The reimposition of United Nations sanctions as well as European Union restrictive measures was expected by the Iranian leadership, notably since the 12-day-war demonstrated Western desires to confront the Islamic Republic. However, expectation doesn't translate into preparedness. Despite set policies, the government will struggle to shield Iran's economy and population from further external pressures and isolation. On the foreign policy front, Tehran will have no other choice but to lay low and increasingly depend on a select group of Eastern countries.

Executive summary

- Renewed UN and EU sanctions won't cripple Iran economically like U.S. sanctions, but they reinforce national despair and isolation.

- UN measures renew Iran's image as a rogue actor, complicate military and nuclear programs, and are a step closer to legal justification for future U.S.-Israeli strikes.

- Tehran seeks survival through calibrated diplomacy — maintaining its anti-nuke stance, avoiding escalation, and keeping the door open for reasonable negotiations with Washington.

- Russia and China openly defy the UN snapback, deepening Tehran's reliance on South-South partnerships and giving it a pioneering role in building an alternative global order to counter Western sanction regimes.

- China accounts for 90% of Iranian oil exports and a quarter of non-oil trade, keeping Iran afloat through barter and opaque financial channels.

- Iran's heavy dependence on a few neighbours (UAE, Iraq, Turkey) exposes it to economic vulnerability and political leverage from regional actors. Accordingly, the primary goal of Iran's foreign ministry is to ensure regional cooperation.

- Inflation above 40%, currency collapse, and contracting growth (-1.7% in 2025) threaten Iran's middle class and risk renewed social unrest.

- Multiple exchange rates and subsidies aim to cushion citizens but fuel corruption, distort markets, and deepen fiscal deficits and liquidity growth.

- Even if Iran significantly deepens its eastward turn, it cannot reach a path to sustainable growth unless it reaches a long-lasting agreement with the U.S.

- Iran's future hinges on China and Russia delivering tangible support. If Eastern backing falters, Tehran may turn from cautious diplomacy to confrontation to impose costs on the West for their hostile actions.

1. Reimposition of international sanctions reflects growing isolation

International sanctions won't impact Iran's economy like U.S. secondary sanctions have done since 2018, but they still hold serious psychological consequences for the country and its population. For two decades, Iranians have suffered from one form or another of extensive sanctions and now see the likelihood of a renewed deal with the U.S. - the only realistic way to improve their conditions - fall into the realm of near-impossibility. Additionally, they continue to fear renewed conflict with Israel, one which could see critical civilian infrastructure targeted unlike the 12-day-war.

This situation makes the future not only unfathomable but also undesirable for many Iranians. This itself has far-reaching consequences for the country's socio-economic and demographic trajectory. In fact, reimposed international sanctions following unilateral attacks on Iran's territory signal growing instability by further painting Iran as a rogue actor and growing its isolation, especially since UN sanctions are binding on all member states - including Iran's allies. Iran's sanctions-busting schemes have also been studied for at least a decade and novel AI-driven methods exist to better enforce sanctions.

Nonetheless, it is important not to overstate the impact of international sanctions on Iran. On the one hand, EU restrictive measures may be extensive but they target sectors already deserted by European investors since the reimposition of U.S. sanctions. They may however further dent the already low-levels of EU-Iran trade. UN sanctions, on the other hand, do not target a wide-range of sectors but raise the cost of dealing with Iran by requiring greater due diligence and supervision.

Not only do UN sanctions impose a two-way arms embargo on Iran, they also render most nuclear as well as ballistic missile development illegal, thus making Iran's goal of strengthening its military and continuing its nuclear programme illegitimate. More comprehensively, UN sanctions call for increased vigilance regarding financial links to Iran, in addition to bringing back a long list of sanctioned Iranian persons and entities, including key state-owned enterprises (SOEs) like IRISL, the country's shipping company which is already targeted by U.S. sanctions.

While UN sanctions specifically state they should not impact Iran's ability to pay for and procure basic commodities, they provide the legal ground for any state to limit trade with Iran for the sake of heightened vigilance. Finally, by calling for an end to nuclear and missile work as well as inspections of suspicious cargo to and from Iran, the UN sanctions further raise the possibility of U.S. and Israeli military action by providing a modicum of legal justification.

2. Growing reliance on South-South cooperation

Luckily for Iran, the geopolitical situation is different from the late 2000s and early 2010s, when Russia and China were repeating Western talking points. In fact Beijing and Moscow have clearly opposed the snapback of sanctions. The former is likely to continue purchasing Iranian crude oil while the latter will maintain military and research cooperation with Tehran, even in areas clearly restricted by the UN. This non-enforcement won't be unforeseen in international law, as the UK formed a precedent for ignoring UNSC resolutions by failing to enforce sanctions on apartheid South Africa from the 1960s to 1980s.

In fact, Moscow is likely to be of particular help to Tehran within the UNSC by slowing down the revival of sanctions implementation mechanisms like the 1737 Committee and its Panel of Experts. Low-level military procurement will also continue with Russia and China likely to provide a limited number of non-state-of-the-art fighter jets and defence systems to prevent an Iranian defeat in case of renewed conflict with Israel. Although Russo-Iranian trade remains limited at less than $5bn per year, the two countries' relationship is strategic despite pervasive suspicions on both sides. Both battling with powerful international sanctions, Moscow and Tehran share a common perspective on the global order and are actively pursuing alternative financial channels away from Western-controlled frameworks.

China is Iran's economic lifeline with non-oil bilateral trade reaching $34.1bn in 2024 - i.e. ¼ of Iran's non-oil trade - including $19.3bn of Chinese goods imported by Iran. More importantly, China has purchased more than 90% of Iranian oil exports which brought as much as $67bn in total oil revenues last year, according to the Central Bank of Iran (CBI). While this official number is likely a gross overestimation and represents illiquid assets that can only be accessed through barter trade with China, the reality remains that oil exports to private Chinese refineries have provided Iran with annual trade surpluses exceeding $20bn in the last two years according to the CBI. This represents foreign currency that is critical for Iran's economy and imports of basic goods.

Sanctions have made Iranians, often reluctantly, reliant on a handful of Asian partners for trade as well as on alternative trade or payment mechanisms such as smuggling, hawala networks, and barter. This situation greatly minimises the impact of UN sanctions on Iran but also gives more economic weight for such mechanisms going forward. Iran relies on just nine countries for more than 80% of its foreign non-oil trade, e.g. China, UAE, Iraq, Turkey, Pakistan, Afghanistan, India, Russia and Germany. This is a highly vulnerable situation, explained by the fact that Iran's tremendous export capacities are curtailed by financial restrictions, underinvestment, and market distortions - mainly caused by international sanctions. As such, trade with the likes of Germany is poised to further fall in coming years.

Iran depends significantly on neighbours for export markets and imports - notably the UAE. The Emirate of Dubai is the primary re-export hub for goods going to Iran despite the

UAE being a close U.S. partner. This represents a vulnerability for Iran, notably as the Emirati banking system remains broadly closed to Iranians, thus requiring most bilateral transactions to pass through informal networks. While the UAE stands to win economically from continued economic ties with Iran, there are currents in Abu Dhabi that believe now is the time to tighten the noose on a weakened Iran. Iraq is a major export market for Iran, but has become harder to operate in due to U.S. pressures - recently cutting short gas swap plans with Turkmenistan via Iran - as well as Iraqi policies to boost domestic production.

Regional alternatives such as Pakistan, Afghanistan and Central Asia exist but represent markets with limited purchasing power. This is why it will be critical for Iran to diversify its trade partners if it wants to maintain its industrial base and earn foreign currencies. Iran's BRICS membership last year is viewed as the country's best chance at developing foreign trade, although progress will be tenuous. There are already signs that India, annoyed by pressures from its U.S. partner, is warming up to the idea of informal oil purchases from Iran. In fact, U.S. unilateralism and European Union trade restrictions are likely to foster a new global trade order where sanctioned countries like Iran and Russia find more business partners than what was possible in the U.S.-led global order. Nonetheless, these positive developments will remain band-aid solutions for Tehran and make the country increasingly pliant to external forces, notably Beijing's willingness to develop bilateral economic ties and Moscow's continued arm-wrestling with Western countries.

3. Following the Zarif playbook

At risk of renewed conflict and facing a growing list of sanctions, Iran is cornered. The E3's triggering of the snapback mechanism, seen as back-stabbing in Tehran, could have strengthened Iranian hardliners and pushed the country into a more hostile stance. However, Tehran is carefully calibrating its responses in order to prevent irremediable situations and maintain ties with Eastern partners that are growing in strategic importance. In many ways, the country is following the playbook of former Foreign Minister Mohammad-Javad Zarif which was in action from 2018, when President Donald Trump announced U.S. sanctions' reimposition, to 2021 when the Rouhani administration ended in Iran. The goal is to survive economically and militarily over the coming years, to ultimately bring the Americans back to the negotiating table with reasonable demands.

The current period is very similar in that the U.S. maintains a "maximum pressure" campaign that can only be stopped via Iranian capitulation. During Trump I, Secretary of State Mike Pompeo's 12 demands were in action. Now, similar requirements in the form of zero uranium enrichment, curtailed ballistic missile capabilities, and ending support to foreign non-state actors are being pursued by Washington. During Zarif's tenure, Iran benefitted from Europeans' shock regarding Trump's unusual governance style and even got the UNSC to reject a U.S. proposal to extend an arms embargo. However, today, the Europeans have decided to follow Trump's whims in order to maintain U.S. support for Ukraine and Iran finds itself with much less Western goodwill.

Nonetheless, Tehran's plan is still to focus on diplomacy and strive to be seen as a law-abiding member of the international community. For instance, the country's institutions continue to build the ground for Iran's removal from the Financial Action Task Force's (FATF) blacklist. After approving the Palermo Convention against transnational organised crime in May, further steps were taken to approve a Combating the Financing of Terrorism (CFT) bill this month. Despite opposition from hardliners, the overall view among politicians is that such regulatory reforms will make it easier for Iran to trade with its Eastern business partners. Russia and China are also engaged in a legal battle for legitimacy and international law, seeking to present their side as the party respecting it and the West as a norm-breaker.

Tehran's temperance is not only crucial to maintain the goodwill of Russia and China, but also to ensure the survival of the Islamic Republic, which has become a prime target for Israel in an unprecedented manner. As such, Iran's response to the snapback of sanctions is likely to be reasonable. While Iran-E3 diplomacy will naturally take a dent, bilateral issues will still be pursued with each European country as seen with the release of French-German citizen Lennart Monterlos. Likewise, Tehran will remain open to renewed nuclear talks with the U.S., as long as current American demands become reasonable.

Tehran's likely responses to snapback mechanism:

Topic	Action	Reasoning
International Atomic Energy Agency (IAEA) Cooperation	Likely suspension of Cairo agreement signed in September; maintain strategic nuclear ambiguity	Need to placate hardliners and send message to West; renewed deal with IAEA likely in near future
Removal from nuclear Non-Proliferation Treaty	Highly unlikely implementation even if parliament passes a bill	Leaving the NPT would anger Russia and China, and is unwise given Israeli threats
Expulsion of E3 diplomats	Unlikely downgrade of diplomatic ties with Britain, France and Germany	Need to retain diplomatic channels with key European powers in the hope of future mediation with the U.S.
Closure of Hormuz Strait	Almost inconceivable decision to punish West by targeting Europe-bound shipments	Highly harmful action for Iran and need to keep China happy
Hostile action against Europe	Highly unlikely decision to allow drugs and migrants from Afghanistan to transit westward	Desire to maintain ties with E3, impossibility of doing so as Taliban banned opium cultivation and Afghan migrants are deported en masse back home

The influence of the Revolutionary Guards over foreign policy has also taken a hit in recent years, thus reinforcing the Zarif playbook. Unlike the late 2010s when the Revolutionary Guards' foreign footprint was led by an self-asserting Qassem Soleimani, Tehran's outlook toward the "Resistance Axis" has become more mellow in that there are no longer troops in Syria and allies like Lebanon's Hezbollah, Iraq's Popular Mobilisation Forces, and Yemen's Ansarullah are given more autonomy. This does not mean that Tehran's hard power is no longer there. Rather, it is more closely aligned to its foreign policy and will only be used to defend immediate national interests, whether it means defending the country against Israeli strikes or protecting shipping in the Persian Gulf or Gulf of Oman when faced with risks of inspections.

4. The piling economic impact of sanctions

The return of international sanctions follows several shocks in Iran, e.g. the explosion at Bandar Abbas' Shahid Rajaei port, the 12-day-war, the expulsion of around 1.4 million Afghans, as well as electricity and water shortages. Naturally, these events have had a negative impact on domestic markets with imports tanking by 16% year-on-year, real estate and car prices retreating, and the stock exchange experiencing a contraction of almost 25% in recent months.

On the other hand, the Iranian rial has continued to lose its value, notably on the free market where its price tanked by 42% since early January. In fact, external shocks have naturally exacerbated inflationary expectations and the inflation rate has further rebounded after months of CBI efforts to keep it in check. The World Bank measures the inflation rate as having gone back up the 40% range since March, primarily driven by food prices which directly impacts the livelihoods of most Iranians.

After a post-Covid economic rebound of 4 years, Iran will face two years of consecutive recession starting with -1.7% growth in 2025 and -2.8% in 2026 according to the World Bank. These projections likely overestimate the economic impact of UN sanctions and decrease in oil purchases by China, but they reflect piling challenges facing the Pezeshkian administration and more broadly the Islamic Republic. The latter has been built on social justice aspirations but corruption and market distortions have brought back poverty and inequality to the fore.

In the last two decades of extensive sanctions, Iran has slowly but surely slid down the list of upper middle income countries, so much so that close to 40% of the population will be under the upper middle income country poverty line[1] in the next three years according to the World Bank. This means as much as an extra 5 million people seeing their livelihoods significantly worsen in this time period, which is a reversal of what Iran experienced from 2021-2024, when the government was able to translate economic growth into alleviating people from poverty.

[1] $8.30 in 2021 PPP based on World Bank calculations.

The reality in Iran is that the majority of the population lives day-to-day, while a tiny portion can keep up with high inflation through their foreign currency holdings or other appreciating assets like real estate, cars, gold, or land. While absolute poverty remains low, the battering of Iran's middle class - either seen through emigration or economic downgrading - is creating wide social malaise and preparing the ground for protests motivated by unfulfilled aspirations. The country's establishment is aware of the social risks, but the political scene remains unable to create hope for people and continues to suffer from fruitless debates despite top-down orders to foster unity. After having dismissed the economy minister in March, some MPs are now looking to dismiss the ministers of agriculture, power, labour, as well road and urban development - all areas where the relatively new Pezeshkian administration has failed to provide good results.

5. The government's limited tools for Iran to survive

Sanctions are adding to Iran's structural challenges and its profound mismanagement issues. They severely restrict the financial leeway of the state while creating market distortions which harm the broader economy. Public policies meant to minimise the impact of sanctions have themselves unintended consequences and force difficult trade-offs upon the government and key institutions like the CBI.

A key policy pursued by the CBI has been multiple exchange rates for the Iranian rial, providing cheap "government dollars" (285,000 IRR to USD) for the import of basic goods, opening the Centre for Exchange of Currency and Gold where importers and exporters trade their hard currencies (around 700,000 IRR to USD), and allowing ordinary Iranians to buy foreign currencies on the free market (around 1,140,000 IRR to USD). The latter doesn't represent the bulk of foreign currency transactions in Iran but it best reflects market expectations, with the local currency reaching new lows whenever the political outlook worsens.

Multiple exchange rates are meant to distribute the shock of currency devaluation by ensuring that the most important imports are secured so that food inflation does not crush the population. In other words, it is an imperfect solution that helps slow down inflation and protect vulnerable Iranians by aiming for a semblance of monetary stability. Nonetheless, the policy also creates rent-seeking incentives by individuals or companies getting cheap foreign currency through quotas or relations, and then selling it many times over its initial value on other currency markets. Despite its efforts, the state has been unable to tackle the corruption that this multi-rate system incentivises and the long-term impact of this policy is ultimately negative as Iran's economy further moves toward inefficient rent-seeking and resource allocation.

Moreover, the multi-rate system is ultimately failing at its goal of monetary stability. Each of the three currency rates have fallen against the U.S. dollar since 2022, with a drop of 580% for the "government dollars", between 75% to 94% for rates reached in the Centre for Exchange of Currency and Gold, and 335% for the free market rate. Naturally unable to maintain rates at their initial levels due to its dwindling currency reserves, the CBI has failed to prevent growing prices for consumer goods.

Nonetheless, it can be said that CBI interventions have prevented a death spiral for the rial and consumer prices, through mechanisms such as the Centre for Exchange of Currency and Gold to gain control over foreign currency transactions, through interventions such as FX injections in the free market, or gold purchases which grew 37% year-on-year to prevent speculation in the gold market as well as back the rial, and through capital controls to repatriate a good chunk of foreign earnings and prevent hard currency from leaving Iran. Recent restrictions on crypto accounts, now with a ceiling of $10,000 per person, show attempts to control novel ways of moving capital around. However, many such policies are bound to fail. For instance, currency redenomination, i.e. removing four zeros by 2030 to simplify transactions, is pointless as long as inflation continues to mow the rial's value down.

The government has also pursued policies like subsidies, including direct cash payments, to shield Iranians from external shocks. Subsidies in addition to yearly public salary increases and adjustments to pensions have caused severe consecutive budget deficits which can only be paid through withdrawals from Iran's overused sovereign wealth fund or bond issuances which increase liquidity in the economy and further cause inflationary pressures.

Here, the trade-off is between leaving Iranians to their own devices by minimising government help and facing risks of revolt or piling domestic public debt and money-printing to assist them - even if such policies indirectly harm Iranians by causing inflation. With little financial leeway, the government is forced to look for ways to improve effiencies…whether it is rationalising energy consumption to tackle recurrent shortages or by smartening subsidies by eliminating transfers to top decile incomes and creating new packages or regulations to help vulnerable people survive rising housing and food prices.

Finally, government bonds are not only weakening Iran's crisis-ridden financial system but also further crowding out the private sector. The latter is the way forward to circumvent sanctions but their work is made difficult by energy imbalances, international finance restrictions, obligations to sell foreign currency earnings at discounted rates, and dwindling imports which mean lesser intermediary goods to make export products. In fact, sanctions actually benefit domestic industries not interested in exports. Lesser foreign competition means these firms can increase their prices while dropping production costs, thus providing expensive low-quality goods to Iranians while exporters managing to make cheap qualitative products struggle to sell to foreign countries or get paid internationally.

Bottom line

Contrary to what can be heard from doomsday sayers, Iran is not going to collapse following the reimposition of international sanctions. Moreover, the risk of renewed war has not dramatically increased, even if the snapback is a step closer to legal justification for Israeli-U.S. strikes.

Nonetheless, it cannot be said that piling challenges - including renewed UN sanctions - won't have an impact on Iran. The country further falls into isolation and its government has few tools at hand to weather the storm. Without rationalising energy consumption, controlling liquidity growth and budget deficits, reforming subsidies and tackling corruption, the government has little chance to reverse the current trend toward higher inflation, poverty and inequality. In fact, sanctions make it harder to tackle Iran's multiple crises and aim at creating the grounds for popular revolt. While the general mood in Iran is not amenable to widespread protests, potential government missteps like fuel price hikes or a breakdown in policies targeting monetary stability could usher in demonstrations.

Ultimately, Iran is increasingly reliant on its Eastern partners, notably China, to keep its head above water. While Tehran isn't a priority for either Beijing or Moscow, there are tangible signs of interest, from a $25bn agreement to build eight Russian nuclear power plants to Chinese plans to add 7GW to Iran's untapped solar power capacity. History shows us that similar grand schemes were never followed through in the past, but geopolitics has now changed with Russia in an open conflict against the West, China willing to step out of its moderate stance, and Iran realising that its future ultimately rests eastward. BRICS trade platforms and upcoming financial channels could allow Tehran to survive economically and bring an end to the potency of U.S.-led sanction regimes.

To guarantee maximum support from Eastern powers, Iran will avoid acting as a problematic regional actor. Accordingly, Tehran aims at surviving sanctions and showing the West that war and sanctions do not work to topple or permanently cripple the Islamic Republic, thus requiring a return to reasonable diplomacy by Western powers. An agreement with Washington remains desirable since it is the only way to get Iran out of its survival mode and allow it to fulfill its economic potential.

However, if none of Iran's rational approaches work, i.e. if Eastern partners do not show up for Iran while Western pressures pile in, Tehran will revise its policies toward more assertiveness. Currently, the view that Iran's pro-diplomacy stance has motivated joint Israeli-American strikes as well as European-backed sanctions is only held by hardliners, but it could become the establishment's view and push it to impose costs on the West for their hostile actions.

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