



**The Role of Recession and Boom in the Effect of Rent of oil
Resources on Financial Development Index in Iran: Is the
Quality of Institutions Relevant?¹**

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INTRODUCTION

The current research has investigated the role of economic recession and prosperity and the quality of institutions in the effect of natural resource rent on Iran's financial development index in the period of 1984-2018. The increase in the rent of oil resources in the country may have a different effect on the financial development index depending on the conditions of recession and prosperity, as well as in terms of improving the quality of institutions. Also, the transformation of wealth from natural resources into capital based on modern technologies is an important matter in order to exploit the benefits of abundance. It is natural resources that emphasize the importance of the current research.

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MATERIALS AND METHODS

In the current research, to extract the financial development index and the institutional quality index, the principal component analysis model was used, and also to investigate the role of recession and prosperity in the effect of natural resource rent on financial development with and without considering the institutional quality index, the Threshold Structural Vector Autoregression (TSVAR) model was used. Used. It is possible that the effects of some variables are different in states above and below a limit and value (threshold), and in such a situation, the use of non-linear models that allow the separation of positive and negative shocks and the analysis of their effects in values above and below the threshold, compared to Other models have advantages (Fang Guo, 2013). The threshold vector autoregression model can be expressed as equation:

$$Y_t = A^1 Y_t + B^1(L)Y_{t-1} + (A^2 Y_t + B^2(L)Y_{t-1})I[S_{t-1} > \gamma] + U_t \quad (1)$$

which finally specifies the research model in the form of the following equations:

$$\begin{bmatrix} GRENT \\ GOPEN \\ GINQ \\ GGDP \\ GFDI \end{bmatrix} = \begin{bmatrix} C_{11} & 0 & 0 & 0 & 0 \\ C_{21} & C_{22} & 0 & 0 & 0 \\ C_{31} & C_{32} & C_{33} & 0 & 0 \\ C_{41} & C_{42} & C_{43} & C_{44} & 0 \\ C_{51} & C_{52} & C_{53} & C_{54} & 0 \end{bmatrix} * \begin{bmatrix} e_t^{GRENT} \\ e_t^{GOPEN} \\ e_t^{GINQ} \\ e_t^{GGDP} \\ e_t^{GFDI} \end{bmatrix}$$

$$\begin{bmatrix} GRENT \\ GOPEN \\ GGDP \\ GFDI \end{bmatrix} = \begin{bmatrix} C_{11} & 0 & 0 & 0 & 0 \\ C_{21} & C_{22} & 0 & 0 & 0 \\ C_{31} & C_{32} & C_{33} & 0 & 0 \\ C_{41} & C_{42} & C_{43} & C_{44} & 0 \end{bmatrix} * \begin{bmatrix} e_t^{GRENT} \\ e_t^{GOPEN} \\ e_t^{GGDP} \\ e_t^{GFDI} \end{bmatrix} \quad (2)$$

That, GRENT; The growth of the rent of oil resources, GOPEN; Growth in trade openness, GINQ; Growth Index of Institutional Quality, GGDP; Gross Domestic Product Growth, GFDI; Growth in Financial Development Index and GRENTINQ; The growth of the intersection variable of oil rent in the quality index of institutions.

Based on the weighted average estimate of the product of the factor load in the actual values of the components, an institutional quality index is created, which is presented in graph (1) of the trend of the institutional quality index in the period under review:



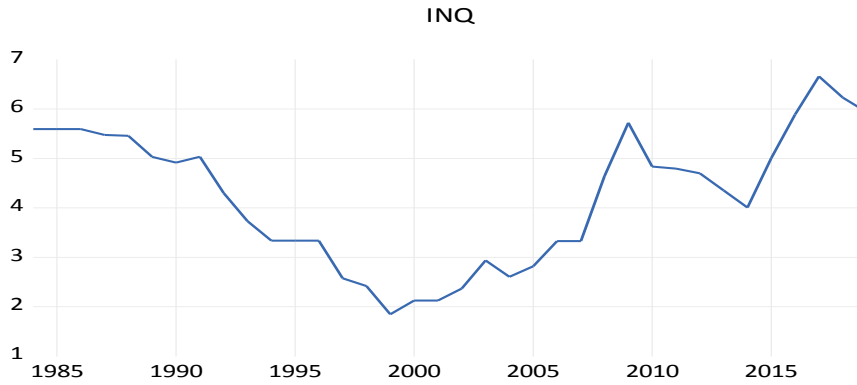


Chart 1. The trend of institutional quality index
Source: Research findings

RESULTS AND DISCUSSION



Chart 2: The reaction of the financial development index in recessionary conditions with regard to the cross-sectional effect of the institutions' quality index
Source: Research findings



Chart 3. The reaction of the financial development index in the conditions of prosperity

Source: Research findings



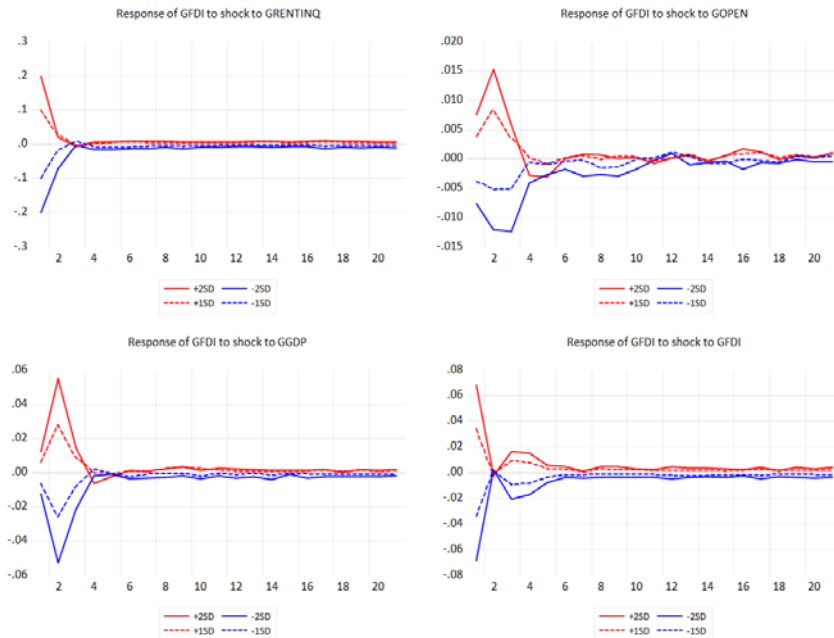


Chart 3. The reaction of the financial development index in the conditions of prosperity in terms of the cross-sectional effect of the institutions' quality index

Source: Research findings

In the conditions of prosperity and recession, the positive shock to the rent of oil resources has had a negative effect on financial development in the short term and has almost no effect in the long term. In the conditions of recession and prosperity, if the increase in the rent of oil resources in the country is accompanied by an improvement in the quality of institutions, in the short term it can lead to an increase in financial development in the country, in other words, the simultaneous improvement in the quality of institutions in the country can be a curse of the oil resources in the short term. To become a blessing for financial development in the country.

CONCLUSION

Based on the results of the research, the impact of oil resource rent on financial development in the country does not depend on the conditions of recession and economic prosperity, and depending on the quality index of institutions in oil resource rent, the type of influence on financial development will change. This shows that the influence of oil rent on financial development Financial development in the country is

not dependent on the country's economic conditions, and this can be seen in the equal impact of oil rent on financial development in recession and boom conditions, in both cases with the cross-sectional effect of oil rent on the institutional quality index and without considering the cross-sectional effect of this. Something important has happened. But on the other hand, the simultaneous increase in oil rent and the quality of institutions in the country has changed the effect of oil rent on financial development, and in terms of the intersectional effect of improving the quality of institutions, the curse of oil resources has turned into a blessing for financial development in the country, but only in It has happened in the short term. Based on the results, even if the quality of the institutions in the country improves simultaneously, the oil resources and the increase in the resulting rent cannot be considered as a long-term factor for the improvement and growth of the financial development in the country. Therefore, in order to prevent the bad effect of oil resources on the financial development in the country, the conditions for the further growth of foreign trade should also be provided in order to provide the possibility of long-term improvement of the financial development. Also, the role of the National Development Fund as a factor in reducing the role of oil revenues in the government budget should be highlighted so that the rent of oil resources does not spread from the government budget channel to other parts of the country and prevent corruption.

Keywords: Business Cycles, Financial Development, Institutional Quality.

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