# QUARTERLY
# ECONOMY TRACKER

## How Vulnerable is Malaysia to an Oil Shock?

30 March 2026

Jan-Mar 2026

SERC SDN BHD
Socio-Economic Research Centre

# Oil Shocks in A World Perspective

## WAR, OIL AND THE WORLD ECONOMY

- **From oil shocks to recession?** While most people assume the economic consequences from the military conflicts in Iran will be much less severe, and believe that the global economy could withstand the conflict, **we must not too complacent about the economic risks this war creates**.
- The International Monetary Fund has cautioned that the escalating conflict in the Middle East could undermine global economic stability if it becomes prolonged, flagging risks to energy markets, inflation trends and investors' sentiment. **The IMF estimates that a 10% increase in energy prices that persists for a year would shave 0.1% to 0.2% off global economic growth and add around 40 basis points to global inflation.**
- The impact of war and oil shocks on the global economy is largely determined by **the degree of oil price increases (permanent or temporary) and duration of supply disruptions**.
- Recent episodes of conflicts in the Middle East showed that a short-lived, low-intensity shock may inflict moderate economic friction, while a prolonged, high-intensity conflict could trigger severe inflationary shock, especially for countries with high net oil and gas importers, increases business costs, reduces spending and business activities, dampens economic growth, and, in worst-case scenario, lead to a global recession.
- While a 60 to 70% decline in the oil intensity of GDP since the 1970s, thanks to structural shift towards services and energy efficiency has lessened the blow, sustained soaring oil prices still create headwinds for global economic growth, especially for the Europe and Asia, which are net energy importers. The US is a net oil exporter.
- **Sustained, large increases in oil and gas prices place net energy-importing Asian countries in a highly vulnerable position (concentration risk exposure) to the energy shock, triggering stagflationary pressures, widening trade deficits, and severe fiscal strain.** Amongst the countries sourced their oil and gas from the Middle East include Japan (over 90% of their crude oil imports), Philippines (over 90%), South Korea (about 70%), Thailand (about 60%), China (more than 50%) and India (60% of its LNG). Malaysia is net crude oil importer since 2022, net exporter of LNG and petroleum products.
- The key variables in transmitting an oil shock to a recession are the duration and magnitude of the price surge, the central bank's monetary policy response, and the pre-existing state of the economic cycle.
- **The world economy remains fundamentally weak.** The Middle East conflicts come at the time when the global economy remains susceptible to the on-going shift in tariffs policy, slower productivity growth, persistent budget deficits and soaring government debt. There are significant, synchronised risks arising from historically high stock market valuations, often described as "priced for perfection" combined with mounting concerns in the rapidly expanded private credit market. While AI massive investment brings significant productivity gains, it also carries risks of creating an economic bubble, which could trigger major economic shocks if it bursts.

- **Soaring oil prices and sharp fall in stock markets fuel significant inflationary fears, cause wealth loss and reduce net disposable income.** If the energy shock sustains, firms could face margin pressure and production cuts, while consumers could bear the burden of higher inflation, including food prices.

- **Higher oil and gas prices will depress economic activity because they act like a tax on businesses and consumers leaving less money to spend.** Significant, ongoing disruptions to critical global shipping route will increase production cost and reduce output as well as cripple demand.

- The Strait of Hormuz is experiencing a de facto, functional closure for much international commercial traffic due to heightened regional conflicts. Increasing safety risks, rising insurance premiums, and military posturing have severely disrupted the transit of about 30% of global seaborne oil trade and 20% of global LNG trade passing through the checkpoint.

- While releasing 400 million barrels strategic petroleum reserves of 32 International Energy Agency (IEA) members, which collectively hold around 1.2 billion barrels can help bridge supply gaps for several weeks, but it does little to resolve the shipping bottleneck at the Strait of Hormuz. As long as tanker traffic remains constrained, markets will continue to price a significant risk premium into oil prices. The disruption has created chain reaction and domino effects affecting shipping, insurance, agriculture, automotive, and aviation sector.

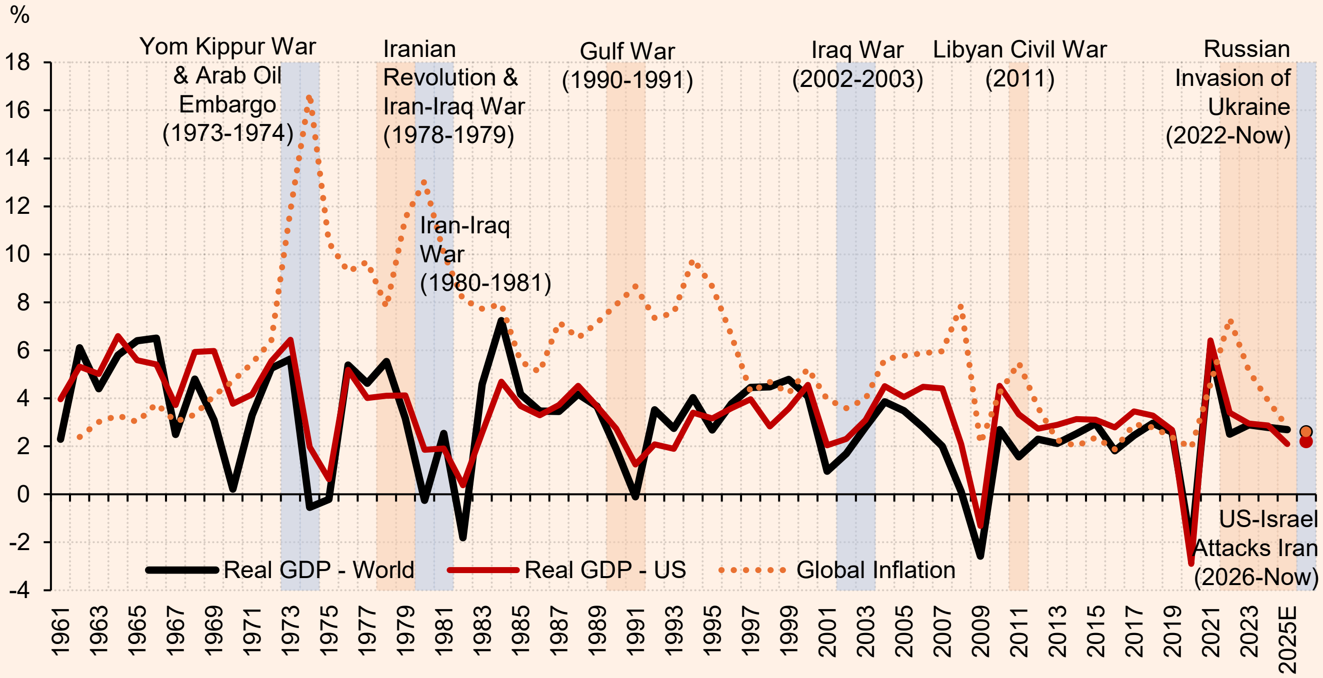
- **Rising odds are neither stagflation nor recession will happen. Fundamentally, three variables matter: 1) Oil price shocks duration (persistent oil spikes); 2) The Fed's reaction; and 3) Financial stress.**

- While a 2026 recession is not the definitive "base case", **a full-blown Iran and severely escalating regional conflict with sustaining high oil prices beyond 6-12 months**, reinforced by the financial stresses related to an extended sharp declines in stock prices, AI investment bust and private credit markets increase the risk of a global recession or stagflation — slower economic growth paired with higher inflation.

- Some scenarios have warned of a "guaranteed" recession if key shipping routes are permanently closed and the steep market valuations, driven by high expectations of investment return and earnings face a severe share price correction as persistent, large oil shocks significantly impacted operating costs and reduce corporate profits. Higher energy costs and supply chain constraints could delay, restrict, or "stall" AI investment.

- Four major oil price shocks since the 1970s were generally responsible for triggering or severely exacerbating global recessions. These include the 1973-74 Yom Kippur War and Arab oil embargo, the 1979 Iranian Revolution, the 1990 Gulf War, and the 2007-2008 oil price spike coupled with an implosion of the US subprime crisis and the Eurozone debt crisis, which all preceded sharp economic downturns. The 1970s oil shocks driven recession were amplified by the Fed's aggressive monetary tightening.

## Real GDP Growth vs Oil Shocks




Source: World Bank (WB)     Note: Inflation (GDP deflator) for 1962–2024; 2025–2026 are WB model-based projections.

- This time round, three factors potentially put the Fed in a bind. One, higher oil and gasoline prices increase inflation risk, adding to a stubbornly inflation above the Fed's 2% target, which is partly contributed by the Trump's tariffs policy. Second, there is also risk of fuelling expectations of future inflation. Third, weakening labour market conditions amid relatively resilient wage growth. Higher fuel price acts as a tax on consumers and businesses, and could slow down consumption and spending. These three factors compel the Fed to navigate a delicate calibration of its monetary policy –- either to keep interest rates on hold for longer, or even to weigh a rate cut if the risk of a sharp economic downturn outweighs transitory cost-driven inflation.

**Summary of key differences**

| Feature | Gulf War/Iraq Invaded Kuwait – 1990-1991 | Ukraine War (2022 – ongoing) | Iran War (2026) |
|---|---|---|---|
| Primary supply and disruption | Supply uncertainty, including burning of 500 oil fields in Kuwait | Piped natural gas and food supply | Oil/LNG supply and trade severely disrupted by the Strait of Hormuz |
| Key region affected | Iraq and Kuwait | Russia, Ukraine and Europe, | Iran and the Middle East; global (especially Asia) due to the Strait of Hormuz disruption |
| Oil risk | The combined production of Iraq and Kuwait accounted for roughly 7%–9% of global oil output | Approximately 7%-8% of global supply | Approximately 20%-30% of global supply |
| Oil price behaviour | Crude oil prices spiked, doubling from roughly USD15-USD18/bbl to over USD30-USD40/bbl in the months | Brent crude briefly exceeding USD120/bbl | Brent crude oil prices reached nearly USD120/bbl on fears of a prolonged disruption |
| Overall impact on global GDP | 1990: +1.9%<br>1991: -0.1% | 2021: +6.1%<br>2022: +2.5% | 2025: +3.0%<br>2026E:+3.3% prior to the war |

Source: Various sources, IMF

- **Asian countries are responding to the energy shock to soften the blow on their domestic economy**. Regional countries maintain strategic petroleum reserves (SPR) to buffer against global supply disruptions: Japan (254 days), Korea (208 days), China (about 200 days), India (about 74%), Thailand (61 days), Philippines (60 days), Indonesia (20 days), and Vietnam (15 days).
- Japan and South Korea are prioritising supply security through SPR releases. Korean authorities are planning to introduce a cap on domestic fuel prices, called for the expansion of the 100 trillion won (USD66.9 billion) market stabilisation program, and vowed to look for other energy sources. China has temporarily suspended issuing export permission certificates for refining oil product exports, focusing on ensuring domestic supply security.
- The Malaysian government has announced austerity measures, including the cancellation of official Aidilfitri open houses; maintain the subsidised RON95 at RM1.99/litre compared unsubsidised price of RM3.27, and fuel supply is sufficient and guaranteed for at least two months (up to May 2026).
- Thailand has suspended its exports of petroleum products, mandated an increase in oil traders' reserve obligations from 1% to 3%, and boosted its oil reserves through imports from the US and West Africa. The Government also approved urgent measures such as work from home policy, energy-saving in offices, and suspension of oversea trips, as part of efforts to cope with the energy crisis, and restraint budget spending.
- The Philippine government has ordered a temporary four-day work week for selected government offices to reduce electricity and fuel consumption by 10% to 20%, respectively while reduce excise tax on petroleum products. Vietnam has proposed reducing the tariffs on several gasoline and oil products to zero.

# Global Economic and Monetary Conditions

## Real GDP growth (%, Year-on-Year)

| | 2023 | 2024 | 2025 | 2025 Q1 | 2025 Q2 | 2025 Q3 | 2025 Q4 | 2026F (IMF) | 2026F (WB) |
|---|---|---|---|---|---|---|---|---|---|
| **World** | 3.5 | 3.3 | 3.3 | N/A | N/A | N/A | N/A | 3.3 | 2.6 |
| **United States** | 2.9 | 2.8 | 2.1 | 2.0 | 2.1 | 2.3 | 2.0 | 2.4 | 2.2 |
| **Euro Area** | 0.4 | 0.9 | 1.4 | 1.6 | 1.6 | 1.4 | 1.2 | 1.3 | 0.9 |
| **China** | 5.2 | 5.0 | 5.0 | 5.4 | 5.2 | 4.8 | 4.5 | 4.5 | 4.4 |
| **Japan** | 0.7 | -0.2 | 1.2 | 1.6 | 2.1 | 0.7 | 0.4 | 0.7 | 0.8 |
| **India** | 7.2 | 7.1 | 7.6(ae) | 7.0 | 6.7 | 8.4 | 7.8 | 6.4 | 6.5 |
| **Malaysia** | 3.5 | 5.1 | 5.2 | 4.4 | 4.4 | 5.4 | 6.3 | 4.3 | 4.1 |
| **Singapore** | 1.5 | 5.3 | 5.0 | 3.9 | 4.6 | 4.6 | 6.9 | 1.8 | N/A |
| **Indonesia** | 5.0 | 5.0 | 5.1 | 4.9 | 5.1 | 5.0 | 5.4 | 5.1 | 5.0 |
| **Thailand** | 2.2 | 2.9 | 2.4 | 3.1 | 2.8 | 1.2 | 2.5 | 1.6 | 1.8 |
| **Philippines** | 5.5 | 5.7 | 4.4 | 5.4 | 5.5 | 3.9 | 3.0 | 5.6 | 5.3 |
| **Vietnam** | 5.1 | 7.1 | 8.0 | 7.1 | 8.2 | 8.3 | 8.5 | 5.6 | 6.3 |

Note: World GDP growth for 2023-2025 by IMF; Annual GDP for India is on fiscal year basis; N/A = Not applicable or not available; (ae) = Advance estimates by India.

Source: Officials (unadjusted data except quarterly GDP for Euro Area); IMF (World Economic Outlook (WEO), World Bank (Global Economic Prospects)

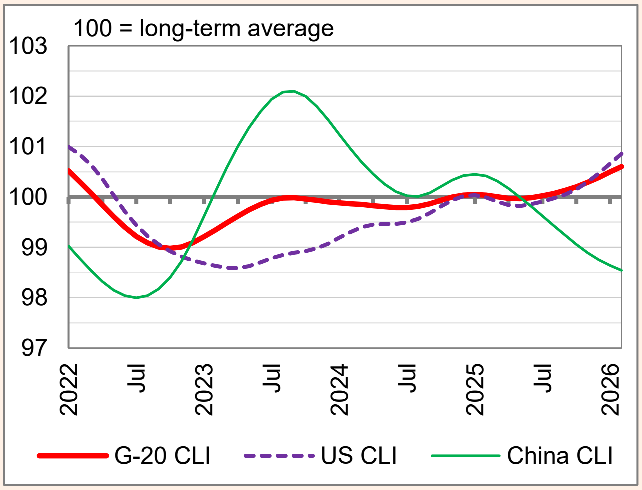
## Policy rate (%)

| End-period of | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 (Feb/Mar) | 2026F |
|---|---|---|---|---|---|---|---|---|---|
| **US, FED**<br>Federal Funds Rate | 1.50-1.75 | 0.00-0.25 | 0.00-0.25 | 4.25-4.50 | 5.25-5.50 | 4.25-4.50 | 3.50-3.75 | 3.50-3.75 | 3.25-3.50 |
| **Euro Area, ECB**<br>Deposit Facility | -0.50 | -0.50 | -0.50 | 2.00 | 4.00 | 3.00 | 2.00 | 2.00 | 2.00 |
| **Japan, BOJ**<br>Overnight Call Rate | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | 0.25 | 0.75 | 0.75 | 1.00-1.25 |
| **China, PBC**<br>1-Year Loan Prime Rate | 4.15 | 3.85 | 3.80 | 3.65 | 3.45 | 3.10 | 3.00 | 3.00 | 3.00 |
| **UK, BOE**<br>Bank Rate | 0.75 | 0.10 | 0.25 | 3.50 | 5.25 | 4.75 | 3.75 | 3.75 | 3.25-3.50 |
| **Australia, RBA**<br>Cash Rate | 0.75 | 0.10 | 0.10 | 3.10 | 4.35 | 4.35 | 3.60 | 4.10 | 4.35-4.60 |
| **India, RBI**<br>Policy Repo Rate (LAF) | 5.15 | 4.00 | 4.00 | 6.25 | 6.50 | 6.50 | 5.25 | 5.25 | 5.25 |
| **Korea, BOK**<br>Base Rate | 1.25 | 0.50 | 1.00 | 3.25 | 3.50 | 3.00 | 2.50 | 2.50 | 2.50 |
| **Malaysia, BNM**<br>Overnight Policy Rate | 3.00 | 1.75 | 1.75 | 2.75 | 3.00 | 3.00 | 2.75 | 2.75 | 2.75 |
| **Indonesia, BI**<br>BI-Rate | 5.00 | 3.75 | 3.50 | 5.50 | 6.00 | 6.00 | 4.75 | 4.75 | 4.75 |
| **Thailand, BOT**<br>1-Day Bilateral Repo Rate | 1.25 | 0.50 | 0.50 | 1.25 | 2.50 | 2.25 | 1.25 | 1.00 | 1.00 |
| **Philippines, BSP**<br>Target RRP Rate | 4.00 | 2.00 | 2.00 | 5.50 | 6.50 | 5.75 | 4.50 | 4.25 | 4.25 |

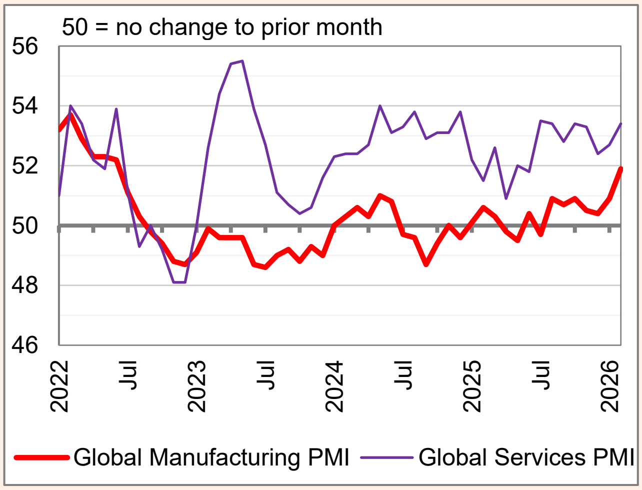
Source: Officials; SERC's forecast

# Global Current and Forward Indicators

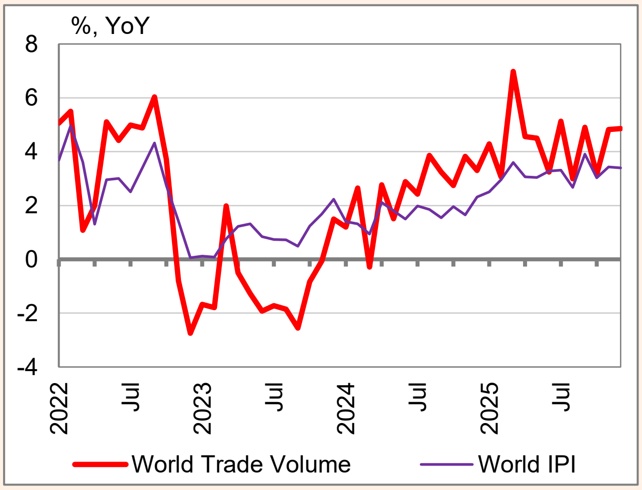
## OECD CLIs show continued divergence between the US and China



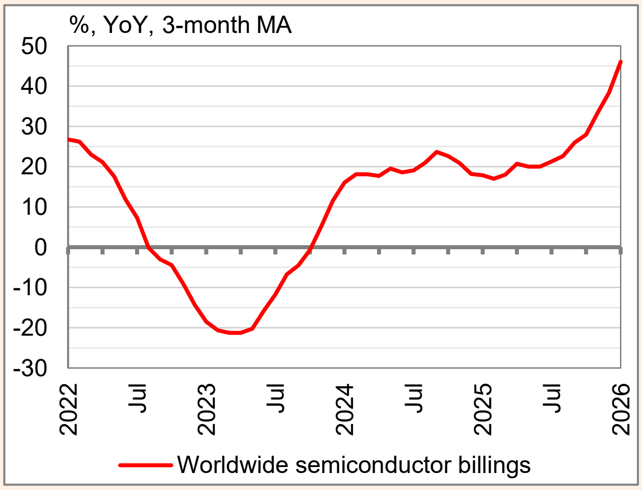

## Both global manufacturing and services PMI remain expansionary in Feb



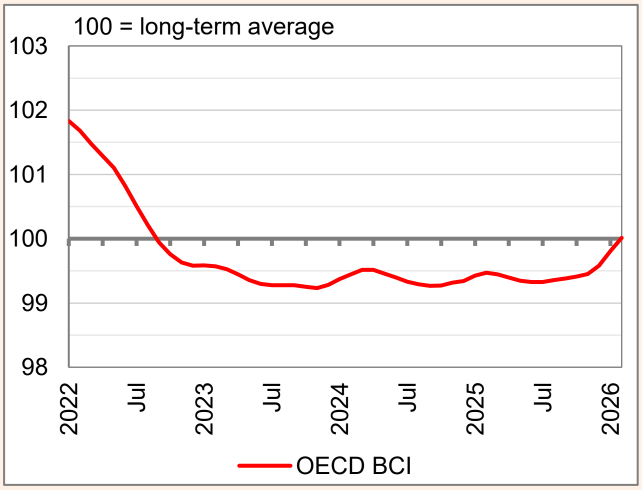

## WTO projects 1.9% merchandise trade growth in 2026



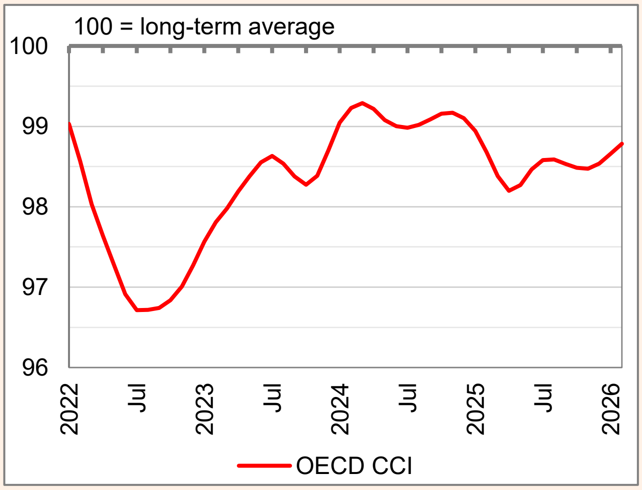

## Global semiconductor sales to approach USD1 trillion in 2026



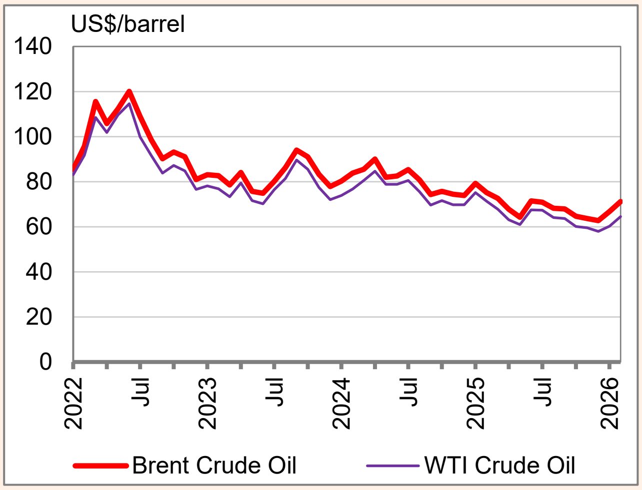

## OECD Business Confidence Index



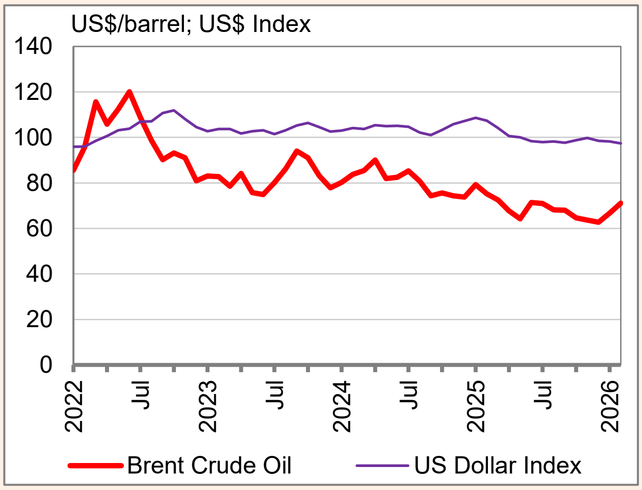

## OECD Consumer Confidence Index



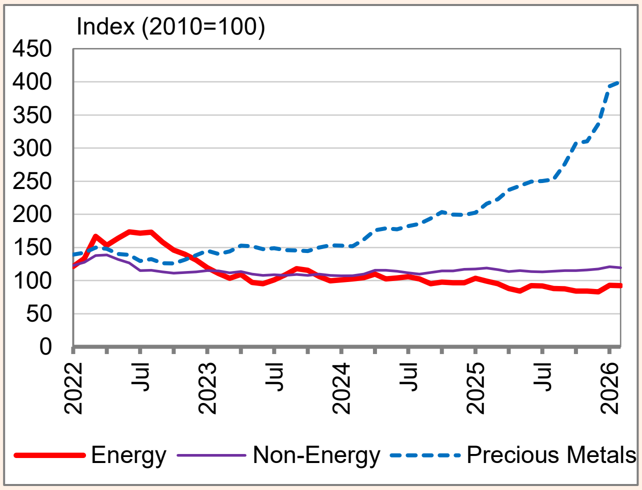
**Crude oil prices soar, driven by the uncertainty about the Middle East conflict**



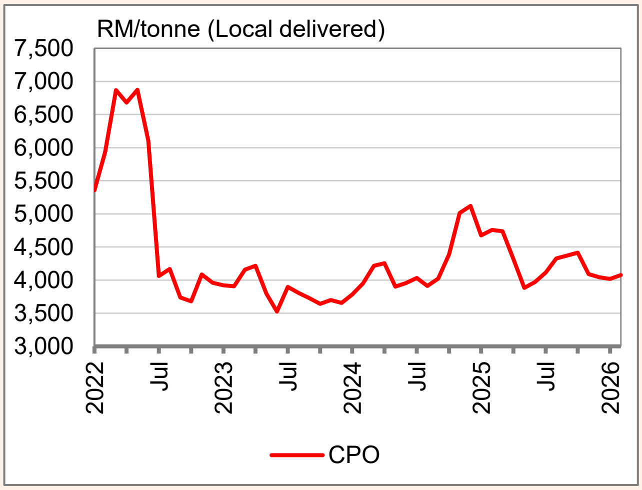

**Brent crude oil price vs. the US dollar index**




**Gold price eased from the peak of USD5,000/oz**



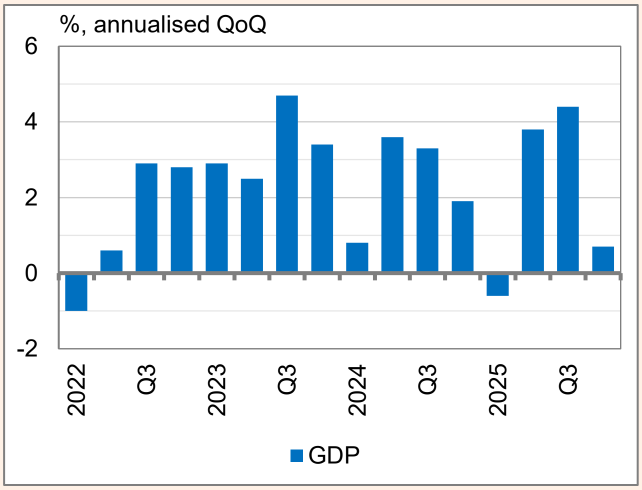

**Crude palm oil prices ticked higher following the Middle East conflict**



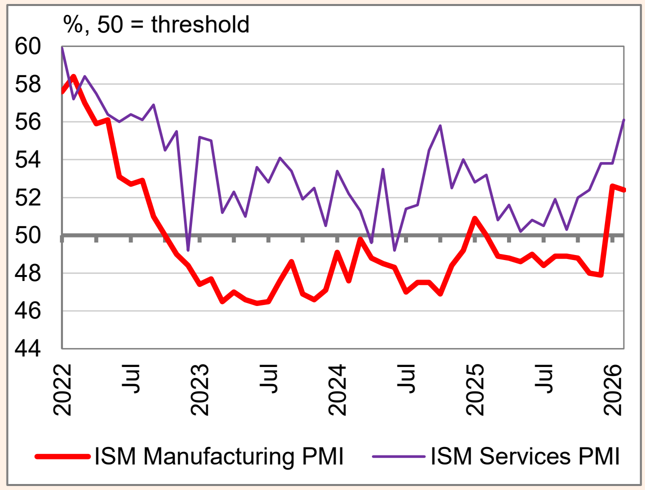

Source: Organisation for Economic Co-operation and Development (OECD); S&P Global; CPB Netherlands Bureau for Economic Policy Analysis; Worldwide Semiconductor Trade Statistics (WSTS); World Bank; The Wall Street Journal; Malaysian Palm Oil Board (MPOB)

# The US: Oil shocks to flare up inflation risk

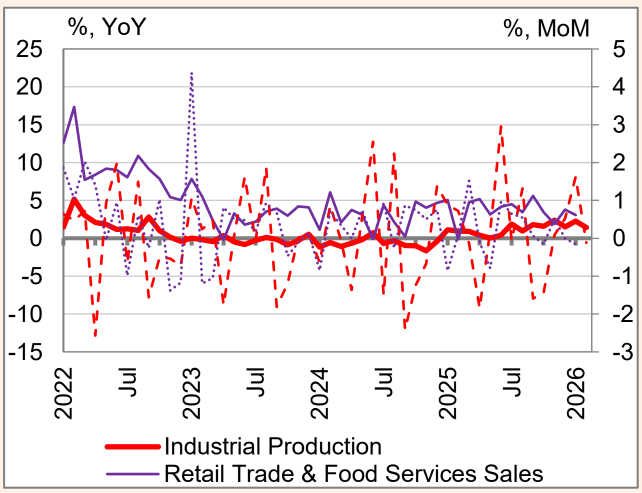
**The US economy grew slower than expected in Q4 2025 due to the government shutdown**



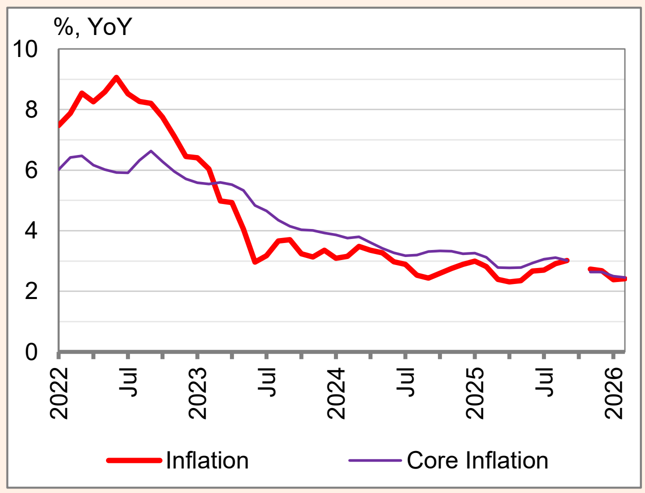

**Manufacturing and Services PMI surged in Jan-Feb**



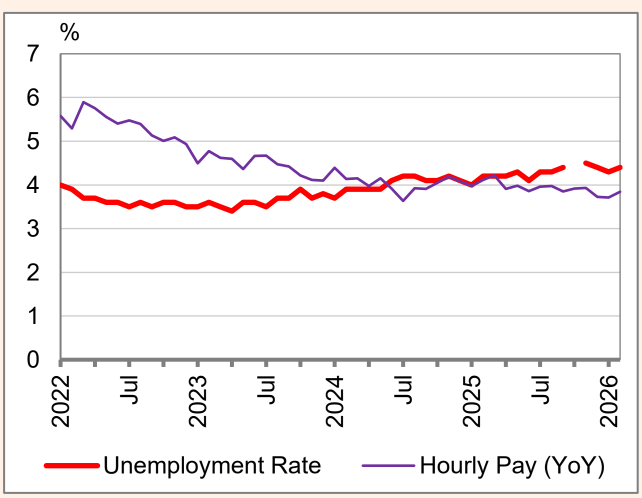

**Industrial production growth sustained; retail sales growth moderated**



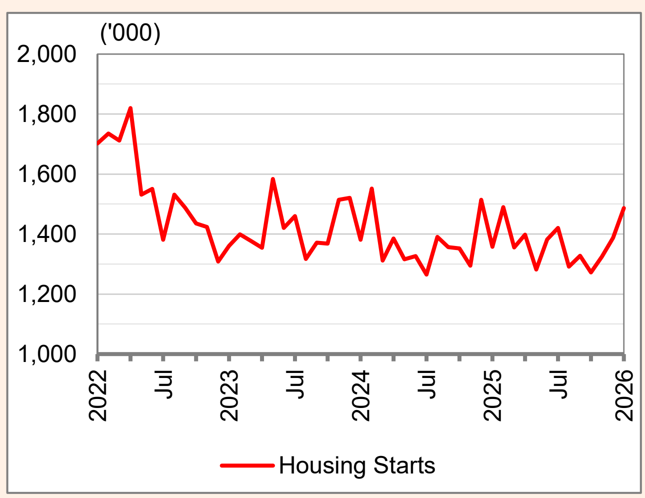

**Strong inflationary pressures on high energy prices**




**Unemployment rate improved a little to 4.3%-4.4% in Jan-Feb**



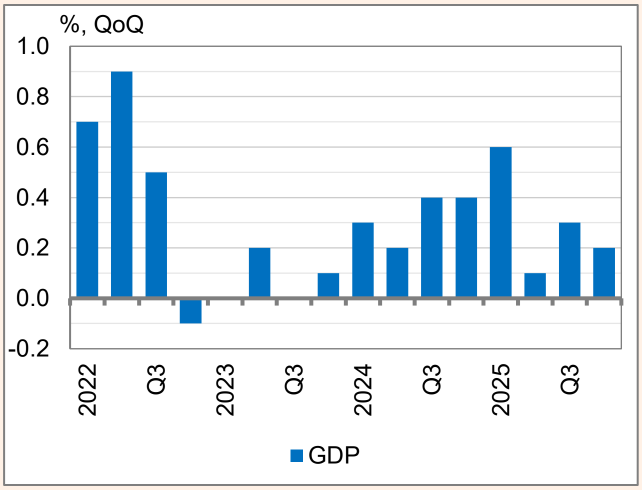

**Housing starts grew for the third straight month in Jan 2026**



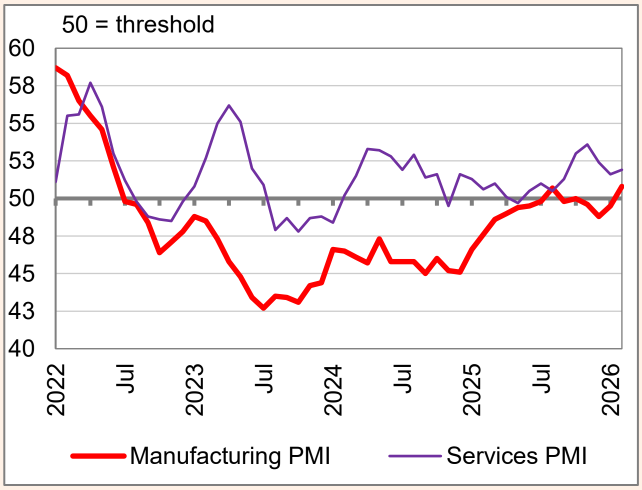

Source: Bureau of Economic Analysis (BEA); Institute for Supply Management (ISM); Federal Reserve System; US Census Bureau; US Bureau of Labor Statistics Note: Some data are missing due to a lapse in appropriations.

# Euro Area: Soaring energy costs weigh on recovery

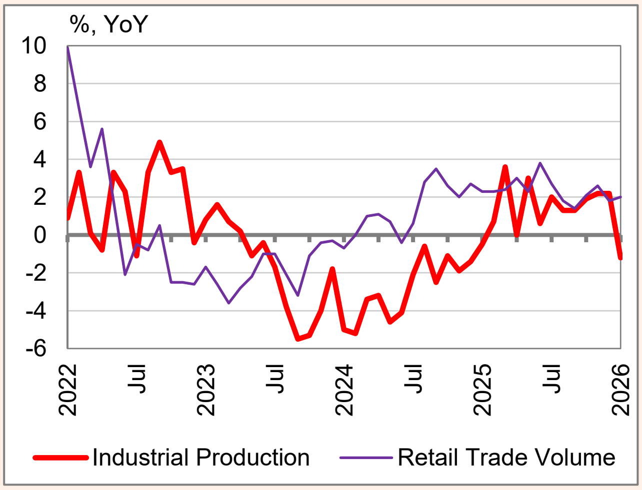
### Euro area GDP expanded modestly in Q4 2025



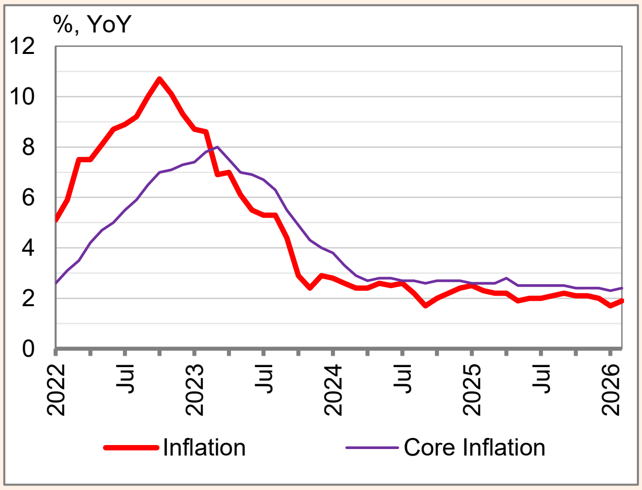

### Manufacturing PMI back in expansionary territory in Feb 2026




### Industrial output fell across key euro area countries

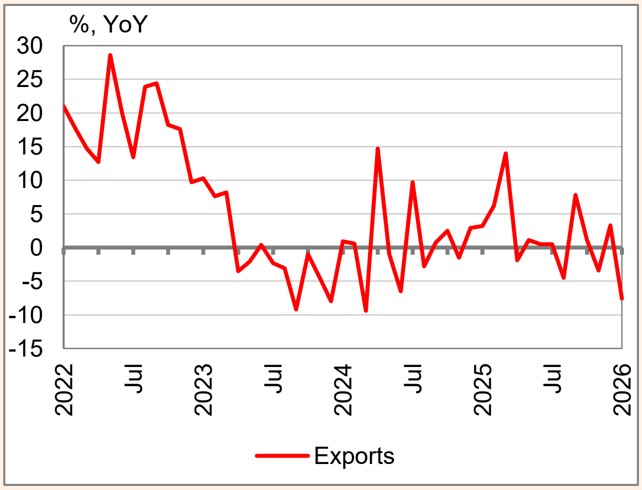



### Headline inflation rate will rise sharply




### Unemployment rate hit a new historical record low of 6.1% in Jan 2026

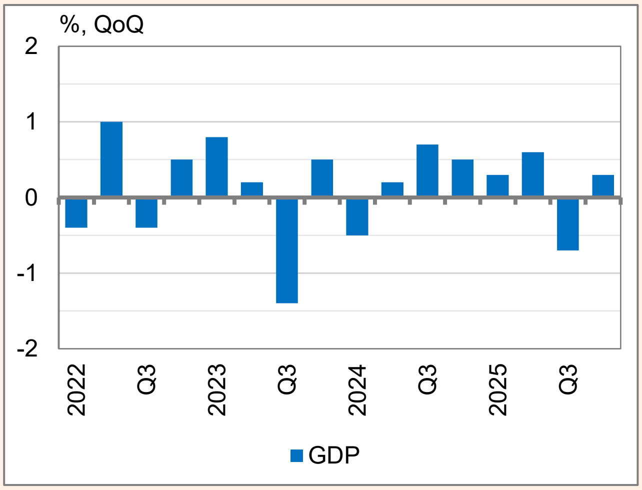

### Weakening external demand



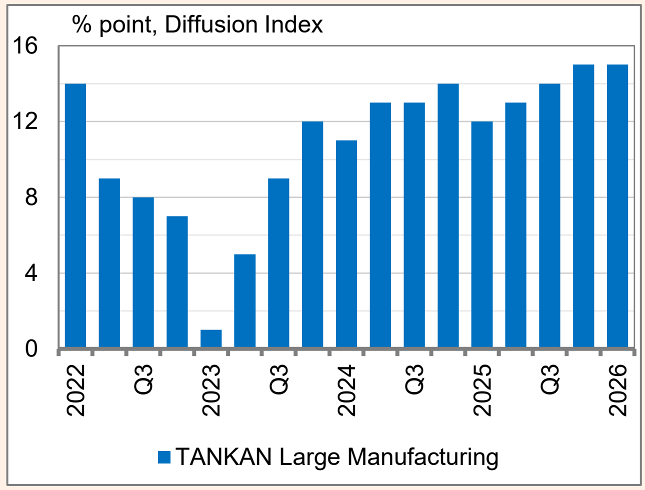

Source: Eurostat; S&P Global

# Japan: Displaying mixed signals

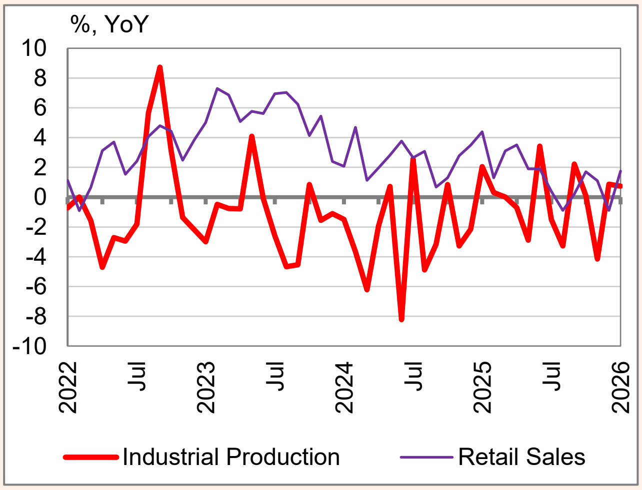
### The Japanese economy rebounded in Q4 2025, supported by private investment



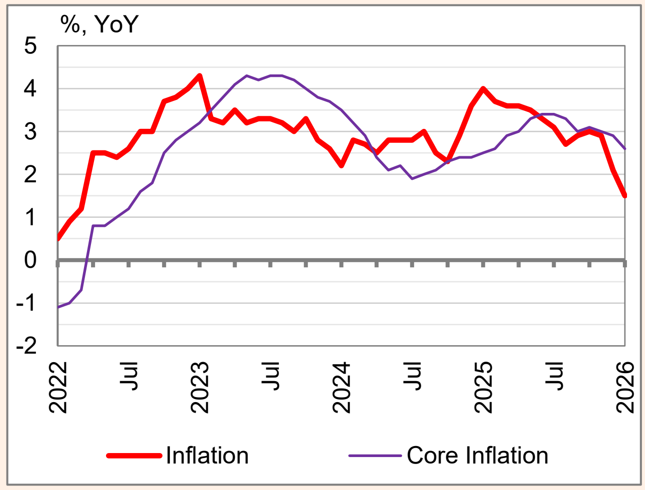

### TANKAN survey signals strong expansion in manufacturing activity



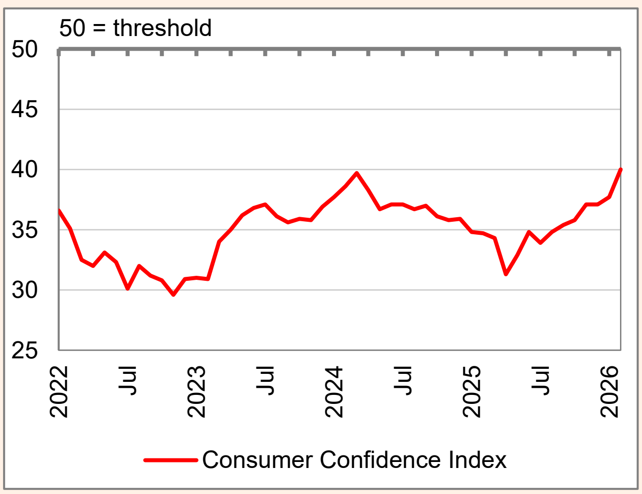

### Both industrial production and retail growth remained uneven



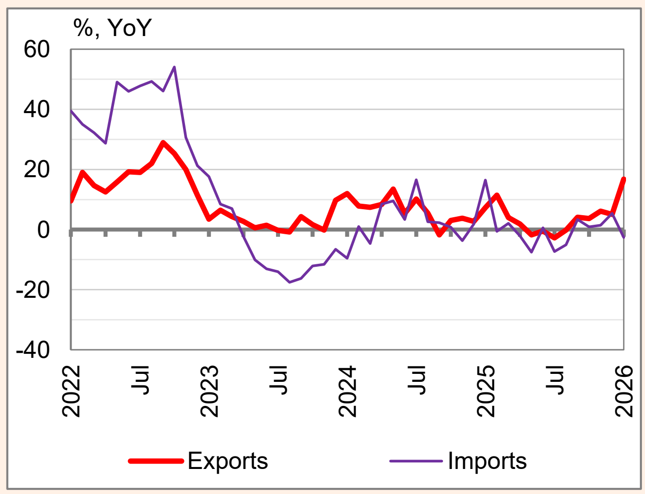

### Wage gains will support inflation towards 2% target




### Consumer confidence improved on rising income expectations



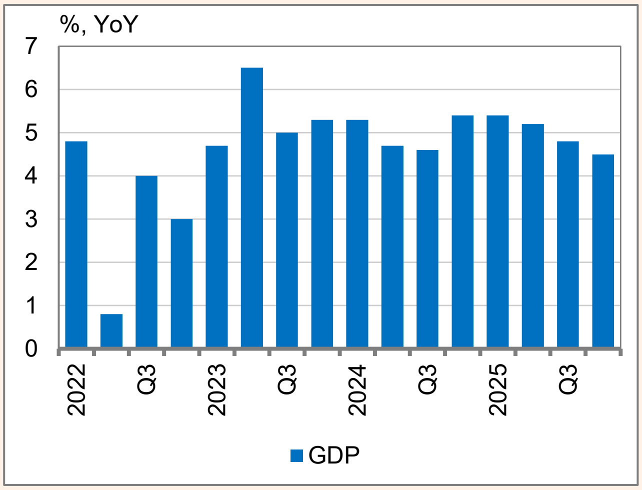

### Export growth soared in Jan 2026, aided by low base effect



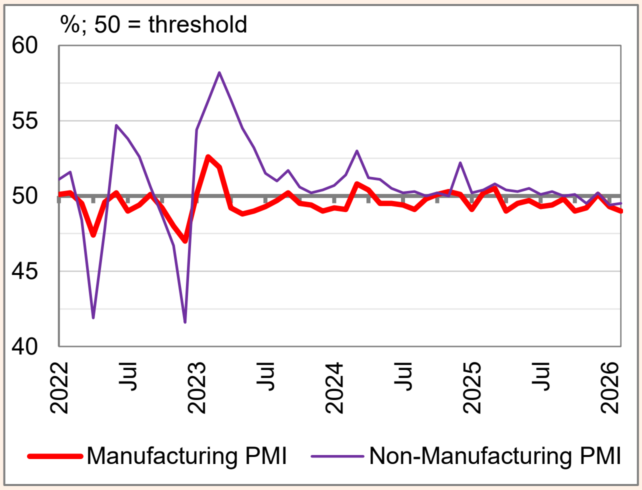

Source: Economic and Social Research Institute (ESRI), Cabinet Office of Japan; Bank of Japan (BOJ); Ministry of Economy, Trade and Industry (METI), Japan; Statistics Bureau, Japan; Japan Customs

# China: Broader economic slowdown

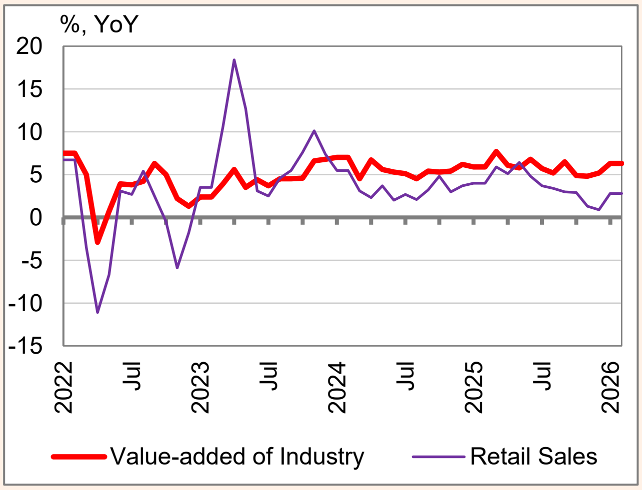
**China has set a 2026 economic growth target of 4.5%-5.0%**



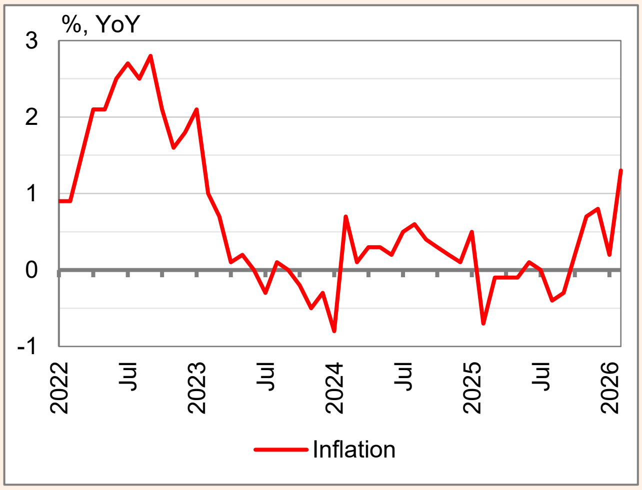

**Both manufacturing and services PMI fell to contractionary territory in Jan-Feb**



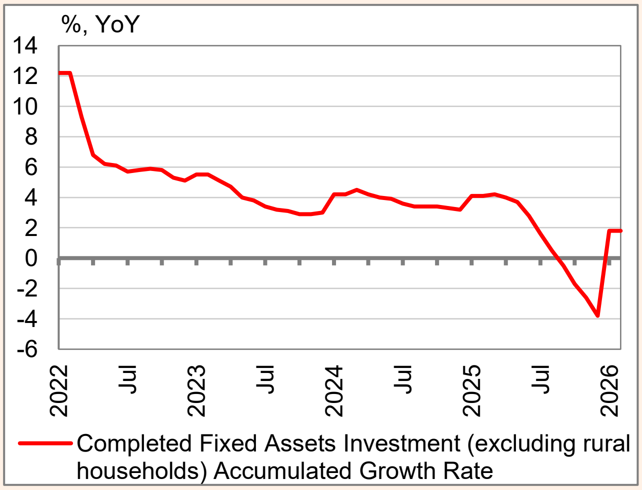

**While industrial output growth sustained; retail sales growth softened**



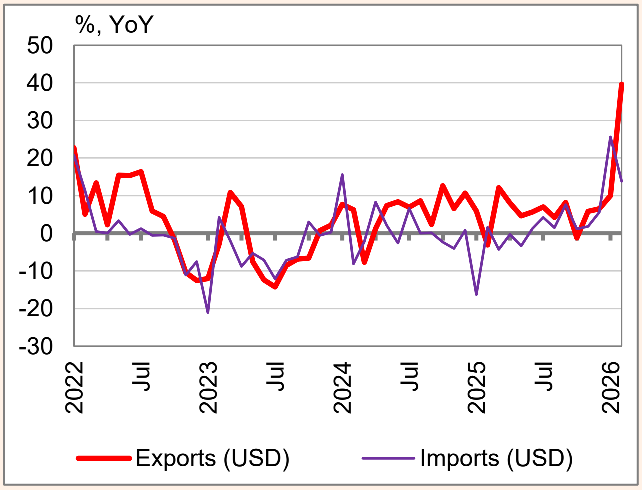

**Inflation picked up in Feb, driven by higher prices of food and services**




**Fixed investment activities remained sluggish**



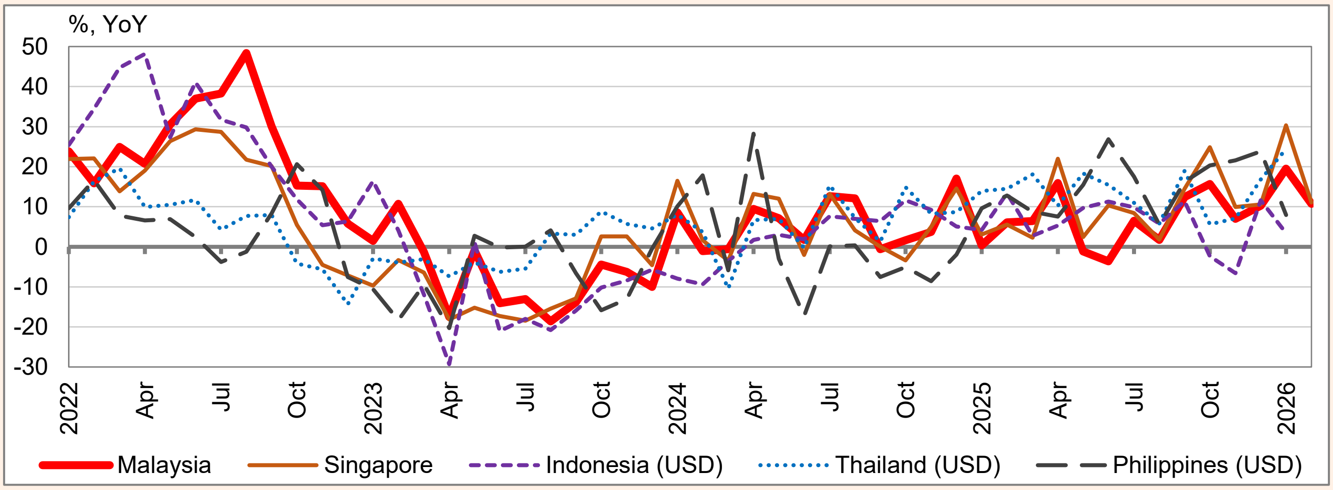

**Exports posted robust growth in Jan-Feb**



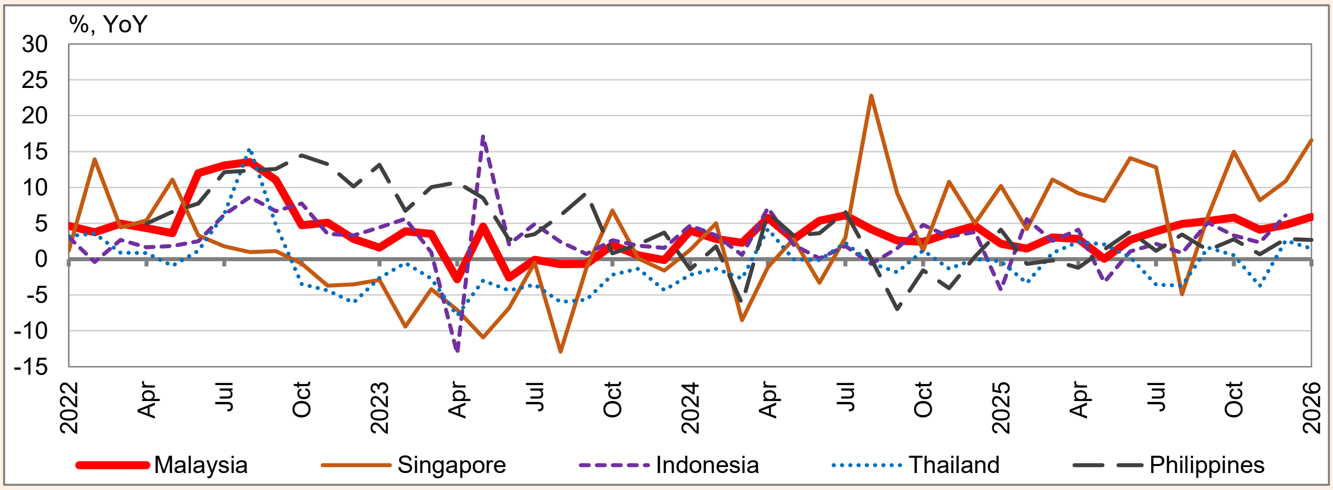

Source: National Bureau of Statistics of China; General Administration of Customs, China

# ASEAN Key Economic Indicators

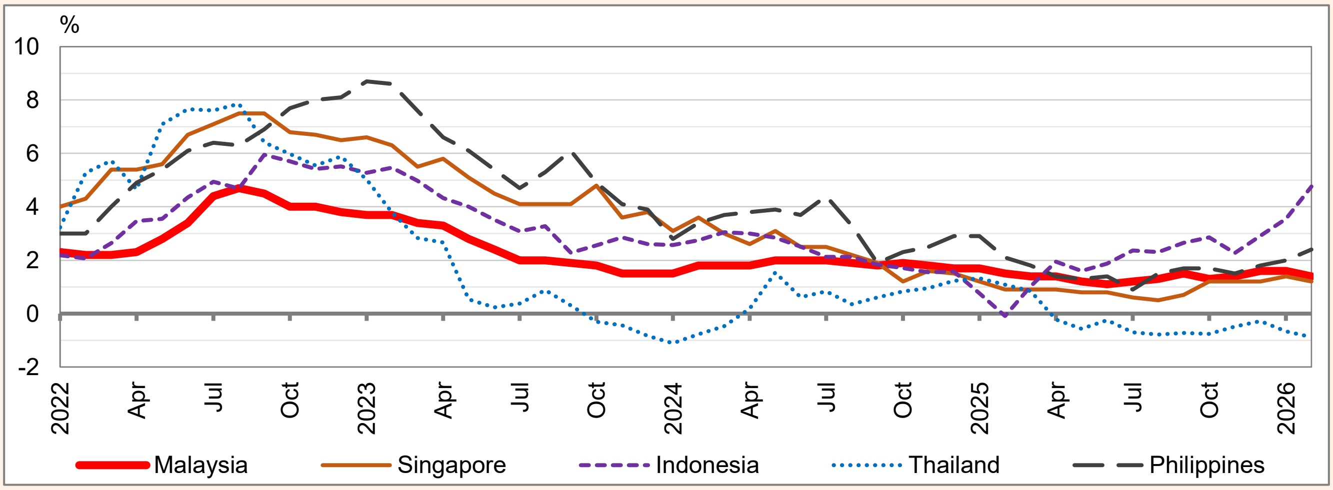
## Export growth trend




## Industrial production growth trend




## Inflation trend




Source: Department of Statistics, Malaysia; Singapore Department of Statistics; Statistics Indonesia; Bank Indonesia; Office of Industrial Economics, Thailand; Ministry of Commerce, Thailand; Philippine Statistics Authority

Note: Industrial production growth for the Philippines only showed from April 2022 due to exceptional data prior to that.

## HOW VULNERABLE MALAYSIA IS TO AN OIL SHOCK?

- **Does Malaysia become less vulnerable to the US-Israel and Iran war crisis-induced disruptions?** The impact of war and oil shocks on the Malaysian economy is largely determined by the degree of oil price increases (permanent or temporary) and duration of supply disruptions.

- As a small and open trading nation, Malaysia's export performance is heavily reliant on global economic outlook, especially economic health of its key trading partners, which drive demand for Malaysian goods. A bigger than expected slowdown in global growth due to the perfect storm – a convergence of the Middle East conflicts, soaring energy and gas prices, supply chains disruption, and tariffs policy uncertainty would dent Malaysia's exports.

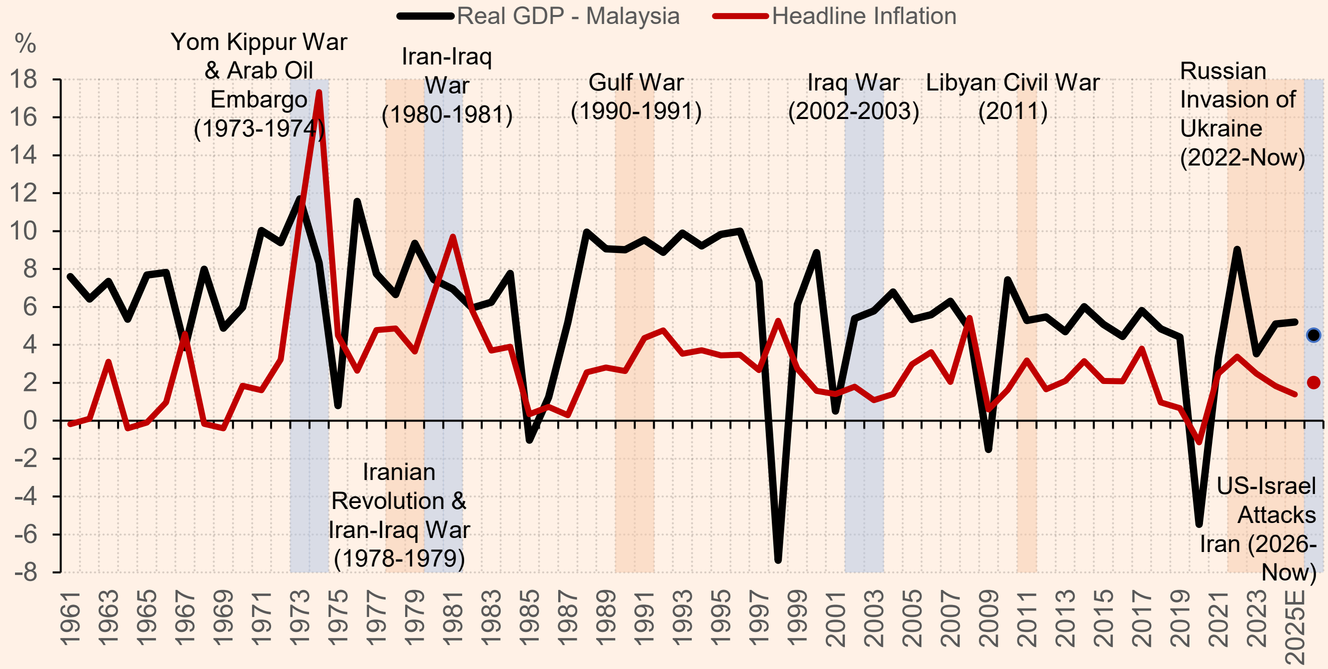
- Recent episodes of geopolitical tensions in the Middle East showed that a short-lived, low-intensity shock inflicted moderate economic friction, while a prolonged, high-intensity conflict could trigger severe inflationary shock, increased business costs, reduced consumer spending and business activities, and, in worst-case scenario, could lead to a global recession.

- The Malaysian economy has had experienced a few episodes of major oil price shocks, largely triggered by intensified geopolitical conflicts in the Middle East. It is worth mentioning that the First oil shock (1973-1974) Yom Kippur War & Arab Oil Embargo, acted as a catalyst for Malaysia to become a significant oil exporter and becoming a key contributor of Federal government's budget and economic growth. Over past three decades, Malaysia has transitioned into a net oil importer since 2022, primarily due to maturing domestic oil fields leading to declining crude production, coupled with rapidly rising domestic consumption as well as economic development.

- Prior to 2022, Malaysia's position as a net oil exporter had allowed it to benefit from oil price surges. On balance, higher oil prices have had manageable impact on the Malaysian economy. Higher oil-related Federal revenue was offset by fuel subsidies to keep domestic inflation manageable.

- **Inflationary pressures were heightened**. Historically, Malaysia has had experienced inflation between 2% and 3% annually, but oil shocks inflicted by wars in the Middle East have caused notable deviations above this range. A period of high inflation averaging 13.9% per annum (pa) in the First oil shock (1973-74) and 5.1% pa in Second oil shock (1979-80: Iranian Revolution) and 8.2% pa in Iran-Iraq war (1980-1988), largely driven by soaring global oil prices, rising import costs, and higher prices for industrial raw materials.

**Malaysia's Real GDP Growth & Inflation vs Oil Shocks**




Source: World Bank; DOSM

- Bank Negara Malaysia (BNM)'s Monetary Policy Committee (MPC) has acknowledged the uncertainties from the ongoing conflict in the Middle East, indicating that the impact on the global and Malaysian economy will depend on how these developments evolve.
- **The key variables in transmitting an oil shock to a recession are the duration and magnitude of price surges, the central bank's monetary policy response, and pre-existing state of the economic cycle.**
- While Malaysia is in a position of strength to withstand a "perfect oil storm" amid the on-going tariffs policy uncertainty, **global economic fallout from persistence oil shocks will transmit through domestic economy via trade, economic growth, financial and inflation channels**.
- The Malaysian economy ended the year 2025 on a resilient note –-- 5.2% GDP growth, resilience consumer spending and robust investment, a record high approved investment, moderate inflation, strong labour market conditions and sound financial sector. The fiscal reforms have improved the fiscal space.
- These positive initial conditions provide cushion, albeit not infinite against global headwinds. However, **the overall net impact on domestic economy is mixed between neutral and moderately negative or positive, depending on the degree of transmission and our economy's shock absorption capacity**.
- **Prolonged oil shocks act as a significant and multifaceted disturbance to domestic economy via various transmission channels, characterised by immediate (first-order) disruptions to costs and income, followed by prolonged (second-order) inflationary and structural shifts.** These shocks affect economic growth via production, consumption and investment, consumer inflation and business operating costs, and fiscal budget via direct and indirect channels.

- **In 2025, Malaysia remained net crude oil importer (-1.7% of GDP) since 2022, net liquefied natural gas (LNG) exporter (+2.2% of GDP) and a small net petroleum products exporter (+0.2% of GDP).**

**Malaysia's vulnerability to oil disruptions, now and then**

| | **Gulf War / Iraq Invaded Kuwait (YR1990-1991) (average)** | **Now (YR2025)** |
|---|---|---|
| Oil intensity (ktoe per RM million GDP) | 0.0816 | 0.0162 (YR2022) |
| Oil intensity (% of GDP) | 3.6% | 5.2% (YR2022) |
| Nominal mining output (% of GDP) | 11.0% | 6.8% |
| Real mining output (% of GDP) | 9.2% | 5.7% |
| Net balance of crude oil (% of GDP) | 8.0% | -1.7% |
| Net balance of LNG (% of GDP) | 2.3% | 2.2% |
| Net balance of petroleum products (% of GDP) | N/A | 0.2% |
| Headline CPI (%) | 2.6%-4.4% | 1.4% |

ktoe=kilotonne of oil equivalent
Note: Oil intensity refers to energy consumption from petroleum products measured in ktoe. For ease of calculation, the conversion to value adopts the Brent crude oil price.
Source: DOSM; Energy Commission; World Bank; BNM; Ministry of Economy; UN Comtrade

- The key transmission channels of oil shocks and a slowdown in global economy and our regional trading partners, especially China and Asia are as follows:

  (a) **Demand destruction effect:** Rapid increases in oil and gas prices driven by supply disruptions cause "demand destruction," where elevated prices force consumers reduce disposable income and cut back discretionary spending as well as increase businesses production costs, leading to a broader economic slowdown. While diesel and RON95 petrol subsidy quota-based program have sheltered consumers and some businesses (public transport and specific logistic vehicles) for now, businesses outside the “subsidised quota” have incurred high fuel costs.

  Oil and LNG export earnings will benefit from higher prices. Our ballpark estimates indicate that an average Brent crude price of USD100/bbl could result in a net increase of RM2.5 billion export earnings of crude petroleum and LNG to RM13.7 billion in 2026 (RM11.2 billion in 2025 based on average crude price of USD69.04/bbl).

  While the second-order export impacts from a slowdown in global demand is expected, a diversified export structure provides buffer against external demand volatility, with resilient demand in the semiconductor and AI sector (DRAM, NAND, and high bandwidth memory (HBM)) providing cushion amid supplies disruption of key chipmaking elements such as helium and bromine.

(b) **Supply-side/cost effect:** Oil shocks typically boost Malaysia's mining sector output (5.7% of GDP in 2025 vs. 9.2% in 1990-1991) because higher global prices encourage increased production of crude oil and natural gas amid its contribution to GDP has been declining over the decades.

Increased energy costs and raw materials due to the supply chains disruption, higher shipping rates, insurance premiums and logistic cost raise transportation and production expenses for firms, reducing output or delaying production and inducing inflationary pressure. Direct cost increases have knock-on impact on industries and sectors that falling outside "the fuel subsidy-quota" scheme, such as construction, aviation, plantation and manufacturing sectors.

The affected industries include industrial products and consumer goods. Among the heavy users of gas and electricity in the manufacturing sector are iron and steel, textiles, cement, and glass products. The agricultural sector will also be impacted as crude oil is serving as a primary energy source for machinery fuel (diesel), transport, and the production of fertilisers, pesticides, and plastics.

The prolonged escalation of conflict in the Middle East, characterised by widespread airspace restrictions, airport disruptions, and increased airfares and insurance costs, is causing significant disruption to international travel from the region, Europe, and the US, which threatens to dampen the tourism and hospitality sector in Malaysia, causing a dent on Visit Malaysia 2026.

(c) **Inflationary impulse:** Higher prices for fuel directly raise headline inflation and can lead to higher core inflation via second order price transmission effect. The fuel subsidies mechanism has partially shielded consumers and businesses from the first-round oil shocks. If Brent crude price stays at USD90-USD100/bbl for three months, the Government would be compelled to raise the current subsidised RON95 of RM1.99 per litre, to keep fuel subsidies manageable.

With the fuel (diesel and petrol) carrying a combine weightage of 5.7% and transportation's weightage of 11.3% in the CPI basket, a 10%-15% increase in fuel prices would raise the Consumer Price Index growth by between 0.6 and 0.9 percentage points.

(d) **Fiscal effect:** Sustained high oil prices create risk to strain the fiscal deficit and reduce the limited fiscal space for development expenditure, requiring a recalibration and reprioritising of spending, including prudent spending and subsidies cut to rein in the fiscal deficit.

The net impact of higher global oil prices on the fiscal deficit is negative as an increase in oil related revenue is largely offset by high fuel subsidy payment. If we assume average Brent crude price increased to USD100 per barrel from USD65 used in the preparation of the 2026 Budget, an additional USD35 increase in oil price will generate extra increase in Federal revenue by RM10.5-RM14.0 billion, but it will be more than offset by RM33.0 billion for fuel subsidies payment. This will increase budget deficit ratio by between 0.9 and 1.1 percentage points from the Budget's targeted deficit ratio of 3.5% of GDP in 2026.

As of now, the Government has incurred RM4.0 billion per month for fuel subsidies (estimated RM2.5 billion for RON95 petrol and RM1.5 billion for diesel) compared to RM700 million previously.

(e) **Monetary policy effect:** Higher fuel prices act like a tax on the economy as it increases cost, reduces consumer spending and dampens business investment. Given that the expected increases in inflation comes from a low level, we expect Bank Negara Malaysia may respond to oil-induced inflation by keeping the overnight policy rate unchanged at 2.75%, while continue to closely monitor the transitory impact of oil shock on economic growth and inflation.

Lowering interest rates during an oil shock to support growth and boost aggregate demand could lead to "demand-pull" inflation, which compounds existing cost-push pressures from higher energy prices, risk elevating inflation.

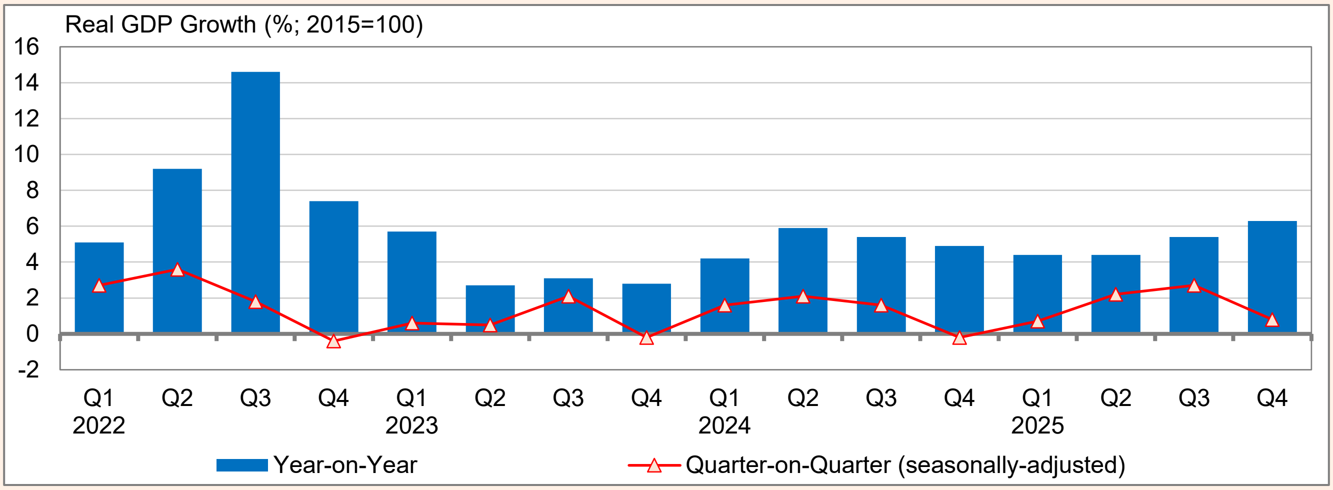
**Real GDP growth (%, Year-on-Year)**

| **Economic Sector** [% share to GDP in 2025] | **2024** | **2025** | **2025 Q1** | **2025 Q2** | **2025 Q3** | **2025 Q4** | **2026F (SERC)** | **2026F (MoF)** |
|---|---|---|---|---|---|---|---|---|
| **By kind of economic activity** | | | | | | | | |
| Agriculture [6.1%] | 3.1 | 2.2 | 0.7 | 2.5 | 0.1 | 5.4 | 1.9 | 2.2 |
| Mining & Quarrying [5.7%] | 0.9 | 0.7 | -2.7 | -5.2 | 9.7 | 2.0 | 1.1 | -1.0 |
| Manufacturing [23.0%] | 4.2 | 4.5 | 4.1 | 3.7 | 4.1 | 6.1 | 3.7 | 3.0 |
| Construction [4.3%] | 17.5 | 12.2 | 14.2 | 12.1 | 11.8 | 11.0 | 7.0 | 6.1 |
| Services [59.6%] | 5.3 | 5.5 | 5.0 | 5.1 | 5.5 | 6.3 | 5.0 | 5.2 |
| **By type of expenditure** | | | | | | | | |
| Private Consumption [60.6%] | 5.1 | 5.2 | 5.0 | 5.3 | 5.0 | 5.3 | 5.0 | 5.1 |
| Public Consumption [13.4%] | 4.7 | 6.6 | 4.3 | 6.4 | 7.1 | 8.0 | 4.5 | 3.2 |
| Private Investment [17.2%] | 12.3 | 9.4 | 9.2 | 11.8 | 7.3 | 9.2 | 6.8 | 7.8 |
| Public Investment [5.1%] | 11.1 | 10.3 | 11.6 | 13.6 | 7.4 | 9.5 | 7.0 | 7.3 |
| Exports of Goods and Services [66.8%] | 8.3 | 3.1 | 4.1 | 2.6 | 1.7 | 3.9 | 3.2 | 3.8 |
| Imports of Goods and Services [63.5%] | 8.2 | 4.6 | 3.1 | 6.6 | 0.7 | 7.9 | 4.2 | 5.8 |
| **Overall GDP** | **5.1** | **5.2** | **4.4** | **4.4** | **5.4** | **6.3** | **4.0-4.5** | **4.0-4.5** |

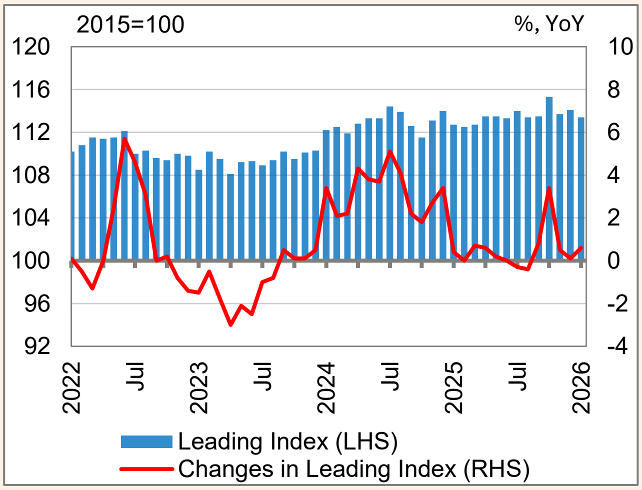
Source: Department of Statistics, Malaysia (DOSM); Ministry of Finance (MoF); SERC estimates and forecast

# Spotlight on the Malaysian Economy

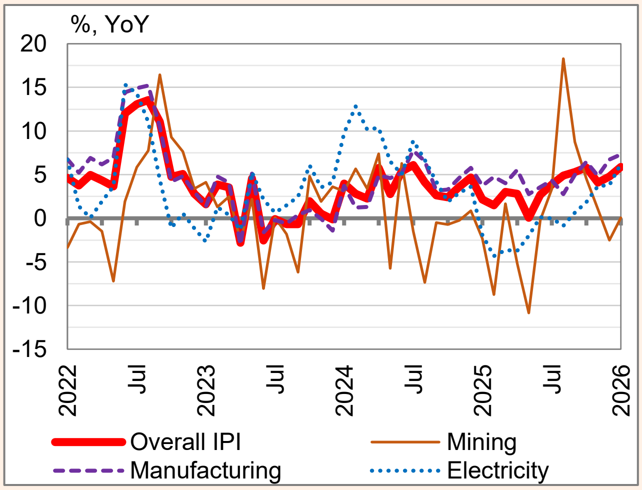
**Malaysia's GDP grew robustly by 6.3% YoY in Q4 2025 and 5.2% for the full year, underpinned by resilient domestic demand despite softer external conditions.**




### Leading Index (LI) reflects a positive economic outlook

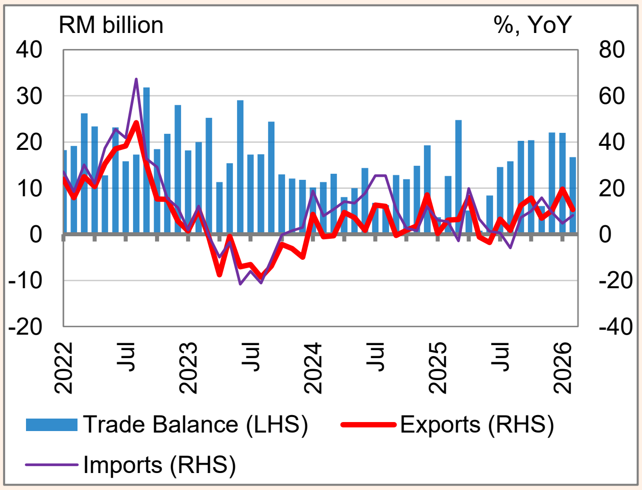



### Industrial production expanded strongly, led by robust manufacturing output

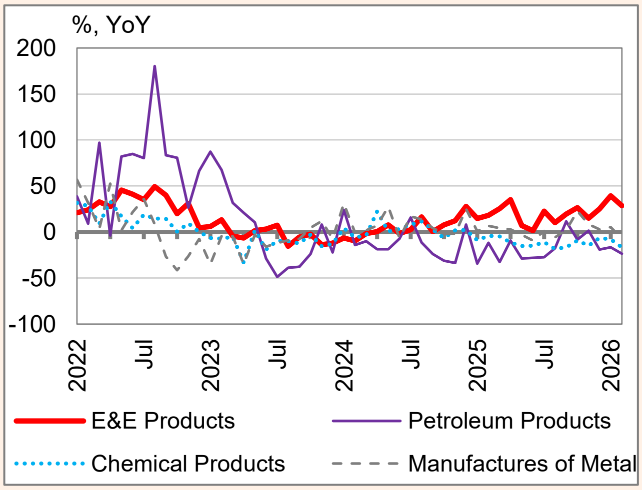



## External Sector

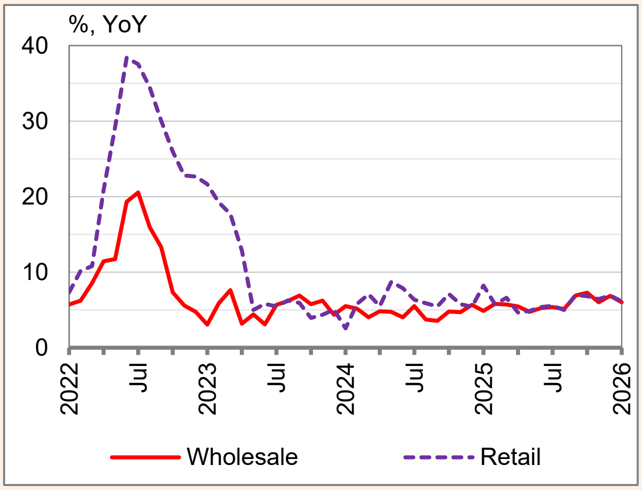
### Exports registered double-digit growth for the third consecutive month in Feb



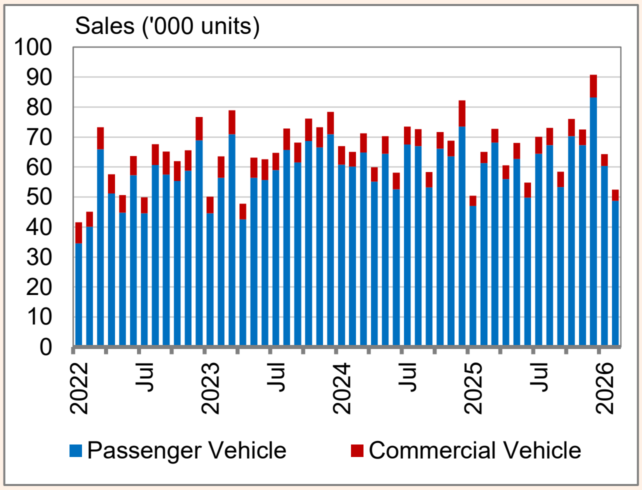

### Exports by major products



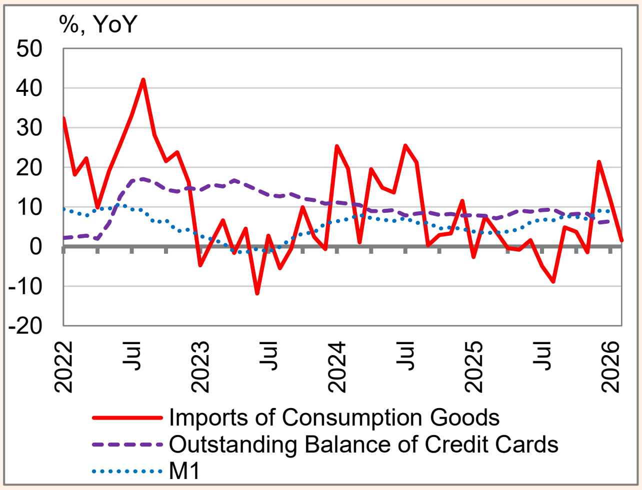
## Wholesale and retail sales growth have stayed above 6.0% since Sep 2025



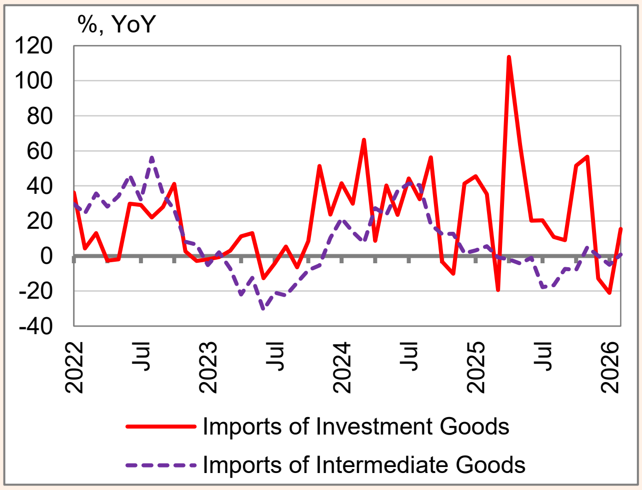

## Vehicle sales are projected to total 790,000 units in 2026




## Selected private consumption indicators

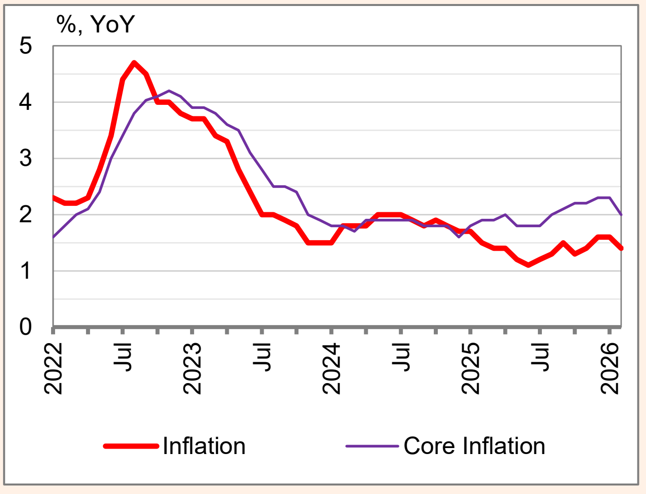



## Selected private investment indicators

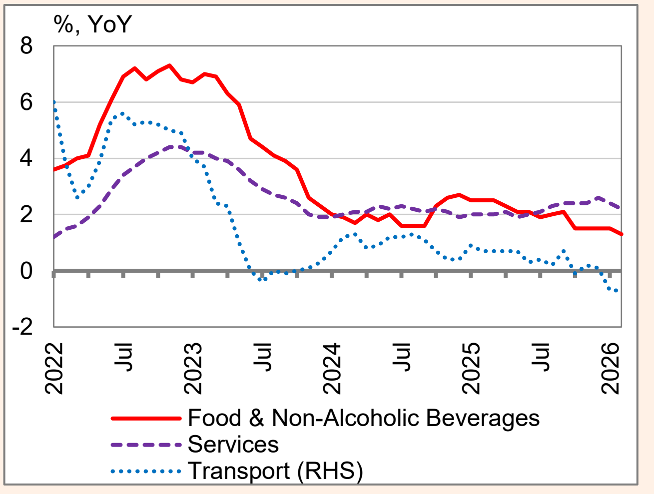



## Price Indicators and Labour Market

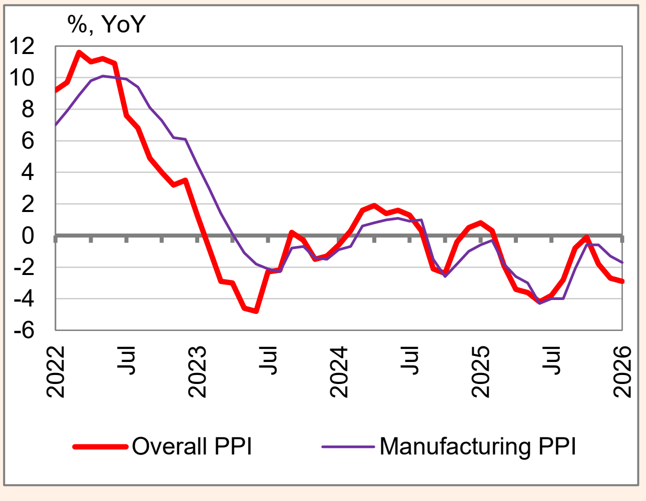
**Inflation is cushioned by fuel subsidies, but indirect pressures remain**



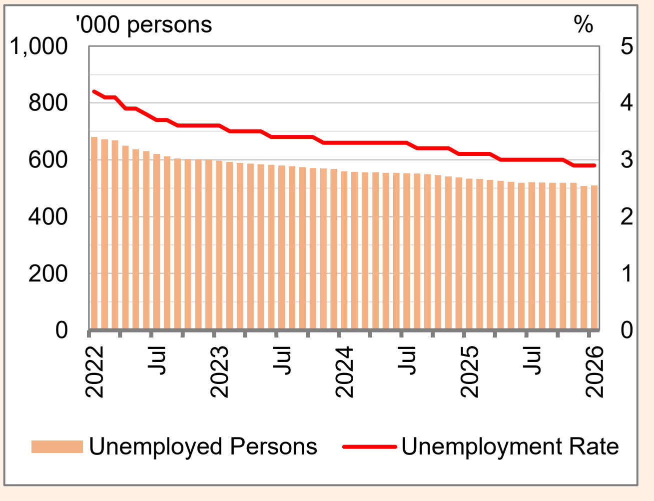

**Prices are set to rise, with upside risks from fuel subsidy adjustments**




**Producer prices may increase in the next few months**

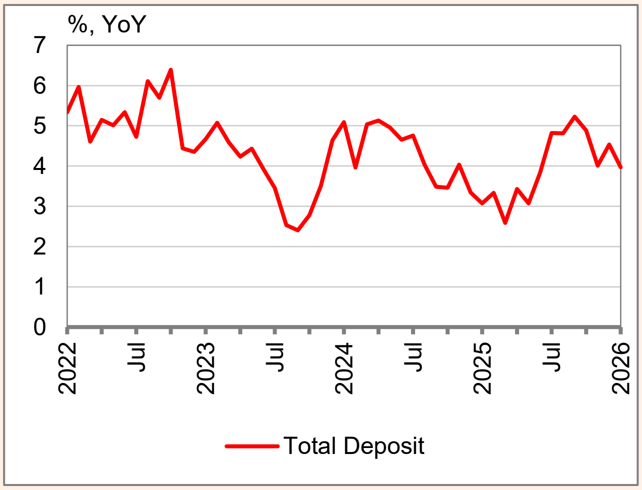



**Unemployment rate fell to 2.9% in Jan 2026, the lowest since Nov 2014**

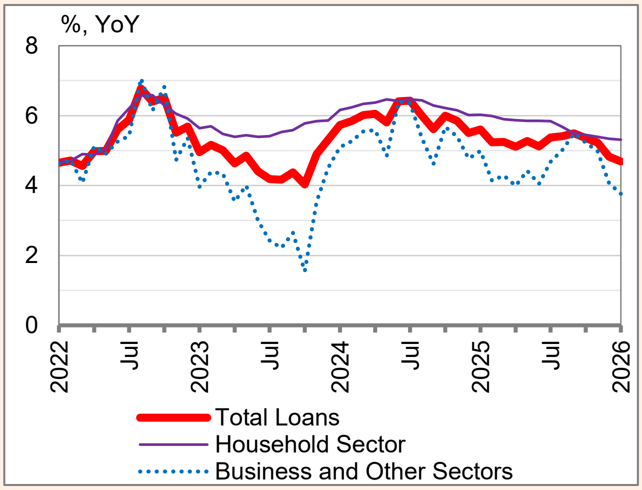



## Banking and Financial Indicators

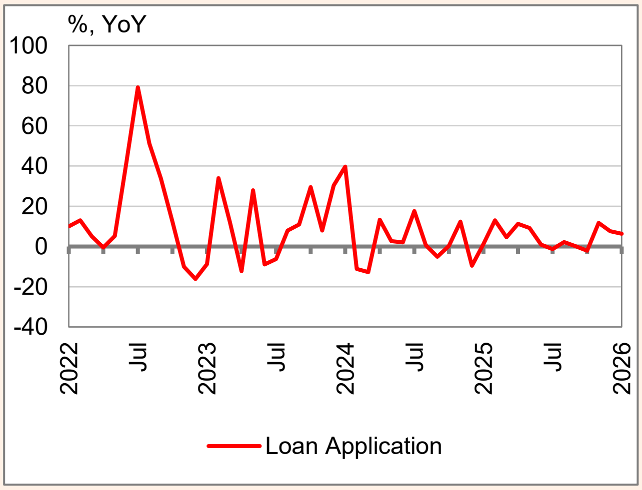
### Banking deposit growth eased



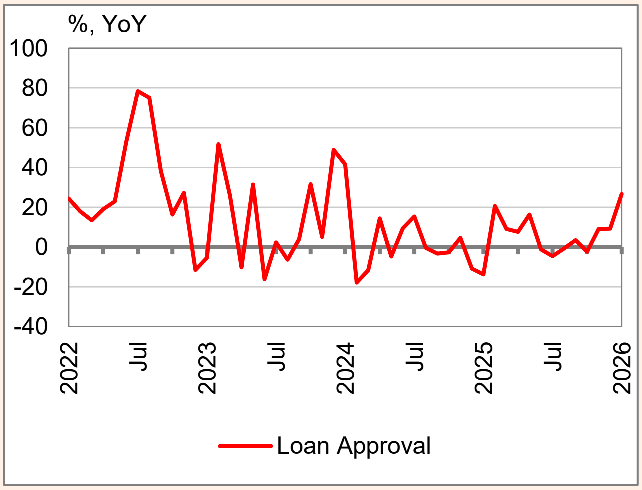

### Outstanding loan growth continued its downward trend



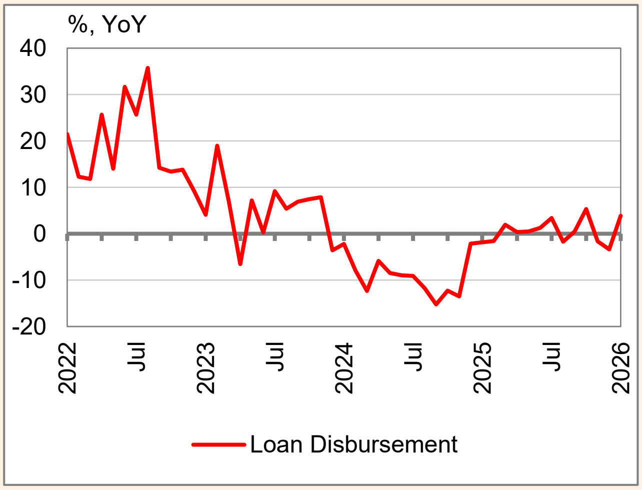

### Loan applications growth



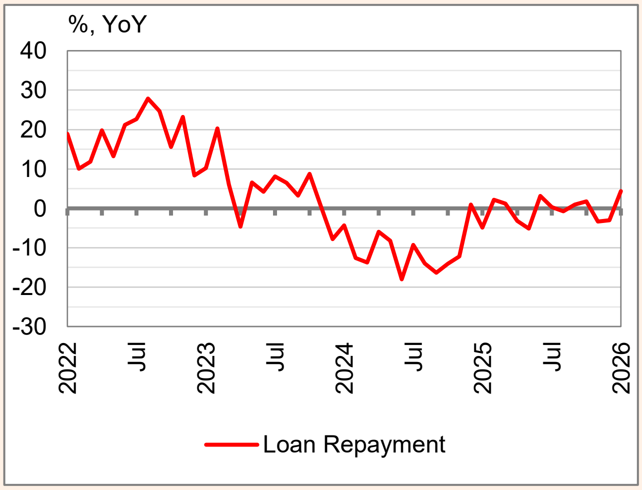

### Loan approvals growth



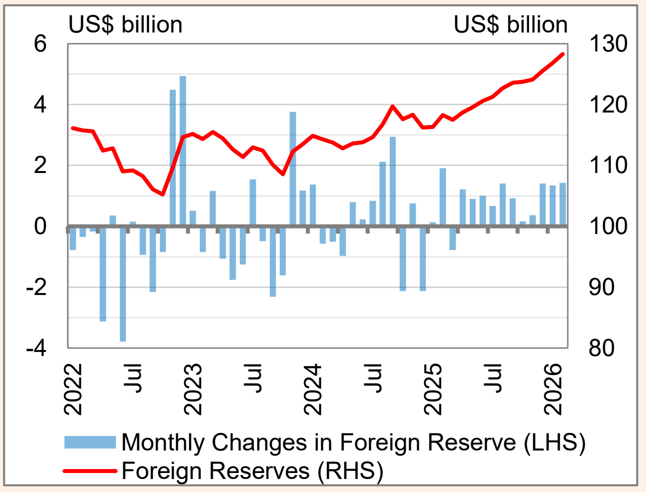

### Loan disbursements growth



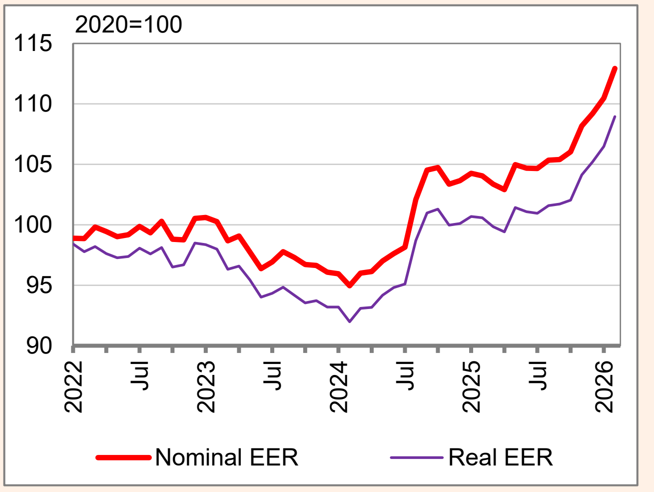

### Loan repayments growth



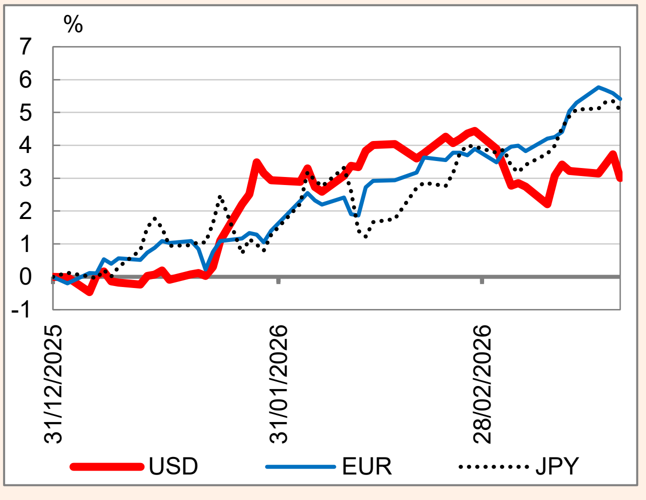
**Foreign reserves amounted to USD128.1bn as of mid-Mar 2026**



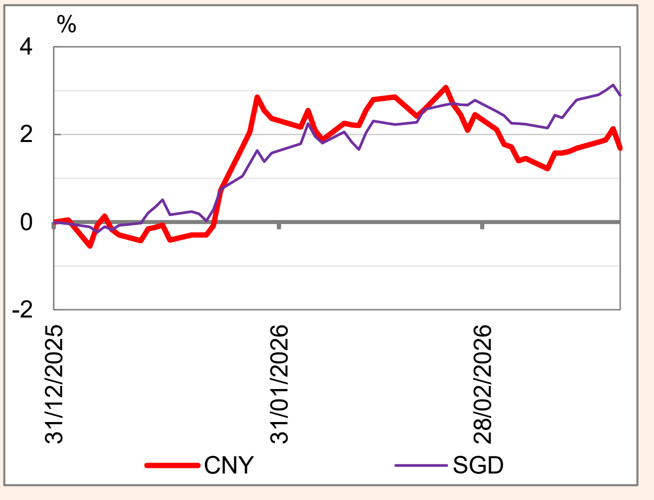

**Ringgit's Effective Exchange Rate (EER)**



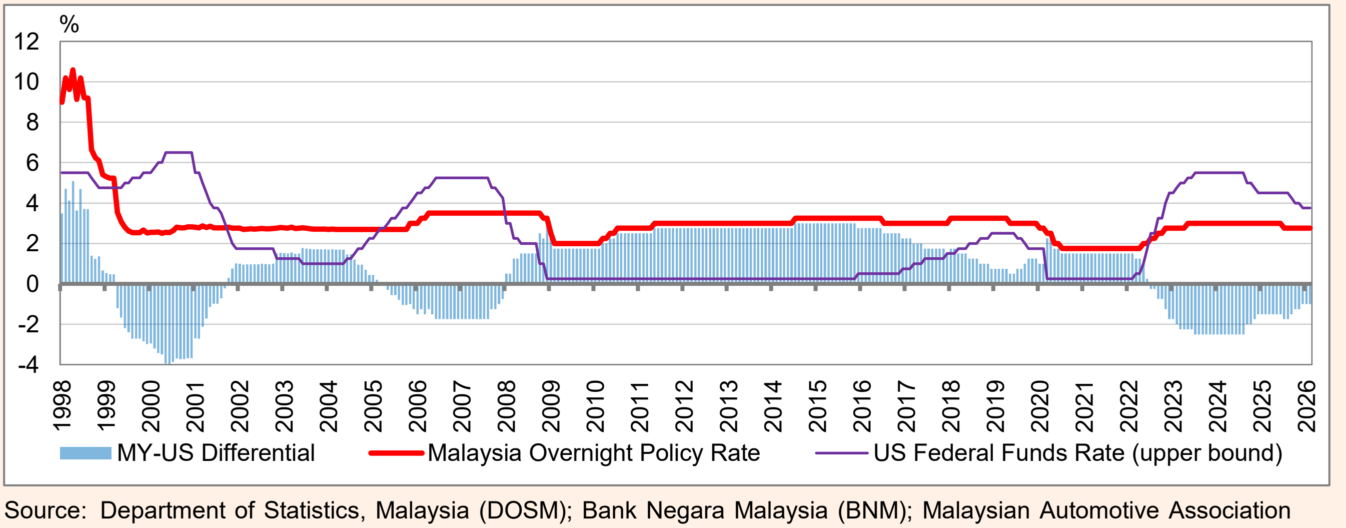

**The Ringgit against the US dollar, euro, and Japanese yen (vs. end-2025)**




**The Ringgit against the Chinese renminbi and Singapore dollar (vs. end-2025)**




**Malaysia-US's interest rate differentials**




Source: Department of Statistics, Malaysia (DOSM); Bank Negara Malaysia (BNM); Malaysian Automotive Association (MAA); Bank for International Settlements; Federal Reserve

Socio-Economic Research Centre

社 会 经 济 研 究 中 心

## About SERC

The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM)'s Socio-Economic Research Centre (SERC Sdn. Bhd.) was established as an independent and non-profit think tank on 19 October 2010. Officiated by YAB Prime Minister on 28 April 2011, SERC is funded by ACCCIM SERC Trust.

SERC is tasked with carrying out in-depth research and analysis on a wide range of economic, business and social issues in support of the formulation of public policies to shape Malaysia's national socio-economic and industrial development agenda.

The organisation will identify and explore issues and future trends that impact domestic economic and business environments. It will also focus on sharing knowledge and promoting public understanding of socio-economic issues of national importance.

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