

FREE



IRAN CRISIS EXPLAINED

A 360-DEGREE UNDERSTANDING





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1. CONTEXT: What Has Happened Recently in Iran?

Nationwide Unrest (January 2026):

Protests that started in late December 2025 over rising prices spread across the country by early January 2026. Demonstrations were reported in **all 31 provinces** and more than **170 locations**. People from different sections of society took part, including **students, urban youth, ethnic minorities, and traditional Bazaar merchants**. Over time, demands moved beyond economic issues and social rules to questions about the **legitimacy of the Islamic Republic**. This has become the most serious internal challenge faced by the Iranian state since 1979.

Communication Blackout and Security Response:

On **8 January 2026**, the Iranian government imposed a nationwide shutdown of the internet and phone services, limiting the flow of information. Reports from international organisations and human rights groups suggest that security forces, including the **IRGC and Basij**, used force to control protests. Many people were reportedly killed or injured, and large numbers were arrested. Exact figures are unclear due to restricted access. The government later claimed that the situation was under control.

United States' Military Signalling:

The crisis drew international attention after strong statements by U.S. President **Donald Trump**, indicating possible action if violence continued. At the same time, the United States moved military assets, including an aircraft carrier group, to the **Persian Gulf**. This was different from earlier protests, where foreign responses were mainly diplomatic, and it raised concerns about possible regional escalation.

Tariff Threat and Global Economic Implications:

On **12 January 2026**, the United States announced a **25% tariff** on countries that continue trade with Iran, expanding the use of secondary sanctions. This move has serious implications for countries like **India**, which have large trade ties with the U.S. Projects such as the **Chabahar Port** also became uncertain, as the U.S. signalled a policy of strong economic pressure on Iran.

Government Narrative and External Blame:



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The Iranian leadership described the protests as being influenced by **foreign forces**, including the United States, Israel, and extremist groups. This explanation has been used to justify stricter security actions and support from allied non-state actors. Such steps show increased insecurity within the regime and a greater reliance on force instead of political dialogue.

2. BACKGROUND: Why Is Iran in Crisis?

Israel–Iran Conflict and Nuclear “Snapback” (2025):

In mid-2025, escalating tensions between Iran and Israel culminated in a brief but intense military confrontation involving direct missile exchanges. During this period, Iran’s air defence systems and parts of its nuclear infrastructure reportedly sustained damage. Subsequently, European signatories to the nuclear agreement—the UK, France, and Germany—activated the Snapback mechanism, leading to the re-imposition of comprehensive UN sanctions. This significantly reduced Iran’s access to global markets and reinforced its economic isolation.

Erosion of the “Axis of Resistance”:

Iran’s regional strategy has traditionally relied on allied state and non-state actors such as Hezbollah, Hamas, and the Syrian government to provide strategic depth. Developments during 2024–25 weakened this network, particularly due to instability in Syria and the degradation of Hezbollah’s leadership and capabilities. As a result, Iran’s ability to project influence and deter external pressure diminished, increasing both external vulnerability and domestic scrutiny of its regional commitments.

Currency Depreciation and Food Inflation:

Iran’s economy has faced sustained pressure from sanctions and structural weaknesses. By late 2025, the Iranian Rial depreciated sharply, reaching approximately 1.5 million per US dollar, compared to around 700,000 a year earlier. This depreciation translated into severe inflation, particularly in essential commodities, with food prices reportedly increasing by over 70% annually. The erosion of purchasing power placed acute stress on households, contributing to widespread public dissatisfaction.

Energy Sector Dysfunction:

Despite possessing substantial oil and gas reserves, Iran has experienced recurring electricity and gas shortages. Years of underinvestment, governance issues, and inefficiencies in the energy sector resulted in daily power cuts across several regions by 2025, along with winter heating shortages. These disruptions highlighted gaps in service delivery and undermined public confidence in the state’s administrative capacity.

Limits of Reformist Politics:

The election of President Masoud Pezeshkian in 2024 raised expectations of economic reform and improved engagement with the international community. However, Iran’s political structure places ultimate authority with the Supreme Leader and powerful institutions such as the IRGC, constraining executive autonomy. The limited scope for reform led to growing public disillusionment, as electoral participation did not translate into meaningful policy change, shifting demands from reform to systemic transformation.

Disruption of Sanctions-Evasion Channels (January 2026):

To mitigate the impact of sanctions, Iran relied on informal oil exports through a network of vessels often referred to as a “shadow fleet.” In early January 2026, the interception of several such vessels by the



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United States disrupted these channels. This constrained government revenues at a time of heightened fiscal pressure, forcing increased security expenditure without commensurate wage growth, further aggravating economic grievances, including among traditional commercial groups such as Bazaar merchants.

3. CAUSES: What Specifically Triggered the Crisis?

A. Economic Causes: Survival and Livelihood Stress

1. Sharp Currency Depreciation:

In early January 2026, the Iranian Rial depreciated rapidly, touching approximately **1.5 million per US dollar**. Unlike a gradual inflationary trend, this represented a sudden loss of currency value, significantly eroding household savings and real incomes. The depreciation sharply increased the cost of essential imports such as food grains, medicines, and fuel, directly affecting daily consumption and livelihoods.

2. Inflation in Essential Goods and Healthcare:

While official inflation estimates ranged between **40–48%**, price increases in essential commodities were substantially higher. Food prices rose by over **70% annually**, and medical supplies reportedly experienced price increases of around **50%** in late 2025. The disproportionate impact on basic necessities intensified public distress, transforming economic grievances into sustained social mobilisation.

3. Disruption of Sanctions-Evasion Mechanisms:

Iran relied on informal oil exports through a network commonly referred to as a “**shadow fleet**” to generate foreign exchange. In early January 2026, the interception of vessels such as *Bella 1* by the United States disrupted these revenue channels. Concurrent disruptions involving Iran’s sanctions-evasion partners further constrained fiscal space, limiting the government’s ability to stabilise the currency or increase social spending, thereby accelerating economic discontent.

B. Political and Ideological Causes: Crisis of Regime Legitimacy

1. Weakening of Regional Influence:

Iran’s long-standing strategy of investing in regional allies and non-state actors was intended to enhance security and deterrence. However, setbacks involving key partners reduced the perceived returns on these investments. Domestically, this led to growing public criticism over the prioritisation of external engagements amid worsening economic conditions at home.

2. Constraints on Reformist Governance:

The election of President **Masoud Pezeshkian** in 2024 generated expectations of economic improvement and diplomatic engagement. Over time, the limited autonomy of the executive within Iran’s political system—dominated by unelected institutions such as the **Supreme Leader’s office and the IRGC**—became evident. The inability to deliver meaningful reforms contributed to political disillusionment and a shift in public demands from reform to systemic change.

3. Emergence of Organised Opposition Signals:

Unlike earlier protest cycles characterised by decentralised mobilisation, the 2026 unrest witnessed



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calls for coordinated action, including appeals for strikes issued by opposition figures in exile. While internal leadership remained fragmented, the articulation of an alternative political narrative increased regime perceptions of vulnerability.

C. Social Causes: Rights, Identity, and Inclusion

1. **Legacy of Gender-Based Protests:**

The 2022 death of Mahsa Amini and subsequent mobilisation under the slogan “**Woman, Life, Freedom**” continued to shape public consciousness. Renewed enforcement of social regulations, including stricter dress codes, reinforced perceptions of state intrusion into personal freedoms, particularly among urban youth and students.

2. **Ethnic and Regional Marginalisation:**

Regions such as **Sistan-Baluchistan** and Kurdish-majority areas experienced heightened unrest. Long-standing socio-economic deprivation, limited political representation, and security-centric governance in these regions intensified participation in nationwide protests. The heavier deployment of security forces in these areas further deepened centre-periphery tensions.

D. Environmental Causes: Governance and Sustainability Failures

1. **Air Pollution and Energy Quality Issues:**

Due to constraints in natural gas supply and ageing infrastructure, power plants increasingly relied on **Mazut**, a low-quality and highly polluting fuel. This contributed to severe air pollution in major urban centres, adversely affecting public health and reinforcing perceptions of administrative failure in environmental governance.

2. **Water Scarcity and Land Subsidence:**

Decades of unsustainable water management practices, including excessive dam construction and groundwater extraction, led to declining water availability and land subsidence in several regions. In cities such as **Isfahan**, subsidence damaged infrastructure and heritage structures. The displacement of rural populations due to environmental stress expanded the urban base of protest participation.

4. STATE RESPONSE AND ESCALATION OF THE CRISIS

A. Government Response Inside Iran

The Iranian government responded to the protests mainly through **security measures rather than political dialogue**. Authorities imposed internet shutdowns, restricted media coverage, and deployed security forces such as the **IRGC and Basij** across major cities. Protest activity was treated as a security threat instead of a political or economic issue. This approach reduced the space for negotiation and increased public anger, further widening the gap between the state and society.

B. Use of Force and Legal Measures

Along with street-level action, the state relied on **mass arrests, emergency laws, and fast-track trials**. Protesters were charged under national security laws. These actions were aimed at deterrence but also



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increased fear and resentment among citizens. Instead of restoring confidence, the response strengthened the perception that the state depends more on coercion than consent.

C. Narrative Control and Externalisation of Blame

The government described the protests as **foreign-sponsored**, blaming the United States, Israel, and extremist groups. This narrative was used to justify harsh security actions and to mobilise loyal institutions. However, such claims did not address the core economic and social grievances of the population, limiting their effectiveness.

D. Internationalisation of the Crisis

The internal crisis quickly gained international attention due to:

- U.S. military signalling
- Expansion of secondary sanctions
- Risk to energy routes

As a result, Iran's domestic unrest turned into a **regional and global concern**, increasing economic pressure and reducing diplomatic options for the regime.

5. IMPACTS: Consequences of the Crisis

A. Domestic Impacts: Pressure on Internal Stability

• Strong State Action and Growing Social Divide:

The most immediate domestic impact has been the heavy use of force by the state to control protests. After the **8 January 2026 communication blackout**, reports from international organisations and human rights groups pointed to large numbers of deaths, injuries, and arrests. Due to restricted access, exact figures are unclear. The harsh response has increased mistrust between citizens and the government, reducing chances of dialogue and pushing public demands beyond policy reform toward deeper political change.

• Weakening of the Bazaar–Clergy Alliance:

A major political impact has been the distancing of **traditional Bazaar merchants** from the ruling system. In the past, the alliance between religious leaders and Bazaris formed a strong base of support for the 1979 Revolution. However, sharp currency fall and declining business activity led many merchants to participate in strikes and protests in early 2026. This reduced the regime's economic and social support base and increased its dependence on security forces.

• Youth-Led Mobilisation and Social Change:

Young people, especially **Gen Z**, have played a key role in the protests. This generation has grown up with access to global information despite restrictions and shows low acceptance of political control and social restrictions. The wide gap between the state and the youth has reduced the impact of government



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messaging and encouraged social behaviour outside official rules, pointing to long-term changes in state–society relations.

B. Global Impacts: Regional and International Effects

• Volatility in Energy Markets:

Iran's location near the **Strait of Hormuz**, through which about **20% of global oil trade** passes, has raised concerns in global energy markets. Even without actual supply cuts, fear of escalation has increased oil price fluctuations. Prolonged instability could push oil prices higher, adding to inflation in both developed and developing countries.

• Wider Use of Secondary Sanctions:

The decision to impose a **25% tariff on countries trading with Iran** expanded the use of secondary sanctions. This forced other countries to rethink their trade and investment ties with Iran. Major economies such as **China and India** faced added pressure, showing how economic tools are increasingly used to achieve geopolitical goals.

• Disruption to Global Aviation and Supply Chains:

The temporary closure of Iranian airspace in mid-January 2026 and safety measures around U.S. bases in the Gulf disrupted international flight routes. Airlines had to take longer routes, increasing fuel use, travel time, and costs. This highlighted how regional conflicts can affect global transport and supply systems.

• Limits on Sanctions-Evasion Channels:

Steps taken against Iran's informal oil export networks reduced its ability to bypass sanctions. The shrinking of these parallel trade routes increased Iran's economic isolation and reduced alternative sources of revenue, strengthening the overall impact of international pressure.

6. IMPACT ON INDIA: Strategic, Economic, and Security Implications

• India's Exit from Chabahar Port (January 2026):

On **16 January 2026**, India decided to step back from running operations at the **Chabahar Port** in Iran. This decision came after the United States announced a **25% tariff** on countries continuing trade with Iran on **12 January 2026**, which increased the risk of secondary sanctions. Since India's trade with the U.S. (about **\$132 billion**) is much larger than its trade with Iran (about **\$1.6 billion**), India chose to protect its wider economic interests.

As part of this exit, India cleared its financial commitments to avoid future legal or sanctions-related problems for Indian companies such as **India Ports Global Ltd (IPGL)**. Indian staff were withdrawn from the port, and control was returned to Iranian authorities. Although India still had a temporary waiver from U.S. sanctions, it exited early to reduce risks in an uncertain regional situation.

• Risk to Indian Trade Due to Secondary Sanctions:

The U.S. tariff announcement created uncertainty for Indian exporters, especially in sectors like



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pharmaceuticals, agriculture, textiles, and gems, which depend heavily on the U.S. market. Continuing trade with Iran under these conditions could have increased costs for Indian exporters, forcing India to reconsider even limited trade ties with Iran.

• **Impact of Rising Energy Prices:**

India currently imports very little oil from Iran, but the crisis still affects India indirectly. Around **45% of India's oil imports come from the Middle East**, so any instability in the region leads to higher global oil prices. A long-term rise in oil prices can slow economic growth, increase inflation, and put pressure on government finances. Disruption in the **Strait of Hormuz** would further increase these risks.

• **Evacuation Planning and Consular Support:**

Due to growing security concerns, India began preparing plans to evacuate its citizens from Iran, including **students, pilgrims, and businesspersons**, mainly from cities such as **Tehran and Qom**. The Ministry of External Affairs (MEA) started coordinating evacuation arrangements, based on experience from earlier overseas evacuation missions.

• **Challenge to India's Strategic Autonomy:**

The Iran crisis created a diplomatic challenge for India's policy of **strategic autonomy**. While India supports democratic values and human rights, it also aims to maintain stability in West Asia and balanced relations with countries such as **Iran, Israel, and Gulf states**. Rapid political changes in Iran or strong external intervention could reduce India's diplomatic flexibility in the region.

• **Concerns Related to the Indian Diaspora and Remittances:**

A wider conflict in West Asia could affect nearly **9 million Indians living in Gulf countries**, whose remittances are important for India's economy. Regional instability may require large-scale evacuation efforts and could reduce remittance flows, linking the Iran crisis directly to India's economic and human security.

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7. THE WAY FORWARD: Possible Paths Ahead

- **Reform or Continued Instability:**

The main question is whether the Iranian leadership chooses to reduce public anger or continues to rely mainly on force. If the government allows some economic relief, such as easing fuel prices or relaxing social restrictions, public pressure may reduce in the short term. However, if hardline institutions continue strict repression, the state may lose public trust further, leading to long-term instability.

- **Scope for Diplomatic Engagement:**

Despite strong public statements, dialogue remains a possible way forward. Recent signals from Iranian officials suggest willingness to engage in negotiations if sanctions relief is considered. A negotiated solution could involve limits on Iran's nuclear programme in return for easing economic restrictions, which may help stabilise both the economy and regional security.



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- **India's Role through Strategic Autonomy:**

India can follow a cautious and balanced approach by maintaining communication with all sides. Without acting as a formal mediator, India can support dialogue through quiet diplomatic channels. This approach helps India protect its interests while contributing to regional stability.

- **Energy Security and Protection of Indians Abroad:**

Given repeated instability in West Asia, India must reduce long-term dependence on the region for energy by diversifying suppliers and expanding renewable energy. Projects like the **India–Middle East–Europe Economic Corridor (IMEC)** can help in the future. At the same time, India should keep evacuation and safety plans ready for Indian citizens living in the region.

- **Watching Internal Power Shifts in Iran:**

Developments within Iran's security forces will be important indicators of future direction. Any differences between the regular military and the Revolutionary Guard may affect political outcomes. Monitoring such internal changes helps assess whether Iran moves toward political reform or stronger military control.



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