# Energy shocks in Asia: diverging buffers, diverging growth

Asia's oil shock exposure is uneven. Developed Asia, supported by stronger buffers and policy space, will see growth ease marginally to 2.1% in 2026. Yet developing economies face a larger drag, with South Asia slowing to 5.4% from 6.2%, and India, the Philippines and Indonesia experiencing growth downgrades

People queue to refuel their vehicles in Jakarta, Indonesia.

## Asia and oil - uneven exposure to energy shocks

Asia accounts for the bulk of oil flows through the Strait of Hormuz, with China, India, and Japan among the largest recipients. But exposure to this supply shock is far from uniform, with wide differences in reserve buffers, policy capacity and the energy mix.

Japan and South Korea are backed by deep strategic reserves and fiscal space to stabilise domestic fuel prices. By contrast, India, the Philippines and Indonesia sit closer to the economic fault line, with thinner buffers and greater sensitivity to imported energy costs. This divergence is already visible in policy outcomes. Gasoline prices in the Philippines have surged by as much as 75%, while Thailand and Indonesia have kept increases modest, leaning on subsidies and price controls – though at a growing fiscal cost.

The energy mix matters, too. Economies with greater reliance on coal – most notably China and, to a lesser extent, India – have more room for substitution. China's coal-heavy power generation has helped dampen the macroeconomic impact of oil-related disruptions, limiting broader spillovers.

## Developed Asia is better positioned

Developed Asian economies – including Taiwan, Hong Kong, Korea, Japan and Australia – entered the year with firm momentum. Domestic demand has held up in Japan and Malaysia, supported by tight labour markets. In Australia, the lagged effects of central bank easing continue to underpin activity. Korea has benefited from fiscal support. Externally, the region remains well-positioned to capture upside from the AI-led tech cycle.

Stronger energy buffers reinforce this advantage. Japan, for example, held 228 days of oil reserves as of 7 April (including 143 days in public stockpiles). Reserve releases and gasoline price caps have limited pump price increases to around 8%, a stark contrast to more exposed economies.

Against this backdrop, we are more constructive on developed Asia. We upgraded Taiwan's GDP growth forecast to 8.2% from 6.7%, reflecting stronger than expected tech and AI momentum.

Singapore also remains resilient. While oil supply risks persist, robust tech driven external demand and recent fiscal measures – including a corporate income tax rebate and targeted transport support – should help cushion the impact on Singapore. We now forecast 3.3% year-on-year growth in 2026, only marginally below the previous 3.4%. This is still above trend. We revised down 2026 GDP growth forecasts for Japan and Korea marginally to 0.7% YoY and 2% YoY, respectively.

## Developing Asia faces a larger drag

Developing Asia is more exposed to the shock. Higher energy dependence, weaker macroeconomic buffers, and tighter policy constraints suggest a larger drag on growth. As a result, we have downgraded our GDP growth forecasts for the Philippines to 4.5% (from 5.2%), India to 6.5% (from 6.7%), and Indonesia to 4.8% (from 4.9%), as elevated energy costs weigh on domestic consumption, external balances, and fiscal space.

While the magnitude of these downgrades appears modest, it's important to note that growth expectations for these economies were already lower. Following the latest revisions, GDP growth in South Asia is now projected to slow to 5.4% in 2026 from 6.2% in 2025. Growth in developed Asia is expected to ease by only 0.1 percentage point to 2.1% in 2026, largely due to stronger momentum in Korea.

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