

## EXAMINATION OF THE RELATIONSHIP BETWEEN ECONOMIC INSTABILITY AND ECONOMIC DEVELOPMENT IN IRAN (2000- 2017)

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### Summary

After the Islamic Revolution; and especially when looking at the state of the country's economy; It is seen that creating a relative balance in the Iranian economy has become a more critical issue. Sudden changes and extreme inadequacies in essential indicators such as inflation - the exchange rate - exports and imports and unemployment; prove this claim and the emerging integrated and stable economy; shows the lack of policy. These factors are among the factors that governments try to control to achieve the three goals of allocation, distribution, and economic stability. The existence of these cases in the macroeconomic literature; They are accepted as indicators of economic Instability affecting economic growth and development.

**Keywords:**Iran, Economic Instability, Economic Development, Macroeconomics, Exchange Rate

## İRAN'DA EKONOMİK İSTİKRARSIZLIK İLE EKONOMİK GELİŞME İLİŞKİSİNİN İNCELENMESİ (2000-2017)

### Özet

İslam Devrimi'nden sonra ve özellikle son on yılda ülke ekonomisinin durumuna bakıldığında, İran ekonomisinde görece bir denge oluşturmanın daha önemli bir konu haline geldiği görülmektedir. Enflasyon - döviz kuru - ihracat ve ithalat ve işsizlik gibi önemli göstergelerdeki ani değişimler ve aşırı yetersizlikler bu iddiayı kanıtlamakta ve ortaya çıkan entegre ve istikrarlı ekonomi politikalarının eksikliğini göstermektedir. Bu faktörler, tahsis,

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dağıtım ve ekonomik istikrar olmak üzere üç hedefe ulaşmak için hükümetlerin her zaman kontrol etmeye çalıştıkları faktörler arasındadır. Makroekonomik literatürde bu olguların varlığı, ekonomik büyüme ve kalkınmayı etkileyen ekonomik istikrarsızlığın göstergeleri olarak kabul edilmektedir.

**Anahtar Kelimeler:**İran, Ekonomik İstikrarsızlık ,Ekonomik Kalkınma, Makroekonomi, Döviz Kuru

### **Research Questions**

1. Does the leading role in the relations between economic Instability and economic development in Iran be in political decisions

2.Is the future of Iran's economy more dependent on sanctions than Instability?

### **Aims And Goals**

This article is about the pre-revolutionary and post-revolutionary periods in Iran; The aim is to examine the impact of Iran's Instability on its economic development.On the other hand, Iran, In the explanation of the spiral it is in, is to take a picture of the economic events and the situation created by the tools in the Iranian economy.In this context, the objectives of the study deal with the effect of sanctions and the economic aspect.

### **Method**

The study deals with the pre-revolutionary and post-revolutionary economic and political aspects.In this context, the investigation was handled based on the literature review, and the qualitative method was used.The study preferred the qualitative approach because the economy constantly changes daily.

### **Introduction**

After the 1979 Islamic Revolution, especially in the last ten years, when we look at the state of the country's economy, it has become an important issue to create a relative balance. Sudden changes and profound failures in critical indicators such as inflation and exchange rates, exports and imports, and unemployment are proof of this claim and a sign of the lack of integrated and stable economic policies that led to it. These factors are among those that governments always try to control to achieve the three goals of economic allocation, distribution, and stability. In the macroeconomic literature, the presence of these phenomena is considered an indicator of financial Instability and affects economic growth and

development. The World Bank report in 1991; data has drawn the attention of many economists about the necessity and importance of macroeconomic stability in Iran. This report reveals that more economically stable countries, where government policies are appropriately implemented, outperform unstable countries. Economic stability increases national savings and private investment, increases export competitiveness, and helps improve the balance of payments. Therefore, it is the basis of sustainable economic growth because it requires free and competitive pricing and a secure financial environment to encourage private-sector investment. Encouraging private investment depends on a safe economic environment. In addition, macroeconomic stability in terms of economic policies and the reliability of the country's monetary and financial authorities play an active role. Effective economic management is essential for the private sector. The success of any liberalization program requires macroeconomic stability in financial conditions and adjustment policies. Finally, rearranging the income distribution strengthens social and political stability and thus plans to move towards a desired state and society (Amirkhiz, 2015:12). Fisher (1993) sees economic stability as a state. In this case;

1. Inflation rate should be low and predictable
2. Real interest rate should be good for investment
3. Financial policy should be free of fluctuations and disruptions, and government budgets should be well managed. In another saying, the budget deficit ratio to output is essential to keep GDP at an acceptable level and use the banking system's credit system to provide a minimum level of debt.
4. The exchange rate should be set close to the equilibrium value

The unique situation of Asian countries led to the sale of raw materials and crude oil in these countries. However, unlike governments, Oil producers; in most developing countries rely heavily on foreign exchange requirements to meet their needs. Raw material exports are not minerals. Since the export market of these goods is often not stable enough, dependence on the export of these goods is always associated with some risk and Instability. Moreover, Most of these countries rely on imports of raw materials, machinery, capital goods, intermediate goods, and consumer goods to expand their industries and meet the consumer needs of their people. However, the demand for imports is generally higher than the sale of exported goods, thus causing a chronic deficit in the country's current account. Is also accompanied by more

Instability in the economies of these countries and can significantly limit the ability of governments to determine the most desirable development strategy (Khalili Iraq, 2001: 52). After the Islamic Revolution, When we look at the country's economy, especially in the last decade and more recently, the idea that a relative balance has been created in the Iranian economy has become an essential issue in the country. Sudden changes and profound failures in important indicators such as inflation, exchange rates, exports and imports, and unemployment prove this claim and show the lack of integrated and stable economic policies. Changes in incomes and expenditures or changes in foreign policy, which cause a difference in a particular situation, harm the country's economy and standard of living in the short run and keep the Government off the path of progress. Dangerous oil revenues, Islamic Liberal Economic Strategy programs, or new production systems; the lack of two reforms and radical reform structures; creates a kind of weakness in management in primary and strategic products in both petroleum and non-oil exports and imports. It is due to economic passivity, ostensibly due to the short-term and intermittent policies of the country's political governments that have made it inflexible in the face of changing circumstances.

For this reason, regarding Iran, which is planning a macroeconomic application due to political differences with some countries (such as Uzbekistan), Addressing important economic issues creates problems. While these problems later lead to the emergence of cultural and economic issues, It creates contrasts in creating better conditions by balancing the political relationship between countries between politicians. Instead, it risks leading to some political fragmentation among politicians. For example, a return to the core of the Islamic Revolution ideology caused many problems in all economic organs of the country. The Revolution sought to develop a plan to eliminate the current situation within the country in the region. The world, Returning to some of the right political moves in the past to achieve economic stability and then move toward sustainable progress and growth to stabilize the country's economy in the direction of economic development continuously and consistently with the right solutions, presents us only a few parts of the plan that the Revolution is trying to develop. Countries such as Germany, taking lessons or making political transfers by looking at the current situation after World War II, created a country model that the Revolution took as an example (Kesgeri, 2006:32).

**Instability Of Oil Incomes And Economic Growth Of Oil-Rich Countries**

Continuous and severe fluctuations in oil prices; Financial behaviors in global markets create a variable and asymmetrical effect on national economies. These behaviors are considered undesirable in the face of rising oil prices, as financial expansion and adjustments at higher prices take place politically and sometimes spontaneously, not just economic contraction in the face of falling oil prices. As a result, the pressure on financial markets and the private sector is doubled. In most countries, the real exchange rate is caused by excess money supply. The budget deficit is affected quickly, and this abnormality causes countries to deviate from their long-term equilibrium value. The chain of events in Iran after the Islamic Revolution is a typical example of this. Thus, on the one hand, the country's dependence on oil revenues; on the other hand, the volatile and unpredictable nature of oil prices; is an integral part of the macroeconomics of countries exposed to international shocks. The governments' budgets of these countries, the level of foreign trade, and public sector investment flows are among the most critical variables, the foreign assets of the central banks and their monetary base. They are vulnerable to fluctuations in the international oil market so oil revenues can affect macroeconomic variables in various ways, especially the rate of economic growth, government budgets, money supply, and exchange rates. In the studies carried out at Tehran University in 2009, The relationship between Iran's non-oil economic growth and oil shocks in the short run shows the asymmetric reaction of non-oil economic growth to oil shocks. Therefore, positive shocks to oil revenues do not significantly impact Iran's non-oil economic growth. Negative oil revenues significantly reduce economic growth. But on other issues, about the relationship between monetary policy instability and previous economic growth, although the increase in money volume leads to an artificial and temporary period of prosperity in the economy; on the one hand, the rise in inflation in the next period, On the other hand, it is predicted that it will cause a recession. Is means an inflationary recession, the first economic boom, and increased production; will become ineffective with the subsequent economic downturn and reduction in production, and the only inflationary effects would be an increase in the volume of money. In addition; for the continuation of (artificial welfare); The more extraordinary the insistence on increasing the amount of money, the more severe the

inflation will be, and the more influential the recession, the deeper and longer it will be (Dehghan Monshadi, Mohammad, 2013:192).

Inflation (change in price index) can be accepted as the most critical indicator of economic policy instability. High inflation and fluctuations significantly bring increased costs to the country's economies since high inflation rates fluctuate. The highest prices of high and unstable inflation are; the decrease in the economic growth rate and, consequently, the reduction in the level of public welfare on the one hand and the income distribution to the detriment of the low-income groups on the other hand; results in changes in wealth and well-being. High and volatile inflation prevents the relative prices from being known by economic actors. Because inflation does not increase the cost of all commodities at the same rate, economic actors cannot accurately separate relative price changes from general price changes. This disruption in determining comparable prices reduces the power of price tags and distorts the optimal allocation of resources. Of course, the higher the fluctuations in the inflation rate, the more this disruption will affect a known economic system.

High and volatile inflation will create economic uncertainty about future developments, and economic actors cannot draw a clear picture of the future. Will have a particularly negative impact on investment; As mentioned, after a study by a group of researchers at Tehran University, in 2009; In a series of studies, it has been proven that inflation rises with the increase of uncertainties and leads to a decrease in private sector investments in the economies of oil-rich countries, including Iran. For example, even in the Iranian city of Moore, the issue of sanctions caused severe erosion. However, rumors that political disagreements are causing a crisis in how Iran's salaries of civil servants and workers are met, macro and micro, have negatively impacted the country's economic growth rate. Another study (2001-2011) examined the effect of inflation on economic growth in Iran and oil-rich countries. The results show that inflation's impact on countries' economic growth is negative for Iran. In addition, the uncertainty effect of inflation on negative economic growth during the study period is negative. In the studies conducted in 2012, the impact of monetary policy on total production was discussed. The results of positive and negative shocks show that adverse shocks have much more impact on reducing economic growth than positive shocks.

Moreover, in all speculations, positive monetary shocks hurt production growth after a period, so most positive shocks' impact was neutralized in the coming period. The results show that while policymakers can boost economic growth to some extent by unexpectedly increasing

the volume of money expansion, they must pay much more for economic growth by reducing the money supply and inflation. Stability of the banking sector; Due to the relationship between economic growth and growth forecast, the economy is growing in developed countries. Banking stability is an essential stimulus for economic growth, so an increase follows periods of stability in the economic growth rate and vice versa. In addition, the banking sector's stability has reduced the uncertainty of the economic growth rate (Dehghan Monshadi, Mohammad, 2013:192).

### **Instability In Fiscal Policy And Economic Growth**

The effect of financial policy instability on change, in the expenditures of the state on production and economic growth, can be considered over both short-term and long-term time. In the long run, how government spending affects production and economic growth is also affected by how government funds are financed on the one hand and allocated on the other. At the same time, the outlook of government spending is an influential factor in determining the long-term effects of government spending on production. The cost of governments rather than allocating them to public projects with a reasonable payback; to implement projects that the private sector can do; Since the assigned public sector works less than the private sector, it can be expected that increased government expenditures will adversely affect production and economic growth in the long run. However, fluctuations in government expenditures in the short run are of great importance for economic output and growth. The Instability of government or government spending, as government spending is one of the essential components of total economic demand, creates Instability in aggregate demand, leading to Instability in production and economic growth in the short run. When government spending increases, aggregate demand rises, and output and economic growth temporarily increase directly. However, in later periods, the effects of government expenditures on private consumption and investment gradually emerge. The impact of the first increase is neutralized.

On the other hand, reducing government spending will reduce production and economic growth by first reducing employment; however, later on, the decrease in production will be partially balanced with the increase in private sector investment and consumption. Therefore, government expenditures significantly impact private capital investments and are a powerful tool for growth policies and economic stability (Zamanzade, 2009:32). The study of the effect of financial costs (Current Expenditures, Government Capital, and Budget Deficit) on private investment in 2011 showed that the state of non-state work in Iran and increasing the

Government's current expenditure would affect the growth of capital and investment expenditures. Economic infrastructure has a devastating effect on private investment and can have a negative impact (Zamanzade, 2009:32).

### **Exchange Rate Instability And Economic Growth**

Exchange rate fluctuations and exchange rate policies are imperative in the economy of oil-rich countries. In this period, when economists were one of the leading causes of the great crisis in 1930, they took into account the foreign exchange policies of the countries. The fluctuations in the exchange rate and the changes in the value of the national currency against the foreign money of these countries are significant. International monetary and financial institutions, especially the International Monetary Fund, emphasized the need to pay attention to this variable and always suggested intervening in the foreign exchange market to reduce fluctuations. In other words, the real exchange rate can affect macroeconomic performance, especially economic growth, among factors that deviate from equilibrium values and indecision. Changes in exchange rates in different directions hurt production. The result of these effects is the net effect of exchange rate changes on production. The net impact of fundamental exchange rate changes on display is evident in two directions. One is the use of the existing production capacity of the economy, and the other is the way of investment and the creation of new production capacities in the economy. They are lowering the real exchange rate by increasing the prices of exported goods in foreign markets and decreasing the costs of imported goods in domestic markets, shifting the demand of the entire economy to the need for foreign goods and services. Lowering the exchange rate reduces the need for domestically produced goods in both domestic and foreign markets (Khatayi, 2004: 42). Reducing the demand for domestic production will lead to a complete shortage of existing production capacity so domestic production will decrease with the real exchange rate. Partial use of some of the production capacity is adversely affected and weakened. In turn, the increase in the exchange rate increases the demand for domestic production in domestic and foreign markets, thus positively affecting production and economic growth. In addition to using existing production capacity, building new capacity through investment is a meaningful way to influence exchange rate changes in production. However, although the effect of different industries on the Iranian economy varies according to the exchange rate, generally, a positive result will dominate the lowering of the exchange rate in the short run, and investment will dominate due to its negative effect. In the long run, however, the negative

impact of devaluation will likely prevail. Thus, in general, lowering the real exchange rate in the short run harms the way existing capacities are used in production but positively increases the creation of new productive powers. Reducing the use of existing capabilities and reducing the result of new production capacities will weaken domestic production and economic growth. While examining the relationship between exchange rate instability and economic growth in the Iranian economy, which was handled by economic researchers, this situation on the characteristics of the economic growth model; shows that absolute exchange rate instability and devaluation can harm the growth of the Iranian economy. In addition, in a study conducted at Allamah Tabatabai University in 2004; Examining the dynamic relationship between exchange rate and GDP in the Iranian economy, according to this research; Contrary to many opinions about the Iranian economy; It has been revealed that there is a negative but weak relationship between the real exchange rate and the production of the country. Thus, the depreciation of the national currency; Since the country's output did not increase with the natural exchange rate increase, an increase in the nominal exchange rate significantly affected increasing production (Halafi, 2007: 85).

### **Iran's Position In The Index Of Economic Freedom Compared To Other Countries In The Region**

Statistics on the Index of Economic Freedom; Since 1980, Iran has been accepted as an indicator of economic freedom in indicator economies with other countries in the region. Iran is above the average in this index compared to other countries. Iran's position in this index was worse before the Revolution than in the years after. The changes made in the years after the Revolution, the nationalization of banks and some resources, the outbreak of the Iraq war, and the expansion of Government in the Government worsened the situation in Iran. However, with the start of the construction period and the implementation of adaptation policies almost from 1991, the economic freedom of the country has increased (Gorce, 2003: 24). But with the emergence of repressive sanctions from 2001, some customs-free destinations, including the United States and the Persian Gulf; The Saudi trend has become a moderate trend, but with the reform of economic structures in Iran from 2011, new trade; With the new laws and regulations, Iran's free trade process with the world has improved a little bit more safely with all countries. However, with the continuation of the sanctions, the index of this trend fluctuated somewhat with the relative trend. In Iran, between 2010 and

2016, Iran's development level ranged between 168 and 173; It was ranked 168th in 2010 and 2013, 2016, and 171st in 2015.

It is crucial as it shows the stability of Iran's position in this ranking after the two-row recovery in 2015 (Derakhshanfar, 2014: 50). The banking system is convenient and adopted with coordinated policies. Macro and economic targets; Directing correct and efficient liquidity control tools to productive economic activities will increase financial stability and improve investment processes, employment, and production, leading to its formation. The foreign exchange market structure of oil-rich countries should generally be determined by the exchange rates of their central banks. A range of multi-government and inter-agency governance should be addressed. In other words, it creates room for action with strategic arrangements and essential decision-making in structures. Fluctuations in oil revenues, directly and indirectly, affect financial responses. Production to inflation; and the employment structure. As a result, it continues to threaten the country's economic growth. Therefore, proper planning to control how oil revenues are used in proportion to the foreign exchange earnings from oil revenues can prevent shocks from entering the country's economy. Therefore, it is necessary to reduce the impact of fluctuations in oil prices on the country's economy. The position of the National Development Fund Oil price shocks; includes reducing its influence on monetary policy and ultimately lowering costs and exchange rates (Sameti, 2012: 98).

From 2001 to 2017; The State of the Economic Freedom Index in Iran and the Countries of the Region in Consecutive Periods.

Economic Freedom Index in Iran: Regional								Year		
Arap emirates	Georgia	Azerbaijan	Saudi	Türkiye	Qatar	Oman	Bahrain	İran	SHAMSI	Gregorian
79/4	58/3	50/3	62/2	60/6	60	67/7	75/9	35/9	1380	2001
73/6	56/	53/3	65/3	57/2	61/9	4	76/6	36/4	1381	202

73/4	58/6	54/1	63/2	51/9	65/9	64/6	76/3	43/2	1382	2003
67/2	58/9	53/4	60/4	52/8	66/5	66/9	75/1	42/8	1383	2004
65/2	57/1	54/4	63	50/6	63/5	66/5	71/2	50/5	1384	2005
62/2	64/5	53/2	63	57	62/4	63/7	71/6	45	1385	2006
62/6	69/3	54/6	60/9	57/4	62/9	65/8	71/245	45	1386	2007
62/6	69/2	55/3	62/5	59/9	6/2	67/3	72/2	45	1387	2008
64/7	69/8	58	64/3	61/6	68/8	67	74/8	46/6	1388	2009
67/3	70/4	58/8	64/1	63/8	69	67/7	76/3	43/4	1389	2010
67/8	70/4	59/7	66/2	64/2	70/5	69/8	77/7	42/1	1390	2011
69/3	69/4	58/9	62/5	62/5	71/3	67/9	75/2	42/3	1391	2012
71/1	72/2	59/7	60/6	62/9	71/3	68/1	75/5	43/2	1392	2013
71/4	72/6	61/3	62/2	64/9	71/2	67/2	75/1	40/3	1393	2014
72/4	73	61	62/1	63/2	70/8	66/7	73/4	41/8	1394	2015
72/6	72/6	60/2	62/1	62/1	70/7	67/1	74/3	43/5	1395	2016
76/9	76	63/6	64/4	65/2	73/1	62/1	68/5	50/5	1396	2017

(Ministry of Industry, Mining, and Trade, 2016:35)

### **Solutions And Recommendations**

1. Even though the Iranian economy has entered a complex process with the Revolution, political decision-makers should develop a regionally shared economy model to overcome this process with minor damage. For this, common economic forums should be established by the strategists of the countries in the region, and structures for permanence should be found.

2. It is only possible to reduce economic costs by coordinating Iran with other economic sectors. Therefore, the adoption of a clear strategy in determining the value of the national currency, which facilitates the achievement of the goal of economic development, should form the basis for determining the exchange rate of the rial.

3. Developing managerial methods is imperative in volatile economies like Iran. For this reason, although Iran's economy is focused on oil, it should engage in an independent, autonomous oil economy away from government changes.

### **Suggestions For The Future**

1. Iran should focus on stabilizing mechanisms for its domestic economy. For political decision-makers to protect Iran's economy from permanent damage, variable policies need to be systematized.

2. Any financial or inflationary fluctuation in the world; Iran faces severe breaks due to contractions or expansions in the money supply. The way to overcome this is the need for a standard behavioral change regarding sanctions.

3. Iran's financial vulnerabilities over the following decades, even though he is oil-rich, carry a high risk of survival. It should choose geo-strategic partner countries in the international arena and regionally.

### **Conclusion and Evaluation**

Considering the political aspects in oil-rich countries, especially from the perspective of Iran, having its geopolitical situation in the region and the world is, in many ways, A country's economic or non-economic variables and behaviors can affect the economic growth process. Establishing a stable security system in the macroeconomic and microeconomic economies of oil-rich countries, including Iran, requires fundamental changes in the financial structure of governments. Iran is also not satisfied with this, and for its economic transformation, it needs to change its political and economic systems according to its ideological structure. Therefore, financial discipline is of vital importance for Iran. In this context, macroeconomic management and policies play a decisive role in responding to internal and external shocks. In line with the procedure in this area, the following suggestions can be made: Instability in the money supply growth rate is one of the leading causes of economic growth rate instability and inflation instability. In other words, monetary Instability has also been an essential factor in creating business cycles and destabilizing economic growth in Iran. Ensuring liquidity growth

control is open to reduce the movement of liquidity towards speculative activities, reduce inflation and increase macroeconomic stability. Money and banking system; Due to the decisive role of monetary and credit policies, the national income of oil-rich countries, including Iran, is considered during production. It also becomes one of the essential tools for governments to intervene in economic matters. Thus, besides monetary and non-monetary instruments, budgetary instruments and economic power programs give importance to governments. It is necessary to act quickly to create economic growth and development needs by increasing macroeconomic stability, which can affect the entire economic life of the society (Rahmani, 2012: 60).

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### **Key Terms**

**Economic Instability:** The Situation In Which Macro Aggregates Such As Aggregate Demand And Aggregate Supply Are Not In Balance In An Economy

**Economic Development:** The Development Of A Country's Economic, Social, And Political Well-Being

**Economic Growth:** The Increase In The National Income Created In A Country And The Amount Per Capita From This National Income Compared To The Previous Year.

**The Economic Freedom Index Measures How Countries Support Financial Freedom With Their Policies And Institutions.**

**Exchange Rate:** A Situation That Shows The Currency Value Of A Country's Currency With Other Countries.

**Inflation Refers To The Gap Between The Money In Circulation And The Sum Of Commodities And Services That This Money Can Buy.**