



Socio-Economic
Research Centre
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Quarterly Economy Tracker (Jan-Mar) 2026

The Oil Shock is Here –
Counting the Impact

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2026

Agenda

- 1** The Perfect Oil Storm in A Global Perspective
- 2** Malaysia Economic Snapshot
- 3** How Vulnerable is Malaysia to an Oil Shock?
- 4** ACCCIM's Quick Take Survey (QTS) on the Impact of Oil Shocks on the Malaysian Industries

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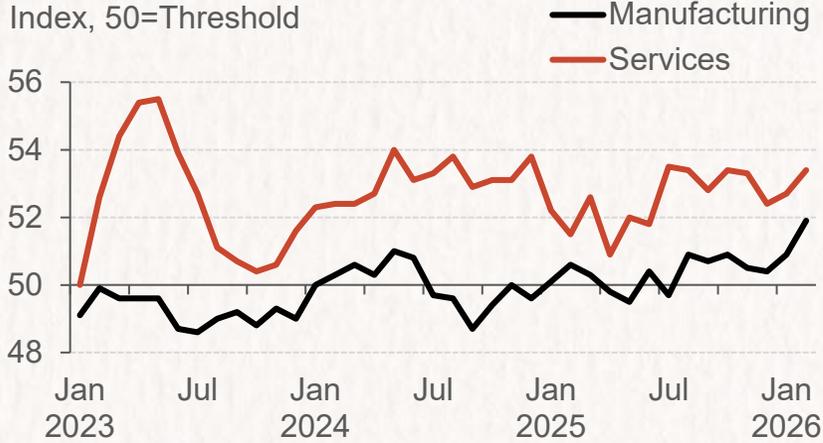
Is the World Economy Facing the Biggest Oil Shock in Decades?

Disruptive, Inflationary, and Destabilising

The US-Israel and Iran conflict have throttled the Strait of Hormuz, causing severe supply disruptions, halted shipping and aviation traffic, oil prices swing wildly, heightened uncertainties in trade and investment flows, as well as financial markets' volatility.

Escalating conflict in Iran & persistent oil shocks would reverse economic indicators

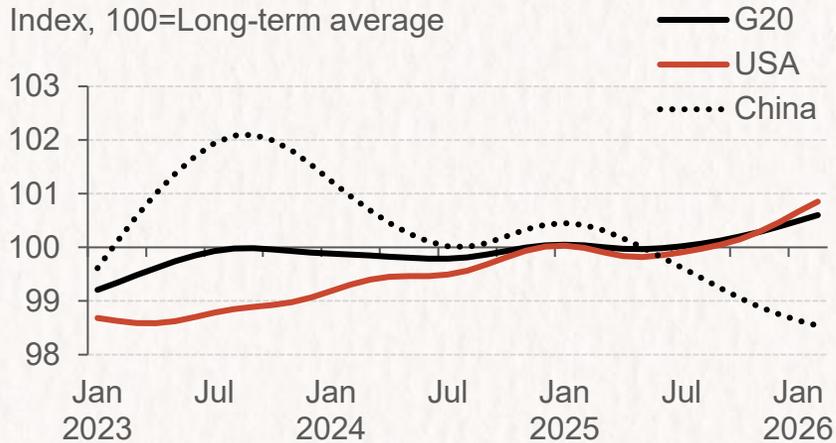
Global PMI for manufacturing & services



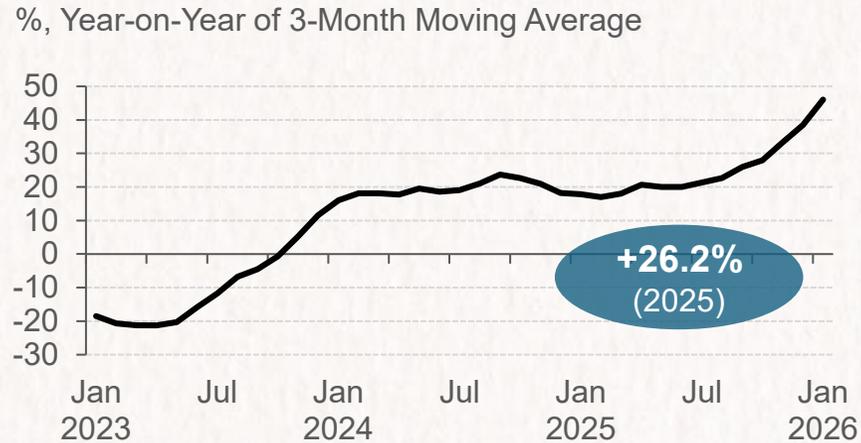
World trade volume and industrial production



OECD Composite Leading Indicators (CLI)



Global semiconductor sales



Trade Outlook

Baseline:

The World Trade Organization (WTO) projects merchandise trade growth to slow to 1.9% in 2026 (2025: 4.6%). This follows a surge in 2025, driven by the AI-related products demand and frontloading of imports ahead of anticipated tariff measures.

There remain uncertainties in demand amid soaring oil price and durability of the AI demand.

Downside risk:

Persistent high oil prices could cut growth by 0.5%-pt to 1.4%.

Upside risk:

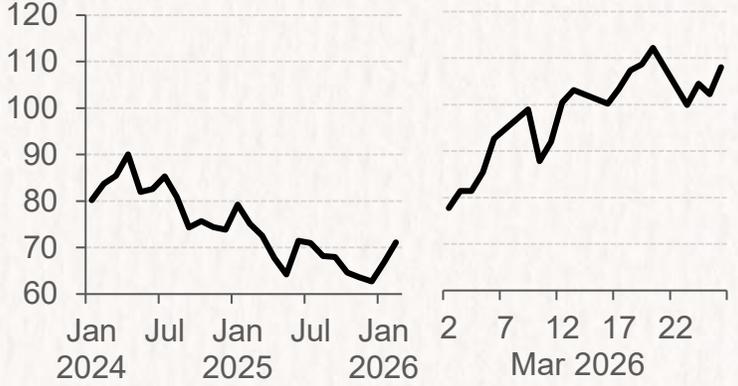
Sustained AI demand could lift growth by 0.5%-pt, offsetting energy-related drags.

Source: S&P Global; Organisation for Economic Co-operation and Development (OECD); CPB Netherlands; World Semiconductor Trade Statistics (WSTS)

Oil prices surge, global stock markets experience sharp corrections, the USD index regains momentum...

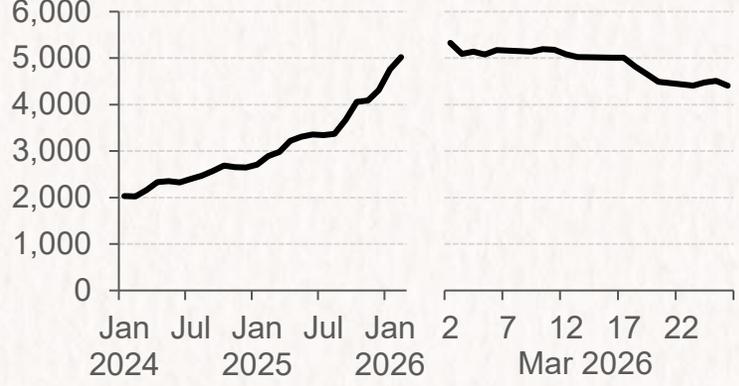
Brent crude oil price

USD/bbl; futures (continuous) for March 2026

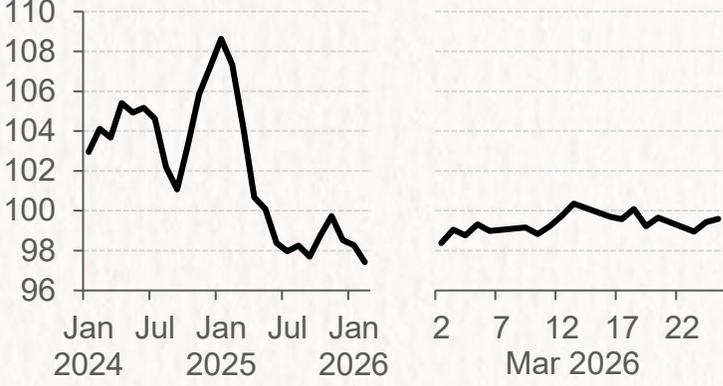


Gold price

USD/troy oz; spot for March 2026



USD index



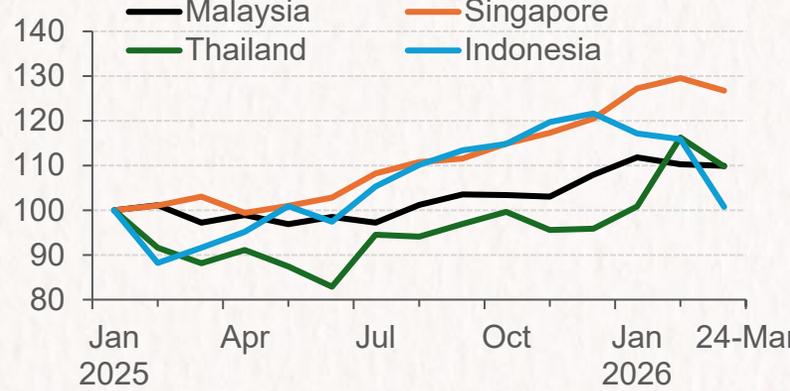
US major stock indices

Close price @ 2 Jan 2025 = 100



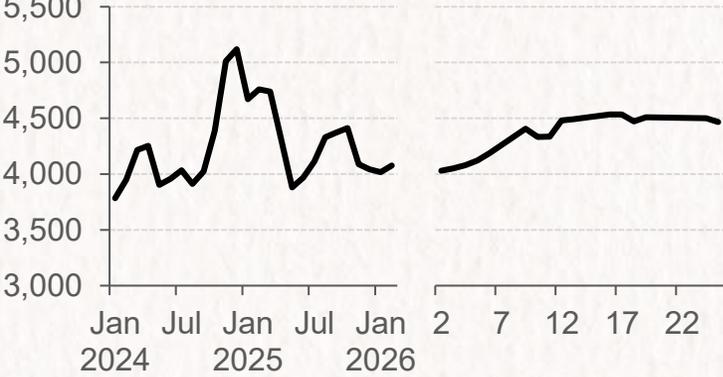
Regional stock indices

Close price @ end-Jan 2025 = 100; end-month



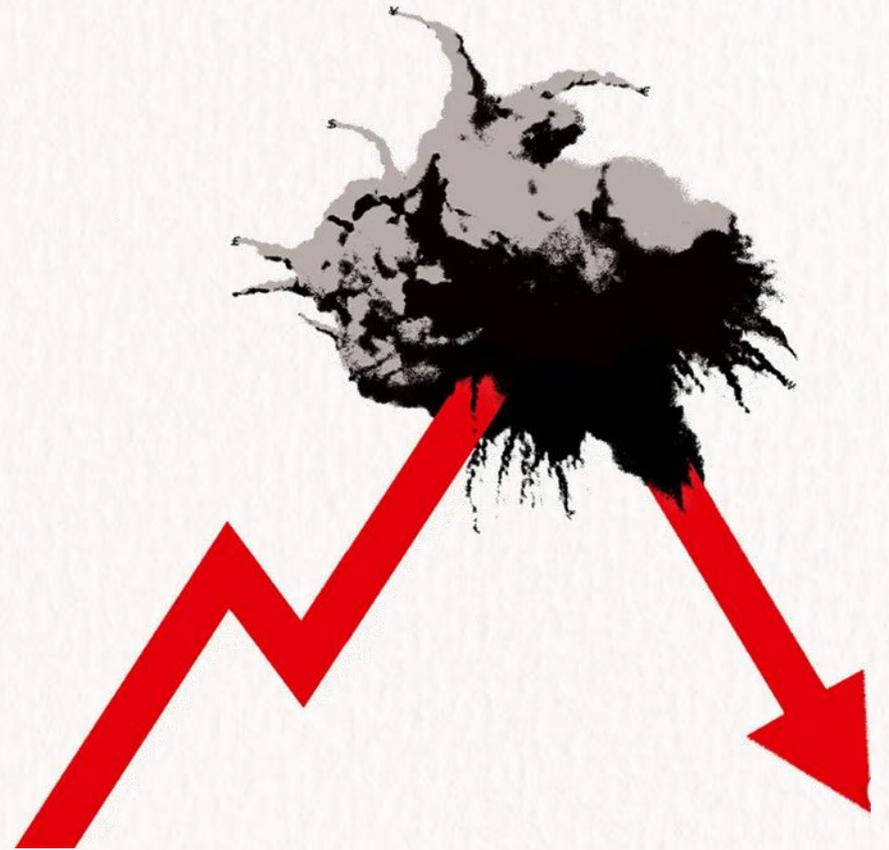
Crude palm oil (CPO) price

RM/MT

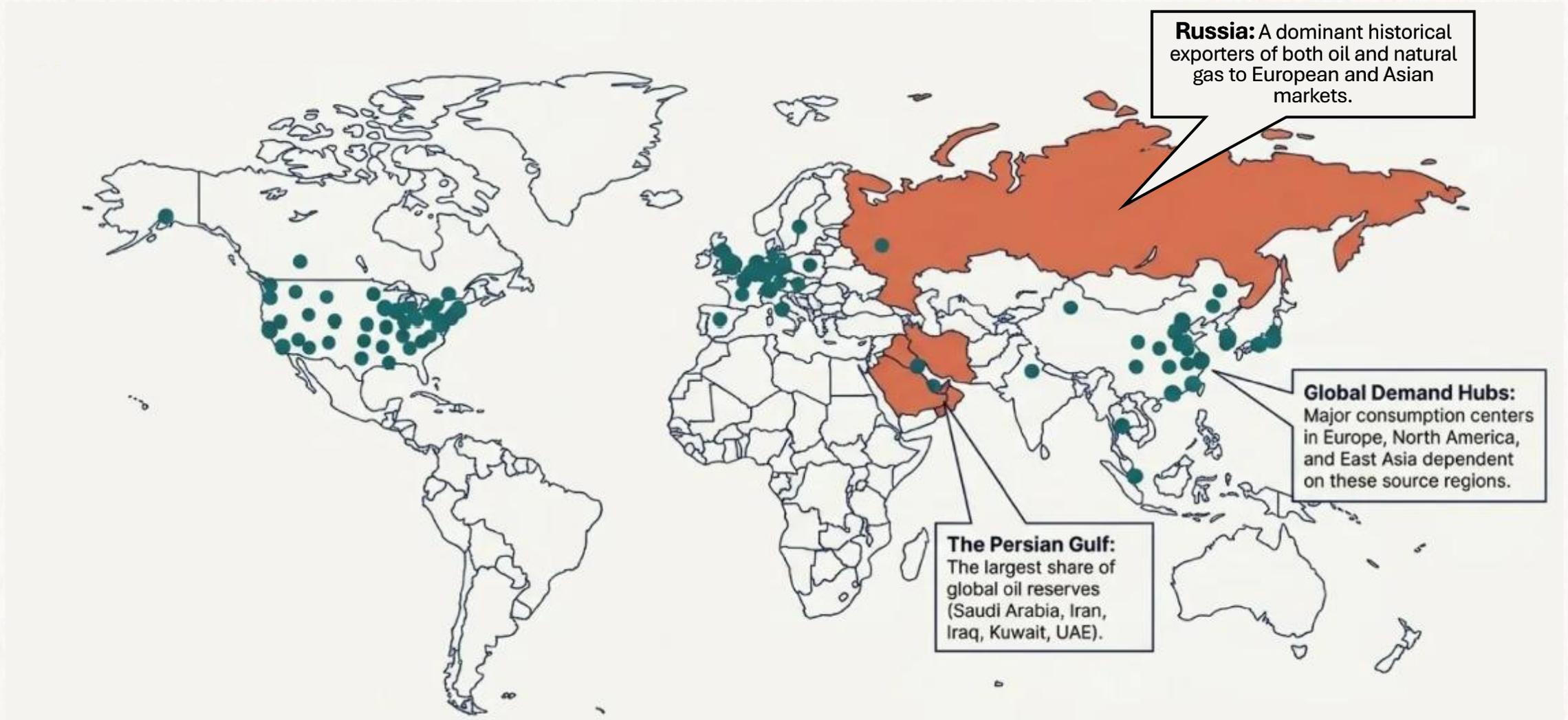


Source: World Bank; Bloomberg; Google Finance; Yahoo Finance

The Oil Shock is Here – Causes, Impact, and Mitigation

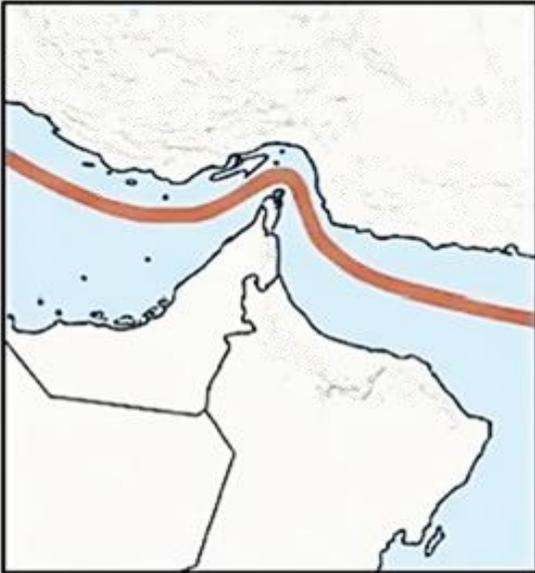


Oil supply is heavily concentrated while demand is globally distributed

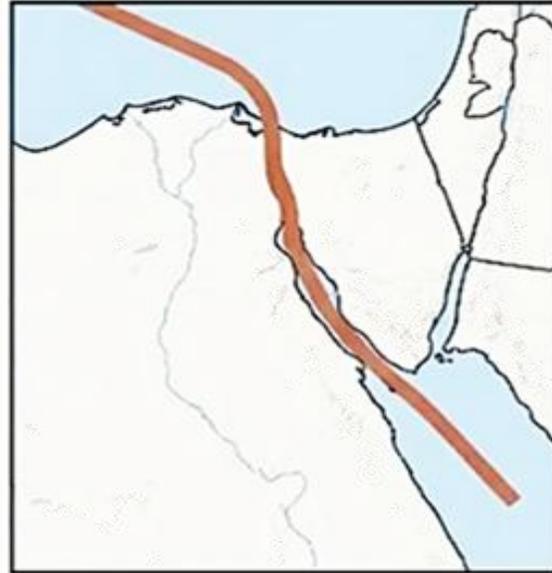


Global trade relies on a fragile network of maritime chokepoints

- **Middle East flashpoints** pose the highest risk of acute supply disruption.
- **Disruption of the Strait of Hormuz** drives massive tanker insurance premiums and supply delays.
- **Infrastructure attacks** – direct targeting of vulnerable oil production facilities, pipelines and export terminals.



Strait of Hormuz (Iran/Oman): Handles approximately one-fifth of daily global oil consumption.



Suez Canal & SUMED Pipeline: Essential arteries connecting Middle Eastern oil to the Mediterranean and Europe.



Strait of Malacca (Malaysia/Indonesia): The vital passage for transporting oil to Asian economies (China, Japan, South Korea).

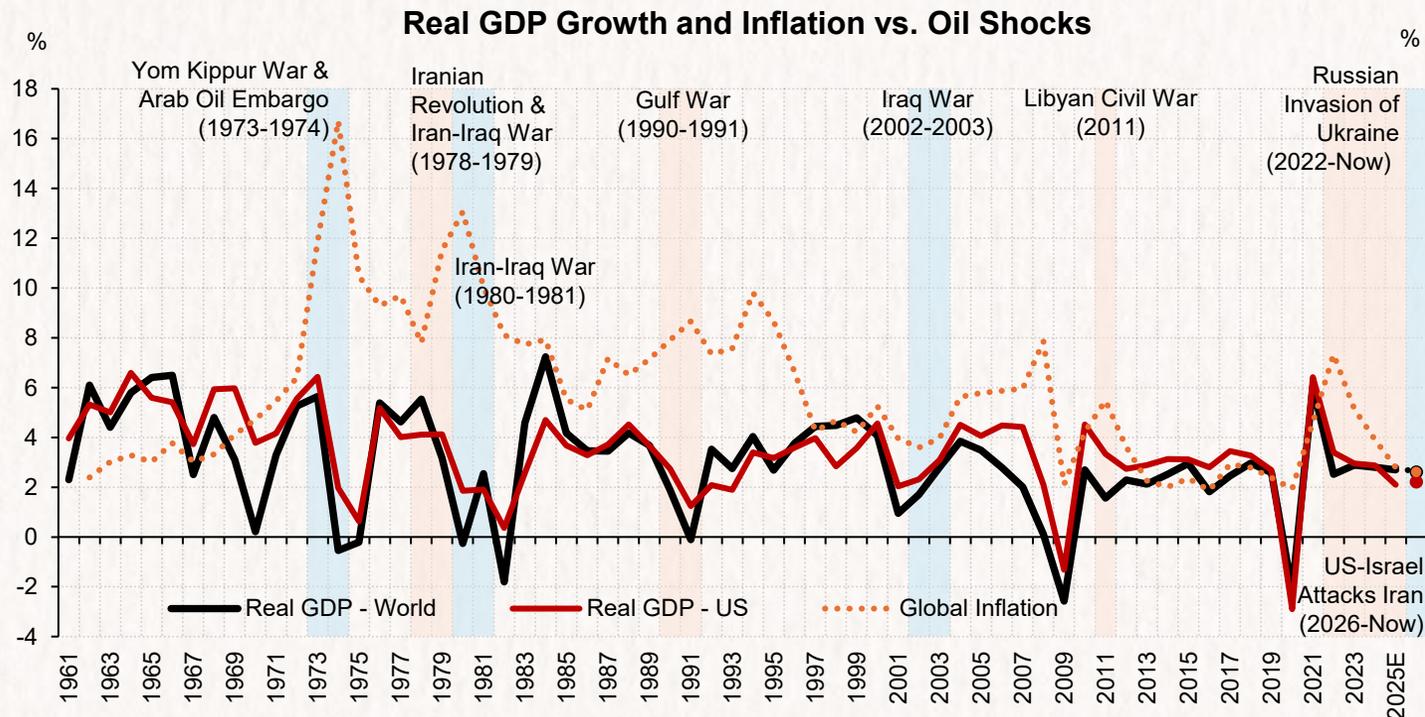


Turkish Straits: Critical connection from the Black Sea to the Mediterranean for Russian and Caspian exports.

Fifty years of conflict demonstrate a persistent pattern of economy & market shocks

- **Four major oil price shocks since the 1970s** were generally responsible for **triggering or severely exacerbating global recessions**.
- **The fundamentally weak global economy is in a “Perfect Storm”** – the US-Israel and Iran war-inflicted oil shocks, on-going shift in tariffs policy, slower productivity growth, persistent budget deficits and soaring government debt, synchronized risks arising from historically high stock market valuations, mounting concerns in the rapidly expanded private credit market and AI massive investment, which carries risks of creating an economic bubble, which could trigger major economic shocks if it bursts.

Major geopolitical conflicts-inflicted major oil shock episodes



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

How would the energy shocks impact the global economy?

The transmission impact of an oil shock on the global economy depends on:

1. **Size and duration (persistence)** of an oil shock.
2. **Prevailing state of global economic conditions and political environment.**
3. **Level of energy intensity; net oil position; and the economy’s absorptive capacity.**
4. **Trade linkages and spillovers as well as pass-through mechanism.**
5. **Policy responses (fiscal and monetary).**

Immediate shocks beyond the battlefield: Energy, trade, and financial market

Oil shocks transmit to the world economy primarily through inflation, trade balances, production costs, and monetary policy adjustments.

1 Energy Costs Channel – Significantly Negative

- Massive oil price shocks; Brent crude price surged to near USD120/bbl on supply disruptions and geopolitical risk premium
- Strait of Hormuz “technically” closure limits ~30% of global crude oil trade; and ~20% of global LNG trade
- The Middle East supplies ~30% of global oil production and 17% of global liquefied natural gas (LNG); the region’s oil exports down >60% since the conflicts

2 Trade Balance, Supply Chains, and Cost Channels – Significantly Negative

- Higher shipping and freight costs
- Vessel traffic in the Strait of Hormuz curtailed or rerouted
- Supply chain delays across global trade routes
- Rising insurance and war-risk premiums
- Higher oil exports revenue

3 Exchange Rate and Financial Channel – Volatility

- Demand uncertainty and risk repricing in the equity market - increases production costs, squeezes corporate profits, and subsequently stock valuations
- Investors seek safety in the US assets, to favor the liquidity of the dollar; boosting currency of net oil exporter country

4 Monetary Policy Channel

- Fueling strong inflation expectations
- Un-anchoring inflation expectations force central banks to raise interest rates to tame inflation

Economic Outcome

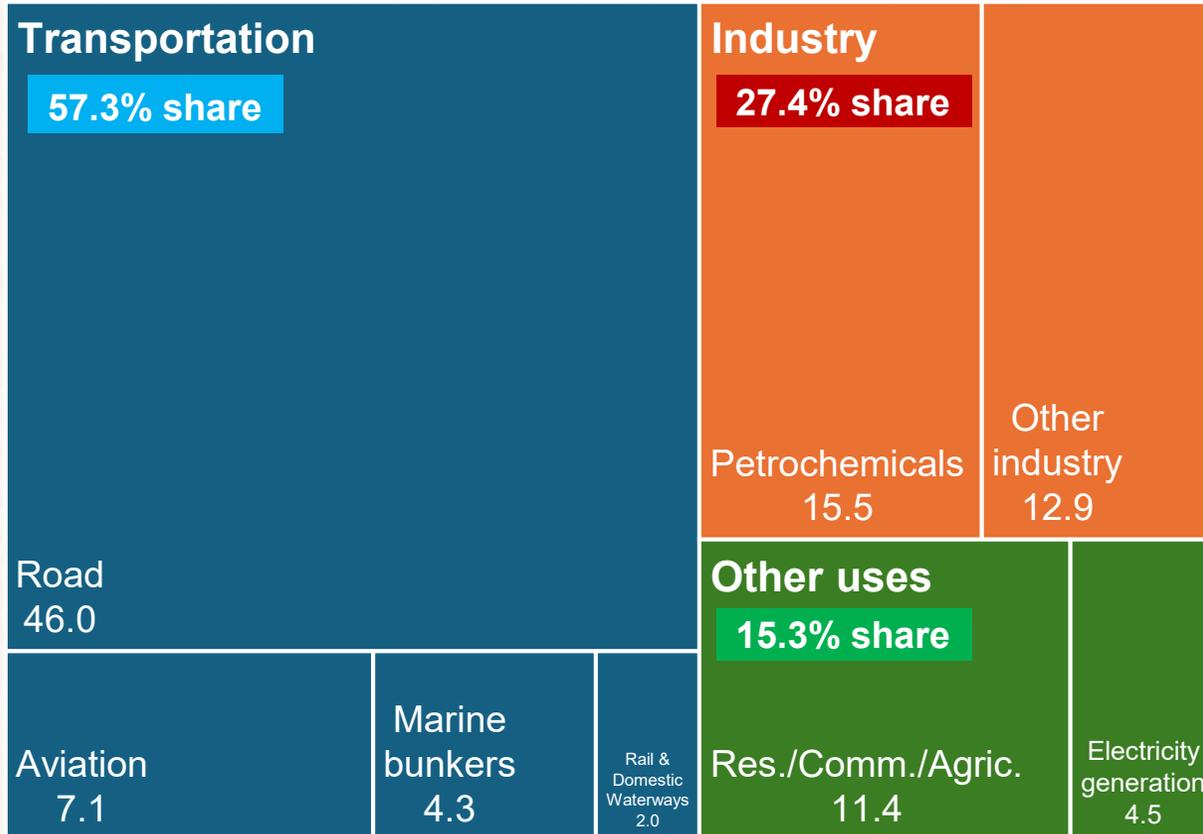
- Reduce economic growth; recession or stagflation risk
- Strong inflationary pressures; increasing production cost
- Reduce consumer and business spending
- Impact on energy-intensive sector, aviation, agriculture

The economic importance of Black Gold

Global oil demand by sector (Total 103.7 mbpd in 2024)

Million barrels per day (mbpd)

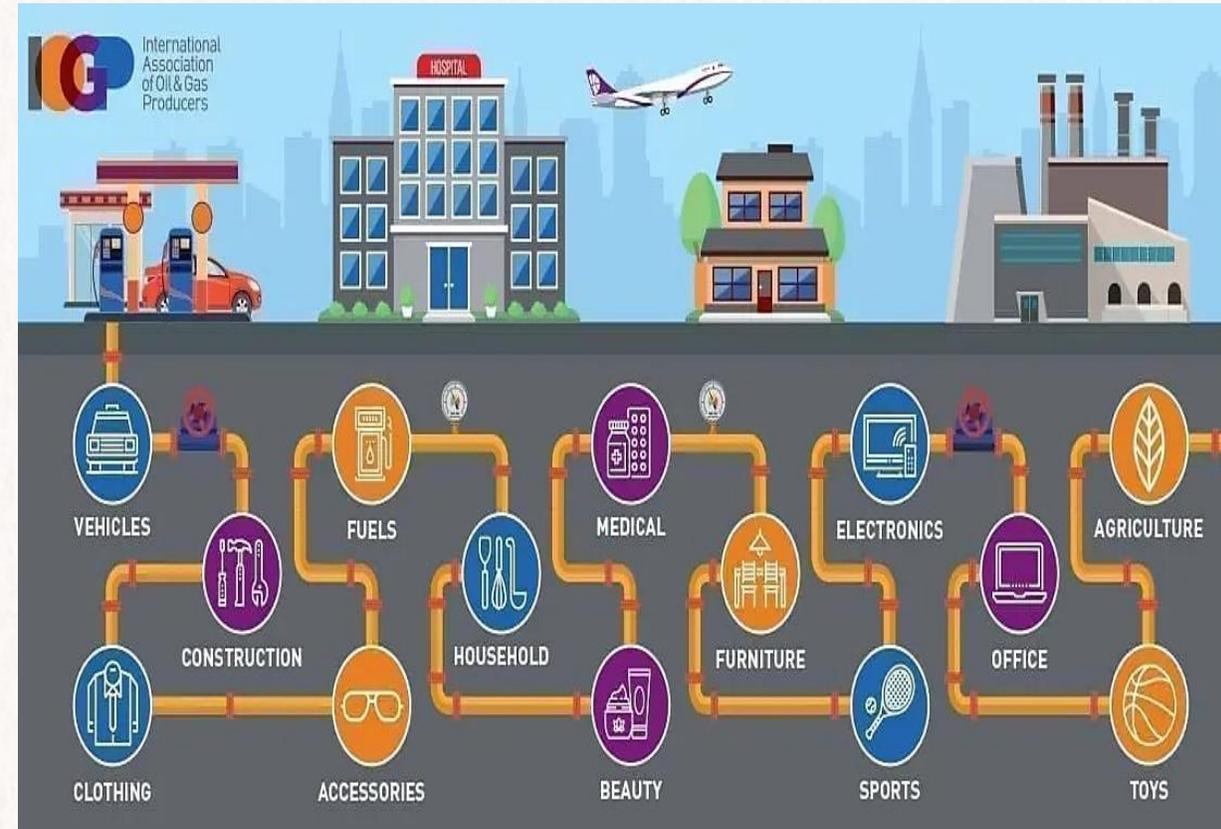
■ Transportation ■ Industry ■ Other uses



Source: OPEC

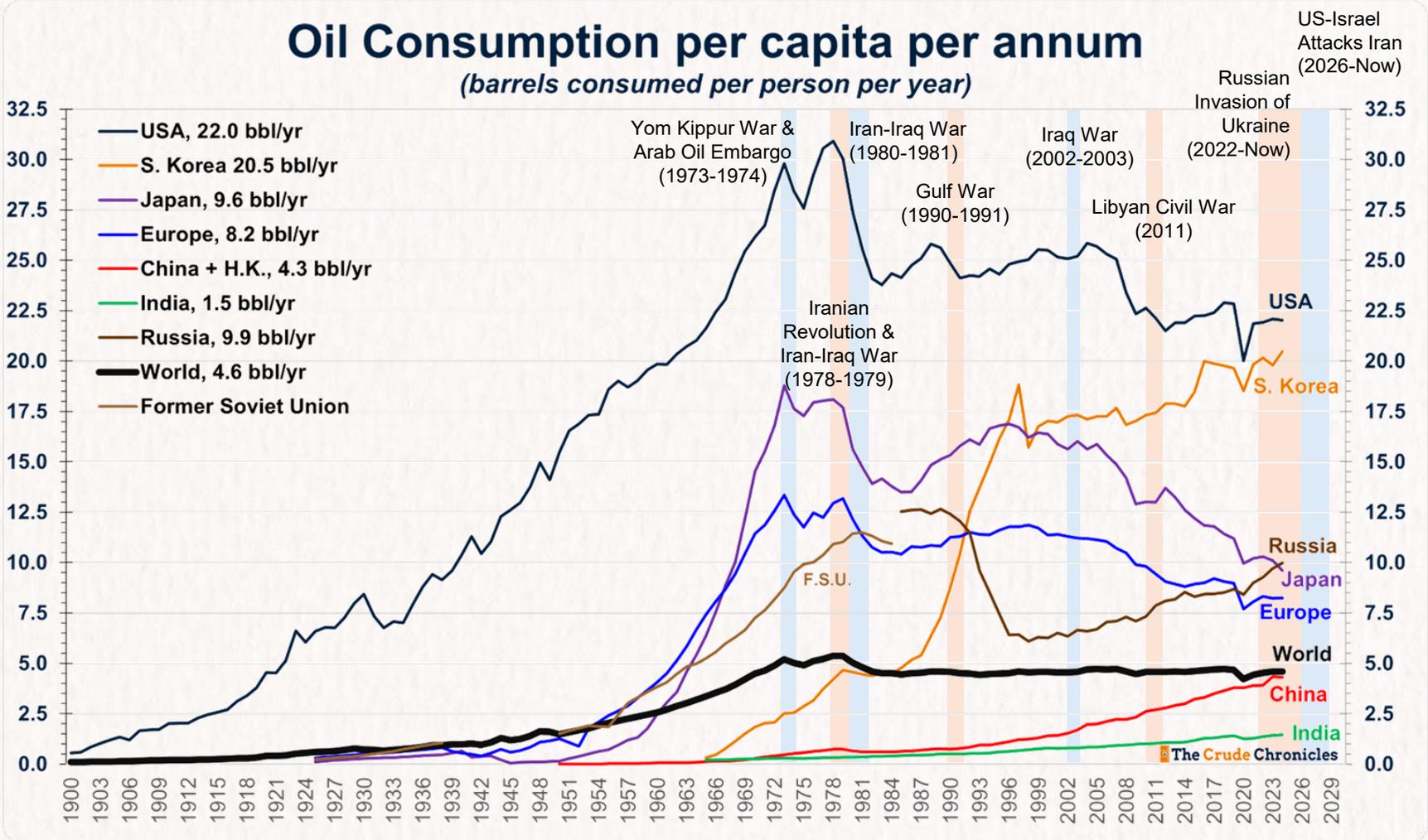
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Whether as a fuel or a feedstock:
Oil is an integral part of our daily life



Oil intensity around the world

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.



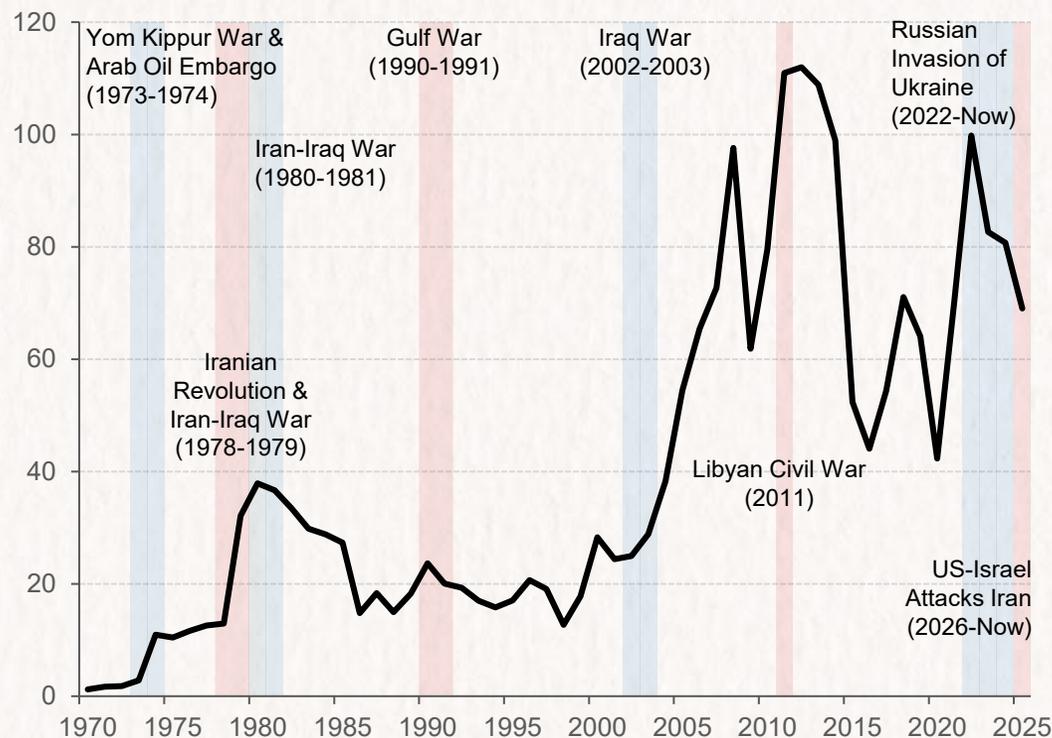
Source: The Crude Chronicles

Historical pattern: Oil prices fall after the conflict ends, but rarely return to pre-crisis levels immediately

- Crude oil prices swung wildly briefly or for a longer period during geopolitical crises, ranging between 25% and 300%, depending on the intensity of oil price, supply disruptions and duration of the war.
- Oil prices often remained high for a period even after conflicts have ended due to lasting physical damage to infrastructure, disrupted supply chains, and a sustained "geopolitical risk premium" that traders take time to remove.

Past episodes of major oil shock

Brent crude price (USD/bbl)



Source: World Bank

Impact of war on oil prices (USD/bbl)

Major war	Early-war	Peak	End-war
Yom Kippur War & Arab Oil Embargo (1973-1974)	3	12 (+300%)	11
Iranian Revolution (1978-1979)	14	39 (+179%)	36
Iran-Iraq War (1980-1981)	32	40 (+25%)	28
Gulf War (1990-1991)	17	41 (+141%)	21
Iraq War (2002-2003)	25	35 (+40%)	23
Libyan Civil War (2011)	95	125 (+32%)	110
Russian Invasion of Ukraine (2022-)	75	130 (+75%)	Retraced to USD65 amid on-going conflict
US-Israel Attacks Iran (2026-)	82		

Oil shock keeps central banks on their toes

The conflict in the Middle East triggered oil price shocks have significantly complicated global central banks' policy, forcing many to **pause interest rate cuts, adopt "wait-and-see" approaches, or consider hikes to counter inflation.**

"Stagflationary" scenario — higher energy costs alongside potential economic slowing — which restricts the ability of central banks to lower interest rates to support growth.

US – Fed Reserve	Delay Rate Cuts as War Clouds the Outlook
UK – BoE	Rate Hikes in a Slowing Economy?
EU – ECB	Conflict Clouding the Outlook
Japan – BoJ	Holds Rate as the Middle East Conflict Threatens Higher Inflation
Australia – RBA	Hiked Interest Rate amid Strong Inflationary Pressures
India – RBI	Likely to Hold Rate as Slowing Growth Outweighs Inflation
Thailand – BOT	Rate on Hols as Oil Shock Unfolds
Philippines – BSP	Prolonged Oil Shocks may Hike Rate
Indonesia – BI	On Externed Rate Pause as the Oil Shock Deepens
Malaysia – BNM	Keeping Rate Steady amid Downside Risks to Growth

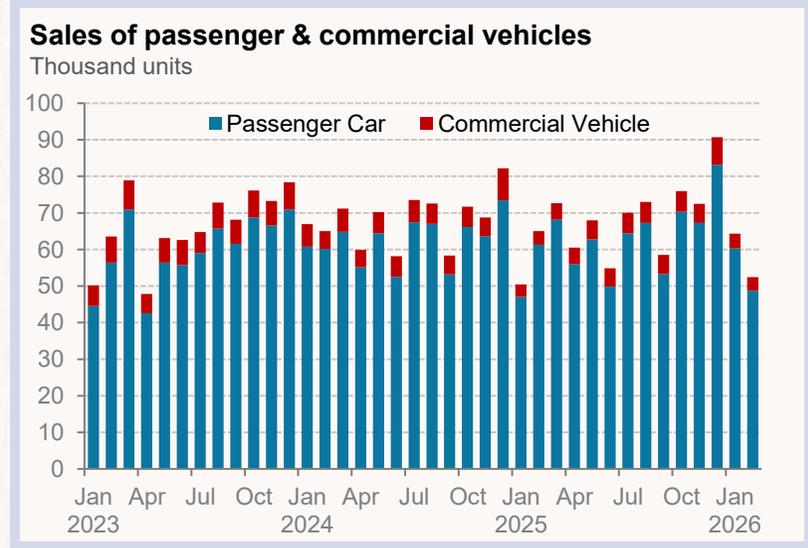
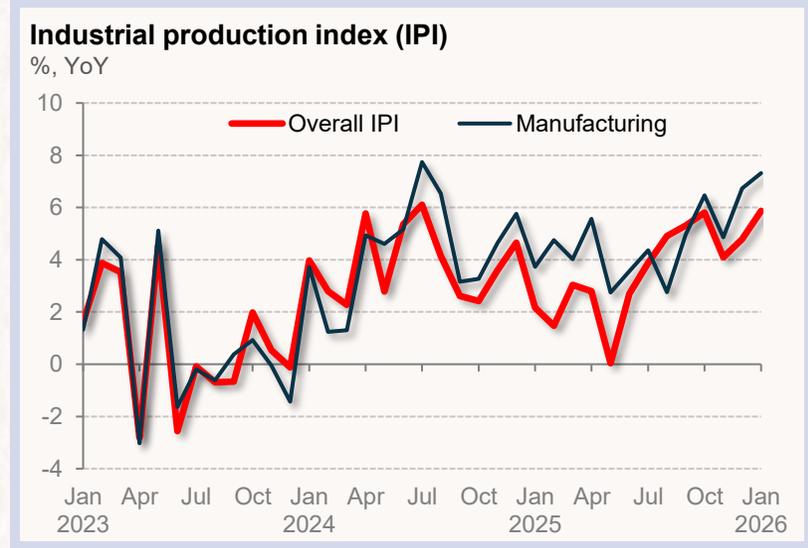
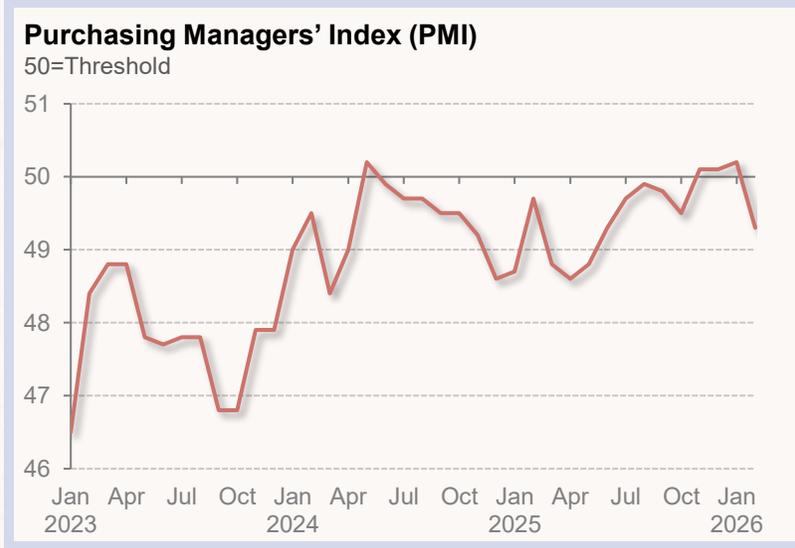
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Decoding the Oil Shocks Impact on Malaysia

Positive Initial Conditions

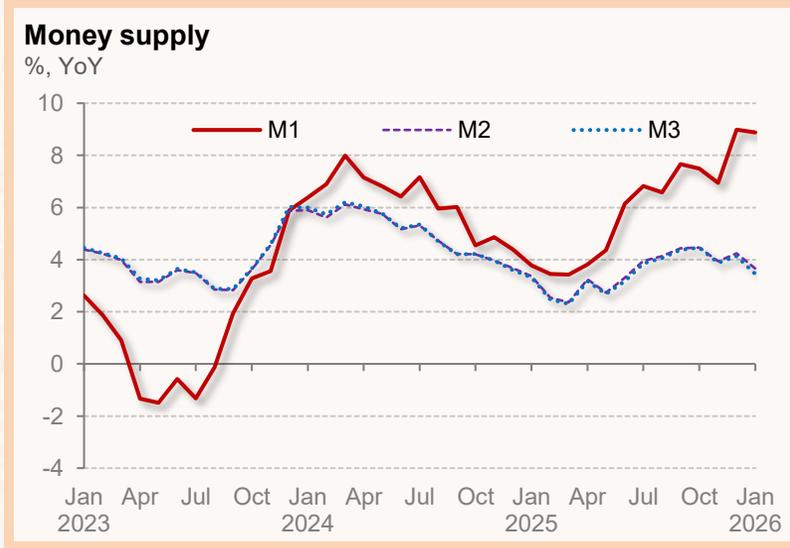
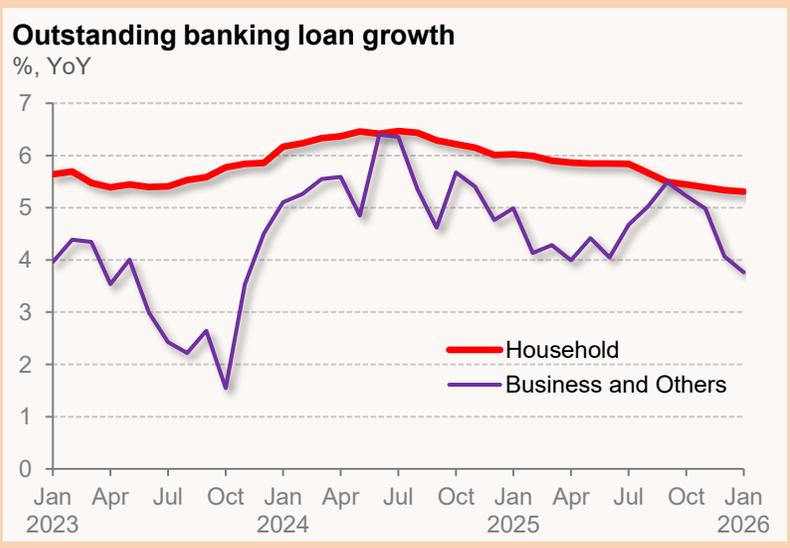
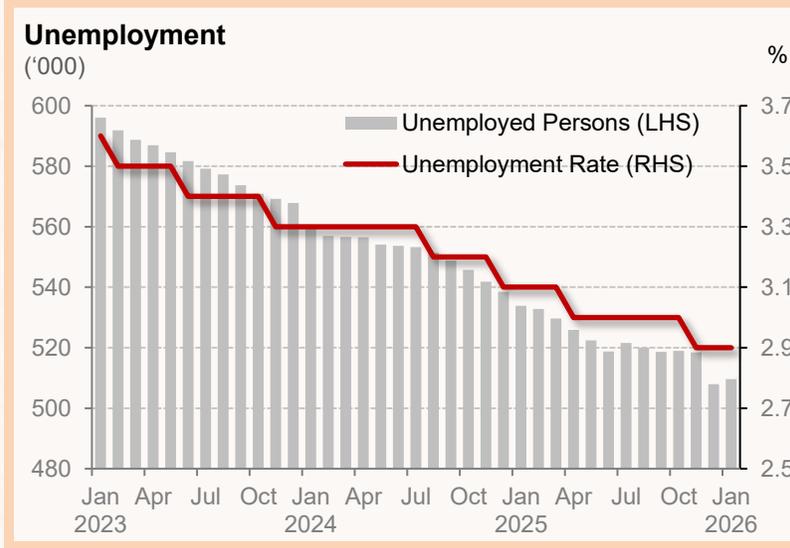
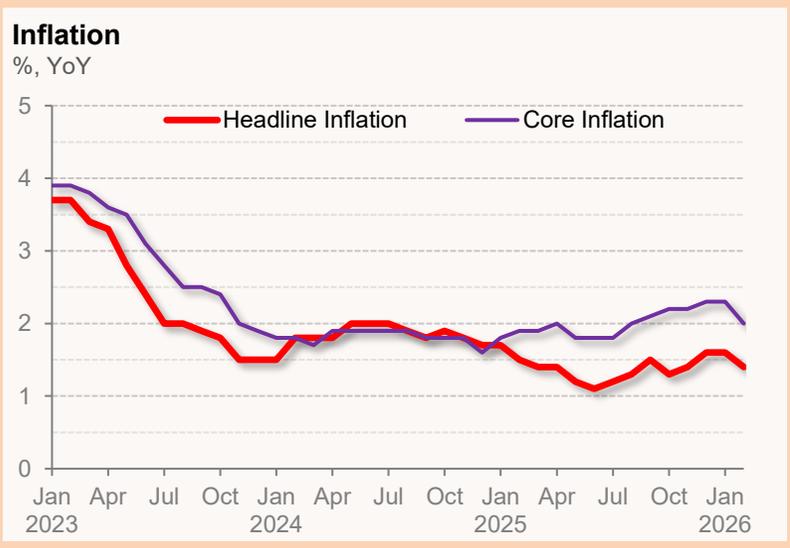
While Malaysia is in a position of strength to withstand a “Perfect oil storm” amid the on-going tariffs policy uncertainty, global economic fallout from persistence oil shocks will transmit through domestic economy via trade, economic growth, inflation and financial channels.

Tracking Malaysia's economic indicators



Source: DOSM; S&P Global; Malaysian Automotive Association (MAA)

Tracking Malaysia's economic indicators (cont.)



Source: DOSM; BNM

Note: Starting Jan 2024, number of unemployed persons were estimated based on Population and Housing Census of Malaysia 2020.

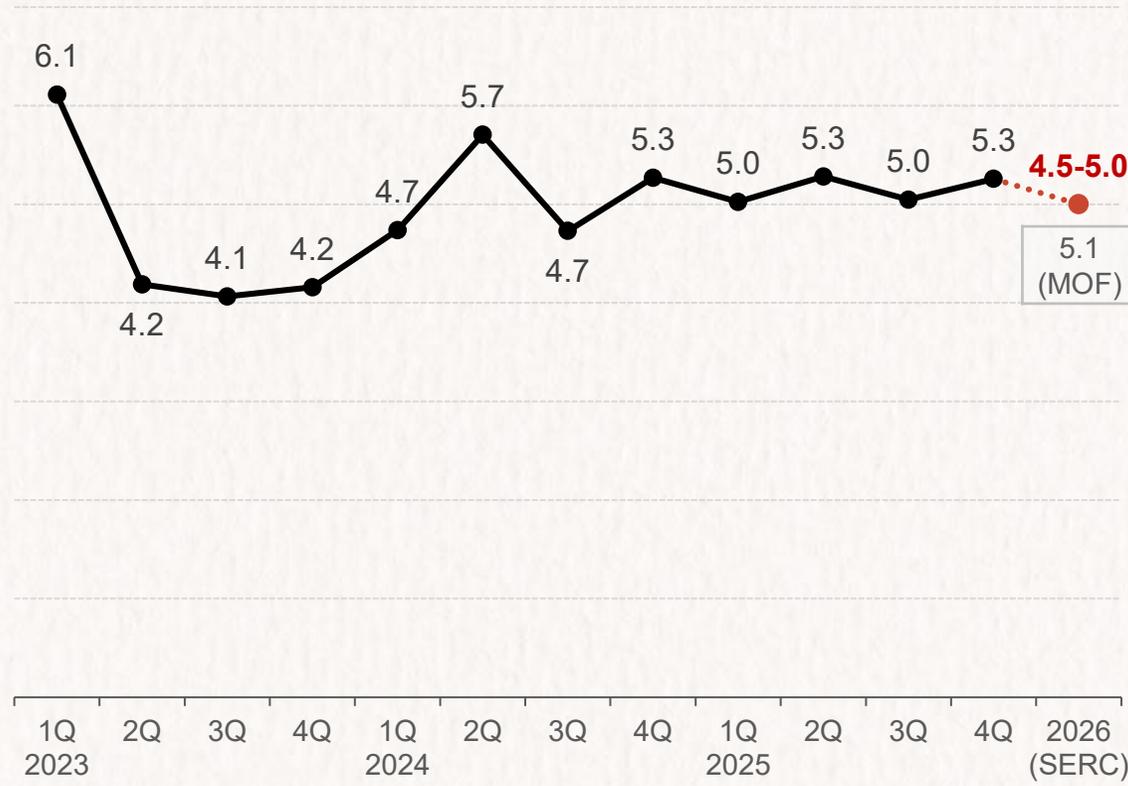
High fuel costs could reduce consumer discretionary spending

Drivers: Strong labour market conditions, supportive consumption policies (STR, SARA & salary increments), and fuel subsidy

Risks: Potential adjustment in fuel subsidy and quota system, inflation risk and higher cost of living could reduce spending

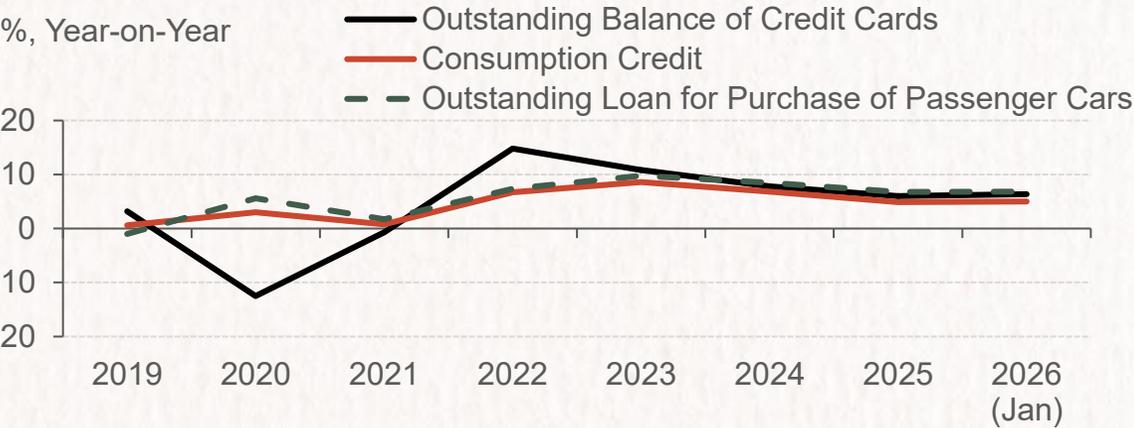
Private consumption growth

%, Year-on-Year



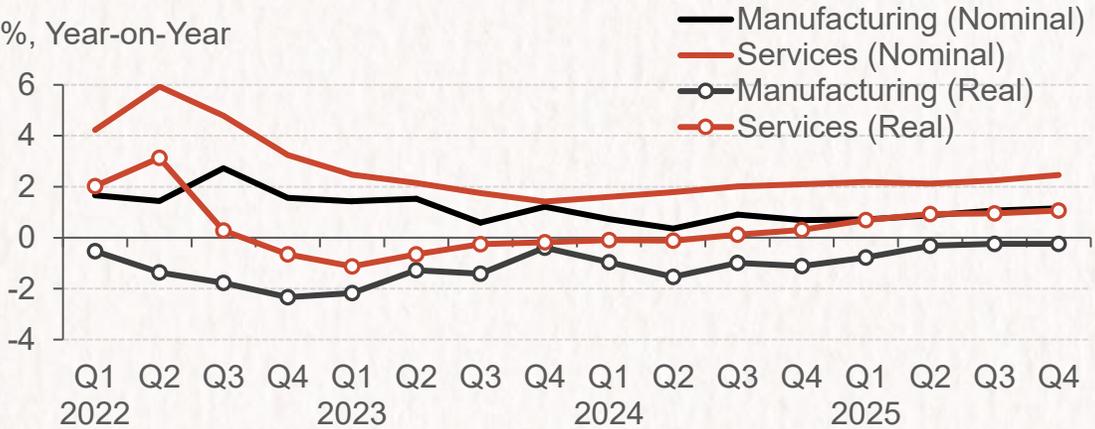
Selected private consumption indicators

%, Year-on-Year



Real wage growth per employee

%, Year-on-Year



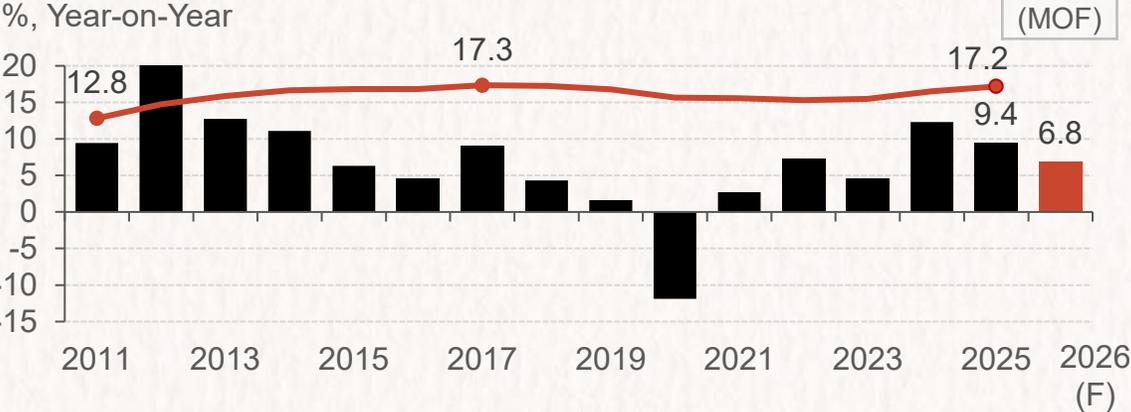
Note: F=Forecast by SERC.
Source: DOSM; BNM

Private investment could turn cautious but not stalled

Drivers: Sustained capex expansion and high realisation of approved investment projects

Risks: Increasing production costs, uncertainty, and compressing corporate profit margins dampen investment

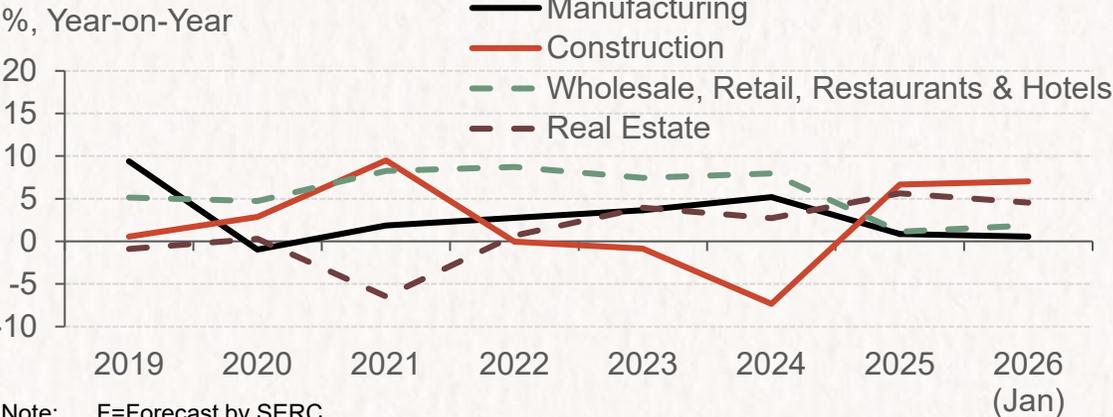
Private investment growth - annually



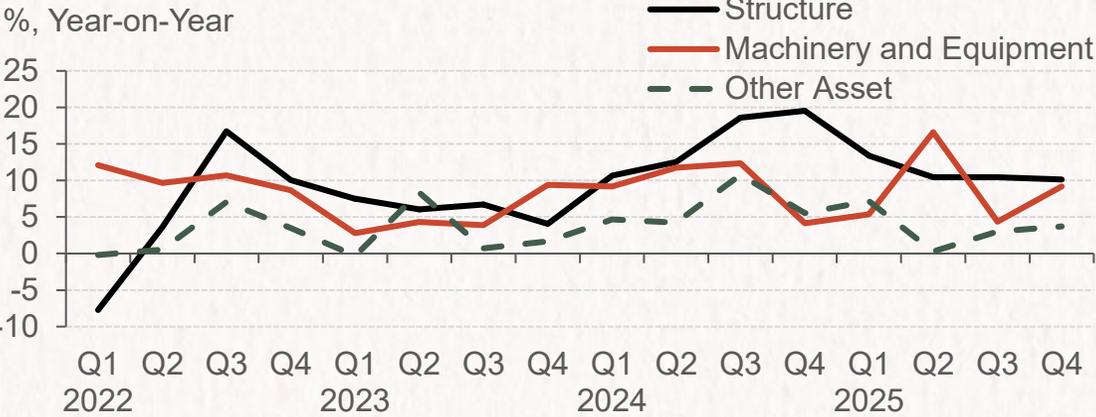
Private investment growth - quarterly



Selected business loans



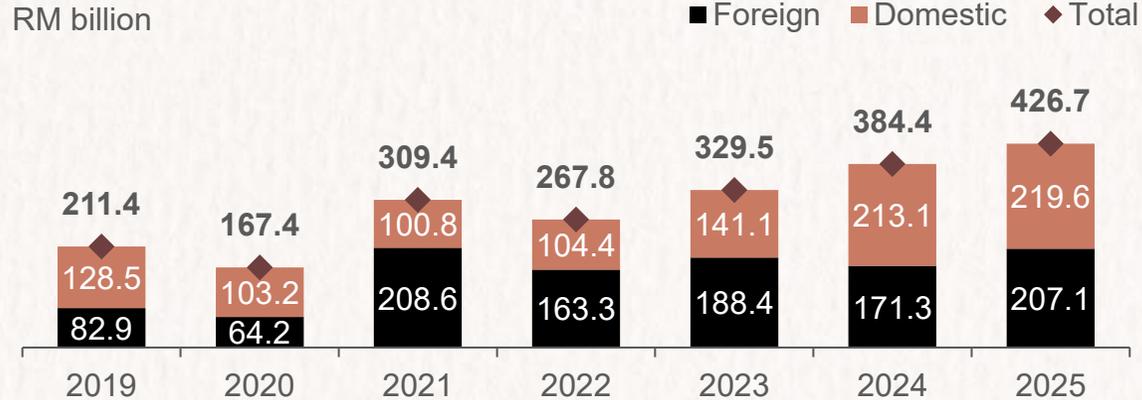
Gross fixed capital formation by type of assets



Note: F=Forecast by SERC.
Source: DOSM; BNM

73.9% of approved manufacturing projects (75.2% in terms of investment value) were realised in 2022-Q3 2025

Foreign vs domestic approved investment

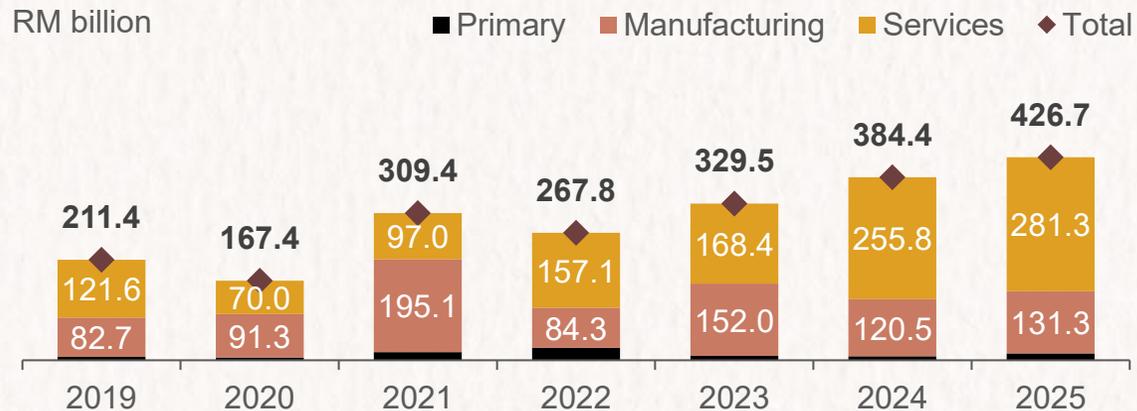


Top 3 highest approved investments by states in 2025

RM billion, % change (vs 2024)



Approved investment by sectors



Top 3 highest approved investments by sub-sectors in 2025

RM billion, % change (vs 2024)



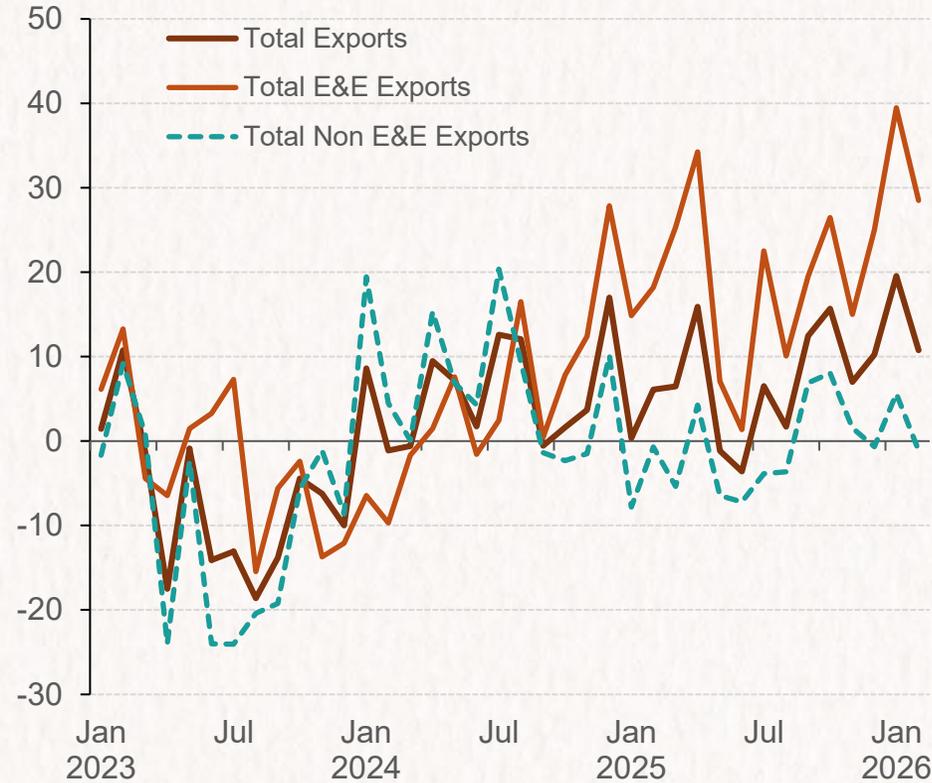
Source: MIDA

Note: Realisation of approved manufacturing investment sourced from Dewan Rakyat Written Reply dated 3 March 2026.

Diversified export structures and markets; semiconductors demand remains firm, high oil and gas prices boost exports value of crude petroleum and LNG

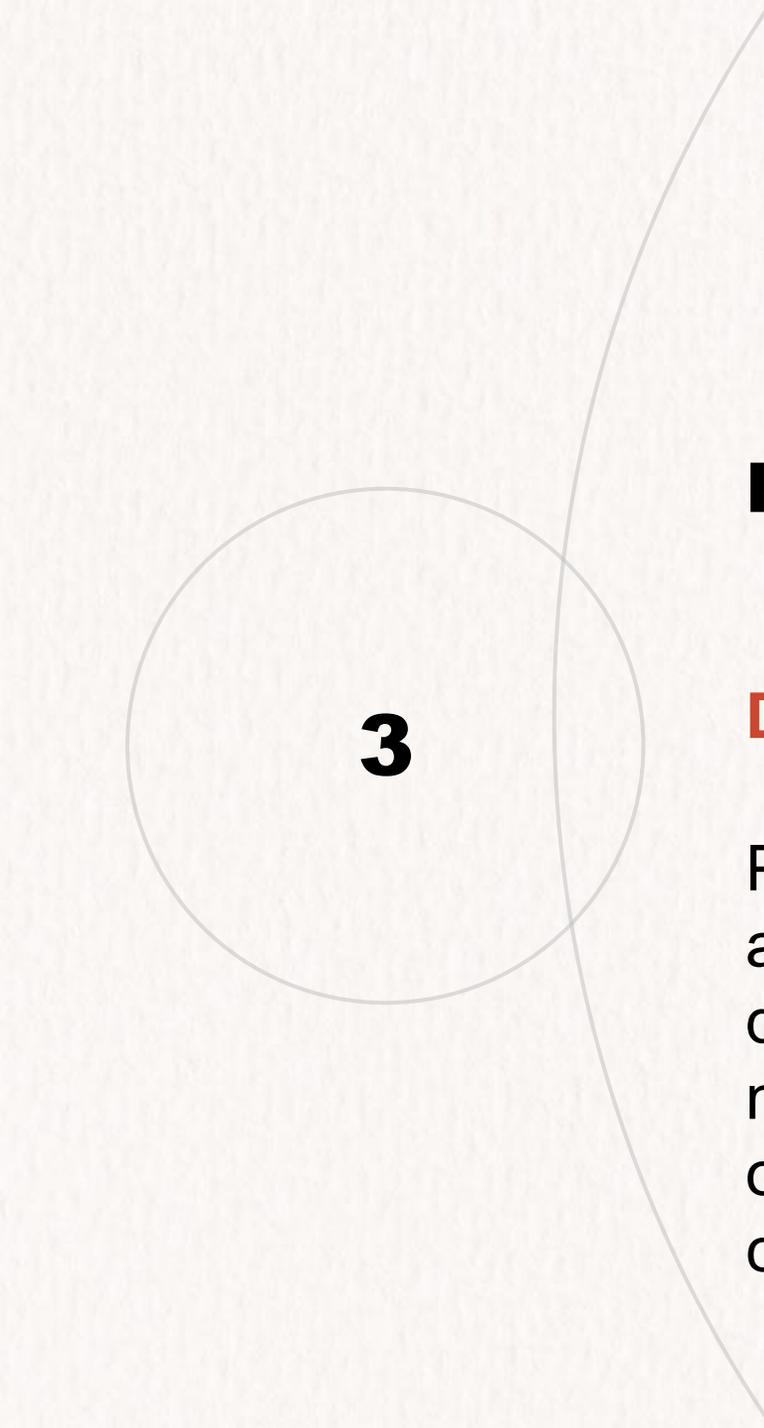
Total exports

%, Year-on-Year



Source: DOSM
Notes: E&E denotes electrical products and electronics

- + Continued strength in E&E, thanks to AI-related demand and global tech upcycle
- + Higher commodity prices
- The Middle East conflicts, supply chain disruptions, increasing production costs
- Moderating global growth and demand
- Tariff uncertainties remain a wild card



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How Vulnerable is Malaysia to an Oil Shock?

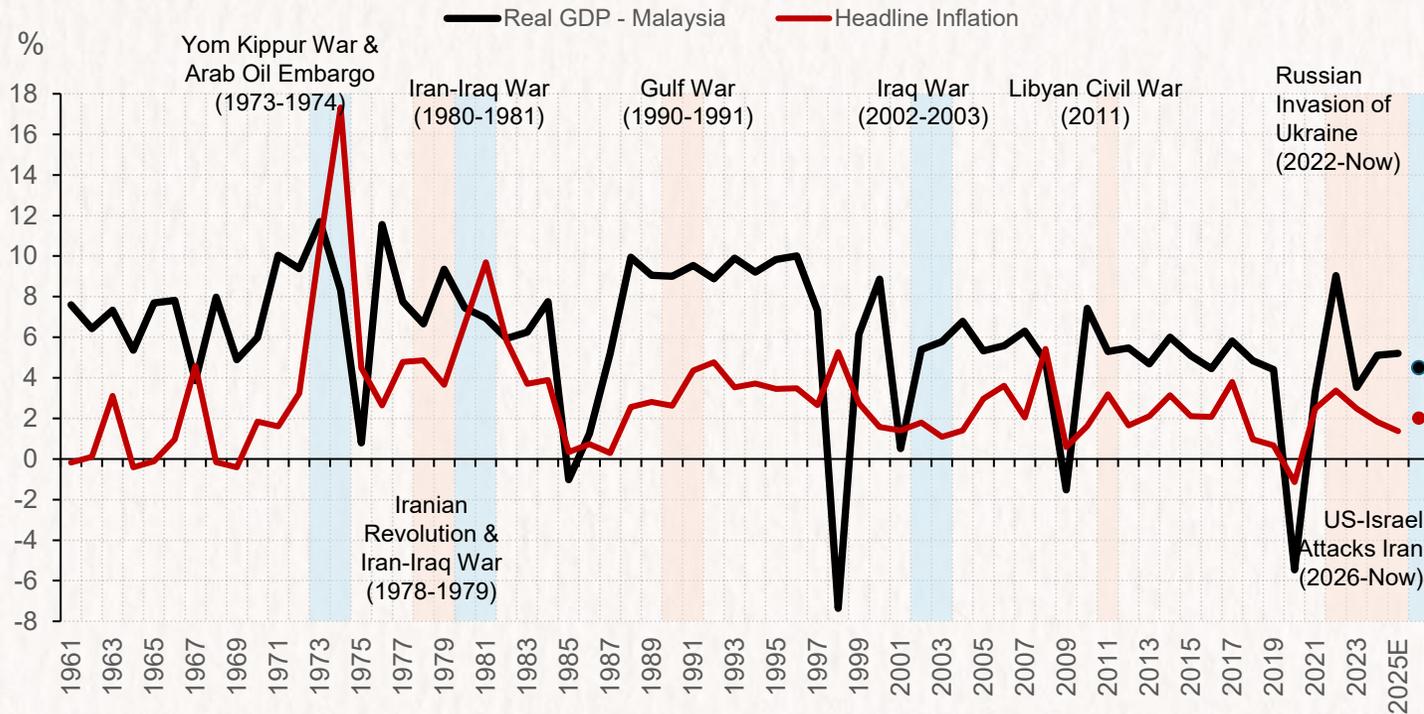
Disruptive, Inflationary, and Buffering

Positive initial conditions provide cushion, albeit not infinite against global headwinds. The overall net impact on domestic economy is mixed between neutral and moderately negative or positive, depending on the degree of transmission and the economy's shock absorption capacity.

Malaysia has navigated a few episodes of major oil shocks

- 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.
- Inflationary pressures were heightened during the oil shocks.
- Now, the oil shocks are expected to have a mixed impact (neutral to moderately negative/positive) on the economy.

Malaysia's Real GDP Growth & Inflation vs Oil Shocks



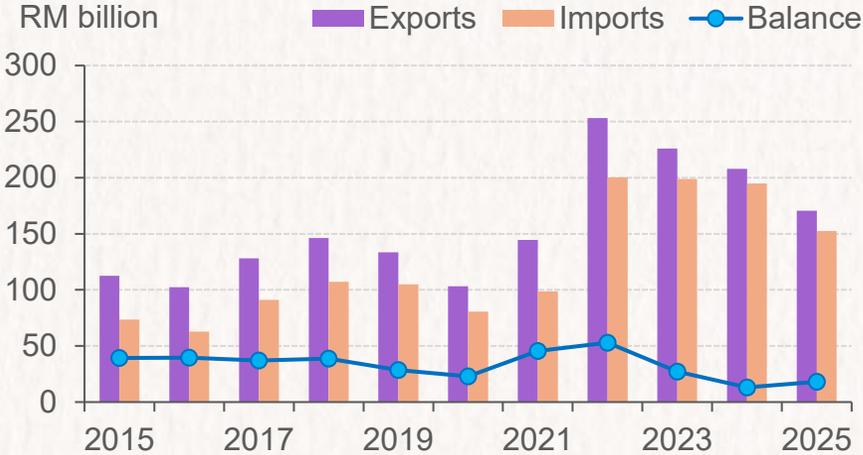
Source: World Bank; DOSM

Initial conditions of Malaysia economy provides a buffer against the oil shocks

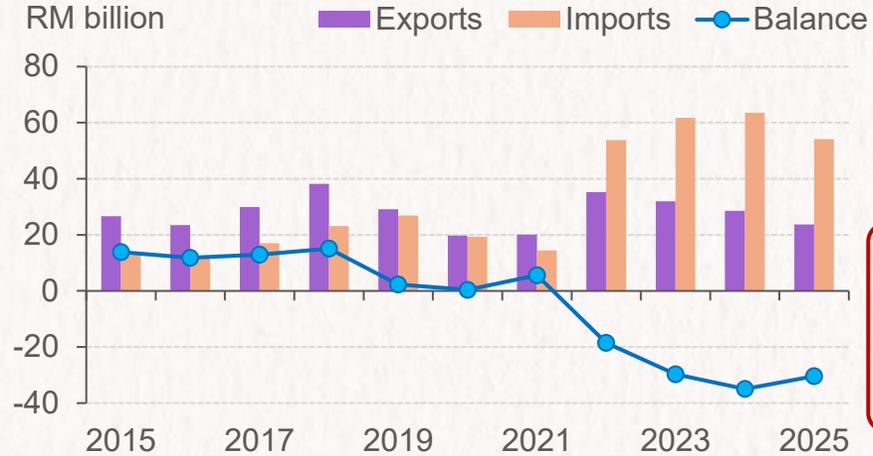
1. Resilient economic growth (5.2% in 2025).
2. Sustained consumer demand and robust investment growth.
3. Strong labour market conditions (jobless rate at 2.9% in Jan 2026).
4. Manageable inflation (1.6% in January 2026).
5. Large accumulation of foreign reserves (USD128.3 bn at end-Feb 2026).
6. Strong and well capitalised banking sector and developed capital market.

Malaysia's trade position on crude oil, LNG, and refined petroleum products

Overall trade balance of energy and gas



Crude petroleum and condensate



Top 3 partners in 2025

Exports (% share)

1. Thailand (26.1%)
2. Australia (25.7%)
3. Japan (15.8%)

Imports (% share)

1. Saudi Arabia (33.3%)
2. UAE (20.6%)
3. Oman (9.0%)

Liquefied natural gas (LNG)



Top 3 partners in 2025

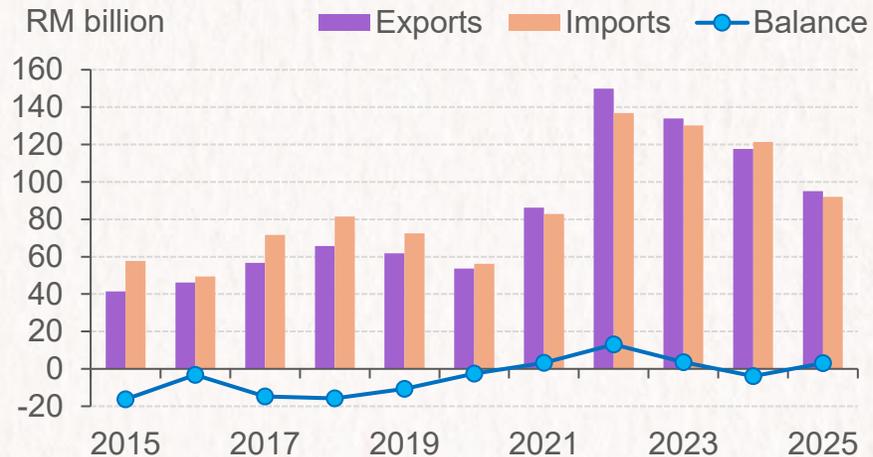
Exports (% share)

1. Japan (38.4%)
2. South Korea (27.0%)
3. China (24.9%)

Imports (% share)

1. Australia (95.8%)

Refined petroleum products



Top 3 partners in 2025

Exports (% share)

1. Singapore (23.6%)
2. Indonesia (23.6%)
3. Australia (15.9%)

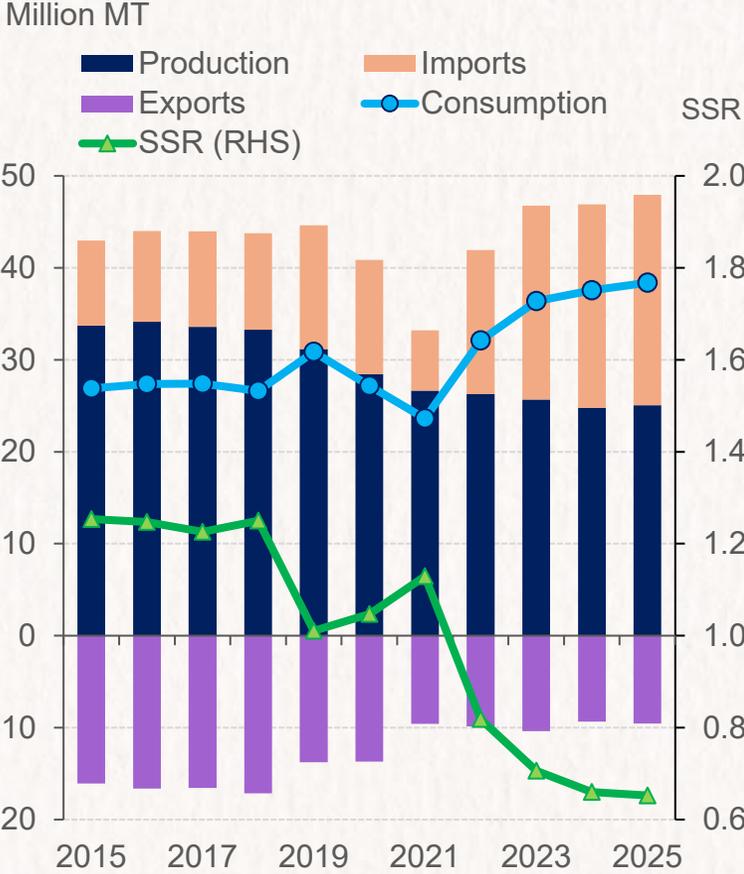
Imports (% share)

1. Singapore (39.5%)
2. South Korea (11.5%)
3. China (10.2%)

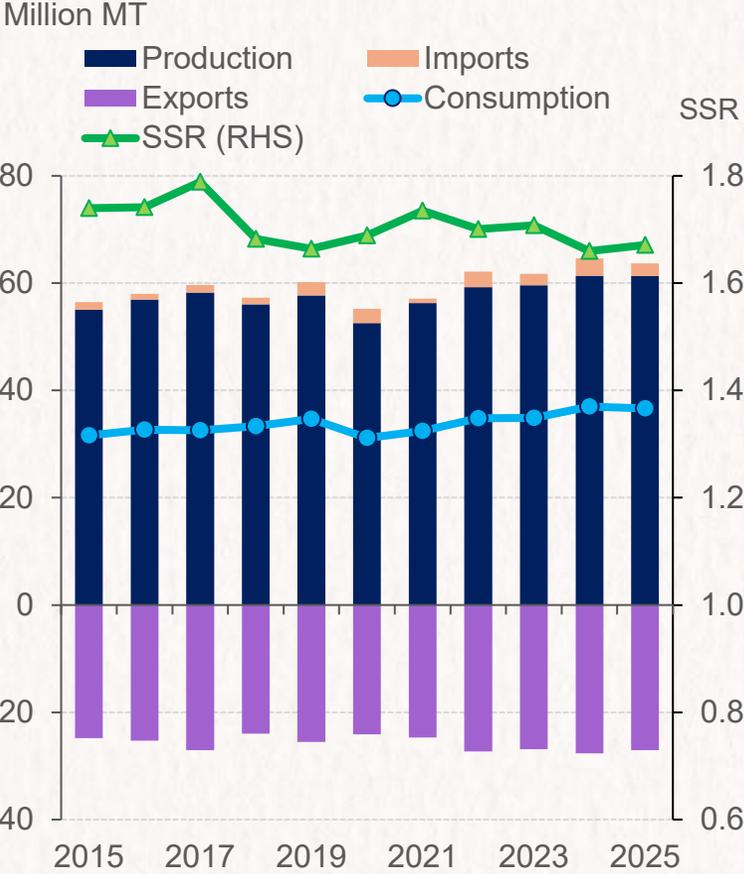
Source: DOSM

Declining Self-Sufficiency Ratio (SSR) for crude oil and condensate, as well as refined petroleum products, but more than self-sufficient in LNG

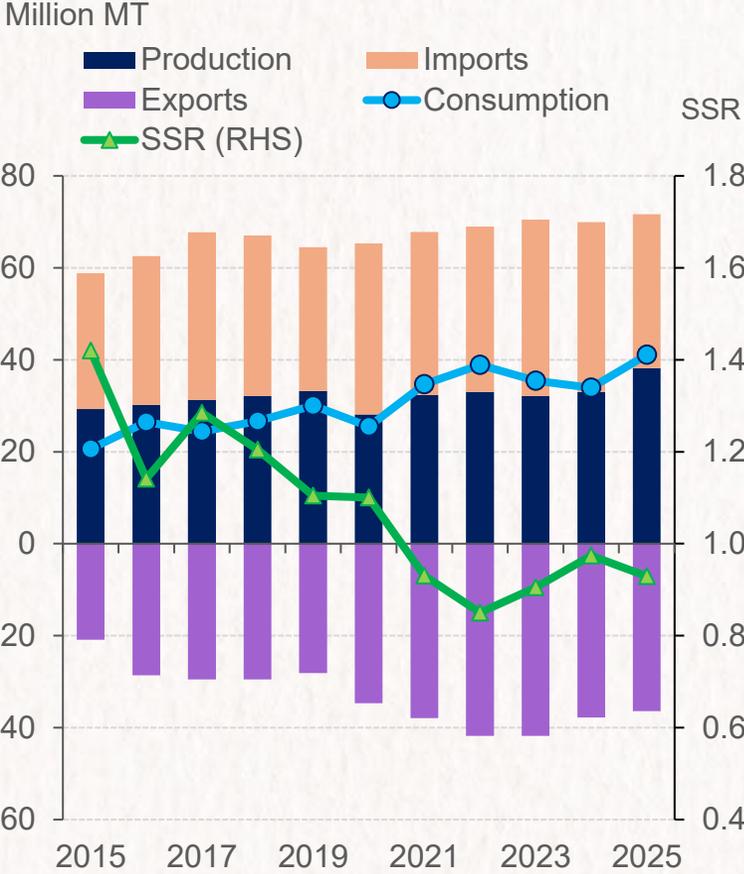
Crude petroleum and condensate



Liquefied natural gas (LNG)



Refined petroleum products



Note: Crude petroleum and condensate and LNG were converted to metric tonnes (MT) via standard conversion rate; refined petroleum products exclude LNG.
Source: DOSM

Malaysia's vulnerability to oil shocks – Now and Then

- **Prolonged oil shocks act as a significant and multifaceted disturbance** to domestic economy via various transmission channels.
- Characterized 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**.

Malaysia's vulnerability to oil disruptions, now and then

	Gulf War / Iraq Invaded Kuwait (YR1990-1991) (average)	Now (YR2025)
Energy consumption from petroleum products (ktoe)	10,370	29,137 (YR2022)
Energy consumption (toe) per capita	0.5655	0.8911 (YR2022)
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, petroleum products (ktoe) are converted to RM using Brent crude price.

Source: DOSM; Energy Commission; World Bank; BNM; Ministry of Economy; UN Comtrade

Past wars' impact on Malaysia

Major war	GDP growth	Headline inflation	Exports growth	Crude oil trade position (SITC 3330)
Yom Kippur War & Arab Oil Embargo (1973-1974)	10.0% pa	13.9% pa	N/A	-
Iranian Revolution (1978-1980)	7.9% pa	5.1% pa	23.5% pa	Net exporter ~RM3,038m
Iran-Iraq War (1980-1981)	7.5% pa	8.2% pa	5.8% pa	Net exporter ~RM4,813m
Gulf War (1990-1991)	9.3% pa	3.5% pa	18.0% pa	Net exporter ~RM9,996m
Iraq War (2002-2003)	4.9% pa	1.4% pa	9.1% pa	Net exporter RM8,324m
Libyan Civil War (2011)	5.3%	3.2%	9.2%	Net exporter RM9,384m
Russian Invasion of Ukraine (2022-)	5.7% pa	2.3% pa	6.7% pa	Net importer (RM28,411m)

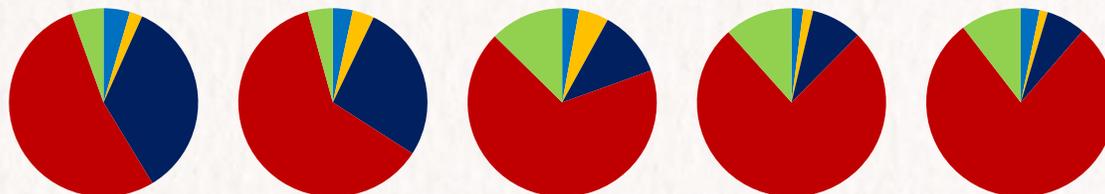
Note: Petroleum trade data before 2000 were sourced from UN Comtrade and converted into ringgit using the respective yearly exchange rates.

The transport sector rising dominance on energy demand necessitates a swift transition toward sustainable, low-carbon alternatives

Final energy consumption for petroleum products by sectors in Malaysia

Sector, ktoe (% share)	Year 1991	Year 2000	Year 2010	Year 2019	Year 2022	Changes per annum (CAGR, % per annum)
Residential	486 (4.5%)	675 (3.4%)	712 (2.9%)	623 (2.0%)	940 (3.2%)	+14.6 p.a. (+2.2% p.a.)
Commercial	239 (2.2%)	723 (3.7%)	1,246 (5.1%)	553 (1.7%)	408 (1.4%)	+5.5 p.a. (+1.7% p.a.)
Industry	3,786 (34.7%)	5,283 (27.0%)	2,798 (11.5%)	2,761 (8.7%)	1,941 (6.7%)	-59.5 p.a. (-2.1% p.a.)
Transport	5,806 (53.2%)	12,059 (61.6%)	16,562 (67.9%)	24,216 (76.1%)	22,823 (78.3%)	+548.9 p.a. (+4.5% p.a.)
Agriculture / Fishery	130 (1.2%)	104 (0.5%)	1,050 (4.3%)	870 (2.7%)	1,158 (4.0%)	+33.2 p.a. (+7.3% p.a.)
Non-energy	467 (4.3%)	737 (3.8%)	2,035 (8.3%)	2,812 (8.8%)	1,867 (6.4%)	+45.2 p.a. (+4.6% p.a.)
Total	10,914	19,581	29,137	31,835	29,137	+587.8 p.a. (+3.2% p.a.)

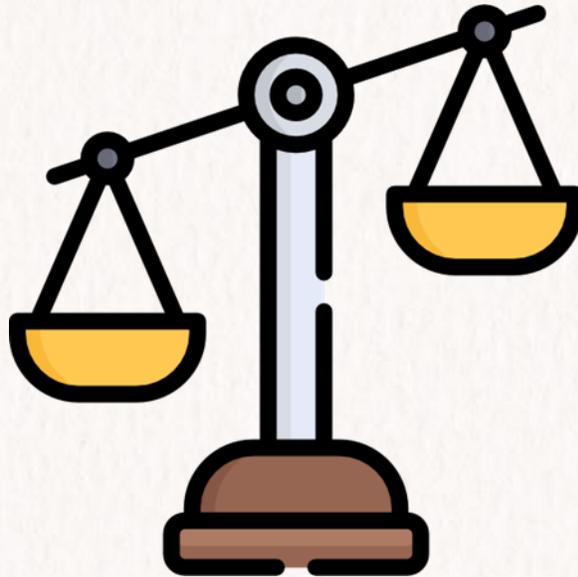
ktoe=kilotonne of oil equivalent
Petroleum products comprise of petrol, diesel, fuel oil, LPG, kerosene, ATF & AV gas, non-energy, and refinery gas.



Source: Energy Commission

Positive and negative impact on Malaysia

- ▼ **Higher fuel subsidy** (RM4.0 billion per month from RM0.7 billion per month previously)
- ▼ **Higher cost-push inflationary pressures**, arising from higher fuel costs and raw materials for non-subsidised industries, impacting on businesses and pass-through costs to consumers
- ▼ **Reduced consumer discretionary spending and business spending**



- ▲ **Higher government revenue** (through higher PETRONAS dividend following higher revenue)
- ▲ **Small net energy trade surplus**, particularly from LNG exports

Overall impact

Neutral to mildly positive/negative

- **Higher oil intensity ratio to GDP**

In 2025:

1. **Net crude oil importer (-1.7% of GDP) since 2022**
2. **Net liquefied natural gas (LNG) exporter (+2.2% of GDP)**
3. **A small net petroleum products exporter (+0.2% of GDP)**
4. **Imports from the Middle East: 69.3% for crude petroleum and condensate; 13.5% for refined petroleum products***

Note: Based on major listed countries; may slightly understate Middle East share.

Decoding the oil shocks impact on the Malaysian economy

A. Production channel – Moderately Positive

	Real mining & quarrying GDP RM million (% change)	Crude oil & condensate RM million	Natural gas RM million	Real mining & quarrying share of GDP
2019	102,887 (-0.6%)	42,460	50,643	7.2%
2020	92,879 (-9.7%)	38,430	45,896	6.9%
2021	93,717 (+0.9%)	36,410	49,166	6.7%
2022	97,004 (+3.5%)	36,283	51,748	6.4%
2023	97,537 (+0.5%)	36,144	52,034	6.2%
2024	98,432 (+0.9%)	35,155	53,596	6.0%
2025	99,170 (+0.7%)	35,787 2.1% of GDP	53,470 3.1% of GDP	5.7%



Oil shocks typically boost Malaysia's mining sector output because higher global prices encourage increased production of crude oil and natural gas.



However, its contribution to GDP has been declining over the decades, primarily due to maturing domestic oil fields leading to declining crude production, coupled with rapidly rising domestic consumption as well as economic development.

B. Trade channel – Mildly Positive

Trade balance RM million	Crude petroleum & condensate	Liquefied natural gas (LNG)	Refined petroleum products	Total	% of GDP
2019	2,300	37,004	-10,722	28,581	1.9
2020	404	24,964	-2,511	22,856	1.6
2021	5,646	36,731	3,249	45,626	2.9
2022	-18,558	58,411	13,074	52,928	2.9
2023	-29,754	53,236	3,617	27,099	1.5
2024	-34,968	51,902	-3,840	13,094	0.7
2025	-30,358	45,360	3,035	18,038	0.9
	1.5% of total exports	3.2% of total exports	5.9% of total exports	10.6% of total exports	



Higher oil prices should be a mild positive for Malaysia's oil and gas exports.



Second order effect on exports – slower global economic growth, dampen global demand, reduced consumer discretionary spending (high fuel costs and inflation) and cautious investment (increased production/operating costs).

Supply chain disruptions, higher costs, and delays in global trade flows impacted by the shutdown or increased risk of the Eastern Mediterranean and Persian Gulf or even airways disruptions.

C. Financial channel – Brace for Volatility



- **Global markets volatility** → Market volatility intensifies during uncertain times such as the duration of geopolitical conflicts and soaring oil price as **investors rapidly reprice risks, causing sharp, temporary price swings.**
- Why? Investors are increasingly focused on the impact of supply and demand shocks on company revenue and profitability.
- **Industries/sectors impact: Aviation, transportation/logistic, agriculture, travel, and manufacturing sectors.**
- **Financial stress** related to an extended sharp correction in stocks price, AI investment bust and private credit markets increase the risk of a global recession or stagflation.
- **Volatility in global stock markets spillover to Malaysia's equity market** → adverse foreign investors would seek shelter in safe-haven assets such as the US Treasuries, foreign currencies such as the USD and gold to hedge against potential strong inflation.
- **Buffered by low foreign shareholding in Malaysian equities (19%),** close to the 2003 trough of 18.1%.
- **The Ringgit is expected to move “cautiously” against the USD,** balancing strong domestic fundamentals against geopolitical shocks and global economic uncertainty.

D. Domestic prices channel – Inflation Trajectory Upward Bias



Two spillover transmission channels on Malaysia's inflation:

(i) Imported inflation

- The share of import content in domestic consumption is approximately 26%, including key necessities such as food and beverages, restaurants and hotels (7%) and transportation (5%).
- Indirect higher operating costs due to supply chains disruption, inputs costs and shipping costs have forced businesses to pass on increased costs to consumers.
- Steady Ringgit value has provided partial buffer against the imported price inflation.

(ii) Direct inflation

- Diesel and petrol carries weightage of 0.2% and 5.5%, respectively in CPI basket. **Every 10%-15% increase in petrol retail price is estimated to contribute about 0.6%-0.9% percentage points to the headline inflation.**
- Higher fuel adjustment risk if there is a tweaking of the subsidised fuel prices under the BUDI95 subsidy and quota-based scheme.

E. Budget deficit – Negative



- **Sustained high oil prices create risk to strain the fiscal deficit and reduce the limited fiscal space** for development expenditure, requiring a **recalibration and reprioritizing 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.
- The 2026 Budget was based on estimated **crude oil price of US\$60-65/bbl. Assuming oil price of USD100/bbl, an increase of USD35/bbl:**
 - Generate extra **oil-related revenue by RM10.5-RM14.0 billion**
 - But, **more than offset by RM33.0 billion fuel subsidies payment**
- **Net impact on 2026 Budget deficit ratio (3.5% of GDP):** Increase budget deficit ratio by between **0.9 and 1.1 percentage points to between 4.4% and 4.6% of GDP.**
- **Action: Reordering and reprioritizing of expenditure**, including expenditure rationalization and subsidies cut as well as Special dividend from PETRONAS to keep manageable fiscal deficit target.
- As of now, the Government has incurred **additional RM4.0 billion per month for fuel subsidies** (RM2.5 billion for RON95 petrol and RM1.5 billion for diesel) compared to RM700 million previously.

F. Monetary policy effect – Delicate Balancing Act



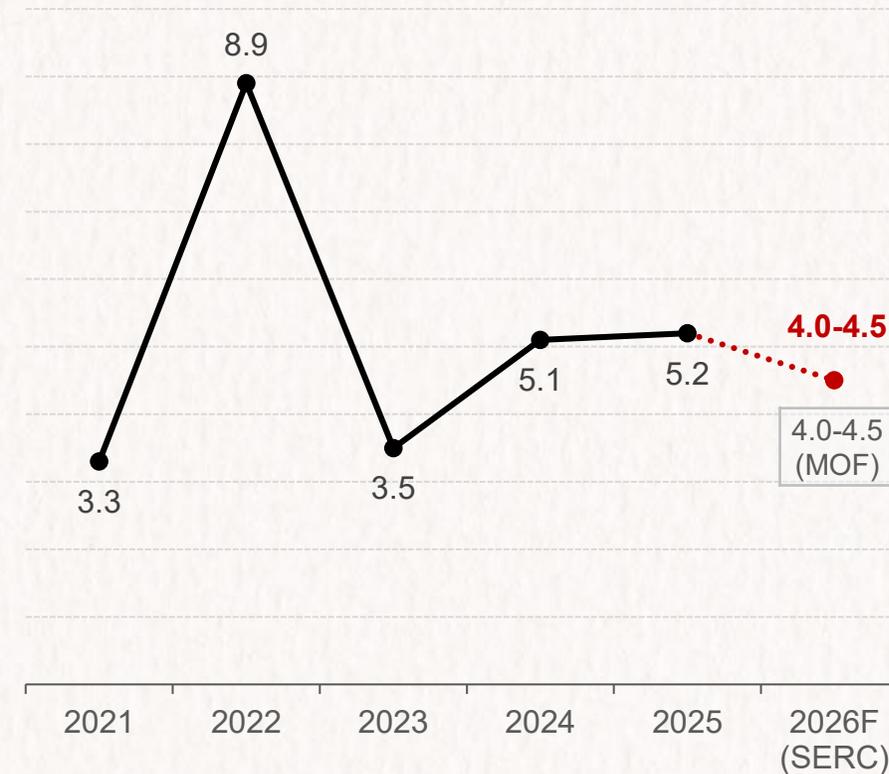
- **Higher fuel prices act like a tax on the economy** as it increases cost, reduces consumer spending and dampens business investment.
- Given that the expected increases in inflation comes from a low level, we expect Bank Negara Malaysia may respond to oil-induced inflation by **keeping the overnight policy rate unchanged at 2.75% in 2026**, 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.

Our baseline is for real GDP to grow by 4.0%-4.5% in 2026, but caution about economic scarring effects from on-going military conflicts between the US-Israel and Iran, triggering oil shock, supply disruptions, and volatility in global financial markets.

Depending on the duration of war and intensity of energy shock, prolonged conflict poses significant downside risks to the 2026 outlook.

Malaysia's real GDP growth

%, Year-on-Year



Note: F=Forecast.
Source: DOSM

Baseline GDP estimate at 4.0%- 4.5% in 2026

Key Drivers

- Resilient consumer demand.
- Sustained private investment.
- Continued upturn in E&E exports.
- Robust tourism.

Key Dampeners

- Persistence Middle East conflict and oil shocks as well as policy uncertainties, compounded by rising operational costs, eroding business confidence and suppressing investment appetite.
- Cautious consumer spending due to strong inflationary pressures and higher cost of living.
- While the tweaking of subsidized fuel quota to ease fiscal pressure, potential adjustment in subsidized fuel price remains a wild card.

Decoding the impact of war and oil shocks on businesses



AGRICULTURE / PLANTATION (fruits such as pineapple; palm oil)

- **Logistics delays and higher costs:** Disruption in the Middle East region has extended delivery times, with some ships held in port for up to 5 days, driving up freight costs, insurance premiums, and additional surcharges of around RM16,000 per port stop.
- **Fertiliser price surge:** Fertiliser costs have jumped significantly as production relies heavily on natural gas for ammonia synthesis and energy-intensive processes. This directly increases production cost for smallholders & plantations.
- **Food security risks:** Higher input costs and logistical delays can reduce planting intensity, force some farms to reduce operations or quit farming, and threaten domestic food supply



PETROCHEMICAL

- **Feedstock price surge:** Costs of key petrochemical inputs linked to crude oil have risen significantly, with some more than 20%.
- **Force majeure triggering:** Producers have activated force majeure clauses and pricing changes may occur daily.
- **Lower inventory buffers:** Tight feedstock availability increases vulnerability to further price spikes or supply delays.



MANUFACTURING

- **Freight and logistics costs spike:** Shipping reroutes (e.g. around Africa's Cape of Good Hope) extend delivery times by up to 10-14 days, pushing up insurance premiums. Freight rates could jump 2-3 times if disruptions persist.
- **Surge in industrial diesel prices:** Subsidised diesel (under SKDS 2.0) largely covers public transport and logistics sector; industrial diesel price remains elevated, increasing production and distribution costs.
- **Supply chains disruption:** Parts and raw materials are delayed, pushing production slowdowns in the export-oriented industries.



PLASTICS

- **Heavily reliant on oil and gas feedstocks,** plastics producers are facing:
 - **Surcharges up to USD250/mt** due to logistics costs
 - **Raw materials price increased by close to RM3,000/mt** in a week, **up to 70%+ in certain inputs**



CONSTRUCTION

- **Hinder project timeline.** Sustaining higher energy prices, construction material costs, and shipping expenses, will eventually affect development timelines and project profitability.
- According to REHDA's survey, 30% of respondents expect a significant impact on the property and construction sectors if geopolitical tensions worsen, while around 43% anticipate a moderate impact.
- **Surging construction costs.** A construction association reported that construction costs have increased by 30%-40% due to diesel price hikes, with stored diesel typically lasting only one week.
- **Sharp variations in pre-conflict contracted price.** Many awarded contracts are finalized based on pre-Iran military conflict's prices, and the surge in logistics and material costs may render original project budgets insufficient, creating the need for contract price adjustments.



SEMICONDUCTOR

- Prolonged supply disruptions have ripple effects on semiconductor supply chains (e.g. **gas supplies like helium and logistics delays**), increasing manufacturing costs and lead times in tech assemblies.



TOURISM AND AVIATION

- **Airspace restrictions:** Airspace constraints in the Middle East region have led to flights cancellation, airport closures, and route rerouting, limiting arrivals or transfers from the region. The Middle East and European tourists, who are high-spenders, are particularly affected.
- **Higher tourism transport costs:** Higher jet fuel costs, increasing airline operating costs and air flight fares. Tourism transport costs have risen by 35%-38%, while fixed contracts prevent operators from revising agreed rates.
- **Global travel sentiment:** The conflict has dampened international travellers' interest, affecting tourism flows worldwide and dampening the Visit Malaysia 2026.



SHIPPING AND FREIGHT FORWARDING

- **Shipping traffic disruptions.** Traffic and passage disruptions in the Strait of Hormuz has forced rerouting/ curtailed transit, leading to:
 - Longer transit cycles
 - Shipping cost surges and higher insurance premiums
 - Pricing complexity in freight contracts
- **Potential shipping delays up to two months for shipments to and from Europe and the Middle East, with freight costs possibly rising by 40%-50% if the conflict prolongs.**
- The Drewry World Container Index is showing an upward trend since the start of the war. As at 12 Mar, USD2,123 per 40ft container (up 11.8% from USD1,899 two weeks ago).

Ripple effects on raw material prices and business operation costs



PLASTICS

- Naphtha shortage → raw material costs +70% → plastic product prices +50% ([Source](#))



AGRICULTURE

- Fertilizers & feed prices expected to rise ([Source](#))
- Vegetable prices to increase by 50% as early as next week ([Source](#))
- Local fruit prices up by 20% or more ([Source](#))



CONSTRUCTION

- Building materials to increase +3%-20% while paint materials +5% ([Source](#))
- Thinner & oil-based paints +30%-40% ([Source](#))
- Raw materials & hardware products +10%-40% ([Source](#))



POSTAL

- Fuel prices up → Pos Malaysia fuel surcharge 15%-40% (domestic & international), updated every Friday from 27 Mar ([Source](#))



TOURISM & AVIATION

- Diesel prices up → tourism transport operators risk shutdown without government's intervention ([Source](#))
- Soaring fuel prices → higher airfares ([Source](#))



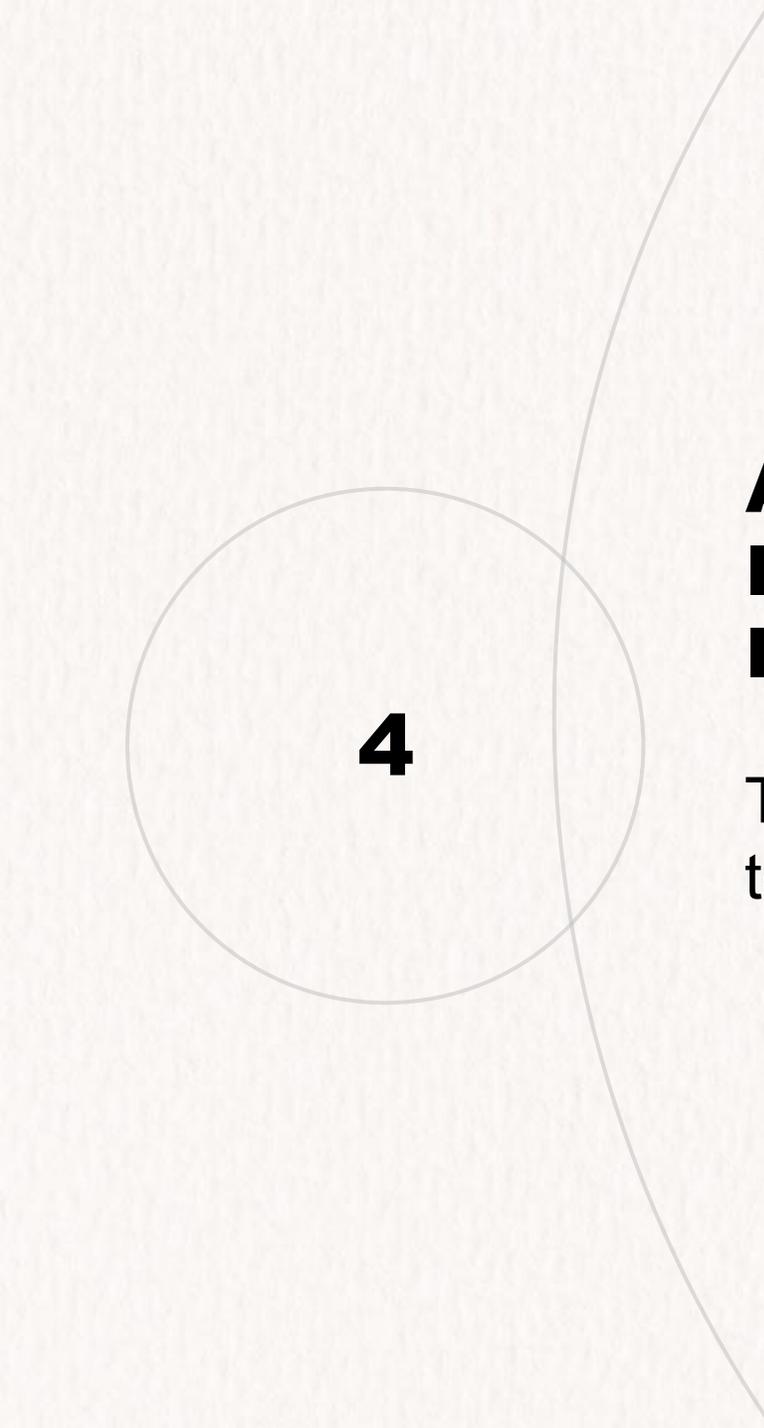
MARITIME

- Maritime insurance premiums for war coverage for some ships surging > 1,000% → driving up cost of moving energy ([Source](#))

Malaysia: Baseline, Adverse and Severe Scenario of the war in Iran and oil shocks

Year 2026 (Malaysia)	Baseline Scenario	Adverse Scenario	Severe Scenario
	Duration of the war: 1-2 months	Duration of the war: Between 3 and 6 months 50% disruption of supply of oil and LNG through the Strait of Hormuz	Duration of the war: More than 6-12 months Prolonged energy supply disruptions (more than 50%), and significant destruction of energy infrastructure and facilities
Brent crude price	USD80-USD90/bbl	Peak around USD110- USD120/bbl before easing to USD95-USD100	Surge to USD140-USD180/bbl before easing to USD110- USD120
Real GDP growth	4.0%-4.5%	3.5%	-0.5%
Export growth	2.8%	1.5%	-1.0%
Private consumption growth	4.5%-5.0%	4.0-4.4%	3.0%
Private investment growth	6.8%	5.8%	2.0%
Inflation	2.5%-2.8%	3.0%- 4.0%	5.0%- 6.0%
Overnight policy rate (OPR)	2.75%	2.75%	2.25%
RM/USD	RM3.90-RM3.95	RM3.95-RM4.10	RM4.20-RM4.40

Based on IMF analysis, a sustained and significant oil price spike such as a 10% increase lasting a year would likely increase global inflation by ~40 basis points and reduce global economic growth by 0.1% to 0.2%.



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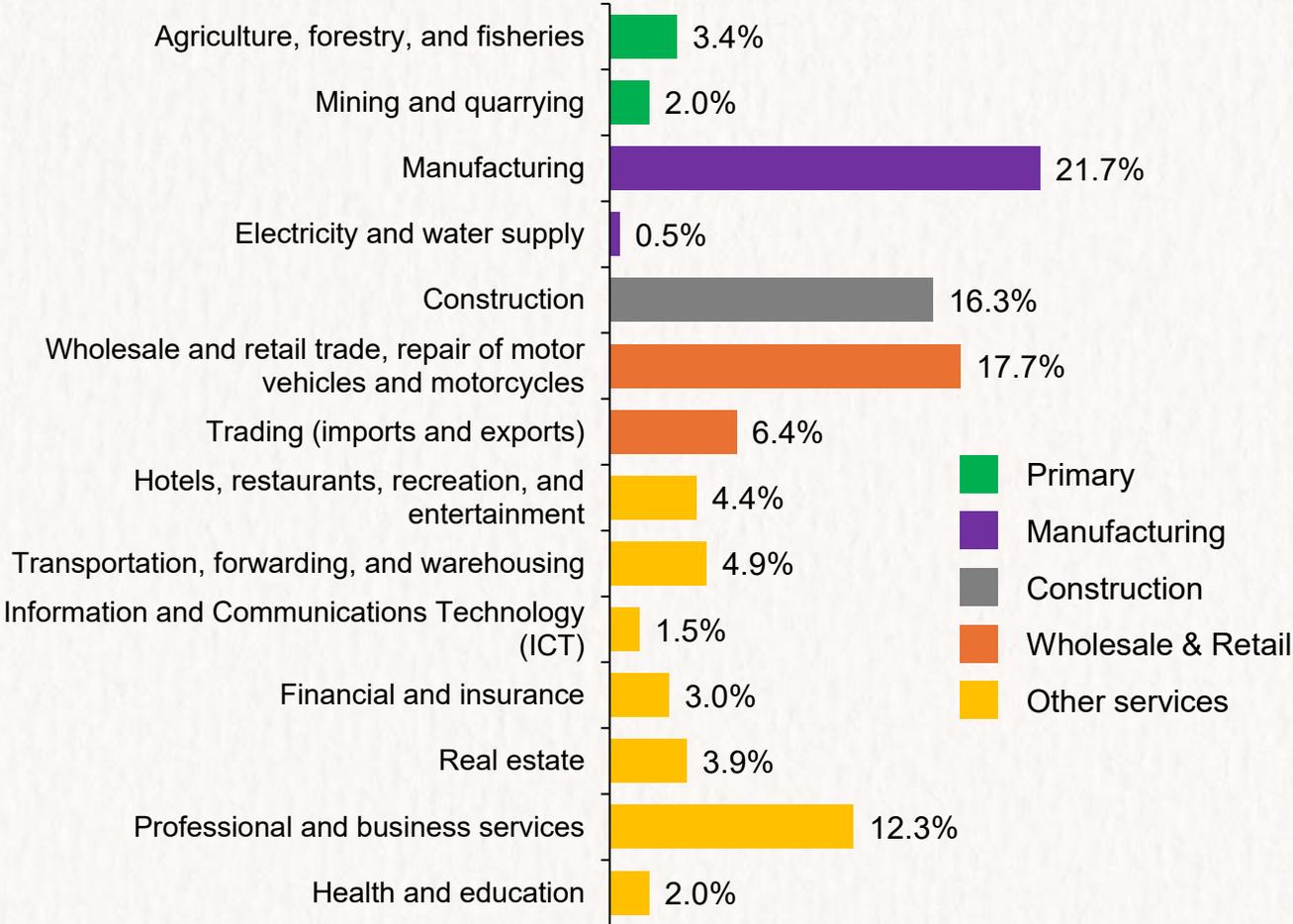
ACCCIM's Quick Take Survey (QTS) on the Impact of Oil Shocks on the Malaysian Industries

The magnitude of factors affecting the industries skew towards “**MODERATELY to HIGHLY NEGATIVE**”

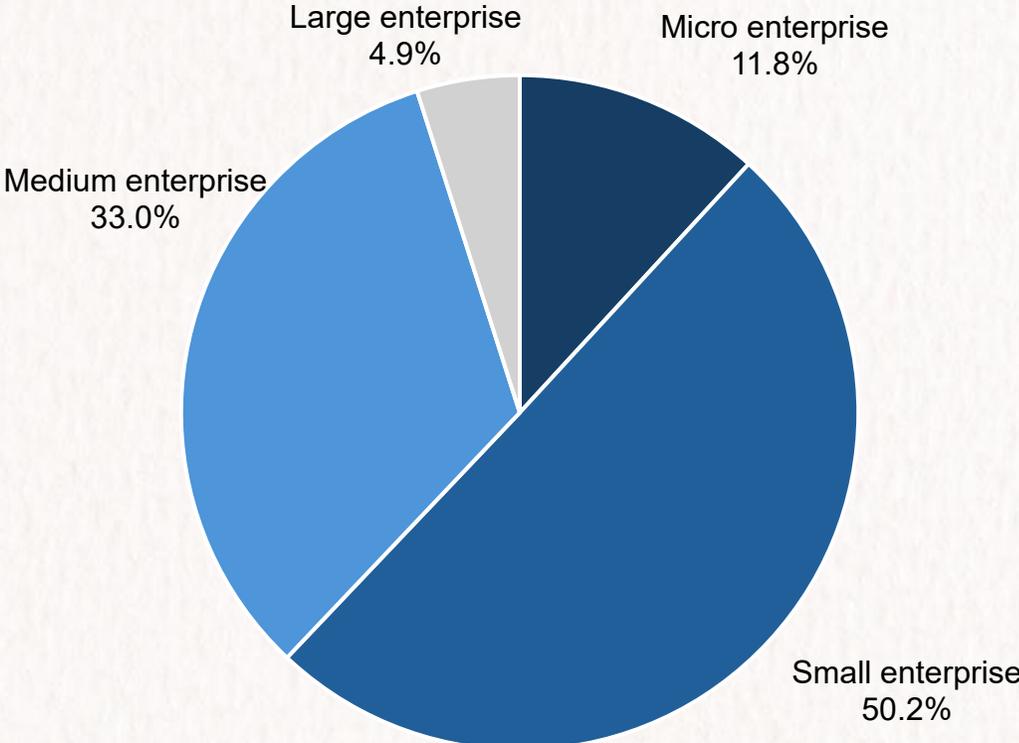
ACCCIM Quick-Take Survey (QTS) on the Impact of Oil Shocks on the Malaysian Industries

Respondent profile

Sample size: 203

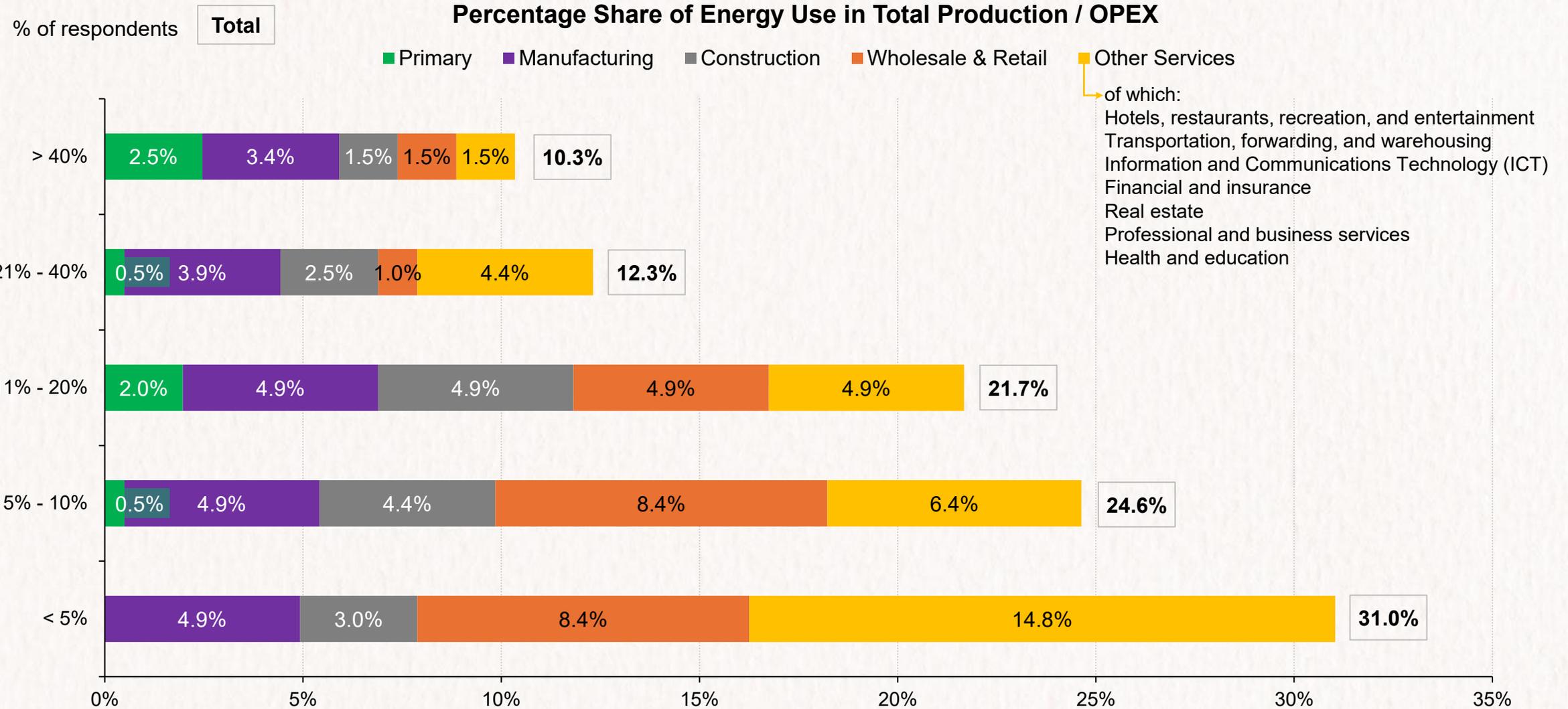


% of respondents



MSMEs constituted 95.1% of the total respondents

44.3% of respondents have more than 10% energy use (fuel, gas and electricity) in their production / OPEX

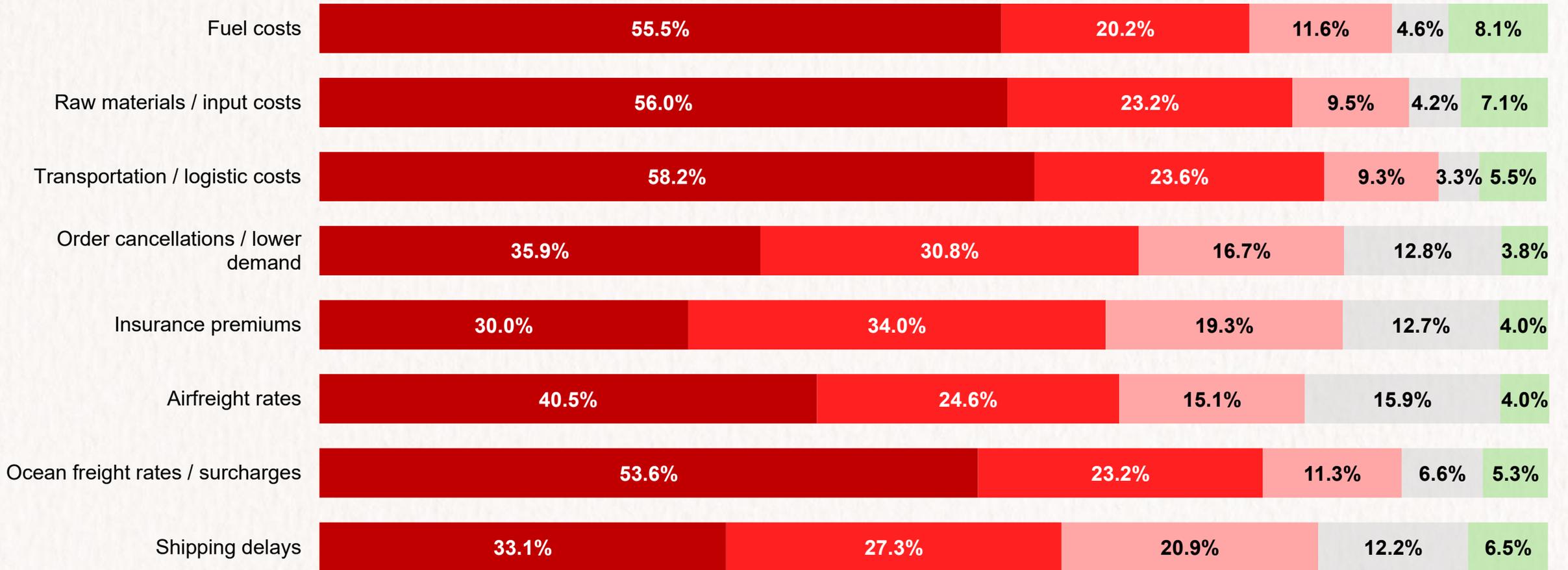


The magnitude of factors affecting production and business operations skew towards “MODERATELY to HIGHLY NEGATIVE”

Factor Affected Production and Business Operations

% of respondents

■ Highly negative
 ■ Moderately negative
 ■ Slightly negative
 ■ No impact
 ■ Positive

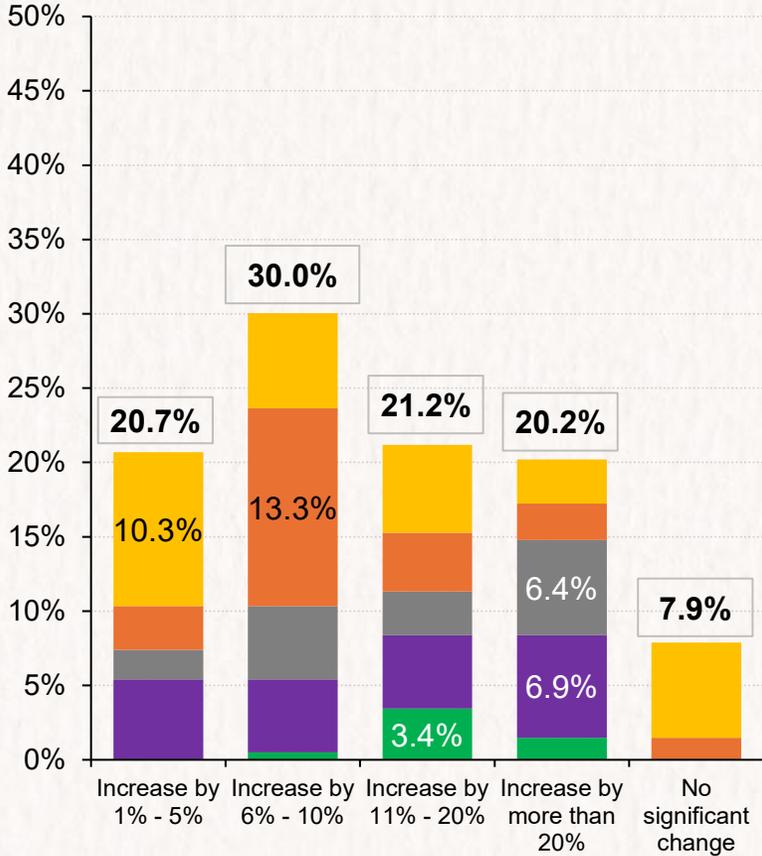


Overall impact on cost, profitability, and cash flow conditions

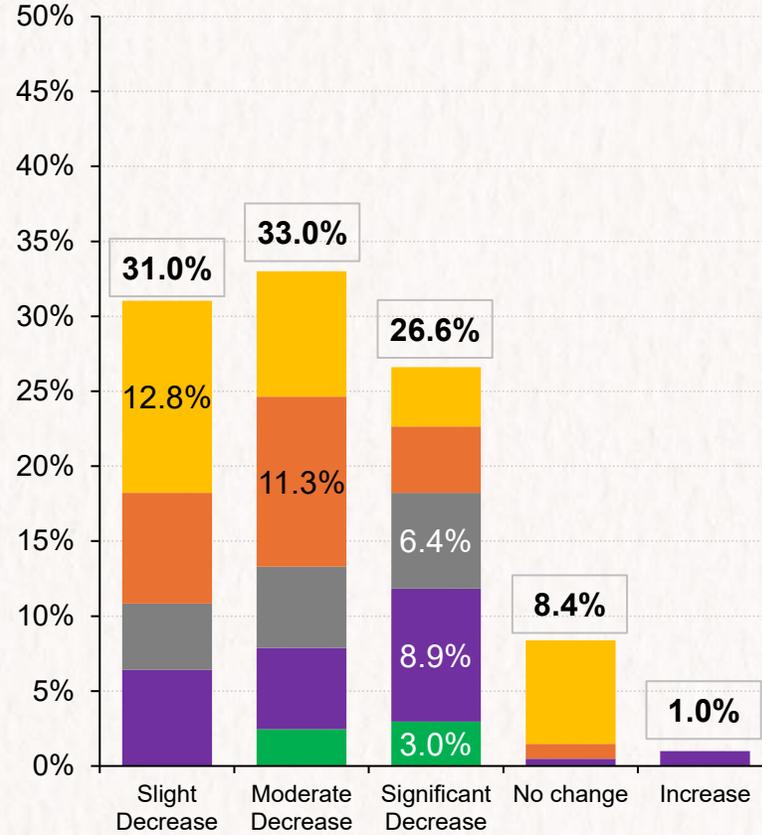
% of respondents

■ Primary
 ■ Manufacturing
 ■ Construction
 ■ Wholesale & Retail
 ■ Other Services
 Total

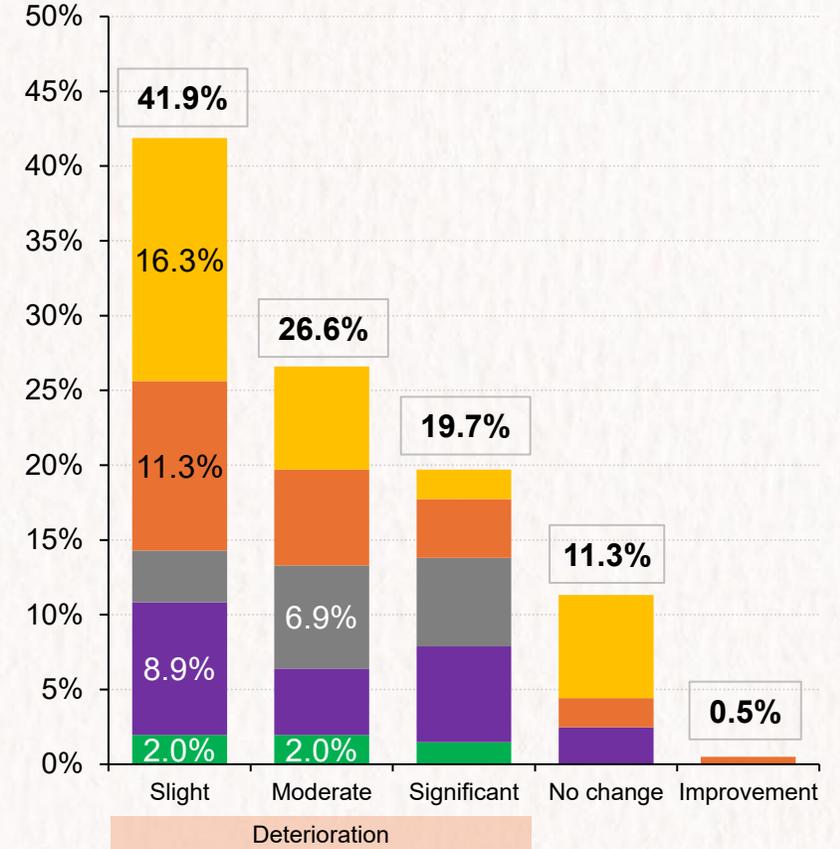
Impact on Total Cost



Impact on Profit



Impact on Cash Flow

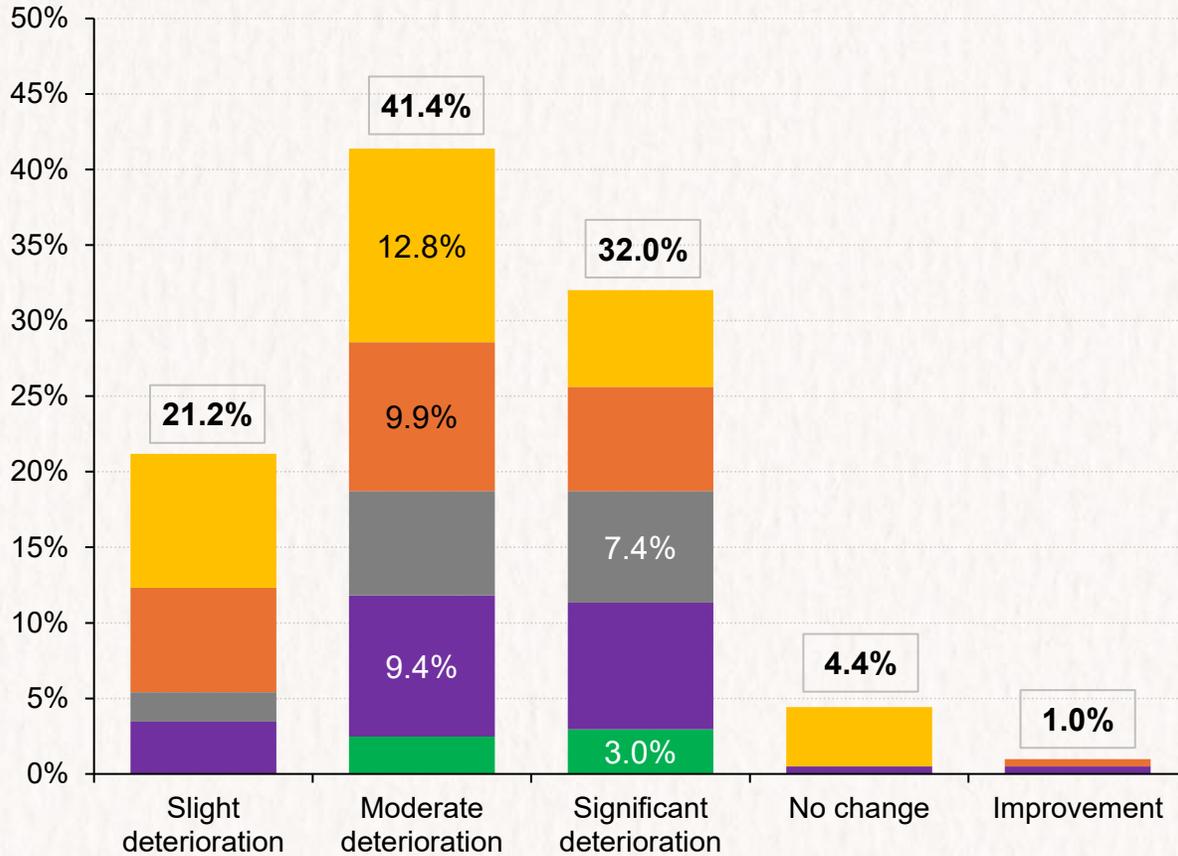


Note: Bold indicates the total. Only highlight the largest share in each specific sector.

Most respondents perceived “moderate to significant deterioration” in business outlook over the next 3-6 months

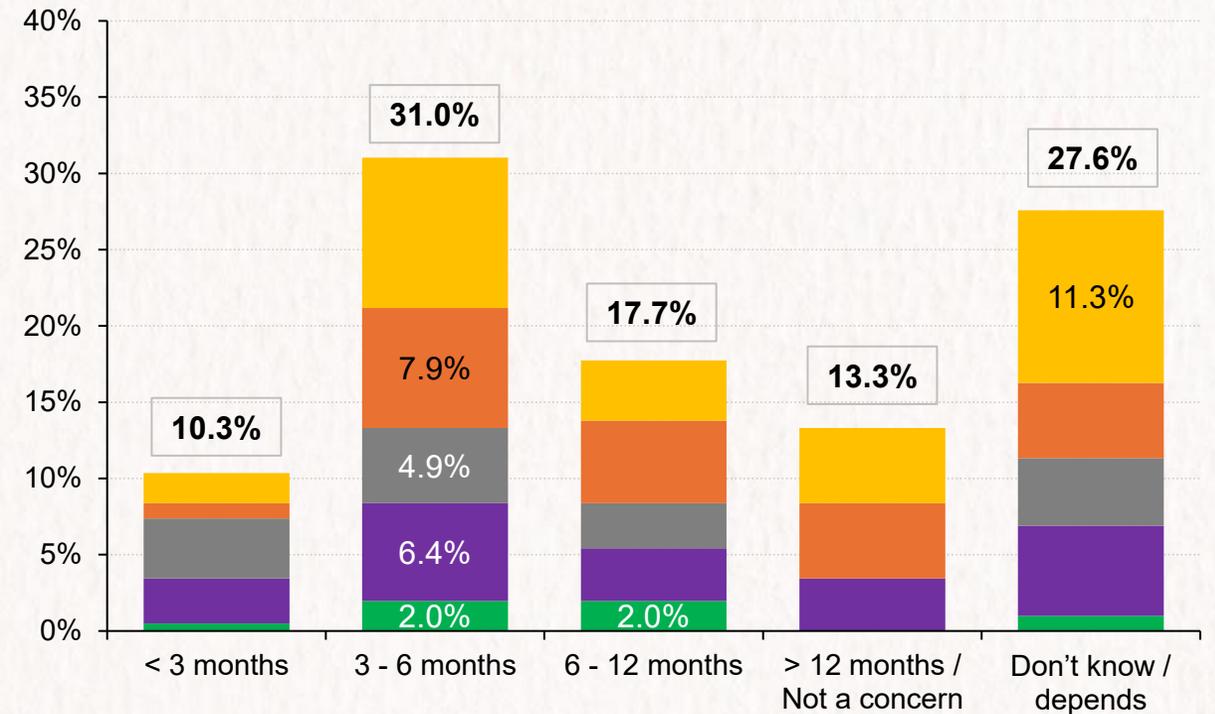
■ Primary
 ■ Manufacturing
 ■ Construction
 ■ Wholesale & Retail
 ■ Other Services
 Total
% of respondents

Business Outlook over next 3-6 months



Business Operating Runway

How long can business maintain operations before requiring structural downsizing or seeking additional financing

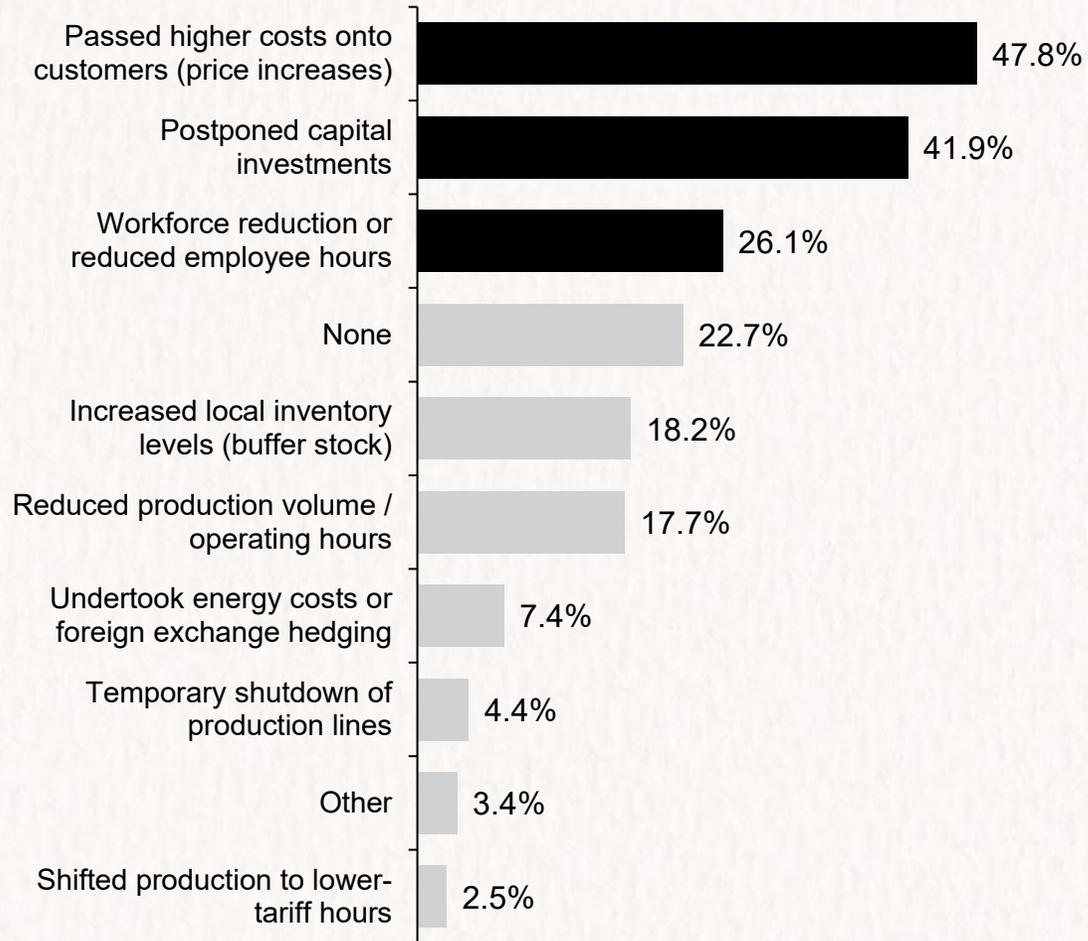


Note: Bold indicates the total. Only highlight the largest share in each specific sector.

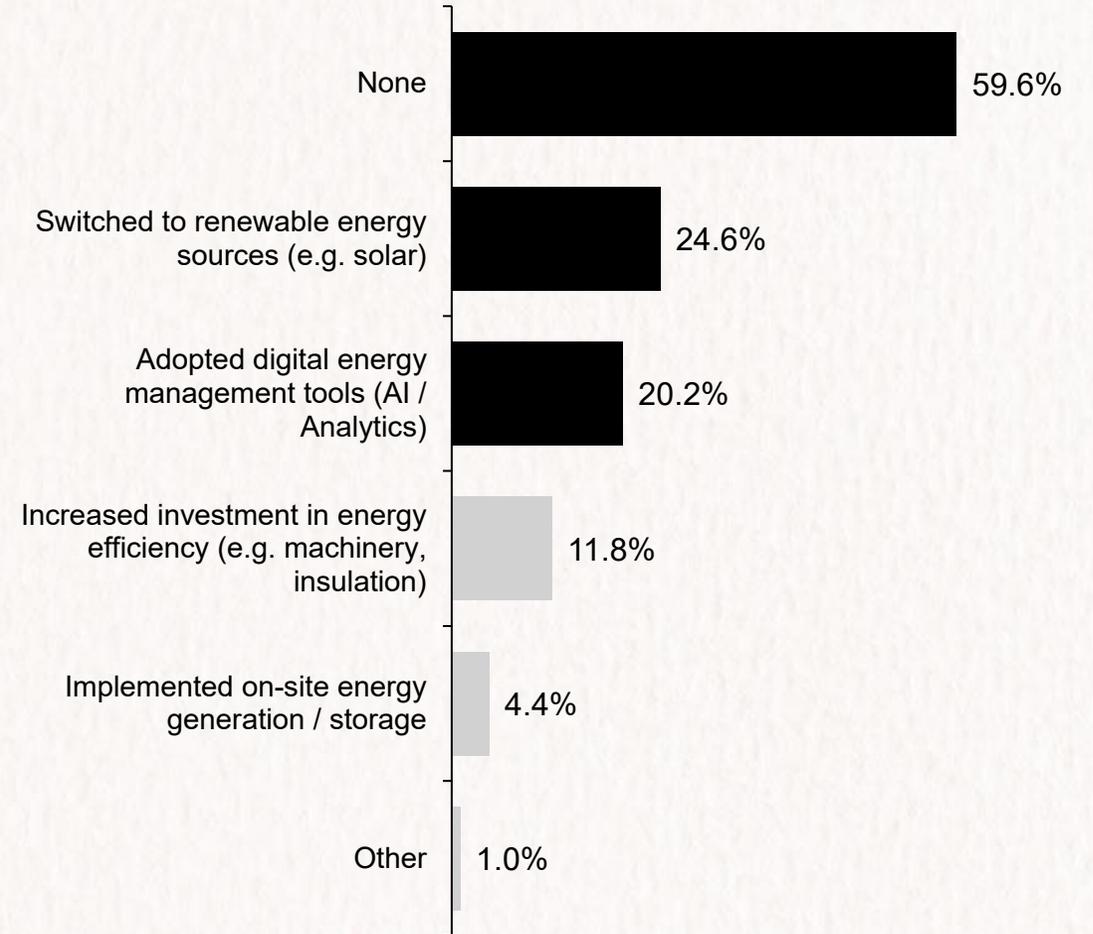
Adjustment and mitigation strategies adopted by businesses

% of respondents

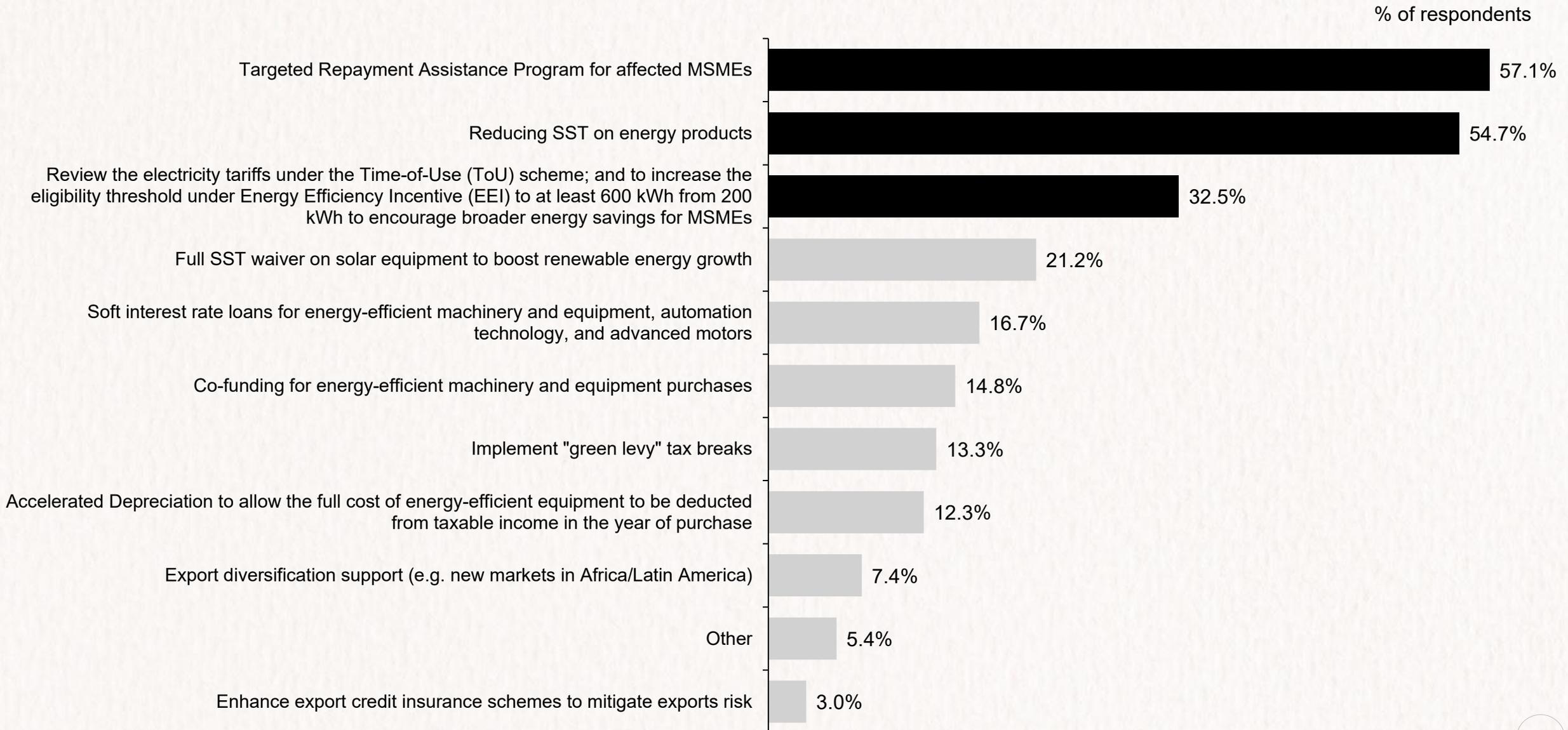
Adjustment Strategy



Mitigation Strategy



How can the Government support businesses in this challenging oil price volatility period?



Malaysia: Options to optimise policy response

A coordinated approach to mitigate energy shocks must comprise a **mix of targeted, time-limited fiscal support for vulnerable households, businesses and sector**, alongside **long-term strategic investments in energy diversification and efficiency**.

Five principles when designing the options, policy response and support measures

- A. Preserving fiscal space
- B. Protecting poor and vulnerable households
- C. Facilitating gradual adjustment to energy supply shocks
- D. Energy and food security most critical interconnected sectors
- E. Abrupt surges in energy costs can impair businesses

1 Effective Communication and Transparent Data Management

- Data completeness, targeted and clear communication are critical in drawing an effective demand-side management, instilling public trust, and causing behavioural change.
- Transparent and timely communication allows for targeted action and making timely adjustments.

2 Fuel Price and Quota Adjustment

Reduce the smuggling interest and arbitrage potential:

- Reduce subsidised quota for RON95 by 100 litres to 200 litres since average consumption is 100 litres (implemented on 1 April)
- Adjust the fixed subsidised price gradually
- Limit purchases of subsidised diesel in Sabah and Sarawak (implemented on 1 April)

3 Stepped-up Monitoring and Enforcement

- A combination of stepping up enforcement and real-time tracking, intensive border surveillance, inter-agency coordination, and curbing fuel smuggling

Proposals to support industries and businesses

A. Ease Business Costs Burden and Relieve Cash Flow	Outcome
<p>1. Targeted Repayment Assistance Program for affected MSMEs for a specific period. Businesses face financial stress due to increasing operation costs (fuel and raw materials cost), supply chain disruption and cancellation of orders.</p>	<p>A temporary suspension of loan repayment (principal and interest) to relieve financial burden.</p>
<p>2. Suspend the Service Tax (currently 6%–8%) imposed on the expanded services (rental/leasing, and professional fees, construction, private healthcare, and education) for a period of three months, subjecting to review every three months depending on the prevailing situation.</p>	<p>Relieve short-term cash flow.</p>
<p>3. Lower the current 85% minimum of the estimated tax for the preceding year (CP204) to 50%, suspend the 10% penalty if the final tax exceeds the threshold by more than 30%, and allow any overpaid tax to be offset against the current year’s liabilities, given businesses have limited visibility on their current performance.</p>	<p>Relieve short-term cash flow.</p>
<p>4. Review Time of Use (ToU) electricity tariffs: Review the electricity tariffs under the ToU scheme; and to raise higher the eligibility threshold under Energy Efficiency Incentive (EEI) to at least 600 kWh from 200 kWh to encourage broader energy savings for MSMEs.</p>	<p>Relieve short-term cash flow.</p>
<p>5. Temporary waivers and reductions of port, transportation, and freight-related charges.</p>	<p>Reduce cost burden.</p>

B. Strategic Long-term Energy Efficiency Shifts	Outcome
1. Reducing SST on energy products, or implementing "green levies" tax breaks. These include electrical equipment, pumps, compressors, boilers, converters, and furnaces used in manufacturing processes, which are subject to a 5% to 10% sales tax.	Ease the overall tax burden on consumers and industries during price spikes.
2. A full SST waiver on solar equipment.	Support renewable energy growth.
3. Provide Accelerated Depreciation, which allows firms to deduct the full cost of energy-efficient equipment from their taxable income in the year of purchase.	Significant tax savings and increasing short-term cash flow.
4. Provide soft interest rate loans for firms to invest in energy-efficient machinery and equipment, automation technology, and advanced motors.	Ease financing cost.
5. Provide co-funding for the purchase of energy-efficient machinery and equipment.	Ease financing cost.

C. Specific Sector/Industry Support	Outcome
1. Enhance export credit insurance schemes.	Mitigate energy shocks-inflicted exports risk, supply chain disruptions, and rising operating costs.
2. Provide targeted subsidies for fertilizer, fuel, and electricity to help farmers in the agriculture and plantation sectors.	Manage immediate operating costs.
3. Provide a temporary limited quota subsidised price for the targeted users in the construction, agriculture and timber industry using heavy machineries and non-moveable vehicles on the road such as backhoe, hand of god, bulldozer, premix machine, and rollers etc. This can be included in the BUDI95 fleet card programme for eligible industries using these heavy machineries.	Manage immediate operating costs.
4. Implement the Variation of Price (VOP) clauses to provide financial relief and better project management solutions for contractors undertaking government projects.	Avoid delays in project implementation.
5. If the conditions worsen , the construction sector could face significant delays due to significant increases in raw materials and operating costs, leading to widespread declarations of force majeure. To consider the suspension of Liquidated Ascertained Damages (LAD) obligations and penalties for developers unable to meet project deadline.	Ease developers' financial burden.

C. Specific Sector/Industry Support (cont.)	Outcome
<p>6. Provide temporary fuel subsidies to domestic inbound tourist transport operators facing higher operating costs due to fuel cost surges. The tourism sector will be dampened by restrained tourist arrivals from the Middle East and Europe caused by higher jet fuel prices, airspace restrictions, and costlier flight fares.</p>	<p>Ease the transportation cost of inbound coaches in efforts to support Visit Malaysia 2026.</p>
<p>7. Set up a timely government-to-chamber information sharing and reporting mechanism, allow for instant sharing of information and real time data as well as feedback between the regulators and industry stakeholders.</p>	<p>Businesses can immediately identify trends in logistics, ports, energy, and raw materials.</p>
<p>8. <u>If conditions worsen with energy rationing or widespread shortages</u>, the Government should prepare a designated targeted wage subsidy programme, especially for those severely affected, akin to the COVID-19 pandemic crisis in 2020-2021.</p>	<p>Help businesses sustain their operation and prevent job losses.</p>

THANK YOU

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