RESEARCHED IN WASHINGTON | March 07, 2014

# Ukraine crisis hits Iran economy, rial sinks

**SIGNIFICANCE:** Economists say the plunge of the Iranian rial this week was mainly due to the economic blowback from Russian markets tied to developments in Crimea. The episode highlights just how vulnerable the Iranian economy has become to shocks in the few large trading partners, such as Russia and China, it has been able to keep doing business with despite UN and unilateral US Treasury sanctions.

## ON THE GROUND

*"The Iranian exchange market recognizes that Russia is a major trade partner, so if something goes bust in the Black Sea, then Iran will be impacted. Iran's limited number of trade partners has made its economy more sensitive to their political events."*

*– Ali Dadpay, Clayton State University*

## IMPACTS

**SOCIAL:** Crossing the benchmark risks boosting anxiety on the Iranian street, pushing the demand for foreign exchange and further eroding the rial.

**POLITICAL:** A weakened currency could mildly reduce public confidence in President Rouhani's administration as it proceeds with nuclear negotiations.

**BUSINESS:** The impact of Russia's market crisis on Tehran's Stock Exchange and currency reflects Moscow's disproportionate influence on Iran's economy.

FULL BRIEFING

**The Iranian currency took a big hit in the last week, dipping below the psychological benchmark of 30,000 rials to the dollar for the first time in four months.**

The steepest drop in Iran's currency, which happened on the back of uncertainty over Russia's actions in Crimea, reflects the Iranian economy's heightened sensitivity to external pressures as a result of sanctions imposed by the United States and the United Nations.

"The Iranian exchange market recognizes that Russia is a major trade partner, so if something goes bust in the Black Sea, then Iran will be impacted. Any economic upheaval in Russia would affect Iran's economy," says Ali Dadpay, an economist at Clayton State University who travels often to Iran. "Iran's limited number of trade partners has made its economy more sensitive to their political events," Mr. Dadpay tells Monitor Global Outlook.

A European oil embargo, coupled with unilateral US Treasury sanctions isolating Iran from much of the global banking system, has reduced Iranian oil sales by more than half and prevented the country from repatriating billions of dollars in oil revenues. The last three years have also seen Tehran's main trading partners dwindle to a select few. At the same time, Iran has had to rechannel over 80 percent of its financial transactions through banks in countries such as South Korea, India, China, and Russia. The loss of business ties, particularly in Western Europe, has lead to a disadvantageous rise in Russian and Chinese influence (http://www.csmonitor.com/World/Middle-East/2011/1201/As-EU-tightens-the-screws-Iran-looks-toward-China-VIDEO) over Tehran's economy.On March 3, Moscow's currency fell 2 percent, with stocks plunging by around 10 percent as a flurry of panic selling pushed Russia's Central Bank to raise interest rates and sell $12 billion in foreign exchange reserves to support the ruble, according to Reuters (http://www.reuters.com/article/2014/03/03/us-russia-markets-idUSBREA220A520140303). As investors rushed to get rid of Russian assets such as bonds, stocks and currency, the Tehran Stock Exchange (http://www.tse.ir/en/newspage.aspx?Nid=15665) was also hit by Russia's market volatility, with the main index falling by 1.34 percent on March 3 and declining an additional 0.6 percent the next day, before rebounding by half a percentage point.

Meanwhile, Iran's currency has fallen an average 3 percent this week, remaining above 30,000 rials to the US dollar - a key psychological benchmark for market confidence in Iran.