

## Inflammation Growth in IRAN (Islamic Republic of): Causes and Treatments

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**Abstract:** According to official reports, the average rate of inflation in the past 30 years has more than 15 percent annually. Inflation rate in April, 2012 rose 25 percent, and according to the experts is growing rapidly. The current paper investigates the factors impacting inflammation growth in Iran and the ways forward for better treatment. In this regard, factors such as: Supply deficit by borrowing from the central bank, increased liquidity, increased energy prices, subsidies, industrial and trade policies after adjustment, increased risk of productive economic activities, weaknesses in management, and the rise of world prices, are highlighted as the main causes of inflation were expressed. The treatments also are highlighted while discussing the causes.

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### Introduction:

Due to the fact that the inflammation is one of the most important causes for income inequality, pressure on low-income people, engaging in dealership activities and instability of economy and decrease in economical growth, the study of the inflammation has a great importance in the social sciences. Chronic inflammation is one of the basic challenges of Iran's economy and the increase in the inflammation growth is one of the basic problems in Iran. Many scholars has devoted time and energy to investigate the causes or treatments for the Iran's inflammation and studies generally point to the following causes for the inflammation growth in Iran.

### Increase in liquidity

According to economic theory, the optimal rate of money supply should be slightly above the long-term economic growth potential. If in long-term, capital growth is higher than the rate of potential production, it causes the inflation in the country and its rate will be increased. According to the data of World Bank, the increase in liquidity has been higher than production from 1975 to 2012 for Iran.

### Development of monetary variables

To evaluate the economic performance of the country's five-year development plans, indicators, such as money, quasi-money, liquidity, inflation and output growth during the program can be discussed. Regarding to the control of liquidity, the most successful plans have been plan I and plan II programs while the highest inflammation has been occurred (about 50%) in the first year of the second plan. In some years of third and fourth plans of the development, despite the high liquidity growth, there has been low inflation but, it cannot be seen as the

break the relationship between inflation and liquidity in interpretation.

It can be conclude that Increased liquidity will lead to general price increases and an increase in production, especially industrial products, leading to a decrease in the general price level is also in long term. While increasing the price of foreign goods and the exchange rate, the price level will increase in the long term.

Because of the high inflation rate to the nominal interest rate, increase or decrease in interest rates has no significant and substantial effect on the general price levels.

In other words, private sector considers the influential role of the inflammation, as an index for economic growth or stability in its decision making processes. This will lead to investment on the goods that produce liquidity.

According to the stated notes, it should be concluded that the policy making for reducing inflammation should transparently separate the monetary policies from financial policies. From the fact that inflammation expectations have a substantial role in increasing inflammation rate in future years, transparent announcement of monetary policies is very substantial.

### Sanctions and Currency

From the fact that Iranian economy is a dependent economy to the foreign raw materials and intermediate goods, the price of capital goods and the price of currency can have a substantial impact on the prices generally, So the application of appropriate foreign policy for the country can have a significant impact on the supply of the currency for production and economic development. In this regard, paying attention to the duties, tariffs and trade benefits are

substantial key elements for a successful currency policy. Stability of the currency price and elimination of currency price fluctuations can also lead to financial and economical stability and growth.

### **Increase in Energy prices**

The government of Iran has executed a plan named "targeted subsidiary plan", a plan that has removed subsidies for energy carriers. This can impact both production and distribution sectors.

According to economic theories, the production is the maximum output from a certain amount of inputs. Energy carriers are from the most important input variables. Based on this fact, increase in the price of energy carriers leads to the increase in the production costs. So, some of the producers will be removed from the production cycle and the inflationary pressure increases.

In the distribution sector also the situation is the same. As we know, the distribution includes all of the processes and activities that take the products from the production point to the consumption point. All of the stages between production and consumption are dependent on the energy. So the increase in the price of the energy carriers leads to the increase in the final price. In this situation, some of the producers exit from the production cycle due to the lack of competitive advantage or profitability.

### **Subsidies and Targeted Subsidiary Plan**

The Iranian targeted subsidy plan was passed by the Iranian Parliament on January 5, 2010. The government has described the subsidy plan as the "biggest surgery" to the nation's economy in half a century and "one of the most important undertakings in Iran's recent economic history". The goal of the subsidy reform plan is to replace subsidies on food and energy (80% of total) with targeted social assistance, in accordance with the Five Year Economic Development Plan and move towards free market prices in a 5-year period. The subsidy reform plan is the most important part of a broader Iranian economic reform plan.

According to the enormous investigations, the execution of the subsidiary plan has led to the increase in the liquidity in the country and as an obvious economic rule, the increase in liquidity leads to inflationary growth. In this case, the government directly settles the money to the people's bank account and this has an inflationary impact.

Experts and scholars assert that one of the issues that neutralize the impact of the subsidiary plan in Iran is the fact that the revenues from the plan haven't been devoted to the production. Also other investigations show that the reduction in energy consumption - as a

desirable result - hasn't been occurred and only the decrease is a temporary decrease in nature.

### **Budget deficit and borrowing from central bank**

Deficit occurs when the government (or other entity) will spend more than their income. The opposite side of budget deficit is budget surplus. The deficit is the debt accumulated over several years. Supply of budget occurs through borrowing internally or externally.

Failure to properly control and regulate the government's spending and income will lead to a budget deficit. To calculate the budget deficit in the Iranian economy, differences between revenues and payments, and government consumption is measured. Revenue from oil and gas exports, taxes, exchange, monopolies and government property, sale of goods and services, interest received on loans all are the government income. One of the ways for supply of deficit is to borrow from the banking system. Supply of deficit through borrowing from the banking system meant to increase liquidity and rising inflation following it.

### **Increase in Global Prices**

Some of the commodities that may be imported from outside the country are affected by global price increases. This means that the final prices increase due to the increase in the price of raw materials. Also when the global prices rise, the local producers are also more motivated to raise their prices.

### **Conclusions and recommendations**

Monetary nature of inflation in Iran has largely been monetary in nature and many studies done in this case are evidence of the fact. One of the most effective ways to reduce the inflation in Iran is the "effective control of liquidity". For the liquidity control, understanding and prediction of these variables over time can be instrumental. To this end, scenario making for the prediction of monetary inflation in 4 development plans is necessary after discussing the previous trends in the Country. To achieve the goals outlined in the Vision document, we must have more and more effective control of the money supply in the country. It is recommended that prior to the implementation of low priority programs - like the national currency reform plan - to control inflation and money supply growth in the country. In achieving this goal, the reduction of bank interest rates will become stable, and therefore there will be lower costs for providing the facilities in the country. Also success rate for attaining to the goals of the perspective document and strengthening of the national currency will rise.

We can consider the inflation as a monetary phenomenon so that other factors, including factors related to the supply or cost pressures have less effect on it. In other words, the intensity of monetary inflation has been higher than other variables.

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