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Current Currency and Financial Issues of Iran

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ABSTRACT

The study focuses on Iran's monetary and financial challenges between 2018 and 2025, which are caused by a complex combination of external and internal factors that have impacted the country's economic situation. External factors, such as sanctions imposed on Iran, have restricted its access to global capital markets and contributed to the country's financial difficulties. Internal factors like the specific functioning of the banking system, institutional limitations, and monetary policy decisions, including the use of multiple exchange rates, also contribute to these challenges. **The purpose** of this study is to investigate the role of both external and internal factors in the emergence and evolution of Iran's monetary and financial challenges between 2018 and 2025. We employ **methods** of comparative and structural analysis as well as statistical analysis of macroeconomic data sourced from official government reports. Through our analysis of these economic issues, we have been able to draw the following conclusions. Firstly, international sanctions, restrictions on oil exports, the disconnection of the banking sector from global payment systems, and the blocking of assets have significantly reduced the space for maintaining macroeconomic stability and weakened the stability of the national currency. Secondly, internal imbalances, including inefficient currency regulation, vulnerable banking systems, high levels of problematic assets, and limited independence of financial institutions, have increased the impact of external shocks and contributed to the formation of persistent inflation and reduced confidence in the Rial. Monetary and financial instability in Iran is caused by external restrictions imposed on internal institutional and structural vulnerabilities. To maintain macroeconomic stability in modern times, it is essential to adapt to external challenges while also implementing consistent institutional changes that affect monetary policy, the transparency and competitiveness of the foreign exchange market, and the organization of the banking sector. The results of this study have **practical value**, as they provide a systematic approach to understanding the dynamics of monetary aggregates, inflation, and exchange rates in Iran. By identifying the relationships between external and internal factors that contribute to monetary and financial instability, we can develop solutions to improve the country's financial situation and conduct comparative and applied research in global finance.

Keywords: Iran; financial instability; international sanctions; banking system; monetary policy; Islamic finance; inflation; exchange rates

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INTRODUCTION

Iran's current monetary and financial challenges are influenced by several factors, both external and internal. In a broader sense, these constraints are related to the global imbalances that characterize the modern global financial system [1–3]. This phenomenon raises the question of the dual nature of imbalances affecting the economic stability of developing countries in recent years.

The scientific and expert literature on Iran often focuses on the first group of factors — the effects of international sanctions. It is important to recognize that external constraints play a significant role in shaping Iran's economic and financial issues. In several important international reports, such as the Iran Economic Monitor from the World Bank, sanctions are seen as a major macroeconomic factor. Thus, according to World Bank data for 2023, the tightening of sanctions after 2012, and in particular after the US withdrawal from the nuclear deal in 2018, has been the main driver of the devaluation of the Iranian rial, rising inflation, and the deterioration of the banking sector.[1] This is supported by the publications of M. Kandil and I.A. Mirzaie [4], who emphasize that sanctions restrictions form the boundaries for macroeconomic policy in Iran. The emphasis on external constraints is also characteristic of the work of H. Hemmati, M. Tabrizy, Y. Tarverdi [5], who demonstrate that the dynamics of inflation and the exchange rate in Iran closely correlate with periods of tightening of the sanctions regime. M. Hassanzadeh and S. Mousavi [6] in their empirical assessments emphasize the role of sanctions as a trigger of currency and banking crises. The emphasis on sanctions is also present in the works of D. Laudati, M.H. Pesaran, M.R. Farzanegan, E. Batmanghelidj, and N. Bajoghli, among others, who analyze in detail the impact of sanctions on key macroeconomic indicators, the exchange rate, and the financial sector in Iran [7–9].

It should be noted that the choice of the time period from 2018 to 2025 in this article is due to the transition of the Iranian economy to a new stage of monetary and financial instability after the US withdrawal from the nuclear deal and the increased sanctions pressure. However, data from earlier periods is also used in some cases to complete the analysis.

Russian authors also mostly study the impact of sanctions and external restrictions on Iran's monetary and financial systems [10–17]. This topic has become even more relevant after the imposition of large-scale sanctions on Russia, leading to increased interest in Iran's experience of adapting and surviving financially in conditions of international isolation.

However, Iran's experience shows that internal financial imbalances play a significant role due to the specific features of its national regulation, institutional constraints, and structural characteristics of its banking system. In recent years, several studies have focused on these internal constraints and institutional characteristics that affect the stability of the Iranian financial system [18; 19, p. 18–20]. Important material on the banking sector and the impact of macroeconomic shocks on credit risk can be found in the work of F. Abdolshah, S. Moshiri, and A. Worthington. Their research shows that the vulnerability of the banking sector is largely determined by internal factors, such as credit policy, and regulatory deficiencies [20]. A study by M. Vahabi is worth noting, in which the author examines the impact of the Islamic Revolution and political decisions on the economic structure and resource redistribution mechanisms, with a focus on internal contradictions and imbalances within the country's financial system [21]. These studies show that external shocks can often trigger crisis situations, but it is the underlying imbalances created by national monetary policies and the specific features of the banking system, with its concentration of state-owned capital, that

[1] World Bank. Iran Economic Monitor, Spring 2023. Washington, D.C.: World Bank; 2023:18.

determine the severity and duration of these monetary and financial shocks. These considerations have led to the uniqueness of our research — its **scientific novelty** lies in the systematic analysis of up-to-date statistical data on monetary aggregates, inflation, and exchange rates. Additionally, the emphasis is placed on internal institutional and structural imbalances within the economy.

In addition, despite the fact that most of the work was done in 2025, subsequent events in Iran did not reduce the relevance of the issues raised, and further emphasized the importance of internal factors of monetary and financial instability. Thus, the validity of the chosen analytical structure of this article is confirmed: considering external constraints as a key trigger allows us to correctly interpret the evolution of internal problems, and comparing both factors reveals their mutual impact on financial stability. This method helps us to deeply understand the specifics of Iran's monetary and financial difficulties.

EXTERNAL FACTORS

International sanctions imposed since 2012 and reintroduced with renewed vigor after Donald Trump's withdrawal from the nuclear deal have significantly limited the country's ability to access global capital markets, and, as a result, to maintain macroeconomic stability [15, p. 162]. Disconnecting the national banking system from SWIFT, blocking foreign assets, and restrictions on oil exports have become key instruments of pressure on the Iranian economy [16]. The analysis of these areas appears to be the most relevant at the initial stage of considering external factors.

One of the most significant consequences of international sanctions was the exclusion of Iranian banks from the SWIFT interbank messaging system [12]. This measure, first introduced in 2012 and re-introduced after 2018, has severely limited Iran's ability to conduct cross-border financial transactions. The ban on access to global payment channels has made it difficult for Iranian companies to settle accounts with foreign partners, leading to increased transaction costs and forcing them to look for alternative payment methods. As a result, a significant portion of foreign economic activity has been forced to switch to less transparent and less reliable methods. Despite the fact that some of these methods are still used separately, they are not very effective. Barter transactions, for example, have become widespread in trade with Russia, where oil is supplied in exchange for machine-building products or food.[2] However, these transactions are limited in nature and have not been very successful. The practice of settling in gold also developed in a similar manner and became somewhat widespread in the early 2010s. However, the United States responded quickly by expanding control over the supply channels of precious metals.[3] At the same time, settlements through third countries were also used, mainly involving intermediary financial institutions in countries such as Afghanistan, Türkiye, Iraq, and the United Arab Emirates. This scheme allowed Iran to avoid direct contact with banks in countries that enforce sanctions. In this context, the hawala system, which relies on off-balance transfer channels and personal agreements between parties, has become widespread [22, p. 46–47]. In general, although alternative financial channels may not fully replace traditional ones, they can partially or even completely compensate for some of the negative effects of sanctions and help maintain the minimum level of foreign economic activity required.

Next, the blocking of foreign assets should be considered. This measure has started to have a long-term negative impact on Iran's monetary and financial system. Under the sanctions regime, Iran has lost full access to a significant

[2] Natural exchange: why Russia imports oil from Iran — Forbes.ru. URL: https://www.forbes.ru/biznes/356741-naturalnyy-obmen-zachem-rossiya-importiruet-neft-iz-irana (accessed on 07.06.2025).

[3] Exclusive: Turkey-to-Iran gold trade wiped out by new U.S. sanction. Reuters. URL: https://www.reuters.com/article/world/exclusive-turkey-to-iran-gold-trade-wiped-out-by-new-us-sanction-idUSBRE91E0IN (accessed on 07.06.2025).

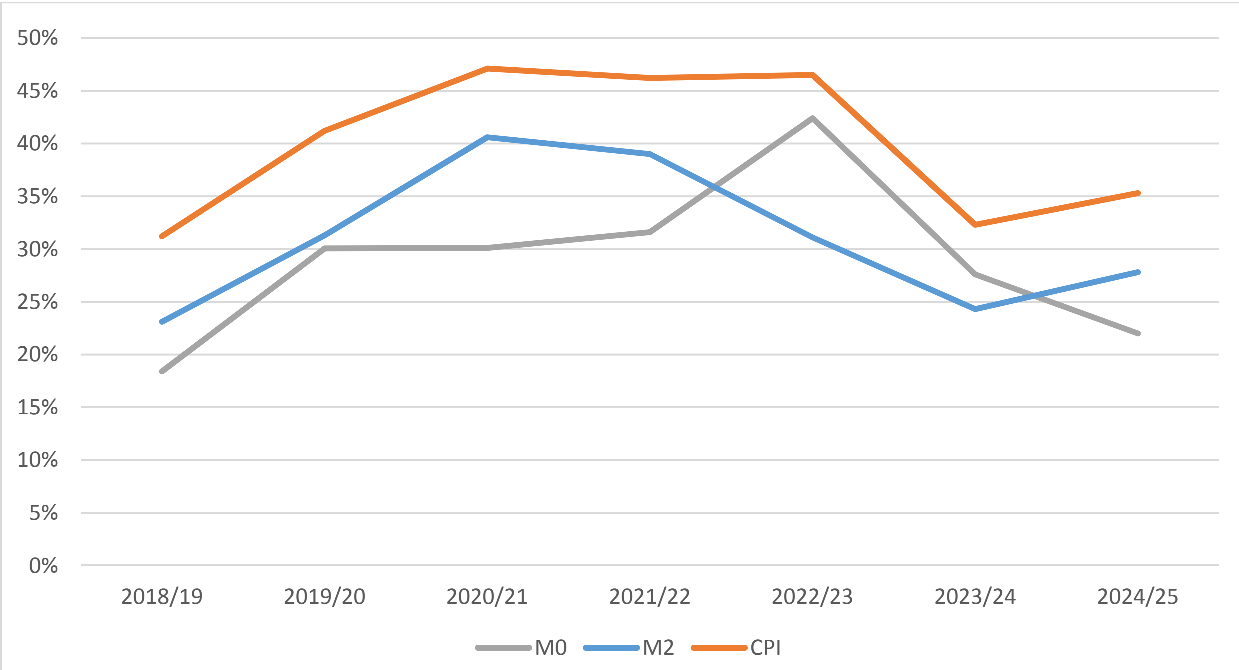

Fig. 1. **The Dynamics of the CPI Indicator and the Monetary Aggregates M0 and M2**

Source: CBI. URL: https://cbi.ir/category/3392.aspx (accessed on 07.06.2025).

Note: The periods are given according to the Iranian calendar. For 2024–2025, the data cover the period from February 2024 to February 2025.

portion of its foreign exchange earnings, mainly from oil exports. Funds accumulated in bank accounts in countries such as China, India, and South Korea can only be used with permission from the relevant countries and exclusively for specific categories of imports.[4] According to some sources, the amount of frozen assets has reached $ 100 billion in some years, creating an imbalance between nominal foreign exchange earnings and actual liquidity. This, in turn, has led to restrictions on foreign trade and the destabilization of the domestic foreign exchange market.[5]

In addition to disconnecting Iran from SWIFT and blocking its assets, one of the most significant sanctions measures was a restriction on oil exports. Oil revenue traditionally forms the basis of foreign exchange earnings for the country, playing a crucial role in financing the budget and maintaining the stability of the exchange rate. With limited access to oil revenue, the authorities have few tools available to maintain macroeconomic stability, putting pressure on inflation and encouraging the monetization of budget deficits. To better understand the relationship between external shocks, monetary expansion, and inflation, we can look at *Fig. 1*, which shows the growth rates of M0 and M2 aggregates, as well as the CPI index from 2018 to 2024.

The graph clearly shows that since 2018, inflation in Iran has consistently been at high rates, outpacing the growth of the money supply. This is particularly noticeable during the period under review, when the M2 aggregate grew at a slower rate than inflation. At the same time, the fastest expansion of M0 and M2 occurred in 2020 and 2022, due to maximum sanctions and a pandemic shock. The state attempted to compensate for the lack of foreign exchange reserves by borrowing domestically and issuing more money. In particular, the M0 aggregate grew by over 30% annually, and in 2022–2023 it increased above 40%. This reflects the scale

[4] Shargh Daily. URL: https://www.sharghdaily.com/بخش-سیاست-6/896274-صاحبان-پول-های-بلوکه-شده-در-خارج-از-کشور-تمایلی-به-اعلام-میزان-وضعیت-این-پول-ها-ندارند (accessed on 07.06.2025).

[5] Tabnak. URL: https://www.tabnak.ir/fa/news/1302836 (accessed on 07.06.2025).

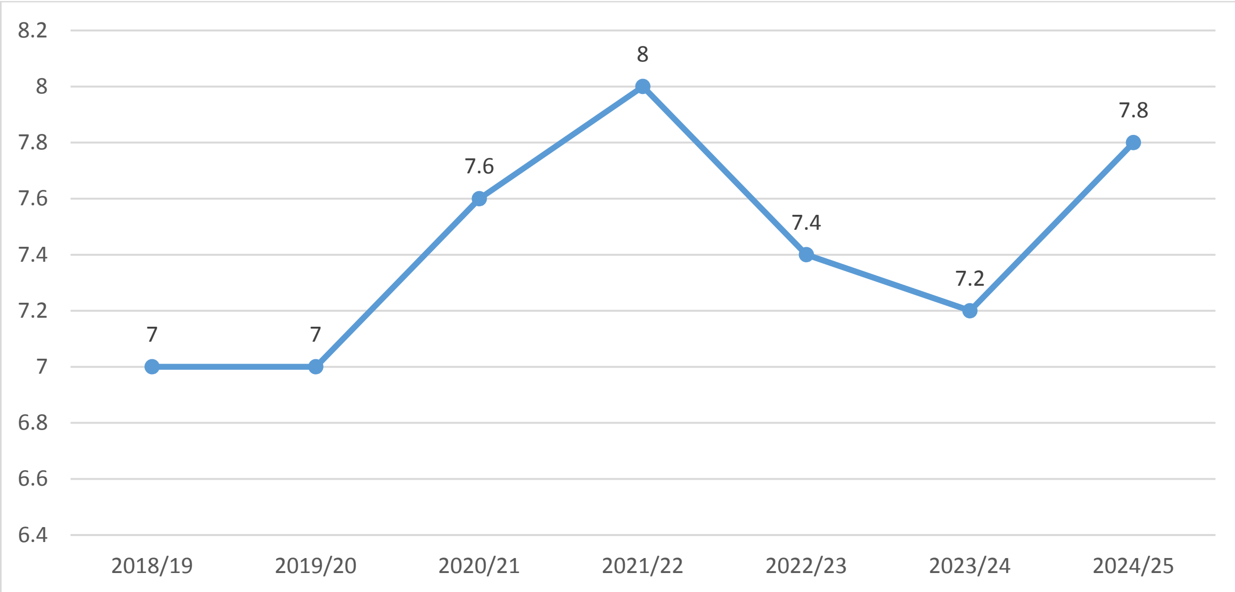

Fig. 2. **The Dynamics of the Money Multiplier Values**

Source: CBI. URL: https://cbi.ir/category/3392.aspx (accessed on 07.06.2025).

Note: The periods are given according to the Iranian calendar. For 2024–2025, the data cover the period from February 2024 to February 2025.

of monetary expansion. The monetization of the budget deficit through the Central Bank led to a situation known as the “inflation tax”, which is described in the scientific literature [23, p. 638], that is, the redistribution of income in favor of the state due to the depreciation of cash and savings of citizens. At the same time, the CPI remained in the range of 45–47%, which indicates a steady inflationary inertia. The dynamics of 2023–2024 deserve special attention. Despite some disinflation caused by the transition to a more flexible exchange rate and the relative stabilization of exports, the price level remains significantly higher than the monetary growth rate. It is also important to note significant fluctuations in the monetary multiplier (*Fig. 2*).

From 2019 to 2021, the value of the money multiplier increased from 7 to 7.6 (M2 increased by about 40%, with an increase in M0 of 30%), indicating the expansion of lending. On the contrary, from 2022 to 2023, the value decreased from 8 to 7.4 (an increase of M2 of 31% was significantly lower than growth in the base M0 of about 42%). This clearly indicates a contraction in the credit multiplier, likely due to tighter banking regulations, directive lending and funding budget deficits.[6] More detailed analysis is required here. According to the Central Bank of Iran’s report,[7] the main contributor to the increase in the monetary base in 2023–2024 was claims on banks. This is confirmed by the World Bank’s graph.[8] On the contrary, the net claims on the government were negative during the same period. This can be interpreted as an absence of direct monetary financing of the budget at first glance. However, such financing can be carried out indirectly through the provision of liquidity to banks. The funds received are then used, including for the purchase of government bonds or participation in quasi-budgetary programs. This mechanism of hidden budget financing through the banking sector may indicate the transformation of classical fiscal dominance into a structural and indirect form. Consequently, such a structure can contribute to the compression of the

[6] World Bank. Iran Economic Monitor, Spring 2024. Washington, D.C.: Bank; 2024:11.

[7] Central Bank of Iran. URL: https://cbi.ir/simplelist/30492.aspx (accessed on 07.06.2025).

[8] World Bank. Iran Economic Monitor, Spring 2024. Washington, D.C.: Bank; 2024:12.

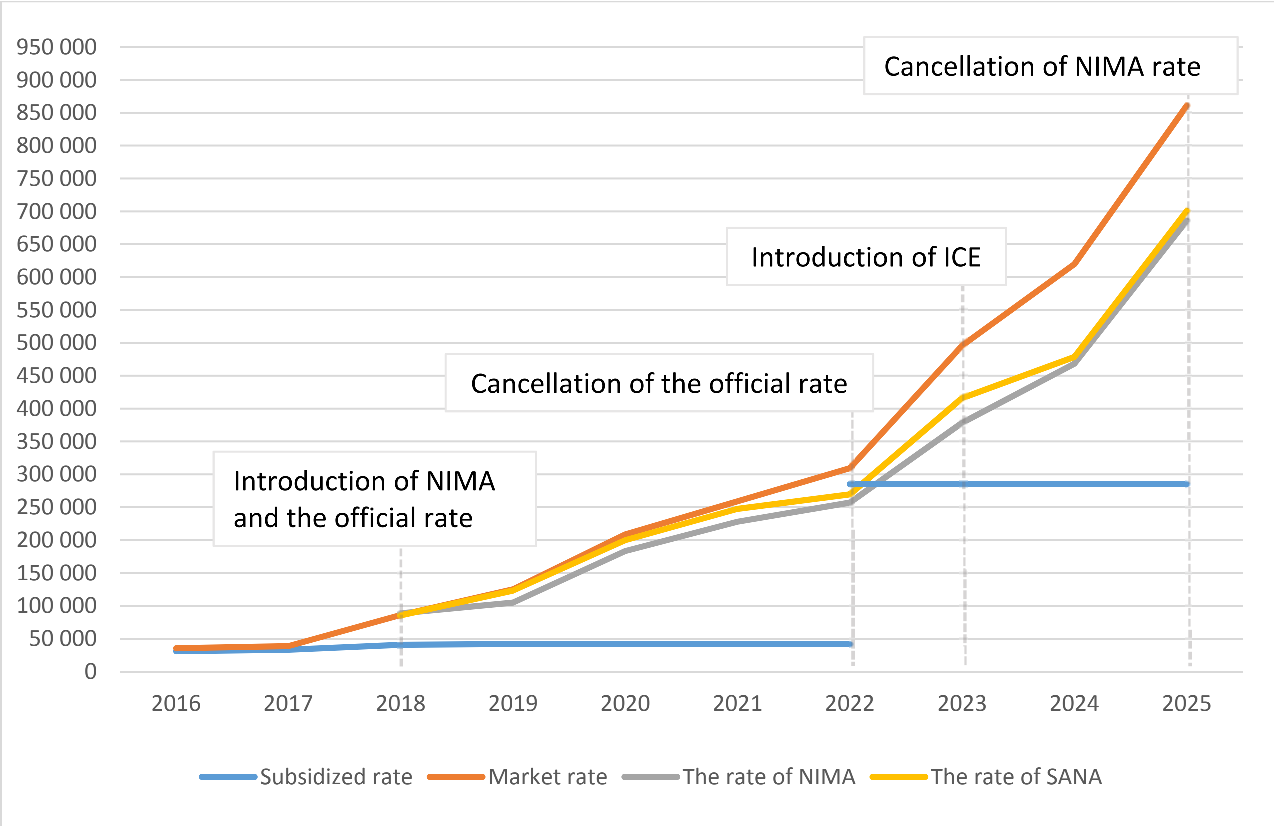

Fig. 3. **The Dynamics of the Iranian Rial to US Dollar Exchange Rates**

Source: CBI, TGJU, ICE. URL: https://cbi.ir/exrates/rates_en.aspx; https://www.tgju.org/; https://ice.ir/market-view/بازار-ارز (accessed on 07.06.2025).

monetary multiplier since liquidity does not grow into an equivalent increase in deposit supply. Thus, the nature of the dynamics of these indicators suggests the underlying nature of inflation in Iran. External constraints trigger the mechanism, but the main pressure on prices is formed internally through fiscal dominance.

INTERNAL FACTORS

As you can see, sanctions on oil exports have become one of the key triggers for structural inflation in the Iranian economy. Since maintaining price stability largely depends on the effectiveness of currency regulation, it is advisable to analyze the internal mechanisms of monetary and financial policies. One of the systemic problems in this case is the exchange rate policy, which has been characterized by multiple exchange rates and administrative opacity for a long time. In recent years, several exchange regimes have operated in Iran simultaneously: the subsidized exchange rate (official exchange rate), NIMA platform rate, SANA cash rate and free market rate (*Fig. 3*).

Each of these systems had a different range of application, level of government involvement, and structure of participants. In response to the currency crisis that followed the sanctions in 2018, a rate of 42,000 rials to the dollar was introduced. Officially, the exchange rate was announced and was intended to be the same for all foreign exchange market participants, but due to limited currency availability, it actually began to be applied only to a limited number of importers of essential goods. In the same year, the NIMA system (Persian: "samane-e nima" — integrated system of currency transactions) was launched, designed for exporters and large importers.[9] Through the platform, exporters were required to sell a portion of their foreign exchange earnings, while importers could

[9] Iran's Economy and the Burden of Multiple Exchange Rates. Atlantic Council. URL: https://www.atlanticcouncil.org/blogs/iransource/irans-economy-and-the-burden-of-multiple-exchange-rates (accessed on 07.06.2025).

purchase foreign currency at a rate that fell between the official rate and the market rate. Despite some degree of liberalization, the system did not fully function as a market-based platform, as the exchange rate was still determined by administrative measures.[10] Against the background of the market rate, which was several times higher than the official rate, a "breeding ground" for arbitrage and speculation was created [24]. In addition, in 2018, the Central Bank introduced the SANA system, which stands for "samane-e nazorat-e arz" in Persian, or "currency supervision system". This system records transactions made by exchangers and publishes the average rate of cash transactions.[11] The SANA exchange rate is a weighted average of the purchase and sale of currency by licensed exchangers and actually reflected the average exchange rate for individuals. In 2022, the Iranian authorities abandoned the 42,000 rials exchange rate, replacing it with a notional level of 285,000 rials, which is also used to subsidize critical imported goods.[12] However, this did not mean the abandonment of exchange rate fragmentation: the SANA rate continued to be used for cash transactions, while the free rate was used in informal transactions, still determining the actual level of inflation expectations. The launch of the Currency and Gold Exchange Centre (ICE) in 2023 was a turning point. This center was established to ensure a transparent and fair market by publicly disclosing quotes, exchange rates, and forming prices based on supply and demand.[13] Currently, ICE has four sections for the foreign exchange market (cash, transfers, currency derivatives, and new types of foreign exchange contracts), and two sections for the gold market (spot trading and futures market). The cash currency section allows major world currencies to be traded in cash to meet the various needs of individuals, such as tuition fees, medical treatments, business trips, and other expenses. The transfer section is designed to facilitate the work of exporters and importers. Currency derivatives segments are also in operation, covering futures, options, swaps, foreign-currency bonds, including murabaha instruments, and certificates of deposit. Transactions in gold bars and coins are conducted on the gold market, alongside gold-based derivative instruments.

As a result of ICE's activities, the NIMA platform gradually began to lose importance and was completely abolished (or rather, integrated into the ICE platform)[14] in 2025. The same applies to the SANA exchange rate: the former system is not actually used, and exchange offices now operate through the ETS (Electronic Trading System) on the ICE platform,[15] where the cash exchange rate is directly quoted. As for the official exchange rate, which was previously published on the Central Bank's website, at the moment it is a weighted average indicator, while the main reference is the rates published on the ICE platform.[16] These changes indicate a gradual transition to a more market-based exchange rate system; however, the government's influence on the foreign exchange market remains significant.

As part of the consideration of internal factors, it is necessary to analyze the banking sector in more detail. This is where the problem of non-performing loans (NPL) comes to the fore. According to the World Bank report, in 2021–2022, the average level of problem loans reached 16.2%, while this estimate does not cover extended (restructured) loans, which make up a significant share of the portfolio in Iran. This dynamic is explained by an insufficiently rigorous assessment of credit risk, the provision of loans based on non-financial criteria, as well as weak supervision

[10] Iran's Rial Gains Slightly As Forex Website Reopens. Iran International. URL: https://www.iranintl.com/en/202504309977 (accessed on 07.06.2025).

[11] TGJU. URL: https://www.tgju.org/sana (accessed on 07.06.2025).

[12] IRNA. URL: https://www.irna.ir/news/84984262 (accessed on 07.06.2025).

[13] Iran Currency Exchange (ICE). URL: https://ice.ir/about-us (accessed on 07.06.2025).

[14] Tasnim News Agency. URL: https://tasnimnews.ir/fa/news/1403/09/22/3218047/رذآ-24-هبنش-زا-امین-رالد-خرن-فذح (accessed on 07.06.2025).

[15] Financial Tribune. URL: https://financialtribune.com/articles/business-and-markets/115822 (accessed on 07.06.2025).

[16] Central Bank of Iran. FX Market Rate. URL: https://fxmarketrate.cbi.ir (accessed on 07.06.2025).

by the Central Bank. The systemic problem of substandard assets is aggravated by the low level of capital adequacy (CAR) in most Iranian banks — more than 70% of banks do not meet capital adequacy requirements, and almost half of credit institutions demonstrate a negative CAR [25, p. 12]. Inflation and revaluation of assets exacerbate the capital deficit, creating bankruptcy risks and an additional burden on the state budget, especially since a significant amount of lending in the banking system is still of a directive nature [25, pp. 11–12]. The Central Bank of Iran continues to be dependent on the executive branch, as evidenced both in the appointment of its management and in the strategic priorities of its monetary policy. Corporate governance problems exist not only at the CBI level, but also in commercial banks as a result of significant government influence, low standards of risk management and weak procedures for selecting senior personnel [25, pp. 13–15]. The quality of supervision by the CBI continues to be insufficient: reporting under IFRS standards is not carried out, which makes it difficult to identify risks, and regulatory measures are often formal [25, p. 25]. Despite this, there are positive developments, for example, the CBI has revised the reporting system in accordance with the international standards of MFSMCG 2016 (Monetary and Financial Statistics Manual and Compilation Guide 2016).[17] A number of experts also speak about a feature related to the activities of the Central Bank, namely, the role played by the principles of Islamic finance, since they have created a strong link between the real and financial sectors, which leads to a redistribution of risks between them and increases the vulnerability of the economy as a whole [25, p. 13]. However, there is reason to believe that this connection between the banking and real sectors may be the result of the high concentration of state capital in banks. In fact, this raises questions about the consistency with the principles of Sharia [26, pp. 145–149]. In Iran's banking system, Islamic norms are often formal in nature: most of the credit and investment products are structured according to Islamic contracts, but, in fact, they reproduce classic lending schemes with pre-agreed profitability and minimization of banking risks. A number of studies have noted that banks charge fees similar to interest under a different legal name [27, 28]. Under conditions of external pressure and sanctions, the "fictitious" nature of Islamic finance and its similarity to conventional banking can increase the flexibility of the financial system and act as a kind of adaptability mechanism that allows for the use of a wide range of tools and supports lending to the real economy, while formally complying with legal requirements.

In general, Islamic banking in Iran has several important differences from that of other Islamic countries, which may be beneficial [29].

CONCLUSIONS

The analysis of Iran's monetary and financial problems in 2018–2025 shows that their origin is due to a complex interaction of external and internal factors. International sanctions, restrictions on oil exports, the disconnection of the banking sector from global payment systems, and the blocking of assets have seriously narrowed the space for maintaining macroeconomic stability and jeopardized the stability of the exchange rate. However, internal imbalances also play a significant role, including inefficiency of currency regulation, vulnerability of the banking system, a high level of problem assets, and limited independence of financial institutions.

An analysis of the dynamics of monetary aggregates and inflation confirms that shocks initiated from outside were largely amplified by internal institutional and structural problems. The growth of the money supply and monetization of budget deficits against the backdrop of a limited inflow of foreign exchange led to sustained inflation and devaluation. Peculiarities of Islamic finance, corporate governance, and concentration of

[17] IMF (2016) Monetary and Financial Statistics Manual and Compilation Guide. 418 p.

capital in state-owned banks reinforce these trends. Monetary and financial instability in Iran can be attributed to external shocks imposed on internal vulnerabilities, and solving this problem requires advances in foreign policy as well as institutional reforms. With the comprehensive modernization of monetary policy, increased transparency and competitiveness in the foreign exchange market, restructuring of the banking sector, and the introduction of modern regulatory standards, it is possible to ensure the sustainable restoration of confidence in the national currency and reduce inflationary risks. Thus, Iran's financial stability depends on its ability to simultaneously neutralize external constraints and eliminate internal structural problems.

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