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COMMENTARY

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Iran's Tumbling Rial Undermines Its Support of Syria's Economy

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Last week, the Iranian Rial continued its historic slide, falling to a record low against the US dollar. Over the course of the week, the price of one dollar in Tehran rose from 34,200 Rials to 37,500 — a ten per cent drop in the Rial’s value. In fact, the currency has lost seventy-five per cent of its value in one year. In late 2011, the price of the dollar was 13,000 Rials. The latest slide in the value of the Rial may well have been expected given recent trends, but the severity and speed of the drop surprised many. Furthermore, it could have an impact on Iran’s allies, such as Syria.

As a result of the currency’s decline in value, prices in Iran have reached new highs, particularly the cost of imported goods and local goods made from imported materials. Such price inflation typically triggers a demand for higher wages. To avoid calls for higher wages, and to mitigate its inability to pay for imports and increased local demand for foreign currency, a government will sometimes deliberately devalue its currency to limit imports and consumption. But there are deeper issues at the root of Iran’s problems. The latest drop in the Rial’s value reflects the seriousness of the economic crisis in Iran.

The sharp decline is due in part to Iran’s loss of many of its hard currency sources. The blockade on Iranian oil exports, estimated to be costing the country US$40 billion to US$50 billion per year, is forcing Iran to sell its oil to countries like India and China at discounted prices, while Iran incurs shipping, transportation, and insurance costs. This is happening when domestic demand for foreign currency is increasing.

Iranians' loss of confidence in the way the country's economy is managed has also been a source of the sharp devaluation of the currency. There appears to be neither a clear economic policy nor economic vision upon which the private sector in Iran can rely. This is pushing business owners, entrepreneurs, and average Iranians with money saved up to demand foreign currencies, which are considered safer.

Meanwhile, Iranian officials have taken to trading accusations over responsibility for the economic crisis. Iranian President Mahmoud Ahmadinejad and other officials have rushed to pin blame on the West, specifically on the boycott imposed on Iran. But Minister of Industries and Business Mehdi Ghazanfari seemed to view the opposition in Iran, combined with local mismanagement, as chiefly responsible for the Rial's significant decline, the associated inflation, and the drop in Iranians' income in real terms. Ghazanfari said he hoped the Iranian security services would clamp down on the speculators responsible for the currency's decline.

This flurry of accusations is a clear indication that Iranian officials do not have an economic policy to halt the decline. Indeed, much evidence suggests that the economic crisis will deteriorate further, reinforcing many Iranians' conviction that the Rial will continue to drop and that they must rid themselves of the currency to avoid losing their savings.

All of this has an impact on Iran's foreign relations and its ability to fund political allies. Iran regularly transfers money to Syria to help Damascus maintain an acceptable degree of economic stability. Although there are no accurate figures, it is estimated that Syria's foreign currency reserves deplete at a rate of roughly US$500 million per month. Syria's need for other sources of foreign currency to maintain the value of its pound will increase as it becomes increasingly difficult for Iran to secure its own foreign currency needs.

As such, with inflation affecting most of the Iranians depending on fixed salaries, estimated to encompass about ninety per cent of the Iranian labour force, it is difficult to see money flowing out of Tehran to Damascus.

Moreover, with foreign remittances and investments going to Syria on the decline, and Syrian exports to neighbouring countries dwindling, it seems that Damascus is under economic siege from its neighbours. And Iran cannot continue to finance trade with or send tourists to Syria. As a result, one of the last sources of supportive economic activity in Syria will dry up, without solutions or alternatives on the horizon.

Syria will find itself compelled again to devalue the Syrian pound as its sources of foreign currency dry up, inevitably resulting in a loss of confidence in the Syrian pound itself. The Syrian economy is barely able to meet the basic needs of its citizens amid a high rate of inflation, declining public services, and the destruction of its infrastructure. Political solutions or compromises are the only way to restore confidence in the Syrian economy. The economy, which has so far show a high degree of resilience, is now losing an important stabilizer and is at risk of collapse.

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