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Tehran Struggles to Defend Currency

By [MARGARET COKER](#) and [ROSHANAK TAGHAVI](#)

DUBAI -- Iranian economists are predicting double-digit currency depreciation by year-end, amid expectations that already high levels of capital flight will increase over fears about Iran's economic direction.

The government has managed to keep depreciation mostly under 5% a year since 2001, despite the U.S.-led sanctions that limit trade with and imports to the Islamic Republic. But economic problems snowballed after President Mahmoud Ahmadinejad took office in 2005. His lavish spending plans and subsidized loan programs to government insiders have exacerbated inflation and decreased currency reserves.

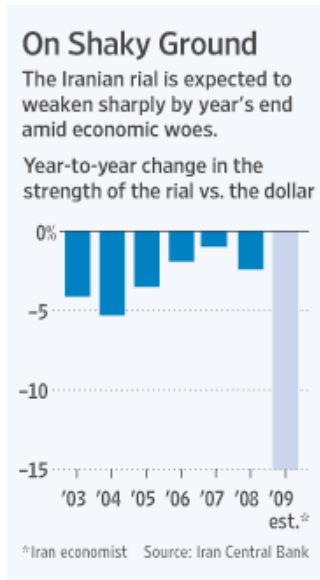
As the president begins his new term, anecdotal evidence shows that the central bank is battling to defend the currency at official exchange rates as more Iranians look to move their wealth to safer places.

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A steep drop in Iran's currency would be a heavy blow to Mr. Ahmadinejad, who is already facing rifts among the country's ruling elite and battling to quash widespread public outcry over his controversial June 12 re-election.

Tehran has limited access to international credit markets because of the sanctions. Monetary policy is facilitated by currency deals conducted through a network of 50 Iranian-run money-exchange dealers inside the Islamic Republic, the wider Middle East and Europe. Members of this exchange network say the government is selling \$180 million to \$250 million daily to keep the exchange rate steady within the 9,700 to 9,900 rial-to-dollar corridor set by the central bank.



That spending exceeds the amount of revenue the country is taking in from the 2.4 million barrels of oil exported daily -- the country's only major source of foreign currency. Oil prices this year are averaging \$60 a barrel. Unless that price strengthens to at least a consistent \$70 a barrel, the rial could fall as much as 15% by December, according to a former Iranian central-bank official.

A government adviser disputes the claim, saying Tehran has the tools necessary to keep the rial stable.

"Ahmadinejad's government has so far followed a simple policy that they will not devalue the currency. There will be serious budgetary pressures, but they will go through austerity measures first, not emergency measures," said the adviser.

Iran doesn't release official economic statistics in a timely fashion. The last official estimate of its foreign reserves published in mid-2008 showed \$80 billion in central-bank coffers. Iranian economists say that figure has dropped approximately 25% in the past year, as oil prices have fallen, but the government hasn't cut its \$290 billion budget that runs through March 2010.

Unlike other Gulf oil producers, Iran has failed to parlay its oil wealth into a well-endowed rainy-day fund, leaving it vulnerable to new economic challenges such as depreciation.

Even ordinary Iranians without ties outside the country are hedging their bets by turning in rials for hard currency. A 29-year-old Tehran taxi driver said that immediately after the election he exchanged \$5,000 worth of rials into dollars. "Things are going to get worse, so I'm waiting for the right time to change the rest of my savings," he said.

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