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The Obscure Bank Collapse That Sent Iran Into a Tailspin

Bad loans to regime cronies brought down Ayandeh Bank, accelerating a long-running financial crisis

By [Jared Malsin](#) [Follow](#)

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The biggest harbinger that things were about to fall apart in Iran didn't come from the thwarted anger of the country's opposition or the frustrated hopes of young people hungry for more personal freedom. It came from the collapse of a bank.

Late last year, Ayandeh Bank, run by regime cronies and saddled with nearly \$5 billion in losses on a pile of bad loans, went bust. The government folded the carcass into a state bank and printed a massive amount of money to try to paper over all the red ink. That buried the problem but didn't solve it.

Instead, the failure became both a symbol and an accelerant of an economic unraveling that ultimately triggered [the protests](#) that now pose the most significant threat to the regime since the founding of the Islamic Republic half a century ago. The bank's collapse made clear that the Iranian financial system, under strain from years of sanctions, bad lending and reliance on inflationary printed money, had become increasingly insolvent and illiquid. Five other banks are thought to be similarly weak.

The crisis hit at the worst possible time. The Iranian government's credibility had already been battered by a 12-day war with Israel and the U.S. in June that showed it [couldn't defend its population](#) from attack. Its leaders had refused to budge in negotiations over the country's nuclear program, putting sanctions relief out of reach. In November, Israel and the U.S. threatened to strike again if Iran tried to reconstitute its ballistic missile arsenal or nuclear efforts.

The country's beleaguered currency, the rial, tipped into a new downward spiral the country had little ability to stop. U.S. enforcement actions had cut Iran off from its crucial flow of dollars from Iraq, significantly reduced its hard currency earnings from oil sales and put its overseas reserves of foreign exchange out of reach with sanctions.



Iranians walk past an Ayandeh Bank facility in 2017. ATTA KENARE/AFP/GETTY IMAGES

After decades of engineering workarounds and using shadowy flows of cash to keep the country's battered economy functioning, Tehran had reached a dead end, with no tools to address a deepening economic crisis or meet the needs of an increasingly desperate population. Hundreds of merchants, who don't typically join the country's mass protests, took to the streets of Tehran to demand relief.

"This was a very well-connected bank, corrupt et cetera, which underscored that the banking system in itself is a channel for enrichment of the well-connected," said Adnan Mazarei, a former deputy director of the Middle East and Central Asia Department at the International Monetary Fund. The failure of the bank added to what he called "a crescendo of the loss of legitimacy of the regime following the Israeli attack."

Ayandeh Bank was founded in 2013 by Ali Ansari, an Iranian businessman who merged two state-owned banks with another he founded previously to form the new lender. He hails from one of the country's richest families and owns a multimillion-dollar mansion in north London.

Politically, he is seen as close to former conservative President Mahmoud Ahmadinejad.

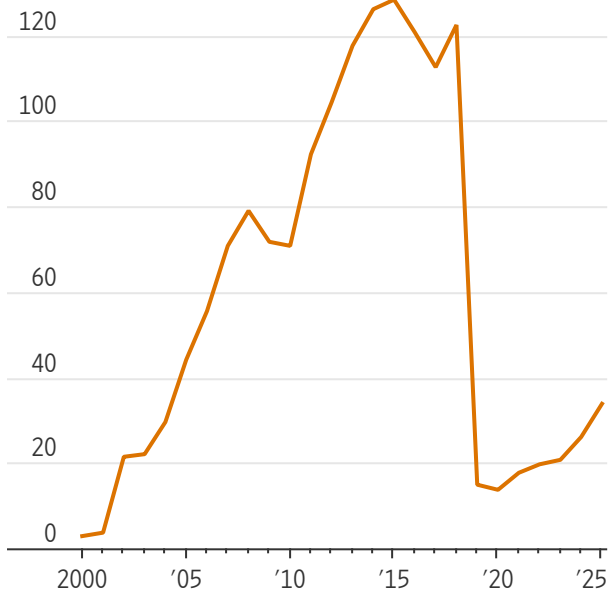
The U.K. sanctioned Ansari last year just days after the collapse of Ayandeh, calling him a "corrupt Iranian banker and businessman" who helped finance the sprawling Iranian elite paramilitary and business organization, the Islamic Revolutionary Guard Corps.

In a statement in October, Ansari blamed the bank's failure on "decisions and policies made beyond the bank's control."

Ayandeh offered the highest interest rates of any Iranian bank, attracting millions of depositors and borrowing heavily from the central bank, which printed money to keep the institution afloat,

Iran's foreign reserves

\$140 billion



Source: IMF data via FRED

economists said. Like other troubled Iranian banks, Ayandeh had a large number of nonperforming loans, one of a range of factors that eventually drove it to failure.

Its largest investment was the Iran Mall, which opened in 2018. The project displayed an opulent excess that made little sense amid the stagnation in the rest of the Iranian economy. Twice the size of the Pentagon, the mall is a city within a city with its own IMAX movie theater, a library, swimming pools and sports complexes, along with indoor gardens, a car showroom and a hall of mirrors modeled on a 16th century imperial Persian palace.

Economists and Iranian officials said the project was an example of self-lending, in which Ansari's bank effectively lent money to his own companies. When it folded, a report in the semiofficial Tasnim news agency, citing a top central bank official, said that more than 90% of the bank's resources were tied up in projects under its own management.



The Iran Mall displayed an opulent excess that made little sense amid the stagnation in the rest of the Iranian economy. ATTA KENARE/AFP/GETTY IMAGES

Ayandeh came under scrutiny for years from some conservative and reformist politicians who pushed for the bank's closure and argued that the central bank's support for the institution would drive up inflation due to its need to print money to fund it.

Those calls reached a fever pitch late last year. Iran's judiciary chief, Gholamhossein Mohseni-Ejei, publicly called on the central bank in October to take action, threatening on social media to

take legal measures if the banking authorities didn't step in. The central bank announced the bank's dissolution the next day.

The government took on the bank's debts and forced it to merge with the country's largest state-owned lender, Bank Melli. At least five other Iranian banks are now facing a similar fate, according to economists and a statement from a central bank official last year. Those include the state-owned Bank Sepah, one of the largest in the country, which had previously absorbed other failed banks.

The director of bank supervision at the Iranian central bank last year called Ayandeh "a Ponzi scheme." For many Iranians, it was a symbol of a system whose few resources had been diverted to a well-connected few while they suffered.



The government took on Ayandeh's debts and forced it to merge with the country's largest state-owned lender, Bank Melli. ABEDIN TAHERKENAREH/EPA/SHUTTERSTOCK

"It's yet another example of the kinds of stories of corruption or unfair practices that give a lot of ordinary Iranians the impression that the system has been rigged against them, or at least rigged in the favor of a small number of elite," said Esfandiyar Batmanghelidj, chief executive of the Bourse & Bazaar Foundation, an economic think tank.

Ayandeh was at the heart of what economists say was a broader crisis in the financial system that accelerated following the reimposition of U.S. sanctions in 2018.

Lacking funding, Iranian banks have relied on borrowing from the central bank through an emergency liquidity mechanism that charged high interest rates but lent money without requiring collateral. The banks then invested the funds unwisely, often lending to connected elites to engage in speculation and big construction projects.

The central bank printed money to fund the loans, which banking officials and economists have long warned was creating an inflationary cycle and weakening the currency.

The result was a shaky financial system dependent on the state at a time when Iran was about to be hit with a series of increasingly severe shocks: waves of sanctions, the fall of regional allies like Hezbollah and the Assad regime in Syria, and direct conflict with Israel and the U.S. As of 2019 the government effectively controlled about 70% of Iran's banking system, according to an analysis by Mazarei, the former IMF official.



A person walked past a currency exchange as the rial plummeted late last month. MAJID ASGARIPPOUR/WANA NEWS AGENCY/REUTERS

Ayandeh's collapse set off alarm bells. "It reinforced the sense that the banking system is very, very fragile and vulnerable," Mazarei said. "If something goes wrong, it will come back to the public purse."

Iran's economic collapse was years in the making but unfolded rapidly in recent months. The national currency lost 84% of its value compared with the dollar in 2025. Food prices rose at an annual rate of 72%, nearly double the average in recent years. The country is also dealing with an energy and water crisis so severe that President Masoud Pezeshkian has proposed moving the capital out of Tehran and closer to the Indian Ocean coast.

Wages didn't keep up, and the fast-rising prices pushed ordinary Iranians to a breaking point. People said they could no longer afford food. With the value of the rial dropping by the hour, shop owners couldn't figure out how to set prices. Importers were losing money even before they could put their goods up for sale.

"The Iranian middle class has been destroyed," said a 43-year-old female artist and Tehran resident. "When you can no longer even try to obtain food, you have nothing left to lose."

While the government was spending money to wind down Ayandeh, it was cutting support for the public. The budget proposed by the government in December included a number of austerity

measures. It called for the elimination of a favorable exchange rate for imports, the removal of some bread subsidies, and for imported gasoline to be sold at market prices.



With the rial dropping by the hour, shop owners have had a hard time setting prices. ATTA KENARE/AFP/GETTY IMAGES

In all it proposed cutting \$10 billion in government support for the public and key interest groups like importers, according to an analysis by Bijan Khajepour, a managing partner of the Vienna-based consulting firm Eurasian Nexus Partners.

The budget was officially presented to parliament on Dec. 23, but rumors of the coming wave of austerity circulated beforehand, stirring concerns about further economic pain at a time when the rial was already falling.

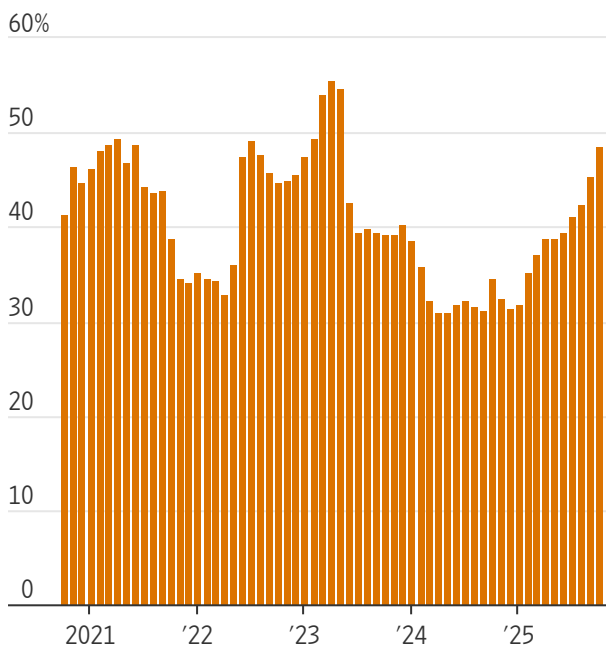
Economists said this growing financial crisis came to a head at the same time that a perfect storm of pressure—tightening international sanctions, the fallout of last year’s war with Israel and years of economic mismanagement—was sapping the government’s ability to address it.

Worsening U.S. and European sanctions have forced Iran’s oil industry to rely on an international [“shadow fleet” of tankers](#) to export its products, meaning that more oil revenue flows into the hands of middlemen and less into the state’s coffers and the wider Iranian economy.

A [U.S. crackdown on money laundering by Iraqi banks](#) deprived Iran of one of its most important sources of dollars. Iraqi banks had been known as the “lungs” of the Iranian financial system, giving liquidity to Iran’s otherwise isolated banks.

The June war with Israel also delivered a severe shock that left the government with the need to increase defense spending to rebuild its own military capabilities and shore up allies like Hezbollah.

Iran's annualized inflation rate



Source: Trading Economics via Statistical Center of Iran

Military pressure began to rise again late in the year after a six-month respite. The U.S. and Israel warned of new strikes over Iran's missile program, a threat punctuated by the American raid on Caracas to seize Venezuela's president in early January.

Anxieties about a new attack accelerated a flight of capital from Iran that began during last summer's 12-day war with Israel. Iranians dumped the rial and moved their money into foreign currency, gold and assets such as cryptocurrency.

Djavad Salehi-Isfahani, an economist at Virginia Tech, estimated Iran's total capital flight last year at between \$10 billion and \$20 billion, creating what he called "a bad situation that does not seem tenable."

An energy crisis resulting from a shortage of natural gas starting in 2024 caused long power outages. The cuts came despite the country's vast oil and gas wealth and called into question the government's risky, decadeslong effort to enrich uranium for what it said was a peaceful nuclear energy program.

The growing power cuts, worsening water shortages and increasingly worthless currency fueled an impression among many Iranians that the state was beginning to fail.

The government tried to mollify protesters by introducing a monthly cash subsidy of 10 million rials per person—about \$7, though it goes further in Iran—and vowing to crack down on price gougers. Iran's central bank governor resigned in late December and was replaced by Abdolnaser Hemmati, the former minister of economy, who had been impeached by parliament last year as the country fell into its currency crisis.

It didn't work. Protests got under way at the end of the year and escalated for two weeks, spreading to dozens of cities around the country. Thousands protested in recent days despite an internet blackout and a toughening government crackdown in which hundreds of people have been killed, according to human rights groups.



Iranian shopkeepers and traders take to the streets to protest against the economic conditions in Tehran on Dec. 29. EPA/SHUTTERSTOCK

Whatever happens with the protests, the stress on the regime from deep-seated internal financial problems along with heavy pressure from outside isn't going away.

“If they could spend their way out of it they would have done that before, and they wouldn't have had to resort to this kind of violence,” said Erik Meyersson, the chief emerging markets strategist at the Swedish bank SEB. “That really makes things more difficult for the regime.”

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