



Munich Personal RePEc Archive

A Short Note on Removing the Energy Subsidies in Iran

Dehghan Nejad, Omid

University of Algarve

6 December 2012

Online at <https://mpra.ub.uni-muenchen.de/43217/>

MPRA Paper No. 43217, posted 11 Dec 2012 12:52 UTC

A Short Note on Removing the Energy Subsidies in Iran

Omid Dehghan Nejad

PhD Candidate in Economics and Management

Faculty of Economics, Algarve University, Faro, Portugal

E-mail: omiddehghan81@gmail.com

Many countries all around the world do not allocate subsidies to the energy consumption. By considering the issue that most of them do not have sufficient natural energy resources such as oil and gas, therefore they are not dependent on oil and gas as a source of financing. Consequently, they focus on other ways to generate profit, they import energy and by using the imported energy create technologies to manufacture goods and other services and export them to the energy exporting countries in exchange.

For that reason, their economy is not a dependent economy of natural resources, it built based on their human resources and productivity. This kind of economies would not fluctuate based on the oil or other natural resources price. Generally, this kind of economies would grow in most cases very well. In such economies, wealth and country annual earning would increase simultaneously as their products and services (such as tourism industry) increase.

In other words, the person's expenses in such economies rarely will exceed their earning (the rate of inflation adjusted to their earning). Such countries are familiar with this economy system form many years ago, simply to say, their economic system is healthy

and doing well. Rarely, the referred economies will experience a big shock due to oil crises.

In such a country like Iran, that the economy is totally based on oil, gas and other natural resources revenue, the country's economic system does not do well all the time, and there are ups and down in country's economic condition. Generally, the economy of the country would not grow sufficiently and its fundamental would not be strong, the rate of productivity and employment would be low in such country. Besides, the person's annual income would not increase sufficiently and adjusted to the inflation rate. The government allocates subsidies mostly on the country's energy consumption so in such condition people do not suffer too much from the mismatching between income and inflation rate.

In Iran's economy, where the Ahmadi Nejad's government removes the subsidies on energy consumption without any scientific study and economic reform, the country's economy is not ready to accept this shock, therefore the inflation and expenses will increase sharply while the annual earnings is stable yet.

As a conclusion, the strategy of removing subsidies on the country's energy consumption is good as many developed countries implemented it since many years ago, but the main matter here is the timing. The time that Iranian government started to remove subsidies on energy consumption was not a right time, because it takes time (many years) to reform and solve the refereed economy diseases and its fundamental problems. After reforming and solving economic problems, implementing the strategy of removing the subsidies would be a good strategy in Iran, but not at this time.

Source:

Akpanuko, E. Ayandele, I. (2012). Oil Subsidy Removal in Nigeria: Chasing Water Falls. *International Journal of Finance and Accounting*, 1(5), 112-119.

Fattouh, B. El-Katiri, L. (2012). Energy Subsidies in the Arab World. Arab States Human Development Report, Research Paper Series.

Guillaume, D., Zyttek, R. and Farzin, M.R. (2011). Iran–The Chronicles of the Subsidy Reform. International Monetary Fund, Working Paper No. WP/11/167.

Gylfason, T. Zoega, G. (2002). Natural Resources and Economic Growth: The Role of Investment. Central Bank of Chile, Working Papers No. 142.

Maghsoudi, N. Tohid-Ardahaey, F. (2012). Targeting Subsidies Considering the Applied Models in Iran. *International Journal of Business and Social Science*, 3(7), 162-166.

Safdari, M., NabiSheyhakiTash, M. and Jafari, M. (2012). The Effects of Energy Subsidy on Macroeconomic Variables of Iranian Industry Sector. *International Journal of Business and Social Science*, 3(3), 165-174.