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RESEARCH ARTICLE

Recurrent exchange rate shocks and Anfal in Iran

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Abstract

The Iranian economy under the Islamic Republic of Iran has experienced 9 exchange rate shocks since the 1979 revolution. In particular, the shocks intensified with the sanctions on Iran in 2011. Many econometric tests have identified the effects of shocks, but the institutional sources of these shocks are underexplored. The contribution of this paper demonstrates that the Iranian macroeconomic dynamics are shaped by institutional factors. *Anfal,* the exclusive property of *res nullius* by the supreme jurisconsult, and the Shiite political capitalism deriving from it, foster parallel institutions, specifically parallel public treasuries, and speculative (hoarding) behaviour among agents, which in turn cause recurring exchange rate crises. Different economic policies of fundamentalists and reformists in the Islamic Republic of Iran are critically assessed, and the importance of constitutional elimination of the religious public finance (*Anfal*) and the creation of a unified secular public finance system is discussed.

Keywords: *Anfal*; exchange rate shocks; Iran; mega-inflations; political capitalism; Velayat-e Faqih

JEL classifications: O53; P1; P4; P43; P48; P52

Introduction

While many countries faced exchange rate shocks in the 1990s and 2020s, the Iranian economy is unique in experiencing nine such crises since the 1979 revolution[1]. The most recent began in December 2024 following Donald Trump's re-election. These shocks intensified after the imposition of severe sanctions on Iran in 2011, producing higher inflation, eroded purchasing power, reduced capital investment, and heightened political-economic instability.

Trump's 'maximum pressure'[2] policy, launched in 2018 after his unilateral withdrawal from the Joint Comprehensive Plan of Action (JCPOA), fuelled inflationary expectations among Iranian economic actors. In response, President Rouhani's government fixed a low official exchange rate to shield basic goods, food, and medicine. This policy backfired, triggering a severe exchange rate shock and scandals involving massive rent-seeking, notably by the President's brother through manipulation of rate differentials.

After Trump's 2024 victory, President Masoud Pezeshkian's economic advisors pursued the opposite strategy: ending administrative pricing and moving toward a managed float. This too failed,

[1]All the statistical data in this paper is from the weekly economic journal, *Tejarat-e Farda*, nos. 558, 577, and 579, as well as those of the Central Bank of Iran and the Statistical Centre of Iran.

[2]I do not examine here the Israeli invasion of Iran on June 13, 2025, and the war's impact on the exchange rate during the 12-day war between Iran and Israel supported by the USA, then the ceasefire, and the uncertainty regarding its stability. This requires another study.

unleashing unprecedented depreciation and fears of mega inflation in Nowruz 1404 (starting on March 20, 2025).

A substantial literature has analysed the effects of exchange rate shocks and volatility on micro- and macroeconomic variables – such as output gaps and inflation – using Dynamic Stochastic General Equilibrium (DSGE) and various Vector Autoregression (VAR) approaches, including threshold VAR models (Aziminia et al., 2024; Ghoddusi et al., 2019; Heydarian et al., 2025; Rahmani et al., 2023; Rajaee et al., 2020; Sadeghi et al., 2024; Tahsili, 2022). Many Iranian conventional economists,[3] such as Masoud Nili, have also traced the timing of these nine shocks, publishing extensively in *Tejarat Farda* (Nos. 558, 577, 579 published in Persian). Yet while these quantitative studies are invaluable, the institutional roots of recurrent crises remain underexplored. This paper provides the first systematic analysis of these sources.

Defining 'institutions' as 'rules of the game', I distinguish between two kinds of institutions:

1. *Fundamental institutions* – rules that structure ideological and political power and define property rights.
2. *Coordination mechanisms* – market, bureaucratic, cooperative, and destructive forms that organise interactions within fundamental institutions (Kornai, 1992; Vahabi, 2023).

This paper argues that Iran's macroeconomic dynamics are primarily shaped by *fundamental institutions*. Specifically, the system of *Anfal* and the political economy of *Shiite political capitalism* have fostered parallel institutions, rival treasuries, and speculative hoarding. The key vulnerability lies in *Velayat-e Faqih*, which embeds political and economic power in clerical rule and grants the Supreme Jurisconsult control over *Anfal* – ownerless public resources and oil rents. This has produced massive economic conglomerates tied to the Supreme Leader and the Islamic Revolutionary Guard Corps (IRGC), entities that profit from sanctions and shocks, sustaining a speculative, hoarding economy. The original contribution of this paper is to demonstrate, for the first time, how these fundamental institutional arrangements – rooted in *Anfal* and *Velayat-e Faqih* – constitute the structural drivers of recurrent exchange rate shocks. By linking institutional design to macroeconomic instability, the paper moves beyond conventional explanations centred on monetary policy mismanagement or coordination failures, offering a new framework for understanding Iran's chronic vulnerability to currency crises.

The paper is structured as follows. Section 1 reviews the nine currency shocks since 1979 and situates monetary policy within the Comprehensive Monetary Policy Framework (CMPF). Section 2 analyses the two dominant strategies – state and market pricing – especially in relation to Trump's 'maximum pressure'. Section 3 identifies the institutional drivers of recurrent shocks. Section 4 evaluates policy responses and concludes that both official and reformist solutions remain sterile within the logic of *Anfal*. Ending recurrent shocks requires abolishing *Anfal* and creating a unified, secular system of public finance.

1. A review of the currency shocks under the Islamic Republic of Iran

Exchange rate shock is an idiosyncratic disturbance in the foreign exchange market that cannot be explained by macroeconomic fundamentals (Farrant and Peersman, 2006). Based on this approach, NASDAQ's definition of rate shocks as suggested by Nath (2016)[4] indicates rate shocks in time: rate shocks describe a situation when the value of one currency spikes relative to another in an extremely short period of time. Considering NASDAQ's definition, we need to review the evolution of exchange

[3]By Iranian conventional economists, I mean all Iranian economists who follow mainstream economic textbooks in assuming the centrality of the optimisation rule and espouse neoclassical school principles as defined by Hahn (1984, pp. 1-2), namely the rationality assumption, individual reductionism, and the equilibrium paradigm.

[4]See the NASDAQ definition by Trevir Nath on April 25, 2016, https://www.nasdaq.com/articles/exchange-rate-shocks-what-they-are-and-how-they-affect-you-2016-04-25.

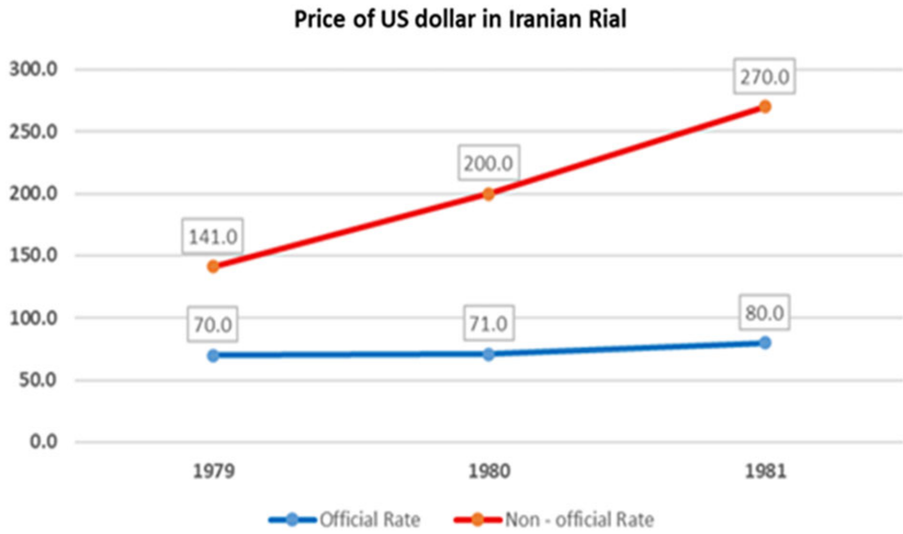

Figure 1. First Shock (1979–1981).

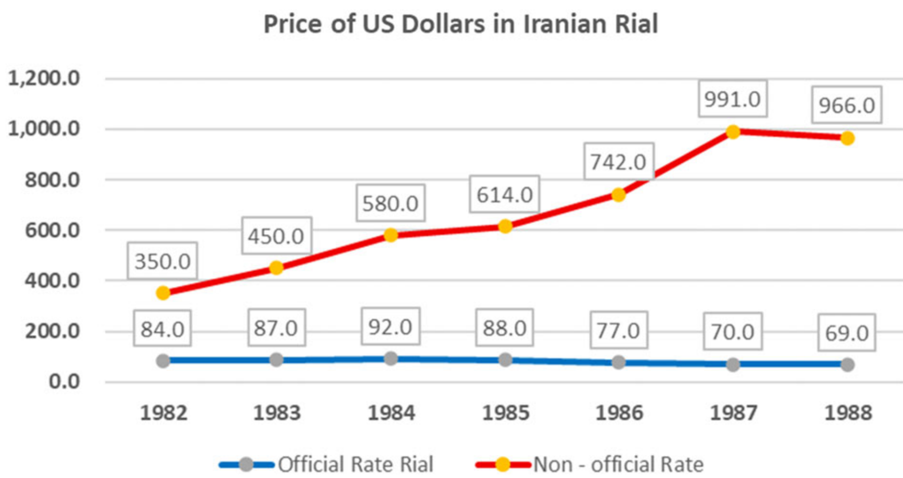

Figure 2. Second Shock (1988).

rates annually from 1970 to 2024. Table 1 provides the data (see Table 1 at https://doi.org/10.5281/zenodo.17046440).

In Iran, from the advent of the Islamic Revolution in 1979 until 2024 (1979–2024), a period of 45 years, nine currency shocks have been documented (see *Tejarat Farda* Nos. 558, 577, 579).

The first shock happened during the first two years of the revolution (1979–1981). Consequently, the dollar, which had remained around 7 tomans (one toman being equal to 10 rials) for twenty years during the second Pahlavi era, rose to 10 in 1978 and then 14 (1979), 20 (1980), and 27 (1981) tomans in the open market, an increase of more than 42 per cent. Figure 1 captures the first shock.

The second currency shock in 1988 had a reverse effect, i.e., the value of the rial witnessed an increase as compared to the past. The prospect of ending the Iran-Iraq war, an increase in oil revenue, and Iran's adoption of the UN Resolution 598 all contributed to this reverse shock in 1988. Figure 2 demonstrates the second shock.

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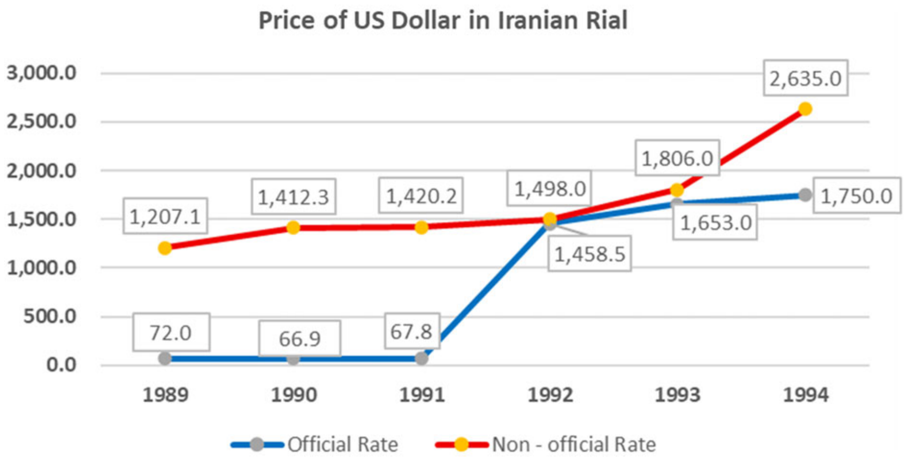

Figure 3. Third Shock (1994).

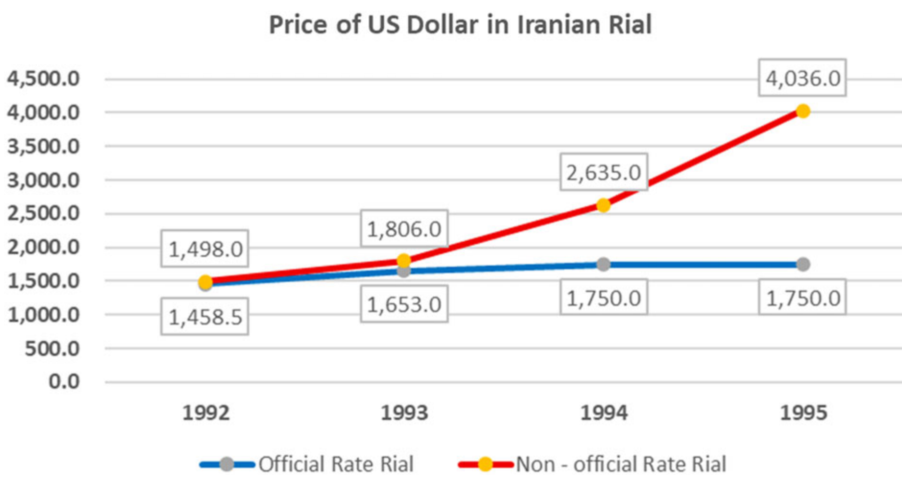

Figure 4. Fourth Shock (1995).

In the following decades, with the decline in oil revenues, the need for foreign loans and misguided currency policies, Iran witnessed several more currency shocks. The third and fourth currency shocks occurred in the first half of the 1990s during the presidency of Akbar Hashemi Rafsanjani. Again, the need for foreign loans and the decrease in oil revenues, together with the challenges of post-war economic reconstruction, were the underlying causes.

In 1991, the gap between official and unofficial currency rates had widened significantly, and the Central Bank of Iran decided to raise the official exchange rate from 67,8 rials to 1420,2 rials to bring it closer to the actual market rate. This official exchange rate adjustment led to a sharp increase in prices and a surge in the unofficial exchange rate in the ensuing years.

The third shock occurred in 1994 with an increase in the non-official exchange rate by approximately 46 per cent (from 1806 rials in 1993 to 2635 rials in 1994) (see Figure 3).

The fourth shock occurred in 1995 with 'a 53 per cent increase in the value of the dollar (from 2635 to 4036 rials)' (Tahmasebi, 2024) (see Figure 4).

Such a leap in the exchange rate had not so far been seen in the country's economy. Inflation also had a similar situation during this period. According to the Central Bank of Iran, the official inflation

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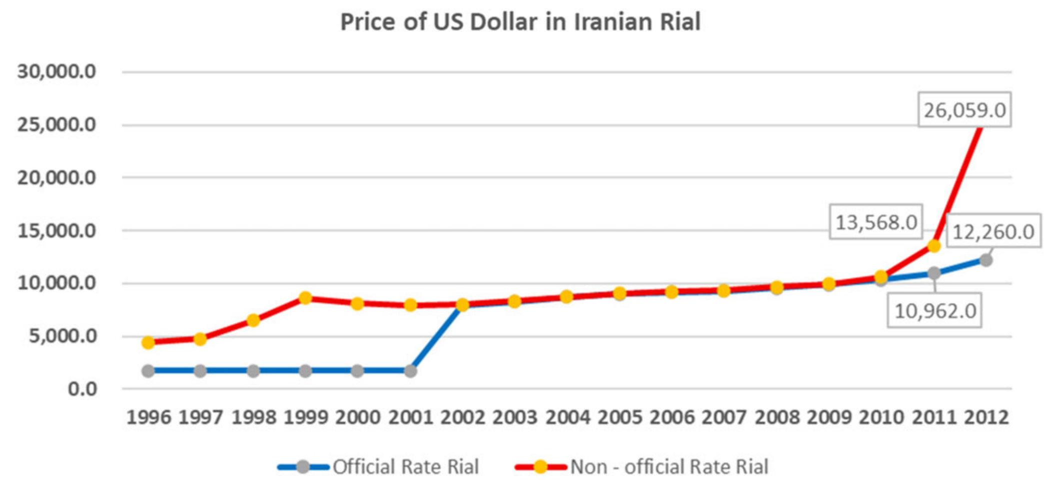

Figure 5. Fifth Shock (2011–2012).

rate for 1994 was approximately 35 per cent, and for 1995 was 49.4 per cent. In the first half of the 1990s, both inflation and the exchange rate soared simultaneously, causing severe economic conditions. In 1995, the uprising in Islam Shahr by the urban workers was an expression of their deep dissatisfaction with rent increases, growing poverty, and water shortages, which resulted in the destruction of banks, government buildings, and the occupation of police stations.

In the following years, the increase in oil revenues during Ahmadinejad's administration prevented new fluctuations, but this fragile stability was lost with the onset of the next decade. Since 2011 till March 20, 2025 (the new Iranian year, or Nowruz), five more currency shocks have occurred.

The fifth currency shock since 1979 occurred in the years 2011–2012, following the intensified sanctions on Iran, leading to a sharp decline in foreign exchange revenues (see Figure 5). The exchange rate increased by 83 per cent, surpassing 10601 tomans for a US dollar. This upward trend continued unabated, and by late 2012, it approached 3000 tomans.

From the beginning of 2013, with the diminishing impact of sanctions and the start of electoral competitions, along with the possibility of reaching an agreement with the U.S. over Iran's nuclear programme as advocated by some candidates, positive expectations among economic actors led to the beginning of a downward trend in the exchange rate.

The sixth currency shock occurred in the years 2017–2018 (see Figure 6). Donald Trump's presidency, marked by the tearing up of the JCPOA and the implementation of 'maximum pressure', initiated a new era of sanctions and currency rate increases. At the beginning of 2017, the exchange rate in the free market was 4,453 tomans, but halfway into the year, the exchange rate increased by 30 per cent, reaching 4,890 tomans. In the last quarter of that same year, the protests of December 2017 took place. These protests, against the high costs of living and the policies of Rouhani's government, soon spread throughout Iran and challenged both the fundamentalists and the reformists.

The year 2018 saw a continuation of the upward trend in exchange rates, which peaked in October at an all-time high of 18,500 tomans before levelling out. As a result, according to Masoud Nili, 'within the span of seven months, the exchange rate increased by 4.7 times. In other words, the increase is only comparable to the eight years of the Iran-Iraq War or the eight years of the so-called "Reconstruction" period under the presidency of Hashemi Rafsanjani'. (*Tejarat Farda*, No. 579, February 1, 2025). It is noteworthy that the Iranian economy had one of its most prosperous years in 2018, generating over 60 billion dollars in foreign exchange earnings. In other words, the exchange rate shock was not due to a lack of foreign exchange reserves but rather a result of inflationary expectations in the market, which were shaped by the withdrawal of the U.S. from the JCPOA and the halt of numerous investment plans by the West, especially European companies and banks. Reminding these points is important for

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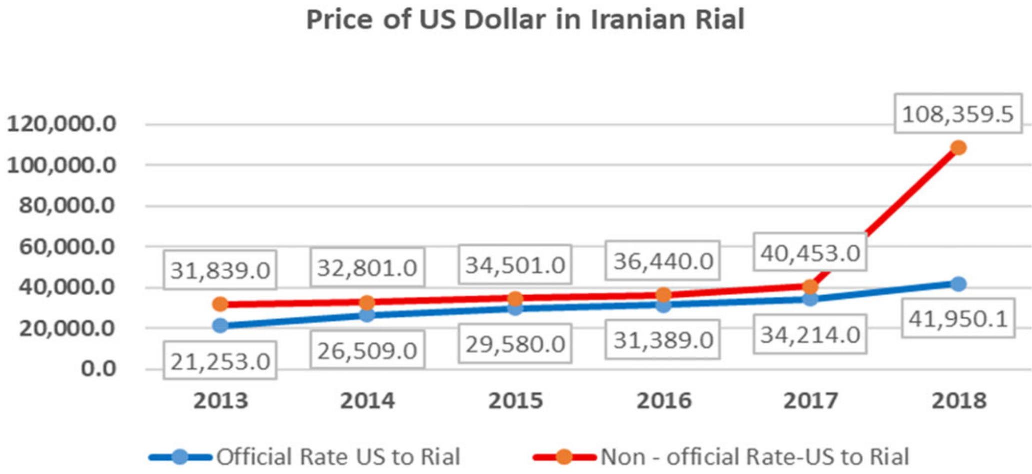

Figure 6. Sixth Shock (2017–2018).

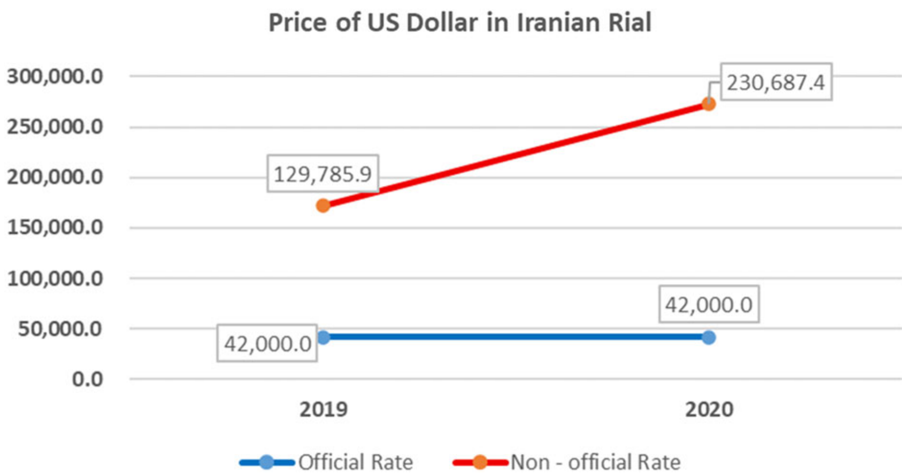

Figure 7. Seventh Shock (2020).

understanding the current situation of the Iranian economy, which is once again threatened by Donald Trump's 'maximum pressure', at a time when it lacks the foreign exchange revenues of 2018.

The seventh shock occurred in 2020, following the protests of Aban 1398 (November 2019) (see Figure 7). These protests were in reaction to the sudden increase in fuel prices, but they quickly assumed an anti-government character. Within a week, protests against the IRI were held in 29 provinces and hundreds of cities. According to a Reuters report, 1,500 people were killed during the suppression (*Reuters*, December 24, 2019)[5]. The Aban protests aimed at the subversion of the entire regime, giving new strength to the opposition that had already been introduced in December 2017 (Dey 1396).

The exchange rate in March 2020 was, on average, 16,500 tomans, but the outbreak of, the COVID-19 pandemic and its widespread impact on global trade increased the exchange rate even further; i.e., less than six months later, the unofficial currency exchange rate in the market surpassed 30,000 tomans,

[5]See *Reuters*, Special Report on Iran, December 24, 2019, https://www.reuters.com/article/world/special-report-irans-leader-ordered-crackdown-on-unrest-do-whatever-it-take-idUSKBN1YR0QO/.

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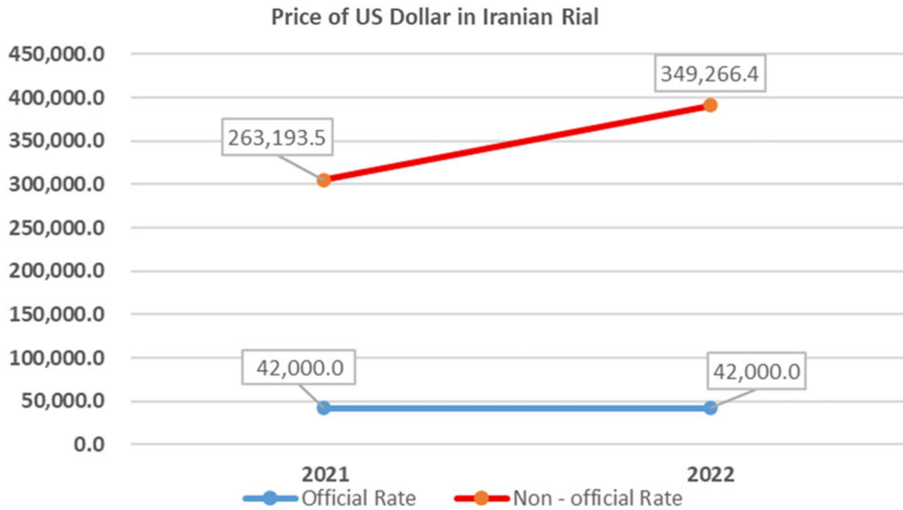

Figure 8. Eight Shock (2022).

recording a new high in the exchange rate. In total, the exchange rate in less than two years (2018–2020) increased ninefold, which was a very big leap (see Figure 7).

The eighth currency shock in this period occurred in the second half of 2022 (see Figure 8). Whereas, in September 2022, the exchange rate was slightly over 33,000 tomans; at the end of 2022, it reached 50,000. This currency shock must be understood within the context of the revolutionary movement of 'Women, Life, Freedom' that engulfed the country until early 2023. The inflation rate of this year has been 46 per cent, which was the highest since 2011.

The ninth currency shock, which we have been witnessing and about which we shall speak in more detail in Section 2, began in December 2024.

By comparing four currency shocks (one of which was inverse) during the period 1979–2011 with five shocks over the period 2011–2025, a conclusion can be drawn that not only has the number of currency shocks in Iran not decreased, but the frequency of their occurrence has shortened, and their intensity has increased. In explaining the intensity of these shocks, we must remind ourselves that if the increase in the currency exchange rate for 32 years (1979–2011) has been 50 times, in the last 14 years (2011–2025), it has risen to 60 times.

Currency shocks have occurred in other countries, such as Latin America in 1994, Southeast Asia during 1997–1998, Russia in 1998, Turkey and Venezuela in 2023 and 2024, and Lebanon and Syria in 2023. But the frequency of their shocks has not been to the same extent as in Iran under the IRI. What is the reason for the multiplicity and intensification of the currency shocks in Iran that might cast light on other recent examples?

Before exploring the specific sources of the frequency of shock rates in Iran, we need to clarify the evolution of the monetary policy framework in Iran. The Comprehensive Monetary Policy Framework (CMPF) project since Bretton Woods classifies countries' monetary policy frameworks based on both domestic (money, inflation) and external (exchange rate) targets, and both *de jure* announcements and *de facto* attainments of targets. Its construction is based on the aggregation of three target variables (TV), namely exchange rate, money and inflation. The coherence of objectives and the effectiveness of instruments in attaining objectives determine the type of CMPF. Following Cobham (2018), three extreme types can be distinguished: 1) incoherent targets and ineffective instruments, known as *Unstructured Discretion* (UD); 2) incoherent targets or ineffective instruments or both only partly so, which is coined *Loosely Structured Discretion* (LSD); 3) a full and effective set of monetary instruments and a coherent set of objectives, called *Well Structured Discretion* (WSD).

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There exist multiple other forms of combination that are discussed in Cobham's (2021) categories of classification. Following CMPF, Iran has been pigeonholed within the subgroup of MENA. In terms of the TV aggregation, MENA and Latin America represent, in some respects, the opposite ends of a spectrum: the latter has a substantial move towards inflation targeting, while in the former the largest element is exchange rate pegs (with a movement over time from fixes to targets), and inflation targeting is attempted, with short-lived success, only by Turkey. The specificity of Iran in MENA consists of starting 'with loosely structured discretion, moved to unstructured discretion from 1980, and then back to loosely structured discretion in 1999'. (Cobham 2024, p.889). Iran has never followed an inflationary target, and most of its intense currency shocks happened during the period of loosely structured discretion (LSD).

The prominence of LSD in Iran reflects the currency misalignments. While mainstream economic literature on the determinants of exchange rates emphasises *economic* variables, it will be shown that Iran's recurrent shocks support the view that *government ideology* and *political institutions* matter and that shocks may strengthen *de facto* institutions (Berdiev et al., 2012, Nur Ugurlu and Razmi, 2023). In the Iranian case, political institutions, notably *Anfal*, and the interest groups related to *Anfal* feed on shock rates and boycotts.

2. Recurrent currency shocks: bureaucratic or market coordination?

Iran's conventional economists, the main advisors to Mr Pezeshkian's cabinet, believe that the reason for the multiplicity and fluctuation of currency exchange rates in Iran lies in bureaucratic coordination or a command economy leading to a constant widening gap between the official exchange rate and its market price under the conditions of international sanctions.

This multi-rate currency system is a stylised fact of the political economy of the IRI since its inception. The efforts made to unify the exchange rate during Hashemi Rafsanjani's presidency, known as the 'Reconstruction era' in 1992, ended in failure. There is no consensus among economists regarding the possibility of unifying the exchange rate under the pressure of sanctions (Tahmasebi, 2025). Notwithstanding this difference, they all concur on one point: the principal factor for currency shocks is the flagrant gap between the bureaucratic and the market price of the currency. In their views, currency shocks reduce this gap because they inevitably urge the state representatives to review the official exchange rate in such a way as to bring it closer to the market price.

A testimony to their claim is Rouhani's experience in confronting the policy of 'maximum pressures' exercised by Donald Trump in 2018 that led to the introduction of the so-called Jahangiri currency exchange at a rate of 4200 tomans, after the name of Rouhani's vice president, Eshaq Jahangiri.

In this context, Reza Tahmasbi's report in the economic weekly journal, *Tejarat Farda*, is apposite: 'Valiollah Seif [the ex-governor of the Central Bank of Iran during President Rouhani] submitted a report to the economic headquarters of the government in June 2017, explaining that the policy on currency exchange cannot continue in its current form and that the central bank should prevent the currency shocks that are likely to occur in the future. Therefore, the currency exchange rate, which is presently manageable, should increase and get closer to the actual [market] rate. The central bank suggested that the gap between the nominal and the actual exchange rate should gradually disappear so that it would not lead to future currency shocks. Unfortunately, this report at the government's economic headquarters was opposed fiercely. The president [Rouhani] was incensed over the proposal to steadily increase the currency exchange rate'. (Tahmasebi, 2024, the brackets were added).

The proposal presented by the former governor of the central bank was regarded as a transition from a command system to a managed floating exchange rate regime (Taylor, 1995). After a hot debate, the fixed amount of 4200 tomans was set as the official currency rate, known as 'Jahangiri currency'.

The Jahangiri currency, which should have been allocated for the import of essential goods, especially medical and health-related and food items, was in practice spent on the import of other goods, including luxury cars and mobile phones. As such, the Jahangiri currency fostered corruption, including scandals involving the president's brother. Ebrahim Raisi's government eliminated the

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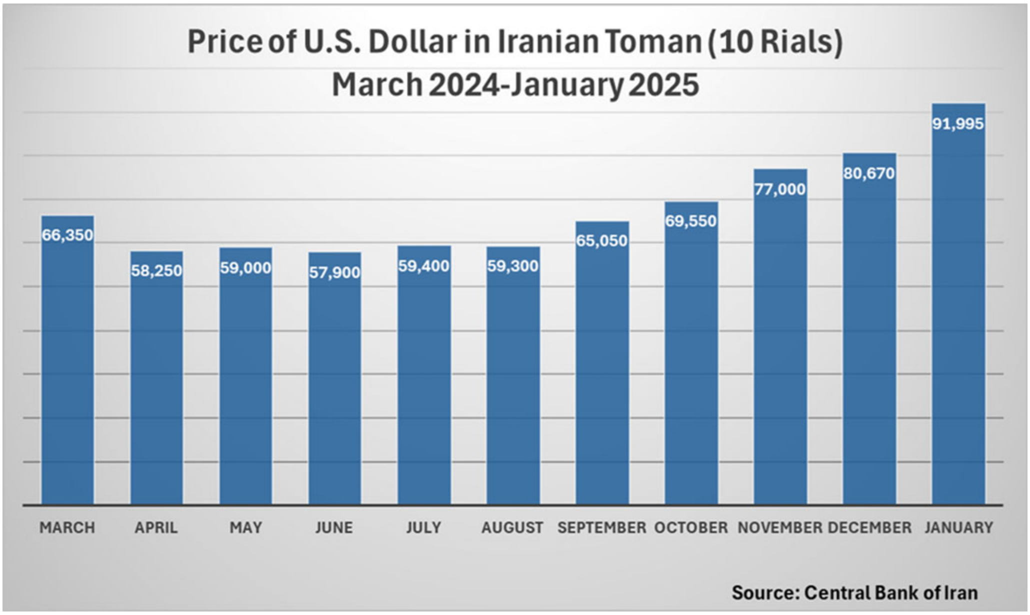

Figure 9. Monthly market prices of US dollars in 1403 (March 2024–January 2025).

Jahangiri currency and kept the mandatory (bureaucratic) pricing. Therefore, the integrated system of foreign exchange transactions (known as NIMA currency) that had started operating based on government pricing in May 2018 continued to exist in Raisi's government.

In 2024, Masoud Pezeshkian abandoned the NIMA system for a 'negotiated currency' at the discretion of the 'experts'. In the negotiated market, the exchange rate is floating and determined through direct agreement between the buyers and the sellers. What was the reason for the advent of the negotiated currency?

In late December 2024, with Donald Trump's victory in the US elections and the possibility of US reversion to 'maximum pressure' with respect to Iran, Masoud Nili and other economic advisors to Massoud Pezeshkian tried to avoid a new currency shock, in view of the shock of 2018 that the country experienced. Hence, on December 12, 2024, a commercial or negotiated currency market was launched. The government announced that in order to reduce rent-seeking in the preferential currency, encourage exports, and bring the official exchange rate closer to the realities of the economy, the integrated foreign exchange transactions (NIMA) shall be replaced with a negotiated exchange rate. From Saturday, December 14, 2024, the price of currency determined through negotiation between the exporter and the importer was pushed up to exceed 59000 tomans (Tahmasebi, 2025). But the rising trend did not stop; the unofficial exchange rate, or its market price, rose from 59,000 in September 2024 to 80,000 in January 2025, leading to the ninth currency shock. Figure 9 demonstrates the monthly evolution of market exchange rates of the American dollar during the Iranian year 1403 (from March 2024 till January 2025).

Contrary to 'experts' expectations, this shock not only did not stabilise the exchange market, but it continued with growing intensity, and in February 2025, the exchange rate reached more than 94,000 tomans with the likely prospect of exceeding 100,000 tomans in the Iranian new year starting on March 20, 2025. The adverse effects of this currency shock on the actual economy are public misery, high inflation, and a terrible shortage of medicine. The situation is so dire that the people's purchasing power can be calculated in terms of the number of potatoes that one can purchase. Although the inflation rate throughout 2024 has been declared at 32.5 per cent by the central bank, this by no means reflects the overall impact of the currency shock. During January and February 2025, the point-to-point

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annual inflation rate soared notably in the case of legumes, with a 106 per cent increase, as well as for fruits and dried fruits with 87 per cent. It is noteworthy that, according to the CBI, the price of potatoes increased more than 200 per cent, and the increase in the price of bread and cereals had been 7.4 per cent compared to the previous month (December 2024). This increase has been unprecedented in the last two and a half years for bread and cereals.

The ninth exchange rate shock can influence the inflation rate through different channels. One of them is the *cost-push* effect. Both the cost of production and the import price of capital and intermediate goods, as well as the value of goods and services in general, will increase.

A second channel is *inflationary expectations* under sanctions and 'maximum pressures' that will also increase the dimensions and severity of inflation (Delatte and López-Villavicencio, 2012; Ha et al., 2020). Fattahi Gakieh (2008) explored the inflation expectations in the Iranian case.

We must add to the two aforementioned factors the specific role of hoarding and speculation by those individuals and institutions associated with the institution of *Velayat-e faqih*, which I shall discuss in the next section. Contrary to the claims by Pezeshkian's economic advisors, who deny the importance of currency shocks as a cause of inflation and consider the liquidity to be responsible for it, currency shocks constitute one of the perennial causes of inflation in the economy of the IRI, in the same way that the increase in liquidity and the monetary base is effective[6]. In fact, during December 2024 and January and February 2025, the liquidity did not increase, and the inflation cannot be explained by the liquidity effect. Both exchange rate shocks and liquidity effect have a reciprocal relationship in the occurrence of inflation that, following Gunnar Myrdal (1944), might be considered as a type of 'cumulative and circular causation' (see also Lundahl, 2022).

As Djavad Salehi has correctly underlined, 'Political uncertainty seeps into local prices through shocks to the currency, which is why the RER graph below moves in tandem with inflation'. Figure 10 provides the real exchange rate (RER) in 2025 rials. RER is the nominal exchange rate in the free market, adjusted for inflation differences between Iran and the U.S. Both countries' CPIs are set to 100 in February 2025, meaning the RER is indexed to 2025 price levels.

As Salehi aptly observes, the sharp rise in the RER over November 2024 and February 2025 – clearly visible in the final section of the graph – indicates that the price of USD in the (narrow) free market has outpaced inflation. The dire exchange rate shocks and inflationary expectations in reaction to 'maximum pressure' might probably engender a dynamic of mega- or 'very high inflation episode' taking place when the *12-month inflation rates* rise above 100 per cent (Fisher et al. 2002).

While the implementation of severe sanction measures against the sale of Iranian oil started in February 2025, the exchange rate shock of December 2024 emanated primarily from the decision made by the government's experts surrounding Pezeshkian. In fact, the measures taken by his government have been a strong sign for the economic agents to imitate the behaviour of the big holders of currency in terms of hoarding and speculation.

Today, everyone has resorted to hoarding to preserve the value of their assets, including workers, teachers, retirees, and Snap drivers who buy one gram of virtual gold or a few hundred of it in 'coins' to prevent the steady decline of their purchasing power from, say, 6 to 3 potatoes. Hence, not only the major currency holders, who are the profiteers of the sanctions, but also their imitators and ordinary people are actively engaged in hoarding and stockpiling activities due to concerns and fears of complete bankruptcy caused by the drastic decline in their income. In this sense, the Iranian economy is neither a socialist 'shortage economy' nor a capitalist 'surplus economy' (Kornai, 1980, 2013). It is a 'speculative or hoarding economy' (Vahabi, 2023, chapter 8).

A review of the 2018 currency shock, which occurred under President Trump's 'maximum pressure' during his first term, confirms the asymmetric results of this shock. While the shock benefited the hoarders and speculators typical of the Iranian economy under the institutional command of *Velayat-e faqih*, its outcome for wage earners and salaried employees was a one-third reduction in their

[6]According to the data of the Central Bank of Iran, the rate of liquidity increase annually before 2017 was 14,5 per cent. During the period 2018–2021, this rate soared to 50 per cent, and since 2022, it has reached to 56,3 per cent.

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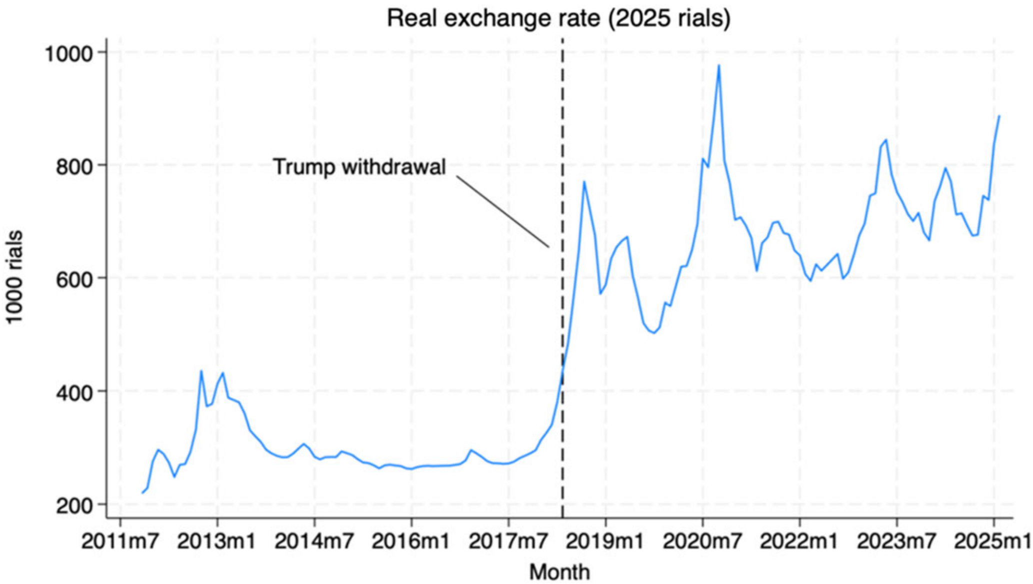

Figure 10. Real Exchange Rate (RER) in 2025 rials.
Source: Salehi (February 25, 2025)

purchasing power. The same scenario is repeated in the 2025 currency shock, with the difference that this asymmetry is more severe. Neither the Jahangiri currency nor price controls could control the 2018 shock, and neither has the removal of state-mandatory pricing and its replacement with a negotiated currency been able to prevent the 2024–2025 currency shock.

The main question is, why, contrary to the predictions of conventional economists and advisors of the fourteenth government, has the replacement of controlled prices with negotiated ones and the establishment of market-based currency prices not been a solution to prevent currency shocks but rather acted as a trigger for them?

3. The causes of recurring currency shocks in the IRI

There is a consensus that currency shocks are reflections of the inflationary expectations of the economic agents and actors. But what do we mean by 'expectations'?

Citing Masoud Nili in explaining the concept of 'expectations', Reza Tahmasebi (2025) avers: 'Expectations, according to economists, are a mental calculation. People act and make decisions based on their specific situations, understanding of the future, and outlook. However, politicians have the misconception that expectations entail psychological factors, such as excitement, emotion, and sensitivity, and are therefore of the opinion that expectations can be managed verbally through speech therapy. Whereas expectations per se follow their own rules and ultimately do not go astray'.

Is Nili's interpretation of the concept of 'expectations' correct? If we follow Keynes (1936), who pioneered the concept, it is not, since it precisely contains the behaviour of economic agents based on 'emotions and sentiments'. To this end, it is more in alignment with what Nili considers the politicians' interpretation of 'expectations'. But this does not mean that inflationary expectations can be remedied by speech therapy, as the empty promises of Mohammad Bagher Ghalibaf, the current President of Majles (Islamic parliament), regarding a consensus between Majles and the executive power could not attenuate the inflationary expectations. It instead led to an increase in the exchange rate of a thousand tomans, raising it to 93,500 tomans in the free market on February 28, 2025. On March 2, 2025, the news of the impeachment of Mr Abdol Naser Hemmati, the Minister of Economic Affairs and Finance,

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by the Majles again increased anxieties, leading to yet another thousand-toman increase in the exchange rate to 94,500 tomans.

This behaviour in the market corresponds to what Keynes called 'animal spirits'. Keynes draws our attention to the impact of emotions and feelings on rational calculation. In his view, under conditions of anxiety, severe price fluctuations, and uncertainty, people tend to experience 'a wave of pessimism' about the market situation, leading them to hoard value and avoid investment. Conversely, with signs of improvement and the resumption of activities, the same people turn to the opposite direction, showing a 'wave of optimism'. Thus, rather than rational calculation, psychological and emotional factors drive investors in the face of high price volatility in the capital market.

Relying on the Keynesian concept of 'animal spirits', Akerlof and Shiller (2010) shed light on the importance of human psychology and its impact on the global capitalist economy under conditions of insecurity and uncertainty.

Therefore, contrary to Nili's interpretation, 'expectations' cannot be reduced to 'a mental calculation' but must be measured based on the 'animal spirit' or the behaviour influenced by the emotions and feelings of economic agents under conditions of uncertainty. To address the question regarding the reasons for the frequency and intensity of currency shocks in Iran after the 1979 Revolution, and especially after 2011, one must pause on the sources of political and economic insecurity to better understand the intermittent emergence of frenzy expectations.

In my view, two factors have been influential in the frequent occurrence of currency shocks: 1) the embeddedness of political and economic factors in the formation of inflationary expectations and 2) *Anfal* and speculative economy.

3.1 The embeddedness of political and economic factors

The trajectory of the history of currency shocks in Iran corroborates the principal role of political factors. Revolution, war, sanctions, uprisings, and popular protests against the government have all directly shaped the formation of inflationary expectations and currency shocks.

The first (1979–1981) and the second (1988) shocks are undoubtedly related to the revolution and the eight-year Iran-Iraq war, and the third (1994) and fourth (1995) are the results of the post-war era known as 'Reconstruction', followed by the emergence of popular protests in Islam Shahr.

Similarly, the five shocks of the period after 2011 are related to sanctions, political protests, and uprisings. Both the first shock of this period in 2011–2012 and the second in 2017–2018 were linked to extensive sanctions and 'maximum pressure'. The third shock in 2020 was associated with the November 2019 protests and COVID-19, and the fourth in 2022 was linked to the 'Women, Life, Freedom' movement, and finally, the fifth shock starting in December 2024 pertained to sanctions and the return of 'maximum pressure'.

In other words, inflationary expectations are shaped not only by *economic* considerations but fundamentally by the role of *political* crises and their potential impact on economic conditions. If we study the mode of accumulation in Iran during the IRI, we find that the intertwining of political and economic factors arises not only from political crises but also from its specific *political institutions* and their impact on economic accumulation.

The regime of accumulation in Iran can be called *political capitalism*, in which the maximum monetary profit is obtained through the special commodity of 'political influence'. If we explain capital accumulation based on the 'Money-Commodity-Money' (M-C-M') equation, then to achieve maximum profit, money must be used as capital to purchase commodities, not primarily for the personal consumption of the capitalist but for the purpose of reselling the same commodities to obtain more money or profit (Marx, 1867/1978; Keynes, 1936). This commodity can be a luxury item, such as pepper in the 14th and 15th centuries, which led to long-distance trade by Venetian and Portuguese merchants between the East and West.

In lieu of pepper, capital goods and labour can be purchased to produce durable consumer goods such as cars or washing machines and sell them in the market to obtain maximum industrial profit.

But let's assume that the purchased commodity is 'political influence' so that we can obtain preferential currency, urban land, or other confiscated assets at a bargain price. In the latter case, we are faced with a special mode of accumulation that can be termed 'political capitalism'. (Riley and Brenner, 2022; Weber 1922/1978). The condition for profitability in this form of capitalism is the possession of political connections and influence, which is far more important than saving and optimising the use of production factors, increasing productivity, competing through lowering prices, or improving product quality. Therefore, 'economic efficiency' is essentially set aside in favour of 'political efficiency' or the accumulation of assets as sources of authoritative power.

This type of accumulation is based on appropriation and plunder, not necessarily on production and exchange. In political economy, it is referred to as an *appropriative* regime rather than a *productive* regime (North, 1990). Predation can indeed occur in both appropriative and productive regimes, but whereas in the former, predation is in stark contrast to production and can lead to *de-accumulation*, in the latter, predation and production complement each other and enhance the process of accumulation (Vahabi, 2016). The political capitalism under the IRI shows a tendency to de-accumulation, notably since 2011, whose long-term effect is manifested in the depreciation of fixed capital, capital flight, and the destruction of ecological resources (Vahabi, 2023, chapter 8).

In accumulation based on political capitalism, the condition of ownership is one's access to sovereign powers, as the elites who own property are inseparable from those holding political power. In such an accumulation regime, the rulers and the owners are one and the same group of people. They are the ones who possess insider information both in the market and in policymaking. As such, their political decisions also affect market expectations. Hence, it is impossible to analyse currency shocks and inflation expectations in Iran without considering the embeddedness of politics and economy.

My other observation is that in all these nine currency shocks, the economic policies of all governments have either followed the logic of price controls or aimed at unifying the multiple exchange rate system and negotiated market price. Yet, both types of policymaking not only failed to prevent currency shocks but also contributed to their creation. What is the reason for this?

The answer should be sought in the fact that the Iranian economy can neither be reduced to a command/state economy nor to a market economy; its third or main pillar is the sector restrictively belonging to *Valeyat-e faqih*. Borrowing game theory, it may be said that the currency shock is, in fact, the result of a non-cooperative equilibrium among three players: (1) the country that imposes sanctions (the United States). (2) The official government and its central bank (Iran). (3) the institutions of *Velayat-e faqih* and *Anfal*.

Undoubtedly, the existence of a multi-rate exchange system and price control has been and will continue to be a breeding ground for rent-seeking and corruption. However, the expansion and institutionalisation of this rent-seeking stem from the *economics of Valey-e faqih and its principal ally, IRCG*. Examining the rent arising from the centres for the procurement and distribution of imported goods in the Ministry of Commerce during the first decade of the revolution, which sold imported goods at a market rate of 170 tomans using the official 7-toman currency, was one of the first manifestations of this problem (see Ahmadi Amooei, 2004). Similarly, the 4200-toman currency of Eshaq Jahangiri enabled rent-seeking by individuals like Hossein Fereydoun.

On the other hand, the elimination of price control and the NIMA system by Pezeshkian's government caused the current currency shock, which in turn has further paved the way for rent-seeking by the institutions of *Velayat-e faqih*, who have made and continue to make full use of this situation for currency hoarding and speculation. The increase in the price of currency from 59000 tomans at the end of September 2024 to over 80 000 tomans in mid-January 2025 and to over 94000 tomans by the end of February 2025, along with the bubble in the price of Imam Sadiq coins (after the eighth *Shia* Imam) during this period, has strengthened and consolidated the position of the main holders of currency and gold, who have been the main beneficiaries of the sanctions. The missing link in the story of currency shocks is this sector of the Iranian economy belonging to *Valey-e faqih* and *IRCG*. Understanding the importance of this sector in the Iranian economy is crucial in clarifying the second factor behind the multiple currency shocks.

3.2 Anfal and speculative economy

The term *Anfal*, as stated in Article 45 of the Constitution of the IRI, considers the supreme jurisconsult not only the sovereign but also the holder of public properties that have no owner (*res nullius*). These properties include assets confiscated from the 'tyrant and usurper' (Mohammad Reza Shah Pahlavi) as well as other illicit properties specified in Article 49 of the Constitution, and the whole mineral resources, especially the hidden ones such as oil and gas, seas, mountains, marshes, swamps, rivers, thickets, forests, and permanently abandoned lands that do not belong to the community of the faithful or the treasury of the Islamic state but to the supreme jurisconsult (for a detailed presentation of *Anfal* in Islam, see Vahabi, 2023, Chapter 5). The *Vali-e faqih* (the supreme jurisconsult), who exerts exclusive ownership rights (and not merely management) over these properties, establishes the Imam's treasury alongside the treasury of the Muslim community. The *faqih* is not accountable to any of the three branches of government, for it is the sole authority on the expenditure of these assets and the way they are to be utilised, including their allocation to institutions affiliated with the regime. Accordingly, the revenues accrued from oil resources do not belong to the government but to *Vali-e faqih* and are allocated to institutions such as the Mostazafan Foundation, the Executive Headquarters of Imam's Order, the Astan Quds Razavi, the Khatam al-Anbiya Headquarters, and the Imam Khomeini Relief Foundation. The dominance of *Anfal* and its allies over the economy did not happen all at once but occurred in stages, with the final stage implemented in July 2006 under the title 'General Policies of Article 44 of the Constitution'. This decree, known as the 'privatisation' of the public sector, effectively transferred the shares of companies, including the Telecommunications Company, to the Executive Headquarters of Imam's Order, the Mostazafan Foundation, the Khatam al-Anbiya Headquarters (the vast economic holding of the Islamic Revolutionary Guard Corps) and other affiliated semi-private companies (Vahabi, 2023, Chapters 6 and 7).

The decree ended the fundamental ambiguity of Article 45 of the Constitution, under which public assets and the state sector were lumped together. State properties were separated from public assets belonging to the *Anfal* sector so that the latter could 'purchase' or acquire the assets of the indebted state at a low price. Therefore, the year 2006 marked the beginning of the *Anfal* sector's dominance over the entire economy, or rather the realisation of the 'Islamic Revolution in the economic sphere'. This transfer occurred during the period of 2006–2011. The exploitation of oil fields by major clerical holdings and the appropriation of foreign exchange revenues from oil rents also took place during this period, especially with the severe American and European sanctions of 2011–2012 and the withdrawal of Western oil companies from oil contracts with Iran. Thus, the sanctions facilitated the dominance of the clerical (*Velayati*) sector over the Iranian economy.

The superimposition of *Anfal* had two important consequences. First, it divided the public finance into two sections: the *Bayt al-Mal* (community finance or public treasury) and the *Bayt al-Imam* (Imam's Treasury). Thus, two governments with two separate budgets were created side by side: the formal governmental budget, which is approved in the parliament every November (Azar mah), and the official budget of the *Velayat-e faqih's* government, which is immune from being overseen by the three branches of government, operating completely under the command of the Imam. The budget of this government and its resources and expenditures are all hidden from the public. The path taken from 2011 up until now has been characterised by the weakening of the formal government and its growing indebtedness, while that of the V*ali-e faqih* has grown in size and strength.

The second consequence of the *Anfal* has been the formation of a hoarding economy by the *Velayati* sector. In fact, conceptually 'political capitalism' and 'speculative (hoarding) economy' are not interchangeable. Political capitalism concerns rent extraction through state power; speculation is a response to uncertainty. However, the specificity of political capitalism in Iran is that it overlaps a speculative economy because it is based on *Anfal,* or the restructuring of public finance into a *fragmented double (parallel) public treasury*. This implies the impossibility of budget control by the CBI to limit liquidity.

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Moreover, in a resource-rich (oil) country under sanctions, this entails the direct distribution of oil revenue among different political factions related to the supreme jurisconsult. These factions have control over both hard currency and the injection of liquidity on the one hand and monopoly rights over the import-export of commodities on the other hand. This also offers the opportunity of commodity and currency speculation. Accordingly, a constant inflationary tendency prevails in the economy. Hence, *Anfal*-based property rules systematically lead to an inflationary tendency shifting expectations and portfolio choices, thereby incentivising speculation and capital flight.

It is this *Velayati* sector that profits from both sanctions and currency shocks. The reason for the increase in currency shocks after 2011 must be sought in the pressure of sanctions as well as in the dominance of *Anfal*. Conventional economists prefer to remain silent about the role and position of the *Velayati* economy. But how can one talk about the necessity of budget control to create stability in the currency market and prevent liquidity increase without, however, mentioning the uncontrollable budget of the *Velayati* government? This is the second main flaw in the analyses of conventional economists.

4. A last word on the need for fundamental economic changes

The Islamic Republic regime has so far adopted two economic policies in response to currency shocks and their implications.

The first policy is based on price controls and police suppression. This has been the main solution by the regime and has been replaced by a reform policy only on a few occasions. In this solution, administrative and bureaucratic mechanisms are used to allocate currency at the official rate for essential goods, together with the creation of the NIMA system for currency forwarding contracts or the obligation to currency transfer obtained from the export of goods and services back to the country of origin. As such, orders are registered, and imported goods are received at the official rate for intermediate goods, etc. The Currency Supervision System (Sena) is another mechanism wherein currency exchange offices register their transactions, and the measured average rate of their transactions is displayed in the system under the title of 'Sena Currency'. But in practice, bureaucratic and administrative controls have not only failed to stabilise the currency market but have also led to widespread rent-seeking, large-scale smuggling of goods and currency, capital flight with an average of ten to twenty billion dollars annually, and numerous corruption cases (Vahabi, 2023, chapter 8).

Characteristically, the complement to the command economy has been police control and suppression of so-called smugglers and currency exchange offices. While the faces of smugglers change and various hoarding kings of sugar, tires, gasoline, and coins are regularly identified only to be forgotten after media uproar, currency exchange offices are always suspected of transferring state currency to the free market. Why is this policy ineffective? Because there is no need to investigate smugglers, the ruling apparatus, with direct access to currency resources, unofficial docks, and complete immunity from any public or governmental supervision, constitutes the main structure of the hoarding economy.

The second policy, known as the reform policy, is based on moving from a command pricing and multiple exchange rates system to a managed floating exchange rate regime, establishing a unified exchange rate system. This solution is not the regime's main strategy but is presented as an economic solution in times of acute currency crises and a complement to negotiations and agreements with the West. Although this economic solution presents itself as an 'expert' technocratic measure and is free from political considerations, its success depends on two major political conditions in foreign and domestic policy: foreign policy must align with an agreement with the West, similar to the JCPOA, and domestic policy must align with what Mohammad Javad Zarif and ex-President Rouhani referred to as JCPOA 2 and 3, meaning the entry of foreign investment and further strengthening of a market-based economy. Both conditions are contingent upon the interests of sustaining the system of *Velayat-e faqih* and its economy. Replacing the state currency rate for a negotiated rate, in the absence of the aforementioned conditions, can not stabilise the currency but causes instability and shock formation.

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Additionally, in the absence of a command economy, the impact of this shock on the poor middle class and the majority of the destitute in society will further enhance their misery.

In other words, the reformist policy has more detrimental outcomes than the initial policy, as state currency pricing accepts the reality of currency shocks and seeks conditions that can make it 'bearable' for the majority of people. Mandatory currency pricing is not in conflict with the dominance of a clerical economy; rather, it forms part of a coherent system. Reforming this system by eliminating state pricing leads to a lack of system coherence and exacerbates its contradictions.

Of course, reverting to price control does not prevent future shocks, but it can somewhat reduce the prices of certain pharmaceutical and food products and serve as a complement to a package of temporary measures to alleviate pressures. This package, in addition to the initiation of sterile police crackdowns, includes a return to quasi-war policies such as the distribution of 60 million commodity coupons, the prior withdrawal of one billion dollars from the *National Development Fund*, the pre-sale of virtual gold by the Central Bank to ease tensions in the gold market, and other traditional government interventions in the economy. The effectiveness of regulatory mechanisms decreases with the ever-dwindling resources and revenues of the government and the increase in its debts, making the continuation of welfare policies such as cash subsidies less feasible or even impossible. This signifies a reduction in the existing system's capacity to manage the country.

Neither the continuation of price control policies nor managed floating exchange rates can solve currency shocks. Preventing currency shocks requires an effective combination of monetary and fiscal policies, especially budget control, not only by the government but also by the clerical institutions, as the opaque *Anfal* sector is stronger than the formal state and market sectors in terms of owning foreign assets and revenues. The first step in addressing currency shocks is the constitutional elimination of the religious public finance system (Anfal) and the establishment of *a unified secular public finance and public treasury*. This entails the collection of all foreign revenues, both governmental and *Anfal*, under a single, democratically controlled and transparent supervision. This means that none of the *Anfal* institutions should have the right to exploit oil fields and benefit from the foreign revenues generated by oil sales. Without creating a unified secular finance system, the usual mechanisms for budget control as undertaken in other countries cannot be implemented in Iran. The reason for the frequency and intensity of currency shocks in the political economy of the IRI is the existence of this specific public finance dependent on the Supreme Leader, which is most opaque, uncontrollable, and unaccountable. The solution to the problem is a fundamental change in the ownership of the country's public assets, which is not achievable through reforms.

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