

OIL PRICE VOLATILITY, MACROECONOMIC INSTABILITY AND ECONOMIC GROWTH IN SELECTED SUB-SAHARAN AFRICAN COUNTRIES

By

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Abstract

This study was motivated by the persistent macroeconomic instability in Sub-Saharan African (SSA) economies, where output growth remains highly vulnerable to external shocks, particularly oil price fluctuation and inflationary pressures. Despite the region's substantial revenue generation from oil and its exposure to global commodity markets, economic performance has remained uneven, raising concerns about the channels through which oil price movements influence growth outcomes. Against this background, the study examined oil price volatility, macroeconomic instability and economic growth in selected SSA countries, namely Nigeria, Ghana, Côte d'Ivoire, Angola, and Gabon, over the period 1990 to 2024. The study employed Auto-Regressive Distributed Lag (ARDL) that captures both short-run and long-run relationships. The empirical findings revealed that in the long run, oil price volatility and inflation exhibit significant positive relationships with economic growth, suggesting the presence of oil-driven revenue effects and inflationary growth transmission in the selected economies. However, exchange rate and trade openness were found to be statistically insignificant in explaining long-run growth. In the short run, inflation exerts a significant negative effect on economic growth, while oil price volatility showed a weak positive influence. The error correction mechanism confirms a stable long-run equilibrium with gradual adjustment from short-run disequilibrium. The study concludes that macroeconomic performance in SSA is strongly influenced by oil market dynamics and inflationary conditions, though their effects differ across time horizons. It is therefore recommended that policymakers strengthen inflation management frameworks and improve the utilization of oil revenues to support sustainable and diversified economic growth.

Keywords: External Shocks, Macroeconomic Instability, Oil Price Volatility, Inflationary Pressures and Economic Growth

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1.0 Introduction

Economic growth in Sub-Saharan African (SSA) countries has remained persistently uneven, fragile, and highly sensitive to both internal macroeconomic weaknesses and external shocks, particularly fluctuations in global oil prices. Given the heavy dependence of some SSA economies on crude oil exports and petroleum-related revenues, oil price volatility has become a major source of macroeconomic instability in the region. It has been established that a sharp increases in oil prices often generate temporary revenue expansion for oil-exporting countries, while sudden declines reduce government earnings, weaken foreign exchange reserves, distort fiscal planning, and slow productive activities (Anabori *et al.*, 2024). In oil-exporting economies like Nigeria and Angola, oil price volatility creates boom-bust cycles that distort long-term growth planning, while in oil-importing economies it increases production costs and worsens external balances.

Oil price volatility also plays a central role in shaping inflation outcomes across SSA economies. Fluctuations in global oil prices are quickly transmitted into domestic inflation through fuel price adjustments, transportation costs, and production expenses. Since petroleum products serve as critical inputs in manufacturing, agriculture, electricity generation, and logistics, persistent increases in oil prices raise the general cost of production and distribution, thereby triggering cost-push inflation across various sectors of the economy (Odo *et al.*, 2026). In many Sub-Saharan African countries that rely heavily on imported refined petroleum products, oil price fluctuation and exchange rate dynamics further amplifies the inflationary effects of oil price shocks and this rising inflation subsequently reduces household purchasing power, discourages investment, weakens consumer demand, and creates macroeconomic uncertainty, all of which adversely affect economic growth and development in the region (Babuga & Naseem, 2020).

Exchange rate volatility amplifies the inflationary impact of oil price shocks by increasing the domestic cost of imported goods and energy inputs. Also, exchange rate instability significantly worsens macroeconomic outcomes by transmitting external shocks into domestic price levels and output fluctuations (Sheykhi *et al.*, 2026). Trade openness also plays a dual role; while it promotes efficiency and economic integration, it increases exposure to external shocks, particularly oil price fluctuations, thereby influencing inflation and growth volatility. Oil price shocks often reduce economic growth by increasing inflation, reducing household purchasing power, and discouraging private investment. However, in oil-exporting countries, temporary

revenue gains may occur during price booms, although these gains are often offset by long-term instability and weak fiscal management.

According to the World Bank (2023), oil price increases contributed significantly to rising inflation across SSA, with regional inflation averaging above 9% in 2022, largely driven by higher energy and global oil shocks. Similarly, the International Monetary Fund (2023) reports that oil price volatility has had a direct negative impact on economic growth in both oil-importing and oil-exporting SSA countries, with GDP growth in the region slowing to about 3.6% in 2022 due to inflationary pressures and external shocks. The IMF further notes that exchange rate depreciation amplified imported inflation, especially in countries with high trade openness, thereby worsening the growth outlook. At the same time, volatile oil prices discourage both domestic and foreign investment due to heightened uncertainty and increased operational costs which further constraining output growth. In economies that depend heavily on oil revenue, price volatility also leads to unstable government revenues, affecting public expenditure and development planning. The combined effect of rising inflation and oil price instability may therefore cause a reduction in economic efficiency, lower productivity, and diminished growth performance, especially in economies with weak structural resilience and high exposure to external shocks.

Empirical and policy evidence across Sub-Saharan Africa consistently shows that oil price volatility operates as a key external shock that transmits rapidly into domestic macroeconomic conditions, largely because most economies in the region are either net oil importers or heavily dependent on oil revenue for fiscal stability. Against this backdrop, this study examined the relationship among oil price volatility, macroeconomic instability and economic growth in selected Sub-Saharan African (SSA) countries namely Nigeria, Ghana, Côte d'Ivoire, Angola, and Gabon which are key oil-producing economies with varying degrees of dependence on petroleum revenues and exposure to external shocks. These countries provide a balanced representation of SSA due to their differences in economic structure, exchange rate regimes, and levels of trade openness, making them suitable for a comparative analysis of how oil price fluctuations transmit into domestic inflation and growth outcomes. The study recognizes that in these economies, oil price volatility affects government revenue, production costs, and external balances, while inflation acts as a critical channel through which these shocks influence real economic activity. The study period, spanning from 1990 to 2024, captured major structural

transitions that have shaped these economies, including financial sector liberalization, increasing globalization, recurrent oil market shocks, exchange rate reforms, and the expansion of trade integration. This period also encompasses significant economic events such as commodity price booms and busts, policy adjustments, and recent global disruptions, thereby providing a comprehensive framework for analyzing both short-run and long-run dynamics among oil price volatility, macroeconomic instability, and economic growth in the selected SSA countries.

2.0 Literature Review

Conceptual Review

Economic growth, refers to the sustained increase in the real output of goods and services within an economy over time, typically measured by the growth rate of real Gross Domestic Product (GDP), and driven by improvements in productivity, investment, and macroeconomic stability. Specifically, Abdul *et al.* (2025) defined it as the overall increase in economic activities resulting from policy reforms, institutional adjustments, and capital accumulation. In a similar vein, Mgbada and Nwite (2025) emphasized that economic growth embodies improvements in productive capacity and efficiency, especially in developing economies where sectoral performance and government interventions play critical roles.

Macroeconomic instability can be understood as a persistent condition of uncertainty and volatility in key aggregate economic indicators such as inflation, exchange rates, output growth, and fiscal balances, which collectively disrupt the smooth functioning of an economy. According to Anabori *et al.* (2024), it reflects a situation where fluctuations in external shocks such as oil price volatility translate into unstable growth patterns and unpredictable economic performance. In a related view, Feng (2023) describes macroeconomic instability as the inability of macroeconomic policy instruments to effectively absorb oil-induced shocks, resulting in cyclical output fluctuations and reduced economic resilience. Similarly, Al-Sawaie *et al.* (2025) view it as the breakdown of macroeconomic equilibrium caused by oil price volatility, where inflation, output, and policy responses become misaligned, thereby undermining sustainable growth and economic stability.

Oil price volatility refers to the degree of fluctuation or instability in the price of crude oil over a given period of time, which reflects unpredictable movements caused by changes in global demand and supply conditions, geopolitical tensions, market speculation, and macroeconomic shocks. It captures both the frequency and magnitude of oil price changes, making it a critical

indicator of uncertainty in energy markets. Sabayo et al. (2023) conceptualized oil price volatility as the continuous and often unpredictable variation in international oil prices, which transmits into domestic economies through channels such as inflation, production costs, and output performance. Similarly, Aladwani (2025) emphasizes that oil price fluctuations generate uncertainty in price expectations, particularly in economies that are highly dependent on oil imports or exports, thereby affecting inflation dynamics and overall macroeconomic stability.

Theoretical Review

This study reviews relevant theories, particularly Oil Price Shock Theory (Hamilton Framework) and Endogenous Growth Theory. The Oil Price Shock Theory, popularly associated with Hamilton (1983), explains how fluctuations in oil prices act as exogenous shocks that significantly influence macroeconomic performance, particularly economic growth and inflation. The basic tenet of the theory is that increases or volatility in oil prices raise production and transportation costs, disrupt supply chains, and create uncertainty in economic decision-making, thereby affecting both aggregate supply and aggregate demand. A key assumption of the framework is that oil is a critical input in production and consumption processes, such that changes in its price have widespread and asymmetric effects on the economy, often leading to stronger negative impacts during price increases than positive effects during price declines. The theory also assumes that economies do not adjust instantaneously to such shocks due to rigidities and adjustment costs, resulting in short- to medium-term output fluctuations. In relation to this study, the Oil Price Shock Theory is highly relevant as it provides a direct explanation of how oil price volatility transmits into inflation through cost-push mechanisms and uncertainty effects, which in turn influence economic growth in Sub-Saharan African countries, particularly those that are highly dependent on oil either as exporters or importers.

Complementing this is the Endogenous Growth Theory, advanced by Romer (1986), which explains long-run economic growth as a function of internal factors such as human capital development, innovation, and investment in productive sectors. The theory posits that sustained growth is driven by deliberate economic activities that generate knowledge spillovers and increasing returns to scale, rather than by external forces alone. It assumes that technological progress is endogenously determined and that government policy plays a critical role in shaping incentives for investment and productivity enhancement. In relation to this study, oil price volatility and macroeconomic instability influence long-term growth prospects by affecting the

capacity of economies to invest in critical sectors. Persistent volatility and high inflation can discourage long-term investment, reduce savings, and distort resource allocation, thereby limiting capital accumulation and technological progress. However, while oil price volatility and inflation may hinder short-run growth, appropriate policy responses can transform resource-based revenues into drivers of sustained economic growth over the long run.

Empirical Literature

Empirical studies on oil price volatility, macroeconomic instability and economic growth in SSA countries are categorized into three strands. The first strand focuses on the direct relationship between oil price volatility and economic growth, where studies consistently show that oil price fluctuations negatively affect output growth through uncertainty, investment reduction, and fiscal instability. For instance, Sabayo *et al.* (2023) found that oil price volatility significantly reduces economic growth in Tanzania while also affecting macroeconomic stability. Similarly, Wasurum (2025) reported that oil price volatility negatively influences economic development in Nigeria, while Chien *et al.* (2026) further demonstrated that crude oil price volatility affects economic growth through macroeconomic indicators such as investment and consumption. Almasria *et al.* (2024), Rasheed (2023), and Abdelsalam (2023) also confirm that oil price fluctuations generally exert adverse effects on economic growth in Middle East and MENA economies, reinforcing the view that volatility undermines long-term output stability.

The second strand examines the transmission role of inflation in the oil price volatility–growth nexus, highlighting how oil shocks feed into inflation, which then affects economic performance. Wang *et al.* (2022) provided cross-country evidence showing that oil price volatility significantly influences inflation rates, which in turn affects sustainable economic growth in both oil-importing and oil-exporting countries. Similarly, Ahmed *et al.* (2023) found that oil price shocks increase inflationary pressures in the UK, which subsequently dampens economic activity. Sabayo *et al.* (2023) also confirm that in Tanzania, oil price volatility increases inflation, thereby weakening purchasing power and reducing growth.

The third strand extends the analysis by incorporating macroeconomic intermediaries such as exchange rate volatility, financial development, and inflation uncertainty, showing that oil price shocks operate through multiple interconnected channels. Aladwani (2025) highlights that oil price fluctuations increase inflation uncertainty, which destabilizes macroeconomic planning and investment decisions. Sheykhi *et al.* (2026) further demonstrated that exchange rate volatility

significantly affects economic growth, suggesting that external shocks like oil price fluctuations are often transmitted through currency instability. Drebee and Razak (2022) also confirmed that in Iraq, oil price fluctuations influence economic growth indirectly through exchange rate movements and financial development. Feng (2023) found that oil price volatility significantly constrains macroeconomic policy effectiveness, leading to unstable output performance and weakening long-run economic growth outcomes through heightened uncertainty in investment and consumption decisions. Similarly, Al-Sawaie *et al.* (2025) showed that oil price volatility generates persistent macroeconomic instability by inducing structural shocks that destabilize inflation, exchange rates, and output, as evidenced in their SVAR analysis for Jordan.

Despite the extensive literature, most studies are country-specific or non-SSA comparative, limiting broader regional generalization across selected Sub-Saharan African economies. Existing studies also treat oil price volatility, inflation, exchange rate, fiscal deficit and growth in isolation or partial transmission models, without fully integrating macroeconomic variables. This study fills these gaps by adopting a multi-country SSA framework (Nigeria, Ghana, Côte d'Ivoire, Angola, and Gabon) with a dynamic specification that jointly captures oil price volatility, inflation, exchange rate, and trade openness effects on growth. This study covers three of the four major Sub-Saharan African regions; West, Central, and Southern Africa to enhance regional representation and ensure a more inclusive empirical analysis across diverse economic structures and oil exposure profiles.

3.0 Methodology

Theoretical Framework

This study is premised on Oil Price Shock Theory (Hamilton Framework). The relationship between oil price movements and macroeconomic performance is typically specified in a dynamic regression form where output responds asymmetrically to oil price increases and volatility. The standard Hamilton-type oil shock specification can be expressed as:

$$GDP_t = \alpha_0 + \sum_{i=1}^n \alpha_i OPV_{t-i} + \varepsilon_t$$

This model captures the dynamic effect of oil price volatility (OPV) on economic growth over time. Hamilton's framework emphasizes that oil price shocks affect GDP not only contemporaneously but also with lags, as economies adjust gradually.

$$INF_t = \beta_0 + \sum_{i=1}^n \beta_i OPV_{t-i} + \mu_t$$

This specification shows how oil price volatility transmits into inflation over time. The Hamilton framework recognizes that oil shocks affect inflation through cost-push mechanisms, especially in import-dependent economies.

$$GDP_{it} = \gamma_0 + \gamma_1 OPV_{it} + \gamma_2 INF_{it} + \mu_t$$

This equation integrates inflation as a transmission channel between oil price volatility and economic growth. Oil shocks increase inflation, which in turn reduces real income, consumption, and investment, thereby lowering GDP. This study extended Hamilton's open-economy extension, where oil price shocks are transmitted through exchange rate (EXR) and trade openness (TOP). In SSA countries, oil price volatility causes exchange rate depreciation, which amplifies inflation and reduces growth, while trade openness determines the speed and intensity of external shock transmission.

$$GDP_{it} = \delta_0 + \delta_1 OPV_{it} + \delta_2 INF_{it} + \delta_3 EXR_{it} + \delta_4 TOP_{it} + \mu_{it}$$

The model is transformed to a Panel Auto Regressive Distributed Lag (ARDL) model below:

$$\Delta GDP_{it} = \alpha_0 + \sum_{i=1}^q \beta_i \Delta GDP_{it-i} + \sum_{j=0}^{N1} \gamma_j \Delta OPV_{it-j} + \sum_{k=0}^{N2} \delta_k \Delta INF_{it-k} + \sum_{l=0}^{N3} \varphi_l \Delta EXR_{it-l} + \sum_{m=0}^{N4} \Phi_m \Delta TOP_{it-m} + GDP_{it-1} + \beta_1 OPV_{it-1} + \beta_2 INF_{it-1} + \beta_3 EXR_{it-1} + \beta_4 TOP_{it-1} + \varepsilon_{it}$$

Where; GDP = Gross Domestic Product, INF = Inflation, OPV = Oil Price Volatility, EXR = Exchange Rate and TOP = Trade Openness

4.0 Results and Discussion

Panel Descriptive Statistics

The descriptive statistics in Table 1 indicate that the average level of Gross Domestic Product across the sampled Sub-Saharan African economies is 5561.737, with a relatively high standard deviation of 2363.267, suggesting substantial variation in economic performance over the period. Inflation exhibits a much higher degree of volatility, as reflected in its large standard deviation of 161.6005 and extreme maximum value of 1032.292, indicating episodes of severe price instability within the region. Oil price volatility, with a mean of 82.52440 and moderate dispersion, confirms that external oil market fluctuations are a persistent feature influencing these economies. Exchange rate also shows pronounced instability, as evidenced by its wide range between a minimum close to zero and a maximum of 1478.965 which reflect structural weaknesses and external vulnerability in currency markets. Trade openness, with a mean of

64.69948 and relatively low standard deviation of 21.96161, appears more stable compared to the other macroeconomic variables.

Table 1: Panel Descriptive Statistics

Variables	GDP	INF	OPV	EXR	TOP
Mean	5561.737	126.6576	82.52440	282.3770	64.69948
Median	4880.880	85.19193	81.58588	165.9160	63.69038
Maximum	11721.66	1032.292	175.8539	1478.965	116.0484
Minimum	2757.861	2.22E-08	19.44086	2.99E-08	20.72260
Std. Dev.	2363.267	161.6005	49.79597	270.3184	21.96161
Skewness	0.878764	2.785754	0.411614	0.682358	0.051059
Kurtosis	2.814097	12.16488	1.853308	3.386315	2.125385
Jarque-Bera	22.77527	838.8094	14.52943	14.66857	5.266125
Probability	0.000011	0.000000	0.000700	0.000653	0.071858
Sum	973304.0	22165.08	14441.77	49415.98	10546.01
Sum Sq. Dev.	9.72E+08	4543961.	431457.1	12714534	78134.60
Observations	175	175	175	175	163

Source: Authors' Computation, 2026

Correlation Matrix

The correlation results indicate a generally weak to moderate positive relationship among most of the key macroeconomic variables in the model. GDP is positively correlated with inflation, oil price volatility, and exchange rate, suggesting that increases in these variables are associated with higher levels of output in the sampled economies, although the relationships are not strong enough to suggest linear dependence. Inflation is also positively related to oil price volatility and exchange rate, confirming that external oil shocks and currency instability tend to reinforce price level increases. Oil price volatility shows a very weak positive correlation with exchange rate and trade openness, indicating limited direct linear association. Trade openness, however, exhibits a near-zero and slightly negative correlation with GDP and inflation, suggesting no meaningful linear relationship with the core macroeconomic variables in the model.

Table 2: Correlation Matrix

Variables	GDP	INF	OPV	EXR	TOP
GDP	1				
INF	0.4021	1			
OPV	0.3116	0.4379	1		
EXR	0.3819	0.3667	0.0815	1	
TOP	-0.0193	-0.0800	0.0278	0.0039	1

Source: Authors' Computation, 2026

Panel Unit Root Tests

The panel unit root results indicate that the variables exhibit mixed orders of integration, implying a combination of stationarity properties across the model. GDP and oil price volatility are stationary at level $I(0)$. In contrast, inflation, exchange rate, and trade openness are stationary at first difference $I(1)$.

Table 3: Panel Unit Root Tests (PP - Fisher Chi-square)

Variables	Test Statistics	P-Value	Order of Integration	Remark
GDP	27.0265	0.0026	$I(0)$	Stationary at Level
INF	8.51980	0.0276	$I(1)$	Stationary at 1 st Difference
OPV	7.69162	0.0214	$I(0)$	Stationary at Level
EXR	8.7871	0.0200	$I(1)$	Stationary at 1 st Difference
TOP	12.2432	0.0011	$I(1)$	Stationary at 1 st Difference

Source: Authors' Computation, 2026

Panel Auto Regressive Distributed Lag

The long-run results indicate that inflation and oil price volatility exert a statistically significant positive effect on economic growth in the selected Sub-Saharan African economies. This suggests that, over time, increases in inflation and oil price volatility are associated with higher levels of reported economic output, which is possibly reflecting the inflationary monetization of oil revenues in oil-dependent economies and the short-term expansionary effects of commodity price booms on GDP. However, exchange rate and trade openness are statistically insignificant in the long run which implies that their direct influence on output growth is weak or indirect within the sample period. In the short-run dynamics, the error correction term ($Cointeq01 = -0.434700$) is negative and statistically significant at the 10% level, confirming a slow but valid adjustment process toward long-run equilibrium, with about 43% of disequilibrium corrected annually. Inflation exhibits a strong and significant negative impact on GDP growth, indicating that in the short run, rising inflation reduces real economic activity through diminished purchasing power and increased production costs. Oil price volatility shows a positive but weakly significant effect, suggesting short-term growth responses to oil shocks, likely driven by revenue windfalls in oil-exporting periods. Exchange rate and trade openness remain statistically insignificant in the short run, reinforcing their limited immediate influence on growth fluctuations.

Table 4: Panel Auto Regressive Distributed Lag

Dependent Variable: D(GDP)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
Long Run Equation				
INF	1.841826	4.362906	4.221557	0.0000
OPV	2.072250	6.178056	3.354211	0.0011
EXR	-1.629021	1.931729	-0.843297	0.4007
TOP	3.779367	2.335067	1.618527	0.1081
Short Run Equation				
COINTEQ01	-0.434700	0.023153	-1.877505	0.0628
D(GDP(-1))	0.182307	0.155296	1.173935	0.2427
D(INF)	-5.275942	1.250129	-4.220318	0.0000
D(OPV)	2.217131	1.293305	1.714314	0.0890
D(EXR)	8.220481	7.554524	1.088153	0.2786
D(TOP)	-1.604350	1.125477	-1.425484	0.1565
C	162.4419	62.56371	2.596425	0.0106

Source: Authors' Computation, 2026**Post Estimation Test**

The diagnostic results indicate that the model does not satisfy the assumption of normality, as shown by the significant Jarque–Bera probability ($p = 0.0000$), implying that the residuals are not normally distributed. However, the serial correlation test is not significant which suggest the absence of autocorrelation in the error terms and confirming that the model is not affected by systematic correlation across time. Similarly, the heteroskedasticity test is also insignificant, indicating that the variance of the error terms is constant and the model is free from heteroskedasticity.

Table 5: Diagnostic Tests

Normality Test	1563.334	0.0000
Serial Correlation	1.441940	0.2519
Heteroskedasticity	4.268560	0.1012

Source: Authors' Computation, 2026

Compared with existing literature, most studies such as Sabayo et al., (2023); Wasurum, (2025); Abdelsalam, (2023) generally found that oil price volatility has a negative effect on economic growth, while inflation also tends to reduce output by weakening purchasing power. In contrast, this study findings show a mixed and long-run relationship, where both inflation and oil price volatility are positively associated with economic growth, suggesting the presence of oil

revenue-driven expansion effects and inflationary growth financing in the selected SSA economies. However, the short-run results are more consistent with the literature, particularly the finding that inflation significantly reduces economic growth, aligning with Wang *et al.* (2022) and Sabayo et al. (2023), who emphasize inflation as a transmission channel that dampens output.

5.0 Conclusion and Recommendation

The empirical results indicate a mixed dynamic relationship among the key macroeconomic variables in the selected Sub-Saharan African economies. While inflation and oil price volatility emerge as significant drivers of economic performance over time, exchange rate movements and trade openness appear to play a limited direct role within the framework of the model. The adjustment mechanism further confirms that deviations from long-run equilibrium are gradually corrected, suggesting the presence of a stable long-run relationship among the variables despite short-run fluctuations.

Based on the findings, policymakers in the selected Sub-Saharan African economies should prioritize macroeconomic strategies that harness oil price windfalls more effectively by channeling oil-related revenues into productive sectors such as infrastructure, manufacturing, and human capital development to ensure that the growth effects of oil price volatility are sustainable rather than consumption-driven. There is also a need to strengthen inflation management through credible monetary policy frameworks that stabilize price levels without constraining economic activity, particularly in periods of external shocks. Governments should implement proactive fiscal rules that reduce overdependence on oil revenues and smooth expenditure during periods of oil price fluctuations to avoid pro-cyclical spending patterns. Exchange rate management should be improved through diversified export bases and stronger foreign reserve buffers to reduce vulnerability to external shocks, even though its direct impact on growth appears limited.

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