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Renewed Middle East Conflict and Energy Markets: Implications for the Philippines

12 March 2026

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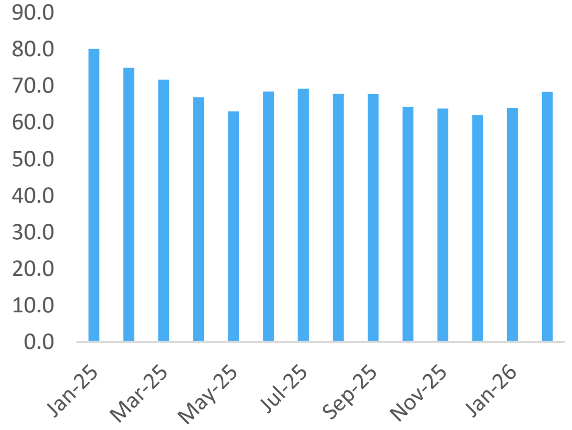
What's happening and why it matters to the Philippines

On February 28, the United States and Israel launched coordinated airborne strikes on Iran to "eliminate the imminent nuclear threat posed by the Iranian regime, destroy its ballistic missile arsenal, degrade its proxy terror networks, and cripple its naval forces." In response, Iran launched retaliatory strikes on US and Israeli assets in the region, targeted gas and oil infrastructure, and threatened to close the Strait of Hormuz, a critical chokepoint in global energy trade. Approximately a quarter of maritime oil trade and a fifth of liquefied natural gas (LNG) trade flows through the strait. Disruptions in the global energy supply chain have significant implications for the Philippines, which imports more than half of its energy requirements.

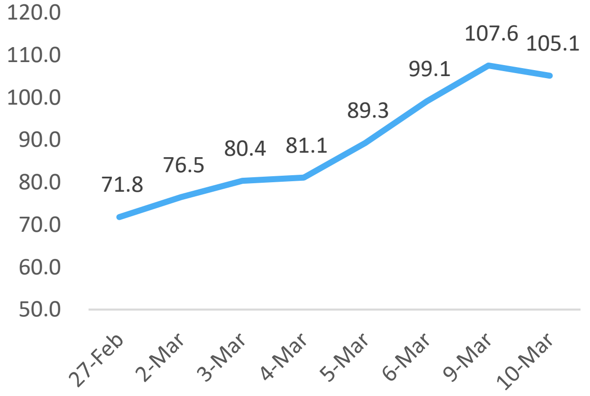
In the lead-up to the attack, US forces were already mobilizing in the Persian Gulf, heightening an already tense situation. Crude oil prices consequently rose. In the aftermath of the attack, near-term Dubai crude futures prices continuously rose through the first week of the conflict. The second week of the conflict saw futures prices breach the $100-mark before they eased following President Trump's announcement about the possibility of taking over the Strait and easing some oil-related sanctions to increase supply.

Figure 1. Dubai Crude Oil Price ($/barrel)

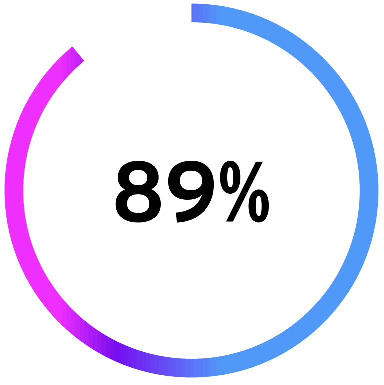


Source: World Bank

Figure 2. Dubai Crude (Platts) Futures for March 2026 ($/barrel) by Settlement Date



Source: CME Group



Source: US Energy Information Administration (EIA)

Asian economies are vulnerable to the effects of the Middle East conflict. About 89% of crude and petroleum products passing through the Strait of Hormuz is destined for China, South Korea, Japan, India, and other parts of Asia.

Not only does the Philippines source crude oil from the Middle East, but it also imports petroleum products from its neighbors in the region who, in turn, source significant portion of their crude oil from the Middle East. An additional risk for the Philippines is when its neighbors consider suspending petroleum exports.

Tracking the trajectory of inflation

The Bangko Sentral ng Pilipinas (BSP) projects inflation to average 3.6% this year and 3.2% next year based on the assumption that Dubai crude oil prices will remain between $64 and $65 per barrel for both years. However, if oil prices rise to $80 per barrel, inflation could exceed the 4% upper-band target.

The current situation is a reminder of what has transpired in 2022 when Russia began its military campaign against Ukraine. As the conflict in Eastern Europe deepened that year, Dubai crude oil price averaged $97 per barrel. Inflation accelerated to 5.8% and the BSP started tightening monetary policy. The escalation of conflict in the Middle East comes at a time when inflation is picking up pace as high base effects wane and low base effects kick in.

Table 1. BSP's headline inflation forecast by Dubai crude oil price scenario (%)

Crude Oil Price ($/barrel)	2026	2027
70	3.7	3.6
80	4.1	4.1
90	4.3	4.5
100	4.6	4.9
110	4.8	5.3

Source: BSP

How this conflict impacts the Philippine energy sector

As early as 2 and 3 March of 2026, the Department of Energy (DOE) warned that the closure and disruption of shipping through the Strait of Hormuz would drive up the country's fuel acquisition costs due to higher shipping risk premiums and delivery delays.

DOE Secretary Sharon Garin cautioned that "the stress of the market will increase the price," noting that initial pump price increases of SEAOIL Philippines, Inc., Shell Pilipinas Corp., Petron Corp., Chevron Philippines, Inc. (Caltex), Jetti Petroleum, Inc., and PTT Philippines Corp., had already taken effect as a direct result of the turmoil: PhP 1.90 per liter for gasoline, PhP 1.20 per liter for diesel, and PhP 1.50 per liter for kerosene.

This upward pressure has been cascading across the energy value chain. Since the Middle East influences not only crude oil availability but also global LNG and coal price movements through cross-fuel substitution, rising international benchmarks are already feeding into the country's electricity generation costs.

Local distribution utilities such as Meralco have begun reviewing their fuel sourcing strategies, particularly for LNG, coal, and diesel, anticipating upward adjustments in power rates in the event that elevated global prices persist. This same volatility is now being experienced by the transport sector. Together, these rapid developments indicate a broad and deepening impact across oil and gas, power generation, and transport sectors, which stresses the Philippines' structural vulnerability as a fuel-import-dependent economy.

No further increases were implemented from March 6–9 due to DOE fuel pricing rules

"The conflict in the Middle East has caused volatility in fuel prices. This places an immediate strain on both the energy and transport sectors of the country. Now more than ever, swift yet mindful policy action and sector-wide coordination are critical to cushion consumers and stabilize the Philippine energy system.

Smith C. Lim
Energy Sector Leader;
Strategy and Transactions Partner,
SGV & Co.

Sources: Bangko Sentral ng Pilipinas, Department of Energy, other secondary sources

How the shock flows down to the Philippine energy subsectors (1/2)

Oil and gas

The Philippine oil and gas sector is now confronting a price-driven crisis of historic proportions as the intensifying Middle East conflict disrupts global benchmarks and sharply inflates regional petroleum costs.

On 9 March 2026, the Department of Energy (DOE) confirmed that the upcoming fuel price hikes would be implemented in staggered tranches across several days to cushion the blow to consumers. Energy Secretary Sharon Garin described the adjustments as the "highest jump" in Philippine fuel prices on record, with diesel rising by up to PhP 24.25 per liter and kerosene by as much as PhP 38.50 per liter. Oil companies agreed to phase the increases across 3 to 7 days, depending on the retailer.

The DOE reiterates that the price surges are not a result of local supply constraints. Domestic oil firms reportedly hold up to 60 days of inventory, significantly above the mandated minimum. However, under Republic Act 8479 or the Oil Deregulation Law, replacement-cost pricing is allowed. This means that domestic pump prices are based on the expected cost of the next import shipment – not on the original cost of the fuel already in stock. This is a practice where existing inventory is priced based on the expected cost of the next shipment rather than its actual purchase price.

Staggered implementation of pump price adjustments

	PhP/L for gasoline	PhP/L for diesel	PhP/L for kerosene
Price as of 9 March 2026	**8.75-8.80**	**19.20-24.25**	**32.00-38.50**
PhP/L increase 10 March 2026	5.20-5.25	11.60-14.55	19.00-21.60
11 March 2026	1.80-2.85	3.80-7.30	6.50-10.80
12 March 2026	0.85-1.80	2.40-3.80	3.60-6.50

Based on the implementation schedule that was released on 9 March 2026 by the prominent oil and gas players in the Philippines

The DOE confirms that the country **has nearly 60 days' worth of inventory** exceeding the mandated minimum of:

- 30 days for crude oil
- 15 days for finished petroleum products

Cumulative highest pump price increase (from 10 March to 12 March of 2026)

9.9
PhP/L for gasoline

25.7
PhP/L for diesel

38.9
PhP/L for kerosene

Moreover, on 10 March 2026, the House Committee on Ways and Means approved a bill granting President Ferdinand R. Marcos, Jr. the authority to suspend or reduce excise taxes. Under this measure, the suspension or reduction of excise taxes particularly on fuel products may be triggered if the average Dubai crude oil price exceeds USD80 per barrel for one month. Any suspension or reduction may only be implemented for a maximum of 6 months. This additional authority of the President will remain in effect only until 31 December 2028.

In this situation, it is also important to note that about 70 islands in the country or more than 1.2 million households are still dependent on almost all of the 79 diesel-fired power plants of the National Power Corporation - Small Power Utilities Group. This makes the sector more vulnerable to global oil price volatility.

Collectively, these developments highlight a sector under acute financial strain and set the stage for broader economic consequences across power generation, transport, logistics, and consumer prices as the conflict-driven volatility continues to unfold.

Sources: Philippine News Agency, Department of Energy, other secondary sources

How the shock flows down to the Philippine energy subsectors (2/2)

Power generation

The country's power generation is ~60% coal and ~14% natural gas, while oil-based peaking plants still play an important role. These fuels are deeply tied to global commodity markets, making the Philippines very sensitive to global price swings.

Currently, electricity costs are under upward pressure as the Middle East conflict lifts global fuel benchmarks that feed directly into the Philippine power mix. Generation charges (the biggest part of the monthly power bill) move with fuel and wholesale prices. When coal, oil, and LNG benchmarks rise or when logistics/insurance costs lift landed fuel costs, generation costs increase and show up in retail rates with a lag via quarterly true-ups and Wholesale Spot Electricity Market (WESM) spot purchases.

What changes

Global fuel benchmarks have climbed on Middle East disruption, which raises the cost of inputs that power the Philippine grid (i.e., natural gas, coal, and oil for peaking/off-grid). In response, Meralco has begun reviewing its fuel position to ensure adequate supply and manage price volatility because imported gas and coal costs can move with oil via cross-fuel pricing and risk premiums.

How big

The immediate price signal is external: crude oil prices (approx. USD 69 per barrel) and near-term Dubai crude futures prices (approx. USD 100 per barrel) skyrocketed. This jump typically bleeds into LNG and coal offers to Asia, which lifts the generation charge component of bills. DOE also notes inventories are high, triple minimums, so supply is stable, but replenishment happens at the new, higher global prices.

When it shows up on the bill

Meralco says March bills reflect February trading. The earliest expected impact is in April, and the magnitude will depend on how long elevated benchmarks persist through March.

Transport

The country's mobility is particularly vulnerable to spikes in fuel prices. In 2024, the country consumed 184.5 million barrels of petroleum products, two-thirds of which was on account of transport.

Fare risk

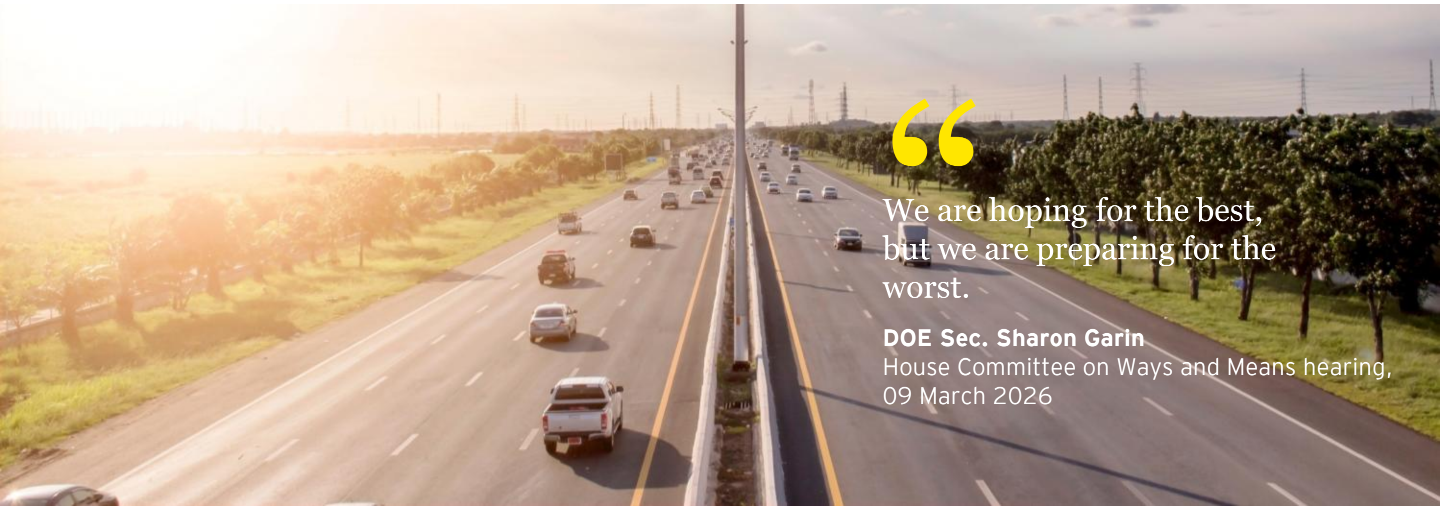
Regulators have an explicit sensitivity threshold: the Land Transportation Franchising and Regulatory Board (LTFRB) has said it may grant provisional fare hikes once diesel exceeds PhP 60/L. With projected levels well above that line, fare petitions and emergency relief become likely.

Ripple effects on logistics and goods

Expect higher trucking and container freight rates, insurance surcharges, and longer transit routes/times as Gulf shipping and airspace remain risky — costs that pass through to food, retail goods, and manufacturers. Exporters (e.g., PHILEXPORT) already flag higher shipping rates, insurance, and delays as immediate risks to competitiveness.

Social impact

Transport groups, especially public utility vehicle (PUV) operators, warn that the rapid cost escalation threatens daily income viability. Protests were already observed on 9 March, with calls to suspend VAT and excise taxes on fuel.



> "We are hoping for the best, but we are preparing for the worst.
>
> **DOE Sec. Sharon Garin**
> House Committee on Ways and Means hearing, 09 March 2026

How the Government plans to mitigate impact of the Middle East conflict and conserve energy

In a press briefing on 3 March 2026, President Ferdinand R. Marcos, Jr. reassured the Filipino people that the country has ample supply of petroleum products. He also laid out several measures to mitigate the economic impact of the ongoing conflict. That same week, Memorandum Circular (MC) No. 114 was issued outlining the energy conservation efforts of the executive branch.

- Targeted subsidies such as the "*Pantawid Pasada*" program for transport workers and direct fuel and fertilizer subsidies for farmers and fisherfolk
- No-fare bus rides along major routes and fare freezes on public transport
- Temporary Presidential authority to reduce excise taxes on petroleum products
- Standing agreement with oil companies for the gradual hiking of pump prices

> First of all, let me reassure everyone that we have sufficient supply of oil. *Mayroon tayong* stockpile that are approximately 50 to 60 days...We are okay for that period...

President Ferdinand R. Marcos, Jr.
Malacañang Palace press briefing, 03 March 2026

MC 114, s. 2026 Provisions

- Adoption of energy conservation protocol
- Adoption of flexible work arrangements
- Energy consumption reduction by 10-20%

Outlook

The situation in the Middle East continues to evolve. Its impact is immediately felt in the global energy prices which eventually seep through the domestic economy as the country has seen in the second week of March. If the situation does not improve in the short-term, however, what is initially a volatile price problem could potentially morph into a supply issue. How the country navigates through the current situation depends largely on its ability to secure energy supply from alternative sources, ensure ample inventory, and minimize the adverse economic effects of the oil price spike on the people.

> Not only do we have inventory in the Philippines, we also are awaiting some supplies coming in that are in transit... We are talking to many other countries who we normally do not buy oil from but hopefully we will be able to come to an agreement with them and that we will get further supply from them.

President Ferdinand R. Marcos, Jr.
Kapihan with the media in New York City, 11 March 2026

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