

Demonstrations in Iran in Protest of the Sharp Rise in Prices of Basic Goods

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In recent days, demonstrations have erupted in Iran, particularly in the southwestern provinces of the country, in protest of the sharply rising prices of basic goods. In clashes with security forces, at least three people were killed, and dozens of protesters were injured and arrested. The price hikes are the result of the government's decision to abolish the official subsidized exchange rate intended for the import of a number of basic food products. The widening gap between the subsidized exchange rate and the free-market exchange rate has created distortions in the Iranian economy over the years. In addition, the rise in world wheat prices following the war in Ukraine has exacerbated the problem of smuggling subsidized basic goods from Iran to its neighbors. At this point, protests remain limited in scope and the regime seems to assess that it can contain them. However, they provide additional evidence of the severe economic crisis that is forcing President Raisi to take drastic measures, even at the cost of a possible resumption of protests, especially given the already dire difficulties facing Iranian citizens.

In recent days, demonstrations have broken out in several areas across Iran in protest of rising prices of flour, oil, eggs, poultry, and dairy products, which have sharply increased by tens to hundreds of percent. Most of the demonstrations took place in the southwestern part of the country, mainly in the provinces of Khuzestan, Lorestan, and Chaharmahal and Bakhtiari. These provinces, where the Arab minority and the Lori-Bakhtiari minority are concentrated, have suffered for years from both economic hardship and severe environmental problems due to continued neglect and a centralized development strategy, creating wide socioeconomic gaps between the center and the periphery and an unbalanced distribution of state resources.

Several dozens to hundreds of people participated in most of the protests. Some protesters chanted slogans condemning regime officials, including the Supreme Leader Ali Khamenei and President Ebrahim Raisi, and attacked shops and public institutions, similar to previous waves of protests in late 2017, the "fuel riots" in November 2019, and the demonstrations in the summer of 2021 over the shortages of water and electricity. Authorities

used tear gas and, in some cases, live ammunition to disperse the protesters. According to partial reports in the Iranian media and social networks, at least three demonstrators were killed and dozens injured or arrested in clashes with security forces. As in previous waves of protests, the authorities disrupted the internet in an attempt to curb the spread of the protest—especially in Khuzestan—to prevent protesters from giving instructions and distributing videos documenting the demonstrations. On May 16, the US State Department issued a statement of support for the protesters and of the right of Iranian citizens to exercise their freedom of assembly and expression without fear of violence and reprisal.

The sharp price increases in recent days are due to the government's decision to abolish the official exchange rate intended for the import of basic food products and medicines (42,000 rials per dollar compared to the current exchange rate of between 250 and 300 thousand rials per dollar in the free market). The decision to eliminate the subsidized foreign exchange rate was made despite estimates that it would lead to a spike in the prices of basic goods. The government justified the decision with the need for "economic surgery" to tackle some of the structural problems facing the Iranian economy.

The widening gap between the official exchange rate and the free-market exchange rate has created distortions in the Iranian economy over the years, making it difficult to stabilize the exchange rate while also exacerbating the budget deficit and the inflation crisis. Similar proposals to abolish the subsidized rate have been made several times in the past but have not been implemented due to fears of price increases leading to the resumption of popular protest. The global wheat crisis following the war in Ukraine has played a key role in the president's decision to implement the current reform. According to the government, the gap between the prices of subsidized basic products in Iran and their prices outside the country has increased significantly due to the rise in world wheat prices, which has exacerbated smuggling to neighboring countries, especially Iraq, Afghanistan, Turkey, and Pakistan.

In an attempt to partially compensate the citizens for the unusual price increases, on May 9, in a television interview, President Raisi announced the distribution of targeted cash transfers for two months, ranging from

300 to 400 thousand tomans per person (about 15–13 dollars) for the nine lowest income deciles, which comprise about 72 million people. In June, these payments are expected to be abolished and will be converted into “smart cards,” for buying basic products at a subsidized price, similar to the current practice in Iran regarding the purchase of fuel. During the interview, Raisi stated that he would not avoid making difficult decisions and called on the public not to panic. Against the backdrop of the demonstrations, Raisi toured one of the main markets in Tehran on May 13 and talked to citizens. He stated that as long as he lived, he would not allow citizens to be harmed by the new economic plan. The president also instructed the minister of agriculture to take the necessary steps to prevent shortages of basic products, especially oil, dairy products, eggs, and poultry.

Although the government’s decision has provoked disagreements between the government and parliament (Majles) in recent months, it has received the support of top regime officials. On May 10, the secretary of the Supreme National Security Council, Ali Shamkhani, wrote on his Twitter account that the implementation of the new economic plan indicates the government’s competencies. The Nour News website, affiliated with the Supreme National Security Council, also expressed support for government policy despite the protests. An article published on the same website on May 13 stated that the government’s decision to make changes to subsidy and cash transfers policies is a courageous step that has won the support of the majority of economists. According to the website, this decision has not been implemented in the past due to the lack of political courage on the part of the government of former President Hassan Rouhani, which preferred political considerations over national interests. The website noted that criticizing of the government policy, which potentially could help implement the economic plan, was a desirable thing. It warned, however, that any action intended to prevent the implementation of economic policy (implicitly, continued protests) constitutes a violation of the national interest and would require an appropriate response from the authorities against those seeking to sabotage government efforts. Iran’s Supreme Leader Khamenei has also expressed implicit support for the government’s decision. In a meeting with workers’ representatives on May 9, Khamenei

called on all state institutions and the public to assist the government in implementing its economic plans.

At this point, protests are limited in scope, certainly compared to the large-scale waves of protests that hit Iran in late 2017 and early 2018 and again November 2019, and do not pose a significant challenge to the regime's stability. However, they provide further evidence of the acute economic crisis, which is reflected in inflation of about 40%, inflated national debt, and a severe budget deficit. The difficult economic situation and the growing despair among the public provide fertile ground for renewing popular protest and indicate the need for providing a solution to the plight of the citizens.

Protests are taking place amid growing criticism of President Raisi's economic performance among his political opponents, less than a year after his election. This criticism reflects growing resentment over Raisi's conduct in economic affairs, especially given his promises to work to improve the economic situation and fight widespread poverty. The economic reform, centered on the abolition of the subsidized exchange rate, may indicate the president's willingness to promote infrastructural and long-term solutions to economic failures, also at the cost of renewing protests. In addition, implementation of the economic reform indicates that the regime estimates that it has the potential to successfully contain further protests. According to the Iranian leadership, economic reforms are essential to adapt the Iranian economy to the conditions of sanctions, and economic improvement is possible only through an "economy of resistance," whose main purpose is to reduce Iran's dependence on foreign sources. Nonetheless, it is highly doubtful that Raisi has the resources to solve the economic problems facing his country, especially without the removal of the economic sanctions that are an important (although not the only) factor in Iran's plight.