Socio-Economic Research Centre
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2026 RMB Business Promotion Conference & the Celebration of the 15th Anniversary of BOCM serving as RMB Onshore Settlement Institutions (OSI)

How Vulnerable is Malaysia to an Oil Shock?

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Key messages

1. Malaysia Entered the Global Oil Shock From a Position of Strength.

2. Key Factors of Vulnerability – net importer of crude petroleum, supply chain disruptions (resin, fertilisers, industrial inputs), rising production cost, price pressures and budget strain.

3. Built-in Mitigation Measures to Buffer Against Oil Shock-induced Disruptions.

Global economy in 1H 2026 and Beyond – Endures so far – but not complacency!

MACRO RESILIENCE

So far, the global economy appears to be holding up, albeit with growth disparities among advanced economies and emerging market economies, especially those with relatively higher oil and gas intensity.

INFLATION & COST

Energy prices, inflation and its expectations, as well as financial conditions, have all been impacted. Business costs have increased; headline inflation picked up; concerns about an erosion of purchasing power.

ENERGY SUPPLY CHAIN

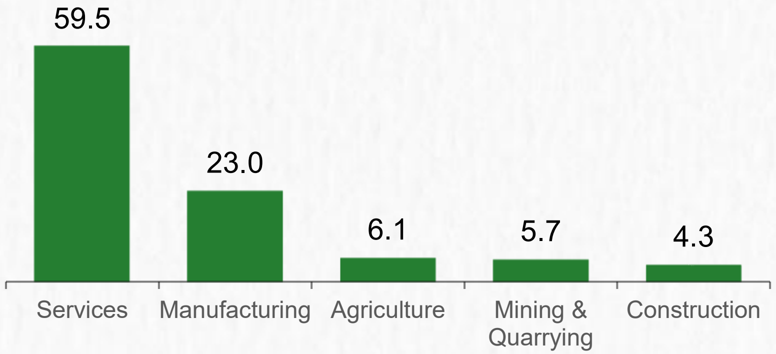
Even after a 60-day MoU peace deal between the US and Iran is reached, a true normalisation of global energy supplies takes weeks to months due to structural, logistical, and physical delays.

Malaysia’s macroeconomic fundamentals lay the groundwork for fostering resilience

Diversified sources of growth

Malaysia’s GDP by economic sectors in 2025

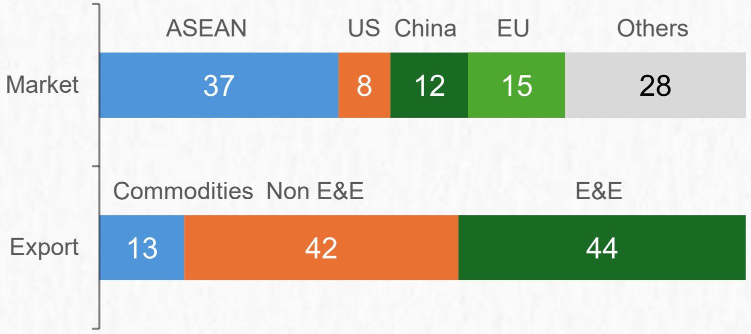
% share of GDP



Diversified export markets and products

Exports by markets and products in 2025

% share of exports



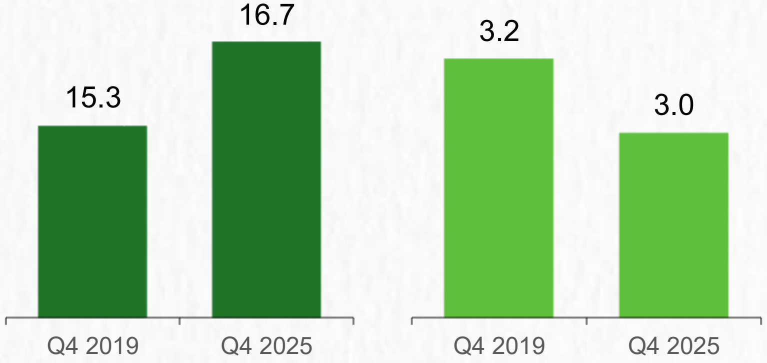
Stable labour market conditions

Employed persons

million

Unemployment rate

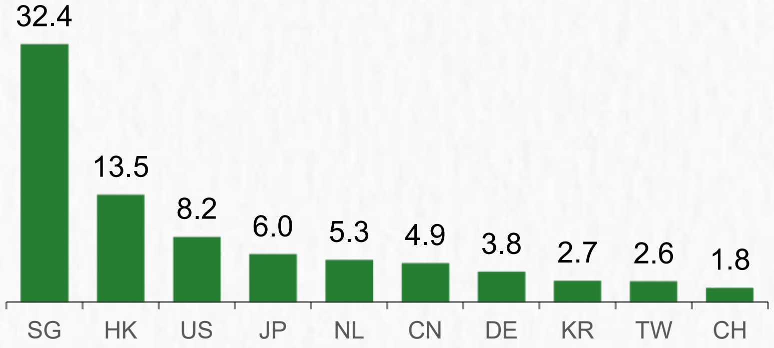
%



Conducive investment destination for foreign investors

Gross FDI inflows by source country in 2025

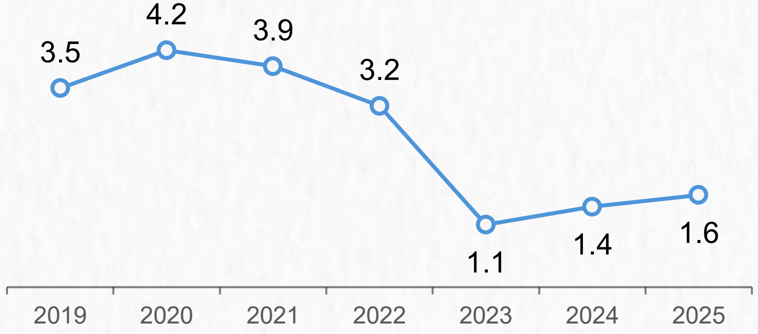
% share of total



Current account balance remains surplus

Current Account Balance

% share of GDP



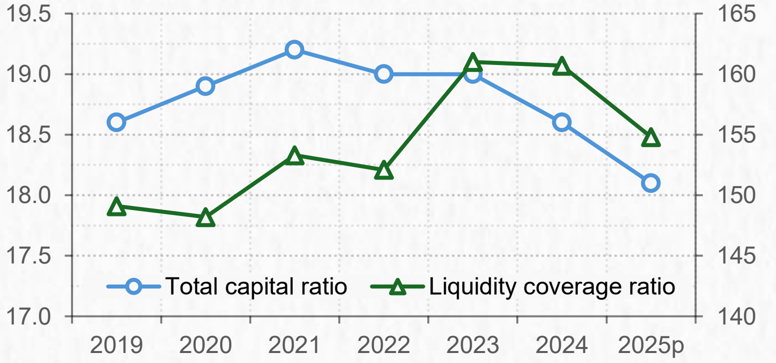
Banking system remained well-capitalised with strong buffers

Capital ratio

% of risk-weighted assets

LCR

%



Source: DOSM; BNM

Malaysia’s economic playbook - Initial conditions matter !!!

INITIAL CONDITIONS MATTER

Pre-crisis conditions dictate the trajectory, duration, and severity of any economic shocks.

A stable and strong starting environment, clear planning, and well-understood vulnerabilities allow for **more effective responses** to ensure economic stability and resilience.

5.4%

Resilient economic growth

5.4% in 1Q 2026; 5.2% in 2025

3.0%

Strong labour market conditions

Jobless rate at 3.0% in April 2026; 3.0% in 2025

2.0%

Manageable inflation

2.0% in May 2026; 1.4% in 2025

130.6B

Large accumulation of foreign reserves

USD130.6 bn at end-May 2026

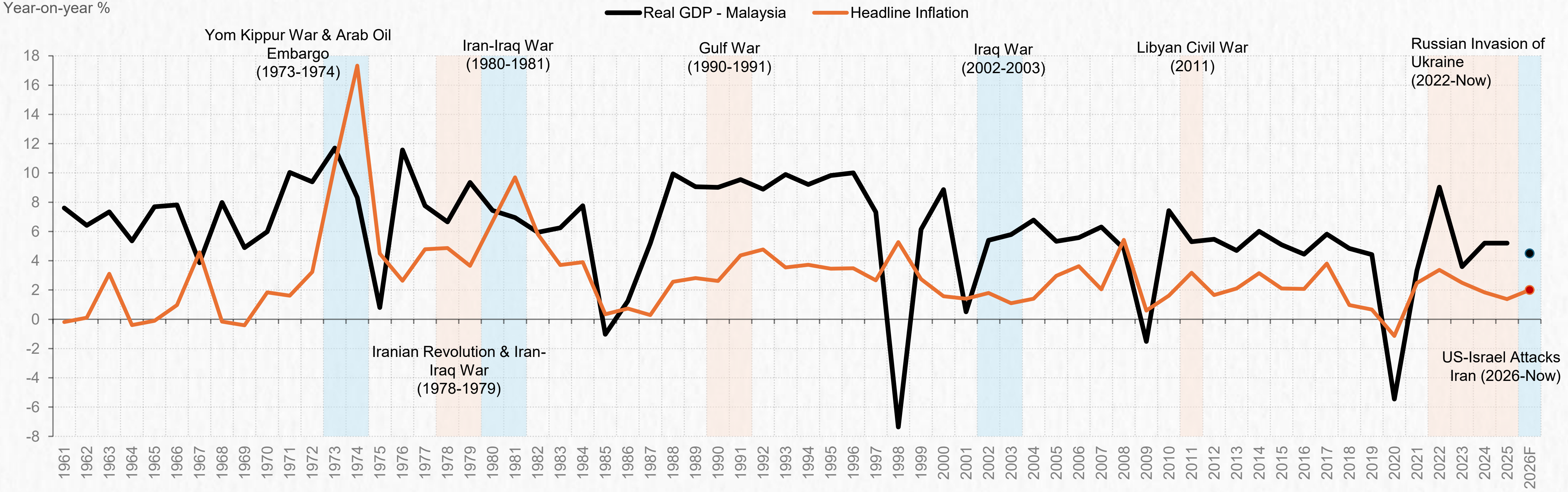
- Sustained consumer demand and continued investment growth.
- A strongly capitalised banking sector and well developed capital market.

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

Year-on-year %



Source: World Bank; 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.
- 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, 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

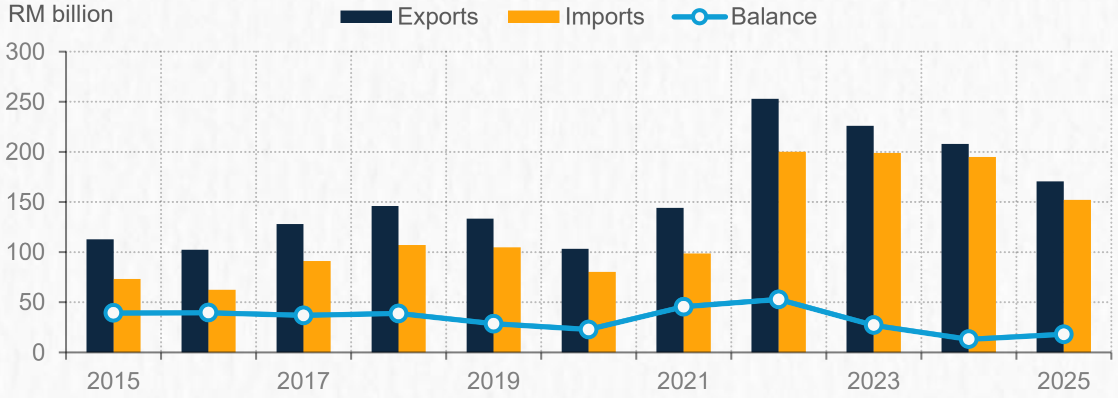
Major war	GDP growth	Headline inflation	Exports growth	Crude oil trade position (SITC 3330)
Yom Kippur War & Arab Oil Embargo (1973-1974)	10.0% pa	**13.9% pa**	N/A	-
Iranian Revolution (1978-1980)	7.9% pa	**5.1% pa**	23.5% pa	Net exporter ~RM3,038m
Iran-Iraq War (1980-1981)	7.5% pa	**8.2% pa**	5.8% pa	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.

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

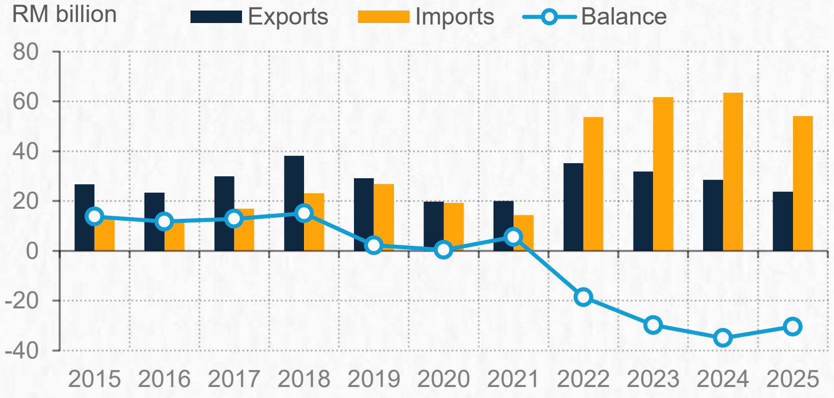
Net exporter of energy, albeit smaller

Energy: Imports, exports, and trade balance



Net importer of crude petroleum and condensate

Crude petroleum and condensate: Imports, exports, and trade balance



Top 3 partners in 2025

Exports (% share)

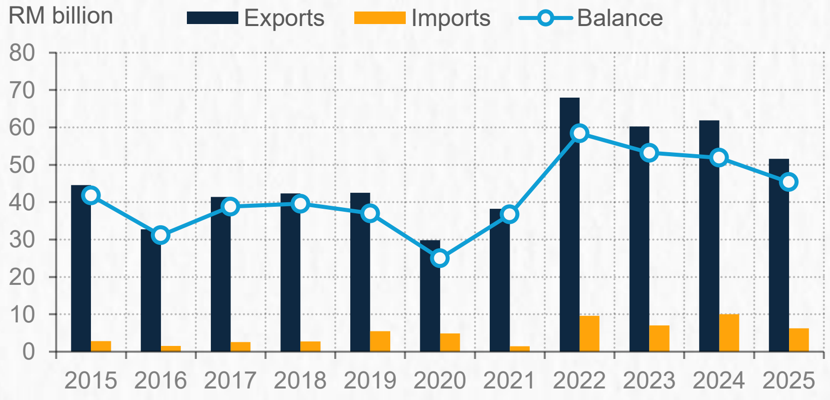
1. Thailand (26.1%)
2. Australia (25.7%)
3. Japan (15.8%)

Imports (% share)

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

Net exporter of liquefied natural gas (LNG)

Liquefied natural gas: Imports, exports, and trade balance



Top 3 partners in 2025

Exports (% share)

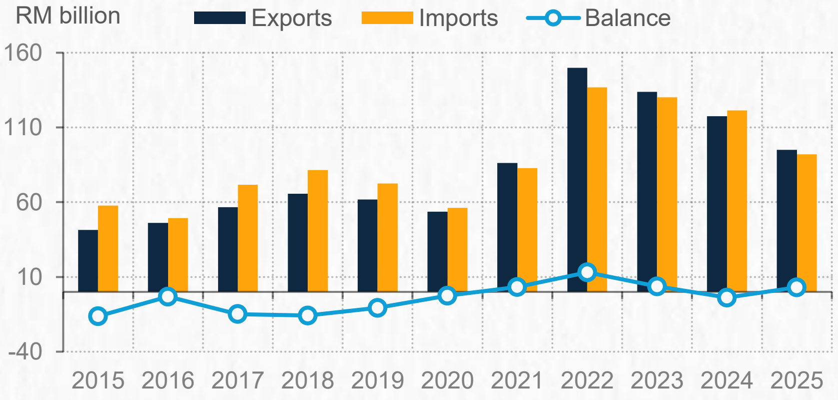
1. Japan (38.4%)
2. South Korea (27.0%)
3. China (24.9%)

Imports (% share)

1. Australia (95.8%)

Near balance of refined petroleum products

Refined petroleum products: Imports, exports, and trade balance



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%)

Positive and negative impact on Malaysia

▲ **Higher government revenue** (through higher PETRONAS dividend following higher revenue)

▲ **Small net energy trade surplus**, particularly from LNG exports

▼ **Higher fuel subsidy** (ballooned to RM4.9 billion in April at the peak of crude oil price, from RM0.8 billion in Jan-Feb)

▼ **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**

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***

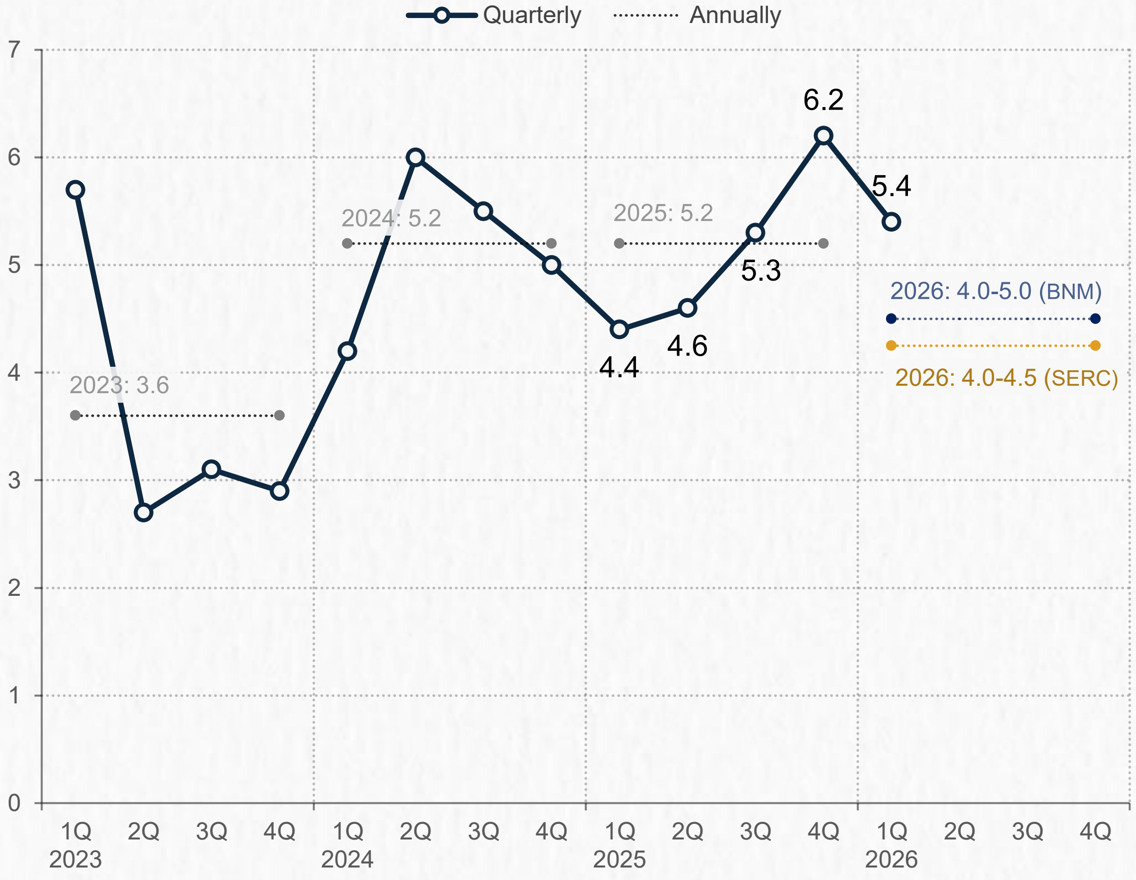
Note: Based on major listed countries; may slightly understate Middle East share.

Drivers of Malaysia's resilience so far...

Economic growth off to a good start in Q1 2026

Malaysia's real GDP growth

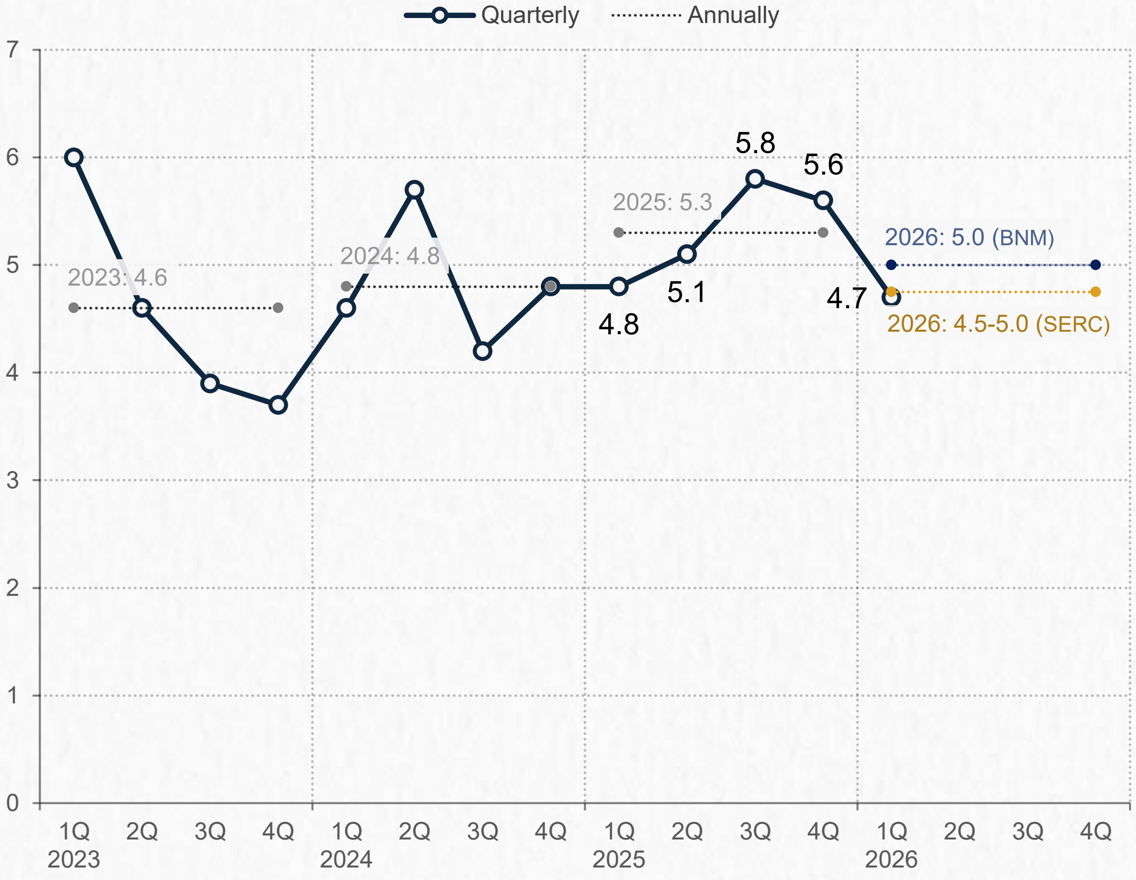
Year-on-year %



Consumer spending continued, albeit more slowly

Private consumption growth

Year-on-year %



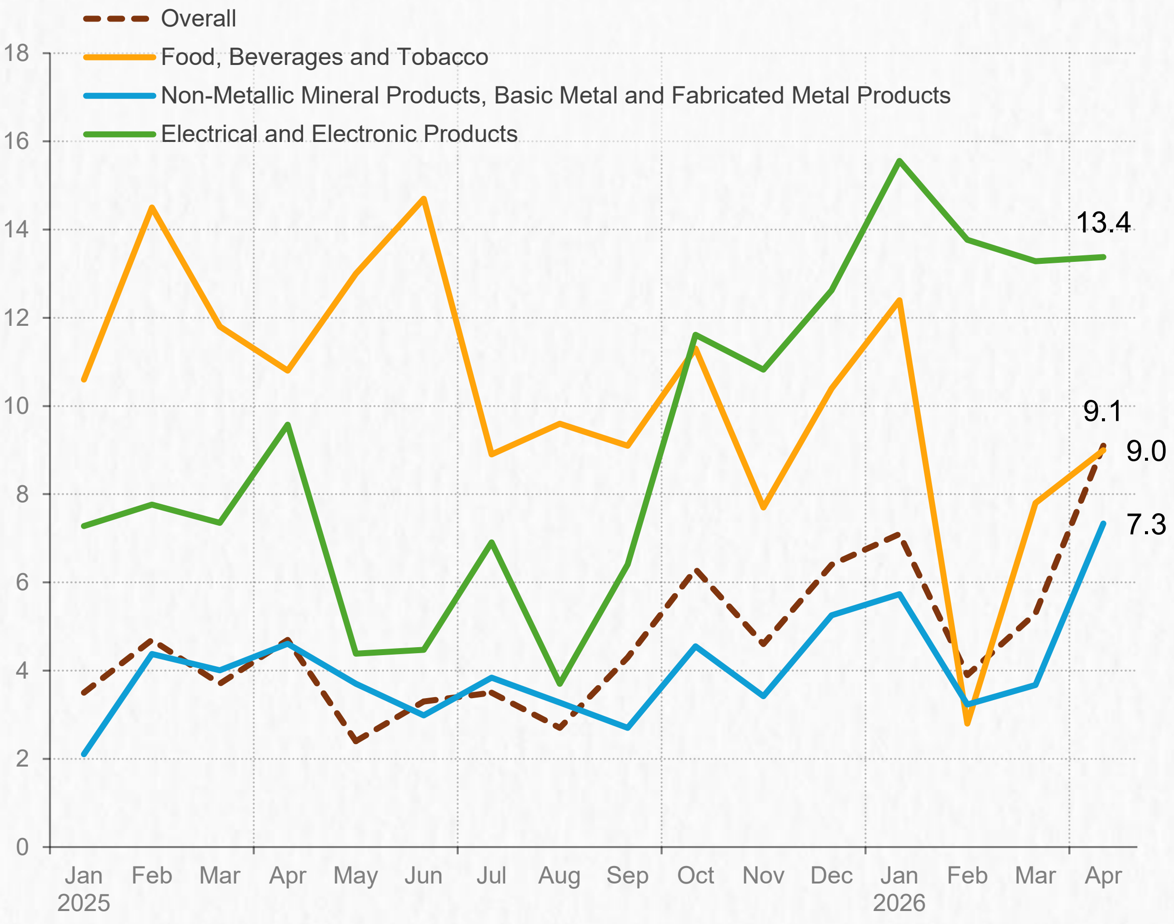
Source: DOSM

Drivers of Malaysia's resilience so far… (cont.)

Manufacturing sales of major products remained strong

Manufacturing Sales by Subsector

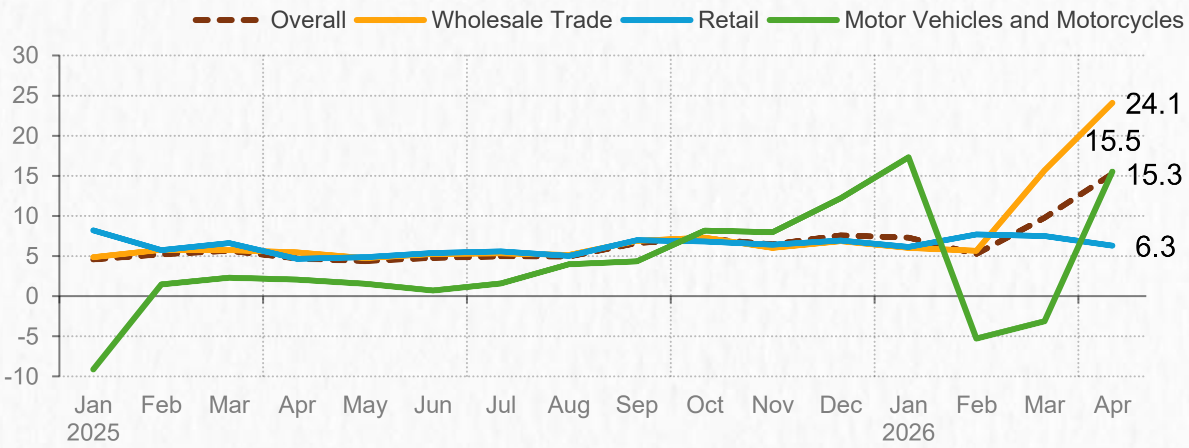
Year-on-year %



Still resilient wholesale and retail trade

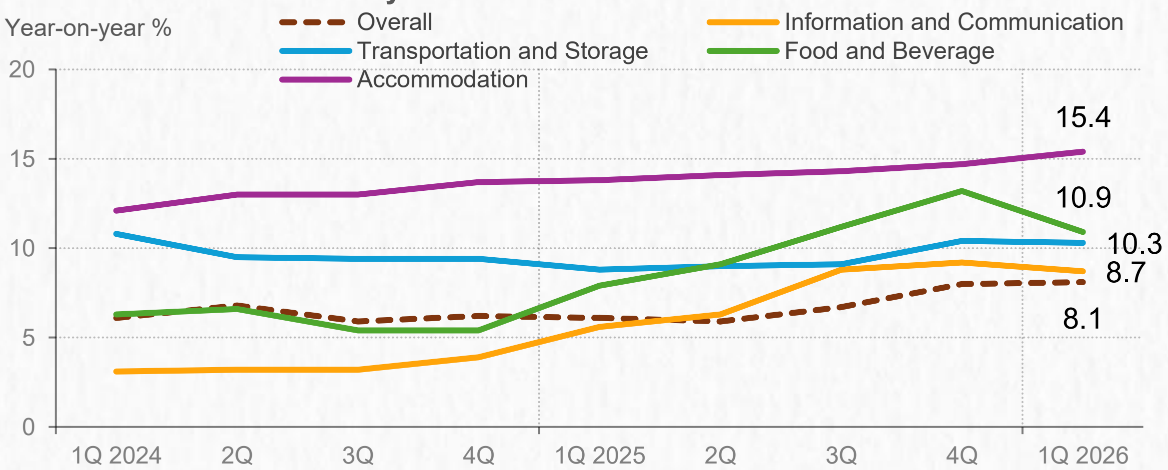
Wholesale & Retail Trade Sales by Subsector

Year-on-year %



Volume Index of Services by Subsector

Year-on-year %



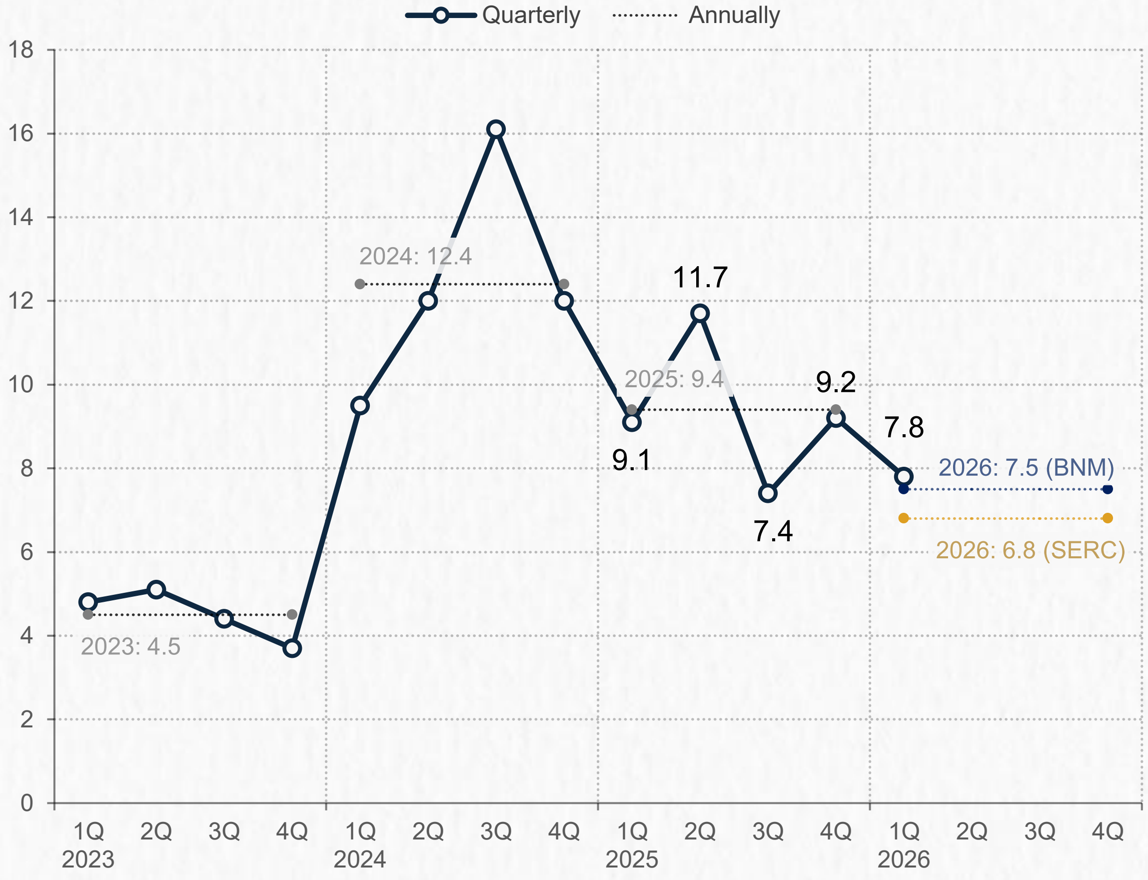
Source: DOSM

Drivers of Malaysia's resilience so far... (cont.)

Continued private investment amid increased business costs

Private investment growth

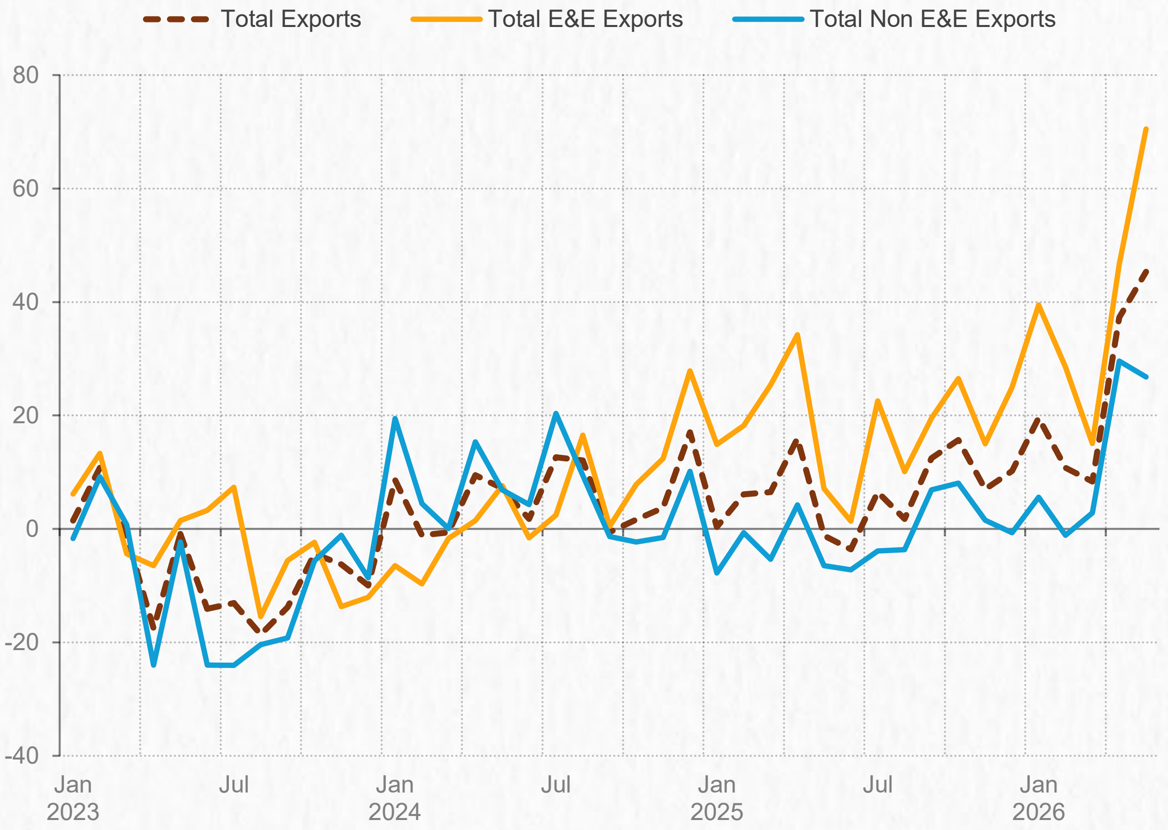
Year-on-year %



Exports surge primarily due to the front-loading in the electronics and electrical products (E&E) sector

Total exports

Year-on-year %



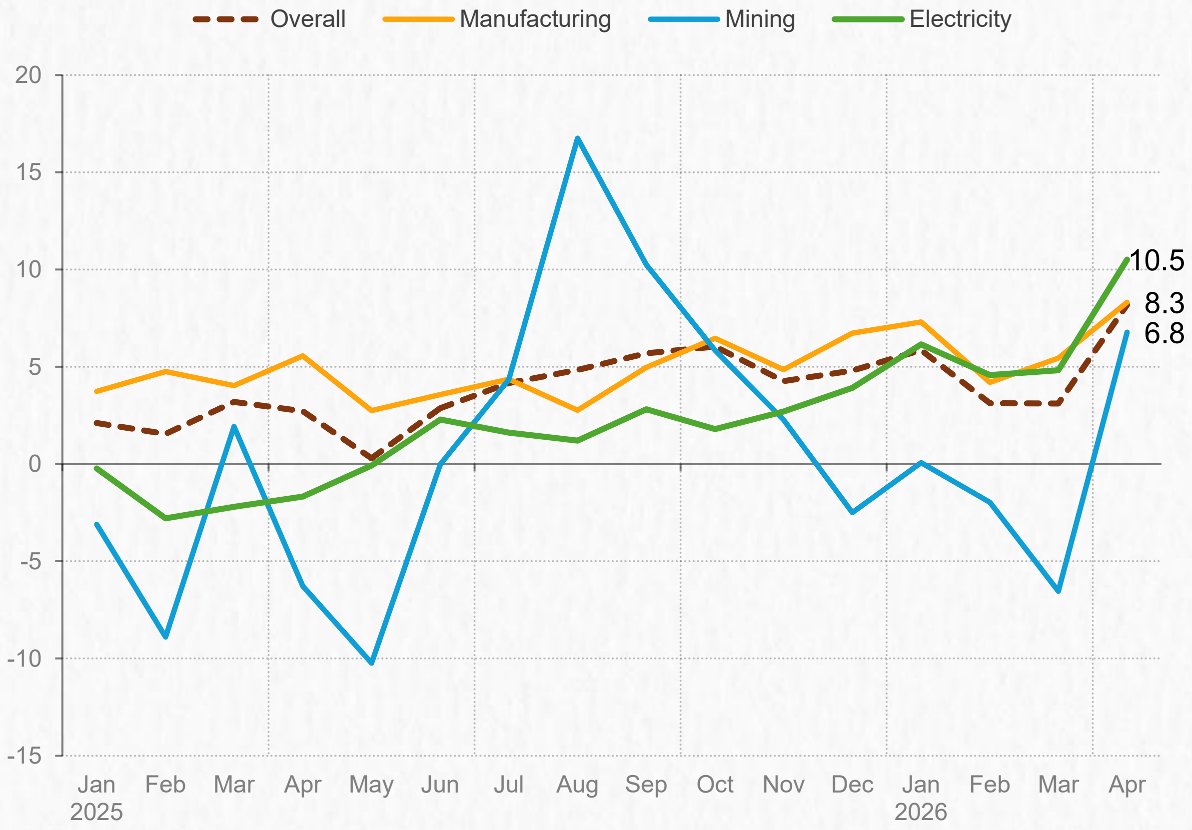
Source: DOSM

Drivers of Malaysia's resilience so far... (cont.)

Industrial production growth lifted by the front-loading production in the manufacturing sector

Industrial Production Index

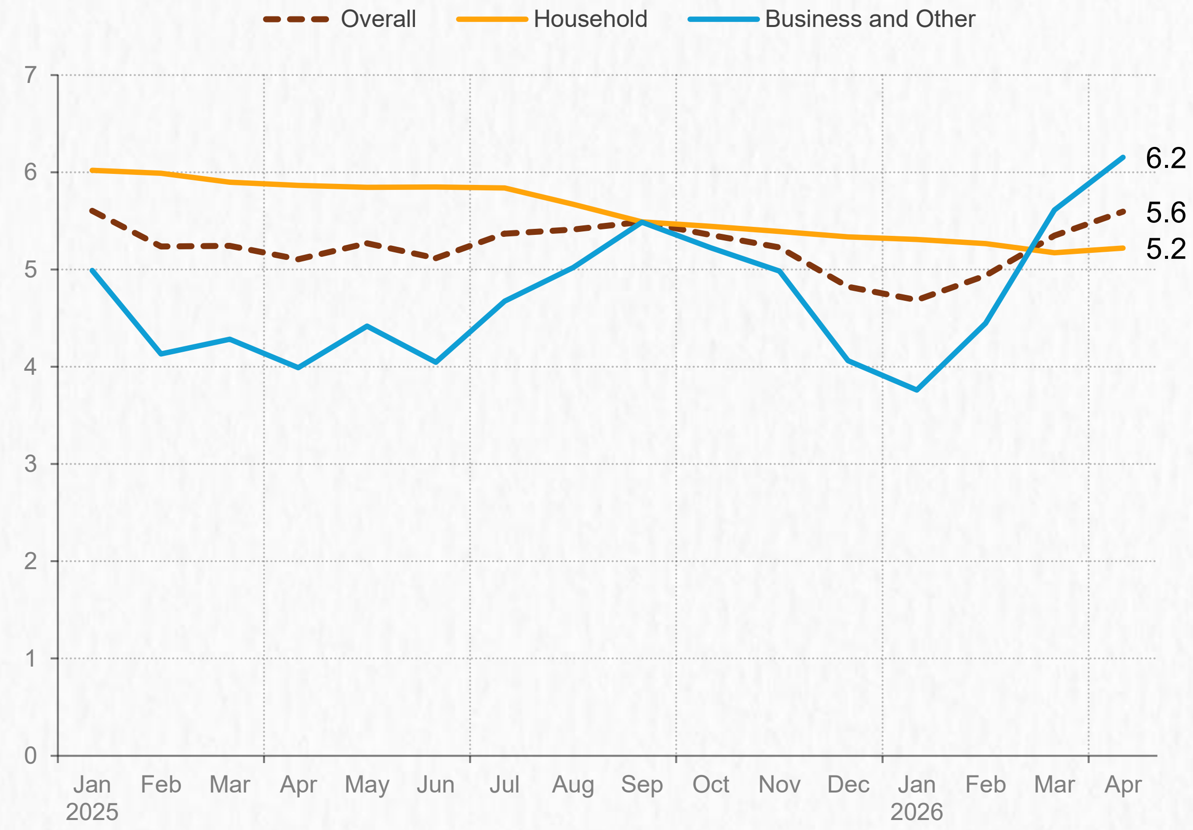
Year-on-year %



Overall banking lending growth to households and businesses

Loan / financing by sector

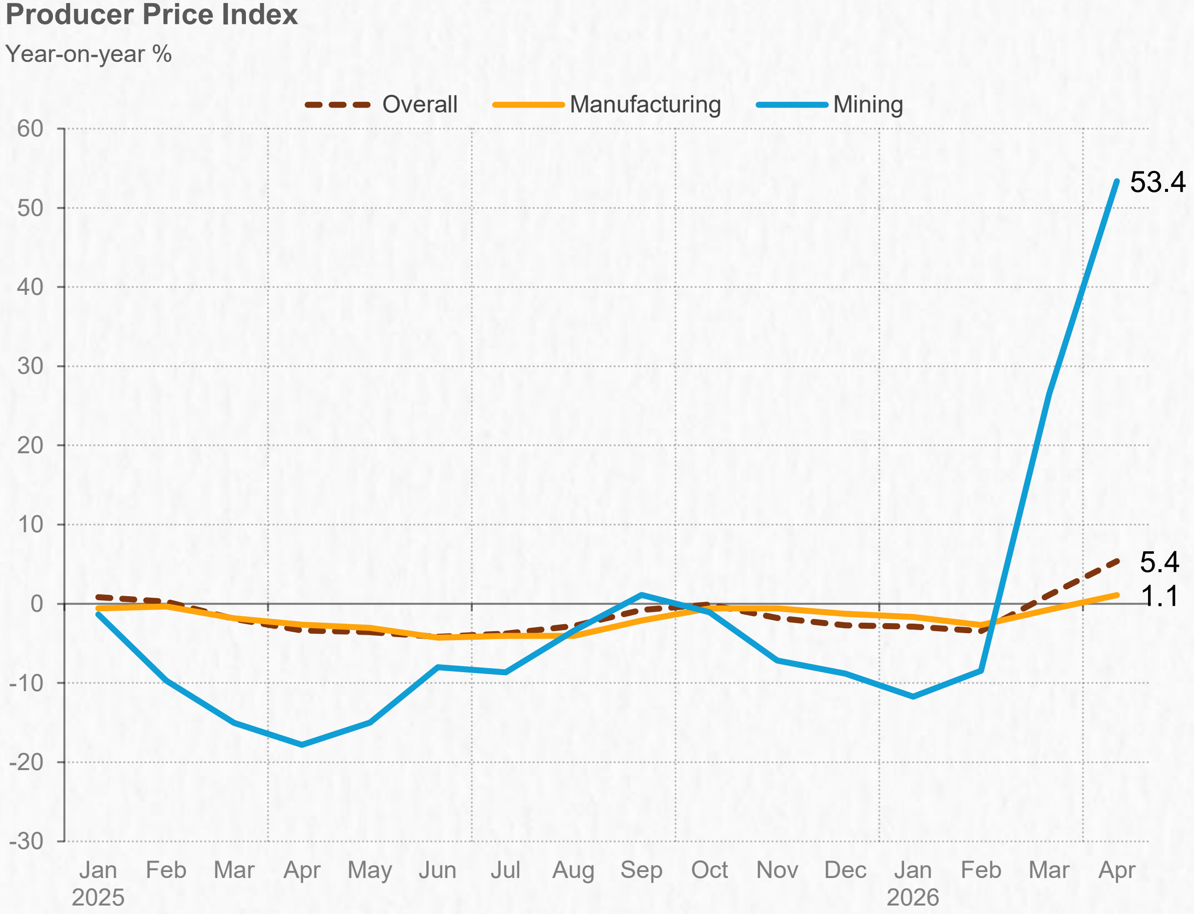
Year-on-year %



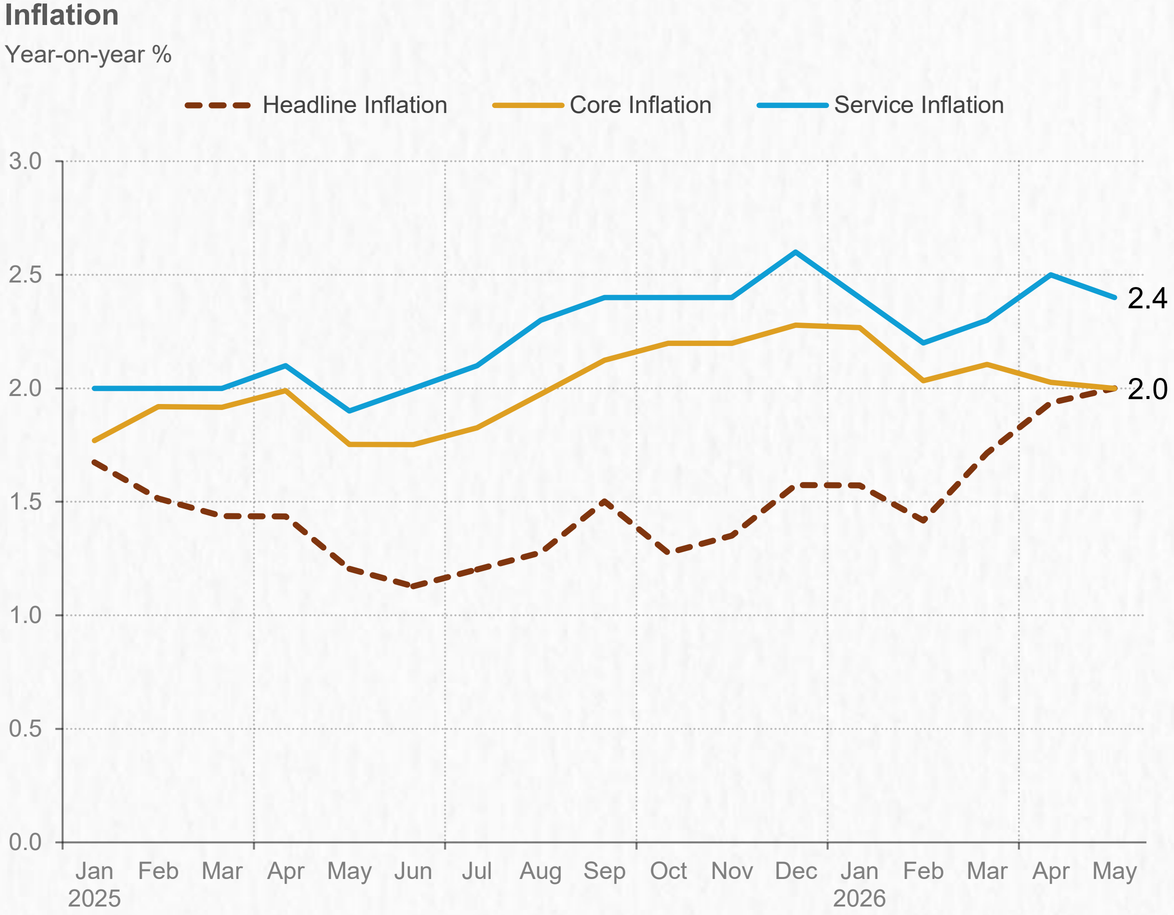
Source: DOSM; BNM

Wholesale inflation is accelerating; consumer inflation also picking up...

Producer Price Index has been accelerating

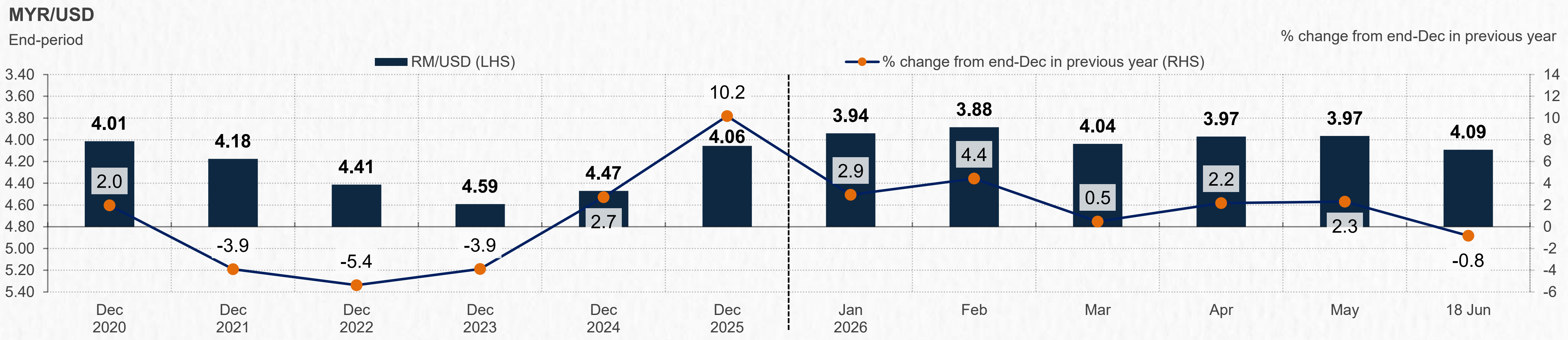


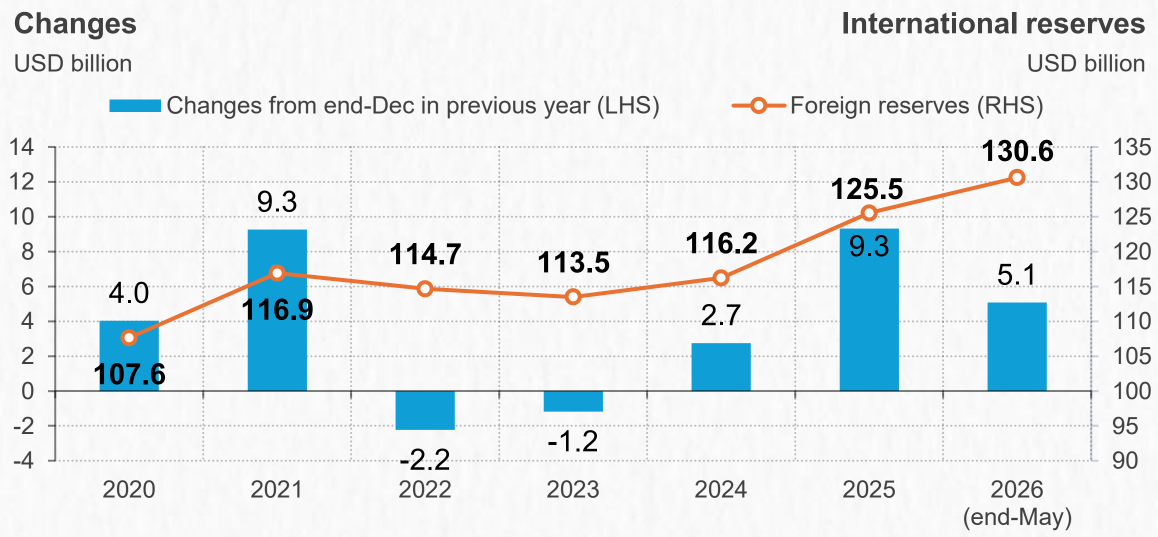
Headline and core inflation are inching up

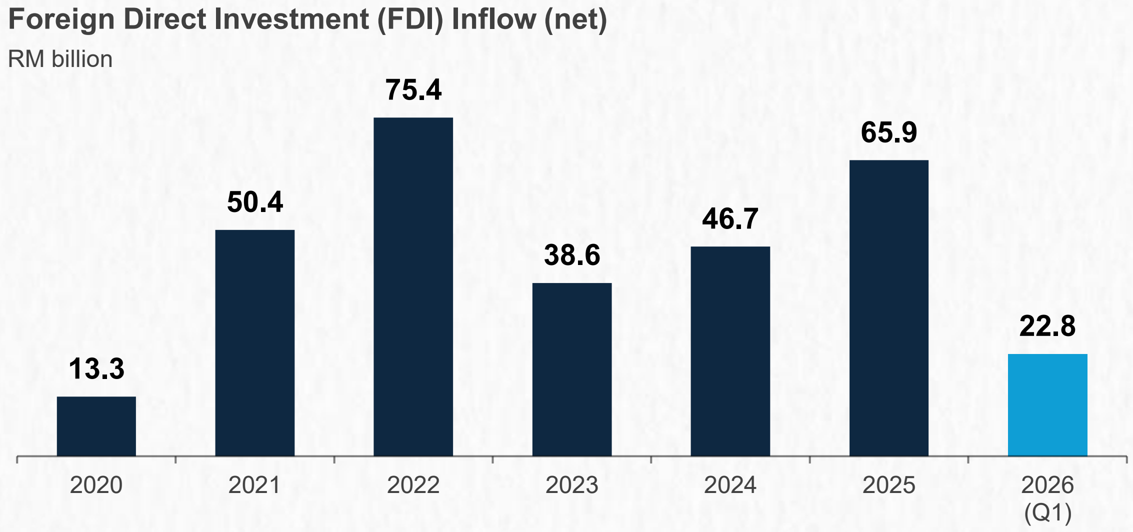


Source: DOSM

The Ringgit vs. Foreign exchange reserves vs. FDI inflows







Source: BNM; DOSM; Ministry of Economy

How to build business resilience?

Beneath these operational pressures lie a deeper and more uncomfortable question:

Is there a way out? How to build business resilience?

ECONOMIC CASCADE

Cascading Fuel Costs

Significant increase in fuel prices cascades through the entire economy – freight, logistics, construction materials, high-energy manufacturing, retail supply chains and hospitality.

VULNERABILITY MAPPING

Operational Ripple Effects

The ripple effects are unavoidable: fuel affects production, logistics, and raw materials, amplifies existing vulnerabilities in supply chains, and all these influence costs, margins and profitability as well as business planning budgets.

High energy prices trigger five simultaneous pressures

Direct and indirect cost shocks

Increase operating costs across the logistics, construction, manufacturing, retail and hospitality sectors.

Rising raw material costs

Driving up raw material costs impacting many industries such as contractors, construction, manufacturing, food processing, and heavy machinery, as well as services-related tourism and hospitality sectors.

Rising transport and logistical costs, while also boosting production costs for materials with high embedded energy like cement, steel, chemical products, and machinery operations.

"Stagflation" squeeze

While businesses have incurred increased operating costs, consumers' discretionary spending will weaken as households cope with high living costs. That means businesses face higher cost expenses at the same time revenue growth slows.

Margin compression

Squeeze business margins as companies cannot fully pass on increasing input costs to consumers, often due to low market power, fierce competition, or long-term fixed-price contracts.

Some companies preserve their margin **through small, incremental rate adjustments** without causing severe sticker shock for customers.

Cash flow tightness

Rising fuel costs and increasing operating costs drain working capital and may face difficulty servicing their loans.

Strategies for managing fuel price fluctuations

Fuel Surcharge Formula

Implement a well-structured fuel surcharge formula based on fuel price variations to be reviewed regularly, protecting profit margins while communicating surcharge clearly to customers to maintain transparency.

Route Optimization

Optimise efficient route planning to minimise fuel consumption by reducing unnecessary mileage and idle time.

Fuel Tracking & Analysis

Tracking and analysing fuel usage to identify inefficiencies and opportunities for cost reduction.

Fuel Efficiency Tech

Investing in fuel efficiency technology, fuel-efficient vehicles and alternative fuel technologies to help reduce dependency on fluctuating fuel prices.

Strategic Pricing

Implement strategic pricing which entails small, incremental rate adjustments to offset rising expenses without causing severe sticker shock for customers.

Suppliers Terms & Supply Chains

Renegotiate supplier terms, consolidating orders or exploring new supply chains to minimise disruptions and yield cost efficiencies. Operating costs will experience cash flow tightness and may face difficulty servicing their loans.

Built-in mitigation measures to buffer against oil shock

KEY INITIATIVES

Three main strategies

- **First**, ensuring an uninterrupted supply of basic needs such as food (chickens, eggs, rice and vegetables), fuel and medicine.
- **Second**, “prolonging” our supply, including subsidised fuel through prudent demand management --- strengthening control and intensified nationwide enforcement to prevent fuel subsidy leakages and smuggling.
- **Third**, mitigating the impact of the oil shock and supply chain disruptions (raw materials shortage and increasing input prices) on businesses.

ALTERNATIVE SOURCING

Alternative sourcing through diplomatic and strategic negotiations

- Secure additional supplies of critical inputs to support the manufacturing, packaging, healthcare products and agriculture.
- “Barter trade” negotiations with China, Australia and Russia, and seeking outreach to energy suppliers from third countries such as Canada, South Africa, Latin America and the Balkans.

CASH FLOW RELIEF

Cash flow tightness easing measures and financing facilities

A RM5 billion financing guarantee under Syarikat Jaminan Pembiayaan Perniagaan (SJPP) for targeted sectors (construction, agriculture and agro-food, logistics and transportation, and tourism), a 12-month extension for e-invoicing transition and interim tax relief on re-imported Malaysian goods affected by global supply chain disruptions, and Targeted Repayment Assistance.

Built-in mitigation measures to buffer against oil shock (cont.)

STRATEGIC MANDATE

The challenge is not simply how to absorb today's oil shock, but how to prepare for the next one.

Future-Proof Policy

Need sustainable and future-proof policies that reduce fossil fuel dependence and expand renewable-centred energy systems, making our economy more stable, our businesses and communities more resilient and strengthening cushioning against the risks of future oil shocks.

Transition Acceleration

Key strategies include accelerated investment in renewable energy (such as solar, hydro), encourage renewable energy adoption, efficiency, and electrification of transport, scaling electric vehicles (EVs), investing in grid infrastructure, and shifting industrial processes toward renewables.

BALANCE IMPERATIVE

Focus on balancing immediate economic pain relief with long-term fiscal sustainability, spending prudently, targeting support more precisely and building an energy system that can withstand future global instability shocks.

Consumer Behavioural Shifts

Consumer behavioural changes are crucial to shift from high consumption of fuel to efficiency and alternatives, leveraging price signals, promoting eco-driving vehicles, and enhancing infrastructure for alternatives.

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%.

Conclusion

1 While the growth momentum will slow, it is not a sharp slowdown. Malaysia is well-positioned to achieve GDP growth of 4.0% to 4.5% in 2026 and 4.0%-5.0% in 2027.

2 Malaysia’s oil shock economic playbook must reflect a broader shift in policy thinking over the medium-term, that is, away from somewhat “comprehensive and differentiated” support towards more selective, resilience-focused intervention, targeting at the most impacted and vulnerable sectors and households.

3 Dealing with an oil-induced supply shock requires careful policy calibration to avoid worsening the economic impact as broad stimulus can lead to long-term economic scarring and persistent inflation. Balancing immediate consumers’ and businesses’ protection with the necessity of economic adjustment to high prices requires a multi-faceted approach.

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