

*In the name of God*

## **Currency Reform, Experiences of Other Countries, Exigencies for Iran**

**By:**

*Soroor Malekan*

**Economic Research and Policy Department  
Central Bank of the Islamic Republic of Iran  
December 2010**

### **Abstract**

The study of monetary policy experiences of other countries indicates that too many countries at different junctures were forced to make endeavors in reforming their national currencies. The inefficiencies in payment and settlement system and weaknesses in national currencies of these countries to properly function as a medium of exchange and the store of value have been major reasons behind currency reform plans in these countries. High inflation over long periods of time has been the main cause for the erosion of the value of national currencies and hence an acute need for currency reform when currency value declines from a low threshold.

Iranian Rial was first introduced in 1308 (1929/30) as legal tender and the unit for national currency and since then a lot of economic changes have happened, notable among them continuous inflation over the course of time. Based on 1383 (2004/05) prices (base year), the CPI which was 0.4 in 1350 (1971/72) reached 183.3 at end-1387 (2009). In other words, the CPI was raised by a factor of 458 over the 37 years of 1350-1387 (1971/72-2008/09). By the same token, a 10,000 rial note of 1387 (2008/09) would worth 22 rials at 1350 (1971/72) prices, or the purchasing power of 10,000 rials of 1387 (2008/09) has declined to 22 rials of 1350 (1971/72). In other words, a 10,000 rial note of 1350 (1971/72) would have a purchasing power of 4,580 thousand rials in 1387 (2008/09), while the composition of notes has not during this period.

The said picture of the composition of currency denominations of Iran has led to a situation whereby smaller note denominations and rial coins are virtually nonexistent in daily transactions in Iran. The per capita of notes in circulation which was about 18 notes per person in 1386 (2007/08) rose sharply to 106 in 1387 (2008/09). Moreover, sharp decline in purchasing power and the nominal value of national notes in circulation have created a lot of difficulty for people and banks which is discussed in this study.

Based on current reforms and the launching of a newly designed electronic payment and settlement system, it seems inevitable that a national currency reform needs to be contemplated. Moreover, the government has already initiated a wide ranging reform plan whereby a component of that relates to currency reform and redenomination project.

An expert analysis of the subject and a comparative study of redenomination plans in other countries need to be carried out, before CBI and other related government institutions commit themselves to this plan. The current study is an effort to analyze the depth and width of the problem and the recognition of different aspects of redenomination plan.

**Keywords:** Iran, Currency Reform, Inflation, Notes and Coins, Economic Stability