BB Policy Paper Series: PP No. 2601

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March, 2026

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Abstract

In the Bangladesh context, the Iran-Israel-United States conflict triggers a chain reaction, leading to rising energy prices, disrupted trade flows, diminished export competitiveness, instability in the migrant labor market and remittance inflows, elevated inflation, and increased pressure on foreign exchange reserves, ultimately threatening the country's overall financial stability. An energy crisis creates extensive ripple effects across the entire economy. As Bangladesh mainly relies on energy imports from the Middle East and on expatriates' remittances, which largely come from there, the conflict's impact could have devastating economic consequences for Bangladesh. Given current vulnerabilities, reliance on imported energy needs to be reduced by prioritizing renewable energy. We need to consider alternative energy sources to avoid dependence on a specific region. Additionally, we should emphasize planned migration strategies that focus on multiple potential regions for overseas employment for both skilled and unskilled workers.

Keywords: Iran-Israel-United States conflict, energy crisis, reducing expatriates' remittances, diminished export competitiveness, elevated inflation, pressure on foreign exchange reserves.

1. Introduction

The ongoing war in Iran, which began on 28 February 2026, has gradually grown into a broader conflict involving many Middle Eastern countries. Iran has retaliated by targeting the United States (US) allies following attacks by the US and Israel. The conflict is sending

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shockwaves through the global economy, which has remained fragile since the COVID-19 pandemic. Many nations are still grappling with issues like rising prices, supply shortages, and the lingering impact of the Russia-Ukraine war. Now, the war in Iran introduces more uncertainty and risk, potentially hindering economic progress and increasing global instability.

The timing of the conflict could not have been worse for Bangladesh, creating new obstacles as the nation demonstrates its value as a manufacturing economy while grappling with macroeconomic issues, such as slow growth, high inflation, and a depreciating currency. Bangladesh is highly dependent on imported energy, with net energy imports accounting for over 44% of total energy use (World Bank, 2022). The power sector relies heavily on imported fuels, such as liquefied natural gas (LNG), coal, and petroleum, which together supply around 65% of electricity generation (Alam, 2025). This dependence is anticipated to increase further, potentially reaching up to 90% by 2041 (Amin, 2026). Moreover, the energy dependence on the Middle East countries is significant. 63% of the crude oil originates from the Middle East, while 64% of LNG comes from Qatar alone (Suman, 2026). The turmoil, if prolonged, will make it extremely difficult to obtain energy from the Middle East.

Production will be hindered by a shortage of imported raw materials due to supply chain disruptions, making exporters more anxious about missing the shipment deadline. Furthermore, rising freight and insurance costs may affect a large share of Bangladesh's exports. Exports may lose their competitive advantage due to rising shipping costs and delays. Furthermore, remittance revenues may be limited if the war lasts long enough to cause economic problems for the Gulf countries. According to a recent policy analysis by the South Asian Network on Economic Modeling (SANEM), a sustained conflict involving the United States, Israel, and Iran may cause Bangladesh’s short to medium-term gross domestic product (GDP) to drop by 1.2 to 3 percent (Raihan, 2026).

2. Transmission Channels

Global trade infrastructure, energy prices, and remittance flows are just a few of the ways that the increasing Iran-Israel-US conflict poses serious hazards to the world economy. Due to its reliance on bilateral trade, Bangladesh is vulnerable to this risk through four main channels related to its counterparties in the Middle East: (i) a possible increase in energy prices could affect import bills; (ii) trade-related supply chain disruptions; (iii) remittances; and (iv) effects on the macroeconomy.

2.1 Energy Price

A steady and uninterrupted energy supply is vital for Bangladesh to sustain its macroeconomic stability and achieve its development objectives. However, the country's energy sector heavily relies on fossil fuels, i.e., natural gas (including LNG), coal, and oil, which account for over 98% of its electricity generation. This heavy reliance on imported fuels leaves Bangladesh highly vulnerable to fluctuations in global energy prices, creating significant risks to its economic stability and long-term growth objectives (Rahman, 2024).

Energy prices typically respond to uncertainty instantly. According to reports, Brent crude prices have increased by almost half from pre-war levels (Kollewe, 2026). In a similar vein, Bangladesh's recent experiences with LNG procurement show that to secure spot purchases, the country had to spend more than twice as much as it did in January (Paul, 2026). Since petroleum is a necessary commodity, any increase in its unit price is likely to have an immediate effect on household spending and industrial activity. Rising energy prices directly impact production expenses and consumption trends.

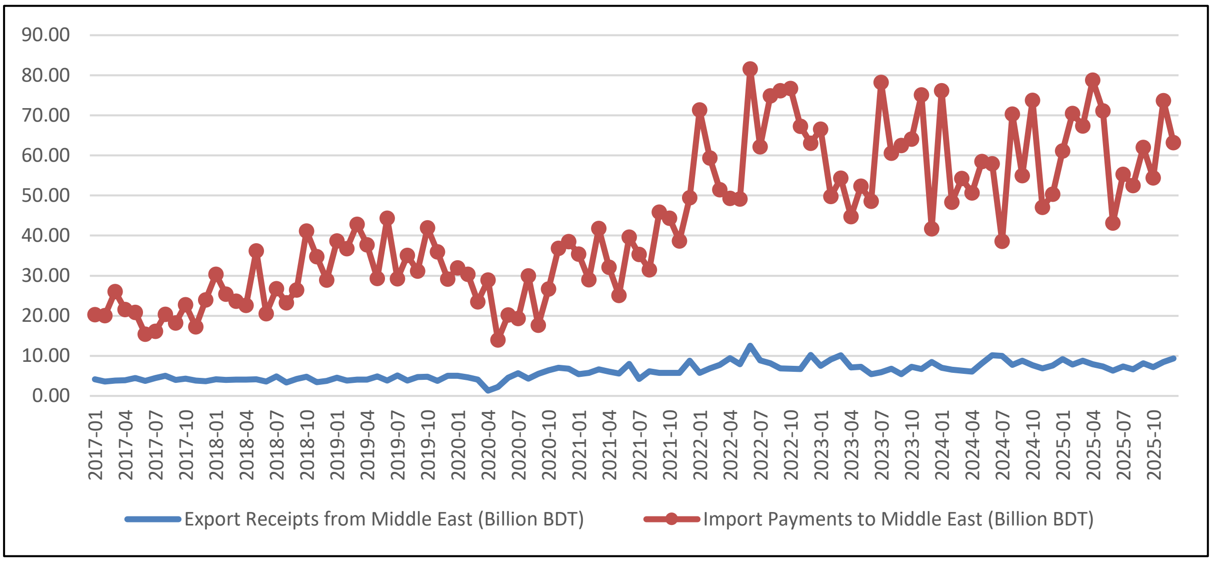
The revised FY25 budget for Bangladesh shows a significant increase in the government’s subsidy costs, mainly to keep electricity and agricultural inputs affordable despite ongoing high inflation. Total subsidies for power and fertilizer are expected to rise by 57.9 percent to BDT 900 billion, with power subsidies increasing to BDT 620 billion and fertilizer subsidies to BDT 280 billion. This increase is further worsened by accumulated arrears of BDT 491.28 billion, some of which have been addressed through the issuance of special bonds (The Daily Star, 2025).

However, changes in import prices won't immediately affect domestic output or household activities unless the government quickly adjusts domestic energy prices. It will be extremely difficult to guarantee a steady and adequate energy supply for the power and industrial sectors in such a scenario. Additionally, the government might have to offer significant subsidies, thereby raising the budget deficit. Significant pressure on foreign exchange reserves is unavoidable in either scenario.

2.2 Supply Chain Disruption due to the closure of the Strait of Hormuz

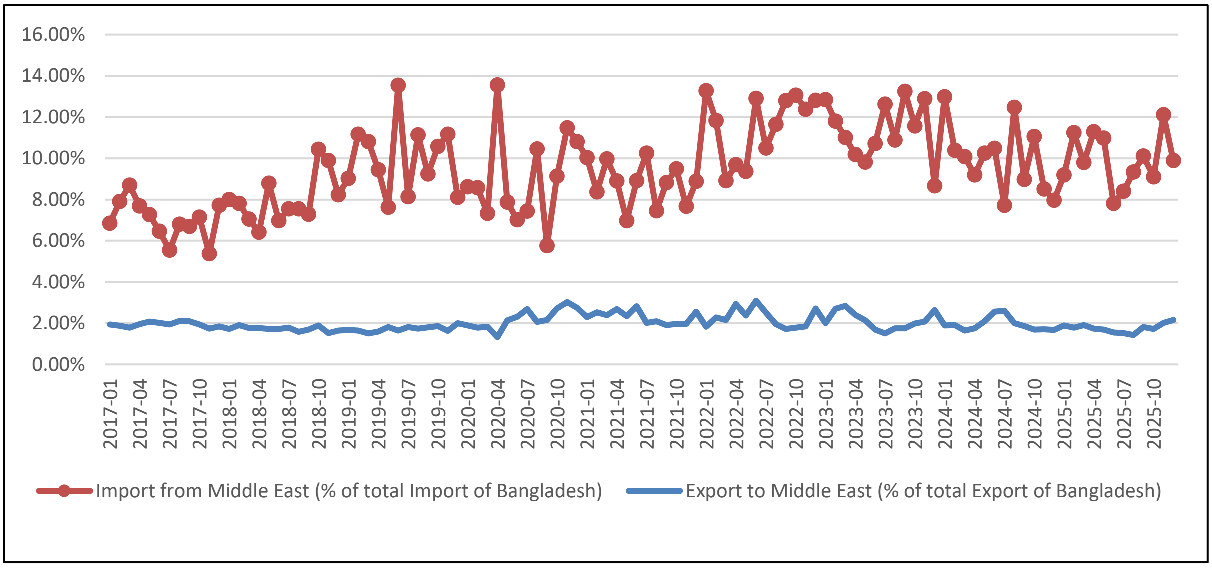
Bangladesh's import payments to the Middle East have grown notably during 2017-2025 (Chart I), with average, minimum, and maximum shares of 7.52%, 3.60%, and 12.23%, respectively, of Bangladesh's total import payments (Chart II). However, the export receipts from the Middle East have maintained modest growth during the same period (Chart I), with average, minimum, and maximum shares of 2.00%, 1.32%, and 3.09%, respectively, of Bangladesh's total export receipts (Chart II). During 2025, imports rose by 11.99 percent from the previous year and stood at BDT 658.72 billion, while export receipts rose by 1.70 percent and stood at BDT 94.46 billion (Chart I). Qatar, Saudi Arabia, and the United Arab Emirates (UAE) are the top import partners, with imports primarily of petroleum and petroleum products.

Chart I: Imports and Exports from/to the Middle East countries



Source: Bangladesh Bank data.

Chart II: Share of Imports and Exports (% of total) from/to the Middle East countries



Source: Bangladesh Bank data.

Supply chain disruptions resulting from the closure of the Strait of Hormuz are likely to hinder trade between Bangladesh and the Middle East. A substantial portion of Bangladesh's imports from this region consists of essential commodities such as crude oil, LNG, and fertilizers, all of which are critical to its energy security and agricultural productivity. These disruptions may lead to higher freight and insurance costs due to container shortages and increased risk. The logistical difficulties are exacerbated by the fact that certain shipping companies have already stopped accepting reservations for shipments from Bangladesh to the Middle East. Bangladesh's export shipments are likely to be hampered by increased transportation costs and freight shortages.

Bangladesh imports a substantial amount of fertilizers from Gulf nations in addition to LNG and crude oil. It might have to obtain these supplies from other markets at higher unit prices and freight costs due to supply chain interruptions. This additional expense must be covered by farmers or the government through subsidies, ultimately resulting in higher agricultural input costs and possibly higher agricultural output prices.

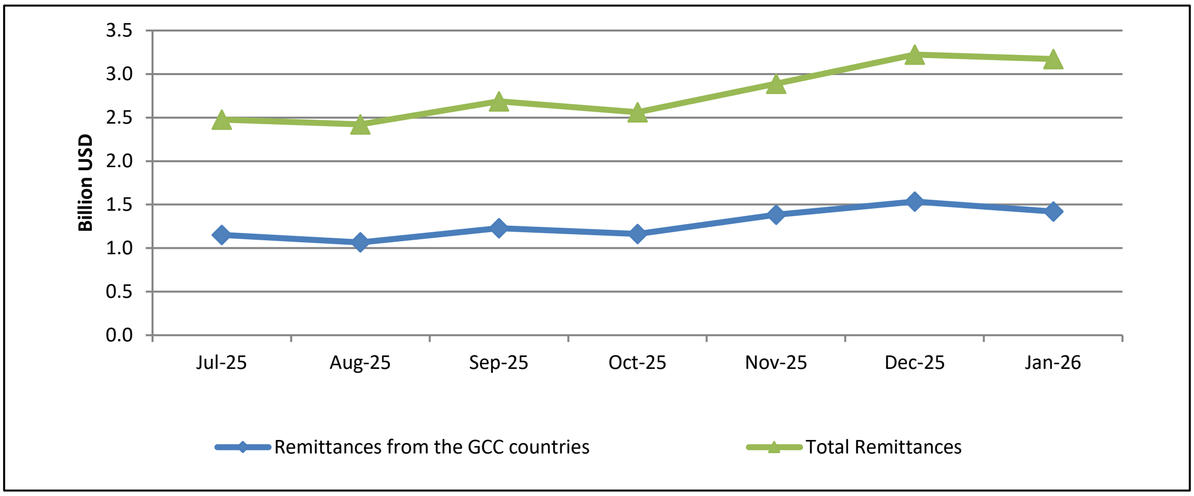
Additionally, 64% of Bangladesh's LNG, which is necessary for home cooking and energy production, is imported from Qatar. Delays and uncertainties surrounding shipments may prompt Bangladesh to source critical petrochemical products and fertilizers from less conventional suppliers, which typically involve higher unit and freight costs.

2.3 Remittances and employment

Bangladeshi expatriates' remittances remain a vital component of the country's economy. These inflows, which currently account for more than 6% of GDP, finance almost half of the nation's import payments, underscoring their vital role in preserving external sector stability. Additionally, remittances are essential to the nation's socioeconomic advancement.

The Gulf Cooperation Council (GCC) countries remain the primary source, accounting for about 46 percent of total remittances, reaffirming their position as the destination of choice for Bangladeshi migrant workers. In the first seven months (July–January) of FY26, Bangladeshi migrant workers from the GCC nations remit about USD 8.94 billion to the home country (Chart III). This strong performance has helped bolster the country's foreign exchange reserves, which stood at USD 35.12 billion as of February 2026.

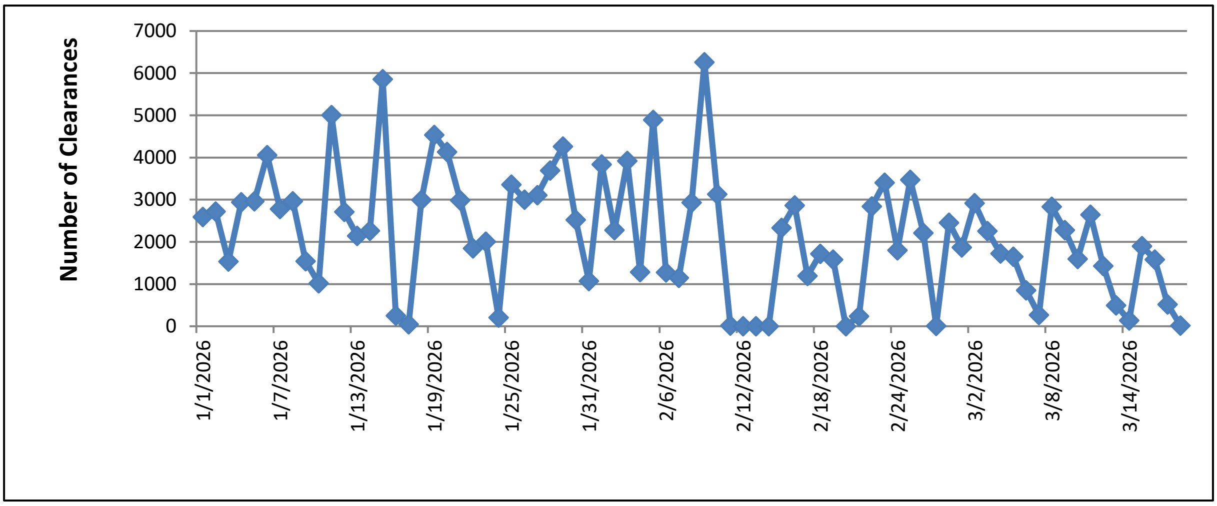
Chart III: Remittances from the GCC countries



Source: Bangladesh Bank data.

The region accounts for over 90% of Bangladesh's total labor migration in 2025, with Saudi Arabia alone hosting 67% of the migrants last year. These migrant workers contribute significantly to the economic activities of these countries. The Gulf countries rely heavily on crude oil and petrochemical exports. Many Bangladeshi expats may lose their jobs if the Middle Eastern countries experience an economic slowdown due to the fighting and ongoing disruptions, particularly the closure of the Strait of Hormuz. Furthermore, if the conflict drags on, it may endanger jobs and cause export losses in other nations as well. The number of emigration clearances from Bangladesh is already beginning to fall significantly as a result of the war (Chart IV).

Chart IV: Emigration clearances to the Middle East countries



Source: Overseas Employment Platform, Bangladesh.

2.4 Impact on the macroeconomy of Bangladesh

The disruption of global supply chains, logistics networks, and energy markets resulting from the conflict could have substantial effects on Bangladesh's economy.

2.4.1 Impact on production and growth

Due to the energy price shock, shipping disruptions, and a decline in remittance inflows from the Middle East, Bangladesh's economic growth could slow to 2.9% (Raihan, 2026). The war in Iran can slow production due to oil price hikes and delays in the shipment of raw materials. Oil price shocks raise production costs and strain financial viability, while supply chain disruptions can render production physically impossible by cutting off the flow of essential materials. Together, they generally create a high-risk environment for manufacturers worldwide. For Bangladesh, the risk can be even higher due to its higher dependency on imported fuels.

2.4.2 Diminished Export Competitiveness

Rising fuel prices and the need for airlines and cargo operators to adopt longer routes have substantially increased exporters' costs. Insurance premiums and freight charges have also escalated. Furthermore, airlines have cancelled routes and reduced flights to the Middle East, disrupting critical cargo connections for exporters, especially those transporting perishable goods. Extended shipping routes, increased fuel consumption, and higher insurance premiums for vessels operating near conflict zones have further raised transportation costs. Agricultural exporters, such as vegetable and fruit producers, have incurred spoilage and financial losses due to sudden flight cancellations. These logistics disruptions have directly reduced Bangladesh's export volumes and delivery reliability, thereby diminishing the competitiveness of its goods in global markets.

2.4.3 Impact on the Balance of Payments and Foreign Exchange Reserves

Bangladesh's import bill is likely to increase due to rising petroleum prices, higher shipping costs, and other factors. On the other hand, there is a risk of lower export earnings due to higher raw material costs, delayed shipments, and higher shipping costs. The balance of payments and foreign exchange reserves may be under strain due to higher import bills, reduced export receipts, and a decline in remittance revenues.

2.4.4 Impact on Exchange Rate

Bangladesh and other net oil-importing nations endure persistent currency devaluation as a result of the volatility of oil prices on the global market (Nandi et al. 2024). Elevated import costs place sustained pressure on foreign exchange reserves. Energy imports constitute one of Bangladesh's largest foreign currency expenditures. A prolonged increase in global oil prices would further strain the country's foreign exchange reserves and exacerbate its current account deficit. This scenario would likely increase demand for the US dollar and result in depreciation of the Bangladeshi taka.

2.4.5 Impact on Inflation

The empirical results suggest that a 100-hour shipping delay increases consumer goods inflation by 1.194 percentage points (Jiao et al., 2026). Moreover, elevated energy prices directly influence CPI inflation through higher fuel and power costs. Concurrently, higher import, transportation, and production costs indirectly contribute to inflationary pressures. This dynamic renders inflation management increasingly complex at a juncture when price stability remains a vital policy concern. However, should the government opt to provide subsidies to maintain stable fuel and electricity prices and ensure an uninterrupted supply, the direct impact on inflation could be mitigated.

2.4.6 Impact on the Energy Sector

The government is currently facing challenges in managing energy subsidies and will likely face difficult decisions, such as absorbing additional costs through increased subsidies or passing them on to consumers through higher fuel and electricity prices. The immediate impact is that the country's energy balance will come under pressure very quickly. Even if the war in Iran ends within a few days, the energy sector will still face a major cost shock. The sector is already under strain, with arrears to independent power producers standing at about USD 700 million, which could further pressure the country's balance of payments. The sudden disruption in the Middle Eastern energy supply chain has already caused panic among consumers and traders. Despite repeated government assurances that the country has adequate oil stocks, the local energy market remains highly volatile (Alim, 2026).

Rising global oil prices could also affect electricity generation, particularly at oil-fired power plants. Current oil-fired power stocks are sufficient to sustain until April 10. Private plants currently account for 45-49% of electricity generation in Bangladesh, a share that delays could hamper in bill payments. Usually, bills are paid six to nine months late, which will create pressure on operators to cover fuel import and operating costs.

2.4.7 Impact on other Sectors

- Ready-Made Garments (RMG) sector could suffer due to the higher cost of raw materials and delays in export shipments. Moreover, this is an energy-intensive process, which makes it more prone to oil price shocks.
- Disruptions in global supply chains are expected to impede fertilizer imports from Gulf countries, which would adversely affect domestic agricultural production.
- Furthermore, Bangladesh's apparel and agriculture exports to the Middle East may also face significant disruptions. In FY2024-25, Bangladesh exported apparel to the UAE and Saudi Arabia, amounting to USD 231.89 million and USD 161.54 million, respectively (BGMEA, 2026). One of the major importers of Bangladesh's agricultural products is the UAE, having around 9.0% of the country's total agricultural export value (The Global Tribune, 2026).

3. Experience of the Government and the Central Bank in handling economic challenges

The COVID-19 pandemic posed substantial challenges globally, including in Bangladesh. In response to the economic disruptions, Bangladesh Bank and the government implemented a series of policy interventions. Bangladesh Bank pursued an accommodative monetary policy and introduced forbearance measures to address the crisis. The cash reserve requirement (CRR) was reduced to enhance liquidity in the banking sector. Both the repo rate and the bank rate were lowered to reduce banks' funding costs, thereby enabling more affordable borrowing for businesses and consumers. Moreover, the government and Bangladesh Bank introduced 28 economic stimulus packages, of which 10 were administered specifically by Bangladesh Bank. These included: (i) working capital loans for adversely affected large industries and the service sector; (ii) interest subsidies for commercial banks against suspended interest for April-May 2020; (iii) working capital for paying salaries and allowances of employees in hotels, motels, and theme parks; (iv) provision of low-interest working capital loans to micro, small, and medium enterprises, including cottage industries; (v) agricultural refinance scheme; (vi) payment of salaries and allowances to workers and staff of active export-oriented industries; (vii) pre-shipment credit refinancing scheme; (viii) refinance scheme for low-income earning professionals, farmers, and small business owners;

(ix) Export Development Fund to support local exporters; and (x) Credit Guarantee Scheme (CGS) for cottage, micro, small, and medium enterprises (CMSMEs)(Bangladesh Bank, 2022; BB Annual Report, 2022).

Again, Bangladesh Bank implemented a series of measures and policy adjustments in response to the Russia-Ukraine war. These included targeted relaxation of loan classification for affected sectors, easier loan rescheduling through reduced down payment requirements, and CMSME refinancing focused on targeted sectors. Bangladesh Bank also introduced cluster financing for export-oriented SMEs, increased agricultural credit targets in response to the global food crisis, and prioritized lending for fertilizer and crop production. Payment tenures for capital machinery imports were extended, and foreign exchange reserves were closely monitored amid rising import costs. The central bank intensified oversight of import letters of credit, particularly for luxury items, to conserve foreign exchange reserves amid the conflict-driven surge in fuel and commodity prices. Additionally, Bangladesh Bank established a special committee to assess the financial impact on borrowers and provide targeted support to businesses facing economic challenges resulting from the war. These measures were designed to manage the trade deficit, mitigate currency depreciation of the Bangladeshi Taka against the US Dollar, and ensure the continuity of essential imports such as fertilizers and fuel.

Based on its successful experience in handling economic challenges in recent times, Bangladesh Bank should make appropriate policy decisions to mitigate the adverse economic consequences of the Iran-Israel-United States conflict.

4. Government and Central Bank's Responses

- To ensure the continued flow of critical fuel imports despite the closure of a key maritime route, the government, through diplomatic engagement, secured assurance from Iran for the safe passage of Bangladesh-flagged oil and LNG vessels through the Strait of Hormuz (The Statesman, 2026).
- To ensure a coordinated response to safeguard economic stability, the government formed a high-powered, 7-member cabinet committee, led by the finance minister, to assess the impacts and formulate a crisis management plan (Byron, 2026).

- To curb immediate demand, prevent panic-buying, and reduce overall fuel and electricity consumption, the government closed all public and private universities, bringing forward Eid holidays (AlJazeera, 2026).
- To bridge supply gaps in vital energy and agricultural inputs, despite higher costs and logistics challenges, the government sourced costly spot LNG cargoes after long-term Qatari supplies were disrupted (Reuters, 2026). Moreover, the government planned to import 1.7 million metric tons of fertilizers for the upcoming crop seasons (The Financial Express, 2026).
- To allocate scarce energy resources to the most critical sectors, such as electricity generation, the government suspended gas supply to four fertilizer factories to redirect supply to power generation (bdnews24, 2026).
- Under a prompt government initiative, Bangladesh has imported 5,000 tons of diesel through the Bangladesh-India Friendship Pipeline and is scheduled to receive an additional 45,000 tons by April 2026 to mitigate the current crisis (The Economic Times, 2026).
- On 12 March, 2026, the Cabinet Committee on Economic Affairs authorized the Bangladesh Petroleum Corporation to procure 300,000 tons of diesel through the direct procurement method to meet April's demand, in response to uncertainties in long-term fuel contracts and escalating tensions in the Middle East. Under the agreement, Petrogas International Corporation, based in Dubai, will supply 100,000 tons of diesel, while A&A Oil and Gas, based in the United States, will supply the remaining 200,000 tons (Hossen, 2026).
- For overcoming the LC-related complexity of importing necessary LNG to ensure its smooth supply in the country, Bangladesh Bank has relaxed the single borrower exposure limit up to 31 December 2026 under the Bank Company Act, 1991.

5. Recommendations and Way Forward

- Government may develop a short-term, medium-term, and long-term plan to manage the situation and overcome vulnerabilities regarding the concentration of energy sources from a particular region.

- LNG import from different countries, like the US, may be an option instead of dependency on Qatar. Additionally, alternative sources in Southeast Asia, such as Brunei and Malaysia, may be considered.
- Multilateral energy agreements can buffer against global price volatility.
- Energy conservation and austerity- based policy needs to be introduced immediately.
- Active peace diplomacy and leadership are needed to ease the situation.
- Government should ensure consistent agricultural production and food security through a steady energy supply.
- Government should focus on renewable energy to reduce dependence on imports. Accelerating renewable energy projects like solar and wind can reduce the dependency on energy imports. Currently, we have 1,300,000 irrigation pumps, of which only about 13,000 are equipped with solar panels. Expanding this number could have significantly reduced diesel demand. Similarly, promotion of electric vehicles would increase electricity demand but reduce the need for diesel and petrol.
- Government should implement a transition from universal to targeted subsidies to reduce fiscal pressure while protecting priority sectors, e.g., electricity and agriculture.
- If the conflict lingers, based on the gravity of the consequences of the conflict, Bangladesh Bank may consider the following measures to address the adverse effects on our economy:
    - Short-term measures:

      (i) Maintain a contractionary Monetary Policy Stance to prevent the oil price shock from triggering prolonged inflationary pressure.

      (ii) Provide provision of low-interest capital loans for the adversely affected fuel-intensive sector.

      (iii) Initiate refinance schemes for the affected sectors to continue the seamless production process.

      (iv) Introduce an agricultural refinance scheme to overcome fuel-related shocks in the agricultural sector.

- Long-term measures:

  (i) Expedite the effective green finance and incentivize the renewable energy sector to reduce dependency on fossil fuels.

  (ii) Relax repayment schedules for agricultural credits, with or without a down payment.

  (iii) Extend the period for the realization of export proceeds.

  (iv) Introduce a moratorium on loan classification to prevent an increase in non-performing loans (NPLs).

  (v) Impose dividend restrictions to preserve banks' capital.

  (vi) Conserve foreign currency reserves by reducing pressure on import payments. Credit rationing can be applied to non-essential imports, and higher margins can be imposed for luxury goods.

  (vii) Provide policy support to export-oriented small and medium-sized enterprises (SMEs).

  (viii) Extend payment tenures for the imports of capital machinery, fertilizers, and seeds.

  (ix) Enhance the Export Development Fund to support local exporters. Both the limit and tenure of the Export Development Fund can be increased.

  (x) Introduce a pre-shipment credit refinancing scheme for the affected sectors.

  (xi) Enhance coverage of Credit Guarantee Scheme (CGS) for the affected enterprises.

  (xii) Provide a subsidy as a partial interest/profit exemption on the loans of business enterprises, extremely affected by the fuel crisis.

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