



The Impact of Oil Revenues on Iraq's Country Economic Growth with an Emphasis on Geopolitical Risk

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Abstract

Background and Objective: Oil revenues significantly affect fiscal policies, public spending, and budget management in Iraq. Studying these impacts helps policymakers assess the effectiveness of revenue management strategies such as oil revenue allocation, budget planning, and the establishment of stabilization funds. In addition, the impact of geopolitical risk on economic growth, which has been dominant in most oil-exporting countries, has become a necessity, and its results can have very important policy implications for policymakers and decision-makers at the macro level. Therefore, Iraq's dependence on oil revenues makes understanding the effects of oil revenues on economic growth of great importance for assessing the sustainability of the Iraqi economy. The aim of this study is to examine the impact of oil revenues on Iraq's economic growth by considering geopolitical risk. The results of the study will help identify the extent to which Iraq's economic growth is dependent on oil revenues and the possible risks associated with such dependence, along with existing risks.

Methodology: This study is of an applied type based on its objectives. Data and information in the background section were collected with a library approach, and the data and statistics required to estimate the empirical model were collected from the Central Bank of Iraq and the World Bank websites in a time series format, and the analysis of the research model was also carried out using the self-explanatory model with extended lags (ARDL). The country's macroeconomic variables in the period 1995 to 2022 are the data used in this study.

Findings and Conclusion: Based on the results of the model estimation, oil revenues have a positive and significant effect on economic growth in the short and long term, and the effect of geopolitical risk and the interactive effect of geopolitical risk on oil revenues are negative and significant in the long term on economic growth. The results also show a positive and significant impact of foreign direct investment on economic growth. Oil revenues as a major source of income can lead to an increase in the government budget, domestic and foreign investment in infrastructure, improvement of public services and creation of job opportunities in various economic sectors. However, political tensions and instability and geopolitical risk can reduce investment, reduce production and consequently reduce economic growth. Therefore, the government should adopt policies that reduce negative factors and increase factors that enhance economic growth.

Keywords: Oil revenues, economic growth, geopolitical risk, Iraq's Country.

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Extended Abstract

Introduction:

It is very important to study and examine the impact of geopolitical risk and oil revenues on economic growth. Some countries, including Iraq, are significantly dependent on oil revenues. Oil revenues can serve as the main source of income and foreign exchange value for these countries. As a result, changes in oil prices and geopolitical frauds can have a significant impact on the economic growth of these countries. A careful study and prediction of the effects of these changes on the economy can help countries in planning and managing resources. Also, geopolitical risks such as sanctions, military conflicts, political instability, and changes in laws and regulations can have significant effects on economic growth. Studying these risks and analyzing their effects can help countries make the necessary plans to reduce the negative effects of these risks and develop appropriate strategies to deal with them. Oil revenues significantly affect fiscal policies, public spending, and budget management in Iraq. Studying these impacts helps policymakers assess the effectiveness of revenue management strategies such as oil revenue allocation, budget planning, and the establishment of stabilization funds. In addition, the impact of geopolitical risk on economic growth, which has been dominant in most oil-exporting countries, has become a necessity, and its results can have very important policy implications for policymakers and decision-makers at the macro level. Therefore, Iraq's dependence on oil revenues makes understanding the effects of oil revenues on economic growth of great importance for assessing the sustainability of the Iraqi economy. The aim of this study is to examine the impact of oil revenues on Iraq's economic growth by considering geopolitical risk. The results of the study will help identify the extent to which Iraq's economic growth is dependent on oil revenues and the possible risks associated with such dependence, along with existing risks.

Methodology:

This study is of an applied type based on its objectives. Data and information in the background section were collected with a library approach, and the data and statistics required to estimate the empirical model were collected from the Central Bank of Iraq and the World Bank websites in a time series format, and the analysis of the research model was also carried out using the self-explanatory model with extended lags (ARDL). The country's macroeconomic variables in the period 1990 to 2022 are the data used in this study. The model examined in this study is as follows:

$$\text{GDP}_t = \beta_0 + \beta_1 \text{OilR}_t + \beta_2 \text{RiskP}_t + \beta_3 \text{TR}_t + \beta_4 \text{Form}_t + \beta_5 \text{FIN}_t + \beta_6 \text{GE}_t + \beta_7 \text{FDI}_t + \beta_8 \text{RISKoil}_t + \varepsilon_t$$

In the above regression; GDP is gross domestic product at constant 2010 prices; OilR is oil revenues; TR is foreign trade as a percentage of GDP; Form is gross domestic fixed capital formation; FDI is foreign direct investment; RiskR is also geopolitical risk; Fin is the financial development index (credit granted to the private sector divided by GDP); GE is also the government's final consumption expenditure as a percentage of GDP. RiskOil is also the interactive variable of the product of geopolitical risk and oil revenues, which is entered into the model to examine the effect of geopolitical risk on the effect of oil revenues on economic growth and its moderating role.

Results and Discussion:

Based on the results of the model estimation, oil revenues have a positive and significant effect on economic growth in the short and long term, and the effect of geopolitical risk and

the interactive effect of geopolitical risk on oil revenues are negative and significant in the long term on economic growth. The results also show a positive and significant effect of foreign direct investment on economic growth.

Based on the estimation results, the sign of the estimated variable coefficient of oil revenues is 0.566 and the estimated T-statistic is 2.57. Given that the absolute value of the T-statistic is greater than the critical values at the 95% confidence level (1.96), it can be stated that oil revenues have a positive and significant effect on Iraq's economic growth at the 95% confidence level.

Based on the estimation results, the sign of the estimated variable coefficient for geopolitical risk is -0.852 and the estimated T-statistic is -2.10. Given that the absolute value of the T-statistic (2.10) is greater than the critical value at the 95% confidence level (1.96), it can be stated that geopolitical risk has a negative and significant effect on Iraq's economic growth at the 95% confidence level.

Based on the results, the error correction coefficient is -0.489, which indicates that if a shock is introduced to economic growth, it takes approximately 2 years for the shock to be absorbed and economic growth to return to its long-term trend.

Conclusion:

It can be concluded that oil revenues as a main source of income can lead to an increase in the state budget, domestic and foreign investment in infrastructure, improvement of public services, and creation of job opportunities in various economic sectors. However, political tensions and instability and geopolitical risk can reduce investment, reduce production, and consequently reduce economic growth. Therefore, the government should adopt policies that reduce negative factors and increase factors that enhance economic growth.

Declarations

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•**Conflict of Interest:** The authors declare no conflict of interest.

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