



Behnam Khatami
Managing Partner

+98 21 2240 0434
behnam.khatami@namiassociates.com



Mansour Vesali
Senior Associate

+98 21 2240 0434
mansour.vesali@namiassociates.com

Rationalising Iran's FX Regime: Policy Shifts and Legal Spill-Overs

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Background

In the wake of recent developments in the Foreign Exchange (**FX**) market in Iran, there has been considerable discussion and speculation regarding their implications for FX payment obligations. In the past few days, significant updates to the regime have been introduced, directly affecting both importers and exporters operating in the Iranian market and signaling the Government's resolve for a phased move away from overly subsidised FX rate system. Beyond the regulatory dimension, this policy shift is expected to carry important legal implications for contractual relationships among the relevant stakeholders.

Previously, multiple priority groups determined the applicable FX rate for importation. However, a transition now appears underway to overhaul this system and simplify the FX structure for imports. As a result, three foreign exchange rates now effectively coexist: (i) a fairly-subsidised rate, which according to the Government officials, is still exceptionally applicable to items such as wheat and pharmaceutical and medical products¹; (ii) a negotiated rate applicable to essential goods and livestock feed; and (iii) a free-market rate applicable to goods other than the foregoing.

Beyond future arrangements, Iran's evolving FX landscape disrupts existing contractual relationships, as significant gaps have emerged between the current and former exchange rates. Highest-priority subsidised imports now face a sudden fourfold rate differential, profoundly influencing the foreign trade contract dynamics.

Recent Major Changes to FX Policy

Changes to the service-related foreign currency transactions

In late December 2025, the CBI announced Directive No. 04/257423 which sets out FX rate applicable to service-related foreign currency transactions processed through Iran's Centre for Exchange of Gold and Currency (**ICE**).

¹ The new regulations formally exclude wheat, as the Government officials state that wheat and medicine will still be eligible for the subsidised rate. Nevertheless, market experts express doubts as to whether the previous subsidised rate (*i.e.*, IRR 285,000) can effectively apply due to the substantial insufficiency of FX resources.

This category covers diverse FX needs, from minor non-commercial expenses to major ones such as foreign investment repatriation. Service-related currency list, which may be amended by the CBI from time to time, currently encompasses approximately 60 items, with prominent examples including, *inter alia*:

- (a) repatriation of foreign investment and its proceeds;
- (b) legal fees, and the amount awarded in foreign legal proceedings; and
- (c) medical treatment abroad.

This development represents a significant implication for foreign investors regarding the FX rate applicable to repatriation of investment proceeds. Given the current FX market volatilities, investment returns are expected to be increasingly exposed to currency conversion risk. As a result, foreign investors and other affected stakeholders will need to consider appropriate risk management and hedging mechanisms to mitigate their FX conversion exposure.

Phasing out subsidised currency for importation of essential goods

To secure the supply of essential goods to the market particularly during the periods of intensified economic sanctions, the Government previously implemented a policy of allocating currency at a preferential rate for the importers of essential goods. As economic sanctions tightened over the past years, the list of items subject to subsidised FX for importation progressively shrank as a result of constraints on the Government's FX resources.

While there was recently debate as to whether the Government would eventually phase out the subsidised FX for importation of essential goods, the Iranian Government has now officially announced the elimination of the preferential FX rate. This demonstrates a major shift in the FX regulatory regime towards reduced support for importers and a reorientation of support to the end consumers through direct subsidies paid to each Iranian.

According to Article 4 of the Directive on Food Security and Subsistence Support issued by the Council of Ministers on 4 January 2026 (**Directive**), FX allocation for the importation of livestock feed inputs and essential goods (except for wheat)² will be made based on the negotiated rate at the second half of the ICE.

In parallel, Article 5 of the Directive provides that the currency proceeds of the exports by state companies will be allocated to the supply of importation of essential goods and medicine, and medical devices on a priority basis.

The provision of Article 4 of the Directive effectively abolishes the long-standing practice of subsidised FX for essential goods imports. To alleviate the economic hardship imposed on the

² See footnote 1 above.

public as a consequence of the new FX policy, the Government has decided to grant subsidies to all Iranian people eligible under the per capita subsidy scheme, which covers the majority of the population. Accordingly, pursuant to Article 1 of the Directive, going forward an amount equal to IRR 10 million will be allocated to the eligible individuals. For the first four months, the amount is transferred in lump sum. Even those families previously not eligible for the per capita subsidy scheme may apply to receive the subsidy under this Directive.

The Directive excludes wheat from the FX rate regime set forth for essential goods, but according to the Government officials it is still subject to a fairly-subsidised rate. Awaiting further official announcements and considering recent explanations by Iran's Minister of Economy³, it is expected that imports of wheat and medicine will also become subject to the same regime for the category of essential goods and livestock feed importation once the Government ensures the reorientation of subsidies for these items to end consumers.

Expanding the official FX market to shift to negotiated rate

The foregoing changes partially followed another reform earlier introduced in August 2025 concerning the establishment of an additional forum (hall) for FX transactions at the ICE. The second hall of the ICE was hence launched in anticipation of possible FX market volatility following the reinstatement of UN sanctions and the tightening of US sanctions. This measure was also intended to bring the FX rate at ICE closer to the free market rate. With the infrastructure for implementing such major changes now in place, the transition has been streamlined.

While the second hall of the ICE was initially established to facilitate exporters' FX obligations and promote transparency and efficiency in Iran's official FX market, the rates determined there have now gained greater traction as the Government proceeds with the phasing out of the subsidised rate.

In practical terms, however, the significance of the difference between the first hall and second hall of the ICE diminishes as very few items for the time being remain subject to the slightly lower first-hall rate.⁴

Lifting the cap to the value of imports using own funds

A recent amendment to the Implementing Regulation of the Export and Import Rules Law 1994 (**Implementing Regulation**) introduces a major practical update to the requirement that allocation of FX to imports must be sourced from the Central Bank of Iran's (**CBI**) resources. On 23 December 2025, the Council of Ministers amended part of Article 10 of the Implementing

³ The interview with Iran's Minister of Economy on a state TV news bulletin can be accessed [here](#).

⁴ As noted in footnote 1 above, market experts also believe that due to insufficient FX resources, it is doubtful whether the previous subsidised rate can be maintained by the Government for wheat and medicine.

Regulation to provide that commercial card holders who import goods using their own funds or with FX originated abroad shall not be subject to limits on the value of their imports.⁵

This legal development effectively means that importers are no longer required to await FX allocation from the CBI, and they might proceed with other relevant formalities of importation. They may now rely on their own resources or foreign-sourced FX to finance imports without quantitative restrictions, subject to compliance with other applicable requirements.

Despite the foregoing, uncertainty persists regarding the effectiveness of the Implementing Regulation, and how it leads to liberalisation of the FX regime for importation. In practice, the changes will likely prioritise essential goods over machinery parts, luxury items, or non-critical categories. Moreover, further customs-related measures remain essential for rolling out this development.

Removal of the cap on the value of imports financed by private sources, combined with the gradual elimination of the subsidised FX rate, signals a loosening of the stringent FX regime, which was characterised by strict state control over currency allocation for importation.

Legal Implications for Contracts

The impact

As changes to the FX regime in Iran widen, their far-reaching implications, beyond regulatory compliance, become crucial for businesses in their contractual relationships, particularly those regarding import and export or other transactions denominated in foreign currency. As noted above, the FX rate applicable to subsidised essential goods increased nearly fourfold overnight. This development is expected to have a significant adverse impact on the foreign currency payment obligations of Iranian importers vis-à-vis foreign suppliers. In addition, importers will face substantial cost overruns in respect of government-imposed charges, including import tariffs and value-added tax, which are expected to be calculated on the basis of the revised FX rates.⁶

As regulatory aspects may be subject to further governmental interventions, contractual aspects require closer examination to determine how they will be impacted. Certain contract law concepts such as hardship, contractual imbalance, and adaptation of contractual terms are particularly relevant in this context.

Changes to applicable FX rates for imports impose approximately fourfold payment obligations on importers of essential goods if clearance through customs has not yet occurred. Even imports cleared through customs via the minimum documentation process are subject to

⁵ The enforcement of this Implementing Regulation remains subject to the issuance of further directives by the Customs Administration and other relevant governmental authorities.

⁶ Although, in similar circumstances, the Government has previously applied subsidised FX rates for the calculation of such duties, the approach may differ in the present context. In any event, the matter remains subject to further clarification by the Government, including the Customs Administration.

substantial payment obligations, which may be enforced through notarised commitment letters undertaken by importers.

Apart from the newly applicable FX rates, customs clearance costs also impact importers since collection of fees such as customs duties may also be subject to the new rates. However, authorities may announce whether new rates apply, potentially raising final market prices for imported goods.

This dramatic increase in importers' payment obligations practically means import trade contracts or domestic contracts stipulating payment in foreign currency face direct disruption from Iran's major FX policy changes. These shifts are expected to impair performance of contractual obligations and contract parties encounter hardship in execution.

Force majeure and hardship

While Articles 227 and 229 of Iran's Civil Code⁷ recognise force majeure and unforeseeable events beyond the control of the parties that render contract performance impossible, no comparable provision expressly addresses hardship arising from an imbalance of the rights and obligations of the parties.

In this context, it is difficult to characterise the recent developments as force majeure. The threshold of impossibility required for force majeure is not met, as contractual performance is not rendered objectively impossible. Rather, the policy changes primarily give rise to increased difficulty or economic imbalance in the performance of contractual obligations, a concept which is not expressly articulated or codified under Iranian law.

Price adjustment

Where the costs of performing contractual obligations increase as a result of changes in FX regulations, and in the absence of a contractual clause, Iranian law generally does not provide a remedy to adjust the terms of the contract, unless a specific statutory provision applies. For instance, according to Article 38 of the General Conditions of Contracting Agreements 1999, which only applies to contracting agreements between private parties and governmental bodies and entities in Iran, allows for price adjustment in certain circumstances where FX fluctuations occur.⁸ By contrast, contracts between private parties generally remain subject to their agreed terms and the Civil Code. Therefore, if there is no clause to cover this risk, the parties bear the consequences without statutory relief.

⁷ Article 227 state that “*the party in breach of an obligation will be adjudicated to pay damages only if he fails to prove that the non-performance was due to an external cause that cannot be attributed to him*”. Also, Article 229 provides that “*if an obligor is unable to perform his obligation due to an event that is beyond his ability to overcome he shall not be adjudicated to pay damages.*”

⁸ Article 38(c) states that “*If, in the implementation of clauses (a) and (b), the currency conversion rate changes compared to the rate on the date of submission of the contractor's price proposal, in the event of an increase in the exchange rate, the difference in the currency conversion rate shall be credited to the contractor's account, and in the event of a decrease in the exchange rate, it shall be debited to the contractor's account.*”

Judicial practice in Iran generally does not favour contractual adjustment. Where hardship results in breach of contract, the primary remedy for the injured party is to seek specific performance. In the absence of a hardship doctrine under Iranian law, courts typically enforce contractual obligations without regard to excuses based on economic imbalance.

Recommendation

These considerations highlight the importance of addressing risks inherent in the contracts governed by Iranian law under current circumstances. As Iranian contract law does not recognise hardship in cases of disruption to contractual equilibrium, parties should expressly provide for such matters in their agreements. Renegotiation to amend existing contracts and incorporation of appropriate clauses where they are absent is advisable to safeguard against the adverse effects of FX policy changes.

Final Remarks

The Iranian Government has begun implementing a sequential plan to transition away from the subsidised FX rate for all imports. Consequently, alongside free market (unofficial) rate, the rate at the ICE second hall now dominates the import FX regime, with few exceptions still eligible for slightly lower rates until further notice.

The introduction of new FX policies in Iran is expected to generate significant contractual implications for businesses. In order to mitigate the risk of economic imbalance in contractual relationships, it is recommended that businesses address this issue proactively and incorporate specific clauses dealing with FX fluctuations and the potential hardship arising from increased costs of performance.

Such matters should be expressly negotiated and documented during contract formation. Absent such provisions, Iranian courts generally do not extend protection to a party facing hardship arising from increased costs of performance. In practice, the courts enforce contractual obligations rather than adapting them, and hardship due to economic imbalance is not recognised as a ground for relief.

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Nami Associates Law Firm

37 Asef (Ejazi) Street, Unit 4 South
Zafaraniyeh, Tehran 1988893433, Iran

+98 21 2240 0434 +98 21 2241 8899

info@namiassociates.com

www.namiassociates.com

⁹ Central Bar Association license number 26300099, registration number 53221 and national identification number 14010847783.