The Iran War and Bangladesh's Economy in 2026

Leading Indicators, Macro Transmission Channels, and Policy Recommendations

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ULAB | March 5, 2026

EXECUTIVE SUMMARY

Six days into the US-Israel strikes on Iran, the leading indicators visible across global markets and government actions point not to a temporary regional disruption but to the opening move of a sustained great power resource competition.

For Bangladesh, this translates into a structurally higher oil import bill, remittance pressure from a financially stressed Gulf, exchange rate deterioration toward a kerb rate of 128-135 by Q3-Q4 2026, and an inflation trajectory that remains sticky in the 9-11% range through most of the year.

GDP growth will likely settle at 4.5-5%, below current consensus forecasts of 5.5-6%, with private investment frozen and the 14-15% credit growth target functionally unachievable. This brief sets out the evidence, quantifies the transmission channels, and proposes five specific policy actions the government should consider taking now, before the shocks fully arrive.

1. The Signals Were There Before the First Missile Flew

Six days into the US-Israel strikes on Iran, most of the commentary in Bangladesh has focused on the geopolitical drama unfolding in real time, but the more important conversation is about the specific economic transmission channels that will hit us here at home. Let me start with the leading indicators that most people have not connected into a single picture.

The day before the strikes began on February 28, the US Pentagon quietly contacted members of its Defense Industrial Base Consortium asking for emergency proposals to boost domestic supply of 13 critical minerals including nickel, graphite, and rare earths, with submissions due by March 20. One day before the first missile flew. That sequencing tells you this was not a reactive military decision made in a moment of intelligence urgency. The industrial mobilization was pre-planned, which means the conflict timeline in Washington's mind is being measured in years, not weeks.

Simultaneously, the Trump administration completed three separate resource extraction deals with post-Maduro Venezuela covering oil, gold, and mining law reform, with Interior Secretary Doug Burgum personally in Caracas brokering a deal for up to 1, 000 kilograms of Venezuelan gold destined for US refineries. Canada's Prime Minister Carney, while on a three-nation trade tour to India, Australia and Japan, endorsed the Iran strikes and in the same breath announced that Canada and Australia have together built the largest mineral reserve held by trusted democratic nations. And on March 5, China's National Development and Reform Commission verbally instructed PetroChina, Sinopec, CNOOC and other major refiners to immediately suspend diesel and gasoline export contracts, because the Middle

East accounts for 57% of China's direct seaborne crude imports and Beijing is clearly planning for a prolonged disruption rather than a short one.

When you read these four data points together, what you are seeing is not a regional war with temporary economic side effects. You are seeing the opening move of a sustained great power resource competition that needed a geopolitical rupture to justify its acceleration, and the Iran nuclear program provided that justification.

2. How the War Is Likely to Unfold

On the war itself, an end within four weeks is unlikely despite what Washington's optimists are saying. Iran's missile rate is declining, which analysts attribute to precision munitions depletion, but the IRGC has institutional survival instincts built over four decades and the leadership structure, though badly damaged, has not collapsed. A Kurdish ground offensive has opened in northwest Iran and Iraqi Kurdish forces are reportedly on standby, which is significant, but regime fragmentation takes time even under sustained air campaign pressure.

The base case is an eight to twelve week air campaign before any ceasefire architecture becomes viable, with Oman the most likely mediator when that moment arrives. A ground invasion remains a dangerous wildcard that cannot be entirely dismissed given Israeli political incentives, and that scenario would extend the timeline by six to twelve months and multiply the economic damage several times over. The US Senate's rejection of a war powers resolution this week gives Trump domestic political cover to continue as long as he chooses, removing one of the key pressure valves that might have forced an earlier resolution.

3. The Bangladesh Transmission Channels

3.1 Oil and the Import Bill

The most direct variable is oil. Brent was trading around $65 per barrel before the strikes and has since moved to the $83-87 range, touching $87 intraday on March 3rd before settling into a sustained $81-85 band. A return to the pre-war $65 baseline is not expected. The structural floor, given Hormuz disruption, Gulf infrastructure damage at Ras Tanura and Fujairah, QatarEnergy's force majeure on LNG production, and China's domestic rationing, is more likely $80-90 for the duration of 2026. Bangladesh's annual oil import bill was already running at approximately $6-7 billion, and a permanent $20-25 per barrel repricing adds roughly $2-3 billion to that figure annually, representing a current account shock of approximately 0.7-0.8% of GDP that does not reverse quickly.

3.2 Remittances

Remittances are arguably more important for Bangladesh than oil. Roughly 3.5 million Bangladeshis work across Saudi Arabia, UAE, Qatar, Kuwait, Oman and Bahrain, collectively remitting approximately $10-11 billion annually. The Gulf economies are currently bleeding approximately $2-4 billion per day in aviation losses alone, energy infrastructure has been directly hit across multiple facilities, and the economic pain in those countries will translate into construction slowdowns, project cancellations and workforce reductions over a 6–12-month lag. A 10-15% decline in Gulf remittances by Q3-Q4 2026 represents a $1.0-1.5 billion reduction in inflows at a time when the current account can least afford it.

3.3 Exchange Rate and Inflation

The official taka rate currently sits around 110-112, but the kerb rate, which is the more honest signal of market pressure, has been running at 118-122. Under the combined pressure of a higher import bill, weaker remittances, and the institutional credibility questions raised by Bangladesh Bank's new leadership, the kerb rate is expected to move toward 128-135 by Q3-Q4 2026 in a base case scenario, with a stress scenario of 140-145 if the IMF programme encounters serious difficulties at the next review. CPI had been on a path toward 7-8% but is expected to stay sticky in the 9-11% range through most of 2026, driven by fertilizer costs, transport repricing, and taka pass-through. This makes the timing of the recent 50 basis point policy rate cut particularly unfortunate, cutting into an oil-shock environment risks reigniting inflationary expectations precisely when they were beginning to anchor.

3.4 GDP Growth

The ADB and World Bank projections sitting in the 5.5-6% range for FY2026 will almost certainly be revised downward. Realized growth of 4.5-5% is a more credible estimate, with the primary drag coming from frozen domestic private investment rather than any collapse in exports. Garment orders are relatively sticky and Bangladesh's competitive position in RMG remains intact, so the export sector provides a floor. But no rational entrepreneur expands capacity into an energy-shock environment with this degree of external uncertainty, and the 14-15% private sector credit growth target recently announced is not achievable in the current macro environment.

4. What the Government Should Do

Five recommendations follow, intended to be specific and actionable rather than vague, because the situation demands it.

1. Protect the IMF relationship with full institutional seriousness. The programme Bangladesh secured is not just about the disbursement tranches themselves, it is about the credibility signal it sends to every foreign creditor, rating agency and portfolio investor watching Bangladesh's macro management from the outside. The government should consider formalizing the MPC process with greater transparency and published minutes, not to constrain monetary policy flexibility, but to demonstrate that rate decisions are being made on data rather than political instruction. A delayed IMF tranche in this environment would cascade into reserves pressure, exchange rate stress and a confidence shock far more damaging than any short-term political cost of maintaining discipline.
2. Establish a Gulf Worker Resilience Fund immediately, before the return wave arrives rather than after. This fund, capitalized jointly by the government and the commercial banking sector, should provide short-term income support for returning workers, retraining subsidies for those willing to pivot toward domestic manufacturing or digital services, and facilitated loan restructuring for households that financed migration through formal or informal debt. The government should open direct conversations with Gulf employers and labour ministries now, while bilateral relationships are

intact, to negotiate extended contract protections and early warning mechanisms for workforce reductions.

3. Use the $80-90 oil floor as a forcing function to finally accelerate the renewable energy transition with genuine urgency. Every year of delay at $65 oil had a political economy explanation. At $85 oil that explanation no longer holds. The government should issue an emergency call for rooftop solar proposals across all export processing zones and industrial clusters, fast-track regulatory approvals for private renewable power generation sitting in the pipeline for years, and open bilateral electricity trade conversations with India immediately. Cross-border power import from India's northeast grid reduces BPC's subsidy burden and sends exactly the right signal to multilateral climate finance institutions whose concessional capital Bangladesh needs to access.
4. Position Bangladesh within the US-aligned critical minerals architecture now being built. The Trump administration is signing bilateral critical minerals framework agreements at remarkable speed with countries across Asia, Africa and Latin America. Bangladesh does not have the mineral endowments of Peru or Morocco, but it has a large and trainable manufacturing workforce, proven execution capacity in industrial production, and a geography that sits strategically between India and Southeast Asia. The government should approach both Washington and Brussels about positioning Bangladesh as a processing and refining hub for critical minerals sourced elsewhere in the region. This is a ten-year play, but the window to get into the room is open right now and will not stay open indefinitely.
5. Convene an emergency fiscal review and identify which capital expenditure projects can absorb deferral without structural damage, creating headroom for the social protection spending that the coming shock will require. Households simultaneously hit by higher food prices, a weaker taka, returning family members from the Gulf, and tighter credit are going to need visible government support. A publicly communicated, IMF-coordinated fiscal framework that makes these trade-offs explicit is not a sign of weakness. In the current environment it is the single clearest signal of governing competence that the administration could send.

5. Conclusion

None of this is a counsel of despair. Bangladesh has navigated severe external shocks before and the underlying structural story, the demographic dividend, the RMG competitive position, the digital infrastructure being built, and the genuine reform momentum that exists in parts of the new administration, remains intact. The recovery will come. But policymakers, businesses and households should plan around a 2026 that looks considerably more difficult than the post-election optimism of January suggested, and recognize that the external environment driving this difficulty is not a temporary spike but a structural shift that will take time to fully absorb.

The world changed on February 28th in ways that are still being priced in. Bangladesh is not insulated from that change, and honest analysis requires acknowledging it. The governments that navigate this period best will be those that read the leading indicators clearly, act before the crisis arrives rather than after, and use the disruption as a forcing function to accelerate the structural reforms that were always necessary. Bangladesh has that opportunity. Whether it takes it is the question 2026 will answer.

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