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Reuters

Afghanistan imposes currency curbs in response to Iran Rial dive

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This photo, taken by an individual not employed by the Associated Press and obtained by the AP outside Iran shows Iranian police officers blocking a street as garbage cans are set on fire, in central Tehran, near Tehran's old main bazaar, on Wednesday, Oct. 3, 2012. Police threatened merchants who closed their shops in Tehran's main bazaar and launched crackdowns on sidewalk money changers on Wednesday as part of a push to halt the plunge of Iran's currency, which has shed more than a third its value in less than a week. (AP Photo)

HERAT - Afghanistan has imposed a cap on U.S. dollar flows across the border with Iran amid clashes there between Iranian police and protesters prompted by a collapse in the rial currency, Afghan police said on Thursday.

The Iranian currency's plunge has also jolted traders in the western Afghan business hub of Herat city, where currency speculators and businesses have been hard hit by the rial's slide.

It has prompted provincial authorities to limit to \$1,000 the amount travellers can take out of Afghanistan, to be imposed on Afghan and Iranian travellers alike.

"We have tightened security in the border in the wake of rial falls and many complaints that Iranian currency is flowing in and dollars moving out," General Sher Ahmad Maladani, head of the paramilitary Afghan Border Police in Herat, told Reuters.

"Amid the complaints that the Afghan and foreign currencies are flowing out of Herat, the government has imposed a \$1,000 limit."

It was not clear how Afghan police intended to enforce the limit along the porous border, which is crossed clandestinely by refugees, drug smugglers and even insurgents carrying arms into Afghanistan.

But Maladani said border police had already seized a suitcase containing 140,000 euros (\$181,000) from an individual crossing into Iran.

In Iran, shops in Tehran's Grand Bazaar stayed shut and police patrolled the area a day after security forces clashed with anti-government demonstrators and arrested money changers. Traders told Reuters by telephone in Dubai that most stores were closed for safety reasons.

The rial's fall has badly hit cross-border trade in Herat, one of Afghanistan's wealthiest provinces thanks to Iranian trade and where traders recently ran briefly out of U.S. currency due to high demand from dollar-starved Iranians.

The dollar is a second currency across most of conflict-racked Afghanistan due to the presence of thousands of foreign workers and advisers, as well as 100,000 NATO-led troops.

Many Iranians have come to rely on Herat city's three-story currency market to secure dollars and skirt Western sanctions imposed in response to Iran's disputed nuclear programme.

Traders in Herat had previously accepted rials as payment, while Iranian taxis loaded with U.S. cash made their way back across the border at Islam Qala, sometimes paying hefty bribes to frontier police.

PILES OF CURRENCY

Now, the piles of rials in shops and on the tables of money traders are worth about a third less than they were a week ago, with the currency sinking to a record low of 37,500 against the dollar on Tuesday.

"People used to buy meat under a promise to pay in rials and settle debts much later. But even if I collect all the rials they owe me, it's not going to be much," butcher Arbaab said in his small Herat shop.

"Most of our business is across the border with Iran. It's badly affecting everyone."

The currency woes have, however, created opportunities for some Afghans.

Long used to paying top dollar in Herat shops filled with Iranian goods, including crockery, appliances and cookware, some residents now see a tidy profit in buying cheaply across the border in Iran and reselling in Afghanistan.

"It's a fortune for anyone who can go and buy goods from Iran now," said Faramarz Alizai, who makes frequent journeys across 110 km (70 miles) of desert over to the Iranian side.

"I buy kitchen appliances from Iran and sell them in Herat and other cities, earning good money."

The directive seemed to have little to do with the Afghan central bank and was driven rather by worried provincial officials.

Central bank Governor Noorullah Delawari said he had been warning currency speculators in western Afghanistan for weeks that they would suffer huge losses if the rials they had been buying with U.S. dollars suddenly lost value.

"I couldn't believe how anyone will exchange good currency for bad currency," Delawari told Reuters. "They saw the Iranian rial was very low and they bought. I don't know what was their game is, I don't understand."

Delawari said the central bank had noticed Afghan banks had been transferring growing quantities of dollars and euros to branches in Herat as speculators sold hard currency to dealers across the border in Iran.

Standing in the Khorasan market, the main currency exchange in Herat, money trader Mohammad Aref said he had been ruined by the rial's decline and even suggested a Western attack on Iran could help restore stability to the currency.

"If the Americans plan to hit Iran, they should do it now. Why are we suffering?" he said.