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# Malaysia's Post-Pandemic Economy – A Two-Speed Recovery

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## SYNOPSIS

*The Malaysian economy has recovered from the ravages of the COVID-19 pandemic. However, the long-term weaknesses remain.*

## COMMENTARY

Three years after the COVID-19 pandemic, Malaysia's economic recovery has been marked by significant progress. However, challenges persist in ensuring that recovery translates into broad-based improvements in living standards.

At the macroeconomic level, Malaysia's economy has shown marked improvement, with the GDP and GDP per capita increasing by 16 per cent and 21 per cent, respectively, since 2019. Foreign direct investment has more than doubled over the past five years, to RM174 billion (US$40 billion) in 2024.

The tourism sector, a critical revenue generator, has rebounded to 96 per cent of pre-pandemic levels, welcoming 25 million international tourists last year. Visa-free policies drove a 123 per cent surge in Chinese arrivals and a 69 per cent rise in Indian visitors, with full recovery of the tourism sector by the first half of 2025.

Labour market conditions have also improved. Unemployment fell to 3.2 per cent in 2024, below 2019's 3.3 per cent, and significantly lower than the pandemic peak of 4.6 per cent in 2020. These positive developments boosted investors' confidence, reflected in a 13 per cent rise in the benchmark KLCI index last year, outperforming regional peers like Indonesia and Thailand, and 55 new stock market listings, the highest in 19 years.

Looking ahead, Malaysia's economic expansion is forecast to continue, driven primarily by domestic demand. Key drivers include a 13 per cent increase in the minimum wage from February 2025, a 30 per cent rise in cash transfers under social assistance programmes, and up to a 15 per cent increase in civil servant salaries.

Despite these encouraging macroeconomic trends, a significant segment of the Malaysian population has yet to fully recover financially. What accounts for this?

First, one key concern is that GDP growth does not directly translate into improved living standards. For instance, regions like Bintulu in Sarawak (Malaysia's most affluent district on a per capita basis) and Lojing in Kelantan have GDP per capita on par with Germany and Turkey, respectively. Yet, Lojing suffers a poverty rate exceeding 30 per cent, highlighting the disconnect between economic output and equitable wealth distribution.

Second, despite the low unemployment rate, underemployment remains a significant concern. As of Q3 2024, 37 per cent of Malaysia's tertiary-educated workforce (roughly 2 million) was underemployed, a 1.4 per cent increase from the previous year. Only 17 per cent of new jobs are high-skilled, with the bulk being mid- or low-skilled jobs. Informal employment also grew, from 17 per cent of total employment in 2016 to 22 per cent in 2023, worsening job security and wages.

Third, while nominal wages have increased, adjusting for increase in prices, real wage growth is actually negative, eroding purchasing power, disproportionately affecting low-income workers and fresh graduates. For instance, the median nominal wage for fresh graduates fell between 2019 and 2024, or a 17.3 per cent drop in real terms. Low-income households, spending over half of their income on food, faced a 17 per cent surge in food prices, far outpacing average nominal wage growth of 7 per cent. Productivity rose 5.3 per cent since 2019, yet on average, real wage growth per worker fell by 1.9 per cent over the same period, revealing a gap between productivity and pay, leaving many workers worse off despite overall economic gains.

Fourth, half of Malaysian workers have less savings compared to pre-pandemic. Data from the Employee Provident Fund (EPF) shows that, while average savings increased by 24 per cent between 2019 and 2024, the median savings actually declined by 14 per cent in the same period. In other words, half of the members of EPF now have less savings than they did pre-pandemic. This is not unexpected – during the pandemic, the government had allowed members to withdraw their retirement savings, a mistake that should have been avoided, and should not be repeated. The total withdrawal from the EPF was RM120 billion (US$27 billion), with the bulk of withdrawals made by the lower-income group.

Fifth, living costs remain elevated despite low headline inflation (1.8 per cent in 2024). Upcoming expansion of the sales and services tax (SST), a 15 per cent electricity hike, and the highly anticipated gradual removal of fuel subsidy (RM20 billion) risks spiking prices. Recent measures – the SST hike from 6 to 8 per cent, the 10 per cent tax on low-value goods, and the 53 per cent increase in diesel prices – combined with a weak currency and ongoing trade war threaten to erode household purchasing power further.

The Malaysian government has reassured the public that fiscal reforms will not burden most households. Despite the impending removal of the fuel subsidy and increase in electricity tariffs, the government reassured the public that only the top 15 per cent segment – or, as the Prime Minister puts it, the *mahakaya* (ultra-rich) – will be affected. To mitigate the impact of rising prices, the government is providing higher cash aid and assistance, the highest in over a decade, benefiting about 9 million recipients.

## Conclusion

Looking ahead, economic expansion in the short run will be challenging. Domestic growth will be impacted by geopolitical developments, particularly the recent tariffs imposed by the US on Malaysia and other key trading partners.

Given the demographic shifts, long-term domestic risks remain – living longer but with greater fiscal insecurity, weak human capital development, and particularly, threats to the health of children.

Despite Malaysia's nearly universal and affordable access to a healthcare system, 1 in 10 children is born with low birth weight, and by age five, 1 in 5 kids suffer from stunting. Alarmingly, 6 in 10 school-going kids are at risk of obesity, the highest in the region. The prevalence of stunting in Malaysia has remained unchanged since the late 1990s and is now worse than in lower-income countries such as Cambodia or Ghana.

Malnutrition poses a long-term threat to human capital development, economic competitiveness, and productivity, adding pressure on already strained healthcare resources.

Although Malaysia's economic recovery is notable, its uneven distribution highlights a deeper structural concern. Persistent inequality, wage stagnation, and employment mismatches suggest that growth alone is insufficient without meaningful reforms. While government interventions have provided short-term relief, sustained and well-calibrated policies are critical for building a more equitable and resilient economy.

Crucially, consistent policy direction, strong independent institutions, and a clean government are essential to restore investors' confidence, both domestic and foreign. These are the three important pre-requisites for sustainable and inclusive economic growth that benefits all.

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