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## Oil Price Shocks and Their Macroeconomic Impact on Asia: Implications Amid Current Geopolitical Tensions

	Impact of 10% rise in oil price		
	CPI (bp)	GDP (bp)	CA balance (% of GDP)
Philippines	80	-20	-0.30
Thailand	50	-20	-0.60
Australia	30	0	0.10
New Zealand	30	-15	-0.20
China	25	-10	-0.20
Taiwan	25	-10	-0.30
India	20	-10	-0.20
Indonesia	20	-10	-0.10
Korea	20	-10	-0.40
Japan	15	-10	-0.30
Singapore	15	-10	-0.40
Malaysia	10	10	0.40
Hong Kong	5	-5	-0.20

**Source:** BofA Global Research estimates

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Global financial markets are once again witnessing heightened uncertainty due to ongoing geopolitical tensions across several regions. Historically, geopolitical conflicts often disrupt energy supply chains, particularly crude oil markets. Even modest increases in oil prices can have significant macroeconomic consequences, especially for countries that rely heavily on energy imports. The data presented in the chart from BofA Global Research estimates the **impact of a 10% rise in oil prices on inflation (CPI), economic growth (GDP), and current account balances across several Asian economies**. The results highlight how differently economies respond to energy price shocks depending on their energy dependency and economic structure.

A key takeaway from the chart is the **inflationary pressure generated by rising oil prices**. Oil is a critical input across transportation, manufacturing, logistics, and electricity generation. When oil prices rise, production and transportation costs increase across industries, eventually passing through to consumer prices. Among the countries listed, the **Philippines experiences the highest inflationary impact**, with CPI rising by **80 basis points**, followed by **Thailand at 50 basis points**. These economies are particularly sensitive to oil price movements because of their dependence on imported fuel and energy-intensive consumption patterns.

In comparison, countries such as **India, Indonesia, and Korea** experience a more moderate inflation impact of around **20 basis points** from a similar oil price increase.



While still significant, the relatively lower impact reflects ongoing diversification in energy sources, improved efficiency, and policy measures aimed at stabilizing fuel prices. **Japan and Singapore**, which are also major importers of energy, show slightly lower CPI increases of **15 basis points**, suggesting that developed economies often have stronger policy tools and structural efficiencies that mitigate the direct inflationary effect of energy shocks.

Beyond inflation, oil price increases also affect **economic growth**. Higher energy costs raise input costs for businesses and reduce disposable income for households, ultimately slowing consumption and investment. According to the chart, most economies see a **decline in GDP growth of around 10–20 basis points** following a 10% increase in oil prices. The **Philippines and Thailand again show the largest negative impact**, with GDP declining by **20 basis points**, indicating that energy shocks can meaningfully slow economic activity in emerging markets.

India's GDP is estimated to decline by **around 10 basis points**, reflecting moderate vulnerability to energy price shocks. Although India is one of the largest crude oil importers globally, its diversified economic structure, expanding renewable energy investments, and growing domestic demand help cushion the broader growth impact. Similarly, **China and Taiwan** also experience a **10 basis point decline in GDP**, highlighting the sensitivity of manufacturing-driven economies to changes in energy costs.

Interestingly, not all economies suffer equally from oil price increases. **Malaysia**, for example, benefits from higher oil prices because it is a **net exporter of energy**. The data shows Malaysia experiencing a **positive GDP impact of 10 basis points and a current account improvement of 0.40% of GDP**. This contrast illustrates how commodity exporters often gain from rising energy prices while importers face economic headwinds.

Another critical channel through which oil prices affect economies is the **current account balance**, which measures the difference between a country's exports and imports. Countries that import large amounts of crude oil typically experience a **deterioration in their current account balance when oil prices rise**, as they must spend more foreign exchange on energy imports. According to the chart, several Asian economies experience current account deterioration of **0.20% to 0.40% of GDP** following a 10% increase in oil prices.

For **India**, the current account deficit widens by approximately **0.20% of GDP** under such a scenario. Given India's large energy import bill, rising oil prices can place pressure on the country's external balances and currency stability. Similarly, **Korea and Singapore** experience larger deteriorations of **0.40% of GDP**, reflecting their dependence on imported energy resources.



The broader implications of these numbers become more significant when viewed in the context of **current geopolitical tensions**. Conflicts or political instability in oil-producing regions can disrupt supply chains, push crude prices higher, and create volatility across global markets. Financial markets typically react quickly to such developments, leading to short-term fluctuations in equity, currency, and commodity markets.

For investors, these dynamics underscore the importance of **diversification and strategic asset allocation** during uncertain geopolitical periods. Rising oil prices often benefit certain sectors such as **energy, defence, and commodities**, while sectors heavily dependent on fuel costs—such as transportation and logistics—may face margin pressures. Gold also tends to perform well during geopolitical stress as investors seek safe-haven assets.

From a portfolio perspective, periods of heightened uncertainty often justify a **balanced allocation between equity, debt, and alternative assets such as gold**. Debt instruments provide stability and income during volatile phases, while equities continue to deliver long-term growth potential once market conditions stabilize. The chart therefore highlights not only macroeconomic vulnerabilities but also investment opportunities that arise during global economic shifts.

In conclusion, the BofA Global Research data demonstrates that even a **10% increase in oil prices can generate measurable macroeconomic effects across Asia**, influencing inflation, economic growth, and external balances. While countries like Malaysia benefit due to their status as energy exporters, most Asian economies—including India—face moderate inflationary pressures and slight growth slowdowns. In the current geopolitical environment, where energy supply disruptions remain a persistent risk, understanding these macroeconomic linkages becomes crucial for policymakers, businesses, and investors alike. Strategic diversification, prudent risk management, and a long-term investment outlook remain essential tools for navigating such uncertain periods.



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