

Iranian authorities have adopted a comprehensive strategy economics essay

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GLOBAL MARKET IN IRAN 2Outline. Thesis: In this essay we will discuss the fluctuating price of goods in Iran global market. I. Oil is a material to make most of the goods in the world, if its price rises, the price of the goods will rise too. A. PetrolB. PlasticsC. PaintingII. Oil prices affect the economy. A. Countries with Oil deposits can grow fasterB. Countries with oil lead the world economicGLOBAL MARKET IN IRAN 3TitleThe oil market, which is usually considered to be one of the world market has dual role with other markets, and the foreign exchange market the oil market is influenced by developments in by currencies and sometimes can cause the developments in the world major currency markets, factors that influence the price of oil are varied and include political issues the balance of supply and demand status of alternative energy source and financial market. Iran is the second largest economy in the Middle East, Iran ranks is the second place of natural gas reserves and third in oil reserves. It is the second largest Organization of the Petroleum Exporting Countries (OPEC) oil producer; output averaged about almost 4 million barrels per day in recent years. Revenues from oil and gas exports accounted for about 60 percent of government revenues in 2011 and Iran's leader source of foreign exchange. Thus, aggregate GDP and Government revenues are intrinsically volatile, fluctuating with international prices of these commodities despite the Oil Stabilization Fund and the newly established national development fund in 2011. Iranian authorities have adopted a comprehensive strategy envisioning market based reforms as reflected in the Government's 20-year Vision document and Iran's 55 year Development Plan. However, the Iranian state still plays a key role in the economy, owning large public and quasi public enterprises which partly

dominate the manufacturing and commercial sectors. The Government envisioned a large privatization program in its 2010 5 year plan aiming to privatize some 20% of state-owned enterprises each year. However, the Iranian Revolutionary Guards Corps and other semi-Governmental enterprises have reportedly purchased controlling shares in numerous that were offered to private investors in the stock market through the Government's privatization program. Public banks also dominate the financial sector. Moreover, Iran's 2012 Doing Business ranking is in the bottom tiers of the MENA region ranking 144th overall. Only Algeria & Iraq rank lower among MENA countries. However, the authorities have adopted a comprehensive strategy as reflected in their 20-year Vision document and the 5th Year Development Plan to ensure the implementation of market-based reforms. The Government has launched a major reform of its indirect subsidy system, which, if successful would markedly improve the efficiency of expenditures and economic activities. The overall subsidies were estimated to cost 27 percent of GDP in 2007&2008. The Government has opted for a direct cash transfer program while substantially increasing the prices of petroleum products, water, electricity and a number of other products. GLOBAL MARKET IN IRAN 4 Economic growth increased by almost 4 percent in 2009 while prudent macroeconomic policies reduced inflation to about 10 percent and ensured a fiscal surplus. The initial impact of the removal of the substantial energy and food subsidies in December 2010 did not suppress Iran's economic performance in part also due to prudent initial macroeconomic policies and the Government's substantial cash transfers program to households. However, stricter international economic sanctions,

in particular the European Union embargo on Iranian crude oil since July, to a sharp decline in oil exports. The impact of recent sanctions is projected to push the economy into a recession in 2012. The increase in prices for (imported) inputs due to higher energy prices and the sharp depreciation of the (black market) exchange rate for the Rial also started to suppress the performance of Iran's non-hydrocarbon industrial sector. For instance, Iran's sizeable pharmaceutical industry is reportedly struggling to import essential raw materials. Moreover, the number of bankruptcies appears to be on the rise while factories are reported to be working at only half their capacity. The medium-term outlook for economic growth is negative due to the impact of stricter recent economic-sanctions that are expected to reduce revenues from oil exports and to impede corporate restructurings. The speed of economic adjustment to higher energy prices after the subsidy reform will depend crucially on the corporate sector's ability to offset increased input costs. In principle, the subsidy reform can lead to more labor-intensive economic growth, reducing unemployment in the long term. However, the stricter economic sanctions are expected to delay corporate restructurings as they reduce firms' access to foreign markets, inputs, and more energy-efficient technologies. Moreover, the increase in inflation since 2011, in particular the recent increase in import inflation due to the devaluation of the Rial, started to offset the potential medium-term efficiency gains of the subsidy reform. Right now the prices have been driven higher because of renewed concerns about Iran's political situation and sanctions imposed on Iran oil by Western governments. At the same time, concerns about the Western economies – particularly Europe – could dampen the cost of oil. Oil

prices have very little downside potential. The market doesn't have enough supply and we are running quite tight. Iran produces will decline independently from the sanctions as the country loses production capacity. Oil-poor emerging market countries tend to suffer most from high oil prices, as the costs of the oil they need to fuel economic expansion raises. While energy stocks often get a boost from rising oil prices, this is unlikely to happen this time round. Because of the risk of high price volatility with Iran on the upside and Greece on the downside this is not an environment where the energy sector overall could outperform the broader market. As soon as oil price volatility increases, the earnings visibility decreases, and then investors get concerned and exit. GLOBAL MARKET IN IRAN 5