fourth: Characteristics of inflation: One of the most prominent characteristics of the phenomenon of inflation (Awad, 2015) [5].

A. It is caused by a group of different economic factors that may conflict with each other. At the same time, inflation is a complex, complex and multidimensional phenomenon.
B. As a result of the imbalance in the price relationship between the prices of goods and services on the one hand, and the prices of factors of production (profits, wages, and cost levels of products) on the other hand.
C. the decline in the value of money relative to the prices of goods and services, expressed as {{decrease in purchasing power}}

Fifth: The causes of inflation in the Iraqi economy

Since Iraq's economy depends on oil revenues by a very large percentage, and this sector is linked to foreign trade, and through it the national economy is exposed to fluctuations in the global oil market from the rise or fall in oil prices and the quantities of oil exported. (Maitham, 2010).

Weakness of the flexibility of the production system and its failure to meet the increasing demand.

The deterioration of the political and security situation in the country.

High prices of local commodities compared to imported commodities due to production and marketing costs and the high costs of raw materials involved in the production process.

(The relationship of oil prices to inflation rates in Iraq for the period 2004-2021)

Regarding the relationship between oil price fluctuations, it has been shown that many studies that dealt with this issue show that the exporting countries themselves indicate an inverse relationship between inflation and oil prices, as they have proven that low oil prices lead to an increase in inflation rates, as well as when a negative shock occurred. For oil prices and with the existence of an incapable production apparatus, it may reduce the real level of imports and then an increase in inflation rates (Aziza, 2014).

On the other hand, studies have found that there is a direct relationship between inflation and oil prices because of the rise in oil prices through which it also affects the rise in the consumer price index, and this depends on the importance of oil products within the consumption basket, and is due to a decrease in purchasing power, and then workers may demand higher wages and companies The industrial sector, in turn, turns into higher costs resulting from the rise in oil prices to raising selling prices, and this is what generates upward revisions to the expected inflation. %) (Barsk, 2004) [7].

And when inflation rates increase in the economy, it means that there is growth in the money supply, and this explains the picture of the relationship between the price of oil and money supply, and that the rise in oil prices leads to a rise in domestic demand for imports, and thus this is what drives the rise in inflation rates.

During the period 2004-2021, the Iraqi economy witnessed many disturbances and a rise in commodity prices, as inflation rates witnessed two cases: the first was high levels of inflation in the period 2004-2007, and the second was a decrease in 2008-2021. The two cases can be analyzed through the table below, which represents oil prices and inflation rates in Iraq.

In the first case, represented by the period 2004-2007, inflation rates witnessed a clear rise as a result of many factors, including the deterioration of the security and political situation and the increase in the marginal tendency to consume due to an improvement in the living situation compared to the period 2003, the suspension of many agricultural products, the increase in imports of goods and services, and in 2006 it reached The highest inflation rate during the study period reached 53.11%. This is due to the rise in oil prices and the lack of energy, as well as the increase in oil exports, which reflects the increase in oil revenues that go to consumer spending, which would contribute to raising the prices of goods and services.

Table 1: The relationship of oil prices to inflation rates for the period 2004-2021

Inflation rate annual %	oil price	a Record 2007-100	the years
	34.6	36.2	2004
37.85	48.33	49.9	2005
53.11	57.97	76.4	2006
30.89	66.4	100	2007
12.70	92.08	112.7	2008
8.34	60.5	122.1	2009
24.57	76.79	152.1	2010
-13.15	106.96	132.1	2011
6.06	107.96	140.1	2012
1.86	103.6	142.7	2013
2.24	94.45	145.9	2014
1.44	47.87	148	2015
0.95	39.53	149.4	2016
-0.40	51.87	148.8	2017
0.40	68.62	149.4	2018
-0.40	21	148.8	2019
1.88	38.77	151.6	2020
1.78	45	154.3	2021

Source: Iraqi Ministry of Planning and Development Cooperation, Central Statistics, National Accounts Directorate, different years

The inflation rate was calculated according to the following formula:(cpin+1-cpin)/cpin*100=... Inflation rate

In 2008, 2009, 2010, inflation rates witnessed a relatively lower rise than previous years, as the inflation rate reached (12.7%), (8.34%), and (24.57%), respectively, as a result of the measures taken by the Central Bank in order to achieve stability in price levels. It has a role in raising the Iraqi exchange rate against foreign currencies. (Central Bank, 2007) [8].

The reason for the decrease in inflation rates in the last period of the study period is due to the availability of oil derivatives to a very large extent and the improvement of the level of the exchange rate of the Iraqi dinar against the foreign currency and the improvement of the living situation, in addition to that the absence of customs duties affecting imported goods, from the above we conclude that fluctuations Oil prices do not affect the general level of consumer prices due to the followed policy of the Central Bank, meaning that the drop in oil prices does not affect due to the flexibility of the productive apparatus, so the government resorts in the event of a decrease in oil revenues to borrowing, as well as following the transfer between other expenditures.

Conclusions

1. The Iraqi economy is characterized by a rentier economy, that is, unilateral, so it depends largely on oil exports, which makes it vulnerable to the global crises that this resource is going through.
2. Oil revenues constitute the largest part of public revenues and are considered the backbone of the financial budget. The fluctuation of these revenues negatively affects spending of all kinds.
3. Through an analysis, it was found that the price of oil affects inflation rates by 10%, and this is not consistent with the logic of economic theory.
4. The existence of a direct relationship between oil prices and inflation rates. As well as an inverse relationship between oil prices and inflation rates.

Recommendations

1. The need to diversify the economy and encourage investment in various agricultural sectors, manufacturing industries and others.
2. Continuing control of inflation rates by the central authorities.
3. The need to activate the tax policy to reduce dependence on oil revenues.
4. The need to take advantage of the rise in oil prices to reduce the volume of inflation affecting the Iraqi economy

References

1. Abbas Karim Saddam. The relationship between fluctuations in financial market indicators and fluctuations in global crude oil prices, with special reference to Iraq, University of Baghdad, College of Administration and Economics; c2008. p. 28.
2. Al-Bassam, Khaled Abdel-Rahman. Internal and External Sources of Inflation, King Abdulaziz University Journal, Economics and Administration; c1999. p. 52.
3. Al-Bazai, Hamad Suleiman. Journal of Public Administration - The International Transition of Inflation - First Issue - 1997 AD, p. 78.
4. Amin and Pasha, Abdel-Wahhab, Zakaria Abdel-Majid. Principles of Economics - Part Two - Macroeconomics - Dar Al-Maarifa – Kuwait; c1983. p. 25.
5. Awad, student. Introduction to Macroeconomics (fifth edition. Amman: Wael Publishing House; c2015. p. 135.
6. Aziza S, Cihan T, Symbat N, Almaz A. The effects of changing oil prices on the Russian economy. 2019;40(14).
7. Barsk R, Kilian L. Oil and the Macro economy Since the 1970s', Journal of economic perspectives. 2004, 18(2).
8. Central Bank, Annual Report for the year; c2007. p. 9.
9. http://Wikipedia answer.org/wild/peak oil; c2010.
10. http://www. Arabic people.com/price oil; c2010.
11. Lutz Kilian. Oil Price Volatility: Origins and Effect. World Trade Organization ECONOMIC Research and Sta s csdivision. WTO Sta Working paper ERSD; c2010. p. 5-7.
12. Maytham Laibi Ismail, Ahmed Hadi. Inflation in Iraq after 2003: Causes, Influences, and Treatments, Iraqi Journal of Economic Sciences. 2010;26:2.
13. Roubini, Nourie, Oxford University, The effects of the recent oil price shock on the US and global economy; c2004.
14. Troy Davig, Nida cake Melek, Jun Nie, A.Lee SMITH, Didem Tuzemen. Evaluating a year of oil price volatility. Federal reserve bank of Kansan; c2015. p. 6.