



# Pandemic Economics ●

Impact of the COVID-19 pandemic on the Malaysian economy

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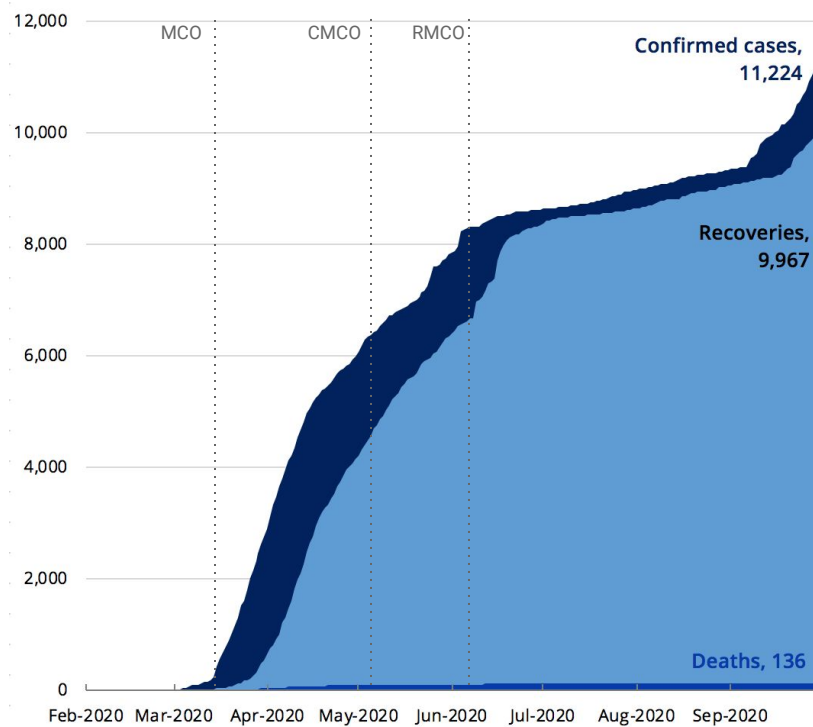
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## ● Lockdowns in March have been successful in curbing COVID-19, but a second wave has surfaced in September

Total case numbers, recoveries and deaths (no. of persons)



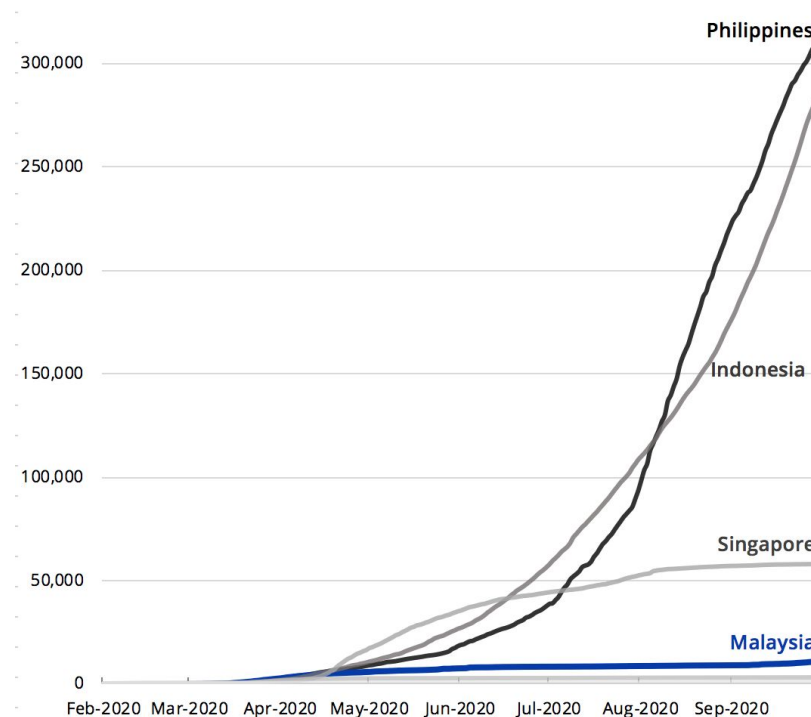
Source: JHU CSSE Github, MOH, Author's illustration

Note: Lines denote lockdown measures; Data as at 30 September 2020



## ● Despite this second wave, Malaysia has performed comparatively well in the region in curbing infection rates

Confirmed Covid-19 cases in the region (no. of cases)



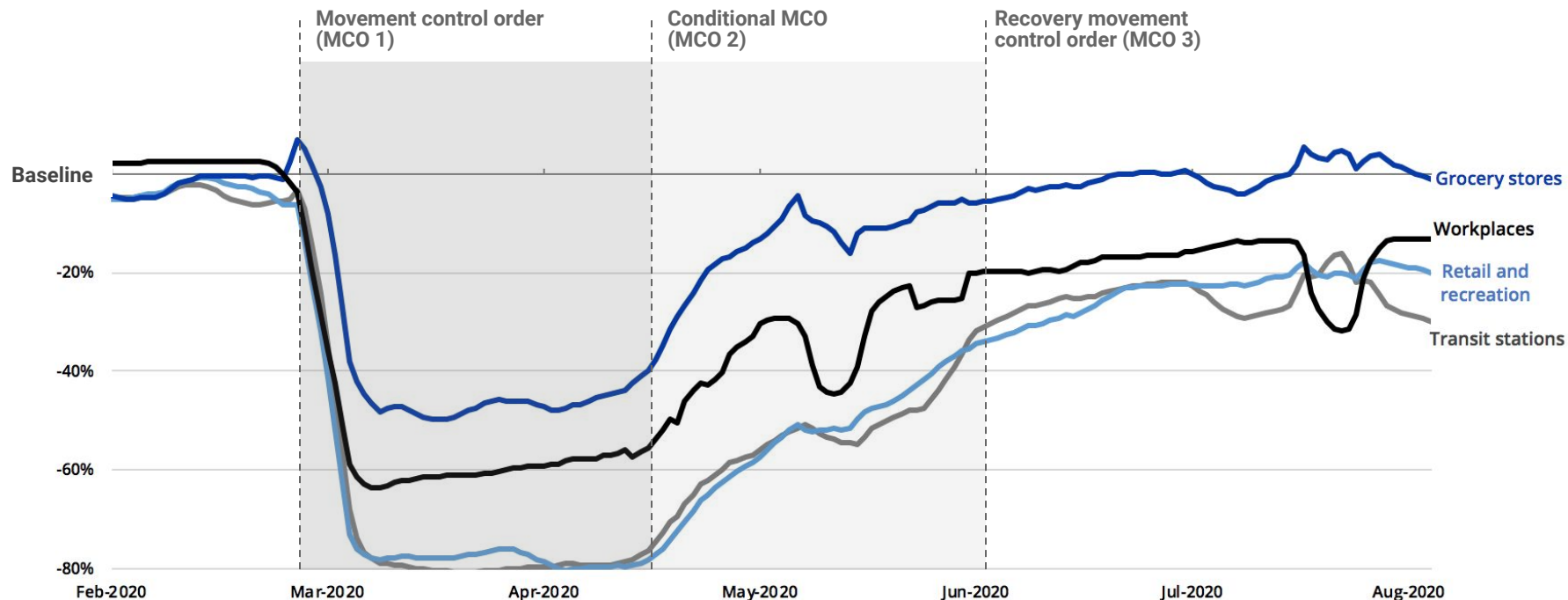
Source: JHU CSSE Github, WHO

Note: Data as at 30 September 2020



● **Nationwide lockdown measures enacted in March have been largely successful in reducing movement and mobility across Malaysia, but the recent loosening of restrictions have yet to restore normal levels of retail/workplace visits**

Percentage change from baseline visits (7-day moving average)



Source: Google mobility data, author's estimates

Note: Lines denote lockdown measures; data ends 16 August 2020



## 1 External

- Trade & tourism
- Financial markets and uncertainty
- Commodity prices

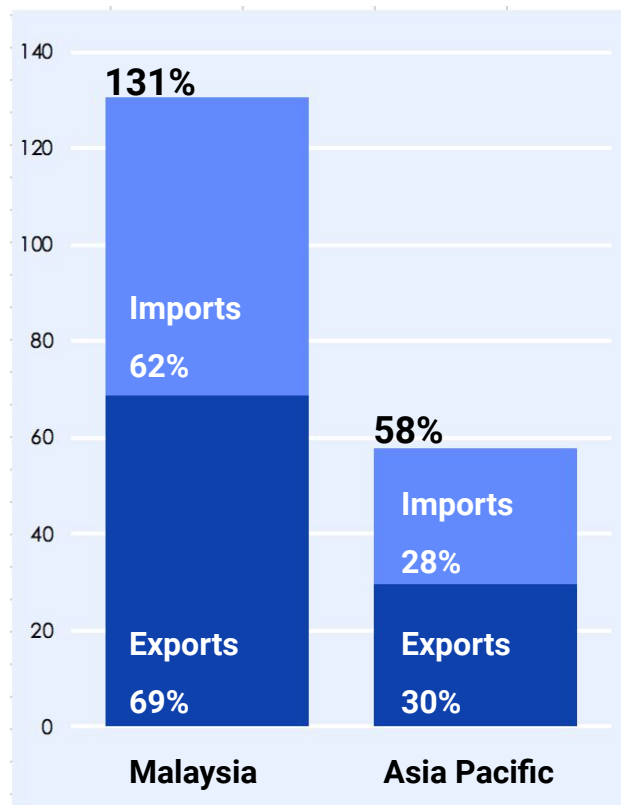
## 2 Domestic

- Impact of movement controls on incomes & consumption
- Financial sector systemic risks
- Fiscal/budgetary risks

Chart data sources: DOSM, World Bank Open Data, World Bank EAS report, IMF EORA, Author's calculations

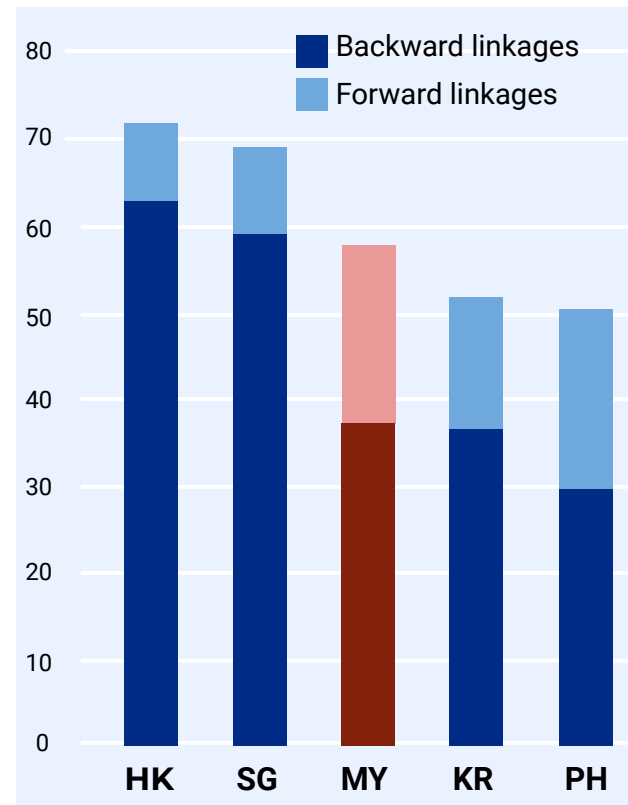
### ● Malaysia has amongst the highest exposure to trade in the region...

Goods imports and exports (% of GDP)



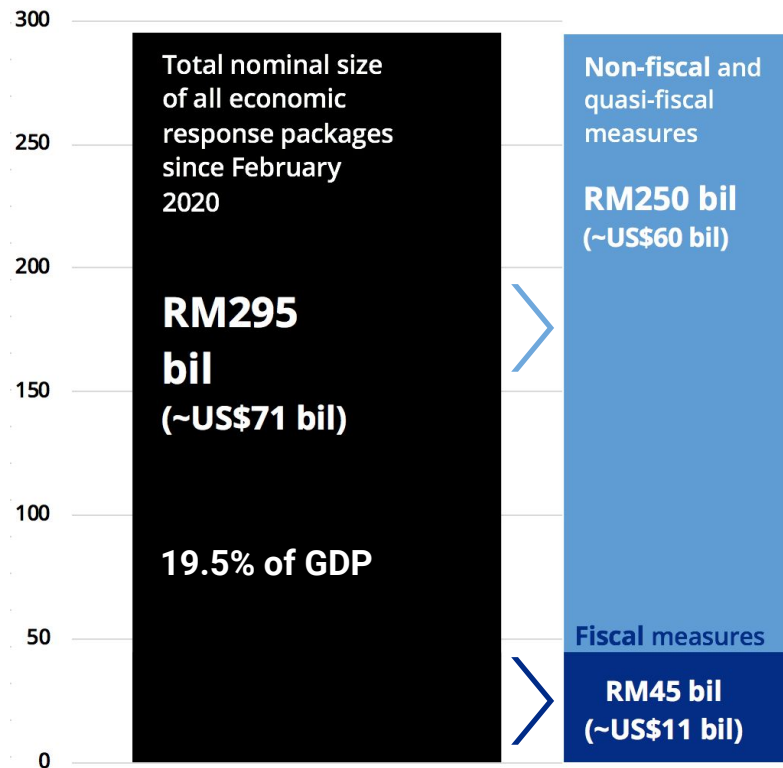
### ● ...and is the 3rd most connected in Asia to global supply chains

% of foreign value-added in trade



- Out of Malaysia's RM295 billion worth of stimulus pledged for 2020, only a small portion are fiscal measures

Total size of economic response packages (RM bil)



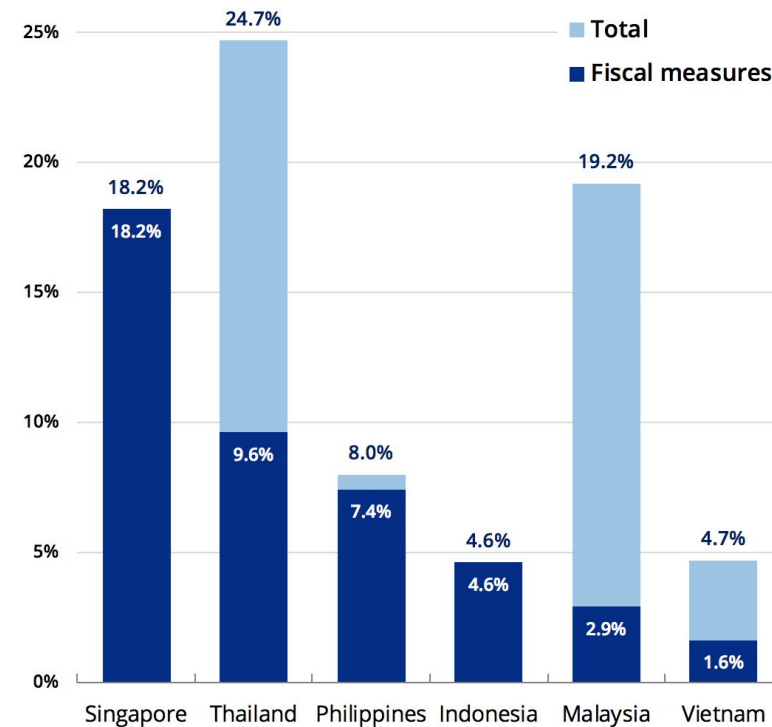
Source: DOSM, MOF, ISIS Malaysia, Author's estimates

Note: Estimates based on publicly available sources; US\$ figures are approximated Using available local currency exchange rates



- Malaysia's fiscal stimulus has been one of the smallest in the region, despite the large total size of stimulus measures

Economic response packages, by country (as % of 2019 GDP)



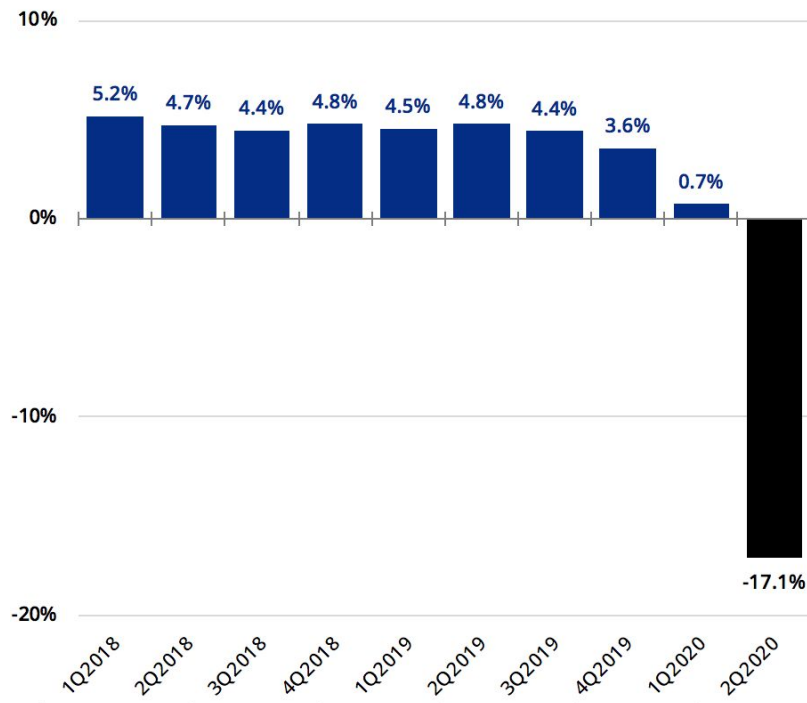
Source: World Bank, SCMP, CSIS, PNA, Jakarta Post, Lowy Institute, Author's estimates

Note: US\$ figures converted from approximate local currency exchange rates; data based on publicly available news sources



- The strict movement controls enacted in March have had an unprecedented impact on 2Q2020 GDP growth

Quarterly GDP growth (y/y% change)

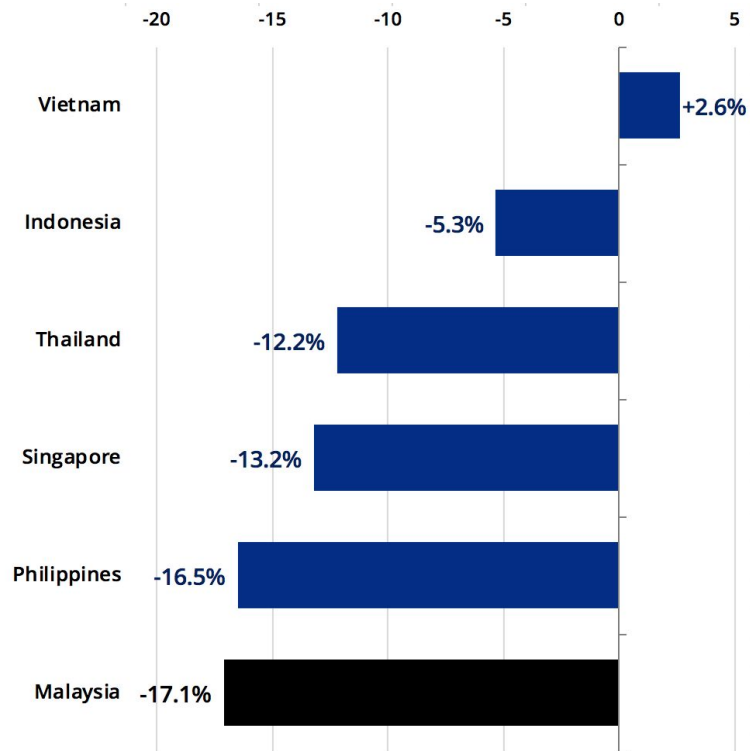


Source: DOSM, Bloomberg



- Malaysia's has experienced the worst GDP contraction in 2Q2020 in the region

2Q2020 GDP growth, by country LCU (y/y% change)

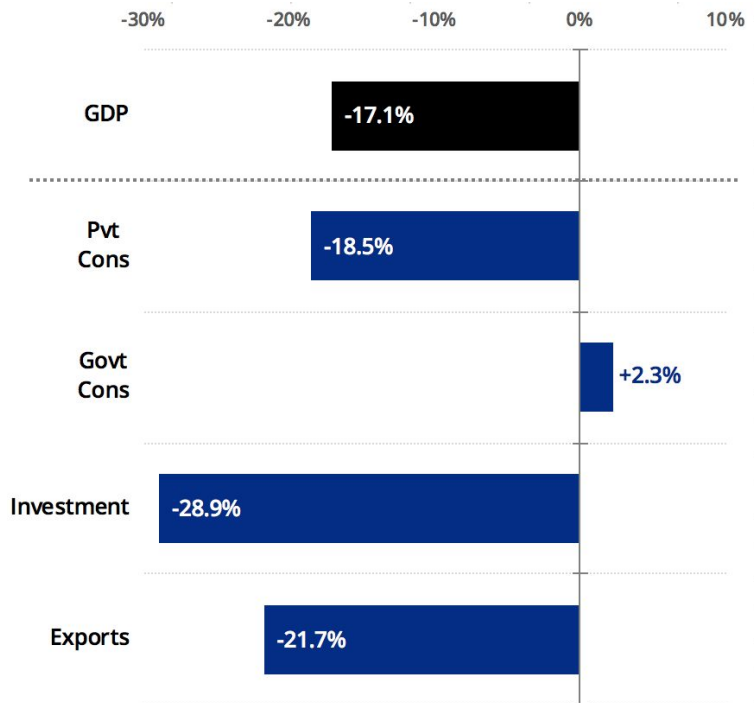


Source: DOSM, Bloomberg



- The sharp fall in 2Q2020 GDP was driven by steep declines in investment, exports, and consumer spending amid the MCO

2Q2020 GDP by demand components (y/y% change)

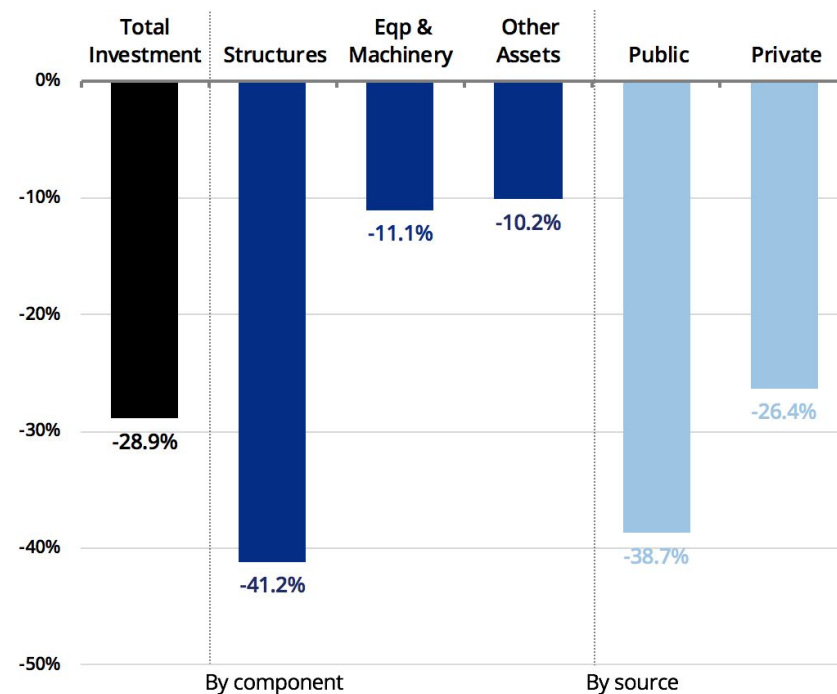


Source: DOSM, Bloomberg



- Breaking down this decline in investment, lower investment in buildings and lower public investment were major factors

Real investment, 2Q2020, by component and source (y/y% change)



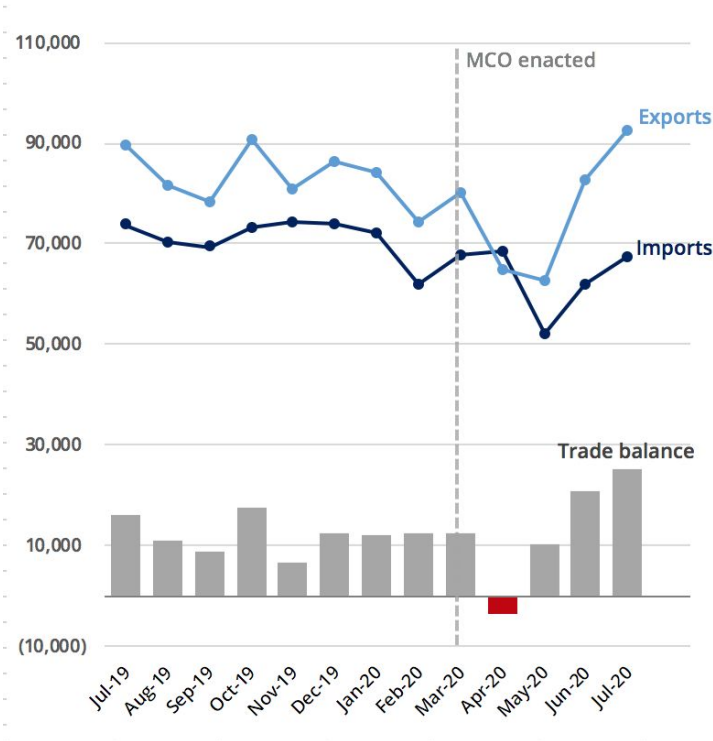
Source: DOSM, Bloomberg





## Trade has been strongly impacted by movement control measures, but there are (very) early signs of recovery

Main trade indicators (RM mil)

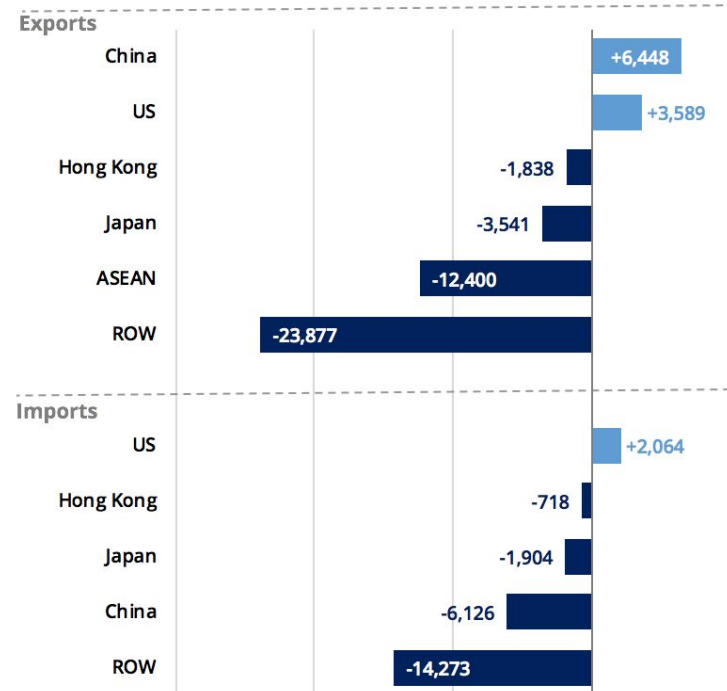


Source: DOSM, Author's calculations  
Note: MCO = Movement Control Order, enacted 18 March 2020



## While with most countries in the world have fallen in 1H2020, exports to China and the US have continued to rise

Exports and imports, by main countries (RM mil)

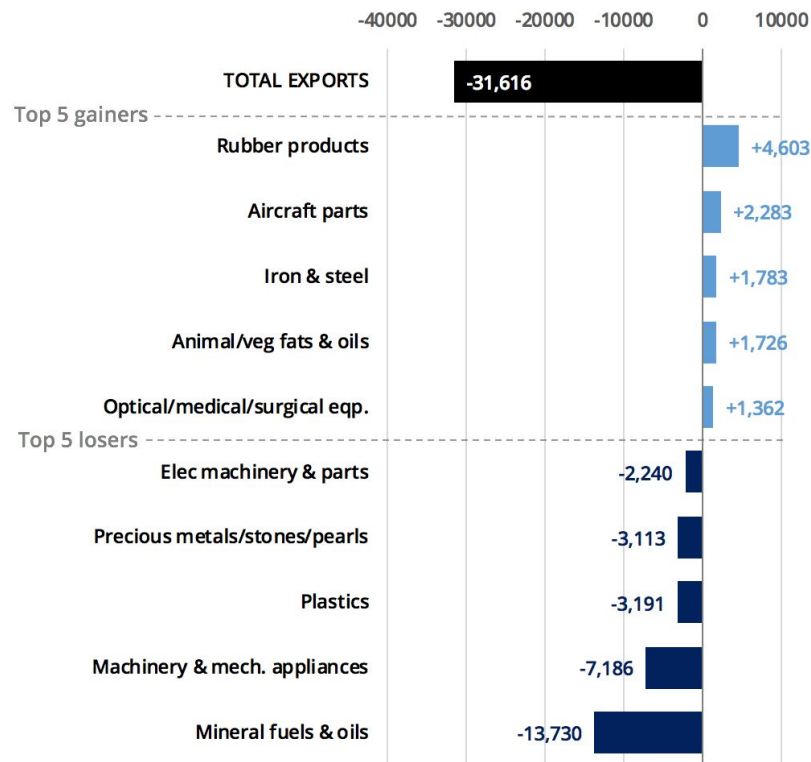


Source: METS, DOSM, Author's calculations  
Note: ROW = rest of world



## While total exports have fallen, Malaysia's exports of rubber products and aircraft parts have increased in 1H2020

Exports, by product (RM mil)



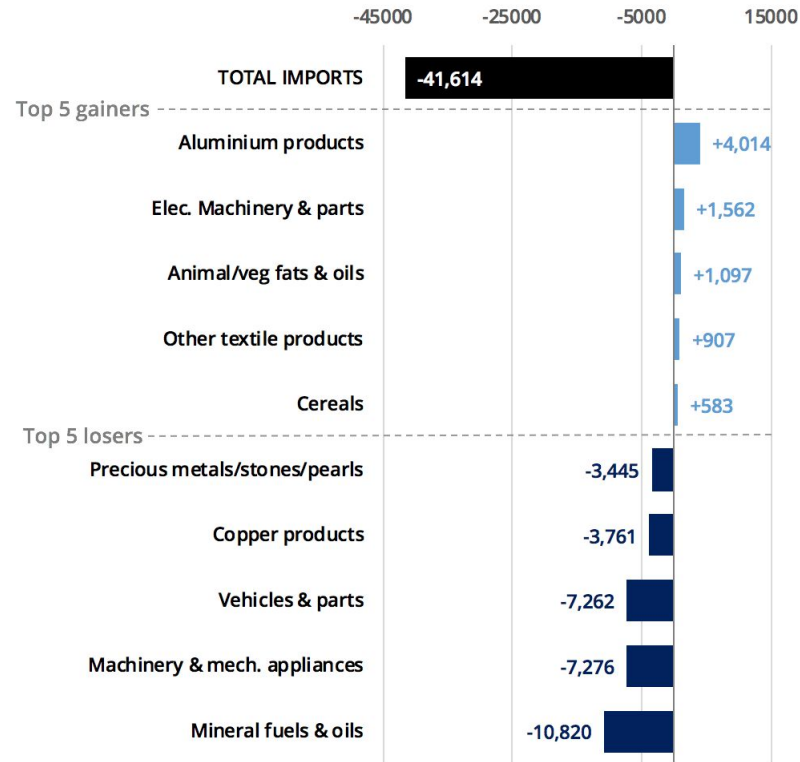
Source: DOSM, Authors' estimates

Note: 4-digit HS product heading descriptions have been condensed for clarity



## While total imports have fallen, imports of aluminium, electrical machinery and oils have increased in 1H2020

Imports, by product (RM mil)



Source: DOSM, Authors' estimates

Note: 4-digit HS product heading descriptions have been condensed for clarity



## ● Headline unemployment rates have spiked to multi-decade highs in May

Change in unemployment rates (2Q2020 vs one year ago, pp)

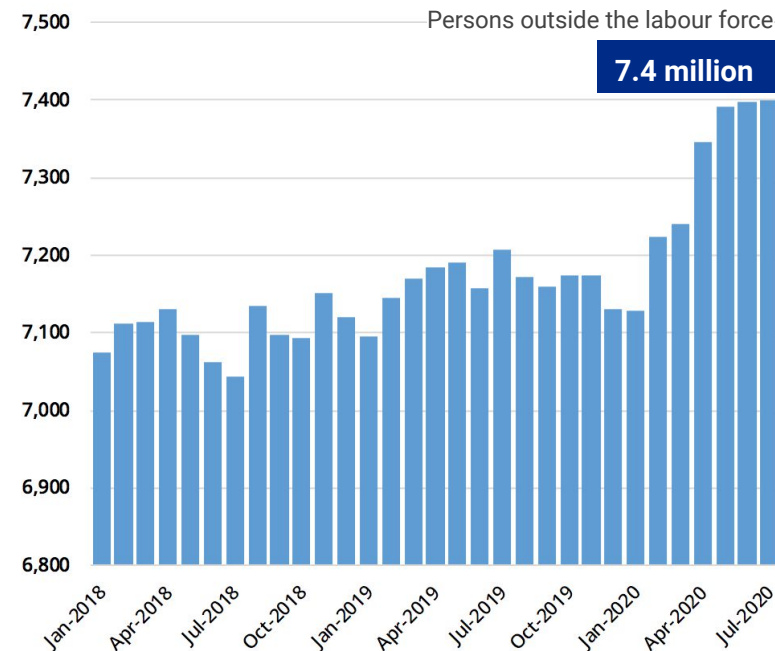


Source: DOSM, Bloomberg



## ● A record number of people have exited the labour force in recent months as labour market conditions worsen

Change in labour force participation (2Q2020 vs one year ago, pp)

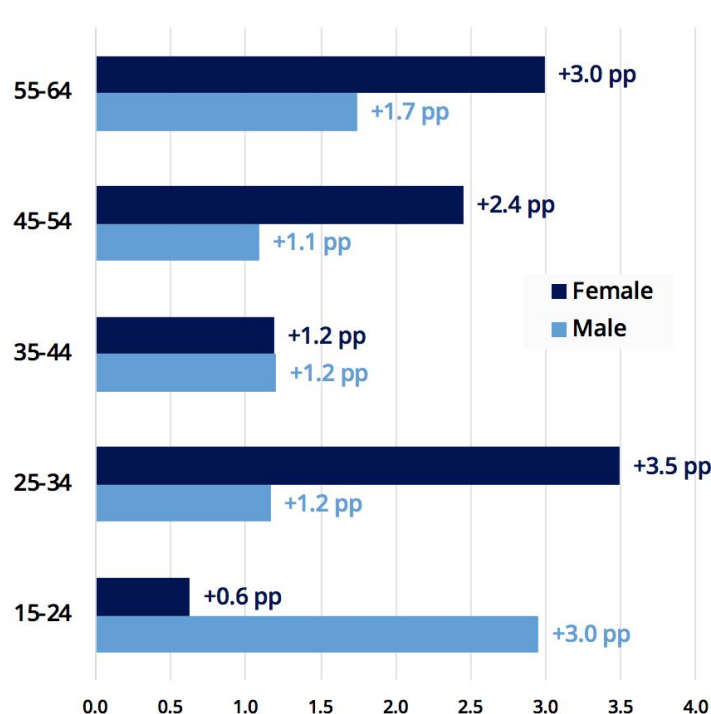


Source: DOSM, Bloomberg



## ● Unemployment rates have risen faster for female workers and young workers in 2Q2020

Change in unemployment rates (2Q2020 vs 2Q2019, pp)

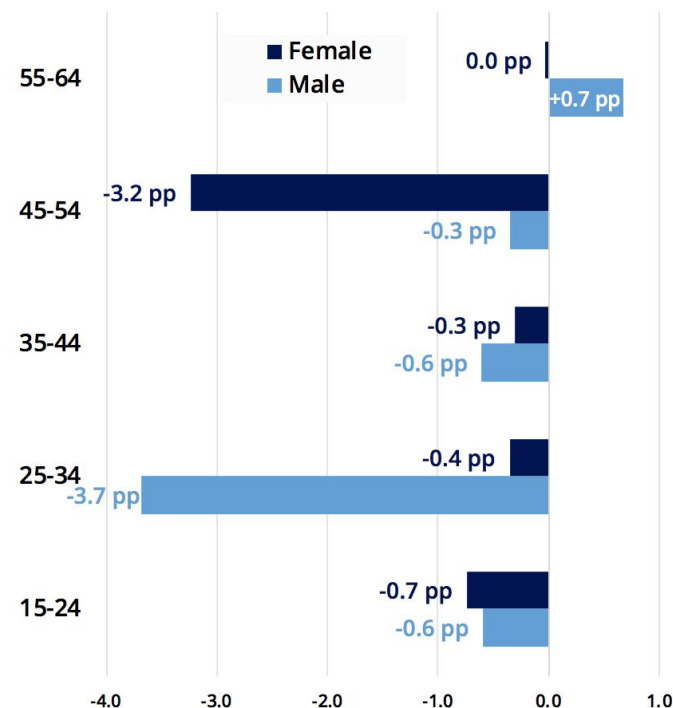


Source: DOSM, Author's calculations  
Note: pp = percentage points



## ● Bad labour market conditions have pushed young adult males and older females outside of the labour force

Change in labour force participation (2Q2020 vs 2Q2019, pp)

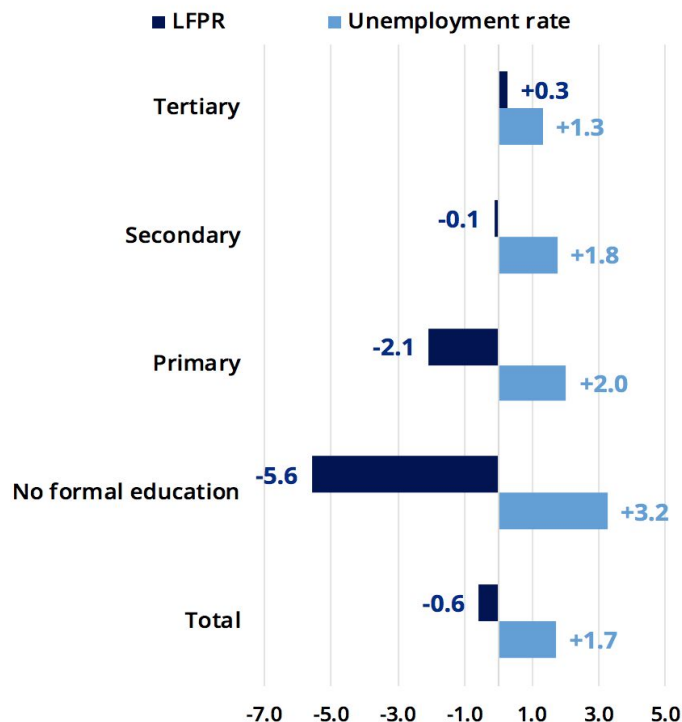


Source: DOSM, Author's calculations



## ● Labour market shocks from the pandemic have hit lesser-educated workers particularly hard...

Change in labour market indicators (2Q2020 vs 2Q2019, pp)

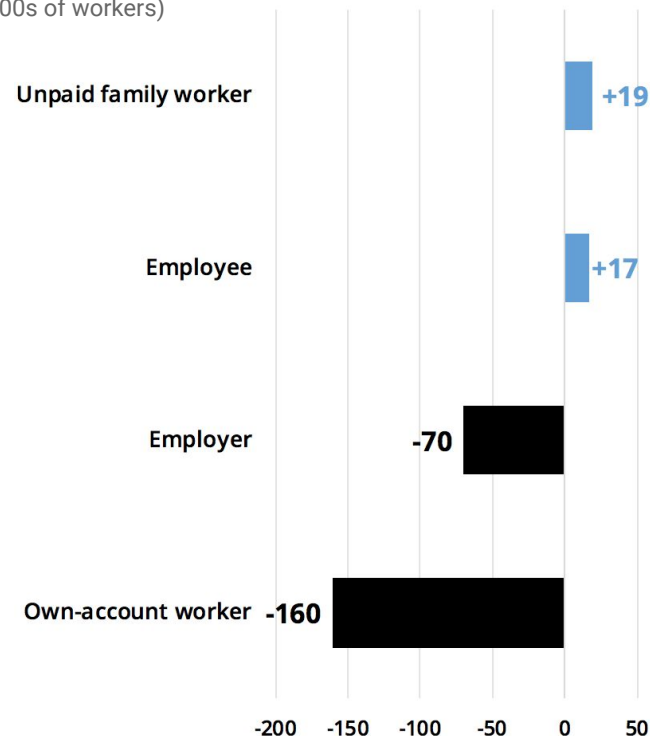


Source: DOSM, Author's calculations  
Note: LFPR = labour force participation rate



## ● ...especially those who are self-employed/independent contractors and/or own micro-enterprises

Change in unemployed workers by employment type (2Q2020 vs 2Q2019, '000s of workers)

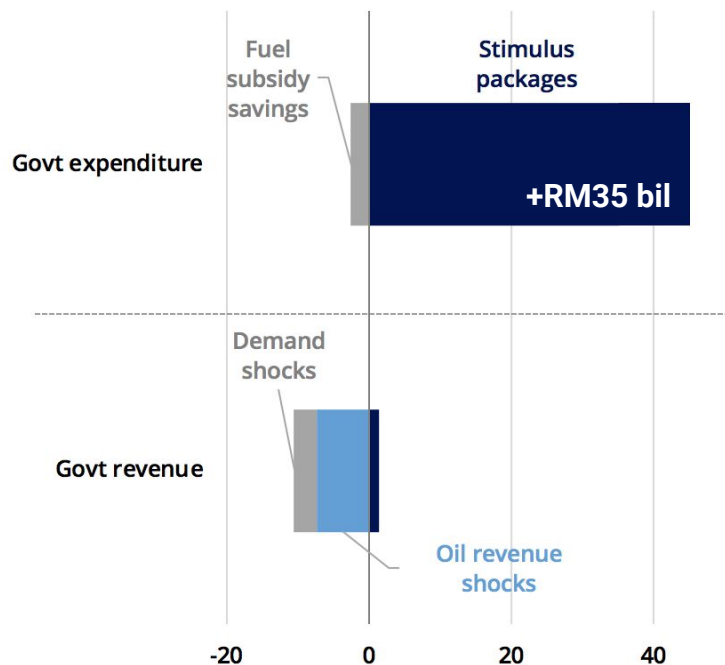


Source: DOSM, Author's calculations



- The pandemic has had doubly negative impacts on public finances, decreasing revenue whilst increasing expenditure

Estimated change in government revenue and expenditure (RM bil)

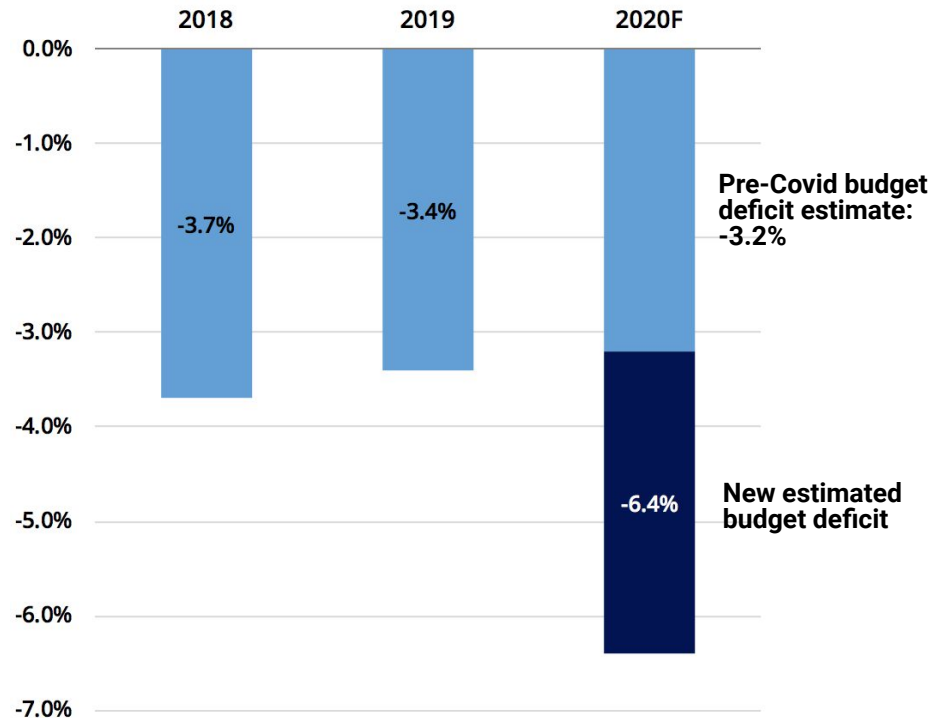


Source: DOSM, Author's calculations  
Note: LFPR = labour force participation rate



- This dual negative impacts on government finances will significantly increase the budget deficit in 2020

Government budget balance (as % of GDP)



Source: DOSM, Author's calculations  
Note: LFPR = labour force participation rate



- **Safeguarding the welfare of workers and households**
  - > expanding and deepening social safety net programs
  - > temporarily relaxing eligibility and increasing the duration of social assistance programs for vulnerable workers and households
- **Accelerating economic recovery**
  - > expand government spending on shovel-ready infrastructure projects
  - > one-time supplementary cash stimulus for households
- **Improving fiscal management**
  - > improve fiscal flexibility by temporarily suspending fiscal rules
  - > diversity government revenue streams and outline a longer-term fiscal management plan
- **Investing in the future**
  - > increase spending on digital and internet infrastructure especially in lesser-developed regions
  - > investing in expanding automatic fiscal stabilisers to help cushion economic fallout in future crises
  - > Supporting greater regional integration and fairer and freer inter-regional trade

- While movement controls have been effective in reducing infection, economic impacts of nationwide lockdowns have been severe and unprecedented
- While the macroeconomic impacts on growth, trade, and labour markets have been drastic, the impacts of the pandemic on most vulnerable segments of society deserve greater attention
- Younger, female, and less-educated, and informal workers have been the hardest hit—creating large knock-on microeconomic effects on inequality and poverty
- Despite some early signs of recovery, economic recovery will not be as quick or as easy as it was in the 2009 Global Financial Crisis
- Greater policy action locally and regionally, including even greater government spending on expanding and deepening social safety nets will be crucial in safeguarding the welfare of the workers and households





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