Middle East Conflicts and The Possible Shocks in LDCs

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The military strikes on Iran by the U.S. and Israel have immediately upended global energy markets. Given the timing, occurring over the weekend, the full market reaction will manifest when Asian trading opens on Sunday, March 1, 2026. As a result, Iran has already shut down Strait of Hormuz movements.

1. **Impact on Oil and Gas Prices:** The primary driver of price volatility is the **Strait of Hormuz**, which handles approximately 20% of global petroleum and LNG.

   - **Crude Oil (Brent):** Brent crude was closed at **$72.87** on Friday. Analysts expect an immediate "war premium" of **$6–$8 per barrel** upon reopening, is projected to jump into the **$80–$85** range immediately. If Iran disrupts the Strait of Hormuz (which carries 20% of global oil), prices could easily surpass **$100–$110** per barrel.
   - **Natural Gas:** Qatar, the world's third-largest LNG exporter, relies entirely on the Strait. Any disruption or increased insurance premiums will spike spot prices for LNG, which is critical for Bangladesh's power sector.
   - **Strategic Facilities:** Attacks on **Kharg Island** (Iran's main export hub) or retaliatory strikes on Saudi facilities (like Abqaiq) could remove millions of barrels from the daily supply, potentially pushing prices toward **$100+**.

2. Projected Price Hike Scenarios

Following the military strikes on February 28, 2026, the global energy landscape is facing a high-volatile event. As an analyst and observer of these shifts, here is an assessment of the impacts and potential remedies specifically tailored for Bangladesh. Analysts have outlined four primary scenarios for the coming days:

Scenario	Potential Oil Price (Brent)	Likelihood/Trigger
Status Quo / Limited Strike	**$78 – $82**	Disruption of only Iranian exports (approx. 3.3m bpd).
Hormuz Interference	**$90 – $95**	Iran throttles non-Iranian energy flows through the Strait.
Infrastructure Damage	**$100+**	Direct hits on refineries, terminals, or platforms.
Regional Escalation	**$130+**	Direct Iranian attacks on Arab Gulf oil facilities.

The immediate market reaction is expected to be sharp due to the "war premium" and the proximity of the conflict to the **Strait of Hormuz**.

1. Implications for LDCs

Bangladesh enters this crisis in a vulnerable position, with the power sector already carrying a "mountain of debt" (approximately **Tk 460 billion** owed to power plants). The attacks on Iran have fundamentally shifted the economic outlook for Least Developed Countries (LDCs). While 2026 began with projections of an "oil glut" and falling prices (to roughly $60/barrel), this geopolitical shock has inverted that stability, creating a "perfect storm" for the world's most vulnerable economies.

Here are the probable impacts on LDCs:

a) **Balance of Payments Crisis:** Most LDCs are net energy importers with very thin foreign exchange reserves.

- **Import Bill Surges:** At **$85–$110 per barrel**, the cost of importing fuel will consume a disproportionate share of LDCs' export earnings.
- **Widening Current Account Deficits:** As the cost of oil and LNG spikes, the trade balance for LDCs will deteriorate sharply. Unlike larger economies, LDCs often lack the credit rating to borrow their way through such shocks, risking sovereign defaults.

b) **"Agflation" (Agricultural Inflation):** The impact on LDCs is rarely limited to the fuel pump; it moves directly to the dinner table.

- **Fertilizer Costs:** Natural gas is a primary feedstock for urea and other fertilizers. A spike in LNG prices will lead to a 20-30% increase in fertilizer costs, as already projected by early 2026 data.
- **Food Security:** Higher transport costs for seeds and harvests, combined with expensive fertilizer, will drive up the price of staples like rice and wheat. For populations where food constitutes 50% or more of household expenditure, this translates to a malnutrition crisis.

c) **Fiscal Paralysis and Debt:** LDCs already face a "mountain of debt," as seen in Bangladesh's **Tk 460 billion** power sector liabilities.

- **The Subsidy Trap:** Governments are forced to choose between passing the high costs to citizens (risking social unrest) or increasing subsidies. Increasing subsidies in a high-interest-rate environment further balloons public debt.
- **Stranded Assets:** LDCs that have "locked in" to fossil-fuel-based power plants (like many African and Asian LDCs) will find these plants too expensive to run, leading to widespread "load-shedding" and industrial stagnation.

d) **Loss of Export Competitiveness:** LDCs rely on low-cost labor and energy to compete in global markets (e.g., textiles, agriculture).

- **Industrial Slowdown:** High electricity tariffs and fuel shortages will force factories to operate at 50–60% capacity.

- **Supply Chain Displacement:** As transportation and production costs rise, global buyers may shift orders to countries with more stable, diversified, or subsidized energy grids, permanently eroding the market share of LDCs.

e) Delayed Graduation from LDC Status

Countries like Bangladesh, which are on the path to graduating from the LDC category, may find their progress stalled.

- **Economic Divergence:** While advanced economies may pivot to renewables or absorb costs, LDCs lack the capital to transition quickly.
- **Request for Deferment:** This energy shock is likely to trigger a wave of requests from the UN to defer LDC graduation (as seen in recent applications) due to the sudden loss of macroeconomic stability.

1.1. Short-Term Remedies: Macroeconomic & Fiscal Stabilization in LDCs

LDCs must prioritize shielding their most vulnerable populations and critical industries from the immediate price spike.

a) Tactical Crisis Management (The First 90 Days)

LDCs must act to prevent an immediate collapse of industrial productivity and social stability.

- **Monetary Policy Coordination:** Central banks should use flexible exchange rate management to absorb some of the "imported inflation" while ensuring that foreign exchange reserves are prioritized for essential energy and food imports.
- **Suspension of Automatic Price Hikes:** Bangladesh's automated fuel pricing formula is set to trigger a massive increase in **April 2026**. Governments should temporarily freeze this to prevent a "cost-push" inflation spiral that would devastate agriculture and transport.
- **Strategic "Strait-Agnostic" Sourcing:** Rapidly negotiate **Government-to-Government (G2G)** deals with suppliers outside the Persian Gulf (e.g., Malaysia, Indonesia, or discounted Russian crude) to bypass the high-risk Strait of Hormuz.
- **Mandatory Demand-Side Austerity:** Reintroduce "Energy Austerity" measures—drastically reducing decorative lighting, limiting commercial hours, and implementing "daylight-conscious" work schedules to save the equivalent of **500–800 MW** daily.
- **Targeted Subsidy Realignment:** Shift from broad fuel subsidies to "direct cash transfers" for low-income households and energy-intensive export sectors (like RMG). This protects the poor while reducing the overall fiscal burden.

b) Fiscal and Economic Safeguards

The surge in oil prices toward **$110+** requires a "war footing" for national budgets.

- **Targeted "Safety Net" Transfers:** Instead of broad, expensive fuel subsidies that benefit the wealthy, redirect funds toward direct cash transfers for the poorest 20% of the population and energy-intensive export sectors (like the **RMG sector**).
- **Currency Buffer Management:** Central banks must prioritize foreign exchange reserves for "Essential Three" imports: **Energy, Food, and Fertilizer**.
- **Austerity in Consumption:** Reintroduce measures such as strictly limited mall hours, the elimination of decorative lighting, and "daylight-conscious" work schedules to lower the daily gas demand.
- **System Loss Aggression:** A 1% reduction in transmission and distribution losses is equivalent to adding a **150 MW power plant** without spending a dollar on fuel. LDCs should aim to cut losses from 10% to 3% through strict grid auditing.
- **System Loss Aggression:** Reducing transmission and distribution losses from **10% to 3%** would effectively "create" energy. In Bangladesh, this could save the equivalent of a mid-sized power plant's output without importing a single barrel of oil.

c) Structural Transition: Nature Smart Energy (NaSE)

The ultimate solution is decoupling from the volatile fossil fuel corridor. By 2026, the economics of "cleantech" have officially overtaken the politics.

- **The "Solar Leapfrog":** Leveraging the 2026 Asian market glut (caused by Western tariffs on regional solar components), LDCs should waive all duties on rooftop solar.
    - **Impact:** A 30–40% reduction in the **Levelized Cost of Energy (LCOE)** compared to diesel-based power.
- **Aggressive Domestic Exploration:** As noted by energy analysts, the 15-year hiatus in drilling must end. Fast-tracking the **100-well exploration plan** is the only way to reduce the **$12 billion annual energy import bill**.
- **"No New Fossil Fuel" Policy:** Adopt a "No New Coal/Oil" mandate, redirecting all future capacity payments and tax incentives toward **Grid-Scale Storage** and **Floating Solar** on unused water bodies.

2. Specific projection for Bangladesh

For Bangladesh, the timing is particularly challenging due to existing economic pressures and the reliance on Middle Eastern energy. Bangladesh's heavy reliance on imported LNG for electricity means that any spike in global gas prices or shipping disruptions in the Gulf could lead to renewed **load-shedding** or higher electricity tariffs.

a) Impacts on Energy Supply and Pices

- **Crude oil imports**: LDCs may have to be prepared to pay the price the **$80–$85** range immediately. If Iran disrupts the Strait of Hormuz (which carries 20% of global oil), prices could easily surpass **$100–$110** per barrel.

- **LNG Volatility:** Bangladesh is highly sensitive to spot LNG prices. Any threat to Qatari shipments through the Gulf will cause spot prices to spike, directly impacting the fuel supply for over **44%** of the country's power generation.
- **Load-Shedding Pressure:** With peak summer demand approaching (**18,500 MW**), a shortage of affordable gas or furnace oil could lead to **2–3 hours of daily load-shedding**.

b) Potential Adverse Impacts on Economy and Market

- **Automated Pricing Risk:** Bangladesh currently uses an **automated fuel pricing formula**. While the government recently cut prices by **Tk 2** in February (Diesel at **Tk 100/litre**), the global spike will trigger an automatic and significant **price hike in April 2026** unless the policy is suspended.
- **Fiscal Strain & Subsidies:** An oil price hike above $80/barrel will significantly increase the import bill. This puts the government in a difficult position: either increase domestic fuel prices (fueling inflation) or increase subsidies, worsening the fiscal deficit.
- **Currency Pressure:** Increased demand for USD to pay for costlier energy imports will likely put further downward pressure on the **Taka**, complicating efforts to manage foreign exchange reserves.
- **Export Competitiveness:** As seen in recent regional trends, rising energy and transport costs will increase the "cost of doing business," potentially eroding the competitive edge of Bangladesh's RMG (Ready-Made Garment) sector against global peers.
- **Inflationary Spiral:** Energy-intensive sectors like **spinning and dyeing** are already seeing production costs rise by nearly **50%** over the last three years. A new energy shock could lead to factory closures and a loss of export competitiveness.

1.1. Proposed Remedies for Bangladesh

To mitigate these shocks, a mix of short-term stabilization and long-term structural shifts is required:

a) Short-Term: Crisis Management

- **Suspension of Automated Pricing:** Temporarily freeze the automatic pricing formula to prevent an immediate cost-push inflation shock for transport and agriculture.
- **Strategic Reserves & Diversification:** Rapidly draw from any available strategic reserves and negotiate "government-to-government" (G2G) deals with non-Gulf suppliers (e.g., exploring a return to discounted Russian crude or Malaysian supplies) to bypass the Hormuz risk.
- **Demand-Side Management:** Reintroduce austerity measures in electricity consumption (e.g., limited mall hours (loadshedding in daytime), reduced decorative lighting drastically) to lower the daily gas demand from the current **3,800 mmcfd**.

b) Mid-to-Long Term: Structural Resilience

- **Aggressive Domestic Exploration:** As the Energy Minister recently noted, no new gas wells have been dug in the last 15 years. Bangladesh must fast-track the **100-well exploration plan** to reduce dependency on $12 billion annual energy imports.
- **System Loss Reduction:** Reducing transmission and distribution losses from **10% to 3%** could save the equivalent of a mid-sized power plant output without importing a single drop of fuel.
- **Nature Smart Energy (NaSE) Transition:** Shift toward decentralized solar. With Indian solar equipment facing high US tariffs, there is a potential for **oversupply in the Asian market**, which Bangladesh could leverage to lower the levelized cost of energy (LCOE) by **30–40%** compared to diesel.

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