

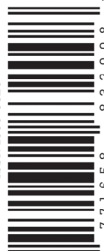
MONTHLY REPORT

Iran Case File

May - June 2026

Your window on Iran from inside and abroad

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EXECUTIVE SUMMARY

The Iran Case File (ICF) for May and June 2026 highlights the most significant developments in Iran during the period under review. Domestically, it examines key political, economic, military and ideological developments, while externally, it analyzes Iran's relations with Arab and regional actors, including Iraq, Lebanon and Israel.

At the political level, the memorandum of understanding signed with the United States on June 18 to end military operations triggered widespread debate inside Iran. Political and security factions were divided between those who viewed the agreement as a necessary exit from the war and a means of preventing further escalation, and those who considered it a concession that undermined national interests and sovereignty while surrendering part of Tehran's strategic leverage. This opposition was driven particularly by the absence of a clear US commitment to lifting economic sanctions and providing compensation to Iran for the extensive destruction it sustained during the 40-day war.

It appears that the "hardliners'" rejection of the agreement did not align with the establishment's interests in this instance. The Islamic Revolutionary Guard Corps (IRGC), which is often associated with the "hardliner" camp, sought to ease pressure on the government and the negotiating team by defending the agreement and rejecting the accusations directed against Parliament Speaker Mohammad Bagher Ghalibaf and Foreign Minister

Abbas Araghchi.

Economically, Iran officially entered a severe stagflationary phase during the period March 2025-March 2026, recording negative growth of -0.7% alongside annual inflation reaching 83% by June 2026 — the highest level recorded in the country since 1943. This situation resulted from the decline in all components of aggregate demand, including private consumption, fixed investment, exports and imports, due to the combined effects of the war Iran experienced at the end of February 2026, accumulated economic sanctions and the sharp expansion of liquidity and the monetary base, which exceeded 53% and 61%, respectively.

The economic crisis led to direct damage to approximately 23,000 industrial facilities, the loss of between 1 million and 2 million jobs, and a significant erosion of purchasing power, particularly as food prices increased by 134%. The pace of Iran's economic recovery will depend on reducing military tensions, restoring oil and non-oil exports, easing sanctions, tightening monetary policy and rebuilding damaged infrastructure and production facilities. These challenges represent a genuine test for the Iranian establishment's resilience.

Militarily, the media-reported testimony of the US pilot regarding his observation of unfamiliar formations in Iranian airspace — consisting of interconnected Iranian drones moving as a single unit — sparked debate over Iran's ability to replenish and develop its military arsenal during wartime. The extensive US and Israeli strikes targeting Iran's entire weap-

ons system indicate that the country has suffered a significant erosion of its military capabilities. Rebuilding these capabilities is expected to be difficult, particularly given the targeting of numerous factories responsible for supplying essential components for military production.

However, the exact size of Iran's arsenal, the scale of the damage inflicted, the role of other rival powers in providing military support to Tehran and the prospects for developing drone systems — which Iran has accumulated notable expertise in — remain unclear. Most likely, any future military confrontations under the fragile agreement with the United States will reveal the extent of Iran's military degradation and the areas in which its capabilities have continued to evolve.

Ideologically, the monthly report examines the efforts of several clerics and figures aligned with the doctrine of Wilayat al-Faqih (Guardianship of the Islamic Jurist) to establish religious legitimacy for Mojtaba Khomeini amid the religious and constitutional crisis that accompanied his succession. The most prominent instruments of this legitimization process include the fatwa issued by Hossein Nouri Hamedani, which permitted the delegation of marjaya (religious authority) to him by describing him as a "qualified jurist" (faqih jāme' al-sharā'it), in addition to other testimonies affirming his scholarly competence and eligibility.

These positions should not be understood solely as jurisprudential rulings; rather, they constitute part of a process of "legitimacy engineer-

ing” aimed at transforming Mojtaba Khamenei from an influential figure within the ruling family into a recognized religious authority and supreme leader, while portraying the transfer of power as a legitimate continuation of the Wilayat al-Faqih system rather than as hereditary succession, which would contradict the rhetoric of the revolution and the principles of the Constitution.

This process carries multiple implications. While it may strengthen Mojtaba Khamenei’s position within state institutions, it could also deepen divisions within Shiite seminaries, particularly in Najaf and among traditional circles in Qom. It may further lead to accusations that the state is politicizing religious authority and subjecting religious leadership to the logic of hereditary succession.

At the same time, the process provides the Iranian opposition and segments of society with arguments that the Iranian republic is moving toward what could be described as a “religious monarchy,” in which political succession is framed through the concepts of jurisprudential authority and religious eligibility.

Accordingly, the fatwa issued by Hamedani and the positions of other clerics illustrate the establishment’s ability to legitimize the transfer of power through religious discourse. However, this approach remains a double-edged sword: while it may provide limited institutional legitimacy, it could simultaneously weaken the independence of seminaries and undermine the theoretical and political foundations of the doctrine of Wilayat al-Faqih.

Regarding Iran’s foreign relations with the Arab world and regional actors, the period under review witnessed significant developments and events. On the Iraqi front, the report examines the political environment surrounding government formation, in which Shiite forces secured nine out of 14 ministerial portfolios. This process unfolded amid disputes among Shiite alliances over the distribution of ministerial positions, the US veto on the participation of figures affiliated with Iran-backed militias and Prime Minister Ali al-Zaidi’s demand for commitments to take concrete steps toward restricting militia weapons and combating corruption.

The government was also formed against the backdrop of Shiite efforts to establish a powerful political coalition aimed at regrouping traditional centers of influence and restoring the old guard to a central role in the political arena. In another development, three militias responded to calls to surrender their weapons by depositing them with the state, a step driven by their own calculations regarding the balance of power among competing factions.

Zaidi’s approach to restricting weapons focuses exclusively on uncontrolled militias, while overlooking two other dimensions: the Popular Mobilization Forces (PMF) and the broader militia mentality prevailing in Iraq. Furthermore, he did not clarify the mechanism for consolidating weapons under state authority. Assessments described Zaidi’s anti-corruption campaign as selective, targeting second- and third-tier influential figures while excluding

the top tier — the “whales” or “crocodiles,” as Iraqis refer to them — who are considered the main sponsors of the militia-based political order and among those most responsible for financial waste and corruption.

In Lebanon, May and June 2026 witnessed rapid developments linked to the repercussions of the US-Israel war against Iran and its impact on Hezbollah, as well as the opening of a negotiating track between Washington and Tehran aimed at containing the consequences of the confrontation and preventing its recurrence. In May, attention focused on Hezbollah's position within the calculations of indirect US-Iran negotiations, amid a clear divergence between US pressure to reduce Iran's regional influence and Tehran's insistence that its support for the party is not a negotiable issue in any understanding with Washington.

As negotiations progressed in June 2026, the debate shifted from whether Hezbollah constituted a bargaining chip between the two sides to how emerging regional arrangements would shape the group's future and role inside Lebanon. In this context, a US-sponsored Lebanese-Israeli track emerged to address border and security issues through Lebanese state institutions. This coincided with a US effort to reset Lebanon's security equation by reducing

its dependence on the regional power balances that have shaped the country in recent years.

Regarding Iran-Israel tensions, differences between the Trump administration and the Netanyahu government contributed to Israel's marginalization from the US-Iran negotiation process, reaching the point where the contents of the memorandum of understanding (MoU) were reportedly withheld from Tel Aviv. This created significant complications, particularly because the MoU's first and most important provision is linked to Israel's position on the Lebanese front, while negotiations on a final agreement depend on continued adherence to its terms.

As a result, the fragility of the agreement has increased, while the prospects of reaching a final agreement within the 60-day timeframe have become more challenging. The calculations of the three parties have increasingly moved toward a zero-sum approach due to the overlap between strategic interests, national security considerations and domestic political factors within each system, primarily: Netanyahu's political predicament, the legitimacy considerations of the Iranian leadership and Trump's relationship with the “Make America Great Again” (MAGA) movement.

DEVELOPMENTS IN IRAN'S INTERNAL AFFAIR

The joint war launched by the United States and Israel against Iran in February 2026 left significant repercussions on the Iranian domestic landscape, affecting political, economic, military and ideological spheres in May and June. The main domestic developments addressed in this section include the MoU with the United States, the state of the Iranian economy, the debate over the reconstruction of Iranian military capabilities and religious efforts to consolidate the legitimacy of Mojtaba Khamenei.

US-Iran MoU Sparks Debate and Division Within Iran

Following a devastating war that lasted approximately 40 days, US President Donald Trump and Iranian President Masoud Pezeshkian separately signed a memorandum of understanding (MoU) on June 18, 2026. The agreement established a 60-day framework for negotiations over Iran's nuclear program and called for an immediate cessation of hostilities across all fronts, including Lebanon, mutual respect for national sovereignty and the reopening of the Strait of Hormuz. In return, Washington committed to gradually easing its naval restrictions on Iranian shipping, granting exemptions for Iranian oil exports, facilitating access to frozen or restricted Iranian assets and working toward the gradual relaxation of sanctions. While the MoU effectively ended the war and halted US-Israeli military operations against Iran, it also triggered sharp divisions within Iran's political establishment, exposing a fundamental debate between competing perspectives. Supporters of the agreement viewed it as a necessary mechanism to end a costly confrontation, prevent further escalation and create space for diplomatic engagement. Critics, particularly among "hardliner" factions, considered it an unacceptable concession that undermined national sovereignty, weakened Iran's strategic position and surrendered important sources of leverage held by Tehran. This file

examines the controversy surrounding the MoU through analyzing the perspectives of the proponents and opponents.

"Hardliners" Categorically Reject the MoU With Washington

As diplomatic signals increasingly suggested that Pakistani mediation between the United States and Iran could pave the way for progress toward an MoU on halting hostilities and setting a timetable for the resumption of negotiations over Iran's nuclear program, Iran's political arena entered a period of intense debate and internal division over the proposed arrangement.

"Hardliners" opposed not only the prospect of reaching an understanding with the US administration but also what they described as its broader "strategic consequences." They argued that the MoU represented a concession on sovereignty and national interests, particularly due to what they viewed as insufficient guarantees regarding sanctions relief, the absence of any explicit US commitment to compensate Iran for the destruction caused during the 40-day war and the lack of clear provisions addressing Iran's claims of sovereignty over the Strait of Hormuz.

Iranian "hardliners" also questioned Washington's reliability in honoring future international commitments, arguing that a return to negotiations would repeat what they consider a pattern of costly past experiences. They point to the Trump administra-

tion's withdrawal from the nuclear agreement in August 2018, the subsequent reimposition of extensive economic sanctions on Iran, US involvement in strikes against Iranian nuclear facilities during the 12-Day War in June 2025, and, most recently, the devastating conflict in late February 2026, which targeted critical infrastructure as well as elements of Iran's political and military leadership.

For these factions, the proposed MoU is therefore viewed not as a diplomatic opportunity, but as a potential repetition of previous agreements that, in their assessment, failed to provide Iran with lasting security guarantees or meaningful strategic benefits.

The factions opposed to alignment with the United States are diverse, encompassing actors with different ideological foundations, political objectives and strategic interests. Although united in opposing closer ties with Washington, these factions differ in their motivations and priorities.

The Resilience Front

This front which has consistently opposed negotiations with the United States for years, represents one of the most influential "hardliner" currents within Iran's "conservative" camp. The faction is led by figures such as former Secretary of Iran's Supreme National Security Council Saeed Jalili and includes prominent allies such as Hamid Rasaei and Mahmoud Nabavian.

For this current, negotiations with

Washington are viewed not simply as a diplomatic process, but as a fundamental challenge to its ideological identity. Members of the front have long argued that "resistance" represents the only viable strategy, while negotiations amount to strategic retreat and concessions that could eventually lead to political and ideological collapse. From this perspective, any agreement with the United States — whether on the nuclear issue or other areas of dispute — would undermine the faction's core political narrative, which is built around opposition to Washington and rejection of direct engagement.⁽¹⁾

Reflecting this position, Nabavian described a potential agreement with the United States as "pure harm," arguing that such an arrangement would not result in the removal of major US and UN Security Council sanctions. He also warned that it could weaken Iran's position regarding the Strait of Hormuz and leave decisions over its enriched uranium stockpile dependent on Washington's approval.

Similarly, Amir Hossein Thabeti echoed Nabavian's criticism on his Telegram channel, claiming that "according to available information, the text of the potential agreement is worse than the Joint Comprehensive Plan of Action (JCPOA)." He argued that the agreement would neither deliver meaningful economic relief nor prevent future military confrontation.⁽²⁾

The Ideological Current Associated With Mohammad Mehdi Mirbagheri

A second current, ideologically and politically aligned with cleric Mohammad Mehdi Mirbagheri, represents an even more uncompromising position within Iran's "conservative" spectrum. This group is characterized by a highly rigid worldview that views the confrontation with the United States not merely as a dispute over specific issues such as sanctions, the Strait of Hormuz or Iran's nuclear program, but as part of a broader civilizational struggle.

From this perspective, the Iranian republic is engaged in a historic confrontation with the United States, the West and what they perceive as the prevailing international order. Consequently, any agreement that requires concessions or compromise is interpreted as a betrayal of the revolutionary principles and ideological foundations of the state.

Pro-Government Social Forces

A number of popular and societal groups mobilized by the state for official rallies and pro-government demonstrations have also expressed opposition to any agreement with the United States. Since the 12-Day War in June 2025 and the subsequent 40-day conflict between Iran and the United States and Israel that began in late February 2026, these groups have participated in demonstrations calling for retaliation over the deaths of Supreme Leader Ali Khamenei and

other political and military figures. Their slogans have included demands for the destruction of Israel and the withdrawal of the United States from the region. Although some members of these groups recognize that they have often been mobilized as instruments of political influence, internal divisions over whether Iran should pursue negotiations with Washington have ultimately pushed them toward supporting those who reject any diplomatic understanding with the United States.

Economic Actors Benefiting From Sanctions and Isolation

Other groups oppose negotiations with the Trump administration because they have developed economic interests based on Iran's isolation and the continuation of US and international sanctions. These actors include businessmen involved in sanctions evasion, oil intermediaries, foreign exchange networks and companies operating through opaque or informal structures.

For these groups, a diplomatic agreement with Washington represents a potential economic threat, as it could increase transparency, expose illicit networks and undermine the informal trading systems that have allowed them to benefit from sanctions-related restrictions.⁽³⁾

Justifications for Backing the MoU

For the government and supporters of the MoU, the agreement with the United States represents an opportu-

nity to reaffirm what they describe as the will of the Iranian people while providing a necessary pathway to end the war and prevent further escalation. They also view the agreement as evidence that the objectives allegedly pursued by Washington and Israel at the outset of the conflict — namely regime change or Iran’s complete capitulation — have failed.

Pezeshkian warned against what he described as domestic and foreign actors seeking to undermine national unity and obstruct efforts to reach an agreement.⁽⁴⁾ He was backed by Parliament Speaker Mohammad Bagher Ghalibaf, who criticized “hardliner” opponents of the negotiations and called on them to stop obstructing the diplomatic process.⁽⁵⁾ Ghalibaf accused some critics of contributing neither to the country’s wartime efforts nor to diplomatic efforts aimed at resolving the crisis, arguing that opposition without practical contribution only weakens Iran’s ability to navigate the challenges facing it.

Among the prominent supporters of the MoU between Iran and the United States are former presidents Mohammad Khatami and Hassan Rouhani, both of whom pursued diplomatic approaches during their presidencies to resolve Tehran’s disputes with Washington, particularly over the nuclear issue.

Rouhani, who oversaw extensive negotiations with the P5+1 group that culminated in the 2015 JCPOA — from which Trump withdrew in 2018 — welcomed the agreement de-

scribing it as a positive and successful first step that contributed to ending the war. However, he cautioned that the 60-day timeframe allocated for negotiations with Washington on outstanding issues would represent a critical and decisive period for both Iran and the wider region. Khatami also expressed support for the MoU, describing it as a courageous move and voicing strong approval for the agreement.⁽⁶⁾

Meanwhile, former parliamentarian Heshmatollah Falahatpisheh launched sharp criticism against certain “hardliner” factions, accusing them of attempting to create religious and legal barriers to obstruct diplomatic efforts and prevent negotiations. He argued that some “hardliners” rely on flawed religious interpretations to promote conflict rather than negotiations as a means of achieving lasting peace. In his view, this ideological approach contributed to Iran’s involvement in the two major wars it faced in June 2025 and February 2026, as well as to previous failures to reach a durable agreement over the nuclear issue.⁽⁷⁾

It appears that the position adopted by “hardliner” factions did not fully align with the broader interests of the Iranian establishment in this instance. The Islamic Revolutionary Guard Corps (IRGC), despite often being associated with “conservative” and “hardliner” currents, moved to ease pressure on the government and the negotiating team as criticism intensified following the announcement of the immi-

nent signing of the MoU.

The negotiating team faced fierce backlash, including accusations of betrayal, from opponents of the agreement. Videos circulated on social media showing demonstrations in Mashhad, where protesters chanted slogans targeting Foreign Minister Abbas Araghchi, accusing him of treason. In Tehran, similar demonstrations included criticism of both Araghchi and Ghalibaf.⁽⁸⁾

In response, Abdullah Haji Sadeghi, the supreme leader's representative to the IRGC, condemned such accusations and described them as inconsistent with the principles of loyalty to the state. He argued that portraying the MoU reached between Pezeshkian and Trump as "invalid" contradicted the broader message and guidance of Iran's supreme political and religious leadership.⁽⁹⁾

Even Mirbagheri, a member of the Assembly of Experts known for his uncompromising views and regarded as an influential figure among opponents of negotiations with the Trump administration, adopted a more cautious tone. In one of the more notable statements from within the "hardliner" camp, he called for avoiding the spread of anxiety, fear and social tension, urging a more optimistic and constructive approach. He also emphasized that the supreme leader was closely overseeing the negotiations and providing the necessary guidance regarding their direction.⁽¹⁰⁾

Conclusion

Deep-rooted Iranian mistrust toward the United States as well as concerns over repeating past experiences have led some "hardliner" factions to approach any agreement with Washington with considerable skepticism. Opposition to the MoU is driven not only by ideological considerations but also by lessons drawn from the nuclear agreement experience, doubts over US commitments, security concerns and fears that negotiations could eventually expand beyond the nuclear file to include issues such as Iran's missile capabilities and regional influence. At the same time, resistance to negotiations is also shaped by domestic political competition. Any diplomatic breakthrough achieved by the Pezeshkian administration — or even by Ghalibaf — could alter Iran's internal political balance and strengthen the position of those advocating engagement with the United States. For some opponents, therefore, the issue is not solely about foreign policy but also about preserving their political influence and ideological standing at home. The MoU has also faced a series of challenges and apparent violations in recent days, highlighting the fragility of an arrangement already surrounded by numerous factors that could undermine its sustainability. Despite the optimism that accompanied its announcement as a potential step toward reducing tensions in the Middle East and limiting the

broader economic consequences of the conflict, the agreement remains vulnerable to political, security and diplomatic pressures. Furthermore, the 60-day timeframe established by the MoU for reaching an agreement on Iran's nuclear program may prove difficult to enforce in practice, potentially becoming an open-ended process if major disputes remain unresolved.

The Iranian Economy Enters Into Stagflation: Root Causes, Implications and Prospects for Recovery

This file examines the state of the Iranian economy after it officially entered a period of stagflation during the Iranian calendar year 1404 (March 2025-March 2026). Current indicators suggest that this challenging economic environment is likely to persist through the end of the year, as data from the Central Bank of Iran showed that economic growth during that period fell to -0.7%, while annual inflation reached 83% by June — the highest level recorded in Iran since 1943.

Stagflation represents one of the most severe economic challenges, particularly when it becomes prolonged, as it places sustained pressure on employment, living standards, public finances and broader social and security stability. Economically, stagflation refers to a condition in which an economy experiences stagnant or declining real GDP growth alongside persistent inflationary pressures.

In Iran's case, this phenomenon has emerged as the result of a combination of structural, financial and external factors, which are examined in the following sections.

Drivers of Stagflation

Negative Growth Across Five Key Economic Components

The Iranian economy recorded negative growth across the five major components of GDP — private consumption, government spending, fixed investment, exports and imports — reflecting a broad-based deterioration in economic performance. The combined impact of conflict-related disruptions and sanctions weakened domestic demand, reduced investment activity and contributed to a contraction in overall economic growth. The performance of the main components of final demand in the Iranian economy was as follows:

Private Consumption: Household or private consumption declined by 1.4% during the Iranian calendar year 1404 (March 2025-March 2026). Since household consumption⁽¹¹⁾ accounts for approximately 45% of Iran's GDP expenditure, this decline highlights the erosion of purchasing power caused by persistent inflation, rising living costs and declining real incomes.

Gross Fixed Capital Formation: Gross fixed capital formation, a key driver of current and future productive capacity, economic growth, employment generation and living

standards, fell by 2.5%. The decline reflects weakening investment incentives, heightened uncertainty over future economic conditions and potential constraints on project financing. Fixed capital expenditure accounted for approximately 28% of Iran's GDP in 2024,⁽¹²⁾ before the country became involved in two wars and faced intensified sanctions pressures.

Government Spending: Government expenditure increased by 1.4% during the year. However, this rise failed to provide a significant stimulus for economic growth, as public spending remained largely focused on salaries, state obligations and the day-to-day operation of government institutions. Military-related expenditures also increased amid wartime conditions. Government spending accounted for approximately 14% of Iran's GDP in 2024.

Exports and Imports: Foreign trade indicators showed a significant contraction, with exports declining by 13% and imports falling by 20% during the year. These declines reflect the impact of conflict, sanctions, logistical disruptions and broader pressure on Iran's external trade sector, further limiting economic activity and reducing access to international markets.

Expansion of the Monetary Base and Rising Production Costs

The rapid expansion of Iran's liquidity and monetary base has been a major contributor to mounting inflationary pressures. Liquidity growth reached 53.3%, while the monetary

base increased by 61.5%, fueling inflation that exceeded 83% year-on-year by the end of May. The sharp depreciation of the national currency and the resulting increase in foreign exchange rates further intensified these pressures by raising production costs and weakening the supply side of the economy.

At the same time, the erosion of purchasing power placed additional pressure on aggregate demand, creating a cycle in which businesses faced higher input costs while households experienced declining real incomes.

The Impact of War and Sanctions

The combined impact of war and longstanding sanctions has arguably been the most significant factor behind the contraction of Iran's economic growth drivers and the acceleration of inflation, ultimately pushing the economy into a state of stagflation.

On the one hand, the war that erupted in late February targeted key elements of Iran's productive, export and commercial infrastructure, including industrial facilities, oil refineries, ports and other critical components of the production system. Damage to these assets disrupted economic activity, weakened industrial output and placed additional pressure on employment.

On the other hand, years of accumulated sanctions continued to undermine the value of the Iranian currency, increase exchange-rate volatility and raise the cost of international trade. These restrictions

contributed to higher production expenses, disrupted supply chains and created shortages of certain goods and essential inputs.

Disastrous Manifestations of Stagflation on Iranian Markets

Although the full impact of the war has not yet been fully reflected in Iran's economic growth indicators — largely because these indicators remained stagnant through the end of the Iranian calendar year 1404 (ending on March 21 2026) — a number of economic signals point to the country entering a period of stagflation. The duration and severity of this phase will depend on future developments, including the trajectory of the conflict, sanctions, monetary policies and the government's ability to stabilize the economy.

The following indicators highlight the growing signs of stagflation:

Sharp Market Price Increases and the Erosion of Purchasing Power

Data from the Central Bank of Iran indicates that inflation has reached its highest level since the period of the Allied occupation of Iran during World War II, nearly eight decades ago. In June 2026, annual inflation stood at 57.7%,⁽¹³⁾ while year-on-year inflation compared with June 2025 reached 83.1% (point-to-point inflation). Monthly inflation also accelerated, reaching 7.4% in June compared with the previous month.

At the macroeconomic level, these figures reflect severe inflationary pressures across the economy. How-

ever, a closer examination reveals even sharper increases in essential goods, with food and beverage prices alone rising by 134% compared with the same period a year earlier.

The inflationary burden has also been unevenly distributed across the country. During June 2026, 11 Iranian provinces recorded annual inflation rates exceeding 100%, highlighting the widening pressure on household budgets and the accelerating decline in purchasing power among large segments of the population.

These unprecedented inflation levels⁽¹⁴⁾ — unseen since 1943, when inflation reached 110.5% — underscore the severe pressures weighing on Iranian households, particularly low-income groups and vulnerable segments of society.

Investment

Capital accumulation — both physical and human — is among the most critical drivers of short-term economic expansion and long-term improvements in productivity, income levels and living standards. Although the precise scale of the damage inflicted on Iran's investment sector remains difficult to quantify, available evidence indicates that significant portions of the country's productive capacity have been disrupted. Numerous capital assets have been destroyed, production activities have been suspended and unemployment has followed. Iranian statistics indicate that approximately 23,000 industrial facilities have sustained direct damage.

A wide range of Iranian economic assets have suffered partial or complete destruction, particularly within strategic sectors such as petrochemicals, which account for around one-third of Iran's non-oil exports and generate more than \$25 billion in annual revenue. Other heavily affected sectors include iron and steel, automotive manufacturing and critical infrastructure, including airports, bridges, major highways, ports, oil and gas facilities, power plants and other essential components of the country's productive base.

Unemployment and Loss of Job Opportunities

The recent war has resulted in the loss of between 400,000 and 1 million direct job opportunities, according to initial estimates. The figure could rise significantly when indirect employment losses are taken into account, with some estimates by Iranian government officials suggesting that the total impact could reach as many as 2 million jobs.⁽¹⁵⁾ The most affected sectors include strategic industries such as steel and petrochemicals, particularly in light of the reported direct damage sustained by approximately 23,000 industrial facilities. Beyond industrial losses, businesses were also severely affected by the prolonged internet shutdown, which disrupted commercial activity and affected small enterprises and digital-based employment. This disruption is particularly significant given

that small and medium-sized businesses represent the largest source of employment in Iran, accounting for approximately 53% of the country's total workforce.

Economic and Social Implications and Future Prospects

Iran's economic stagflation is expected to generate a wide range of complex challenges, placing further pressure on both the country's fiscal and economic conditions and the living standards of its population. The most significant challenges include:

Declining Tax Revenues and a Widening Budget Deficit

The contraction in production and consumption is likely to reduce government tax revenues, including corporate income taxes and value-added taxes, placing additional strain on public finances. This comes at a time when government expenditures — particularly on military and social programs — are rising, further widening the budget deficit and limiting the state's fiscal flexibility.

Continued Depreciation of the National Currency

Persistent inflation and increased demand for foreign currency are likely to intensify pressure on the exchange rate, leading to further depreciation of the Iranian rial. A weaker currency increases the cost of imports, raises production expenses and fuels additional inflationary pressures that directly affect households.

Rising Poverty and Reduced Spending on Education and Healthcare

The erosion of real incomes is pushing broader segments of society into poverty, particularly among households dependent on fixed wages and salaries. As living costs continue to rise, many families are being forced to reduce spending on essential services, including education and healthcare, in order to meet daily expenses.

Widening Economic Inequality

Inflation tends to benefit individuals and groups holding assets, foreign currency or inflation-resistant investments, while disproportionately harming those who rely on fixed incomes. This dynamic deepens existing social and economic inequalities and widens the gap between different segments of society.

Declining Productivity and Long-Term Growth Potential

Lower levels of investment, combined with damage to productive infrastructure, weaken the economy's capacity to generate growth. Over time, reduced capital formation and declining productivity could undermine Iran's medium- and long-term economic prospects.

Escalating Social and Psychological Pressures

Persistent inflation, rising unemployment and declining purchasing power contribute to growing economic anxiety and public frustration. If these pressures continue, they could

negatively affect social cohesion and pose additional challenges to domestic stability.

Conclusion

An analysis of Iran's economic trajectory over the past year reveals profound structural vulnerabilities that have been further exposed by the combined impact of war and prolonged sanctions. These pressures have pushed the economy into its most challenging phase in decades, threatening not only fiscal stability but also social conditions and the broader well-being of the Iranian population. Although a path toward recovery remains possible, the pace at which Iran can emerge from stagflation will depend on several critical factors, foremost among them the reduction of military tensions and the restoration of a more stable security environment. The revival of oil and non-oil exports will be particularly important in strengthening foreign currency inflows, improving the government's fiscal position and easing pressure on the exchange market. Higher global oil prices could provide additional support, but only if accompanied by increased Iranian export capacity and a relaxation of sanctions and trade restrictions that currently limit access to international markets. At the domestic level, containing inflation will require a comprehensive monetary response, including tighter monetary policy, slowing the expansion of liquidity and the monetary base and restoring greater stability to foreign exchange

markets. In parallel, rebuilding damaged infrastructure and restoring productive capacity will be essential for reviving economic growth and recovering lost employment opportunities. The ability to implement these measures effectively will represent a decisive test of the Iranian government's economic resilience and its capacity to manage the country's most severe economic pressures in decades.

The “Jellyfish” Drone Swarm and the Question of Rebuilding Iranian Military Capabilities

After a period of relative restraint in military hostilities — punctuated only by sporadic attacks on commercial vessels — Iran engaged in a major exchange of strikes with its two principal adversaries, the United States and Israel. Iranian military infrastructure came under a series of precision attacks targeting radar installations, missile systems and drone facilities, many of which had remained largely untouched throughout the conflict until the announcement of the April ceasefire. Missile and drone strikes also hit Iranian weapons storage sites, further exposing vulnerabilities in Tehran's military network. In response, Iranian attempts to target Israel and US-linked assets in the Gulf were largely intercepted, with reports indicating that the attacks inflicted only limited damage. Despite this, a media report highlighting Iran's drone capabilities generated considerable at-

tention, although it relied on unverified claims and unnamed sources rather than credible evidence. This file examines two central issues: the competing narratives surrounding reports of an American pilot operating in Iranian airspace, and Tehran's efforts to maintain an image of military strength despite the substantial degradation of its operational capabilities during the conflict.

The Mysterious Drone Swarm Sighting

The incident involving the drone formation dubbed the “jellyfish” by the media has emerged as one of the most enigmatic aerial encounters in the history of modern warfare.⁽¹⁶⁾ On April 3, 2026, during Operation Epic Fury, a US Air Force F-15E Strike Eagle, identified by the call sign “Dude 44,” was reportedly struck by hostile fire and crashed on the rugged slopes of Iran's Zagros Mountains.

According to a CNN report citing unnamed sources familiar with the military investigation, the pilot, shortly before the aircraft was hit by what appeared to be a shoulder-fired missile, reported observing a series of highly unusual aerial phenomena. He described groups of drones operating in coordinated formations, alongside larger unmanned aircraft seemingly linked to smaller drones suspended beneath them like appendages — all moving together as a single, integrated system. The accounts sparked speculation among observers, with one source describing the sight as “like a real alien” and another com-

paring it to “a flying minefield suspended in Iranian airspace.”

However, shortly after the report emerged, serious questions were raised over the reliability and accuracy of the pilot’s account. The testimony was not provided directly by the pilot himself, but instead relayed through several unnamed intermediaries, raising concerns about the chain of reporting and the potential for misinterpretation or exaggeration. Moreover, the incident did not occur in isolation. The same pilot had reportedly been shot down approximately five weeks earlier, alongside two other crew members, during the opening phase of the operation. Reports suggest that he suffered a concussion while attempting to eject from the aircraft. Medical research has long documented the effects of traumatic brain injuries on memory, including the possibility of fragmented recollections, altered perceptions or distortions in memories associated with highly stressful events. When combined with the extreme physiological and psychological pressures of combat — including a surge of adrenaline, the confusion of an aircraft emergency and the narrow window for survival during an ejection from a fighter jet at high altitude — the accuracy of observations made in those final moments becomes difficult to assess with certainty. At present, three competing explanations have emerged to account for the reported encounter: cognitive distortions caused by acute stress

and trauma; the covert introduction of advanced foreign technology into the battlefield; or the presence of undisclosed allied operational assets that were moving through the same airspace without the pilots’ awareness. Each of these scenarios faces significant evidentiary gaps and rests largely on assumptions that cannot yet be independently verified.

Iranian Attempts to Display Strength

Available documents provide a clearer assessment of the condition of Iran’s military capabilities by June 2026, following months of cumulative attrition since the outbreak of the 12-Day War. In the period leading up to June, Israeli and US forces reportedly conducted thousands of precision strikes that significantly degraded Iran’s military infrastructure, including the destruction of an estimated 60% of its missile launch platforms. The strikes also targeted Iran’s ballistic missile reserves, reportedly destroying a substantial portion of the stockpiles stored in military facilities, as well as approximately 1,500 missiles still in the production pipeline. Beyond the immediate losses in weaponry, Iran’s defense-industrial base sustained extensive damage, severely disrupting its capacity to restore depleted arsenals, repair damaged systems and resume large-scale domestic production.

Despite the severe degradation of its military capabilities, the exchange of fire continued throughout June 2026, as Iran sought to demonstrate that its

ballistic missile program remained an effective and credible deterrent. Early in the month, Tehran reportedly launched around 30 ballistic missiles towards Israel, accompanied by two additional missiles fired by the Houthis from Yemen.⁽¹⁷⁾ In response, the Israeli air force conducted a new wave of strikes on June 8 against targets inside Iran, including dozens of missile batteries and air defense systems that Tehran had deployed to restore its detection and interception capabilities.

A subsequent wave of attacks focused directly on a petrochemical industrial complex in Mahshahr, southwestern Iran, which was reportedly involved in producing chemical materials and solid components used in ballistic missile manufacturing.⁽¹⁸⁾ The strike represented a significant blow to Iran's defense-industrial infrastructure, creating further technical and logistical obstacles to the reconstruction of its missile program and delaying efforts to restore domestic production capacity.

Leadership instability has further complicated Iran's operational environment, particularly following significant changes within the naval command structure of the IRGC. Mohammad Akbarzadeh — believed to have assumed de facto command of the IRGC Navy after the death of Commander Ali Reza Tangsiri — was reportedly killed in a car accident in Kerman,⁽¹⁹⁾ according to the official account. However, eyewitness reports of explosions heard in the area

have raised questions over the circumstances surrounding his death and fueled speculation about whether the incident occurred as described by authorities. Akbarzadeh, regarded as one of the key figures behind Iran's strategic approach to the Strait of Hormuz, was officially identified as a deputy commander, holding the position of political deputy. Nevertheless, available indications suggest that he had effectively taken over operational leadership of the force following the loss of the previous commander.

Despite this substantial decline in military capabilities, Iranian state media continued to promote narratives that highlight the growing role of information warfare in contemporary conflicts. In late June, Brigadier General Mohammad Yousefi Khoshgalb, deputy commander of the Iranian air force, claimed that Tehran had achieved continuous advances in drone and air defense technologies, dismissing what he described as "hostile media allegations" regarding weaknesses in Iran's air defense network. He argued that nationwide training exercises and what he characterized as the "complete security" of Iran's land and maritime borders reflected the readiness and effectiveness of the country's integrated air defense system.⁽²⁰⁾ However, this portrayal stands in sharp contrast with battlefield assessments and other documented reports highlighting significant operational vulnerabilities.

Likewise, Brigadier General Ahmad Reza Pourdastan, head of the Iranian Army's Center for Strategic Studies, stated in mid-June that Iran's armed forces had moved from a primarily defensive posture towards an offensive military doctrine, with preemptive action becoming an available option when deemed necessary.⁽²¹⁾ He further claimed that Tehran had not yet unveiled the full extent of its capabilities and described the opposing side's call for a ceasefire as "the clearest evidence of victory." Such assertions, however, contrast sharply with documented assessments of Iran's military losses, the degradation of key capabilities and broader shifts in regional power dynamics that have narrowed Tehran's strategic room for maneuver.

Conclusion

At the strategic level, Iran encountered unprecedented limitations following the signing of the MoU with the United States on June 26. Although official media outlets continued to promote competing narratives, Iranian military officials maintained a discourse centered on "defensive achievements" and a transition towards an "offensive doctrine," despite mounting evidence of significant degradation in battlefield capabilities. These contradictions demonstrate the extent to which information warfare can complicate efforts to accurately assess military strength during periods of active conflict. The available

evidence suggests a state attempting to project power and deterrence while operating under increasingly constrained conditions, using mobilization rhetoric to compensate for underlying operational weaknesses. As negotiations continue to stall and domestic pressures intensify, all parties appear to be preparing for the possibility of renewed confrontation. Tehran's opportunity to rebuild its indigenous weapons stockpiles and secure advanced air defense systems from Russia, China and other strategic partners remains limited. The narrative of "resilience and strength" will face a decisive test in the coming period, particularly if political rigidity prevents the compromises needed to ease tensions and create space for military recovery.

The Hawza and Cementing Mojtaba Khamenei's Legitimacy

Since the assassination of Ali Khamenei, Iran has faced a religious and constitutional crisis that is no less significant than the ongoing war. Serious questions have emerged regarding the qualifications and scholarly standing of his son Mojtaba Khamenei, according to Shiite jurisprudential principles and the requirements for assuming the position of supreme leader. In addition, a constitutional dilemma has arisen over the issue of succession and inheritance, as such a process contradicts the established principles of the Wilayat al-Faqih (Guardianship of the Islamic Jurist)

system and the Iranian Constitution. However, this issue has not received sufficient attention among Iran's religious elites due to the continuation of the war and the emergence of the Islamic Revolutionary Guard Corps (IRGC) as a powerful actor filling the vacuum created by the assassination of the supreme leader during war-time. Nevertheless, some senior clerics regarded as loyal to the Wilayat al-Faqih doctrine have begun laying the groundwork for establishing religious and political legitimacy for Ali Khamenei's son.

Through this process, Mojtaba Khamenei has been presented as a "qualified jurist" (*faqih jāme' al-sharā'it*), an "ayatollah," and a "supreme leader," thereby providing justification for the payment of *khoms* (the religious tax in Shiite jurisprudence) to him as a recognized religious authority.

This monthly report's ideological section seeks to examine the dimensions and implications of this fatwa and its role in the broader process of legitimizing the transfer of power.

Engineering Legitimacy and Recognizing Mojtaba Khamenei's Religious Status

Grand Ayatollah Hossein Nouri Hamedani issued a fatwa declaring it permissible to pay religious dues to Mojtaba Khamenei, describing him as a "qualified jurist" (*faqih jāme' al-sharā'it*).⁽²²⁾ The fatwa permitting the payment of religious dues to Mojtaba Khamenei comes at a critical mo-

ment for Iran, amid questions surrounding succession, legitimacy and the establishment's ability to endure following the death of Ali Khamenei. The fatwa can therefore be viewed as a religious and political signal — an early attempt to establish religious recognition for a figure who has long occupied a central position within the power structure but has remained absent from its official public leadership. By describing Mojtaba Khamenei as a "qualified jurist," the fatwa effectively seeks to settle debates over his religious qualifications and the extent of his jurisprudential and political legitimacy by presenting them as established facts.

This is where its significance lies: it highlights the role of political theology in Iran as the establishment approaches a potential moment of transition. Power cannot be managed solely through institutional authority; rather, it requires a jurisprudential framework that presents the transfer of leadership as a continuation of the principle of guardianship (Wilayat al-Faqih) rather than as hereditary succession.

The latter accusation is likely to remain a challenge facing Mojtaba Khamenei throughout his rule. It was rejected by the Friday prayer leader of Qom, who stated, "The claims and suspicions regarding the inheritance of the position of the Supreme Leader are baseless."⁽²³⁾

Undoubtedly, religious dues, including *khoms* and other financial obligations, are not merely administrative

or financial matters. In Twelver Shi-ite jurisprudence, they represent indicators of recognition of a religious authority (*marjaya*) or the jurisprudential competence of the individual receiving them. Accordingly, Hamedani's fatwa appears to have elevated Mojtaba Khamenei from a position of undeclared political influence — or from the status of an influential son within the leadership structure — to a formally recognized religious standing supported by jurisprudential criteria, including *ijtihad* (independent legal reasoning), *fiqh* (Islamic jurisprudence), justice and the ability to administer religious funds. For this reason, describing him as a “qualified jurist” is highly significant, as it relates directly to the foundations of the Imami theory of the general representation of the Hidden Imam. According to this theory, religious authority over people's wealth is granted only to those who possess the required qualifications of knowledge, justice and competence.

The description of Mojtaba Khamenei as a learned jurist was not limited to a single religious authority. Rather, several loyalist religious figures endorsed this assessment of his scholarly competence, seeking to reinforce his legitimacy amid concerns over a potential deepening of the legitimacy crisis after the war ended and as the supreme leader began to effectively exercise his powers.

Ayatollah Ahmad Alamolhoda referred to this, stating, “One day, when I was with the Supreme Leader, Mr.

Mojtaba disagreed with the late Supreme Leader on a jurisprudential matter. When Mr. Mojtaba began presenting his arguments, the Supreme Leader remained remarkably composed. On that day, his scholarly competence (to exert *ijtihad*) was established for me.⁽²⁴⁾”

Thus, according to this account, his scholarly competence was established based on a single encounter, which was then used to support his eligibility for the position of supreme leader. This has reinforced criticism that the process was shaped by political considerations and supported by state institutions.

It can be argued that the primary significance of Hamedani's fatwa and the statements issued by other religious authorities lies in their attempt to establish a religious foundation before any potential political transition takes place. This would prevent Mojtaba Khamenei from being perceived merely as his father's successor by inheritance — a characterization that establishment loyalists are seeking to reject — and instead present him as a “jurist” whose legitimacy has been recognized by prominent religious authorities. Therefore, the fatwa should not be viewed merely as a pragmatic ruling, but rather as a key preliminary document in the process of legitimacy construction, similar to what occurred with his father, when he succeeded Khomeini despite lacking the required religious qualifications. His accession was made possible through the support

of figures such as Akbar Hashemi Rafsanjani and Ahmad Khomeini. However, Mojtaba Khamenei's case is more complicated due to both the questions surrounding his religious qualifications and the fact that he inherited the position from his father. The fatwa also reveals the Iranian establishment's attempt to address the fundamental dilemma it will face in the event of Mojtaba Khamenei's continued absence from public view and the establishment of a prolonged period of calm following the war. The dilemma lies in how to transfer power within a system that presents itself as neither monarchical nor hereditary, while at the same time requiring a central authority capable of ensuring the continuity of the IRGC network, the Supreme Leader's Office, religious financial institutions and ideological mobilization structures. This is where the importance of the fatwa becomes evident. A system founded on Wilayat al-Faqih cannot depend solely on coercive power or the military establishment; it also requires a religious discourse capable of transforming political succession into a jurisprudential continuation. Therefore, the fatwa represents a form of "seminary normalization" of Mojtaba Khamenei's status; that is, removing him from the sphere of political controversy and placing him within the framework of seminary and jurisprudential discourse. Upon closer examination, this step reflects a fundamental crisis within the theory of Wilayat al-Faqih itself.

The theory claims to be based on jurisprudential competence and institutional selection; however, during critical moments of transition, it may tend to reproduce the logic of lineage and family hierarchy — not explicitly in the name of blood ties and inheritance, but rather through concepts such as "legitimate eligibility," "trust" and "continuity." In this way, it promotes the notion of supreme religious authority, even if that authority is constructed from within state institutions and outside the traditional seminary circles.

The Impact of Hamadani's Fatwa

The repercussions of this fatwa could be far-reaching across three levels. First, within the hawzas (Shiite seminaries), it may trigger a new divide between those who accept the expansion of religious recognition for Mojtaba Khamenei and those who view it as a direct politicization of the position of religious authority and the issuance of fatwas. Shiite seminaries, particularly in Najaf and a significant segment of the Qom seminary, are highly sensitive to the transformation of *ijtihad* (independent reasoning) into an issue linked to the centers of political power. Therefore, the fatwa may be interpreted in Najaf, and perhaps within some traditional circles in Qom, as further evidence of state encroachment on the seminaries rather than an affirmation of the jurist's independence. Moreover, Mojtaba Khamenei's absence from his father's funeral could deepen di-

visions within the seminaries, given that he is not regarded by some as fully qualified or competent for the position. Beyond the question of scholarly standing, his absence raises questions about who is best positioned to assume leadership during this transitional period. Reports of anger among Khomeini's descendants during the funeral also suggest rising tensions and the potential escalation of the conflict between the seminaries and the military establishment.

Second, within the establishment, the fatwa will provide supporters of Mojtaba Khamenei's succession with a significant advantage, as it grants them the religious legitimacy needed to counter alternative possibilities, whether those emerging from the Assembly of Experts, institutionally affiliated clerics or figures who may be considered more acceptable.

Third, at the level of Iranian society and the opposition, the fatwa will likely be used as evidence that the country is moving toward a model of "religious monarchy" or "seminary inheritance," in which political succession is presented through a religious framework. This is where the danger of the fatwa lies: while it may strengthen Mojtaba Khamenei's position within state institutions, it could simultaneously undermine the revolutionary narrative that was built on rejecting the shah's rule, hereditary succession and familial despotism. Thus, the fatwa becomes a double-edged sword. It provides

legitimacy within a narrow institutional framework, but at the same time opens a broad avenue for questioning the establishment's legitimacy among society, within seminaries that remain outside Tehran's central authority and among those who believe that Wilayat al-Faqih has shifted from a religious theory into a mechanism for reproducing power within a single family, while violating established seminary norms and foundational traditions.

Conclusion

This fatwa reveals a dilemma facing a theocratic political system whose founding discourse rejected monarchy and hereditary succession, yet now finds itself confronting an authoritarian trajectory that closely resembles the very hereditary model against which it revolted in 1979. The difference is that the succession is not presented in the name of lineage, but rather framed through the language of jurisprudence; nor is it portrayed as a familial entitlement, but as a legitimate continuation of Wilayat al-Faqih. This constitutes the core of its theological and political significance: the establishment was unable to justify the transition solely through revolutionary discourse, and therefore turned to the language of religious edicts (fatwas) to provide the country's political future with a religious foundation and transform a contested possibility into an acceptable path within the system.

However, this process of legitimiza-

tion carries substantial risks. While it may grant Mojtaba Khamenei recognition within certain state institutions and segments of the seminaries, it could also open the door to broader challenges concerning the independence of the religious establishment, the validity of the Wilayat al-Faqih theory itself, and the Iranian republic's claim to be an institutional system rather than a familial

one. Therefore, the fatwa appears to represent a test of the seminaries' ability to adapt to the requirements of political succession, a test of the establishment's capacity to carry out a transfer of power through religious discourse and a test of the extent to which Iranian society will accept the transformation of guardianship from a religious theory into a mechanism for hereditary transfer of power.

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IRAN'S REGIONAL INTERACTIONS

Iran's interactions with Arab and regional actors are examined through the following three themes:

- The new Iraqi government between domestic challenges and external pressures
- Hezbollah between US-Iran arrangements and the reshaping of Lebanon's
- The Israeli conundrum regarding the US-Iran MoU.

The New Iraqi Government: Between Domestic Challenges and External Pressures

The Iraqi political landscape witnessed significant developments during May and June 2026, with potential long-term implications for the country's trajectory and the challenges it is expected to face over the next four years. The government of Ali al-Zaidi officially took office after the majority of his ministerial nominees secured parliamentary approval, marking a key stage in the process of forming the new administration.

In a notable development, three armed militias announced their willingness to comply with Zaidi's calls to place their weapons under state control. The prime minister also launched a broad anti-corruption campaign, known as "Operation Dawn," on May 30, 2026, targeting prominent political and parliamentary figures accused of involvement in corruption networks.

These developments raised important questions regarding the complexities of completing the government formation process and the nature of Zaidi's agenda. In particular, observers questioned whether his efforts to enforce state control over weapons and combat corruption represented short-term political maneuvering aimed at consolidating power, or whether they reflected a broader strategic shift toward strengthening state institutions.

Government Formation Dynamics

The government was formed in a highly complex political environment that provided early indications of the scale of challenges facing Zaidi's administration. Iraq's Shiite political arena witnessed intense competition among rival factions over the allocation of ministerial portfolios, particularly between traditional political alliances and groups with affiliated armed wings.⁽¹⁾ This struggle was further complicated by Washington's opposition to the inclusion of figures linked to Iran-backed armed factions in the new government.

Zaidi also faced pressure to commit to concrete measures aimed at establishing state control over all weapons and launching effective anti-corruption efforts designed to weaken the financial networks that sustain armed groups and enable sanctions evasion. Failure to demonstrate progress on these fronts could expose his government to economic and financial pressure, potentially threatening its stability, particularly amid challenges facing Iraq's oil revenues due to disruptions affecting crude export routes through international waterways.

The government formation process also unfolded amid efforts by Shiite political forces led by Nouri al-Maliki, head of the State of Law Coalition, to establish a powerful parliamentary bloc of 75 lawmakers under the banner of the "Alliance of the Strong." The alliance brings together five

major political forces: Maliki, whose influence is rooted in organizational networks and state institutions; Hadi al-Amiri, leader of the Fatah Alliance, who combines political and military influence; Faleh al-Fayyad, head of the Ata Movement, whose influence extends through security institutions and the Popular Mobilization Forces; Ahmed al-Asadi, leader of the Sanad Bloc, representing a rising parliamentary and executive force; and Humam Hamoudi, head of the Islamic Supreme Council of Iraq, providing ideological and political continuity.

The formation of this bloc reflects an effort to reorganize Iraq's traditional centers of power and restore the influence of established political actors, preventing the emergence of a new balance of power that could bypass these longstanding networks. It also aims to strengthen their influence over the government formation process, the distribution of ministerial positions and the broader political direction of Zaidi's administration — particularly its response to US demands — as well as to shape future political settlements within the structure established by the Coordination Framework.

This already complex environment was further complicated by reports of Israeli intelligence activity and alleged violations of Iraqi sovereignty. The New York Times⁽²⁾ reported in May 2026 that Israel had carried out covert military operations at two locations inside Iraq that were reportedly used during the 12-Day War and

the subsequent joint US-Israeli military campaign against Iran to facilitate Israeli fighter jet operations into Iranian airspace.

The two sites identified were a military facility in the Najaf desert and another in the Nukhaib desert in western Iraq. These reports created significant challenges for the newly formed Iraqi government, raising sensitive questions over its ability to protect national sovereignty and enforce control over its territory.

The revelations also provided additional leverage to armed factions that oppose placing their weapons under state control, allowing them to argue that their military capabilities remain necessary to counter external threats, particularly Israeli activity. This could potentially encourage further escalation by these groups, complicating Iraq's regional relations and increasing the risk of the country becoming a theater for retaliatory actions linked to wider regional conflicts.

Meanwhile, on May 15, 2026, the Iraqi Parliament approved 14 out of 23 ministerial portfolios (see Table 1). Nine ministries remain unresolved, including several key sovereign and strategic portfolios: defense, interior, youth and sports, higher education, labor, planning, culture, construction and housing and migration. The delay in completing the cabinet formation process was largely attributed to disagreements among political factions over the extent of participation by armed militia-linked figures

in the government, particularly amid US objections to the inclusion of individuals associated with Iran-backed armed groups. These disputes further

highlighted the broader struggle over the future balance between state institutions, armed factions and external influence in Iraq's political system.

Table 1: A Comparison of Ministerial Allocations in the 2022 and 2026 Governments

	Faction	Ministry	Minister	Political alliances of the 2022 government	Political alliances of the 2026 government	Continuation or change (of the political alliance)
1	Shiite	Prime minister	Ali al-Zaidi	Coordination Framework	Coordination Framework	Continuing
2		Finance	Faleh Sari	Independent	National Wisdom Movement	Shifting
3		Agriculture	Abdel-Rahim Jassim al-Shemari	State of Law	Reconstruction and Development Alliance	Continuing
4		Oil	Bassem Mohammed	State of Law	Reconstruction and Development Alliance	Continuing
5		Electricity	Ali Saad Wahib	Independent	Reconstruction and Development Alliance	Shifting
6		Health	Abdul-Hossein al-Mousawi	State of Law	Al-Nahj al-Watani	Continuing
7		Communications	Mostafa Jabbar Sanad	Independent	Absher ya Iraq	
8		Transport	Wahb Soleiman Mohammed	Fatah-Badr	Fatah-Badr	Shifting
9		Water resources	Muthanna Ali Mahdi al-Tamimi	Independent	Fatah-Badr	Continuing

10	Sunni	Industry	Mohammed Nour Ahmed	Sunni component	Taqaddum Alliance	Continuing
11		Education	Abdul-Karim Abtan	Sunni component	Taqaddum Alliance	Continuing
12		Commerce	Mostafa al-Aani	Sunni component	- National Sovereignty Alliance	Continuing
13	Kurdish	Foreign Affairs	Fuad Hussein, a FeyliKurd, ⁽³⁾ was part of the Kadhimi and Sudani governments	Kurdistan Democratic Party	Fuad Hussein, Kurdistan Democratic Party	Continuing
14		Justice	Khaled Shawani	Patriotic Union of Kurdistan	Patriotic Union of Kurdistan	Continuing
15		Environment	Sarwa Abdel-Wahed	Patriotic Union of Kurdistan	Patriotic Union of Kurdistan	Continuing

Source: Studies and Research Center, The International Institute for Iranian Studies.

The table shows that the Shiite component secured nine of the 14 approved ministerial portfolios, most of which are economic in nature, including key ministries such as oil, finance, industry and trade. These portfolios largely mirror those held by Shiite forces in the 2022 government, although their distribution among allied political factions has been rearranged. Meanwhile, the Sunni component obtained three ministries, while the Kurdish component also secured three portfolios — maintaining the same overall allocation patterns established in the 2022 government. The table also indicates that the oil and agriculture portfolios

were assigned to the Reconstruction and Development Alliance after previously being controlled by the State of Law Coalition in the 2022 administration. The composition of the cabinet further suggests a clear effort to limit the direct participation of armed militia factions in Zaidi's government compared with the previous administration. However, a fundamental political challenge remains: Zaidi lacks his own parliamentary bloc or independent political base capable of supporting his agenda. This places him in a vulnerable position, as he remains heavily dependent on the alliances that nominated him. As a result, questions remain over

his ability to pursue policies that diverge from the preferences of the Coordination Framework, as well as his capacity to balance the demands of the political forces that brought him to power with the constitutional authority and independent decision-making powers of the prime minister's office.

Significations of Three Militias Agreeing to Place Weapons Under State Control

Only three militias — Saraya al-Salam, Asa'ib Ahl al-Haq and Kata'ib al-Imam Ali — have announced their willingness to comply with calls to place their weapons under state control, out of more than 70 armed groups operating in Iraq. However, the arrangement does not involve complete disarmament; rather, the weapons would be transferred to state facilities on a custodial basis, recorded and stored in security force depots while remaining under state supervision.

In exchange, these militias are reportedly seeking US guarantees to remove objections to their participation in the government, provide them with preferential economic opportunities and ensure that their leaders are not subject to targeting. Their decision to place weapons in state custody also appears to be driven by internal calculations regarding the balance of power among Iraq's armed factions. These groups are reluctant to create a power vacuum that could be exploited by rival factions —

particularly Kata'ib Hezbollah and Harakat Hezbollah al-Nujaba, which have rejected surrendering their weapons — to expand their influence at their expense.

The issue of armed formations in Iraq, however, extends beyond individual militias and encompasses three broader categories: the Popular Mobilization Forces (PMF), which have been formally integrated into Iraq's security structure as part of the armed forces; armed groups operating outside the PMF framework and beyond effective state control; and the broader militia culture and political mentality that remains influential within parts of the Iraqi system. Zaidi's approach to weapons control has largely focused on the second category, namely unruly armed groups,⁽⁴⁾ while leaving the other two dimensions largely unaddressed.

The first section of his ministerial program states: "Restricting weapons to the state and enforcing the rule of law,"⁽⁵⁾ but this represents only a partial approach to the broader challenge of auxiliary armed forces, which also includes issues such as the future role and development of PMF personnel.

Meanwhile, the Harakat Hezbollah al-Nujaba group further narrowed the definition of uncontrolled weapons by arguing that government efforts should target only "chaotic weapons" — a term it uses to describe weapons belonging to groups that act independently of Iranian directives. In contrast, it distinguishes these

from what it calls “resistance weapons,” referring to armed capabilities aligned with Iran’s strategic objectives and guidance.⁽⁶⁾

The most significant issue overlooked in Zaidi’s approach is not merely the surrender of weapons by a limited number of militias, but the continued existence of the PMF — a force with strong ties to Iran — as a fully integrated component of Iraq’s armed forces. This issue is particularly sensitive given the PMF’s size, with approximately 204,000 fighters⁽⁷⁾ compared with around 200,000 personnel in the Iraqi army, as well as the insistence of its leadership on preserving its status as a unified military entity within the state structure. Such an arrangement allows the PMF to retain a distinct institutional identity and potentially maintain the capacity for independent decision-making.

Zaidi has yet to present a comprehensive mechanism for consolidating all weapons under state authority. His government has only announced a timetable for the handover process and the establishment of a committee tasked with receiving weapons from the three militias, documenting their types and recording their serial numbers. However, the absence of a broader strategy for dealing with Iraq’s diverse armed actors leaves major questions unresolved regarding the future of both militia personnel and their arsenals.

Key questions remain unanswered: Where will these fighters

and weapons ultimately be integrated? Will militia members and their capabilities be absorbed by other allied armed groups, transferred to proxy formations operating under different names or incorporated into the PMF? Moreover, there are doubts over whether all weapons will actually be surrendered, particularly given that some factions have reportedly acquired advanced capabilities, including Iranian-made drones and missile systems. In practice, multiple avenues may remain available for circumventing efforts to establish exclusive state control over weapons.

Zaidi appears to recognize that the deeper strategic calculation among influential Shiite political elites is not to fully relinquish armed capabilities, for three primary reasons. First, the uncertain trajectory of US-Iran relations and concerns over the possibility of renewed conflict under Trump’s unpredictable foreign policy approach have reinforced the belief among some Iraqi Shiite actors that maintaining armed leverage remains necessary. Second, Iraq’s changing geopolitical environment has become a source of concern for these elites. The emergence of what some describe as a Sunni regional alignment around Iraq — supported by growing Turkish and Gulf influence — has challenged the previous perception of a dominant Shiite regional axis. Third, Iraqi Shiite actors remain concerned about the interconnected nature of Iran’s regional network of allied groups. They fear that conces-

sions in Iraq could create pressure on other Iranian partners, particularly Hezbollah in Lebanon and the Houthis in Yemen, forcing them to make similarly significant compromises.

Zaidi's Anti-Corruption Drive

The anti-corruption campaign was launched on May 30, 2026, with the arrest of former Deputy Oil Minister Adnan al-Jumaili. The campaign expanded on June 28, 2026, when authorities announced the detention of approximately 47 individuals, including 16 prominent parliamentary and political figures. Their names reportedly emerged during Jumaili's interrogations, in connection with allegations ranging from corruption, money laundering, bribery and the embezzlement of public funds to financing electoral campaigns and armed groups as well as foreign currency smuggling to Iran.

The government described this operation as the first phase of a broader anti-corruption campaign, with additional stages expected to follow. However, an analysis of the backgrounds and political affiliations of those targeted in the initial phase raises questions about the selectivity and scope of the campaign. The largest share of political figures detained — nine out of 16 — were affiliated with the Reconstruction and Development Alliance, led by former Prime Minister Mohammed Shia' al-Sudani (see Table 1). Sudani was a major political rival of Maliki and played a role

in facilitating Zaidi's nomination for the premiership. According to State of Law Coalition lawmaker Othman al-Shibani, Zaidi's name was presented to Sudani during discussions aimed at resolving the prime ministerial selection crisis.⁽⁸⁾ However, Maliki's approval would have remained essential before any candidate could be advanced, given his influence over major strategic decisions within the Shiite political sphere.

The second-largest group among those detained consisted of Sunni political figures, with six out of the 16 individuals linked to Sunni alliances, including Azm, Taqaddum, al-Siyada and al-Mubadara. These forces have generally supported the concept of a state based on institutions rather than one dominated by armed factions, backed a second term for Sudani and opposed granting Maliki a third term.

The composition of the arrests also indicates that most of those targeted belong to the second and third tiers of Iraq's political elite, while the country's most influential figures — the so-called "whales" or "crocodiles" in Iraqi public discourse — have largely remained untouched. These senior figures are widely regarded as key patrons of the entrenched political and militia networks that have shaped Iraq's governance system and are often accused of bearing significant responsibility for decades of corruption and financial mismanagement.

Consequently, some analysts question whether the campaign can pro-

duce meaningful results unless it eventually reaches the highest levels of political influence. The arrest and prosecution of senior figures, if carried out without political exemptions or temporary arrangements, would represent a genuine indicator of a strategic shift in the government's approach. By contrast, limited arrests followed by releases on bail or political compromises could reduce the campaign to a symbolic exercise with little impact on Iraq's entrenched corruption networks.

The selective nature of the campaign is further highlighted by the absence of prominent figures from Iran-aligned political and armed factions. The list did not include senior figures from alliances such as the State of Law Coalition, despite longstanding corruption allegations against some of its members, nor did it include figures associated with the Badr Organization, the Sadiqun group, or individuals involved in militia-linked economic, commercial and financial networks.

Similarly, no senior or junior militia commanders or fighters were included among those targeted, particularly figures accused of combining political authority with military roles and overseeing armed groups aligned with Iran's regional project. These include commanders such as Abu Hussein al-Hamidawi, Akram al-Kaabi, Ahmed al-Asadi, Shibl al-Zaidi, Wathiq al-Batat, Talib al-Ulayawi and Saad al-Fatlawi.

Conclusion

The foregoing data highlights a complex set of challenges facing Zaidi's government, potentially leaving him heavily dependent on the Coordination Framework, particularly given his lack of an independent political base or a significant parliamentary bloc capable of supporting autonomous decision-making. His ability to distance himself from the Coordination Framework's priorities may depend on the continuation of US pressure and the expansion of public support for his anti-corruption initiatives. However, such a shift would require him to carefully manage his relationship with powerful armed factions and avoid provoking a direct confrontation with militia interests.

The evidence also suggests that Zaidi's approach — at least up to the time of this report — toward the two most sensitive issues, weapons control and corruption, appears to be driven more by tactical calculations than by a comprehensive strategic transformation. These measures seem aimed at absorbing or easing US pressure ahead of his expected visit to Washington in mid-July 2026, while simultaneously navigating domestic political competition within the Shiite establishment.

In particular, these moves are closely linked to the ongoing struggle for influence between Maliki, Zaidi's primary political backer, and Sudani, leader of the rival Reconstruction and Development Alliance. The

competition extends beyond broader questions of political dominance and is also focused on controlling the distribution of the nine remaining vacant ministerial portfolios and shaping the future direction of Iraq's government.

Hezbollah Between Iran-US Arrangements and Reshaping the Security Equation in Lebanon

The months of May and June 2026 witnessed a series of rapid developments surrounding Hezbollah, unfolding against the backdrop of the US-Iran ceasefire and the launch of negotiations between Washington and Tehran aimed at containing the consequences of the conflict and preventing a renewed escalation. Thus, this file examines two central dimensions. The first explores Hezbollah's shifting position — from an issue largely shaped by the dynamics of US-Iran negotiations to a key element in the broader post-war political and security arrangements. The second focuses on the Lebanese-Israeli track as a framework for redefining Lebanon's security landscape, restructuring border management mechanisms and reinforcing the state's role as the primary authority responsible for security affairs.

Hezbollah Between US-Iran Negotiations and Post-war Arrangements

In May 2026, debate intensified over Hezbollah's role within the broader

framework of US-Iran negotiations, as growing assessments suggested that the future trajectory of Iranian influence across the region could be shaped by the outcome of talks between Washington and Tehran. In this context, Iran's leadership reiterated its longstanding position that its support for Hezbollah was not a negotiable asset that could be exchanged for concessions on the nuclear issue or sanctions relief. Tehran continued to portray its relationship with the group as a strategic pillar of its regional policy and a key component of its influence network.⁽⁹⁾

At the same time, Hezbollah sought to project an image of autonomy from the Iranian negotiating track,⁽¹⁰⁾ focusing instead on recalibrating its political and security priorities in the aftermath of its conflict with Israel. This approach was reflected in efforts to reinforce its domestic position in Lebanon,⁽¹¹⁾ reorganize its internal structures and avoid a renewed large-scale confrontation, while continuing to uphold its discourse of deterrence and resistance as the foundation of its political and military legitimacy.⁽¹²⁾

This trajectory unfolded alongside growing discussions over the expanding role of the Islamic Revolutionary Guard Corps (IRGC) in overseeing Hezbollah's military and organizational affairs since the 2024⁽¹³⁾ Israeli war on Lebanon, particularly after the group suffered losses that affected its leadership structure and operational capabilities. As a result,

the reconstruction of Hezbollah's military capacity and the preservation of its internal cohesion became increasingly intertwined with Iran's broader security calculations.

The US-Iran conflict, however, represented a turning point in this dynamic. The central question was no longer whether Hezbollah could serve as a bargaining chip in negotiations between Washington and Tehran, but rather how the group would fit into the undeclared security arrangements taking shape in the aftermath of the war. Although Iran continued to reject any formal inclusion of Hezbollah in diplomatic negotiations, political realities indicated that maintaining stability along the Lebanese front had become a critical requirement for preventing a renewed regional escalation. This, in practice, placed Hezbollah's future within the wider framework of emerging post-war understandings.

Amid these shifts, Iran's priority appeared to move away from expanding Hezbollah's regional role toward preserving the group's remaining military and organizational capabilities as a central component of Tehran's deterrence strategy, while avoiding actions that could expose it to further losses or strategic setbacks. Meanwhile, the United States sought to use the post-war environment as an opportunity to reshape Lebanon's security landscape and constrain Hezbollah's ability to maintain its traditional influence over state deci-

sion-making. This reflects a broader shift in Washington's approach — from primarily managing escalation risks to actively seeking to alter the balance of power within Lebanon.

The Lebanese-Israeli Trajectory and Reshaping the Security Equation in Lebanon

In parallel with Hezbollah's transition from being primarily viewed as an issue within the scope of US-Iran negotiations to becoming a component of the broader security landscape shaped by the US-Iran conflict, May 2026 marked the emergence of a separate Lebanese-Israeli track under US sponsorship. This process focused on addressing security and border-related issues within the Lebanese context itself, rather than treating them as an extension of negotiations with Tehran.

The initial phase of this track involved the establishment of direct channels of communication and dialogue between the Lebanese and Israeli sides, signaling a growing US effort to decouple Lebanon's security arrangements from the nuclear file and from broader bilateral understandings between Washington and Tehran.⁽¹⁴⁾ The move reflected an emerging approach centered on managing Lebanon's security challenges through a distinct framework tailored to local dynamics, rather than allowing them to remain entirely dependent on the trajectory of US-Iran relations.

Regional influence, or the in-

involvement of any non-state actor in determining matters related to national sovereignty, was considered unacceptable under this approach.⁽¹⁵⁾ This position reflects an official recognition that the post-war phase requires strengthening state authority and restoring the state's exclusive control over security and military decision-making, thereby reducing Lebanon's dependence on regional power dynamics that have shaped its political and security environment in recent years.

For its part, Israel continued to view Hezbollah as the most significant security threat along its northern border. However, its approach gradually shifted from direct military confrontation toward supporting a political-security strategy aimed at reshaping Lebanon's internal landscape. This approach seeks to reduce Hezbollah's influence through state institutions and official security structures, rather than tying the issue exclusively to any future understandings with Iran.

This strategy reached a significant development in late June 2026 with the announcement of a Lebanese-Israeli framework agreement under US auspices.⁽¹⁶⁾ The agreement did not represent a final settlement or a comprehensive resolution of outstanding disputes; rather, it established a negotiating framework for moving into a new phase of discussions focused on implementing UN Security Council Resolution 1701, defining security arrangements in southern Lebanon

and clarifying the responsibilities of the Lebanese state and armed forces in extending state authority throughout the border area.

The framework also linked progress on an Israeli withdrawal from certain border positions to advances in implementing agreed security commitments. Although it did not include an explicit clause requiring the disarmament of Hezbollah, the issue of weapons operating outside state authority remained indirectly embedded within the agreement's broader rationale and long-term objectives.⁽¹⁷⁾

In contrast, Hezbollah categorically rejected the agreement, viewing any arrangements that could ultimately result in the group's disarmament or a reduction of its military role as a direct challenge to what it describes as the "resistance" framework.⁽¹⁸⁾ Parliament Speaker Nabih Berri also voiced reservations over certain provisions and implementation mechanisms, stressing the importance of preserving domestic consensus and avoiding measures that could deepen political divisions within Lebanon.⁽¹⁹⁾

These positions reflect the broader and unresolved Lebanese debate over how to reconcile the principles of state sovereignty and the government's exclusive authority over security matters with the longstanding reality of Hezbollah's independent military capabilities in the post-war period.

In light of these developments,

Hezbollah now faces a significantly narrower room for maneuver. The central debate is no longer focused solely on the legitimacy of the group's possession of weapons as part of the deterrence equation with Israel, but rather on how to reconcile the continued existence of its military arsenal with the Lebanese state's efforts to extend its sovereignty across the entirety of its territory and fulfill its international obligations.

As a result, Hezbollah faces a series of difficult strategic choices. A complete rejection of the emerging framework could expose the group to intensified domestic and international pressure, while accepting arrangements that restrict its military role would pose a direct challenge to its position as Lebanon's most powerful non-state armed actor.

Hence, many assessments suggest that Hezbollah may pursue a middle-ground approach: rejecting any explicit commitment to disarmament while attempting to manage the transition through political and constitutional channels. This could include delaying the implementation of certain arrangements, or tying them to progress on issues such as the completion of the Israeli withdrawal and the fulfilment of outstanding reciprocal commitments. This approach signals an effort to preserve Hezbollah's domestic influence while avoiding a renewed large-scale military confrontation. It also acknowledges that the regional environment that emerged after the

US-Iran conflict is increasingly unfavorable to the continuation of the security arrangements and rules of engagement that shaped Lebanon's political and military landscape over the past two decades.

Conclusion

The developments of May and June 2026 indicate that the Hezbollah issue has evolved from being primarily an instrument of Iranian regional influence into a central factor in the broader restructuring of the regional security order following the US-Iran conflict. While Tehran continued to insist that the group's role was not subject to political bargaining or compromise, developments on the ground and within diplomatic channels demonstrated that Hezbollah's future had become increasingly intertwined with the security arrangements that the United States and Israel sought to establish in Lebanon.

At the same time, a separate Lebanese-Israeli negotiating track emerged, aimed at addressing border and security issues independently from the Iranian nuclear file. This process focused on strengthening the authority of the Lebanese state and ensuring that security and military decisions are managed exclusively through state institutions. However, the success of this track remains dependent on several key factors, including the Lebanese government's ability to address the unresolved issue of Hezbollah's weapons and the extent to which Iran is prepared to ac-

cept a reduction in its direct military influence in Lebanon. Combined, these developments of the past two months suggest that the dispute is no longer limited to the future of Hezbollah as a military organization. Rather, it has become part of a broader question concerning Lebanon's position within the emerging regional order after the war: whether the country will continue to function as a component of Iran's deterrence network or gradually transition toward a model in which security legitimacy is derived primarily from the institutions of the Lebanese state.

The Israeli Conundrum in the US-Iran MoU

The memorandum of understanding (MoU) between the United States and Iran contained both explicit and implicit references to Israel and Hezbollah as actors directly connected to the conflict. The opening paragraph stated that “The United States of America and the Islamic Republic of Iran and their allies in the current war, by signing this MOU, declare the immediate and permanent termination of military operations on all fronts, including in Lebanon.”

Furthermore, Article 13 of the MoU linked the start of negotiations on a final agreement between Washington and Tehran to the implementation of a set of preliminary provisions, including the first clause, and to the continued adherence to those measures.

Israel, for its part, opposed the

MoU because of these provisions and their potential implications for future negotiations, particularly the possibility that the final agreement could include arrangements that conflict with Israeli strategic interests. Nevertheless, Israel ultimately found itself under pressure from the US administration to accept the MoU in principle, although developments on the ground reflected a more complicated reality.

As a result, negotiations became stalled amid mutual accusations of violations, with the Lebanese front emerging as one of the most prominent points of contention. The Israeli position toward the MoU highlights the complex dynamics shaping the calculations of all parties involved, as they seek to balance strategic priorities with domestic political pressures.

This file examines the Israeli factor as a key determinant influencing the positions of the parties to the MoU.

Parameters of the Israeli Position Toward the MoU

Since the October 7, 2023 attacks, Israel has sought to reshape the regional deterrence balance, having previously identified Iran as the primary source of threats to Israeli national security due to its support for allied armed groups across the region. In this context, Trump's approach aligned with Israel's broader strategic objective of pursuing a fundamental transformation of the regional order, including the possibility of military

action aimed at weakening or even overthrowing Iran's ruling establishment.

Although this objective was not achieved, Israel continued to operate according to a strategic framework based on two possible paths: either a renewed confrontation with Iran or the pursuit of a diplomatic agreement that would secure the maximum possible number of Israeli demands. At the domestic level, Prime Minister Benjamin Netanyahu's political future and prospects in the upcoming Knesset elections scheduled for late October became increasingly tied to his ability to preserve the strategic objectives that had strengthened his alliance with far-right partners.

Against this backdrop, Netanyahu's government attempted to navigate a difficult balance between responding to pressure from the US administration to halt attacks on Beirut and engage in negotiations with the Lebanese government, while simultaneously maintaining military operations against Hezbollah in southern Lebanon and expanding efforts to establish a buffer zone. At the same time, Israel sought to preserve its opposition to any agreement that failed to accommodate its security priorities, while avoiding a direct confrontation with the US president and his administration.

This balancing act contributed to growing tensions between the two allies, reflected in Israel's limited transparency regarding the negotiations and the terms of the US-Iran MoU, as

well as the sharp criticism directed at Netanyahu and his government by the US president and vice president. These developments placed Netanyahu in a challenging position. Despite his reservations about the MoU, he concluded that an open confrontation with Washington would not serve Israel's strategic or political interests. As a result, he opted to contain the dispute and delay any escalation.⁽²⁰⁾

The Israeli opposition seized on these tensions, accusing Netanyahu's government of sidelining senior Israeli officials in Washington, withholding information about behind-the-scenes developments following the ceasefire agreement and effectively excluding Israel from influencing the outcome of the negotiations.

The opposition further argued that the government had failed to prevent the MoU between the United States and Iran from effectively legitimizing Tehran's nuclear ambitions and creating a pathway toward a final agreement that could prove even less favorable to Israel than the 2015 JCPOA negotiated under President Barack Obama.⁽²¹⁾

Determinants of the Iranian Position on Israel Regarding the MoU

From October 2023 until the outbreak of the February 2026 war, Iran entered a fundamentally different strategic phase following the assassination of Supreme Leader Ali Khamenei and a significant number

of senior military and security officials. The subsequent rise of Mojtaba Khamenei to power, coupled with the IRGC's growing influence over the decision-making process and escalating US threats of a ground intervention, prompted Tehran to conduct a comprehensive reassessment of its previous deterrence strategy.

This reassessment involved a shift away from reliance on indirect confrontation through regional proxies toward a model based on direct engagement and greater coordination between different fronts, particularly the Lebanese theater. The exchange of threats and military strikes between Iran and Israel in early June 2026 represented the first practical test of Tehran's willingness and ability to establish this new deterrence framework.

Following the ceasefire, Iran continued, alongside negotiations mediated by Pakistan and Qatar, to hold the United States responsible for what it described as Israeli violations of the truce on the Lebanese front. As diplomatic efforts advanced and the signing of the MoU approached, tensions on this front escalated significantly.

After Netanyahu threatened to strike Beirut's southern suburbs and issued evacuation warnings to residents, Khatam al-Anbiya Central Headquarters responded by warning residents of northern Israel and military settlements in the occupied territories to evacuate if they wished to avoid potential harm.⁽²²⁾ The IRGC

subsequently stated on June 4, 2026, that the fundamental condition for accepting any ceasefire in the broader regional conflict was a complete halt to hostile actions on all fronts, particularly in Lebanon.⁽²³⁾ However, on June 7, the Israeli military launched strikes against targets in Beirut's southern suburbs, prompting Iran to respond with attacks targeting military and strategic sites in the territories occupied by Israel. The United States subsequently intervened, bringing the escalation to an end and preventing a broader confrontation.

The MoU signed on June 18 established a new deterrence framework by incorporating the Lebanese front into the agreement and any subsequent arrangements, as previously noted. Tehran sought to reinforce this principle through further measures. On Saturday, June 20, Khatam al-Anbiya Central Headquarters announced that, in response to what it described as Washington's "blatant violation" of the agreement through the failure to implement the first clause of the MoU regarding the cessation of hostilities, as well as continued Israeli violations of the ceasefire in southern Lebanon and the refusal of Israeli forces to withdraw from the area, Iran would consider closing the Strait of Hormuz to maritime traffic. The statement added that if what it called "aggression" continued, additional measures would be planned and implemented to compel the opposing side to fulfill its commitments.⁽²⁴⁾

Domestic considerations have also played a significant role in shaping Iran's position. While some segments of Iranian society argue that national interests should take precedence over commitments to external actors, including Hezbollah, the ideological foundations of the Iranian republic, particularly the doctrine of Wilayat al-Faqih (Guardianship of the Islamic Jurist), have created strong political and ideological incentives for continued support of the Lebanese group.

Hezbollah's role in the conflict, including its involvement alongside the IRGC and the resulting costs incurred by Iran, has reinforced within "conservative" circles the perception that abandoning the group would represent a moral and strategic failure toward a key ally. Any withdrawal of support could therefore carry significant domestic consequences for the ruling establishment, particularly among its religious and ideological base. In addition, the IRGC maintains longstanding institutional and operational ties with Hezbollah, which is widely regarded within Iran's security establishment as a central component of the Quds Force's regional network. As a result, civilian political actors within the Iranian system face pressure from "conservative" factions in Parliament and from pro-government street mobilizations demanding adherence to the conditions set by the IRGC for any agreement with Washington — most notably, the inclusion of the Lebanese front within the broader framework of the US-

Iran understanding.

Parameters of the US Position Toward Israel Under the MoU

The outcome of the war has complicated the US position. The Iranian leadership managed to overcome the initial shock and succeeded in raising the costs of the conflict through missile attacks and the closure of the Strait of Hormuz. The Trump administration now faces two options. The first is to continue the war, including the possibility of a ground invasion, until achieving the objective of overthrowing the leadership. This option aligns with Israeli interests, despite the risks, high costs and uncertain outcome associated with it. It is also an option that Trump rejects and has repeatedly criticized previous presidents for pursuing. The second option is to enter negotiations and reach an agreement, despite the concessions this would require from Iran, whether regarding the nuclear issue, the missile program or the new deterrence equation. Israel strongly opposes this option, particularly the issue of unified fronts, a concept that Netanyahu had previously claimed to have succeeded in eliminating.

Amid these complex calculations, domestic considerations influenced the US position toward Israel. The US administration faced criticism over its inability to restrain Israeli actions, which threatened to undermine the ceasefire through continued attacks on Lebanon, as well as over its failure to reach an agreement due to Is-

raeli conditions. These accusations prompted Trump to state that Netanyahu would have no choice but to accept any agreement reached between Washington and Tehran, stressing that the final decision rested solely with the United States.⁽²⁵⁾

Despite reports that Trump had prevented Netanyahu from launching a large-scale attack against Hezbollah, such an attack did not take place. Several explanations have been put forward to account for Israel's continued hardline position, including the possibility that it was aimed at disrupting the US-Iran negotiations, that there was a division of roles between Washington and Tel Aviv with the attack serving as part of a pressure-based diplomatic strategy or that the primary objective was to test Iran's strategic calculations.⁽²⁶⁾ The second and third explanations appear more likely. Even if the first hypothesis was accurate, the attempt ultimately failed to achieve its intended objective.

The influence of domestic political calculations on the US president is expected to increase ahead of the November midterm elections. In this regard, the president may face a dilemma similar to that confronting Netanyahu, as he seeks to balance competing pressures within the Republican Party. On one side, the traditional wing of the Republican Party remains cautious about the content of any agreement with Iran, a position that Israel can rely on to pressure the US administration. On the

other side, growing currents within the MAGA movement are calling for a reassessment of the alliance relationship with Israel, questioning the objectives of the war against Iran and pushing toward reaching a comprehensive agreement.

Conclusion

Israel finds itself unable to reconcile its competing strategic interests. However, the hierarchy of priorities requires it to preserve US support, which remains the primary strategic factor. Tel Aviv can express its opposition to any agreement that does not include the dismantling of Iran's nuclear and missile capabilities, as such an outcome, while significant, is considered less dangerous. However, the new deterrence equation that strengthens Hezbollah's position is likely to face Israeli efforts to undermine it, given its importance as a priority for Israeli national security. At the same time, Iran is seeking to establish a new equation that links control over the Strait of Hormuz — which it is using in this context for the first time — to the conflict on the Lebanese front between Hezbollah and Israel, under the influence of the IRGC. Given these developments, the US administration is working to reopen the Strait of Hormuz and restore the pre-war arrangement, while offering concessions to both the Iranian and Israeli sides. This approach carries the risk of further escalation, potentially pushing one or both parties toward making concessions.

ENDNOTES

- (1) Such as the Sadiqun Bloc, affiliated with the Asa'ib Ahl al-Haq militia, which won second place among the Shiite alliances in the 2025 parliamentary elections; the Huquq Movement, affiliated with Kata'ib Hezbollah; the Khadamat Alliance, affiliated with Kata'ib Imam Ali; and the Montaseroun Bloc, affiliated with Kata'ib Sayyid al-Shuhada. This is in addition to the exclusion of the Ansar Allah Al-Awfiya Movement and the Jund al-Imam group led by Ahmed al-Asadi.
- (2) Erika Solomon and Fali Hassan, "In Iraqi Desert, Two Israeli Outposts Were Kept Secret for Months," New York Times, May 2026, 17, accessed June 2026, 31, <https://n9.cl/ucqbe8>.
- (3) Feyli Kurds are Shiite Kurds who live in areas of eastern Iraq outside the borders of the Kurdistan Region, and they are a minority compared to the majority of Kurds, who belong to the Sunni sect.
- (4) The term "loose weapons" refers specifically to the brigades and battalions that are not integrated under the Popular Mobilization Forces (PMF) umbrella. Their number exceeds 70 militias, especially the more unruly ones that do not comply with the orders of the General Command of the Armed Forces — such as certain brigades within the Badr Organization, Asa'ib Ahl al-Haq, Kata'ib Hezbollah, Saraya al-Salam, Harakat Hezbollah al-Nujaba and others. There are also many militias whose brigades are not included within the PMF at all and these are likewise classified as part of the loose weapons category.
- (5) المنهاج الوزاري لحكومة العراق 2026–2029، على فالح كاظم الزبيدي، ص 4، تاريخ الاطلاع: 2 يونيو 2026، <https://n9.cl/> g1se4a
- (6) شفق نيوز، النجباء رداً على فقرة «حصار السلاح» بمنهاج الزبيدي: لن يشمل المقاومة، (15 مايو 2026)، تاريخ الاطلاع: 2 يونيو 2026، <https://n9.cl/voi0v>
- (7) أمير الكعبي ومايكل نايتس، زيارة غير عادية في عديد «قوات الحشد الشعبي بالأرقام»، معهد واشنطن، (6 يونيو 2023)، تاريخ الاطلاع: 1 يونيو 2026، <https://bit.ly/41lnLID>
- (8) قناة الرشيد الفضائية، من طرح أسم الزبيدي، الشيباني يكشف كواليس الساعات الأخيرة: المالكي فعلها وأبلغ السوداني بعد ذلك، (2 مايو 2026)، تاريخ الاطلاع: 1 يونيو 2026، <https://n9.cl/6bx1zh>
- (9) وكالة تسنيم، عراقجي في رسالة إلى الأمين العام لحزب الله اللبناني: إيران لن تتخلى عن دعم حزب الله، (23 مايو 2026)، تاريخ الاطلاع: 4 يونيو 2026، <https://t.me/Tasnimnews/417440>
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