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An oil price to pay for conflict

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■ Eight-sen rise in RON95 market price could cost government about RM5bil

■ Higher energy costs and geopolitical tensions may slow spending and investment

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THE escalating tensions in the Middle East are likely to hurt the pockets of the Malaysian government. With oil prices rising due to the fighting, Malaysia's fuel subsidy bill is set to rise by billions of ringgit.

The rising energy prices will also put to test Tenaga Nasional Bhd's relatively new automatic fuel adjustment (AFA) system, which has only delivered rebates since its introduction in July 2025, potentially pushing up electricity prices in Peninsular Malaysia.

On Thursday, as part of weekly adjustments, the retail price of non-subsidised RON95 increased eight sen to RM2.67 per litre.

If all 16 million eligible motorists fully utilise the 300-litre monthly quota under the RON95 subsidy scheme, an eight-sen increase in the market price could raise the government's subsidy bill by about RM4.61bil annually.

Earlier this week, the government said direct trade with Iran is limited. Trade between the two countries amounted to RM2.45bil, or just 0.09% of Malaysia's total trade in 2024, said Deputy Investment, Trade and Industry Minister Sim Tze Tzin.

He said the imports affected mainly involve petroleum and natural gas, but added that Malaysia does not rely heavily on supplies from Iran.

In fact, Malaysia's trade with other Middle Eastern countries is also relatively modest.

According to data for 2025, exports to the United Arab Emirates totalled RM16.53bil (1% of total), while imports were RM25.83bil (1.8%). Exports to Saudi Arabia were RM5.41bil (0.3%), with imports at RM26.51bil (1.8%), while imports from Oman stood at RM7.38bil (0.5% of total).

While the direct impact may be small, indirect effects could ripple through the broader economy, potentially affecting economic growth.

Rising electricity prices?

Economist Yeah Kim Leng says stronger oil prices would increase government income from the oil and gas sector, helping to absorb some of the additional subsidy costs.

"To an extent, the increase in petroleum revenue can be channelled to support the subsidy increase," he says.

However, he adds, higher energy costs could eventually affect industries relying on unsubsidised fuel and gas, particularly through electricity tariffs.

"That will be the second-round effect," Yeah says.

"Electricity tariffs for industries are reviewed periodically and are linked to input costs like fuel. Any impact may only be seen when tariff adjustments factor in changes in fuel costs."

In Peninsular Malaysia, electricity tariffs are now adjusted monthly under the AFA mechanism, which replaced the biannual imbalance cost pass-through system on July 1, 2025.

The AFA adjusts electricity bills based on changes in generation fuel costs – mainly coal and natural gas – as well as foreign exchange movements.

Since its introduction, AFA adjustments have largely taken the form of rebates. However, if global energy prices continue to rise, the mechanism could shift from rebates to surcharges, potentially pushing electricity bills higher for businesses and larger households.

Domestic consumers using 600kWh or less per month remain exempt from the charge.

According to TNB's estimated bill calculator, a domestic user consuming 600kWh a month would pay about RM216.

Consumers whose monthly usage exceeds this level may see a slight increase in their electricity bills should AFA surcharges be embedded.

Slowing economic growth?

Yeah cautions that higher energy prices and rising uncertainty may trigger a risk-off environment, slowing consumption and investment worldwide.

"Both will have a dampening impact on growth," he says.

"If the conflict continues, we could see downward revisions to growth forecasts, not just for Malaysia, but globally, especially for energy-importing countries."

Nevertheless, Asian economies are expected to remain relatively resilient, supported by diversified energy supply sources.

These countries have been importing more crude from Russia, the United States and other oil producers, Yeah says.

As an oil-producing nation, Malaysia may be less affected compared with major energy-importing economies.

The oil and gas sector contributes about 20% to gross domestic product and roughly 18% to 20% of federal government revenue.

"We are among the less affected countries," says Yeah.

Asian economies, he says, can shield themselves from the spillover effects of geopolitical tensions by sustaining domestic investment and consumer spending.

"It is very important for Malaysia to sharpen its focus on domestic demand, ensuring that investor and consumer confidence remains resilient."

Although direct trade with the Middle East is limited, Malaysia remains exposed indirectly through global energy markets and key shipping routes, particularly the Strait of Hormuz.

While Iran produces about 3.3 million barrels of oil per day, roughly 3% of global output, its influence extends far beyond production because one-fifth of the world's oil supply – or more than 20 million barrels daily – passes through the strait.

The risks are not limited to crude oil.

Qatar, which accounts for about 20% of global liquefied natural gas (LNG) exports, ships all its LNG through the Strait of Hormuz.

Concerns arose after a drone attack shut Qatar's Ras Laffan Industrial City, the world's largest LNG export complex, sending LNG prices up.

Some sources told *Reuters* the facility may not return to normal production for at least a month.

Analysts say disruptions of this scale could tighten the global gas market and push prices higher.

Still, some industry players say that Malaysia may not fully capitalise on the current geopolitical situation due to ongoing domestic disputes within the oil and gas sector.

One oil and gas executive says the country risks "missing the boat" as the industry has been held back by the long-running dispute between Petroliam Nasional Bhd (PETRONAS) and Petroleum Sarawak Bhd (Petros) over control of gas resources.

Malaysia produces about 570,000 to 660,000 barrels of crude oil per day, while total domestic production, including natural gas, stands at roughly two million barrels of oil equivalent per day.

Sarawak holds about 60.87% of Malaysia's proven and probable petroleum reserves and accounts for roughly 90% of the country's LNG exports.

Petros now controls the buying, supplying and distribution of natural gas within Sarawak, replacing the previous arrangement where PETRONAS played that role.

The state government argues that PETRONAS must comply with Sarawak's Distribution of Gas Ordinance 2016 and obtain licences from the state to operate and supply gas in Sarawak.

PETRONAS, however, maintains that under the Petroleum Development Act 1974 (PDA), it remains the sole custodian of Malaysia's petroleum resources and does not require state licences.

The legal battle is ongoing.

Last month, the Kuching High Court upheld PETRONAS' right to call on a RM7.95mil bank guarantee from Petros, stemming from non-payment for gas supplied in August 2024.

Petros had withheld payment, arguing that PETRONAS lacked a valid licence.

The dispute has now moved to the Federal Court, with hearing fixed for March 16.

The dispute aside, much will depend on how long the geopolitical tensions persist.

An oil and gas executive said that even if hostilities ease quickly, prices may not fall immediately.

"There will be some damage. Oil prices might not swing back immediately," he said.

"Even if the conflict ends, the impact on infrastructure and supply chains could keep prices in the US$70 to US$80 per barrel range for some time."

He adds that while Organisation of the Petroleum Exporting Countries could attempt to stabilise the market, ramping up production is not instantaneous.

"It takes time."