

## **Abdul Rasheed Ghaffour: War, oil shocks and trade restrictions - geoeconomics and implications for Asia**

Special remarks by Mr Abdul Rasheed Ghaffour, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the ASB (Asia School of Business)-SEACEN (South East Asian Central Banks) Policy Roundtable, Asia School of Business, Kuala Lumpur, 15 May 2026.

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Today, we have heard a rich and thoughtful discussion on how geopolitical conflict, energy shocks and trade restrictions are reshaping the global and regional economic landscape. I would like to thank ASB and SEACEN for convening this timely roundtable, and to all panellists and participants for a candid and substantive exchange of views and thoughts.

As we consider the economic and financial consequences, we should not lose sight of the human cost of conflict, and our collective hope for a resolution that alleviates the hardship and restores stability. The global economy has been tested by a remarkable sequence of shocks: the COVID-19 pandemic, the war in Ukraine, sweeping tariff measures reshaping global trade, and now, the ongoing conflict in the Middle East. The International Energy Agency (IEA) describes the current episode as the largest oil supply disruption and energy security threat in history.

Taken together, these developments signal a fundamental shift in the global landscape – another "new normal" characterised by frequent, overlapping and mutually reinforcing shocks. What is particularly concerning is that many economies have yet to fully rebuild the policy buffers deployed during the pandemic years. As a result, policy space has narrowed considerably, trade-offs have become more acute, and the margin for policy error is now much smaller.

### **Impact and Transmission Channels**

Ladies and gentlemen,

Almost three months into the conflict, it is already disrupting real economic activity and affecting livelihoods across the region. The conflict is not merely a distant geopolitical event; it represents a direct hit on a region that sources a sizeable amount of its oil and gas from the Middle East<sup>1</sup>.

The transmission channels extend well beyond energy. Shortages of helium and specialised gases arising from these disruptions are affecting industrial inputs into critical sectors including healthcare and technology<sup>2</sup>. In parallel, ADB projections note heightened risks to future crop yields and food security across Asia as a result of fertiliser shortages.

These disruptions are already raising cost pressures across the economy. Higher energy prices, together with shortages of key inputs, are feeding into production and logistic costs. This, in turn, is adding to broader inflationary pressures that we are experiencing.

In parallel, uncertainty over the duration of the conflict is weighing heavily on the growth outlook. To put this into perspective, global GDP growth has fallen below 2% only twice in recent decades – during the pandemic, and during the global financial crisis in 2008. Under more severe scenarios modelled by the IMF and AMRO<sup>3</sup>, a prolonged conflict extending into next year could bring us close to that threshold again.

For Malaysia, the economy continues to demonstrate resilience. Earlier today, we just shared that the economy grew by 5.3 percent in the first quarter, in line with our projection of 4 to 5 percent growth for the year. Meanwhile, inflation is expected to remain contained within the range of 1.5 to 2.5 percent, subject to developments surrounding retail fuel prices. That said, we remain vigilant and are closely monitoring global developments and the potential impact on Malaysia.

## Adjustments by Firms and Governments

In response, firms and governments are already recalibrating supply chains to safeguard energy security, though not without potential long-term costs.

First, countries are actively sourcing alternative supply of oil and gas.<sup>4</sup>

Second, firms are turning to oil substitutes as a near-term buffer against supply disruptions. Recent analysis<sup>5</sup> points to a renewed reliance on coal in parts of Asia<sup>6</sup>.

Third, some economies have introduced export restrictions on energy-related commodities to preserve domestic supply<sup>7</sup>.

These responses are valid – each reflecting a legitimate effort to protect domestic economies under acute pressure. But these will carry long-term costs that compound the very vulnerabilities we are trying to escape – which is why the policy response cannot stop at near-term stabilisation only.

## Policy Responses

The challenge for policymakers is therefore two-fold: managing immediate disruptions and spillovers, while keeping sight of durable and sustainable growth over the medium- to long-term. These cannot be treated as separate conversations, especially when shocks are persistent and overlapping. Allow me to share three points on this front.

**First, safeguarding macroeconomic and financial stability must remain the immediate priority.** The objective is clear: to prevent external supply shocks from impairing economic activity, disrupting markets, or un-anchoring inflation expectations. Measures to secure energy supplies, diversify sourcing, and contain second-round inflationary pressures will all be critical.

In this context, central banks play a critical role in preserving both price and financial stability in the face of supply shocks. On price stability, the challenge lies in distinguishing temporary supply shocks from more persistent price pressures. Monetary policy must remain calibrated to domestic conditions. The risk emerges when these shocks become prolonged and begin to feed more broadly into prices and wages. At that point, central banks must act decisively to prevent inflation from becoming entrenched and to keep expectations well anchored.

On financial stability, external shocks often manifest first in financial markets – triggering sharp movements in exchange rates and capital flows – before spilling over into the real economy. Therefore, ensuring orderly market functioning, maintaining adequate liquidity, and anchoring confidence must be the first line of defence.

Fiscal policy also has an important role, particularly to address the regressive effects of energy shocks. Targeted support for vulnerable segments must be balanced against the need to preserve incentives for efficient energy use and ensure fiscal sustainability.

**Second, structural reforms must continue with urgency.** As repeated shocks become a defining feature of the global economy, delaying reforms will only increase future vulnerabilities and adjustment costs.

However, resource constraints cannot be ignored. Governments are simultaneously managing fiscal consolidation, food security, energy transition, digitalisation and climate adaptation. These should not be seen as competing agendas. They are mutually reinforcing investments in long-term resilience and competitiveness. Seen in this light, structural reform requires sharper prioritisation and sequencing, with a focus on where policies can most directly reduce exposure to future shocks. Some key areas come to mind.

Energy security must be at the core. The conflict underscores risks of concentrated supply and limited substitutes. Investment in climate-resilient and diversified energy infrastructure – including renewables – is not only about meeting climate commitments. It is fundamentally about reducing structural exposure to future supply disruptions.

Food security also warrants greater policy attention. Energy and trade shocks often transmit into food prices with a lag, disproportionately affecting lower income households and developing economies<sup>8</sup>.

Finally, long term resilience ultimately depends on openness and connectivity. In a more fragmented global environment, strengthening regional supply chains remains essential.

**Third, stability and sustained growth cannot be secured through domestic efforts alone.** Despite rising fragmentation, our economies remain deeply interconnected through trade, finance and confidence channels. Cooperation and collective action are therefore not optional – they are a strategic necessity.

Encouragingly, the region has already taken collective steps in this direction. Initiatives such as the ASEAN Power Grid, Japan's POWER Asia Initiative<sup>9</sup> and the newly

launched ACCEL<sup>10</sup> platform by ADB and Japan demonstrate how regional partnerships can mobilise financing, strengthen energy security and support regional economic resilience.

Beyond these individual initiatives, the broader imperative is clear. We must preserve an open and rules-based trading system, reduce cross-border frictions, and strengthen buffers at the global, regional and national levels. As reaffirmed at the ASEAN+3 Finance Ministers' and Central Bank Governors' Meeting earlier this month, this includes keeping trade and investment flows open, strengthening supply chain resilience, and deepening regional financial cooperation through the Chiang Mai Initiative Multilateralisation (CMIM).

For CMIM, this means building a stronger, more credible regional financial safety net. The introduction of the Rapid Financing Facility (RFF) and the ongoing work to transition towards a Paid-in Capital (PIC) structure reflects the region's commitment towards more agile and reliable access to liquidity in times of stress. Nevertheless, further progress is needed and continuing the strong reform momentum will be key to ensuring CMIM remains fit-for-purpose in a more volatile environment.

## Closing

To conclude, what matters most in times like these is how prepared we are to navigate this new normal of repeated and overlapping shocks, and under tighter constraints. A swift return to pre-war conditions may be hoped for, but it cannot be assumed and perhaps is very unlikely. Our policy frameworks must therefore be built for resilience under repeated stress. We must approach this new normal with urgency and resolve – reinforcing our buffers, accelerating reforms, and deepening cooperation across the region. Resilience must be built well before the next crisis arrives.

Thank you. For those attending virtually, thank you for your time. And for those who have travelled here, I hope you will enjoy the Malaysian warmth, food and hospitality during the rest of your stay. With that, thank you very much for your attention.

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<sup>1</sup> ASEAN+3 sources over a third of its oil and gas from the Middle East.  
Source: ASEAN+3 Macroeconomic Research Office (AMRO), *Building the Energy Resilience ASEAN+3 Needs (March 2026)*

<sup>2</sup> Source: AMRO, *ASEAN+3 Regional Economic Outlook 2026: An Interim Update (April 2026)*

<sup>3</sup> The IMF's scenarios include a shutdown of the Strait of Hormuz extending into 2027 and further damage to drilling and refining facilities. For AMRO, it includes the Strait of Hormuz remaining effectively closed for 6 months, further damage to drilling and refining facilities, and Brent futures staying above USD150 per barrel for at least four months.

<sup>4</sup> AMRO noted increased imports from within the ASEAN+3 region, alongside diversification towards suppliers in Africa and the Americas Source: AMRO, *ASEAN+3 Regional Economic Outlook 2026: An Interim Update* (April 2026)

<sup>5</sup> Source: Channel News Asia, *How the Iran War Might Reshape Asia's Energy Playbook* (April 2026)

<sup>6</sup> In South Korea, authorities have lifted restrictions on coal fired generation, whereas India has directed coal plants to operate at maximum capacity. Source: World Economic Forum (WEF), *How is War in the Middle East Reshaping Asia's Energy Transition?* (May 2026)

<sup>7</sup> China has imposed export curbs on fuel and fertilisers (with exceptions for some regional buyers), whereas Thailand have closed off fuel exports and Indonesia have halted LNG shipments that were not under contract. Source: Reuters, *Asia battles rising, uneven toll of energy crisis caused by Iran war* (May 2026)

<sup>8</sup> Source: ADB, *The Impact of the Middle East Conflict on Asia and the Pacific: An Updated Analysis* (April 2026)

<sup>9</sup> Japan's Partnership on Wide Energy and Resources Resilience (POWER) Asia – launched in April 2026 – provides USD10 billion in funding which covers areas such as alternative oil procurement, fiscal support, and strengthening energy supply systems.

<sup>10</sup> Action for Creating Energy Security for Long-term Resilience, or ACCEL – launched in May 2026 – offers liquidity support and technical assistance to SMEs while financing medium-to-long term clean-energy investments.