The Socioeconomic Impacts of Covid-19 in Malaysia

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Similar to the experiences of several countries in the region, Malaysia has endured resurgent waves of Covid-19 infections and the sporadic reimposition of containment measures. Since the first case of Covid-19 was detected in Malaysia in January 2020, the country has experienced three main waves of the virus and three major lockdown periods to date. The first and second waves, which emerged in January and late February 2020 respectively, resolved with a relatively low caseload, in part due to the nationwide movement controls enacted that March.[1] However, a spike in new cases in early October 2020 from the Sabah region of east Malaysia launched a third wave. This new wave, exacerbated by the subsequent emergence of the Delta variant, led policymakers to impose a nationwide "total lockdown" in June 2021.[2] As of August 26, 2021, new daily cases reached an all-time high of 750 cases per million people—by far the highest in the region at the time. This surge exerted heavy pressure on the national healthcare system, but it also created greater urgency for policymakers to accelerate the country's vaccination program. Consequently, the share of fully vaccinated individuals rose from under 47% at the end of August 2021 to 64% by the end of September 2021, allowing the Malaysian government to gradually loosen movement restriction measures by October 2021 (**Figure 1**).[3]

Overall, the imposition of these containment measures—coupled with external trade and tourism shocks—have had severe, wide-ranging economic impacts on Malaysia's economy, workers, and households. Despite the unprecedented scale of the government's economic stimulus measures,

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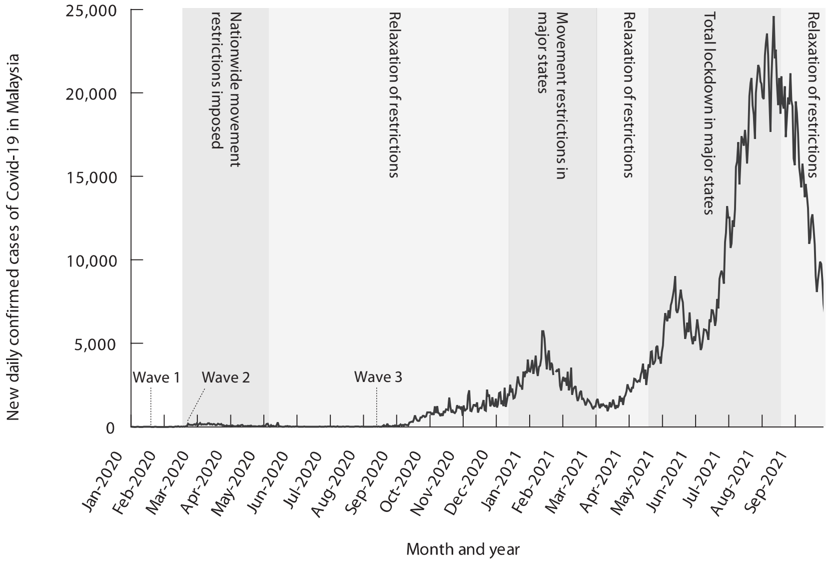
1 Jamal Hisham Hashim et al., "Covid-19 Epidemic in Malaysia: Epidemic Progression, Challenges, and Response," *Frontiers in Public Health* (2021) ~ https://www.frontiersin.org/articles/10.3389/fpubh.2021.560592/full.

2 Raganathini Vethasalam, "Govt Has Means to Provide Stimulus Package, Say Experts," *Malaysian Insight*, May 31, 2021 ~ https://www.themalaysianinsight.com/s/318668.

3 Hannah Ritchie et al., "Coronavirus (Covid-19) Pandemic," Our World in Data ~ https://ourworldindata.org/coronavirus.

FIGURE 1

Covid-19 Waves and Containment Measures in Malaysia



Source: Data from Hannah Ritchie et al., "Coronavirus (Covid-19) Pandemic," Our World in Data ~ https://ourworldindata.org/coronavirus.

the impacts of the pandemic have created longer-term "scarring" effects that will take many years to resolve. The remainder of this essay is structured as follows: the first section considers the impacts of the pandemic on Malaysia's economy and labor markets, the following section discusses the country's economic policy responses and their potential shortfalls, and the final section concludes with a brief outlook for Malaysia's recovery moving forward.

Economic Growth Impacts

The onset of the Covid-19 crisis has stalled Malaysia's economic growth and development by several years. In 2020, GDP plunged by 5.6% compared to the preceding year—the largest single-year decline on record since the Asian financial crisis in 1997 and the second-largest decline since Malaysia's independence in 1957. Primarily driven by a rapid fall in investment (fixed capital formation) and the export of goods and services, this contraction in economic output returned Malaysia's GDP to 2018 levels. Into 2021, economic growth continued to be weighed down by a third wave of infections at the end of 2020 and the following round of movement restrictions that culminated in a nationwide total lockdown in June 2021. The reimposition of these strict lockdown measures severely delayed the nascent economic recovery observed in the second half of 2020, postponing earlier forecasts for recovery to pre-pandemic levels of GDP to 2022.

Overall, these pandemic-induced shocks to Malaysia's GDP have delayed its development target to surpass the World Bank's GNI per capita threshold for high-income economies. Before the onset of the pandemic, the World Bank projected in 2018 that Malaysia was on track to cross the high-income threshold by 2022.[4] However, the collapse in Malaysia's GDP growth in 2020 has delayed this timeline by three years, with new baseline projections indicating that Malaysia will not achieve high-income nation status until 2025.[5]

Labor Market Effects and Poverty

Beyond economic growth, the Covid-19 crisis in Malaysia has devastated workers. In March 2020, the month the first movement restrictions were imposed, the headline unemployment rate rose to 3.9%—a figure higher than the annual average rate recorded during the peak of the Asian financial crisis in 1997 and the global financial crisis in 2008–9 (**Figure 2**). By May 2020, after two months of these policies, the headline unemployment rate surged to 5.3%, the highest level in four decades.[6] More than a year later, amid subsequent waves of Covid-19 and the sporadic reimposition of movement restrictions, indicators of labor market health have been slow to recover. The latest labor force survey data, from August 2021, indicates that the unemployment rate is still elevated at multi-decade highs. On the whole, compared to pre-pandemic levels, there were still roughly 249,500 additional unemployed workers and about 330,550 more persons outside the labor force in August 2021.

Nonetheless, beyond the aggregates, a defining characteristic of the Covid-19 crisis in Malaysia has been the unequal impacts of the

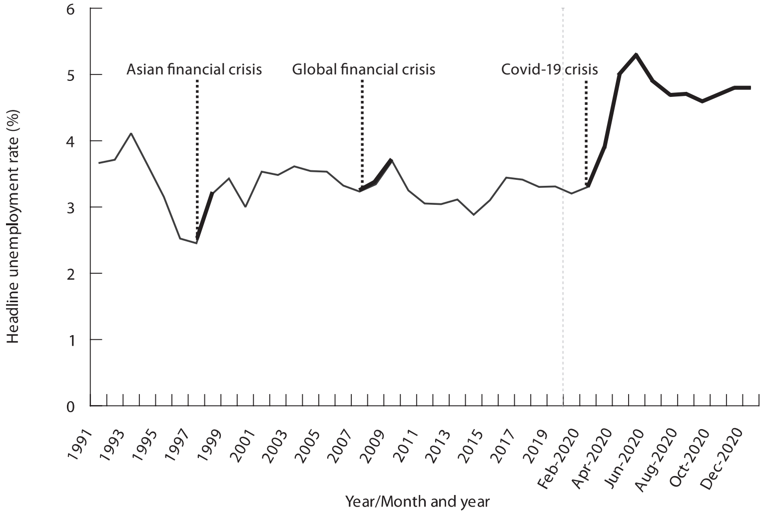
4 World Bank, *Malaysia Economic Monitor: Realizing Human Potential* (Kuala Lumpur: World Bank, 2018).

5 "World Bank Country and Lending Groups," World Bank ~ https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups; and World Bank, *Aiming High: Navigating the Next Stage of Malaysia's Development* (Washington, D.C.: World Bank, 2021) ~ https://openknowledge.worldbank.org/handle/10986/35095.

6 Calvin Cheng, "Policies for the Future of Malaysia's Youth" (presentation at the Merdeka Center Youth Empowerment for Malaysia 2021 Online Webinar Series on "Post COVID-19 Malaysia: Policies for Youth Economic Development," June 25, 2021).

FIGURE 2

Unemployment in Malaysia



Source: Department of Statistics (Malaysia); and author's estimates.

pandemic on vulnerable worker groups—in particular, youth, women, and lesser-educated workers in blue-collar occupations. In the second quarter of 2020, research suggests that women experienced two out of three of all employment declines in that quarter.[7] Similarly, younger workers (aged 15–34 years) faced an average fall in employment more than 4.5 times higher than the overall decline, with younger women notably suffering employment drops 5.6 times larger.[8] These unequal impacts persisted into 2021, with the latest quarterly labor force survey data showing that while the employment-to-population ratio for older workers aged 35 and above nearly recovered to 2019 levels, the employment-to-population ratio for younger workers remained well below pre-pandemic levels.[9]

7 Calvin Cheng, "Pushed to the Margins: The Unequal Impacts of Covid-19 on Vulnerable Malaysian Workers," Institute of Strategic and International Studies Malaysia, ISIS Policy Brief 7, no. 20 https://www.isis.org.my/2020/11/30/pushed-to-the-margins-the-unequal-impacts-of-the-covid-19-crisis-on-marginalised-malaysian-workers.

8 Ibid.

9 Calvin Cheng, "Pushed to the Margins: The Unequal Impacts of Covid-19 on Vulnerable Malaysian Workers" (presentation at the ISIS forum on "Fighting the Inequality Pandemic: Covid-19 and Its Economic Impacts on Marginalised Worker Groups," April 1, 2021).

Young workers who managed to keep their jobs still face rates of underemployment roughly twice as high as older workers.[10] Furthermore, the Covid-19 crisis has driven many younger workers outside the labor force. Youth labor force participation rates for those aged 15–34 years were still considerably lower in 2021 than before the pandemic, even as these rates rose over the same period for workers older than 35 years. This inequality in labor force experiences during the pandemic extends to educational attainment and occupation. Less-educated workers and workers in "lower-skilled" jobs (such as machine operators and trade workers) have contended with immense employment losses, even as tertiary-educated workers in higher-skilled, white-collar occupations (such as managers and professionals) enjoyed employment gains over the same period.[11]

These unequal labor market impacts have had knock-on impacts on the welfare of households across the country. A survey conducted by the Malaysian Department of Statistics in 2020 suggested that about 234,000 Malaysian households have fallen below the national poverty line (about $532 in household income per month) since the start of the pandemic.[12] Absolute poverty (measured as a percentage of all households) increased from 5.6% in 2019 to 8.4% in 2020. Incidence of hard-core poverty, officially defined as households living below the food poverty line (a household income of about $282 per month at the time of writing) rose from 0.4% in 2019 to 1.0% in 2020.[13]

An Overview of Malaysia's Economic Policy Responses to Covid-19

In response to the economic crisis caused by Covid-19, the Malaysian government took unprecedented measures to stimulate the economy and alleviate the economic impacts of the pandemic. Since early 2020, the government has allocated an estimated 530 billion Malaysian ringgits ($130 billion) in fiscal and non- or quasi-fiscal measures across eight economic stimulus packages.[14] The aggregate size of the stimulus packages is

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10 Cheng, "Policies for the Future of Malaysia's Youth."

11 Ibid.

12 "Household Income Estimates and Incidence of Poverty Report," Department of Statistics (Malaysia), Press Release, August 6, 2021 ~ https://www.dosm.gov.my/v1/index.php?r=column/pdfPrev&id=VTNHRkdiZkFzenBNd1Y1dmg2UUlrZz09.

13 Ibid.

14 "Aid Package, Economic Stimulus Packages Help People and Economy Survive during Covid-19 Pandemic," Ministry of Finance (Malaysia), Press Release, July 29, 2021 ~ https://www.mof.gov.my/en/news/press-citations/aid-package-economic-stimulus-packages-help-people-and-economy-survive-during-covid-19-pandemic.

about 37.5% of GDP—four times larger than the stimulus packages launched during the 2008–9 global financial crisis.[15] However, it is important to note that this headline 530 billion ringgit figure is artificially inflated by the inclusion of non- and quasi-fiscal measures. An analysis from the Institute of Strategic and International Studies Malaysia of stimulus package data obtained from the numerous announcement speeches suggests that up to a whopping 83% of the sum consists of non- or quasi-fiscal measures, such as loan moratoriums and pension withdrawal measures. Only 93 billion ringgit ($22.3 billion), or 6.5% of GDP, are made up of fiscal spending measures like wage subsidies and cash assistance.[16]

Across all eight of the main stimulus packages, Malaysia's economic response has mostly focused on five main policy areas: loan moratoriums, business financing assistance, pension-related measures, wage and employment subsidies, and cash assistance.

Loan moratoriums. First announced in 2020 and then extended on a limited opt-in basis in 2021, loan moratoriums aim to provide temporary cash-flow relief by allowing borrowers (both individuals and businesses) to postpone the repayment of loans to licensed financial institutions. The costs of this delay in repayment are borne by the financial sector. Loan moratoriums make up about 25% of the aggregate estimated value of the economic stimulus packages.[17]

Business financing assistance. This category includes numerous loans, loan guarantees, and lending facilities for businesses that are administered by government-linked development finance institutions. In one program, for example, government-owned financial guarantee insurer Danajamin Nasional Berhad will guarantee 80% of the loan amount for businesses. Several financing assistance measures aimed at small and medium-sized enterprises (SMEs) have also been launched, such as the Special Relief Facility, which was established by the central bank and administered through licensed banks. More targeted financing has also emerged, such as the SME Automation and Digitalisation Facility, which is designed to incentivize technology adoption by SMEs. Collectively, rough estimates

15 Shankaran Nambiar, "Malaysia and the Global Crisis: Impact, Response, and Rebalancing Strategies," Asian Development Bank Institute, ADBI Working Paper Series 148, August 26, 2009.

16 Calvin Cheng and Yohen Arulthevan, "Malaysia's Covid-19 Economic Stimulus Packages," Institute of Strategic and International Studies Malaysia (forthcoming).

17 Ibid.

suggest that this category makes up about 20% of the aggregate value of the stimulus packages.[18]

Pension-related measures. This category includes a few initiatives (including i-Citra, i-Sinar, and i-Lestari) implemented across 2020 and 2021 that allow Malaysian workers to temporarily draw down their Employees Provident Fund pension savings to fund their current expenditure needs. This fund is a compulsory pension scheme for Malaysian private-sector workers. Estimates suggest that pension-related measures consist of about 15% of the total stimulus package value.

Wage and employment subsidies. Measures in this category include the Employment Retention Programme, Wage Subsidy Programme, and the Penjana Kerjaya hiring incentives implemented by the country's social security organization, PERKESO. These measures are intended to make it easier for businesses to retain workers and pay salaries, while hiring incentives are designed to subsidize employers for hiring new workers. In total, this category is estimated to account for more than 5% of the aggregate stimulus package value.

Cash assistance. The main cash-related measures included three rounds of new income-targeted, unconditional cash transfers implemented in 2020–21 under the Bantuan Prihatin Nasional (BPN) program. BPN was aimed broadly toward lower-income and lower-middle-income households. The Bantuan Prihatin Rakyat (recently renamed Bantuan Keluarga Malaysia in the 2022 budget) provides supplementary top-ups to the national unconditional cash transfer program as part of Malaysia's social safety net.[19] Other measures in this category include one-off cash payments to vulnerable groups, such as the Bantuan Khas Covid-19 program, and smaller transfers to specific groups, such as tourism and hospitality-sector workers and university students. Altogether, cash assistance makes up about 5% of the stimulus packages announced to date.

Shortfalls in Malaysia's Economic Response

Despite the unprecedented size of the fiscal stimulus measures, Malaysia's economic response has been mostly insufficient in alleviating the economic and societal impacts. The labor market impacts of the pandemic have been severe and persistent even with the stimulus, with labor market slack and employment indicators showing that recovery

18 Cheng and Arulthevan, "Malaysia's Covid-19 Economic Stimulus Packages."

19 "Budget 2022 Highlights," Ministry of Finance (Malaysia), Press Citation, October 30, 2021 ~ https://www.mof.gov.my/en/news/press-citations/budget-2022-highlights.

from Covid-19 has been both slow and uneven. In general, an economic recovery for workers ultimately requires two components: continuous fiscal support and high vaccination rates. Before Malaysia achieved a sufficiently high vaccination rate in the fourth quarter of 2021 (79% as of December),[20] Malaysian policymakers repeatedly wrestled with a perceived "lives versus livelihoods" trade-off—continually weighing the economic costs of imposing movement restrictions with the need to curb the spread of infection. This false dilemma and a reluctance to leverage fiscal tools precluded a strategy of using steady, targeted fiscal support to offset the economic costs of movement restrictions while buying time for national vaccination efforts to make progress. This section reflects on a few major issues with Malaysia's Covid-19 economic response.

The first issue is the overall size of the fiscal response. As previously mentioned, focusing solely on fiscal measures, Malaysia's spending is relatively small compared to other countries in Southeast Asia. Back-of-the-envelope estimates based on publicly available information suggest that Malaysia's fiscal response measures are the second smallest in percentage of GDP terms after Vietnam's among the major economies of the Association of Southeast Asian Nations (ASEAN), despite having far more cumulative cases of Covid-19 per capita than any other country in the bloc.[21] Evidence suggests that higher fiscal stimulus can improve the effectiveness of movement restriction measures[22] while alleviating labor market impacts.[23] Indeed, International Labour Organization analyses indicate that, on average, a 1% of GDP increase in fiscal stimulus raises working hours by 0.3 percentage points.[24] More forceful use of fiscal stimulus in the pandemic's early stages would have led to more effective containment measures, diminished the long-term scarring impacts of Covid-19 labor market disruptions, and overall engendered a quicker, more inclusive economic recovery.

The second is the piecemeal and ad hoc nature of the economic response, compounded by policy lags. Due to the inadequacy and

20 Ritchie et al., "Coronavirus (Covid-19) Pandemic."

21 Calvin Cheng, "Fiscal Size Matters Pt. 2: Pemerkasa Plus and Malaysia's Economic Stimulus Packages," Institute of Strategic and International Studies Malaysia, July 1, 2021.

22 Al-mouksit Akim and Firmin Ayivodji, "Interaction Effect of Lockdown with Economic and Fiscal Measures against Covid-19 on Social-Distancing Compliance: Evidence from Africa," SSRN, June 7, 2020, https://ssrn.com/abstract=3621693.

23 International Labour Organization, "ILO Monitor: Covid-19 and the World of Work," 8th ed., October 27, 2021.

24 Ibid.

limitations of existing automatic stabilizers, the economic response in Malaysia was largely driven by discretionary fiscal policy. After the first major stimulus package announced in March 2020—the largest package by far—Malaysian policymakers took a "wait-and-see" approach, relying on ad hoc announcements of new fiscal stimulus measures on an as-needed basis. This approach means that there were often significant lags between when economic activity deteriorated and when new fiscal measures were announced. Further, even when the government announced new measures, months often passed before the funds were available to recipients. For instance, during the total lockdown announced at the end of May 2021, at the peak of the virus's third wave, it was not until the end of June that new fiscal support measures were announced (the Pemulih stimulus package), and not until August that low-income recipients received their first tranche of cash transfers under the Bantuan Khas Covid-19 initiatives.[25] For workers, households, and businesses heavily affected by the crisis, this lag created a pervasive uncertainty regarding the level of fiscal support the government would continue to provide in the medium-term. Committing to larger, automatic support programs that offer longer-term fiscal support until economic conditions recover to pre-crisis levels would offer greater certainty and better safeguard the welfare of vulnerable workers and families throughout the pandemic.

The third issue pertains to gaps in employment-related measures in alleviating the labor market disruptions of the pandemic. Both Malaysia's Employment Retention Programme and Wage Subsidy Programme met with problems regarding benefit adequacy and coverage for self-employed and informal workers. In contrast, the United States' Coronavirus Aid, Relief, and Economic Security Act (CARES Act) extended some level of federally funded unemployment compensation (Pandemic Unemployment Assistance) to independent contractors, and the United Kingdom's Self-Employment Income Support Scheme (SEISS) offered a percentage of monthly profits to self-employed workers.[26] The Malaysian government, in comparison, did not meaningfully extend protections under employment retention programs nor through the national employment insurance

25 "Highlights of the Pemulih Package," Edge Markets, June 28, 2021 ~ https://www.theedgemarkets.com/article/highlights-economic-recovery-and-peoples-protection-package.

26 U.S. Chamber of Commerce, "Guide to Independent Contractors' CARES Act Relief," October 13, 2020 ~ https://www.uschamber.com/security/pandemic/guide-to-independent-contractors-cares-act-relief; and "Coronavirus: Self-Employment Income Support Scheme (SEISS)," Low Incomes Tax Reform Group, October 4, 2021 ~ https://www.litrg.org.uk/tax-guides/coronavirus-guidance/coronavirus-self-employment-income-support-scheme-seiss.

system to cover a wider group of affected workers. Fully extending protections to self-employed or nonstandard workers through a temporary federally funded expansion in unemployment insurance would have benefited millions of workers while reducing the impact of Covid-19 on labor markets.[27]

Outlook and Conclusion

As of the time of writing, Malaysia's vaccination rates have climbed to among the highest in Southeast Asia. Containment measures are gradually being lifted across the country. Google Mobility report data for the end of December 2021 showed that visits to retail outlets, grocery stores, and transit stations have begun to recover to baseline levels.[28] Additionally, in its latest Economic Outlook report, the Malaysian finance ministry expected GDP growth to recover to pre-pandemic levels by 2022. For many Malaysians, even as the emergence of the Omicron variant creates greater uncertainty regarding the recovery outlook, a return to a "new normal" economic and social life may be within reach.[29]

Yet, for the millions of other Malaysians who have borne the brunt of the pandemic's impacts, full recovery could take many more years. Even when GDP growth recovers to pre-pandemic levels, much of the socioeconomic damage from Covid-19 will take far longer to restore. A significant degree of slack in the labor market will likely remain well beyond 2022. For many younger workers, a return to pre-pandemic levels of employment and participation will take years, while the long-term scarring effects of unemployment will persist for decades. Likewise, the rise in poverty and vulnerability caused by Covid-19 will prove difficult to alleviate. As such, even as Malaysia looks toward moving into a phase of recovery, much work remains before a truly inclusive and sustainable recovery can be realized. ◈

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27 Cheng, "Policies for the Future of Malaysia's Youth."

28 Google, "Covid-19 Community Mobility Report," December 25, 2021.

29 Ministry of Finance (Malaysia), *Economic Outlook 2022* (Kuala Lumpur, October 29, 2021) ~ https://budget.mof.gov.my/pdf/2022/economy/economy-2022.pdf.