
4. Currency Change in Iran

Prelims Syllabus: International Policies & Schemes

Mains Syllabus: GS-II Effect of policies and politics of developed and developing countries on India's Interests, Indian Diaspora.

Why in News?

- Iran has recently planned to re-name and re-value its currency.

About the News:

- Long called the rial, Iran's money will soon likely be called the Toman, and an impressive four zeros will be shaved off all denominations.
- What was previously 10,000 rials will become one Toman under the plans.

What's the Issue?

- Iran has seen the value of its national currency decline steadily since the Islamic Revolution brought the religious government to power in 1979. That drop has accelerated in recent years as harsh US sanctions battered the country's economy.
- The currency has been devalued 3,500 times since 1971. It declined steadily since the Iranian Revolution, 1979 brought the religious government to power.

The Devaluation of the Rial has been Marked by four Key Turning Points:

- **The Islamic Revolution of 1979:** When the government of the Western-allied Shah collapsed and an ideological cadre of mullahs took over, many entrepreneurs and business moguls left the country for fear of persecution, and they took their wealth with them.
- **The end of the Iran-Iraq war in 1989:** It took Iran almost eight years to rebuild its shattered economy, during which time the rial lost almost 100% of its value compared to the US dollar thanks to rampant inflation and the unchecked printing of cash.
- **Last years of hard-line President Mahmoud Ahmadinejad's tenure:** Before he left power in 2013, Iran was slammed with severe international sanctions that saw the rial haemorrhage almost 400% more of its value on global currency markets.
- The last major turning point, which is still playing out, came when President Donald Trump pulled the U.S. out of the nuclear deal. It was like an electric shock that sizzled through every aspect of Iran's already Beleaguered Economy.
- The rial's plunge has continued, leaving it almost 600% weaker against the US dollar than it was before the Revolution.

What Else Contributed to this Crisis?

- Iran has faced a litany of financial disasters since 1979, including international sanctions that have severely limited its ability to sell oil, which in turn have all but dried up its primary source of revenue.
- The government has also implemented strict rules on access to foreign currency, leading to a flourishing black market for non-Iranian cash inside the country and further eroding the value of the national currency.
- The global pandemic has piled even more stress onto the lives of people already bludgeoned by a White House bent on ramping up maximum pressure on Iran.

What are the Implications of the Latest Move?

- If implemented carefully and as part of wider Financial Reforms, Redenomination would be a positive move but hardly an answer for all the country's intertwined economic woes.
- However, it was a necessary action to simplify Financial Transactions.
- It would vastly simplify financial calculations by eliminating the need for Iranian shoppers to carry loads of rials to make purchases, which they have to do because of inflation.

