



## The Effect of Correcting the Fuel Price Gap on Economic Growth in Iran and Selected Countries

### 1. Introduction

The energy sector is the main building block in economic and social activities for this reason, over the past decades, governments have considered subsidies for energy consumption with the aim of supporting low-income households, reducing the unemployment rate, maintaining energy security, and supporting domestic production. The experience of different countries of the world and economic theories show that usually energy subsidies are not a suitable tool to achieve the desired goals and even more problems such as increased consumption and waste of resources, government budget imbalance, energy trade balance, redistribution of resources in favor of wealthy groups. income, preventing the development of renewable energy production plans, reducing investment for optimal energy consumption and reducing the economic efficiency of other production factors such as capital and labor compared to energy, the emergence of technologies that waste scarce resources, the non-competitiveness of manufactured products in global markets, increasing bureaucracy, Increasing the size of the government in business activities and providing the economic grounds of the government, especially the smuggling of subsidized goods. energy subsidy leads to a decrease in economic growth through a negative impact on the government's debt balance Also, the subsidy paid in the energy sector by keeping the prices low leads to a decrease in profit or loss for the producers and reduces investment in the energy sector and leads to a decrease in economic growth. Therefore, this research seeks to answer the question, does removing energy subsidies in countries that pay higher energy subsidies and constantly apply energy price reforms lead to economic growth?

### 2. Theoretical framework

Based on the studies done, subsidy in the energy sector can affect economic growth through different channel:

- 1) Through the corrective effects of energy subsidy reduction. An increase in the price of energy and its rational consumption will lead to an increase in the efficient use of energy, which in turn will have a positive effect on economic growth and will lead to economic growth.

- 2) Providing energy saving alternatives. Attracting more private investments for the energy sector leads to strengthening economic growth in the long term.
- 3) Reforming the energy subsidy in the energy sector by reducing the energy price gap leads to a reduction in production costs in the short term. Which leads to the redistribution of resources that consume less energy, which leads to an increase in labor demand, by attracting labor in the production process, it leads to an increase in labor income, which in the long run can lead to an improvement in economic growth.
- 4) In industries where energy plays a role as an intermediate input.
- 5) The high amount of subsidies paid in the energy sector.
- 6) Heavy energy subsidies encourage excessive energy consumption. Which leads to the redistribution of resources that consume less energy, which leads to an increase in labor demand, by attracting labor in the production process, it leads to an increase in labor income, which in the long run can lead to an improvement in economic growth.

### 3. Methodology

In this research, to investigate the effect of fuel price gap correction on economic growth in Iran and selected countries (China, Estonia, Jordan, Laos, Mongolia, Russia, Vietnam, Yemen, and the UAE) for the period of 2000-2018, using theoretical and previous studies. Especially the study of Gabriela Mundaka (2017), relationship is specified as the model of this research.

$$GDP\ Per\ capita_{it} = \beta_0 + \beta_1 price\ gap_{it} + \beta_2 price\ gap_{it}^2 + U_{it}$$

### 4. Discussion

The price gap is at negative levels and the second power of this change is positive, which shows the U-shaped relationship between economic growth and the price gap, and considering that the subject of study can be fuel subsidy. Therefore, raising fuel prices leads to economic growth in these countries. So that an increase of one unit in the price of diesel increases economic growth by 8.84 units on average. Therefore, raising fuel prices leads to economic growth in these countries. So that an increase of one unit in the price of diesel increases economic growth by 8.84 units on average

### 5. Conclusion and Suggestions

Based on the results of the research and considering that the price of fuel in the studied countries is lower than the global price of fuel, or in other words, they receive fuel subsidies, the increase in fuel prices in these countries (decrease in fuel subsidies) will cause economic growth in the studied countries. Therefore, taking advantage of policies to deal with price increases and also the government's role in redistributing subsidies can be important in the issue of correcting the fuel price gap.

## **6. Ethical Considerations**

### **6.1. Compliance with ethical guidelines**

The authors of the article declare that research ethics have been observed in this article.

### **6.2. Funding**

It was done without financial support from any particular organization.

### **6.3. Authors' contribution**

All the authors of the article contributed to the editing of the article.

### **6.4. Conflict of interest**

The authors of the article declare that there is no conflict of interest.

### **6.5. Acknowledgments**

The authors of the article, the respected referees, who improve the quality of the article with their valuable comments, are grateful.