AmBank Group

AmBank Economics

#WhatWeThink

Impact of elevated global oil prices

31 March 2026

Snapshot Summary…

- Growth resilience during past oil price shocks was largely cyclical, not structural. We have seen episodes of Malaysia's strong GDP performance during periods of high global oil prices, reflecting favourable business-cycle conditions.
- The inflationary impact of high global oil prices is heavily influenced by government intervention, where fuel subsidies and price controls significantly shield pass-through effects to consumers. As such, Malaysia's inflation volatility is much lower than that of its regional peers.
- As Malaysia no longer holds the net oil exporter status, more evidently in the post-pandemic era. If fiscal space tightens, future oil price increases could have a more meaningful drag on growth amid rising inflation. Malaysia's labour market impacts are likely to remain limited.

Macroeconomic Variables

	2024	2025	2026F*
Real GDP (y/y%)	5.1	5.2	4.5
Inflation (y/y%)	1.8	1.4	1.8
Unemployment Rate (%, average)	3.3	3.0	2.9
OPR (%, period-end)	3.00	2.75	2.75

**Forecast by AmBank Economics*

Sources: Department of Statistics Malaysia (DOSM), Bank Negara Malaysia (BNM), AmBank Economics

Introduction

- Global oil prices, once again, took centre stage following the US-Israel-Iran war. It took about a week to respond strongly to the war; alas, Brent crude futures hit USD100.46 per barrel on 12 March, marking a 9.2% spike on that day. While the world grapples with the inflationary impact of high global oil prices, all eyes are on Malaysia, which has shown resilience in navigating such shocks in the past.

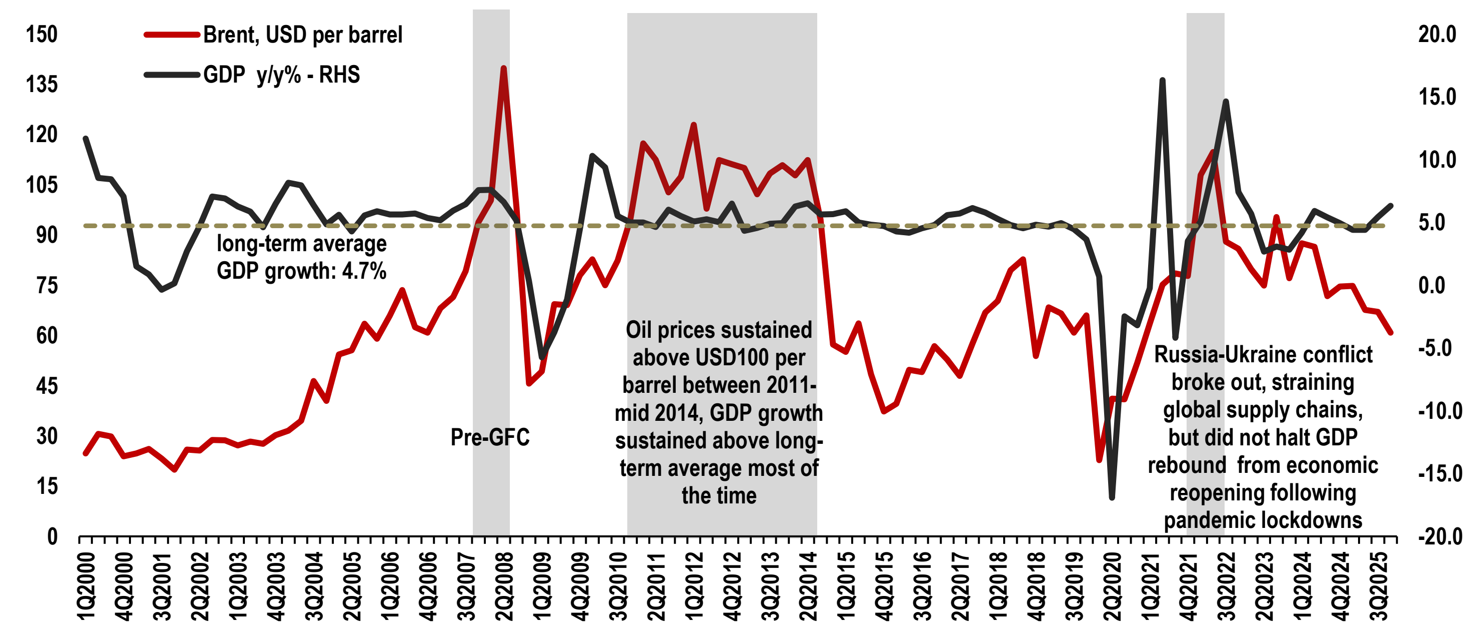
- The present circumstances are distinct, not only because of Malaysia's fiscal position and status as a net oil importer, but, perhaps more importantly, because the global oil market today is heavily hampered by supply disruptions amid the closure of the Strait of Hormuz.

- The objective of this research note is only to ascertain the impact of elevated global oil prices on Malaysia's macroeconomic imperatives, excluding the supply disruption. The latter is unprecedented, with no credible historical records for us to fall back on. As such, the paper is intended to examine the price effects only.

- This research note delves into historical accounts of the impact on GDP, inflation, and the labour market. Overall, we opine that Malaysia has historically fared relatively well during periods of elevated global oil prices, which were largely driven by context-dependent rather than structural factors. However, as Malaysia has become a net oil-importing economy since 2014, and consecutively post-pandemic, the weakening fiscal buffer from oil revenues is making the economy more exposed to the cyclicality of global oil prices.

- While we expect the government to moderate inflation pass-through and labour market impact during the current environment, higher global oil prices present a downside risk to growth with an upside risk to inflation, which departs from past records of a broadly neutral or supportive shock in the past.

Exhibit 1: GDP growth vs. Brent



Sources: DOSM, AmBank Economics

GDP

Historical data showed Malaysia's economy has generally held up well during past episodes of elevated global crude oil prices. During these periods, GDP growth averaged 5.8%, outperforming most regional peers (see Exhibit 2). However, this resilience should be interpreted in light of prevailing economic conditions and settings, and may not fully reflect a structural ability to absorb oil price shocks.

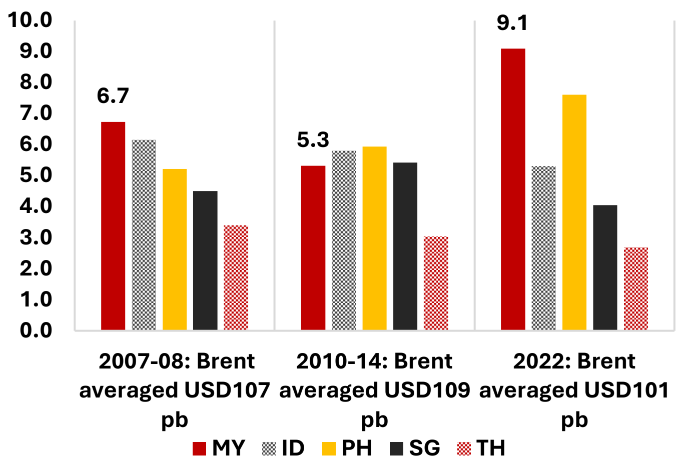
These episodes often coincided with the economy operating close to, or at, the peak of the business cycle, when underlying demand was already strong. Private consumption and investment expanded by an average of 7.7% and 8.8%, respectively. The 2007-08 oil price shock, for instance, was followed by a sharp downturn during the Global Financial Crisis (GFC), which explains the marked decline in growth in the subsequent year (y+1) illustrated in Exhibit 1.

Malaysia's earlier position as a net oil exporter also provided an additional buffer. Elevated crude oil prices boosted fiscal revenues, enabling the government to extend fiscal support, while stronger activity in the oil and gas sector generated broader economic spillovers. At the same time, fiscal policy appeared to have prioritised growth stabilisation, with fiscal support deployed to cushion the impact of external shocks.

Notably, in level terms, national output during the 2022-24 oil shock - stemming from the Russian-Ukrainian conflict - tracked slightly below its long-term trend (see Exhibit 3). While this period overlapped with the gradual reopening of the economy following pandemic lockdowns, the adverse impact remained present, albeit modest. This suggests that fiscal support and Malaysia's status as an oil producer provided a meaningful cushion.

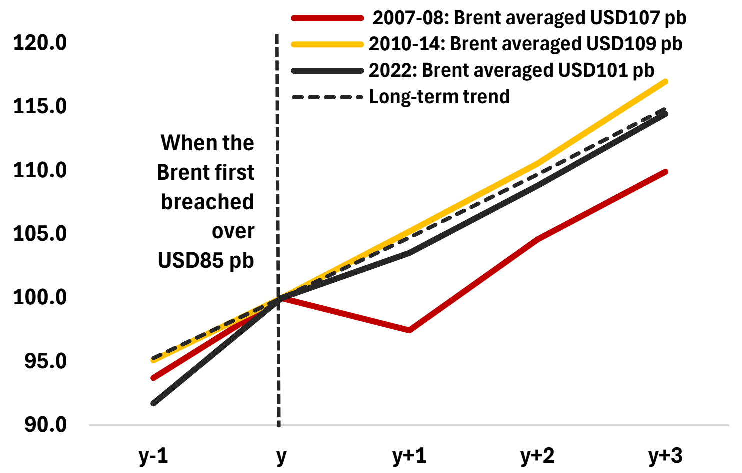
However, as Malaysia has been a net oil importer in most years since 2014 (10 out of 12 years), the transmission of oil price shocks has become more mixed. A reduced contribution from oil-related revenues will likely weaken this natural buffer. Future oil price shocks may have a more pronounced impact on growth if fiscal space becomes more constrained.

Exhibit 2: GDP growth among ASEAN-5 nations, %



Sources: Respective official statistics, CEIC Data, AmBank Economics

Exhibit 3: GDP growth in different periods, index.



Sources: DOSM, AmBank Economics

Inflation

While Malaysia's inflation has tended to rise above its long-term average during episodes of elevated global oil prices, the magnitude of the increase depends on the extent of government interventions, particularly through subsidies and price controls, which limit the cost pass-through to consumers.

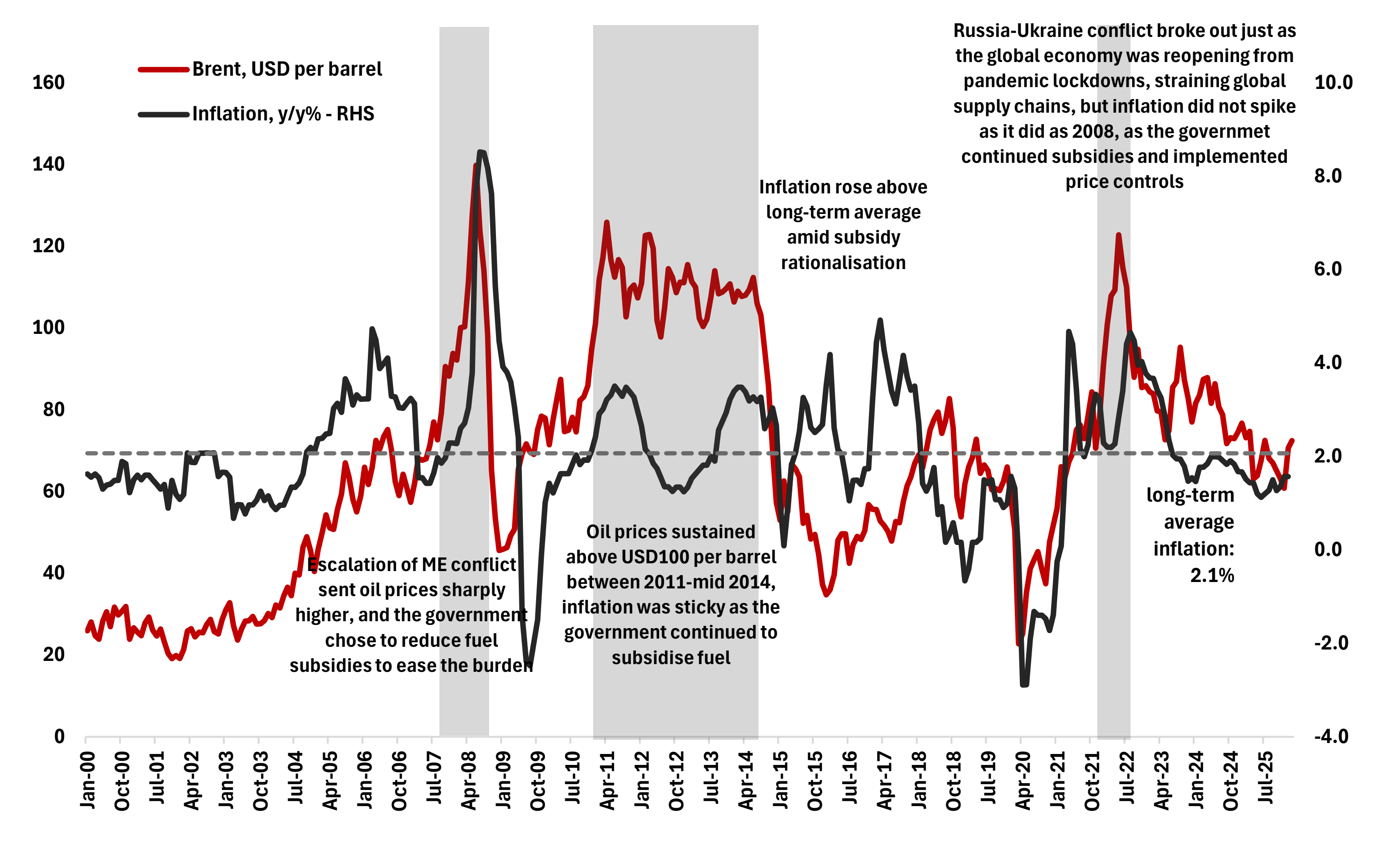
Historical experience illustrates this clearly (see Exhibit 4). During the 2007-08 oil price crisis, when the government reduced fuel subsidies to ease fiscal pressures, inflation peaked at 8.5%. In contrast, in episodes where subsidies were largely maintained and price controls were actively implemented (2010-14, 2022), inflation peaked at 3.5% and 4.2%, respectively. Both the level and volatility of inflation have generally been lower than those of its regional peers.

Although the immediate impact may be limited, movements in the producer price index (PPI) will eventually feed into consumer price inflation. This is because PPI captures changes in manufacturers' production costs, which are gradually transmitted along the supply chain to consumers. (see Exhibit 7).

To assess the extent of this pass-through, we use an impulse response function (IRF) to examine how shocks to PPI affect current and future Consumer Price Index (CPI) values. The outcome indicates that PPI does exert a short-term impact on CPI (see Exhibit 8, top-right chart). In particular, a one-standard-deviation shock to the PPI would increase CPI within three months, then gradually decline in the subsequent months.

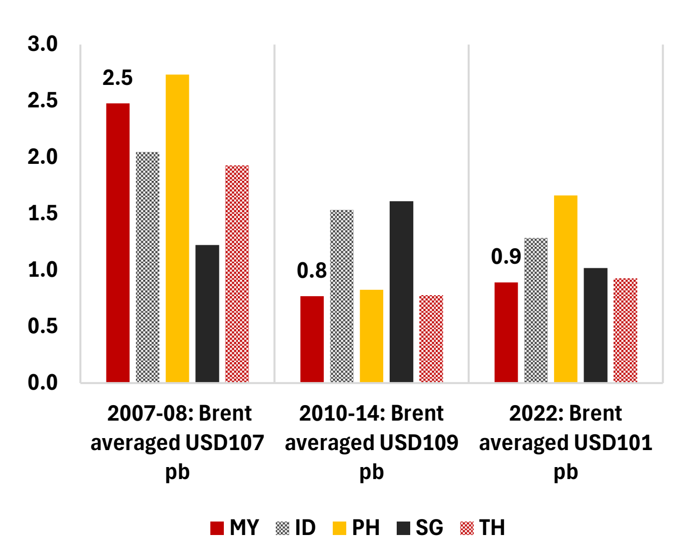
In short, higher oil prices present upside risks to our 2026 inflation forecast of 1.8%. However, we expect the impact to be contained, given continued government fuel price subsidies and a stronger ringgit.

Exhibit 4: Consumer price inflation vs Brent



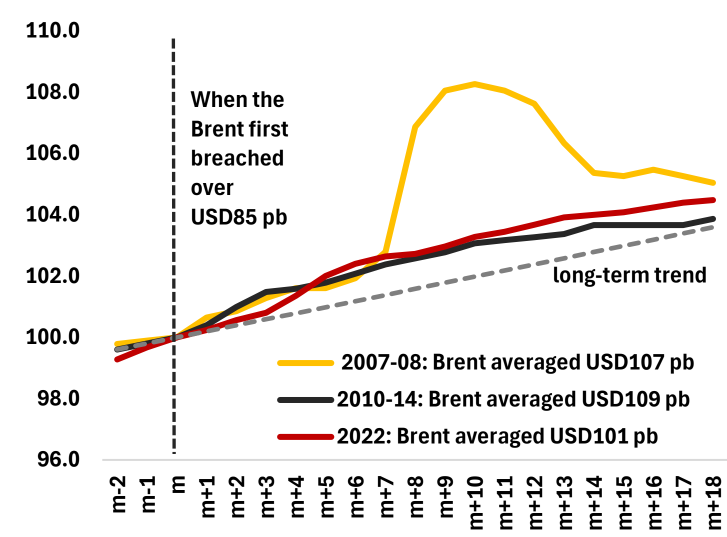
Sources: DOSM, AmBank Economics

Exhibit 5: Inflation volatility among ASEAN-5 nations, %



Sources: Respective official statistics, CEIC Data, AmBank Economics

Exhibit 6: Inflation in different periods, index.



Sources: DOSM, AmBank Economics

Exhibit 7: PPI and CPI causality test

VAR Granger Causality/Block Exogeneity Wald Tests
Date: 03/16/26 Time: 11:51
Sample: 2015M01 2026M01
Included observations: 131

Dependent variable: CPI

Excluded	Chi-sq	df	Prob.
PPI	13.51028	2	0.0012
All	13.51028	2	0.0012

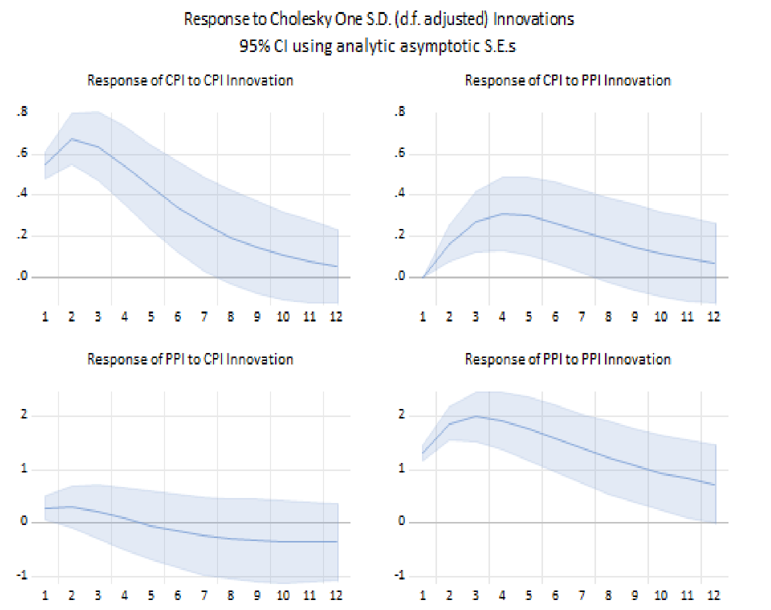
Dependent variable: PPI

Excluded	Chi-sq	df	Prob.
CPI	2.296105	2	0.3173
All	2.296105	2	0.3173

Null hypothesis	p-value	Decision	Result
CPI does not granger cause PPI	31.7%	Do not reject the Null	CPI does not cause PPI
PPI does not granger cause CPI	0.0%	Reject the Null hypothesis	PPI does cause CPI

Sources: DOSM, Eviews, AmBank Economics

Exhibit 8: IRF – PPI CPI interaction



Sources: DOSM, Eviews, AmBank Economics

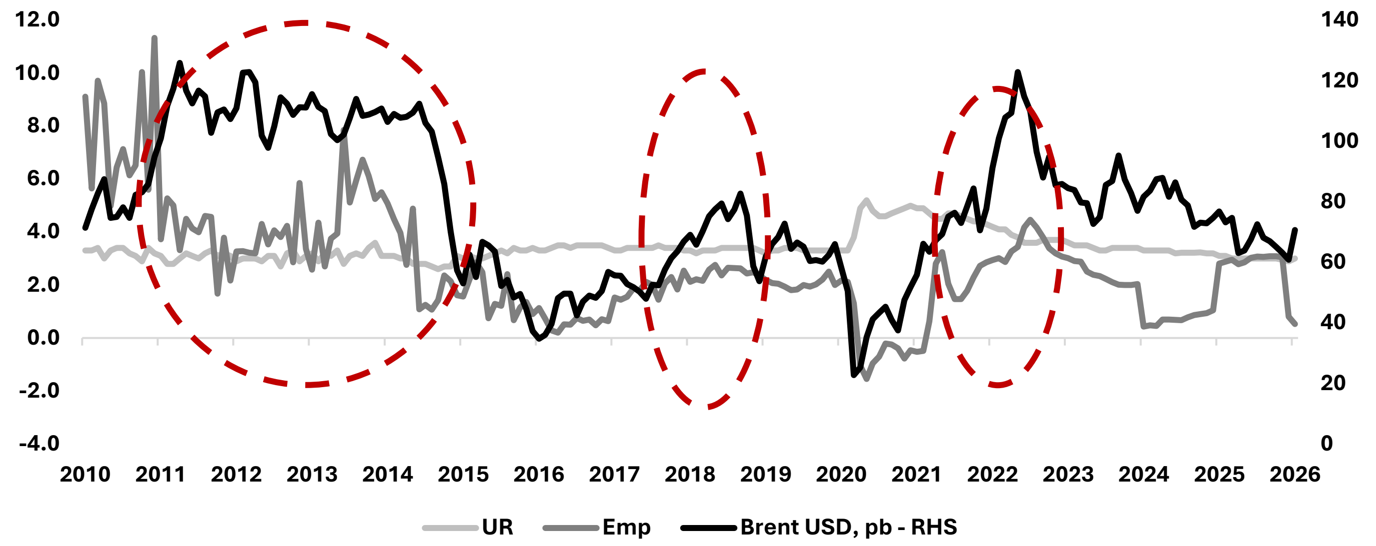
Labour Market

Past data showed that Malaysia's unemployment rate is not affected much, as it lingers around 3%, which headlines suggest indicates the labour market is stabilising. However, we notice that the employment rate dropped during these periods, perhaps as the labour force shrank faster than the number of jobs lost. Labour force drop could be due to people who might be (a) stop or give up searching for new jobs, (b) retire, (c) continue studying, among others.

As we break down the employment rate to analyse how each industry performed during the challenging periods, we noticed that, in post-COVID Malaysia, higher oil prices coincided with stronger manufacturing employment, which benefited directly from reopening and exports. This is because the economy was transitioning from suppression to expansion, allowing demand recovery to outweigh the energy cost effect following the Russia-Ukraine war. Meanwhile, agriculture and construction faced structural and cost constraints, which muted employment growth. Also, Malaysia's direct oil and gas employment remains small, given that it is a capital-intensive industry.

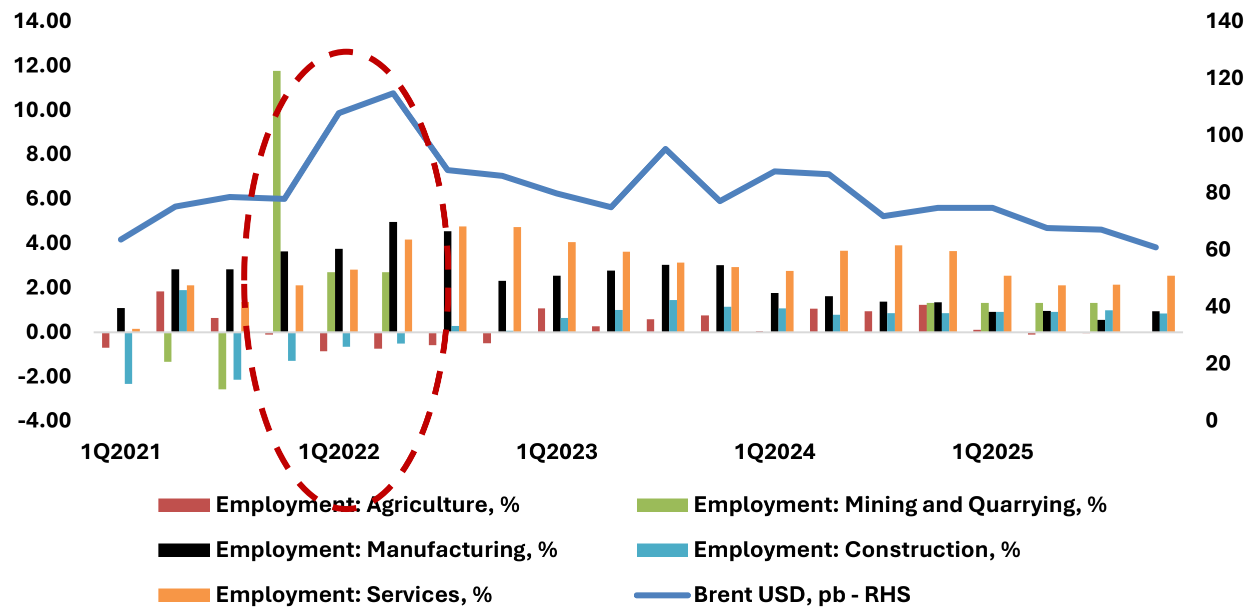
That said, higher oil prices could push unemployment higher. Still, historical evidence suggests the impact was modest, as the unemployment rate remained below 4% throughout most periods, except during the COVID-19 pandemic. In other words, this may reflect labour market flexibility, supportive macroeconomic policies, or sectoral buffers that mitigated the transmission of oil price shocks.

Exhibit 9: Unemployment rate and employment growth vs Brent



Sources: DOSM, AmBank Economics

Exhibit 10: Employment by sectors vs Brent



Sources: DOSM, AmBank Economics

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