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INITIAL ECONOMIC ASSESSMENT OF THE IRAN WAR

by Azizul Amiludin, Senior Fellow, MIER

Key points

Oil and Energy Shock: Iran's 3.3–3.6 mb/d output (~3.5% of global supply) and risks to the Strait of Hormuz (30% of seaborne oil; ~20% LNG) heighten the threat of supply disruption; reported LNG interruptions in Qatar could further tighten global gas markets.

Inflation Risks: Initial price spikes reflect knee-jerk reactions, but prolonged shipping and air-route disruptions would embed higher energy and logistics costs; Bank Negara Malaysia retains policy space and will focus on medium-term inflation expectations rather than short-term volatility.

Trade Exposure: The Middle East accounts for ~3.7% (≈USD12bn) of Malaysia's exports, direct exposure is modest, but corridor disruptions could raise freight costs and delay intermediate goods, amplifying supply-chain pressures.

Ringgit & Markets: Flight-to-quality flows have lifted the USD, though less forcefully than in past crises; the Malaysian ringgit has eased from recent highs but remains supported by solid fundamentals and longer-term, real-sector investment inflows.

Visit Malaysia Year 2026: With ~38m arrivals in 2024—dominated by regional markets such as Singapore, direct Middle East exposure is modest; the bigger risk to Visit Malaysia Year 2026 is weaker global travel sentiment and higher airfares if conflict persists.

Impact on Sentiment Dependent on Duration: The longer the war persists, the greater the risk to consumer and business confidence through higher inflation, supply chain disruptions, rising business costs, and physical trade barriers in key energy and shipping routes especially as consumers in Malaysia and elsewhere are already under cost-of-living pressure.

Oil prices

Iran is a major oil producer with estimated output of between 3.3 to 3.6 million barrels of crude oil per day, representing roughly 3.5% of total global supply.

The conflict, which is increasingly spilling over into energy-producing countries that also host United States military bases, is already unsettling global energy markets. Any prolonged disruption to vessels transiting the Strait of Hormuz, a critical chokepoint that handles roughly 30% of global seaborne oil trade and about 20% of global LNG flows would have far-reaching consequences. A sustained interruption could severely constrain global supply chains, trigger sharp price spikes in oil and gas markets, and amplify inflationary and financial volatility across both energy-importing and energy-exporting economies.

Moreover, Qatar which accounts for roughly 20 percent of global liquefied natural gas (LNG) exports has reportedly halted production.

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Any prolonged interruption to Qatari LNG output would reverberate across the global gas market, tightening supply, driving price volatility, and compounding existing inflationary pressures, particularly in energy-importing economies.

Inflation
A prolonged war would inevitably push prices higher through supply chain disruptions. Energy prices spiked in the immediate days of the conflict, largely reflecting knee-jerk market reactions. However, as shipping lanes and air routes face increasing disruption, the impact on global supply chains is likely to become more structural and severe.

Malaysia, as a marginal net oil producer, may be partially insulated from the direct effects of higher crude prices. Nevertheless, the economy remains deeply integrated into global trade and production networks. A prolonged conflict would therefore raise the cost of imported intermediate goods, transportation, and external inputs, transmitting inflationary pressures through international supply chains rather than solely through domestic fuel channels.

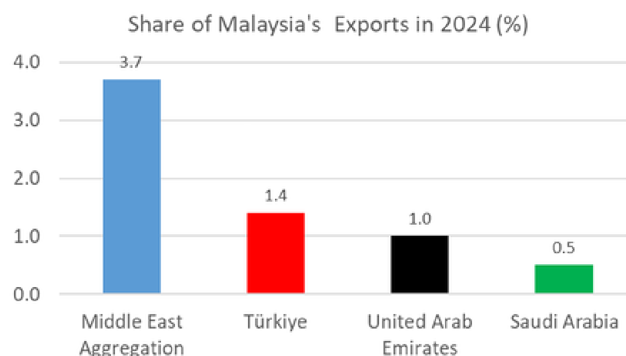
Bank Negara Malaysia, which has maintained its policy rate at a steady level for some time, retains policy space to respond if necessary. With inflation having recently bottomed out and gradually firming, the central bank is likely to focus on medium-term price dynamics and second-round effects. Barring a sustained and broad-based surge in inflation expectations, it would not be compelled to react aggressively in the short term, instead balancing price stability against growth considerations.

Trade Exposure
Although Malaysia's direct trade exposure to the Middle East is relatively modest, the larger risk lies in potential disruptions to key sea and air corridors that pass through the region.

The Middle East accounts for about 3.7% of Malaysia's total exports, equivalent to roughly USD12 billion in 2024.

Among the principal trading partners are Turkiye, United Arab Emirates, and Saudi Arabia. Malaysia's key export items to the region include palm oil and palm-based products, pearls and jewellery, as well as electrical and electronic equipment.

While the export share is relatively small, any prolonged disruption to regional logistics routes would have wider implications. Delays in maritime shipping lanes or air freight corridors could increase transportation costs, extend delivery times, and affect intermediate goods trade, thereby amplifying supply chain pressures beyond the direct trade exposure figures.



Source: DOSM via ITC

Impact on the Ringgit
The U.S. dollar strengthened in the aftermath of the joint U.S.–Israeli attack on Iran, with the DXY Index rising as investors shifted toward safe-haven assets. The move reflects a classic flight-to-quality response, with capital flowing into U.S. dollar–denominated assets amid heightened geopolitical uncertainty.

However, the magnitude of this safe-haven demand has been more moderate than in previous crisis episodes. While geopolitical risks typically trigger sharp and sustained dollar rallies, current flows appear more measured. Part of the restraint stems from concerns that segments of U.S. equity markets, particularly AI-related stocks may be stretched in valuation terms.

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At the same time, bond investors remain cautious amid lingering inflation risks in the United States, which complicates the outlook for monetary policy and real returns. As a result, although the dollar has benefited from risk-off sentiment, the overall appetite for USD assets in these early days has been contained rather than overwhelming.

The ringgit's recent appreciation has been driven primarily by improving domestic economic fundamentals and sustained inflows of longer-term investments, rather than short-term portfolio flows. These capital inflows are largely anchored in real economic activity including manufacturing capacity, infrastructure development, and export-oriented industries rather than speculative positioning.

Unlike financial capital, which can be rapidly withdrawn during episodes of market volatility, the bulk of inbound investment into Malaysia is longer-term in nature and tied to physical assets and production networks. As such, it is far less susceptible to abrupt reversals, providing a more durable and structural underpinning for the Malaysian ringgit.

Impact on Visit Malaysia Year 2026

The attack on Iran could not have come at a more unfortunate time as Malaysia prepares to welcome Visit Malaysia Year 2026. In 2024, Malaysia recorded 37,961,485 tourist arrivals, with the top 10 source markets accounting for roughly 90% of total arrivals. Most of these originate from neighbouring or regional countries, meaning travel routes do not typically require transit through the Middle East.

Singapore alone represents about half of inbound tourist numbers, while other key regional markets — including Indonesia, China, Thailand, and Brunei — remain major contributors. This regional concentration provides a degree of insulation from direct disruptions in Middle Eastern airspace.

Although Malaysia has long promoted itself as a halal-friendly tourism destination, visitor numbers from the broader Middle East have remained relatively modest compared to other source regions. Nevertheless, Dubai, home to Dubai International Airport, one of the world's busiest international hubs in recent years, serves as a critical transit point linking Europe and Africa to Asia. Any sustained rise in energy prices, coupled with negative travel sentiment, could dampen global travel demand. Higher airfares and increased operating costs for airlines may curb discretionary travel, particularly for long-haul passengers transiting through major Middle Eastern hubs.

Regional countries dominate visitors list in 2024

VISITOR ARRIVALS FROM	SHARE
Singapore	50%
Indonesia	11%
China	10%
Thailand	6%
Brunei Darussalam	5%
India	4%
Philippines	2%
South Korea	1%
Australia	1%
Chinese Taipei	1%
TOTAL TOP 10	**91%**

Source: DOSM, Inbound Tourism Indicators

Sentiment to deteriorate with war duration.

The duration of the war will ultimately determine its impact on consumer sentiment, primarily through the channels of inflation and business conditions. Consumers worldwide, including in Malaysia, are already grappling with a cost-of-living crisis. Any spike in inflation, even if temporary, would likely weaken sentiment and risk entrenching higher inflation expectations.

Business confidence could also deteriorate as global supply chain disruptions and resulting price pressures increase the cost of doing business. Despite the turbulence caused by the Trump-era tariffs,

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Malaysia recorded strong trade performance in 2025, with trade with China remaining robust. Many countries pursued diversification strategies, and global growth proved more resilient than initially feared.

However, trade tariffs are policy instruments that can be negotiated and adjusted, with alternative, albeit imperfect solutions available. A war in a major energy-producing region and along critical trade routes presents a far more serious challenge. It creates physical disruptions to supply chains, where alternatives are limited and often costly. Such conditions would weigh heavily on both consumer and business confidence, particularly if the conflict becomes prolonged.

Malaysian Institute of Economic Research
JKR606, Jalan Bukit Petaling
50768 Kuala Lumpur

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